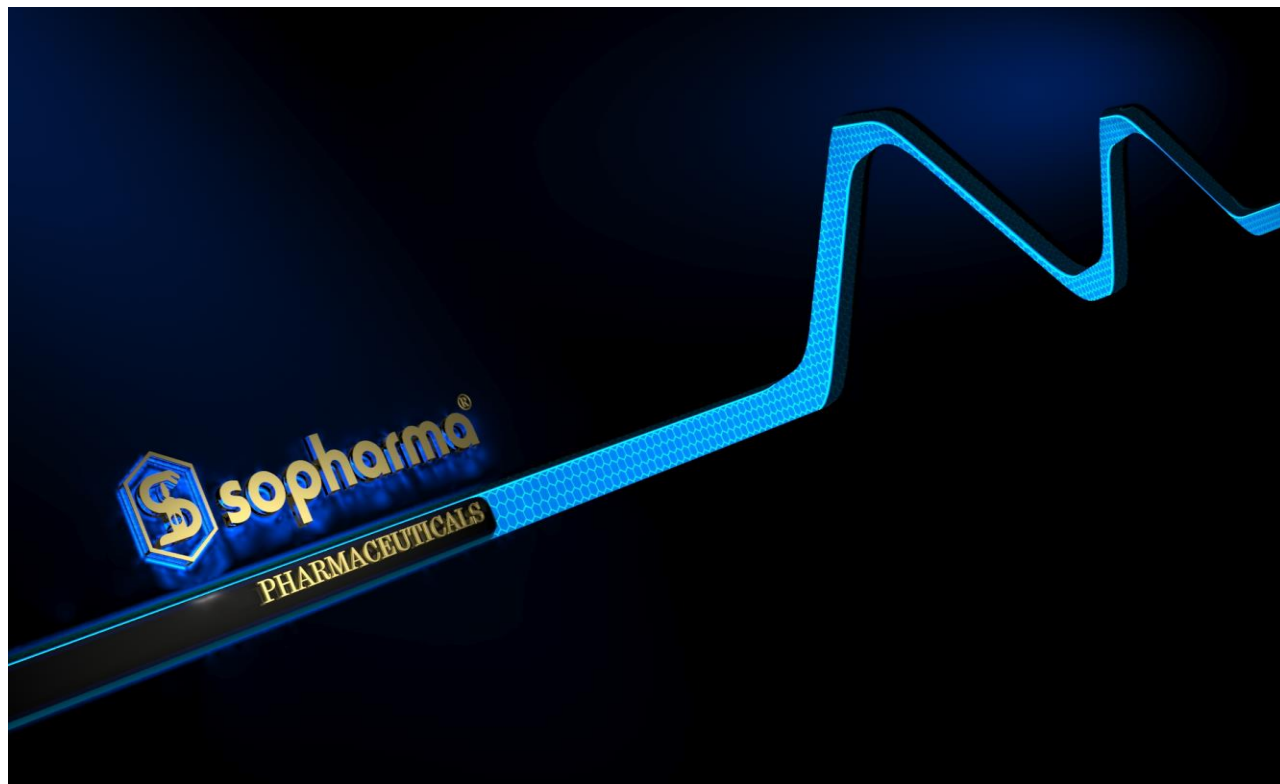


MANAGEMENT REPORT for the first quarter of 2022



“SOPHARMA” AD

29 April 2022

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

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I. General information about “Sopharma” AD

