

# MANAGEMENT REPORT FOR THE FIRST QUARTER OF 2023

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## SOPHARMA GROUP

30 May 2023

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## I. General information about Sopharma Group

### 1. Main activities

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

The Group operates in the following areas:

- production of pharmaceutical products, including medicines, mainly generics, herbal-based substances and food supplements, which is mainly done by “Sopharma” AD (the Company);
- production of medicinal products and medicinal cosmetics, as plasters, bandages and sanitary-hygiene products concentrated on the production site in Sandanski city;
- distribution of pharmaceuticals, medical supplies, sanitary materials, vitamins, food supplements, cosmetics and others, which is mainly performed by “Sopharma Trading” in Bulgaria and Serbia.

### 2. Registration and activity of the Company

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

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

The Group conducts the production and marketing of medicinal substances and dosage forms; research, engineering and implementation activities in the field of phytochemistry, chemistry and pharmacy, production of medical devices and cosmetic products, incl. - plasters, dressings, sanitary - hygiene products, herbal cosmetics, concentrates for hemodialysis. “Sopharma” AD provides services related to production, as well as to ancillary and supporting activities.

### 3. Controlled companies

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

## Sopharma Group

companies (“Doverie - obedinen holding” AD, 24.998% stake and “Sopharma Imoti” REIT, 35.65% stake) and in one joint venture (“Momina krepost” AD, 37.46% stake).

<b>Company</b>	<b>Interest as at 31.03.2023 in %</b>
“Sopharma Trading” AD	87.25
“Pharmalogistica” AD	89.39
“Elektroncommerce” EOOD	100.00
“Biopharm Engineering” AD	97.15
“Phyto Palauzovo” AD	95.00
“Veta Pharma” AD	99.98
“Sopharmacy” EOOD **	87.25
“Sopharmacy 2” EOOD **	87.25
“Sopharmacy 3” EOOD **	87.25
“Sopharmacy 4” EOOD **	87.25
“Sopharmacy 5” EOOD **	87.25
“Sopharmacy 6” EOOD **	87.25
“Sopharmacy 7” EOOD **	87.25
“Sopharmacy 8” EOOD **	87.25
“Sopharmacy 9” EOOD **	87.25
“Sopharmacy 10” EOOD **	87.25
“Sopharmacy 11” EOOD **	87.25
“Sopharmacy 12” EOOD **	87.25
“Sopharmacy 13” EOOD **	87.25
“Sopharmacy 14” EOOD**	87.25
“Sopharmacy 15” EOOD**	87.25
“Sopharmacy 16” EOOD**	87.25
“Sopharmacy 17” EOOD**	87.25
“Sopharmacy 18” EOOD**	87.25
“Sopharmacy 19” EOOD (Valentina Vasileva – Lyulin EOOD) **	87.25
“Sopharmacy 20” EOOD (Vasilka Lilovska EOOD) **	87.25
“Sopharmacy 21” EOOD (Venera Mutashka EOOD) **	87.25
“Sopharmacy 22” EOOD (Veselka Vasileva EOOD) **	87.25
“Sopharmacy 23” EOOD (Victoria Angelova EOOD) **	87.25
“Sopharmacy 24” EOOD (Desislava Jordanova EOOD) **	87.25
“Sopharmacy 25” EOOD (Dimka Vladeva EOOD) **	87.25
“Sopharmacy 26” EOOD (Donka Chivganova EOOD) **	87.25
“Sopharmacy 27” EOOD (Ekaterina Mihaylova – Shumen 1 EOOD) **	87.25
“Sopharmacy 28” EOOD (Elka Neykova EOOD) **	87.25
“Sopharmacy 29” EOOD (Emilia Angelova EOOD) **	87.25

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This is a translation from Bulgarian of the Management report of Sopharma Group for the first quarter of 2023.

In case of divergence Bulgarian text should prevail.

