sopharma

# MANAGEMENT REPORT FOR THE FIRST QUARTER OF 2024

# "SOPHARMA" AD

**29 April, 2024**

## *Content*

## 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 Law, with its registered office in Sofia, 16 “Iliensko shose” Str.

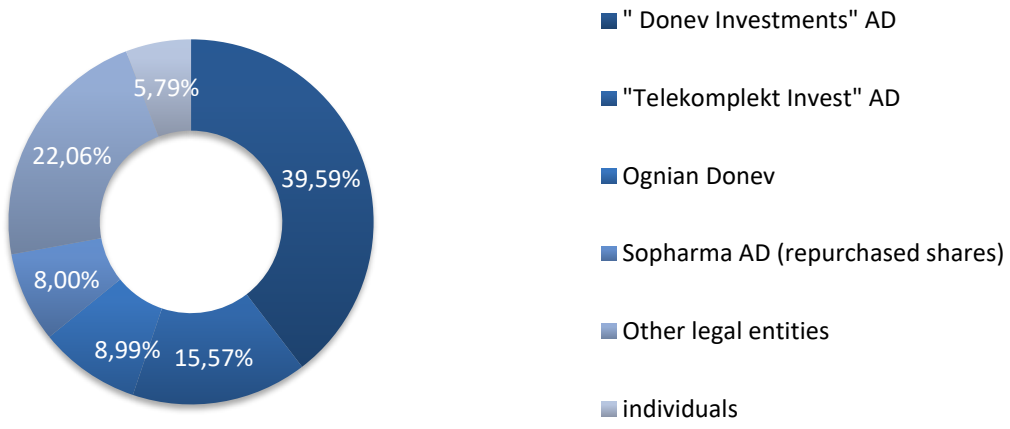
“Sopharma” AD was established in 1933. The court registration of the Company is from November 15, 1991, decision №1/1991 of Sofia City Court. “Sopharma” AD is a public company under the Law on Public Offering of Securities.

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, production of medical products and cosmetics, incl. - plasters, bandages, sanitary-hygiene products, herbal cosmetics, concentrates for hemodialysis and production and trade of veterinary-medicinal products and performance of laboratory services related to the examination of animal blood samples.

“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 and respectively under the Law on Veterinary medicine activities for all products of its manufacturing portfolio.

### 2. Shareholder structure as of March 31, 2024




### 3. Board of Directors

“Sopharma” AD has a single-tier management system with a Board of Directors of five members as follows: Ognian Donev, PhD – Chairman, Vessela Stoeva – Deputy Chairman and members - 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 concluded on June 9, 2020, Simeon Donev is assigned as a

procurator of the company.

## 4. Personnel

The average number of workers and employees for the period in "Sopharma" AD is 1 747 workers and employees (at 1 720 for 2023).

| | Number of employees as 31.03.2024 | rel. share % |
|---|---|---|
| | 1 752 | 100% |
| Higher education | 851 | 49% |
| College education | 27 | 2% |
| Secondary education | 848 | 48% |
| Primary education | 26 | 1% |
| Employees under 30 years | 143 | 8% |
| Employees 31 - 40 years | 311 | 18% |
| Employees 41 - 50 years | 462 | 26% |
| Employees 51 - 60 years | 677 | 39% |
| Employees over 60 years | 159 | 9% |
| Women | 1 127 | 64% |
| Men | 625 | 36% |

## 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;
  - Solid forms as 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.

- Veterinary-medicinal products.

## 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 which are plant-based. The Company's traditional products (in particular Tabex, Carsil and Tempalgin) make up a major share of its export market revenues, 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 is focused on the following therapeutic areas: cardiology, gastroenterology, pain management, cough and cold, immunology and dermatology, respiratory tract and asthma, neurology and psychiatry, urology and gynecology, nephrology, surgery, orthopedics and traumatology.

The most significant pharmaceutical products in terms of their contribution to the revenues are:

- Carsil - traditional plant-based product used to treat gastroenterology 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;
- Veterinary vaccines.

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

The total number of shares as of March 31, 2024 of "Sopharma" AD, is 179 100 063 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 November 4, 2021, the Financial Supervision Commission registered an issue of 44 932 633 dematerialized, freely transferable and registered warrants, with par 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 only in favor of the owners of warrants. Each 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 is registered with Central Depository AD – January 11, 2022. The warrants are admitted to trading on the BSE main market on the Bulgarian Stock Exchange AD as of January 25, 2022.