1. Registration and activity of the Company

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

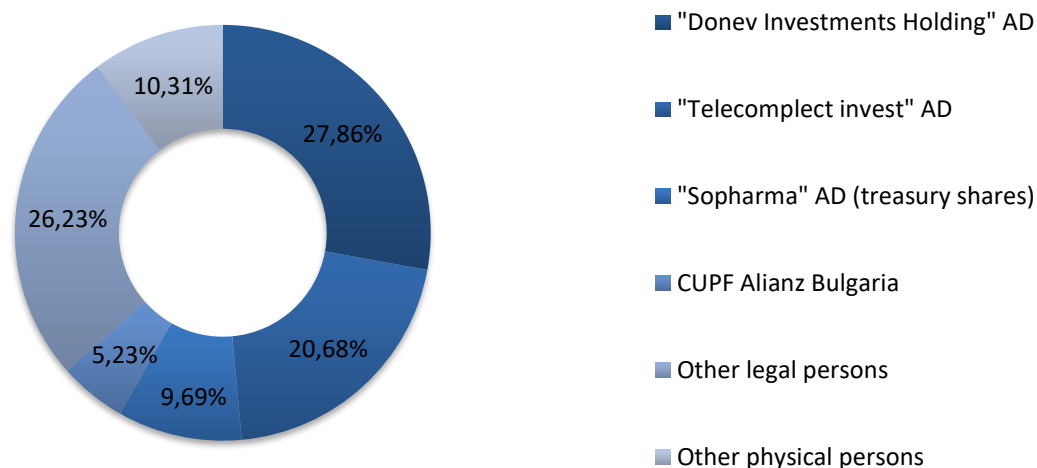
“Sopharma” AD was established in 1933. The court registration of the Company is from 15 November 1991, decision №1/1991 of Sofia City Court. “Sopharma” AD is a public company under the Law on Public Offering of Securities.

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 pharmacy, production of medical products and cosmetics, incl. - plasters, bandages, sanitary-hygiene products, herbal cosmetics, concentrates for hemodialysis.

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

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

2. Shareholder structure as at 31 March 2022



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, Bissera Lazarova, Alexandar Tchaoushev 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.

4. Personnel

The average number of workers and employees for 2022 in “Sopharma” AD is 1 740 (1 860 in 2021).

	31.03.2022	rel. share %
Number of workers and employees as at 31 March 2022	1 768	100%
Higher education	802	46%
College education	35	2%
Secondary education	875	50%
Primary education	23	1%
Employees under 30 years	145	8%
Employees 31 - 40 years	281	18%
Employees 41 - 50 years	489	28%
Employees 51 - 60 years	643	37%
Employees over 60 years	177	10%
Women	1092	63%
Men	643	37%

5. Production activity

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.

6. Products

The Company has more than 200 products in its portfolio: incl. nearly 190 medicinal products and 11 groups of medical devices. Medicinal products 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 product;
- 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.

7. Information about the shares and other securities issued by the Company

The total number of shares issued on 31 March 2022 by “Sopharma” AD, is 134 797 899 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, ordinary and indivisible, according to the Articles of Association of the Company. All issued shares are of one class. Each share gives equal rights to its holder in proportion to the nominal value of the share.

By Decision № 804 - E of 4 November 2021, the Financial Supervision Commission entered an issue in the amount of 44,932,633 dematerialized, freely transferable and registered warrants, with an issue value of BGN 0.28, issued by “Sopharma” AD under Art. 112 b, para. 11 of the LPOS. The underlying asset of the issued warrants are future ordinary, registered, dematerialized, freely transferable shares, giving the right to one vote in the General Meeting of Shareholders, which will be issued by the company on condition only in favor of the owners of warrants. Each subscribed warrant entitles its holder to subscribe for one share of a future issue. Holders of

warrants may exercise their right to subscribe for the respective number of shares from a future increase in the company's capital within 3 years at a fixed price of BGN 4,13 per share.

II. Development of the activity

Key financial indicators

Indicators	31.03.2022	31.03.2021	Change %
	BGN '000	BGN '000	
Revenues	44 557	34 570	28,9%
EBITDA	11 790	8 702	35,5%
Operating profit	7 322	4 309	69,9%
Net profit	7 076	4 626	53,0%
CAPEX*	2 655	1 638	62,1%
	31.03.2022	31.12.2021	
	BGN '000	BGN '000	
Non-current assets	459 658	456 746	0,6%
Current assets	189 098	202 353	-6,6%
Owners' equity	571 536	564 203	1,3%
Non-current liabilities	29 728	22 436	32,5%
Current liabilities	47 492	72 460	-34,5%

