

# MANAGEMENT REPORT for the first quarter of 2023



## “SOPHARMA” AD

27 April 2023

*This document is a translation of the original text in Bulgarian,*

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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.

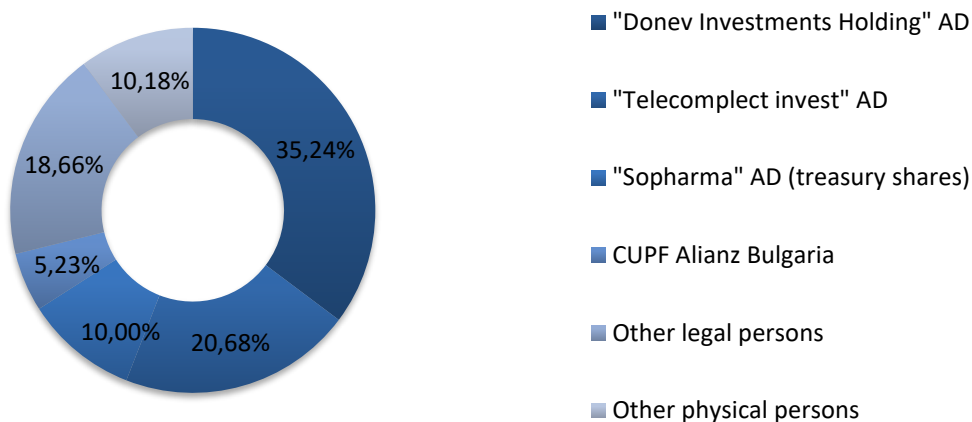
“Sopharma” AD was established in 1933. The court registration of the Company is from 15 November 1991, decision №1/1991 of Sofia City Court. “Sopharma” AD is a public company under the Law on Public Offering of Securities.

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 2023



### 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. On the basis of a commercial management contract dated 9 June 2020, Simeon Donev is the company's procurator.

#### 4. Personnel

The average number of workers and employees for 2023 in “Sopharma” AD is 1 702 (1 715 in 2022).

	31.03.2023	rel. share %
<b>Number of workers and employees as at 31 March 2023</b>	1 704	100%
Higher education	798	47%
College education	32	2%
Secondary education	850	50%
Primary education	24	1%
Employees under 30 years	139	8%
Employees 31 - 40 years	286	18%
Employees 41 - 50 years	456	27%
Employees 51 - 60 years	664	39%
Employees over 60 years	159	9%
Women	1082	63%
Men	622	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.

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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 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 approves the Prospectus for the 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. The right to exercise arises from the date on which the issue of 44,925,943 warrants was

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registered at the "Central Depository" AD – 11 January 2022. The warrants are admitted to trading on the BSE main market of the Bulgarian Stock Exchange-Sofia AD, starting from 25.01.2022

## II. Development of the activity

### *Key financial indicators*

Indicators	31.03.2023 BGN '000	31.03.2022 BGN '000	Change %
Revenues	64 625	44 557	45.0%
EBITDA	22 820	11 790	93.6%
Operating profit	18 092	7 322	147.1%
Net profit	16 445	7 076	132.4%
CAPEX*	4 700	2 655	77.0%
	31.03.2023 BGN '000	31.12.2022 BGN '000	
Non-current assets	507 731	506 718	0.2%
Current assets	226 006	194 530	16.2%
Owners' equity	614 863	600 375	2.4%
Non-current liabilities	33 273	27 840	19.5%
Current liabilities	85 601	73 033	17.2%

\* tangible and intangible fixed assets acquired

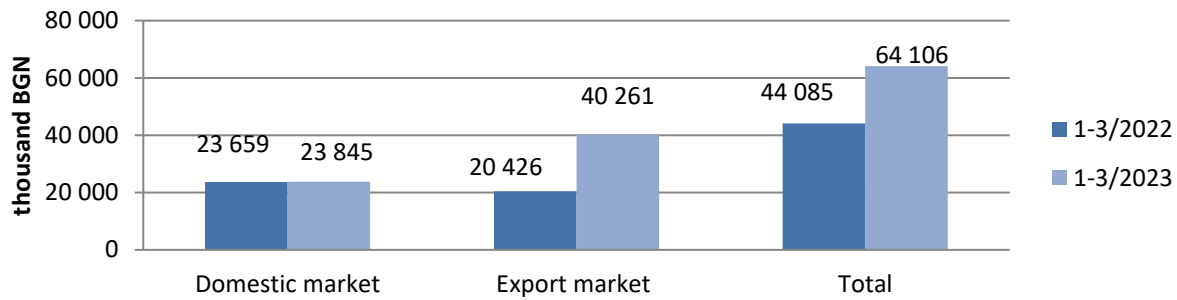
Indicators	1-3/2023	1-3/2022
EBITDA/Revenues	35.3%	26.5%
Operating profit/Sales Revenue	28.0%	16.4%
Net profit/Sales Revenue	25.4%	15.9%
	31.03.2023	31.12.2022
Debt/Equity	0,19	0,17
Net debt*/EBITDA on annual basis	0,6x	0,4x

