

# MANAGEMENT REPORT FOR THE FIRST HALF OF 2023

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## SOPHARMA GROUP

29 August 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, 24.993% stake and “Sopharma Imoti” REIT, 41.09% stake) and in one joint venture (“Momina krepost” AD, 37.46% stake).

| <b>Company</b>            | <b>Interest as at<br/>30.06.2023 in %</b> |
|---------------------------|---|
| “Sopharma Trading” AD     | 87.50                                     |
| “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 **      | 87.50                                     |
| “Sopharmacy 2” EOOD **    | 87.50                                     |
| “Sopharmacy 3” EOOD **    | 87.50                                     |
| “Sopharmacy 4” EOOD **    | 87.50                                     |
| “Sopharmacy 5” EOOD **    | 87.50                                     |
| “Sopharmacy 6” EOOD **    | 87.50                                     |
| “Sopharmacy 7” EOOD **    | 87.50                                     |
| “Sopharmacy 8” EOOD **    | 87.50                                     |
| “Sopharmacy 9” EOOD **    | 87.50                                     |
| “Sopharmacy 10” EOOD **   | 87.50                                     |
| “Sopharmacy 11” EOOD **   | 87.50                                     |
| “Sopharmacy 12” EOOD **   | 87.50                                     |
| “Sopharmacy 13” EOOD **   | 87.50                                     |
| “Sopharmacy 14” EOOD**    | 87.50                                     |
| “Sopharmacy 15” EOOD**    | 87.50                                     |
| “Sopharmacy 16” EOOD**    | 87.50                                     |
| “Sopharmacy 17” EOOD**    | 87.50                                     |
| “Sopharmacy 18” EOOD**    | 87.50                                     |
| “Sopharmacy 19” EOOD **   | 87.50                                     |
| “Sopharmacy 20” EOOD **   | 87.50                                     |
| “Sopharmacy 21” EOOD **   | 87.50                                     |
| “Sopharmacy 22” EOOD **   | 87.50                                     |
| “Sopharmacy 23” EOOD **   | 87.50                                     |
| “Sopharmacy 24” EOOD **   | 87.50                                     |
| “Sopharmacy 25” EOOD **   | 87.50                                     |
| “Sopharmacy 26” EOOD **   | 87.50                                     |
| “Sopharmacy 27” EOOD **   | 87.50                                     |
| “Sopharmacy 28” EOOD **   | 87.50                                     |
| “Sopharmacy 29” EOOD **   | 87.50                                     |

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## Sopharma Group

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|  |        |
|--|--------|
| "Sopharmacy 30" EOOD **                        | 87.50  |
| "Sopharmacy 31" EOOD **                        | 87.50  |
| "Sopharmacy 32" EOOD **                        | 87.50  |
| "Sopharmacy 33" EOOD **                        | 87.50  |
| "Sopharmacy 34" EOOD **                        | 87.50  |
| "Sopharmacy 35" EOOD **                        | 87.50  |
| "Sopharmacy 36" EOOD **                        | 87.50  |
| "Sopharmacy 37" EOOD **                        | 87.50  |
| "Sopharmacy 38" EOOD **                        | 87.50  |
| "Sopharmacy 39" EOOD **                        | 87.50  |
| "Sopharmacy 40" EOOD **                        | 87.50  |
| "Sopharmacy 41" EOOD **                        | 87.50  |
| "Sopharmacy 42" EOOD **                        | 87.50  |
| "Sopharmacy 43" EOOD **                        | 87.50  |
| "Sopharmacy 44" EOOD **                        | 87.50  |
| "Sopharmacy 45" EOOD **                        | 87.50  |
| "Sopharmacy 46" EOOD **                        | 87.50  |
| "Sopharmacy 47" EOOD **                        | 87.50  |
| "Sopharmacy 48" EOOD **                        | 87.50  |
| "Sopharmacy 49" EOOD **                        | 87.50  |
| "Sopharmacy 50" EOOD **                        | 87.50  |
| "Sopharmacy 51" EOOD **                        | 87.50  |
| "Sopharmacy 52" EOOD **                        | 87.50  |
| "Sopharmacy 53" EOOD **                        | 87.50  |
| "Sopharmacy 54" EOOD **                        | 87.50  |
| "Sopharmacy 55" EOOD **                        | 87.50  |
| "Sopharmacy 56" EOOD **                        | 87.50  |
| "Sopharmacy 57" EOOD **                        | 87.50  |
| "Sopharmacy 58" EOOD **                        | 87.50  |
| "Sopharmacy 59" EOOD **                        | 87.50  |
| "Sopharmacy 60" EOOD **                        | 87.50  |
| "Sopharmacy 61" EOOD **                        | 87.50  |
| "Sopharmacy 62" EOOD **                        | 87.50  |
| "Sopharmacy 63" EAD **                         | 87.50  |
| 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 |