* tangible and intangible fixed assets acquired

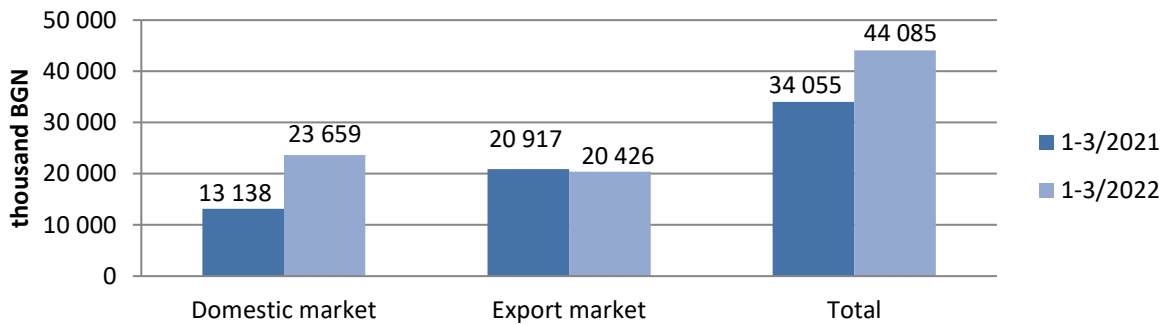
Indicators	1-3/2022	1-3/2021
	EBITDA/Revenues	26,5%
Operating profit/Sales Revenue	16,4%	12,5%
Net profit/Sales Revenue	15,9%	13,4%
	31.03.2022	31.12.2021
Debt/Equity	0,14	0,17
Net debt*/EBITDA on annual basis	0,6x	0,7x

* 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

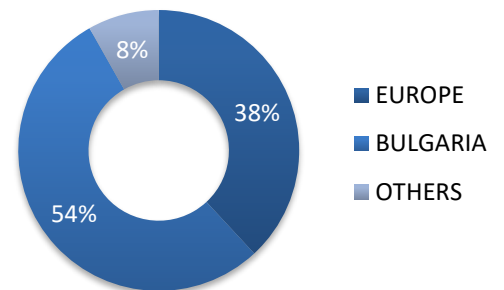
Operating revenues

Revenues from contracts with customers in the first quarter of 2022 increased by BGN 10 million to BGN 44,6 million, compared to BGN 34,6 million in the first quarter of 2021.

Sales revenues



Revenues by market	1-3/2022 BGN '000	1-3/2021 BGN '000	Change %
EUROPE	16 816	17 947	-6,3%
BULGARIA	23 659	13 138	80,1%
OTHERS	3 610	2 970	21,6%
TOTAL	44 085	34 055	29,5%



- European market

Sales revenues for the first quarter of 2022 for European countries decreased by BGN 1,1 million or 6.3% compared to the first quarter of 2021 due to the decrease of sales in Russia with 39%, which is partially offset by an increase in sales in Ukraine by 83%. The reduced market activity in Russia is a result of Russia's hostile invasion of Ukraine and the subsequent inability of the Company to maintain a normal supply rhythm. The increase in sales in Ukraine is due to the low base in the previous period last year.