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"Sopharmacy 30" EOOD (Juliana Kotova EOOD) **	87.25
"Sopharmacy 31" EOOD (Ivan Ivanov 1 EOOD) **	87.25
"Sopharmacy 32" EOOD (Iliana Kalushkova EOOD) **	87.25
"Sopharmacy 33" EOOD (Irina Toncheva EOOD) **	87.25
"Sopharmacy 34" EOOD (Kapka Nikolova – Military Hospital EOOD) **	87.25
"Sopharmacy 35" EOOD (Kostadin Gorchev EOOD) **	87.25
"Sopharmacy 36" EOOD (Krasimira Shunina EOOD) **	87.25
"Sopharmacy 37" EOOD (Lora Doncheva EOOD) **	87.25
"Sopharmacy 38" EOOD (Lyudmila Zlatkova EOOD) **	87.25
"Sopharmacy 39" EOOD (Lyudmila Kovacheva EOOD) **	87.25
"Sopharmacy 40" EOOD (Manik Burgazyan EOOD) **	87.25
"Sopharmacy 41" EOOD (Mariyka Jaigarova EOOD) **	87.25
"Sopharmacy 42" EOOD (Mariya Agova EOOD) **	87.25
"Sopharmacy 43" EOOD (Mariya Gancheva EOOD) **	87.25
"Sopharmacy 44" EOOD (Mariya Kenova EOOD) **	87.25
"Sopharmacy 45" EOOD (Mariya Hristova – Motopista EOOD) **	87.25
"Sopharmacy 46" EOOD (Mariyana Markova EOOD) **	87.25
"Sopharmacy 47" EOOD (Mary Ivanova EOOD) **	87.25
"Sopharmacy 48" EOOD (Nelly Stavreva EOOD) **	87.25
"Sopharmacy 49" EOOD (Preslava Becheva EOOD) **	87.25
"Sopharmacy 50" EOOD (Rayna Madzharova-St. Georgi Sofiyski EOOD) **	87.25
"Sopharmacy 51" EOOD (Rumyana Ignatova – Gancheva EOOD) **	87.25
"Sopharmacy 52" EOOD (Sashka Todorova EOOD) **	87.25
"Sopharmacy 53" EOOD (Svetla Harizanova EOOD) **	87.25
"Sopharmacy 54" EOOD (Svetlana Pirpirova EOOD) **	87.25
"Sopharmacy 55" EOOD (Ceiba-Blagoevgrad-1 EOOD) **	87.25
"Sopharmacy 56" EOOD (Silviya Veneva EOOD) **	87.25
"Sopharmacy 57" EOOD (Siyana Milanova EOOD) **	87.25
"Sopharmacy 58" EOOD (Stoyanka Radenkova EOOD) **	87.25
"Sopharmacy 59" EOOD (Avdzhieva EOOD) **	87.25
"Sopharmacy 60" EOOD (Radina Bekova EOOD) **	87.25
"Sopharmacy 61" EOOD (Rumen Raynov EOOD) **	87.25
"Sopharmacy 62" EOOD (Hani Modhi EOOD) **	87.25
"Sopharmacy 63" EAD (SCS Franchise EAD) **	87.25
"Sopharmacy 55" EOOD (Ceiba Blagoevgrad-1 EOOD)**	87.25
"Sopharmacy 56" EOOD (Silvia Veneva EOOD)**	87.25
"Sopharmacy 57" EOOD (Siyana Milanova EOOD)**	87.25
"Sopharmacy 58" EOOD (Stoyanka Radenkova EOOD)**	87.25
"Sopharmacy 59" EOOD (Anna Avdzhieva EOOD)**	87.25
"Sopharmacy 60" EOOD (Radina Bekova EOOD)**	87.25