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|                              |        |
|------------------------------|--------|
| “Sopharma Trading” D.o.o. ** | 87.50  |
| “Pharmachim” EOOD            | 100.00 |

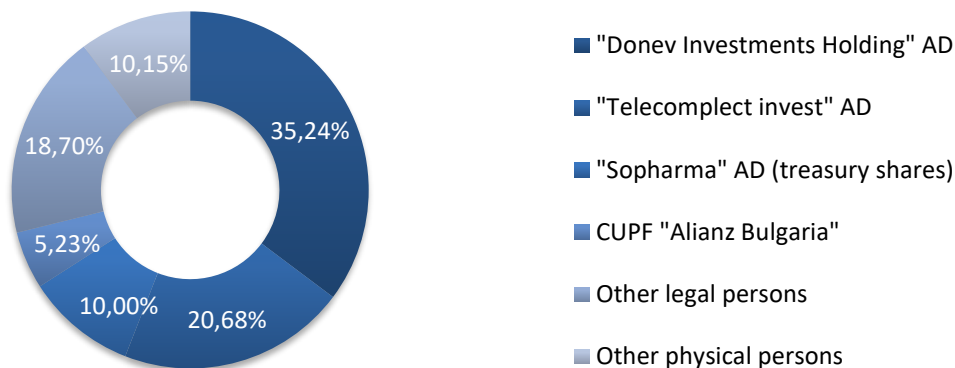
\*effective interest in percent

\*\*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 30 June 2023



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

The total number of shares issued on 30 June 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              | 1-6/2023<br>BGN '000 | 1-6/2022<br>BGN '000 | change<br>% |
|-------------------------|----------------------|----------------------|-------------|
| Revenues                | 916 892              | 802 919              | 14.2%       |
| EBITDA                  | 90 959               | 69 474               | 30.9%       |
| Operating profit        | 63 735               | 43 821               | 45.4%       |
| Net profit              | 65 948               | 46 270               | 42.5%       |
| CAPEX*                  | 27 671               | 19 983               | 38.5%       |
|                         | <b>30.06.2023</b>    | <b>31.12.2022</b>    |             |
|                         | <b>BGN '000</b>      | <b>BGN '000</b>      |             |
| Non-current assets      | 695 236              | 681 487              | 2.0%        |
| Current assets          | 653 959              | 572 491              | 14.2%       |
| Owners' equity          | 711 516              | 716 634              | -0.7%       |
| Non-current liabilities | 127 955              | 129 998              | -1.6%       |
| Current liabilities     | 509 724              | 407 346              | 25.1%       |

\*acquired tangible and intangible fixed asset

| Indicators                        | 1-6/2023          | 1-6/2022          |
|-----------------------------------|-------------------|-------------------|
| EBITDA/Sales revenues             | 9.9%              | 8.7%              |
| Operating profit / Sales revenues | 7.0%              | 5.5%              |
| Net profit/Sales revenues         | 7.2%              | 5.8%              |
|                                   | <b>30.06.2023</b> | <b>31.12.2022</b> |
| Debt/ Equity                      | 0,90              | 0,75              |
| Net debt*/ EBITDA on annual basis | 1,9x              | 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 114 million or 14.2%, reaching BGN 916,9 million in the first half of 2023 compared to BGN 802,9 million in the first half of 2022. Sales of

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goods increased with BGN 97,9 million or 14.7%, reaching BGN 765,7 million in the first half of 2023 compared to BGN 667,8 million in the previous period. Sales of finished products increased by BGN 16,1 million, or 11.9%, to BGN 151,2 million in the first half of 2023 compared to BGN 135,1 million in the previous period.