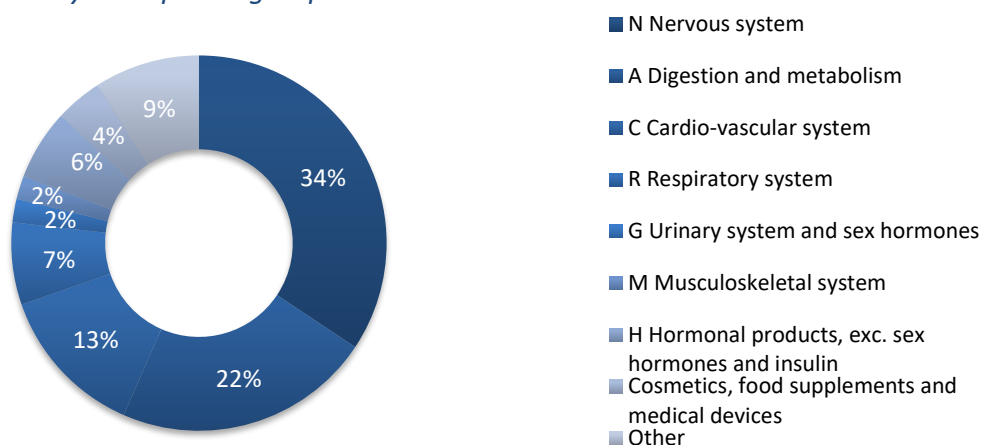
- Bulgarian market

Sales of “Sopharma” AD in the domestic market increased by BGN 10,6 million or by 80% for the first quarter of 2022 to BGN 23,7 million compared to BGN 13,1 million for the first quarter of 2021. The company retains its market share and at the end of the first quarter of 2022 has a 2.74% share of the total Bulgarian pharmaceutical market in value and 10.08% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis – 7.288% (3.81% in kind), Roche – 4.94% (0.16% in kind), Merck Sharp Doh – 3.81% (0.14% in kind), Pfizer – 3.56% (0.75% in kind), Teva – 3.56% (8.53 % in kind), Astrazeneca – 3.24% (0.49% in kind), Abbvie – 2.88% (0.06% in kind), Swixx Biopharma – 2.82% (0.98% in kind). The products with the largest share of sales in the country are Analgin, Sophazolon, Vicetin, Fomotidine, Vitamin C, Paracetamol, Bromhexine, Methylprednisolone.

- Other markets

Revenues from other markets increased with BGN 3,6 million or 22% compared to first quarter of 2021, mainly as a result of an increase of the export for Georgia.

Sales by therapeutic group



Operating expenses

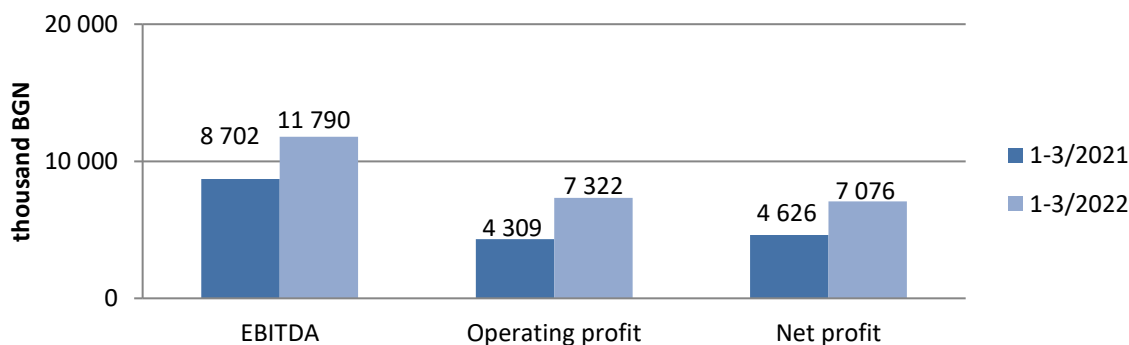
For the current period more significant changes are reported in the cost of materials, mainly in the part of basic materials for production, which is related to the increase in sales during the period. There is a more significant increase in the costs for heat and electricity, by BGN 1.3 and 0.6 million, respectively. Personnel costs do not change significantly, and the largest change in external costs is in the costs of manufacturing medicines, which decreased by BGN 1 million.

Financial income and expenses

Financial income decreased by BGN 0,2 million to BGN 0,8 million in the first quarter of 2022 mainly due to the profit from operations with securities investments in the amount of BGN 0,2 million reported in the previous period.

Financial expenses decreased by BGN 0,1 million to BGN 0,2 million in the first quarter of 2022 mainly due to the decrease in interest expenses by BGN 0,1 million.

Financial result of the activity



Profit before interest, taxes, depreciation and amortization (EBITDA) in the first quarter of 2022 increased by BGN 3,1 million or by 36% to BGN 11,8 million compared to BGN 8,7 million for the first quarter of 2021.

Operating profit in the first quarter of 2022 increased by BGN 3 million or by 70% to BGN 7,3 million compared to BGN 4,3 million in the first quarter of 2021.

Net profit in the first quarter of 2022 increased by BGN 2,5 million or by 53%, to BGN 7,1 million compared to BGN 4,6 million in the first quarter of 2021.

Assets

Non-current assets compared to the end of 2021 change insignificantly, reporting an increase of BGN 3 million.

Current assets decreased by BGN 13,3 million, with the most significant decrease reported in trade receivables in the amount of BGN 6,1 million and cash in the amount of BGN 11,6 million. Inventories increased. with BGN 5,8 million.

Owners' equity and liabilities

The equity of "Sopharma" AD increased by BGN 7,3 million compared to 31 December 2021 in terms of the registered profit for the current year.

Non-current liabilities increased by BGN 7,3 million, as a result of an increase in long-term bank loans by BGN 7,4 million compared to the end of the previous year.