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"Sopharmacy 61" EOOD (Rumen Raynov EOOD)**	87.25
"Sopharmacy 62" EOOD ("Hani Modhi" EOOD)**	87.25
"Sopharmacy 63 EAD (SCS Franchise EAD)**	87.25
"Sopharmacy 64" EOOD (Sanita Franchising AD) **	87.25
PAO "Vitamini"	100.00
"Sopharma" Warsaw Sp. z. o. o	100.00
"Sopharma" Poland Sp. z. o. o - in liquidation	60.00
OOO "Sopharma" Ukraine	100.00
TOO "Sopharma" Kazakhstan	100.00
"Rap Pharma International" OOD	100.00
"Sopharma Trading" D.o.o. **	87.25
"Pharmachim" EOOD	100.00

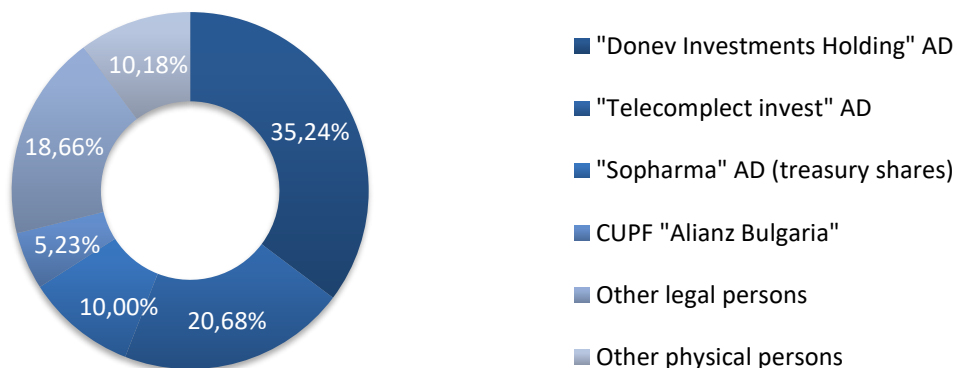
\*effective interest in percent

\*\*indirect interest

### 4. Board of directors

"Sopharma" AD has a one tier management system with a Board of Directors of five members as follows: Ognian Donev, PhD – Chairman, Vessela Stoeva – Deputy Chairman and members – Alexander Tchaoushev, Bissera Lazarova and Ivan Badinski. The company has two procurators - Simeon Donev and Ivan Badinski. The company is represented and managed by the Executive Director Ognian Donev, PhD.

### 5. Shareholder structure as at 31 March 2023



### 6. Information about the shares and other securities issued by the Company

The total number of shares issued on 31 March 2023 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. Recent developments

### Key financial indicators

Indicators	1-3/2023 BGN '000	1-3/2022 BGN '000	change %
Revenues	467 204	397 570	17.5%
EBITDA	45 477	34 638	31.3%
Operating profit	32 078	21 827	47.0%
Net profit	33 643	22 560	49.1%
CAPEX*	12 017	9 442	27.3%
	<b>31.03.2023</b>	<b>31.12.2022</b>	
	<b>BGN '000</b>	<b>BGN '000</b>	
Non-current assets	690 338	681 487	1.3%
Current assets	621 373	572 491	8.5%
Owners' equity	749 654	716 634	4.6%
Non-current liabilities	131 155	129 998	0.9%
Current liabilities	430 902	407 346	5.8%

\*acquired tangible and intangible fixed asset

Indicators	1-3/2023	1-3/2022
EBITDA/Sales revenues	9.7%	8.7%
Operating profit / Sales revenues	6.9%	5.5%
Net profit/Sales revenues	7.2%	5.7%
	<b>31.03.2023</b>	<b>31.12.2022</b>
Debt/ Equity	0,75	0,75
Net debt*/ EBITDA on annual basis	1,8x	1,9x

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

### Operating revenues

Sales revenues of the Group increased with BGN 69,6 million or 17.5%, reaching BGN 467,2 million in the first quarter of 2023 compared to BGN 397,6 million in the first quarter of 2022. Sales of goods increased with BGN 48,9 million or 14.5%, reaching BGN 387,3 million in the first quarter of 2023 compared to BGN 338,4 million in the previous period. Sales of finished

products increased by BGN 20,7 million, or 35%, to BGN 79,9 million in the first quarter of 2023 compared to BGN 59,2 million in the previous period.