\* 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

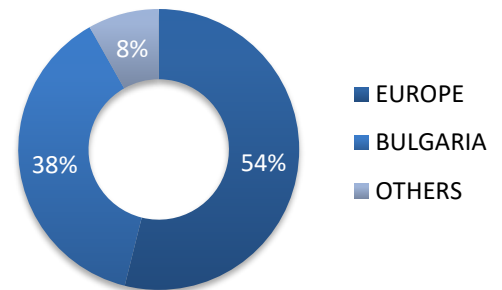
### *Operating revenues*

Revenues from contracts with customers in the first quarter of 2023 increased by BGN 20 million to BGN 64,1 million, compared to BGN 44,1 million in the first quarter of 2022.

## Sales revenues



Revenues by market	1-3/2023 BGN '000	1-3/2022 BGN '000	Change %
EUROPE	33 866	16 816	101.4%
BULGARIA	23 845	23 659	0.8%
OTHERS	6 395	3 610	77.1%
<b>TOTAL</b>	<b>64 106</b>	<b>44 085</b>	<b>45.4%</b>



- European market

Sales revenues for the first quarter of 2023 for European countries decreased by BGN 17,1 million or 101.4% compared to the first quarter of 2022 as a result of the low base in the previous period due to the collapse of sales of markets in Russia and Ukraine as a result of the conflict between the two countries. For the current period, sales in both markets grew by 185% and 14% respectively. Growth was also registered in other traditional markets, with sales revenue increasing in Belarus by 401%, in Moldova by 169%, in Latvia by 140%, in Poland by 81%. A decrease of 10% was recorded in sales in Serbia. Revenues from procurement and contract production grew by 146%, reaching BGN 3,3 million.

- Bulgarian market

Sales of "Sopharma" AD in the domestic market increased by BGN 0,2 million or by 0.8% for the first quarter of 2023 to BGN 23,9 million compared to BGN 23,7 million for the first quarter of 2022. The company retains its market share and according to IQVIA data at the end of 2023 has a 2.22% (thirteenth position) of the total Bulgarian pharmaceutical market in value and 7.89% (second position) of sales in volume. 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 – 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%

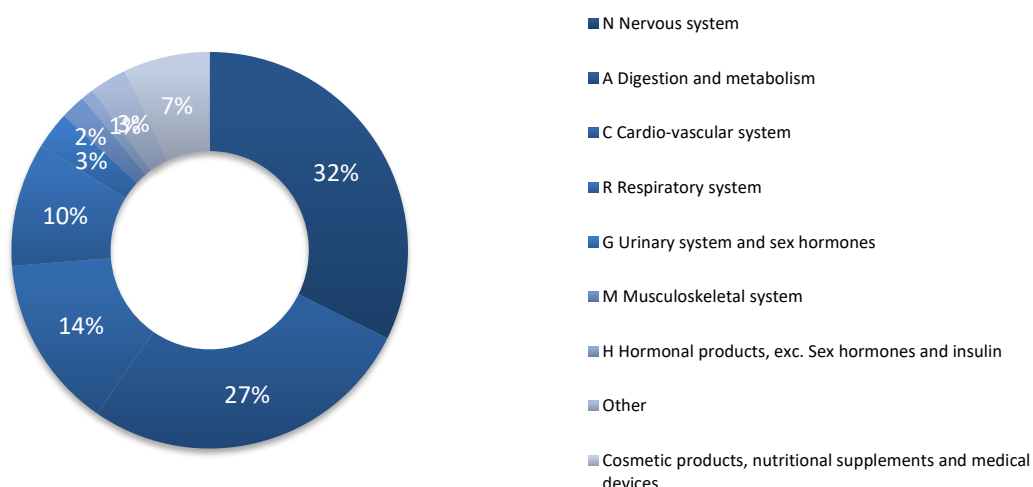
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(1.06% in kind), Phoenix – 3.01% (4.20% in kind). The products with the largest share of sales in the country are Analgin, Sophazolon, Vicetin, Fomotidine, Vitamin C, Paracetamol, Bromhexine, Methylprednisolone.

- Other markets

Revenues from other markets increased with BGN 2,8 million or 77.1% compared to first quarter of 2022, as a result of the growth of the sold production in the countries of the Caucasus region (Georgia with a growth of 63%, Azerbaijan with a growth of 254% and Armenia with growth 127%) and Kazakhstan with growth 5%. Vietnam recorded a 388% increase in sales revenue, while sales in Mongolia fell by 37%.