## II. Development of the activity

### *Key financial indicators*

| Indicators | 31.03.2024 | 31.03.2023 | Change |
|---|---|---|---|
| | ***BGN '000*** | ***BGN '000*** | **%** |
| Revenues | 57 962 | 64 697 | -10,4% |
| EBITDA | 21 504 | 22 554 | -4,7% |
| Operating profit | 16 805 | 17 526 | -4,1% |
| Net profit | 15 232 | 15 810 | -3,7% |
| CAPEX* | 2 416 | 4 700 | -48,6% |
| | **31.03.2024** | **31.12.2023** | |
| | ***BGN '000*** | ***BGN '000*** | |
| Non-current assets | 523 154 | 537 875 | -2,7% |
| Current assets | 400 782 | 336 682 | 19,0% |
| Owners' equity | 617 204 | 576 125 | -7,1% |
| Non-current liabilities | 64 176 | 66 091 | -2,9% |
| Current liabilities | 242 556 | 232 341 | 4,4% |

** Tangible and intangible fixed assets acquired*

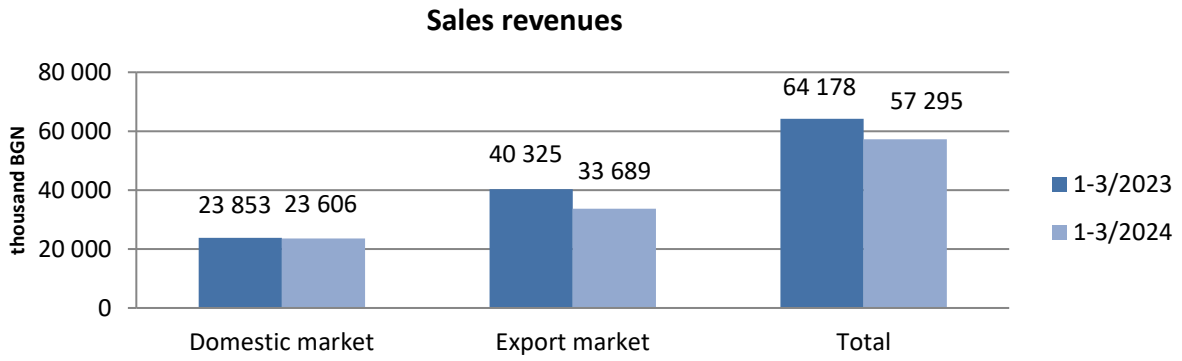
| Indicators | 1-3/2024 | 1-3/2023 |
|---|---|---|
| EBITDA/Revenues | 37,1% | 34,9% |
| Operating profit/Sales Revenue | 29,0% | 27,1% |
| Net profit/Sales Revenue | 26,3% | 24,4% |
| | **31.03.2024** | **31.12.2023** |
| Debt/Equity | 0,50 | 0,52 |
| Net debt*/EBITDA on annual basis | -1,5x | -0,1x |

** The net debt comprises the sum of borrowings from banks and lease liabilities less cash and cash equivalents.*

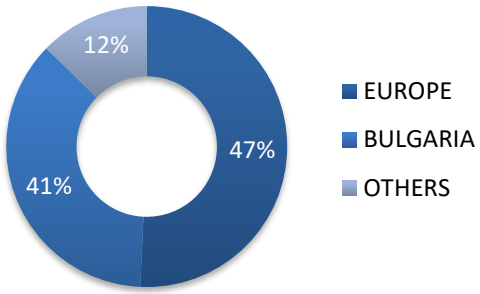
### *Operating revenues*

Revenues from contracts with customers are from sales of manufactured medicinal products for the first quarter of 2024 and decreased by BGN 6,9 million, to BGN 57,3 million, compared to BGN 64,2 million for the first quarter of 2023. It also includes revenues from

assignment production and contract manufacturing, which for the first quarter of 2024 amounted to BGN 1,6 million.




| Revenues by market | 1-3/2024 *BGN '000* | 1-3/2023 *BGN '000* | Change % |
|---|---|---|---|
| EUROPE | 27 058 | 33 930 | -20,3% |
| BULGARIA | 23 606 | 23 853 | -1,0% |
| OTHERS | 6 631 | 6 395 | 3,7% |
| **TOTAL** | **57 295** | **64 178** | -10,7% |




- European market

Sales revenues for the first quarter of 2024 for European countries decreased by BGN 6,8 million or 20,3 % compared to the first quarter of 2023. Sales in Russia accounted for the largest share, and for the current period they decreased by 16,1%. Growth was registered in Belarus and Ukraine. Sales decrease was registered in Baltic republics, Serbia, Poland and Moldova.