On a consolidated basis, the growth in sales of finished products in Bulgaria for the first quarter of 2023 was 4% compared to the previous period. The company retains its market share and according to IQVIA data, at the end of the first quarter of 2023, it occupies 2.22% (thirteenth position) of the total volume of the Bulgarian pharmaceutical market in terms of value and 7.89% (second position) of sales in kind terms. The positions of the main competitors of the Company in the country are as follows: Novartis – 6.46% (4.40% in kind), Roche – 5.50% (0.32% in kind), Merck Sharp & Dohme – 4.39% (0.11% in kind), Pfizer – 3.79% (0.65% in kind), Astrazeneca – 3.32% (0.44% in kind), Teva – 3.31% (8.13 % in kind), Abbvie – 3.21% (0.07% in kind), Swixx Biopharma – 3.19% (1.06% in kind), Phoenix 3.01% (4.20% in kind). The products with the largest share of sales in the country are Analgin, Sophazolon, Vicetin, Fomotidine, Vitamin C, Paracetamol, Bromhexine, Methylprednisolone.

On a consolidated basis for the first quarter of 2023, sales revenue in Russia increased by 185%, following a low base in the prior period due to the collapse of sales resulting from the conflict between Russia and Ukraine. Growth was also registered in other traditional markets, with sales revenue increasing in Georgia by 63%, in Azerbaijan by 254%, in Armenia by 127%, in Vietnam by 388%, in Belarus by 401%, in Moldova by 169%, in Latvia with 140%, in Poland with 134%.

In Ukraine, sales revenue decreased by 3%, and in Mongolia by 37%.

Revenues from procurement and contract production grew by 146%, reaching BGN 3,3 million.

*Other operating revenues* decreased by BGN 0,6 million to BGN 2,7 million in the first quarter of 2023 compared to BGN 2,1 million in the previous period.

### *Operating expenses*

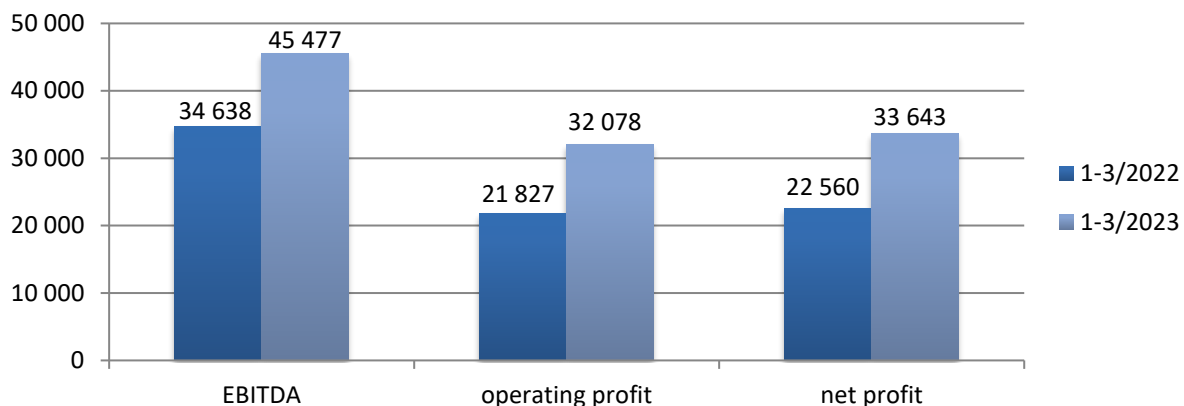
For the current period the expenses of materials as a total amount remain unchanged in the amount of BGN 23,7 million, as the most significant change was registered in the expenses of substances, which increased by BGN 3,9 million, as well as in the expenses for electricity and heat, decreasing by BGN 0,4 million and BGN 0,2 million, respectively. Personnel expenses increased by BGN 6 million to BGN 40 million or 17% as a result of updating the current remuneration of the average number of staff in the Group. The external service expenses increased by BGN 4,8 million to BGN 19,6 million with the most significant change in advertising costs, which increased

by BGN 2,3 million in the costs of forwarding services and transport, which increased by BGN 0,7 million and in the production costs, which increased by BGN 0,7 million.

