

MANAGEMENT REPORT for the nine months of 2021



SOPHARMA GROUP

29 November 2021

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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 - hygienic products, medical 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 one associated

Sopharma Group

company (“Doverie - obedinen holding” AD, 24.91% stake) and in one joint venture (“Momina krepost” AD, 37.46% stake).

| Company | Interest as at 30.09.2021 in % |
|---|---|
| “Sopharma Trading” AD | 76.35 |
| “Pharmalogistica” AD | 89.39 |
| “Elektroncommerce” EOOD | 100.00 |
| “Biopharm Engineering” AD | 97.15 |
| “Phyto Palauzovo” AD | 99.98 |
| “Veta Pharma” AD | 76.35 |
| “Sopharmacy” EOOD ** | 76.35 |
| “Sopharmacy 2” EOOD ** | 76.35 |
| “Sopharmacy 3” EOOD ** | 76.35 |
| “Sopharmacy 4” EOOD ** | 76.35 |
| “Sopharmacy 5” EOOD ** | 76.35 |
| “Sopharmacy 6” EOOD ** | 76.35 |
| “Sopharmacy 7” EOOD ** | 76.35 |
| “Sopharmacy 8” EOOD ** | 76.35 |
| “Sopharmacy 9” EOOD ** | 76.35 |
| “Sopharmacy 10” EOOD ** | 76.35 |
| “Sopharmacy 11” EOOD ** | 76.35 |
| “Sopharmacy 12” EOOD ** | 76.35 |
| “Sopharmacy 13” EOOD ** | 76.35 |
| “Sopharmacy 14” EOOD** | 76.35 |
| “Sopharmacy 15” EOOD** | 76.35 |
| “Sopharmacy 16” EOOD** | 76.35 |
| “Sopharmacy 17” EOOD** | 76.35 |
| “Sopharmacy 18” EOOD** | 76.35 |
| “Sanita Franchising” AD ** | 76.35 |
| “Sopharmacy 19” EOOD (Valentina Vasileva – Lyulin EOOD) ** | 76.35 |
| “Sopharmacy 20” EOOD (Vasilka Lilovska EOOD) ** | 76.35 |
| “Sopharmacy 21” EOOD (Venera Mutashka EOOD) ** | 76.35 |
| “Sopharmacy 22” EOOD (Veselka Vasileva EOOD) ** | 76.35 |
| “Sopharmacy 23” EOOD (Victoria Angelova EOOD) ** | 76.35 |
| “Sopharmacy 24” EOOD (Desislava Jordanova EOOD) ** | 76.35 |
| “Sopharmacy 25” EOOD (Dimka Vladeva EOOD) ** | 76.35 |
| “Sopharmacy 26” EOOD (Donka Chivganova EOOD) ** | 76.35 |
| “Sopharmacy 27” EOOD (Ekaterina Mihaylova – Shumen 1 EOOD) ** | 76.35 |
| “Sopharmacy 28” EOOD (Elka Neykova EOOD) ** | 76.35 |

