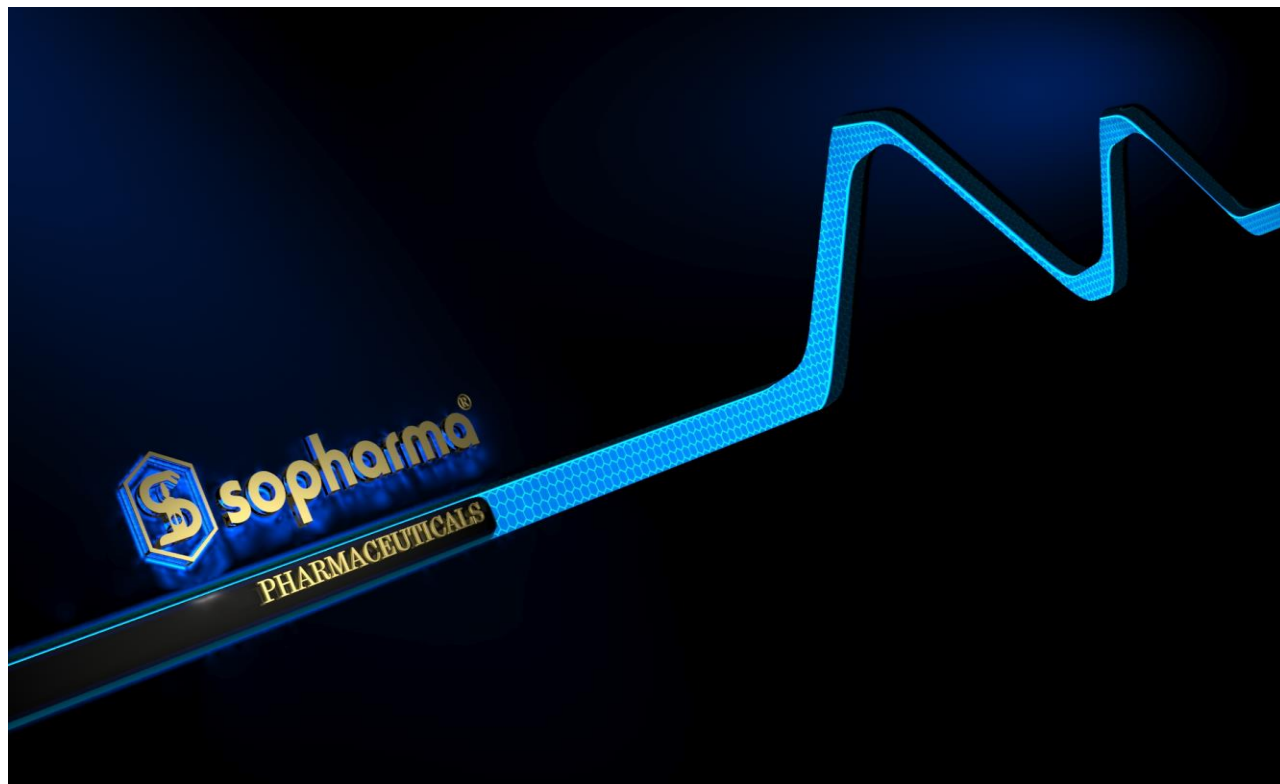


MANAGEMENT REPORT for the first half of 2022



“SOPHARMA” AD

1 August 2022

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

Content

I. General information about “Sopharma” AD	2
1. Registration and activity of the Company	2
2. Shareholder structure as at 30 June 2022	2
3. Board of Directors	2
4. Personnel	3
5. Production activity	3
6. Products.....	3
II. Development of the activity.....	5
III. Significant events in the first half of 2022 and until the publication of the interim management report.....	111
IV. Review of the main risks faced by the Company	12
V. Information on related party transactions.....	1313

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.