### *Financial income and expenses*

*Financial income and expenses* in the first quarter of 2023 net registered a loss of BGN 1,9 million, which is a decrease of the loss by BGN 1 million compared to the same period of the last year. Financial income decreased by BGN 0,2 million, interest income from overdue receivables decreased by BGN 0,8 million and net foreign exchange gains on foreign currency loans and leases increased by BGN 0,3 million. An increase of BGN 0,5 million was registered in the costs for the impairment of receivables under granted commercial loans.

### *Financial result*



*Earnings before interest, taxes and depreciation (EBITDA)* increased by BGN 10,9 million or by 31%, while in the first quarter of 2023 it amounted to BGN 45,5 million compared to BGN 34,6 million in the first quarter of 2022. The main factors for this adjusted growth are the increase in sales in both main business segments by a total of 10% with insignificant changes in the gross profit margin, as well as the good management of operating expenses (sales, marketing, logistics and administrative expenses).

*Profit from operating activities* increased by BGN 10,3 million or by 47%, to BGN 32,1 million in the first quarter of 2023 compared to BGN 21,8 million in the first quarter of 2022.

*Net profit* increased by BGN 11 million or 49% to BGN 33,6 million in the first quarter of 2023 compared to BGN 22,6 million in the first quarter of 2022. In addition to the effect of

operating activities, the reduced financial expenses, as well as the profits reported during the current period from associates in the amount of BGN 3 million.

### *Assets*

*Non-current assets* at the end in the first quarter of 2023 increased by BGN 8,9 million compared to the end of last year. The acquired tangible and intangible fixed assets for the period amounted to BGN 12 million, of which those related to leasing contracts amount to BGN 4,9 million. Investments in associates and joint ventures increased by BGN 8,8 million as a result mainly of the reported share in current profit and the increased share in the associate “Doverie-obedinen holding” AD.

*Current assets* at the end in the first quarter of 2023 increased to BGN 57,7 million, mainly due to the decrease in cash and cash equivalents by BGN 29,5 million, while trade receivables increased by BGN 17,4 million.

### *Owners' equity and liabilities*

*The equity* of Sopharma Group increased by BGN 33 million compared to 31.12.2022 as a result of the reported net current profit.

*The liabilities* decreased by BGN 24,7 million compared to the end in the first quarter of 2023. Total liabilities on bank loans, leasing and factoring of the Group increased by BGN 5,3 million, as the net debt after deduction of cash and cash equivalents increased with BGN 5,6 million to BGN 269 million. The trade liabilities increased by BGN 18,1 million compared to the end of the last year.

### *Cash Flows*

	<b>31.03.2023</b>	<b>31.03.2022</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Net cash flows from operating activities	12 709	16 049
Proceeds of amounts by factoring after interest and fees	677	6 485
Purchases of property, plant and equipment, intangible assets, net	(6 856)	(4 045)
Payments under lease agreements	(4 540)	(4 504)
<b>Free cash flow (normalized)</b>	<b>1 990</b>	<b>13 985</b>

The free cash flow (normalized with the revenues from factoring and payments under leasing contracts), generated for the first quarter of 2023, amounts to BGN 2 million inflow compared to BGN 14 million inflow in the first quarter of 2022.

### *New developments and products for the period January - March 2023*

During the reporting period January - March 2023 in the Division "Development and Regulatory Compliance" the following activities were performed:

✓ **New medicines**

During the reporting period, a marketing authorization was obtained for one new medicinal product:

- *Glycerax Pico oral drops solution (Bulgaria).*

✓ **New registrations and re-registrations / changes**

New registrations of medicinal products

- Documentation for registration of **8** medicinal products has been submitted:
  - Verapamil inj. (DCP – DK; SE; NO; FI)
  - Carsil 110 mg caps. – (Georgia);
  - Isocor 2,5 mg/ml inj – (Malaysia);
  - Cinnarizine 25 mg tb. – (Vietnam).