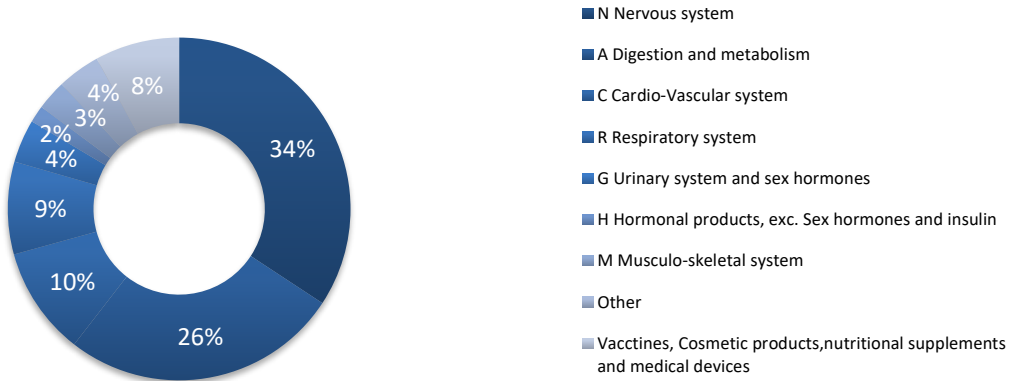
- Bulgarian market

Sales of "Sopharma" AD on the domestic market decreased by BGN 0,3 million or 1.0 % in first quarter of 2024, to 23,6 million compared to BGN 23,9 million the first quarter of 2023. According to IQVIA data, as of the end of the first quarter of 2024, the company occupies 1.99 % (fifteenth position) on the Bulgarian pharmaceutical market in value and 6.78 % (second position) of sales in volume. The positions of the main competitors of the company on the territory of the country are as follows: Roche - 5.21% (0.30% in volume), Merck Sharp & Dohme - 4.97% (0.12% in volume), AstraZeneca - 4.64% (0.49% in volume), Novartis - 3.84% (1.13% in volume), Swixx Biopharma - 3.80% (1.17% in volume), Pfizer – 3,67% (0,67% in volume), Abbie – 3,58% (0,08% in volume), Teva - 3.13% (8.15% in volume), Stada – 2,85% (4,39% in volume), Johnson & Johnson 2,80 (0.82% in volume).The products with the largest share of sales in the country are Analgin, Vicetin, Famotidine, Vitamin C, Paracetamol, Methylprednisolone.

- Other markets

Revenues from other markets in the first quarter of 2024 increased by BGN 0.2 million or 3.7% compared to the first quarter of 2023 as a result of the growth of the output sold in Armenia, Georgia, Kazakhstan and the USA, while sales decreased in Azerbaijan, Vietnam and Mongolia.

*Sales by therapeutic group*




*Operating expenses*

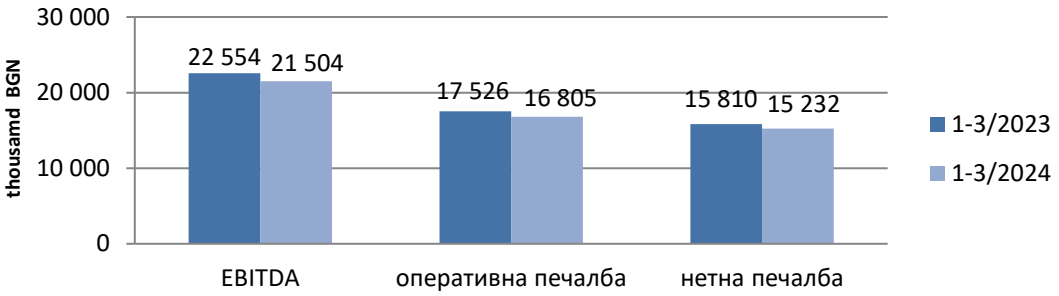
For the current period, costs for materials increased by BGN 4,4 million compared to the first quarter of 2023 in the part of basic and laboratory materials. A decrease was registered in the costs of heating and electricity. Personnel costs increased by BGN 2,3 million as a result of an increase in current remunerations, and in external service costs, which increased by BGN 1 million, the biggest change was registered in the costs of advertising and marketing services, increasing by BGN 1,1 million. Other operating expenses increased by BGN 0,6 million.