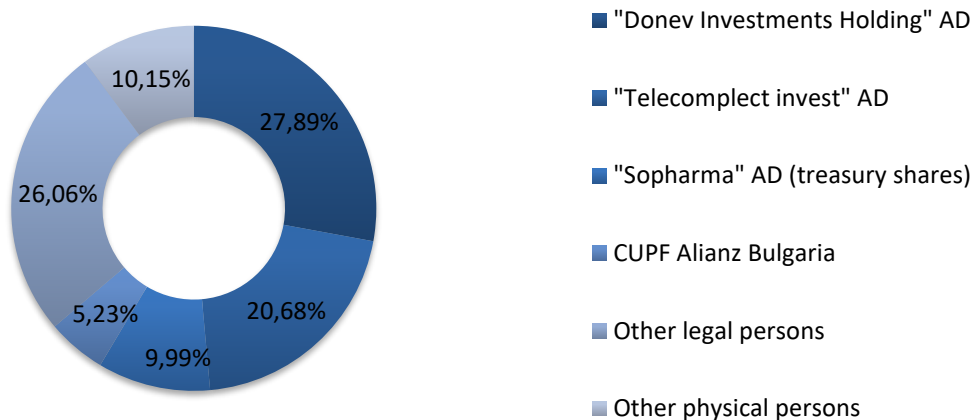
“Sopharma” AD was established in 1933. The court registration of the Company is from 15 November 1991, decision №1/1991 of Sofia City Court. “Sopharma” AD is a public company under the Law on Public Offering of Securities.

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 pharmaceuticals, 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 30 June 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, 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. 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 1 713 (1 860 in 2021).

	30.06.2022	rel. share %
Number of workers and employees as at 30 June 2022	1 720	100%
Higher education	801	47%
College education	34	2%
Secondary education	864	50%
Primary education	21	1%
Employees under 30 years	144	8%
Employees 31 - 40 years	273	16%
Employees 41 - 50 years	466	27%
Employees 51 - 60 years	665	39%
Employees over 60 years	172	10%
Women	1084	63%
Men	636	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.:
 - ✓ 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.

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 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 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;
- Broncholitín - 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 as of 30 June 2022 of “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 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.

II. Development of the activity

Key financial indicators

Indicators	30.06.2022	30.06.2021	Change %
	BGN '000	BGN '000	
Revenues	110 050	80 524	36.7%
EBITDA	33 469	20 384	64.2%
Operating profit	24 592	11 588	112.2%
Net profit	23 618	12 023	96.4%
CAPEX*	7 181	4 075	76.2%
	30.06.2022	31.12.2021	
	BGN '000	BGN '000	
Non-current assets	461 781	456 746	1.1%
Current assets	186 878	202 353	-7.6%
Owners' equity	585 666	564 203	3.8%
Non-current liabilities	26 438	22 436	17.8%
Current liabilities	36 555	72 460	-49.6%

* tangible and intangible fixed assets acquired

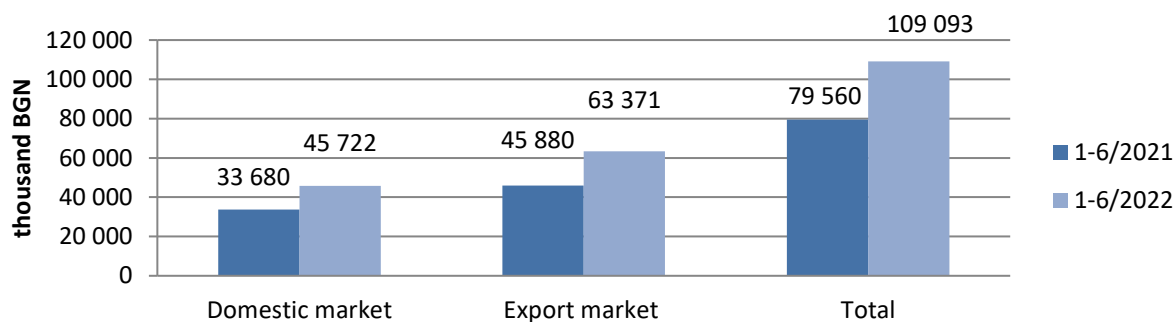
Indicators	1-6/2022	1-6/2021
	EBITDA/Revenues	30.4%
Operating profit/Sales Revenue	22.3%	14.4%
Net profit/Sales Revenue	21.5%	14.9%
	30.06.2022	31.03.2021
Debt/Equity	0,11	0,14
Net debt*/EBITDA on annual basis	0,3x	0,6x