Licensing

- Analgin Max 1000 mg effeverscent powder (Georgia);

Re-registrations / changes

- Renewed Marketing Authorizations for **9** medicinal products.
- Submission of documentation for the renewal of the Marketing Authorizations for **34** medicinal products.
- **63** changes for medicinal products submitted to agencies.
- **26** changes for medicinal products approved by agencies.

Food additives

- **5** food supplements have been notified - **1** for Belarus; **3** for Poland and **1** for Bulgaria.
- **8** Food additives have been added for notification - **3** for Belarus; **1** for Ukraine; **3** for Poland and **1** for Azerbaijan.

### Cosmetic products

- **1** Cosmetic product is registered in Ukraine
- **2** Cosmetic products are registered in Saudi Arabia.

### ✓ **Developments**

- Pharmaceutical development of **7** new medicinal products / projects:
  - Cytisine 3.0 mg tab – Project with company Achieve
  - Dexketoprofen 25 mg tab.;
  - Xylmetazoline/Dexpanthenol nasal spray;
  - Paracetamol 500 mg tab.;
  - Molsidomin 4 mg tab.;
  - Ketorolac 10 mg tab.;
  - Glauvent 40 mg film-coated tab.;
- Development of **3** nutritional supplements is underway:
  - Valeriana/Melatonin oral spray
    - Melatonin oral spray
    - Propolis nasal spray
    - Valeriana Son 50/1 mg tb.
    - Valeriana Son 150/3 mg tb.
    - Vitamin C 100 mg tb.

### ✓ **Transfer and validation of technological processes**

- **13** production processes / technologies are validated / optimized.

### ✓ **Prepared documentation for qualification / production**

- Documentation for qualification of raw materials for production – **21**;
- Production regulations – **35**;
- Documentation for qualification of finished forms – **44**.

### III. Significant events for the first quarter of 2023 and until the date of the consolidated management report

- On January 20, 2023, according to the requirements of Art. 154, para. 1 of the Law on Public Offering of Securities, "Donev Investments Holding" AD, EIK 831915121, with registered office and address of management Sofia region (capital), Stolichna municipality, city of Sofia, p.c. 1000, Vazrazhdane District, Positano St. No. 12, represented by Ivan Ognyanov Donev, in his capacity as executive director, notifies that on 19.01.2023 the Financial Supervision Commission took a decision not to issue a final prohibition on the publication of a tender offering registered with the Financial Supervision Commission by "Donev Investments Holding" AD - a shareholder directly owning 37 600 000 ordinary, dematerialized shares with voting rights, representing 27.89% of the capital and votes in the General Meeting of Shareholders of "Sopharma" AD, pursuant to Art. 149b of the Law on the Public Offering of Securities for the purchase of shares from the remaining shareholders of "Sopharma" AD:

#### Number of voting shares that the offeror does not own

"DONEV INVESTMENTS HOLDING" AD does not own (directly, through related parties or indirectly pursuant to Art. 149, para. 2 of the Civil Code) 89,865,700 ordinary, non-cash, registered, freely transferable shares with ISIN BG11SOSOBT18, representing 66.67% of the capital and from the votes in the General Meeting of the shareholders of "SOPHARMA" AD. In accordance with the decision taken by the Offeror's Board of Directors dated October 28, 2022, the Offeror intends to increase its share in the Company's capital by acquiring directly and through related parties more than 1/3, namely - up to 41.49% of the votes in the General Meeting of the Company's shareholders, by purchasing according to the order of the Commercial Offer under Art. 149b of the LPOS, addressed to all other shareholders of "SOPHARMA" AD of up to 11,000,000 ordinary, bearer, registered, freely transferable shares, with ISIN BG11SOSOBT18, representing 8.16% of the capital and votes in the General Meeting of Shareholders of "SOPHARMA" AD.