Financial income and expenses

Financial income increases by BGN 0,1 million to BGN 1,1 million in the first quarter of 2024.

Financial expenses increase by BGN 0,5 million to BGN 1,4 million in the Q1 of 2024 as a result of the growth of interest expenses on loans received.

*Financial result of the activity*




*Profit before interest, taxes, depreciation and amortization (EBITDA)* in the first quarter of 2024 decreased by BGN 1,1 million or by 4,7% to BGN 21,5 million compared to BGN 22,6 million in first quarter of 2023.

*Operating profit* for first quarter of 2024 *de*creased by BGN 0,7 million or by 4,1% to BGN 16,8 million compared to BGN 17,5 million for first quarter of 2023.

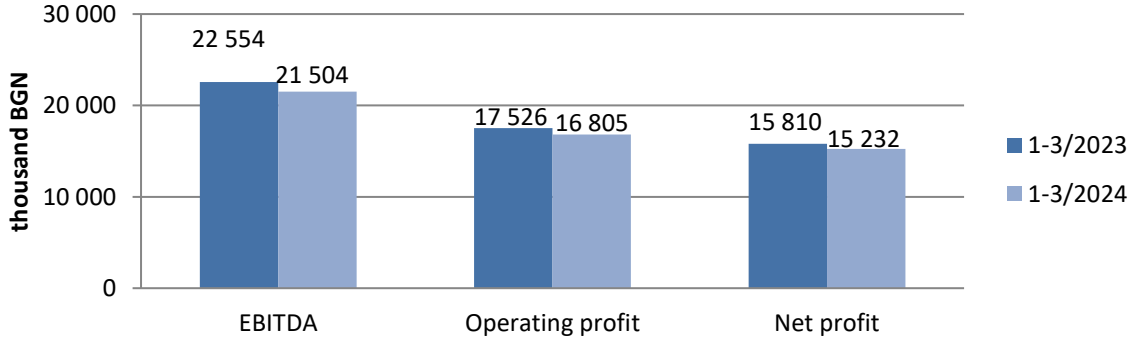
*Net profit* for the first quarter of of 2024 decreased by BGN 0,6 million or by 3,7%, to BGN 15,2 million compared to BGN 15,8 million for the same period of 2023.

### *Assets*

*Non-current assets* compared to the end of 2023 decreased by BGN 14,7 million, to BGN 523,2 million. The most significant increase is the change in investments in associates due to the newly acquired shares in "Achieve Life Sciences Inc.", USA in the amount of BGN 8.7 million. Long-term receivables on affiliated enterprises decreased by BGN 20,5 million as a result of loans granted to "Doverie Invest" EAD and "Industrial Holding Doverie" AD.

*Current assets* increased by BGN 64,1 million to BGN 400,8 million, with the most significant impact of the increased other receivables and prepaid expenses in the amount of BGN 141,5 million and cash provided to Central Depository for the payment of dividend. Cash equivalents decreased by BGN 101,5 million. An increase was recorded in inventories by BGN 9,6 million, in receivables from related enterprises in the amount of BGN 3,3 million and in trade receivables by BGN 2,8 million.

### *Owners' equity and liabilities*



*The equity*i increased by BGN 41,1 million, to BGN 617,2 million, as a result of the increase in retained earnings and reserves.

*Non-current liabilities* decreased by BGN 1,9 million, to BGN 64,2 million, as a result of decrease in long-term bank loans by BGN 2,2 million.

*Current liabilities* increased by BGN 10,2 million, to BGN 242,6 million, as a result of the increase in liabilities under short-term bank loans by BGN 16,5 million. Trade liabilities decreased by BGN 9,2 million.

### *Cash flows*

| | 1-3/2024 BGN '000 | 1-3/2023 BGN '000 |
|---|---|---|
| Net cash flows from operating activities, normalized* | (8 118) | (13 718) |
| Purchases of property, plant and equipment, intangible assets, net | (4 060) | (3 116) |
| Payments under lease contracts | (717) | (756) |
| **Free cash flow (normalized)** | **(12 895)** | **(17 590)** |

**Net cash flows from/(used in) operating activities for the first quarter of 2024 are normalized with the amount paid for dividends to the Central Depository in the amount of BGN 141,890 million and not reflected at the end of the period in the "Cash flows from financial activity" section ".*

The free cash flow (normalized with the payments under lease contracts and dividends), generated in first quarter of 2024 is BGN 12,9 million outflow compared to BGN 17,6 million outflow in first quarter of 2023.