* 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

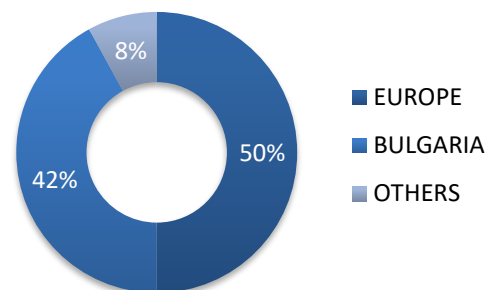
Operating revenues

Revenues from contracts with customers in the first half of 2022 increased by BGN 29,5 million to BGN 109,1 million, compared to BGN 79,6 million in the first half of 2021.

Sales revenues



Revenues by market	1-6/2022 BGN '000	1-6/2021 BGN '000	Change %
EUROPE	55 106	37 742	46.0%
BULGARIA	45 722	33 680	35.8%
OTHERS	8 265	8 138	1.6%
TOTAL	109 093	79 560	37.1%



- European market

Sales revenues for the first half of 2022 for European countries increased by BGN 17,4 million or 46% compared to the first half of 2021, as a result of recovery of activity in the main markets. The increase in sales in Ukraine is also due to the low base of sales in the corresponding period last year.

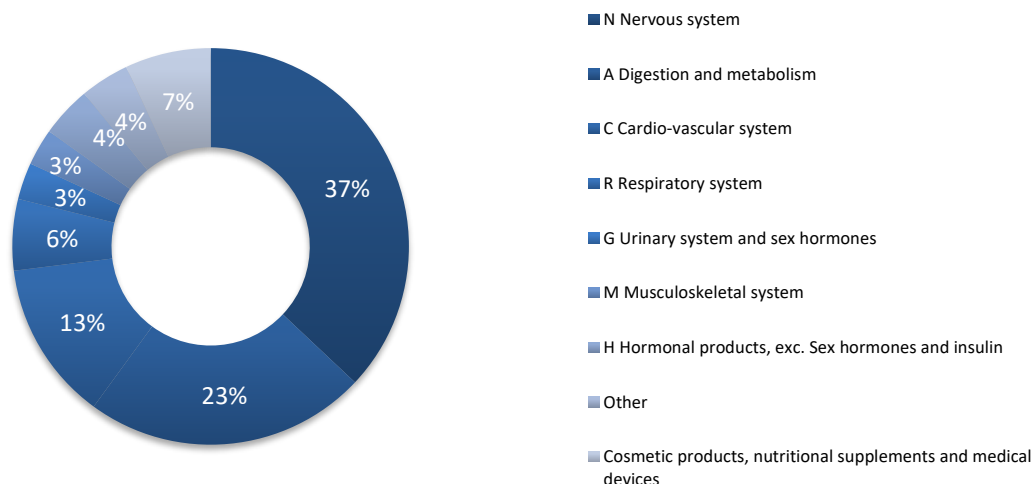
- Bulgarian market

Sales of “Sopharma” AD in the domestic market increased by BGN 12 million or by 35.8% for the first half of 2022 to BGN 45,7 million compared to BGN 33,7 million for the first half of 2021, the reason for this growth being the low base of sales in the previous period, which is due to accumulated stocks of finished products in the main distributor of the Company at the beginning of 2021. The company retains its market share and at the end of the first half of 2022 has a 2.57% share of the total Bulgarian pharmaceutical market in value and 9.71% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis –7.14% (4.20% in kind), Roche – 5.34% (0.16% in kind), Merck Sharp Dohme – 4.11% (0.16% in kind), Pfizer – 3.76% (0.70% in kind), Teva – 3.51% (8.57 % in kind), AstraZeneca – 3.13% (0.49% in kind), Swixx Biopharma – 3.03% (0.90% in kind), Abbvie – 3.01% (0.06% in kind), Bayer – 2.74% (2.07% in kind). The products with the largest share of sales in the country are Analgin, Sophazolon, Vicetin, Fomotide, Vitamin C, Paracetamol, Bromhexine, Methylprednisolone.