On a consolidated basis, the growth in sales of finished products in Bulgaria for the first half of 2023 is 2.7% compared to the previous period. The company retains its market share and according to IQVIA data, at the end of the first half of 2023, it occupies 2.18% (fourteenth position) of the total volume of the Bulgarian pharmaceutical market in terms of value and 7.62% (second position) of sales in kind terms. The positions of the main competitors of the Company in the country are as follows: Novartis –6.51% (4.49% in kind), Roche – 5.51% (0.24% in kind), Merck Sharp & Dohme– 4.43% (0.13% in kind), Pfizer – 3.88% (0.69% in kind), Astrazeneca – 3.72% (0.46% in kind), Abbvie – 3.21% (0.07% in kind), Teva – 3.32% (8.37 % in kind), Swixx Biopharma – 3.31% (1.07% in kind), Phoenix 2.80% (4.10% in kind). The products with the largest share of sales in the country are Analgin, Vicetin, Fomotidine, Vitamin C, Paracetamol, Methylprednisolone.

On a consolidated basis for the first half of 2023, sales revenue in Russia increased by 18.8%, following. Growth was also registered in other traditional markets, with sales revenue increasing in Georgia by 66%, in Azerbaijan by 109%, in Armenia by 44%, in Vietnam by 446%, in Belarus by 69%, in Moldova by 75%, in Latvia with 21%, in Poland with 27%.

In Ukraine, sales revenue decreased by 2%, in Uzbekistan by 55% and in Kazakhstan by 9%.

*Other operating revenues* increased by BGN 0,3 million to BGN 5,7 million in the first half of 2023 compared to BGN 5,4 million in the previous period.

### *Operating expenses*

For the current period the expenses of materials as a total amount by BGN 2,7 million to BGN 50,8 million, as the most significant change was registered in the expenses of basic materials, which increased by BGN 2,3 million, as well as in the expenses for electricity and heat, decreasing by BGN 1 million and BGN 0,6 million, respectively. Personnel expenses increased by BGN 10 million to BGN 83 million or 13.6% as a result of updating the current remuneration of the average number of staff in the Group. The external service expenses increased by BGN 7,1 million to BGN 40 million with the most significant change in advertising costs, which increased by BGN 4,4

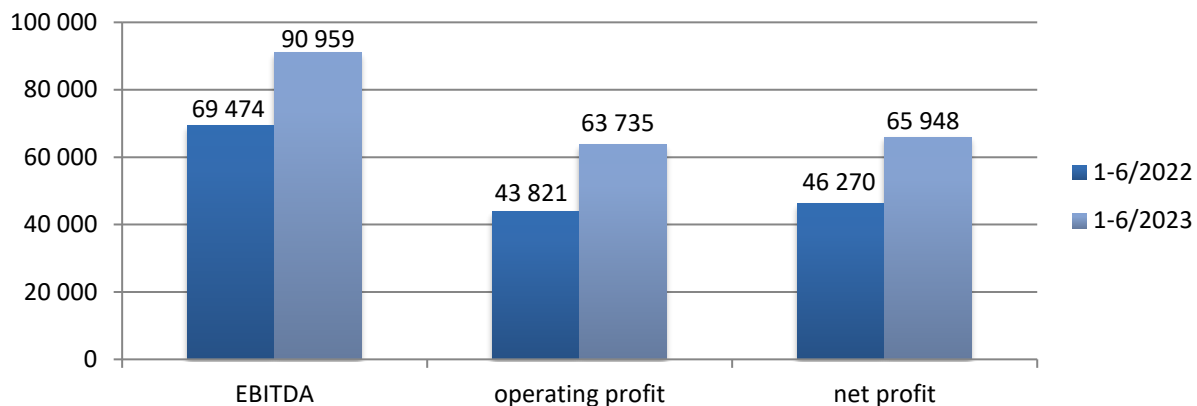


million in the costs of forwarding services and transport, which increased by BGN 0,7 million and in the production costs, which increased by BGN 1,7 million.

### *Financial income and expenses*

*Financial income and expenses* in the first half of 2023 net registered a loss of BGN 3,5 million, which is an increase by BGN 2 million compared to the same period of the last year. Financial income decreased by BGN 0,3 million. Financial expenses increased by a total of BGN 1,6 million, with interest expenses on received loans for the current period increasing by BGN 1 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 21,5 million or by 31%, while in the first half of 2023 it amounted to BGN 91 million compared to BGN 69,5 million in the first half of 2022. The main factors for this adjusted growth are the increase in sales in both main business segments by a total of 14.2% 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 19,9 million or by 45%, to BGN 63,7 million in the first half of 2023 compared to BGN 43,8 million in the first half of 2022.

*Net profit* increased by BGN 19,7 million or 43% to BGN 65,9 million in the first half of 2023 compared to BGN 46,3 million in the first half 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 2,8 million.