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|---|--------|
| “Sopharmacy 29” EOOD (Emilia Angelova EOOD) ** | 76.35 |
| “Sopharmacy 30” EOOD (Juliana Kotova EOOD) ** | 76.35 |
| “Sopharmacy 31” EOOD (Ivan Ivanov 1 EOOD) ** | 76.35 |
| “Sopharmacy 32” EOOD (Iliana Kalushkova EOOD) ** | 76.35 |
| “Sopharmacy 33” EOOD (Irina Toncheva EOOD) ** | 76.35 |
| “Sopharmacy 34” EOOD (Kapka Nikolova – Military Hospital EOOD) ** | 76.35 |
| “Sopharmacy 35” EOOD (Kostadin Gorchev EOOD) ** | 76.35 |
| “Sopharmacy 36” EOOD (Krasimira Shunina EOOD) ** | 76.35 |
| “Sopharmacy 37” EOOD (Lora Doncheva EOOD) ** | 76.35 |
| “Sopharmacy 38” EOOD (Lyudmila Zlatkova EOOD) ** | 76.35 |
| “Sopharmacy 39” EOOD (Lyudmila Kovacheva EOOD) ** | 76.35 |
| “Sopharmacy 40” EOOD (Manik Burgazyan EOOD) ** | 76.35 |
| “Sopharmacy 41” EOOD (Mariyka Jaigarova EOOD) ** | 76.35 |
| “Sopharmacy 42” EOOD (Mariya Agova EOOD) ** | 76.35 |
| “Sopharmacy 43” EOOD (Mariya Gancheva EOOD) ** | 76.35 |
| “Sopharmacy 44” EOOD (Mariya Kenova EOOD) ** | 76.35 |
| “Sopharmacy 45” EOOD (Mariya Hristova – Motopista EOOD) ** | 76.35 |
| “Sopharmacy 46” EOOD (Mariyana Markova EOOD) ** | 76.35 |
| “Sopharmacy 47” EOOD (Mary Ivanova EOOD) ** | 76.35 |
| “Sopharmacy 48” EOOD (Nelly Stavreva EOOD) ** | 76.35 |
| “Sopharmacy 49” EOOD (Preslava Becheva EOOD) ** | 76.35 |
| “Sopharmacy 50” EOOD (Rayna Madzharova-St. Georgi Sofiyski EOOD) ** | 76.35 |
| “Sopharmacy 51” EOOD (Rumyana Ignatova – Gancheva EOOD) ** | 76.35 |
| “Sopharmacy 52” EOOD (Sashka Todorova EOOD) ** | 76.35 |
| “Sopharmacy 53” EOOD (Svetla Harizanova EOOD) ** | 76.35 |
| “Sopharmacy 54” EOOD (Svetlana Pirpirova EOOD) ** | 76.35 |
| “Sopharmacy 55” EOOD (Ceiba-Blagoevgrad-1 EOOD) ** | 76.35 |
| “Sopharmacy 56” EOOD (Silviya Veneva EOOD) ** | 76.35 |
| “Sopharmacy 57” EOOD (Siyana Milanova EOOD) ** | 76.35 |
| “Sopharmacy 58” EOOD (Stoyanka Radenkova EOOD) ** | 76.35 |
| “Sopharmacy 59” EOOD (Avdzhieva EOOD) ** | 76.35 |
| “Sopharmacy 60” EOOD (Radina Bekova EOOD) ** | 76.35 |
| “Sopharmacy 61” EOOD (Rumen Raynov EOOD) ** | 76.35 |
| “Sopharmacy 62” EOOD (Hani Modhi EOOD) ** | 76.35 |
| “Sopharmacy 63” EOOD (SCS Franchise EAD) ** | 76.35 |
| “Sopharmacy 64” EOOD (Sanita Franchising AD) ** | 76.35 |
| “BRIZ” SIA | 100.00 |
| “Brititrade” SOOO ** | 80.00 |
| PAO “Vitamini” | 100.00 |
| “Sopharma” Warsaw Sp. z. o. o | 100.00 |

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| | |
|--|--------|
| "Sopharma" Poland Sp. z. o. o - in liquidation | 60.00 |
| "Tabina" OOO ** | 80.22 |
| OOO "Sopharma" Ukraine | 100.00 |
| OOO "Pharmacist Plus" ** | 63.09 |
| TOO "Sopharma" | 100.00 |
| OOO "Galenapharm" ** | 90.60 |
| ODO "Medjel" ** | 82.00 |
| ODO "Alenpharm-Plus" ** | 91.98 |
| ODO "Salius Line" ** | 77.00 |
| "Rap Pharma International" OOD | 80.00 |
| ZAO "Interpharm" ** | 90.00 |
| "Sopharma Trading" D.o.o. (Lekovit D.o.o.) ** | 76.35 |
| OOO "Zdorovei" ** | 70.10 |
| BOOO "SpetzApharmacia" ** | 70.00 |
| OOO "Bellerofon" *** | 85.80 |
| UAB "Recessus" ** | 50.98 |
| OOO "Zdorovei Pharm" ** | 45.57 |
| "Pharmachim" EOOD | 100.00 |
| SIA "Briz Trading" ** | 100.00 |