- Other markets

Revenues from other markets increased with BGN 0,1 million or 1.7% compared to first half of 2021.

Sales by therapeutic group



Operating expenses

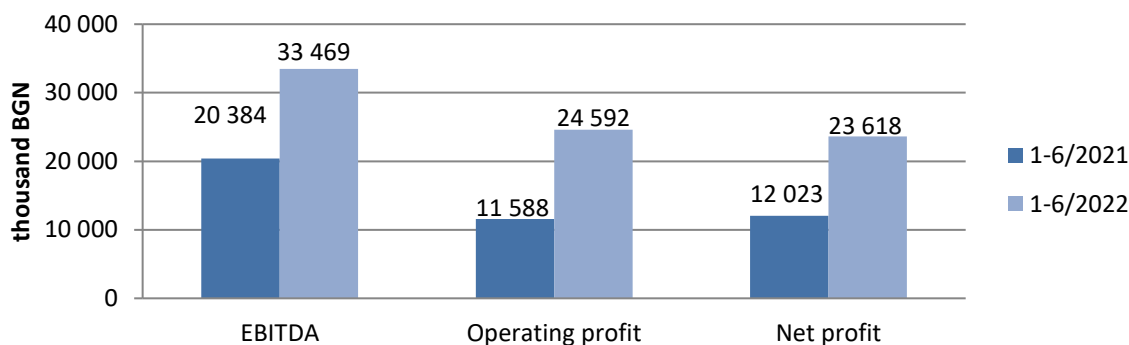
For the current period more significant changes are reported in the cost of materials, mainly in the part of costs for basic materials for production, which increased by BGN 5,8 million, which is related to both the increase in sales during the period and the increase in the prices of materials and substances. There is a more significant increase in the costs for heat and electricity, by BGN 2 and 1,1 million. Personnel costs increased by BGN 2,1 million, and the largest change in external costs is in the costs of manufacturing medicines and the costs of advertising and marketing services, which decreased by BGN 0,9 million respectively and with BGN 0,7 million.

Financial income and expenses

Financial income increased by BGN 0,9 million to BGN 3,3 million in the first half of 2022 mainly due to the reported by BGN 0,9 million more equity income compared to the previous period.

Financial expenses decreased by BGN 0,1 million to BGN 0,650 million in the first half of 2022.

Financial result of the activity



Profit before interest, taxes, depreciation and amortization (EBITDA) in the first half of 2022 increased by BGN 13,1 million or by 64% to BGN 33,5 million compared to BGN 20,4 million for the first half of 2021.

Operating profit in the first half of 2022 increased by BGN 13 million or by 112% to BGN 24,6 million compared to BGN 11,6 million in the first half of 2021.

Net profit in the first half of 2022 increased by BGN 11,6 million or by 96%, to BGN 23,6 million compared to BGN 12 million in the first half of 2021.

Assets

Non-current assets compared to the end of 2021 change insignificantly and increase by BGN 5 million, to BGN 461,8 million, the most significant being the change in investments in subsidiaries, which increase by BGN 5,1 million.

Current assets decreased by BGN 15,5 million to BGN 186,9 million with the most significant decrease reported in receivables from related enterprises in the amount of BGN 4 million and in the amount of BGN 11,1 million. Inventories increased with BGN 3,2 million.

Owners' equity and liabilities

The equity of "Sopharma" AD increased by BGN 21,5 million to BGN 585 million as a result of the registered profit for the current year.

Non-current liabilities increased by BGN 4 million to BGN 26,4 million, as a result of an increase in long-term bank loans by BGN 4,1 million compared to the end of the previous year.