### *Assets*

*Non-current assets* at the end in the first half of 2023 increased by BGN 13,7 million compared to the end of last year. The acquired tangible and intangible fixed assets for the period amounted to BGN 27,6 million, of which those related to leasing contracts amount to BGN 12,8 million. Investments in associates and joint ventures increased by BGN 13,4 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 half of 2023 increased to BGN 81,4 million, mainly due to the increase in trade receivables by BGN 42,2 million and inventories by BGN 37,3 million.

### *Owners' equity and liabilities*

*The equity* of Sopharma Group at the end of the first half of the year decreased by BGN 5,1 million compared to 31.12.2022 as a result of the distribution of additional dividend reserves by the Company.

*The liabilities* at the end of the first half of the year increased by BGN 102,3 million compared to the end of 2023 mainly as a result of accrued liabilities to related and third parties for receiving dividends in the amount of BGN 72.8 million mainly as a result of accrued liabilities to related and third parties for receiving dividends in the amount of BGN 72,8 million. Total liabilities on bank loans, leasing and factoring of the Group increased by BGN 36,7 million, as the net debt after deduction of cash and cash equivalents increased with BGN 40 million to BGN 303,4 million. The trade liabilities decreased by BGN 8,6 million compared to the end of the last year.

### *Cash Flows*

|  | <b>30.06.2023</b> | <b>30.06.2022</b> |
|--|-------------------|-------------------|
|  | <b>BGN '000</b>   | <b>BGN '000</b>   |
| Net cash flows from operating activities                           | (5 387)           | 27 336            |
| Proceeds of amounts by factoring after interest and fees           | 649               | 18 817            |
| Purchases of property, plant and equipment, intangible assets, net | (12 224)          | (8 428)           |
| Payments under lease agreements                                    | (9 166)           | (8 602)           |
| <b>Free cash flow (normalized)</b>                                 | <b>(26 128)</b>   | <b>29 123</b>     |

The free cash flow (normalized with the revenues from factoring and payments under leasing contracts), generated for the first half of 2023, amounts to BGN 26,1 million outflow compared to BGN 29,1 million inflow in the first half of 2022.

### *New developments and products*

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During the reporting period April - June 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 two new medicinal product:

- *Suxamethonium Sopharma 10 mg/mL solution for injection (Bulgaria);*
- *Suxamethonium Sopharma 20 mg/mL solution for injection (Bulgaria);*

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

*New registrations of medicinal products*

- Documentation for registration of **9** medicinal products has been submitted:
  - Paracetamol 500 mg tb. (Belarus);
  - Carsil 22.5 mg film-coated tb. – (Moldova);
  - Carsil 90 mg caps. – (Belarus);
  - Molsidomin 8 mg tb. (Russia);
  - Aminophylline inj. (Lithuania);
  - Digoxin Sveikuva inj. (Lithuania);
  - Felogel 2.32% gel (Lithuania);

Licensing

- Sophamet XR 500 mg; 750 mg; 1000 mg prol. rel. tb. (Bulgaria);
- Trachihelp 5mg/1,5mg lozenges - (Ukraine);

*New registrations of medicinal products*

*Medicinal products have been registered for 12 new directions:*

- Carsil 22.5 mg film-coated tb. (Ukraine)
- Carsil Forte 90 mg caps. – (Kirgizstan);
- Pethidine Macure inj – (DCP – Finland; Norway; Sweden; Denmark);
- Carsil Max 110 mg caps. – (Peru);
- Syafen 100 mg/5 mL oral susp. – (MRP Georgia);
- Furosemide Sopharma 40 mg tb. – (MRP Georgia);
- Zondaron 2 mg/mL inj – (MRP Georgia);
- Digoxin Sopharma 0.25 mg/mL inj – (MRP Georgia);
- *Valeriana 30 mg tb. – (MRP Georgia);*

### Re-registrations / changes

- Renewed Marketing Authorizations for **21** medicinal products.
- Submission of documentation for the renewal of the Marketing Authorizations for **7** medicinal products.
- **91** changes for medicinal products submitted to agencies.
- **69** changes for medicinal products approved by agencies.

### Food additives

- **1** food supplements have been notified for Ukraine.

### Cosmetic products

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

### ✓ **Developments**

- Pharmaceutical development of **9** 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.;
  - Vitamin C 200 mg/mL IV;
  - Butamirate Citrate oral drops.
- Development of **5** nutritional supplements is underway:
  - Valeriana/Melatonin oral spray
  - Melatonin oral spray
  - Propolis nasal spray
  - Propolis throat spray
  - Syrup (with bee products and extracts).