### *New developments and products*

During the reporting period January-March 2024 in Division "Development and Regulatory Compliance" the following activities were performed:

- **New medicinal products**

During the reporting period, Authorizations for use were received for four new medicinal products:

- Sophamet XR 500 mg prolonged-release tablets (Bulgaria);
- Sophamet XR 750 mg prolonged-release tablets (Bulgaria);
- Sophamet XR 1000 mg prolonged-release tablets (Bulgaria);
- Ketorolac-Sopharma 30 mg/ml solution for injection (Ukraine).

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

*New registrations of medicinal products*

Documentation for the registration of 18 medicinal products has been submitted:

- Manitol 10% solution for infusion MAN transfer from "Biopharm Engineering" Bulgaria;
- Manitol 15% solution for infusion MAN transfer from Biopharm Engineering Bulgaria;
- Ringer solution for infusion MAN transfer from "Biopharm Engineering" Bulgaria;
- NaCl 0.9% solution for infusion MAN transfer from Biopharm Engineering Bulgaria;
- Metronidazole 500mg/100ml solution for infusion MAN transfer from Biopharm Engineering Bulgaria;

- Glucose 5% + NaCl 0.9% solution for infusion MAN transfer from Biopharm Engineering Bulgaria;
- Glucose 5% solution for infusion MAN transfer from Biopharm Engineering Bulgaria;
- Paracetamol Siromed 500 mg tablets Lithuania;
- Vitamin C Zentiva 100 mg/ml solution for injection/infusion Poland;
- Tempaforte 500 mg/ml solution for injection – Peru;
- Dexamethasone Sopharma 4 mg/ml solution for injection, Albania;
- Analgin 500 mg/ml solution for injection, Albania;
- Norepinephrine Sopharma 1 mg/ml concentrate for solution for infusion Albania;
- Zondaron 2 mg/ml solution for injection/infusion. Albania.

- **Licensing**
- Sophtica 60 mg film-coated tablets Bulgaria;
- Sophtica 90mg film-coated tablets Bulgaria;
- Telmitan Duo 80 mg/5 mg tablets Bulgaria;
- Telmitan Duo 80 mg/10 mg tablets Bulgaria.

- **Medicinal products have been registered for 7 new directions:**
- Aminophylline Sveikuva 24 mg/ml solution for injection/infusion Lithuania;
- Amolytin 30 mg tablets Lithuania;
- Vitamin D3 Sopharma oral drops, solution Czech Republic;
- Carsil 22.5 mg film-coated tablets, Georgia (MRP);
- Ambrolytin 30 mg/ 5 ml syrup, Georgia (MRP);
- Vipalgin 500 mg/ml solution for injection – Colombia;
- Papaverine 20 mg/ml solution for injection - Iran for 1 year temporary import.

- **Re-registrations/changes**
- Renewed Use Authorizations for 9 medicinal products;
- Submitted documentation for renewal of Use Permits for 9 medicinal products to agencies;
- 196 drug product changes submitted to agencies;
- Agency-approved 105 drug product changes.

- **Food additives**
- 6 food supplements have been notified - 3 for Bulgaria; 1 for Ukraine; 1 for Azerbaijan; 1 for Kazakhstan;
- 3 Food additives have been submitted for notification - 3 for Georgia;

- **Developments**

Pharmaceutical development of 12 new medicinal products is being carried out/projects:

- Agency-approved 105 drug product changes;
- Cytisine 3.0 mg TB – Project with company Achieve;
- Dexketoprofen 25 mg tab.;

- Xylmetazoline/Dexpanthenol nasal spray;
- Molsidomin 4 mg tab.;
- Ketorolac 10 mg tab.;
- Vitamin C 200 mg/mL injection p-r;
- Butamirate Citrate Oral Drops;
- Ibuprofen 200; 400 and 600 mg tb.;
- Ibuprofen 100 and 200 mg/5 ml oral suspension.

- **API – 4**

- Valeriana extract/ Maltodextrin;
- Glaucine hydrobromide;
- Dry extract of milk thistle fruits;
- Dry extract of Granny's teeth.