Current liabilities decreased by BGN 35,9 million to BGN 36,6 million, as a result of the decrease in short-term bank loans by BGN 36,7 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 0,9 million.

Cash flows

	1-6/2022 BGN '000	1-6/2021 BGN '000
Net cash flows from operating activities	32 618	30 334
Purchases of property, plant and equipment, intangible assets, net	(5 275)	(2 753)
Payments under lease contracts	(983)	(968)
Free cash flow (normalized)	26 360	26 613

The free cash flow (normalized with the payments under lease contracts), generated for the first half of 2022, amounts to BGN 26,4 million inflow compared to BGN 26,6 million inflow in the first half of 2021.

New developments and products

During the reporting period April ÷ June 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:

- *Dusopharm 100 mg tablets (Russia);*
- *Dusopharm 200 mg tablets (Russia).*

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

New registrations of medicinal products

- Documentation for registration of **5** medicinal products has been submitted:
 - Glicerax Pico 7,5mg/ml oral drops, solution (Bulgaria);
 - Suxamethonium Sopharma 10mg/ml sol.for.inj. – (Bulgaria);
 - Suxamethonium Sopharma 20mg/ml sol.for.inj. – (Bulgaria).
- Licensing
 - Tempaforte 500 mg eff. Powder – (Azerbajdjan);
 - Tempaforte 1000 mg eff. Powder - (Azerbajdjan).
- Documentation has been submitted for the registration of **3** medicinal products to agencies of new destinations:
 - *Furosemide Sopharma inj (MRP-Gruzia);*
 - *Haloperidol Sopharma inj (MRP-Gruzia);*

Licensing

- *Gorloin 5 mg/1.5 mg comp. lozenges (Moldova, Kazahstan, Azerbajdjan).*

Re-registrations / changes

- Renewed Marketing Authorizations for **14** medicinal products.
- Submission of documentation for the renewal of the Marketing Authorizations for **8** medicinal products.
- **61** changes for medicinal products approved by agencies.
- **67** changes for medicinal products submitted to agencies.

✓ **Developments**

- Pharmaceutical development of **7** new medicinal products/projects:
 - Citisinicline 3,0 mg tablets – Project with the company Achieve;
 - Keterolac 30 mg/ml solution for injection; 1 ml;
 - Keterolac 10 mg/ml tablets;
 - Dexketoprophenum 25 mg tablets;
 - Betagamma caps.;
 - Valeriana 30 mg tablets;
 - Xylmetazoline/Dexpanthenol nasal spray.
- Development of **3** nutritional supplements is underway:
 - Valeriana/Melatonin 150 mg/3 mg tb.;
 - Valeriana/Melatonin 50 mg/1 mg tb.;
 - Mint/Hawthorn/Valeriana/mg tb.

✓ **Transfer and validation of technological processes**

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

✓ **Prepared documentation for qualification / production**

- Documentation for qualification of raw materials for production– **55**;
- Production regulations– **36**;

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

- Documentation for qualification of finished forms – 58.

III. Significant events in the first half of 2022 and until the publication of the interim 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. 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 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.

- On 7 July 2022, at its meeting, the Board of Directors adopted a decision to issue warrants under the conditions of an initial public offering, as follows:

Exercise price: BGN 6.10

Issuance price of one warrant: BGN 0.48

Number of warrants: 26 959 580

Minimum success threshold of the issue: 13 479 790

Term in which the right can be exercised: 5 years

The remaining parameters of the issue will be described in a Prospectus for Public Offering of warrants, which should be adopted by the Board of Directors with a subsequent decision and should receive the relevant approval from the Bulgarian Financial Supervision Commission.

The consultant and investment intermediary selected by the Board of Directors in connection with the issuance of the warrants are respectively: Main Capital AD, UIC 202402882, with registered office in Sofia, and management address Sofia 1404, Triaditsa District, zh.k. "Gotse Delchev", bl. 22, entrance 2 and MK Brokers AD, UIC 175007052, with registered office in Sofia and management address, 8, "Tsar Osvoboditel" Blvd.

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.

1 August 2022

Sofia