#### Offer price per share

The proposed price of the tender offer is BGN 4.50 per share and is higher than the average weighted market price of the shares for the last 6 months, before the registration of the Tender Offer, which is BGN 4.485.

The Tender Offer is available to each of the shareholders of "Sopharma" AD on an electronic page on the Internet as follows: <https://www.sopharmagroup.com/bg/investitori/novini-za-investitori>, as well as on the electronic page of the authorized investment intermediary IP "Karol" AD: [www.karollbroker.bg](http://www.karollbroker.bg).

- ✓ On January 23, 2023, the Company entered into a contract for transformation by merger of Biopharm Engineering AD in accordance with the provisions of Article 262 of the Commercial Law, as a result of which all the property of the transforming company ("Biopharm Engineering" AD) will be transferred to the receiving company ("Sopharma" AD), which will become its legal successor. The transforming company ("Biopharm Engineering" AD) will be terminated without liquidation. The contract has been submitted for approval to the Financial Supervision Commission. By letter No. RG – 05 – 684 – 1 dated February 24, 2023, the Financial Supervision Commission requested additional information and data, as well as corrected documents in connection with the requested merger. The latter were submitted to the Financial Supervision Commission on March 24, 2023 and its opinion is expected by May 2, 2023.
- ✓ On February 20, 2023, on the basis of Art. 157 of LPOS and Art. 37, para. 1 of Ordinance No. 13 for a tender offer for the purchase and exchange of shares (Ordinance No. 13) "DONEV INVESTMENTS HOLDING" AD - an offeror who made a tender offer, on the basis of Art. 149b of the Law on the Public Offering of Securities for the Purchase of Shares from the Remaining Shareholders of "Sopharma" AD, notified the result of the tender offer, which ended on February 17, 2023, as follows:

Shareholders who accepted the tender offer: 31 shareholders with a total number of shares: 9,902,092.

As a result of the completed tender offer and after the completion of the transactions, "DONEV INVESTMENTS HOLDING" AD will directly own 47,502,092 shares, representing 35.24% of the shares with the right to vote in the general meeting of "Sopharma" AD and in total - directly and through related persons 54,834,291 shares, representing 40.68% of the shares with the right to vote in the general meeting of "Sopharma" AD.

#### IV. Review of the main risks faced by the Group

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

- The Group faces significant competition.

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This is a translation from Bulgarian of the Management report of Sopharma Group for the first quarter of 2023.

In case of divergence Bulgarian text should prevail.

- Part of the revenues of Sopharma Trading AD in Bulgaria are generated from sales of state hospitals, which predetermines a high degree of business risk;
- The Group is dependent on regulatory approvals.
- Government regulations affecting the Group's business may change, thus possibly increasing compliance costs or otherwise affecting its operations.
- Part of the Group's revenues in particular in Bulgaria, depend on the inclusion of the Group's medicines in reimbursement lists.
- The Group's production facilities and processes are subject to strict requirements and regulatory approvals that may delay or disrupt the Group's operations.
- The Group's ability to pay dividends depends on a number of factors and there can be no guarantee that the Company will be able to pay dividends in accordance with its dividend policy.
- The Group is subject to operational risk, which is inherent to its business activities.
- The Group 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 Group's business, financial position and results of operations.

### *Risks related to Bulgaria and other markets in which the Group operates*

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

## *Currency risk*

The Group companies perform their activities in active exchange with foreign suppliers and customers and are therefore exposed to currency risk.