- **Transfer and validation of technological processes**

3 new medicinal products were transferred:

- Cytisinicline 3 mg tb. (composition with L-Cysteine);
- Molsidomin 4 mg tab.;
- Sulfamethoxazole 400 mg and Trimethoprim 80 mg solution for injection - 5 ml..

5 production processes/technologies have been validated/optimized.

- **Prepared documentation for quality/production**

- Documentation for quality of raw materials for production – 58;
- Production regulations – 30;
- Documentation for the qualification of finished forms – 78.

## III. Significant events in Q1 of 2024 and until the publication of the interim activity report

- On January 15, 2024, the Board of Directors of "Sopharma" AD adopted a decision to initiate a procedure for the merger of the subsidiary company "Veta Pharma" AD, EIC: 104111084 into "Sopharma" AD under the conditions and in accordance with Chapter XVI of the Commercial Law and Art. 122 of the Law on Public Offering of Securities. At the time of starting the procedure, Sopharma AD owns 99.98% of the company's capital.

- On January 22, 2024, the Company started payment of the dividend for 6 months of 2023 in gross amount of 90 cents per share voted at the Extraordinary General Meeting of Shareholders held on November 24, 2023. The right to receive a dividend has the persons entered in the register of "Central Depository" AD as shareholders on the 14th day after the day of the General Meeting, at which the decision to distribute the dividend to the shareholders was made,

namely December 08, 2023. In accordance with the Regulations of "Central Depository" AD, the dividend will be paid as follows: for shareholders with client accounts with investment intermediaries - through the relevant investment intermediary; for shareholders with personal accounts in "Central Depository" AD - through the branches of "Eurobank Bulgaria" AD /Post Bank/ in the country.

- On February 27, 2024, "Sopharma" AD notified that in implementation of the decision of the General Meeting of Warrant Holders (AGM) dated January 26, 2024 and the decision of the Board of Directors of "Sopharma" AD dated January 26, 2024 . and on the basis of Art. 195 and Art. 196 of the Commercial Law, art. 113, para. 2, item 2 of the Civil Code and Art. 25 of the Company's Articles of Association) a capital increase procedure was launched by issuing up to 7 133 264 ordinary registered non-transferable shares with a nominal value of BGN 1 each and an issue value of BGN 4.13 per share, provided that the shares from the increase are subscribed by the holders of warrants, issue ISIN BG9200001212, in accordance with the terms and conditions described in the Prospectus for public offering of warrants, confirmed by Decision of the Financial Supervisory Service No. 804-E/November 11,2021.The term for the exercise of warrants determined by the Board of Directors in accordance with the requirements of the Law on the Public Offering of Securities and the Prospectus for the Public Offering of Warrants, confirmed by FSC Decision No. 804-E/November 04, 2021, started on February 2, 2024 year and ended on February 23, 2024. During this period, a total of 36 requests were received for the subscription of the shares from the increase by exercising warrants, submitted by 36 persons, of which 3 legal persons and 33 individuals. A total of 6 510 985 (six million five hundred and ten thousand nine hundred and eighty five) warrants were exercised. 6 509 485 (six million five hundred and nine thousand four hundred and eighty five) shares were registered against them - with 1 500 shares. less - because a request submitted by an individual has not been paid to the collection account of "Sopharma" AD within previously established period.The right to participate in the capital increase of "Sopharma" AD, by exercising the rights under the warrants, was granted to the persons who acquired warrants no later than 5 working days after the later date between the date of publication of the announcement under Art. 89t, para. 2 of the Law on the Public Offering of Securities (IPO) on the website of Information Agency "X3news.com", on the website of "Sopharma" AD and the investment intermediary chosen to serve the capital increase. The issue value of the subscribed shares is in the total amount of BGN 26 884 173.05.

- On April 23, 2024, the Company acquired 84 312 corporate bonds of "Doverie Obedinen Holding" AD, which were registered in "Central Depository" AD on April 4, 2024. They were admitted to trading on "Bulgarian Stock Exchange" AD.

On April 16, 2024, the Financial Supervision Commission notified the company by letter No. RG–05–684–2 on the basis of Art. 125 in connection with Art. 89 r, para. 2 of the LPOS that it

should submit additional information within one month, data and documents regarding the requested merger "Veta Pharma" 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 ninth month.