Current liabilities decreased by BGN 25 million compared to 31 December 2021, mainly as a result of the decrease in short-term bank loans by BGN 24,4 million, financed by the realized free cash flow for the period and the available cash at the end of 2021. A decrease in trade liabilities compared to 31 December 2021 is reported in the amount of BGN 1,9 million.

Cash flows

	1-3/2022 BGN '000	1-3/2021 BGN '000
Net cash flows from operating activities	9 532	15 921
Purchases of property, plant and equipment, intangible assets, net	(1 988)	(793)
Payments under lease contracts	(478)	(505)
Free cash flow (normalized)	7 066	14 623

The free cash flow (normalized with the payments under lease contracts), generated for the first quarter of 2022, amounts to BGN 7,1 million inflow compared to BGN 14,6 million inflow in the first quarter of 2021.

New developments and products

During the reporting period January ÷ March 2022 in the Division "Development and Regulatory Compliance" the following activities were performed:

New medicines

During the reporting period, a marketing authorization was obtained for two new medicinal products:

- *Diclofenac Diethylamine 23.2 mg/g gel (DCP).*

Licensing

- *Paracedol Duo 200 mg/ 500 mg fct (Bulgaria);*

New registrations and re-registrations / changes

New registrations of medicinal products

- Documentation for registration of **2** medicinal products has been submitted:
 - *Pethidin 50 mg/ml solution for injection (DCP – Denmark, Sweden, Norway, Finland);*
 - *Aminophyllin Sveikuva 24 mg/ml solution for injection (Lithuania).*

Re-registrations / changes

- Renewed Marketing Authorizations for **18** medicinal products.
- Submission of documentation for the renewal of the Marketing Authorizations for **19** medicinal products.
- **147** changes for medicinal products approved by agencies.
- **95** changes for medicinal products submitted to agencies.

Food additives

- 1 food supplement have been notified for Bulgaria.

Cosmetic products

- 2 Cosmetic products are registered in Saudi Arabia.

Developments

- Pharmaceutical development of 9 new medicinal products / projects:
 - Citisinicline 3,0 mg tablets – Project with the company Achieve;
 - Suxamethonium 10 mg/ml solution for injection;
 - Suxamethonium 20 mg/ml solution for injection;
 - Keterolac 30 mg/ml solution for injection; 1 ml;
 - Sodium picosulfate 7,5 mg/ml oral drops;
 - Dexketoprophenum 25 mg tablets.
 - Betagamma caps.;
 - Buscolizin 10 mg tablets;
 - Antistenocardin 25 mg tb.

Transfer and validation of technological processes

- 4 production processes / technologies are validated / optimized.

Prepared documentation for qualification / production

- Documentation for qualification of raw materials for production– 23;
- Production regulations– 31;
- Documentation for qualification of finished forms – 84.

III. Significant events in 2021 and until the publication of the preliminary management report

On February 24, 2022, Russian military forces started hostile invasion in Ukraine. Subsequently, a number of countries imposed sanctions on certain individuals and legal entities in Russia. It is expected that the war in Ukraine and related economic sanctions and other measures taken by governments around the world will have a significant impact on both local and global economies.

This is a translation from Bulgarian of the Management report
of “Sopharma” AD for the first quarter of 2022.
In case of divergence Bulgarian text should prevail.

The management of Sopharma AD believes that the unprovoked invasion of the Russian army into Ukraine could seriously affect the activities of the Company, as about 40% of sales of products are realized in Ukraine and Russia. At this stage, the company has reduced its activity in these markets, including due to logistical inability to make deliveries. As of the date of approval of these separate financial statements, the Company has no commercial counterparties included in sanctions lists published by the European Union.

The company owns investments in two subsidiaries in Ukraine. As of December 31, 2021 the amount of the investment in the subsidiary Sopharma Ukraine is BGN 9,669 thousand and the amount of the investment in the subsidiary Vitamini is BGN 1,283 thousand. As of the date of approval of these separate financial statements the assets of these subsidiaries companies are not physically affected by military activities, but it may be necessary in the future to reconsider the value of these investments depending on the development of the war and its impact on the activities of companies.

IV. Review of the main risks faced by the Company

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

- 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.

V. Information on related party transactions

Related party transactions are disclosed in the explanatory notes to the separate financial statements for the first nine months.

29 April 2022

Sofia