✓ **Transfer and validation of technological processes**

- **1** new medicinal product was transferred – Glycerax Pico oral drops, p-r; 13 production processes / technologies are validated / optimized.
- **8** production processes / technologies are validated / optimized.

✓ **Prepared documentation for qualification / production**

- Documentation for qualification of raw materials for production– **22**;
- Production regulations– **53**;
- Documentation for qualification of finished forms – **98**.

### III. **Significant events for the first half 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

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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.

- ✓ On 02.06.2023, the Annual General Meeting of Shareholders of Sopharma AD accepted the proposal of the Board of Directors to distribute a gross dividend to the shareholders in the amount of BGN 0.60 /sixty stotinki/ per share.
- ✓ On 02.06.2023, the Annual General Meeting of the holders of warrants from the issue with ISIN code BG9200001212 adopted a decision to exercise the rights to subscribe for shares from a future increase in the capital of "SOFARMA" AD, by issuing 44,925,943 ordinary, registered, non-current shares, with the right to vote, 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 warrant holders.
- ✓ On 05.06.2023, the Company's Board of Directors decided to increase the capital on the condition that the shares from the increase are subscribed by the warrant holders, on the basis of a decision lawfully taken at the Annual General Meeting of Warrant Holders (AGM) dated 02.06.2023. The expected schedule for realizing the increase is as follows:  
Date of publication of the message under Art. 89t, para. 2 of the Civil Procedure Code on the website [www.x3news.com](http://www.x3news.com), on the websites of "Sopharma" AD and the authorized investment intermediary "Sofia International Securities" AD 24.08.2023.  
Start date for exercising the warrants 01.09.2023.  
End date for payment and subscription of shares 26.09.2023.  
Entry of the issue of new shares and the capital increase in the Commercial Register \*02.10.2023.  
Registration of the new shares on investors' accounts in the Central Depository \*10.10.2023.  
Entry of the increase in the register under Art. 30 of the ZKFN, led by the KFN \*17 or 19.10.2023.
- ✓ On 14.06.2023, according to the decision of the Board of Directors of 12.05.2023, "Sopharma" AD, as the seller, concluded a contract for the transfer of the right of ownership of real estate with the address Sofia, "Studentski" district, "St. Kliment Ohridski" № 3, with an area of 17,688 sq.m. with "Sopharma Buildings" REIT, UIC 175346309. The sale price agreed upon by the parties is BGN 6,337,350 excluding VAT.
- ✓ With decision № 652-PD dated 22.06.2023, the Financial Supervision Commission approved

the Agreement for the transformation by merger of Biopharm Engineering AD (transforming company) into Sopharma AD (acquiring company) from 01.01.2023.

- ✓ On 14.07.2023, in accordance with the requirements of Article 100 of the LPOS, Sopharma AD notified the Bulgarian Stock Exchange and the Warsaw Stock Exchange that the Company has signed an agreement for the phased acquisition of the Serbian pharmaceutical manufacturer Pharmanova within two years. The deal is subject to approval by the Serbian Competition Commission and will start with the acquisition of 25% of the company, followed by the acquisition of 50% after one year and 25% after two years, respectively.
- ✓ On 04.08.2023, an Extraordinary General Meeting of the company will be held with the following agenda:
  - Adoption of a decision for transformation by merger of "Biopharm-engineering" AD into Sopharma AD;
  - Approval of the Agreement for transformation through the merger of "Biopharm-engineering" AD into "Sopharma" AD, concluded on 23.01.2023 and of Additional Agreement № 1 of 21.03.2023 to it;
  - Approval of the Report of the Board of Directors of "Sopharma" AD under Art. 262i of the Commercial Code to the Company's shareholders regarding the transformation by merger of "Biopharm-engineering" AD into "Sopharma" AD;
  - Approval of the Examiner's Report under Art. 262m of the Commercial Companies Code regarding the transformation by merger of "Biopharm-engineering" AD into "Sopharma" AD;
  - Approval of the Audit Committee Statute as proposed by the Board of Directors;
  - Approval of decision for acquisition of own shares;
  - Miscellaneous.
- ✓ In August 2023, Sopharma Trading AD reached an agreement to acquire 9 new pharmacies in the area of Sofia, Pernik, Dupnitsa and Radomir as part of the strategy to expand its presence at the national level in the retail segment of the pharmacy market. A ruling on the transaction is pending from the Commission for the Protection of Competition.

#### 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.
- 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.

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

In case of divergence Bulgarian text should prevail.