### *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. Personnel costs increased by BGN 4,2 million as a result of the increase in remuneration, and the costs of external services saw the largest change in the costs of manufacturing medicines and the costs of advertising and marketing services, both of which increased with BGN 0,7 million each.

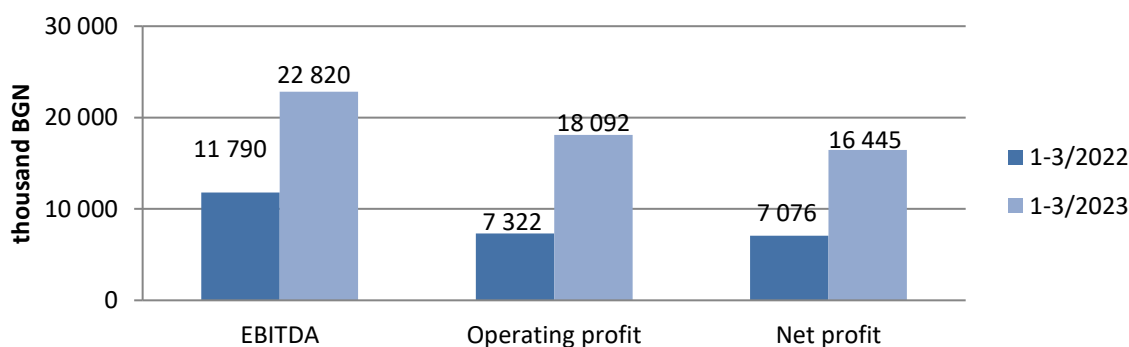
### *Financial income and expenses*

*Financial income* decreased by BGN 0,2 million to BGN 1 million in the first quarter of 2023 mainly due to the profit from operations with securities investments in the amount of BGN 0,3 million reported in the previous period.

*Financial expenses* increased by BGN 0,6 million to BGN 0,8 million in the first quarter of 2023, the main reason being the impairment charge for credit losses on receivables from commercial loans granted in the amount of BGN 0,5 million.



### Financial result of the activity



*Profit before interest, taxes, depreciation and amortization (EBITDA)* in the first quarter of 2023 increased by BGN 11 million or by 93.6% to BGN 22,8 million compared to BGN 11,8 million for the first quarter of 2022. The growth achieved during the period is due to the increase in sales in the main markets and the improved gross profit margin on the one hand, as well as a relatively stable structure of operating expenses.

*Operating profit* in the first quarter of 2023 increased by BGN 10,8 million or by 147.1% to BGN 18,1 million compared to BGN 7,3 million in the first quarter of 2022.

*Net profit* in the first quarter of 2023 increased by BGN 9,3 million or by 132.4%, to BGN 16,4 million compared to BGN 7,1 million in the first quarter of 2022.

### Assets

*Non-current assets* compared to the end of 2023 increased by BGN 1 million, to BGN 507,7 million, the most significant being the change in long-term receivables from related enterprises, which increased by BGN 2,5 million.

*Current assets* increased by BGN 31,5 million to BGN 226 million, with an increase in inventories of BGN 11,2 million, receivables from related enterprises in the amount of BGN 8 million, trade receivables with BGN 10,1 million and loans granted to third parties with BGN 2,8 million.

### Owners' equity and liabilities

*The equity of "Sopharma" AD* increased by BGN 14,5 million, to BGN 614,9 million, as a result of the recorded profit from the current year.

*Non-current liabilities* increased by BGN 5,4 million, to BGN 33,3 million, as a result of an increase in long-term bank loans by BGN 4,3 million compared to the end of the previous year, as well as due to liabilities under concluded long-term leasing contracts with related parties in the amount of BGN 1,3 million.

*Current liabilities* increased by BGN 12,6 million, to BGN 85,6 million, as a result of the increase in liabilities under short-term bank loans by BGN 18,3 million. Trade liabilities decreased by BGN 10,7 million, which is the result of the decrease in advances received for the sale of finished products, which decrease by BGN 7,4 million.

### *Cash flows*

	<b>1-3/2022</b>	<b>1-3/2021</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Net cash flows from operating activities	(13 422)	9 532
Purchases of property, plant and equipment, intangible assets, net	(3 104)	(1 988)
Payments under lease contracts	(756)	(478)
<b>Free cash flow (normalized)</b>	<b>(17 282)</b>	<b>7 066</b>

The free cash flow (normalized with the payments under lease contracts), generated for the first quarter of 2023 is BGN 17,3 million outflow compared to BGN 7,1 million inflow in the first quarter of 2022. The registered net cash outflow from operating activities in the current period is the result of advance payments received from customers in 2022 related to realized sales of output in 2023.

### *New developments and products*

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 in 2023 and until the publication of the preliminary 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 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.

28 April 2023

Sofia