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

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

## **V. Information on related party transactions**

<b><i>Related party</i></b>	<b><i>Relation type</i></b>	<b><i>Relation period</i></b>	
"Telecomplect invest" AD	Company shareholder with significant influence	2023	2022
"Donev Investments Holding" AD	Company shareholder with significant influence	2023	2022
"Molina krepot" AD	Joint venture	2023	2022
"Sopharma Imoti" REIT	Associate	2023	2022
"Doverie-obedinen holding" AD	Associate	2023	2022
Subsidiaries form DOH Group	Companies controlled by an associate	2023	2022
"Sofprint Group" AD	Company related through key management personnel	2023	2022
"Sofconsult Group" AD	Company related through key management personnel	2023	2022

"VES electroinvest systems" EOOD	Company related through key management personnel	2023	2022
"Eco Solar Invest" OOD	Company related through key management personnel	2023	2022
"Alpha in" EOOD	Company related through key management personnel	2023	2022
"Consumpharm" OOD	Company related through key management personnel	2023	2022

	<b>1 January – 31 March 2023 BGN '000</b>	<b>1 January – 31 March 2022 BGN '000</b>
<b>Supplies from related parties:</b>		
<b>Supply of inventories from:</b>		
Companies related through key management personnel	2,580	2,424
Associates	68	15
Joint ventures	63	-
Companies controlled by an associate	27	-
	<b>2,738</b>	<b>2,439</b>
<b>Supply of services from:</b>		
Companies controlled by an associate	275	260
Shareholding companies with significant influence	148	97
Associates	112	73
Companies related through key management personnel	65	63
Joint ventures	1	-
	<b>601</b>	<b>493</b>
<b>Deliveries of tangible fixed assets from:</b>		
Companies controlled by an associate	258	-
	<b>258</b>	<b>-</b>
<b>Supplies for the acquisition of fixed assets:</b>		
Company controlled by an associate company	334	-
	<b>334</b>	<b>-</b>
<b>Other deliveries from:</b>		
Companies controlled by an associate company	56	50
	<b>56</b>	<b>50</b>
<b>Total deliveries</b>	<b>3,942</b>	<b>3,281</b>
Companies controlled by an associate	470	413
Companies related through key management personnel	326	307

	<b>796</b>	<b>720</b>
<b>Sales of services to:</b>		
Companies related through key management personnel	52	51
Companies controlled by an associate company	45	67
Associates	2	2
	<b>99</b>	<b>120</b>
<b>Guarantee fees and guarantees of:</b>		
Joint ventures	12	4
	<b>12</b>	<b>4</b>
<b>Interest on granted loans:</b>		
Companies controlled by an associate company	590	464
Associated companies	15	-
Joint ventures	-	11
	<b>605</b>	<b>475</b>
<b>Interest on assignment contracts:</b>		
Joint ventures	31	-
	<b>31</b>	<b>-</b>
	<b>1,543</b>	<b>1,319</b>

## **Leasing contracts**

During the reporting period, the company recognized assets, liabilities, expenses, payments in connection with **lease agreements with related parties**, as follows:

**The lease obligations** as of 31 March in connection with lease agreements with related parties are as follows:

	<b>31.03.2023</b>	<b>31.12.2022</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Recognized lease obligations on January 1	<b>20,616</b>	<b>4,314</b>
Increases	1,808	19,305
Payments of lease obligations for the period	(712)	(2,462)
	-	(541)
<b>Leasing liabilities as of 31 March/ 31 December</b>	<b>21,712</b>	<b>20,616</b>

The assets "right of use" as of 31 March in connection with lease agreements with related parties are as follows:

	<b>31.03.2023</b>	<b>31.12.2022</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Asset "right of use" as of January 1	<b>20,524</b>	<b>4,315</b>
Increases	1,877	19,263
Depreciation accrued	(750)	(2,482)
Write-off book value of right-of-use assets	(82)	(572)
<b>Assets "right of use" as of 31 March/ 31 December</b>	<b>21,569</b>	<b>20,524</b>

The new right-of-use assets and lease obligations arising during the period are under lease agreements with an associate.

The accounts with related parties are presented in Note 19, 23, 28, 35.

The composition of the Group's key management personnel includes the Executive Director disclosed in Note 1.1 and members of the Board of Directors of the Parent Company.

The remuneration and other income of the key management personnel and the executive directors, the members of the Board of Directors and the managers of the subsidiaries of the Group amount to BGN 930 thousand (2022: BGN 958 thousand).

30 May 2023  
Sofia