- 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

| <i>Related party</i>             | <i>Relation type</i>                             | <i>Relation period</i> |      |
|----------------------------------|--|------------------------|------|
| "Telecomplect invest" AD         | Company shareholder with significant influence   | 2023                   | 2022 |
| "Donev Investments Holding" AD   | Company shareholder with significant influence   | 2023                   | 2022 |
| "Momina krepost" 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 – 30<br/>June 2023<br/>BGN ‘000</b> | <b>1 January – 30<br/>June 2022<br/>BGN ‘000</b> |
|--|--|--|
| <b>Supplies from related parties:</b>                |  |  |
| <b>Supply of inventories from:</b>                   |  |  |
| Companies related through key management personnel   | 5,413  | 5,408  |
| Joint ventures                                       | 125  | 114  |
| Associates   | 59   | 55   |
| Companies controlled by an associate                 | 30   | 18   |
|  | <b>5,627</b>                                     | <b>5,595</b>                                     |
| <b>Supply of services from:</b>                      |  |  |
| Companies controlled by an associate                 | 558  | 537  |
| Shareholding companies with significant influence    | 295  | 198  |
| Associates   | 235  | 246  |
| Companies related through key management personnel   | 123  | 131  |
| Joint ventures                                       | 3  | 1  |
|  | <b>1,214</b>                                     | <b>1,113</b>                                     |
| <b>Deliveries of tangible fixed assets from:</b>     |  |  |
| Companies controlled by an associate                 | 897  | 309  |
|  | <b>897</b>                                       | <b>309</b>                                       |
| <b>Supplies for the acquisition of fixed assets:</b> |  |  |
| Company controlled by an associate company           | 915  | -  |
|  | <b>915</b>                                       | <b>-</b>   |
| <b>Other deliveries from:</b>                        |  |  |
| Companies controlled by an associate company         | 118  | 102  |
|  | <b>118</b>                                       | <b>102</b>                                       |
| <b>Accrued dividends on:</b>                         |  |  |
| Shareholding companies with significant influence    | 45,229   | -  |
| Key management personnel                             | 4,149  | -  |
|  | <b>49,378</b>                                    | <b>-</b>   |
| <b>Total deliveries</b>                              | <b>58,149</b>                                    | <b>7,119</b>                                     |

## Sales to related parties

**Inventory sales for:**

|  |              |              |
|--|--------------|--------------|
| Companies related through key management personnel | 757          | 645          |
| Companies controlled by an associate company       | 675          | 836          |
|  | <b>1,432</b> | <b>1,481</b> |

**Sales of services for:**

|  |            |            |
|--|------------|------------|
| Companies controlled by an associate company       | 110        | 135        |
| Companies related through key management personnel | 104        | 116        |
| Associates   | 4          | 4          |
|  | <b>218</b> | <b>255</b> |

**Guarantee fees and guarantees of:**

|                |          |          |
|----------------|----------|----------|
| Joint ventures | -        | 7        |
|                | <b>-</b> | <b>7</b> |

**Interest on granted loans:**

|  |              |            |
|--|--------------|------------|
| Companies controlled by an associate company | 1,205        | 939        |
| Associated companies                         | 31           | -          |
| Joint ventures                               | 27           | 23         |
|  | <b>1,263</b> | <b>962</b> |

**Interest on assignment contracts:**

|                |              |              |
|----------------|--------------|--------------|
| Joint ventures | 63           | -            |
|                | <b>63</b>    | <b>-</b>     |
|                | <b>2,976</b> | <b>2,705</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 30 June in connection with lease agreements with related parties are as follows:

|   | <b>30.06.2023</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   | 1,826             | 19,305            |
| Payments of lease obligations for the period          | (1,423)           | (2,462)           |
| Lease liabilities written off                         | -                 | (541)             |
| <b>Leasing liabilities as of 30 June/ 31 December</b> | <b>21,019</b>     | <b>20,616</b>     |

The assets "right of use" as of 30 June in connection with lease agreements with related parties are as follows:

|   | <b>30.06.2023</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                                    | (1,496)           | (2,482)           |
| Write-off book value of right-of-use assets             | (82)              | (572)             |
| <b>Assets "right of use" as of 30 June/ 31 December</b> | <b>20,823</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 2,054 thousand (2022: BGN 2,030 thousand) including:

- current remuneration - BGN 1,569 thousand (2022 : BGN 1,706 thousand);
- tantieme – BGN 485 thousand (2022 : BGN 324 thousand);

29 August 2023  
Sofia