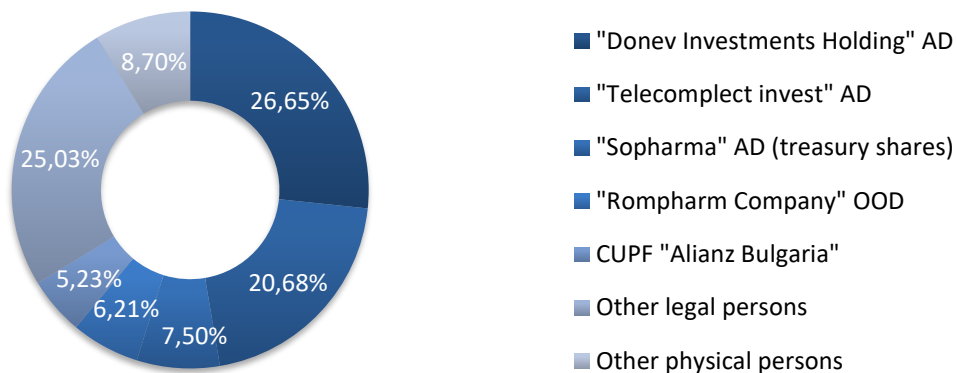
*effective interest in percent

**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 and members Vessela Stoeva, 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 September 2021



6. Information about the shares

The total number of shares issued on 30 September 2021 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.

II. Recent developments

Key financial indicators

| Indicators | 1-9/2021 BGN '000 | 1-9/2020 BGN '000 | Change % |
|-------------------------|--------------------------------------|--------------------------------------|-------------|
| Revenues | 1 179 329 | 1 018 446 | 15.8% |
| EBITDA | 95 750 | 65 559 | 46.1% |
| Operating profit | 55 191 | 32 818 | 68.2% |
| Net profit | 53 497 | 17 514 | 205.5% |
| CAPEX* | 33 441 | 32 081 | 4.2% |
| | 30.09.2021 BGN '000 | 31.12.2020 BGN '000 | |
| Non-current assets | 611 319 | 629 935 | -3.0% |
| Current assets | 619 252 | 612 177 | 1.2% |
| Owners' equity | 615 325 | 566 595 | 8.6% |
| Non-current liabilities | 122 849 | 131 066 | -6.3% |
| Current liabilities | 492 397 | 544 451 | -9.6% |

*acquired tangible and intangible fixed asset

| Indicators | 1-9/2021 | 1-9/2020 |
|-----------------------------------|-------------------|-------------------|
| EBITDA/Sales revenues | 8.1% | 6.4% |
| Operating profit / Sales revenues | 4.7% | 3.2% |
| Net profit/Sales revenues | 4.5% | 1.7% |
| | 30.09.2021 | 30.06.2021 |
| Debt/ Equity | 1,00 | 1,05 |
| Net debt*/ EBITDA on annual basis | 2,6x | 3,4x |

* 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 160,9 million or 15.8%, reaching BGN 1 179,3 million in the nine months of 2021 compared to BGN 1 018,4 million in the nine months of 2020. Sales of goods increased with BGN 162,7 million or 19.7%, reaching BGN 987,5 million in the nine months of 2021 compared to BGN 824,8 million in the previous period. Sales of finished

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products decreased by BGN 1,8 million, or 0.9%, to BGN 191,9 million in the nine months of 2021 compared to BGN 193,7 million in the previous period.

On a consolidated basis, the growth in sales of finished products in Bulgaria for the first nine months of 2021 was 8.7% compared to the previous period. On the Bulgarian pharmaceutical market “Sopharma” AD retains its market share in the sales of finished products and at the end of the nine months of 2021, according to IQVIA data has a 2.9% share of the total Bulgarian pharmaceutical market in value and 10.9% of sales in volume.

On a consolidated basis, for the nine months of 2021, revenue from sales of finished products in Ukraine increased by 3.4% compared to the previous period. There was an increase with 14.5% in sales of finished products in the Baltic states, Serbia by 32.2%, Vietnam by 2%, Uzbekistan by 20.3% and others. In Russia, sales of finished products decreased by 12.3% compared to the previous period. A decrease was also registered in sales of finished products in Kazakhstan by 21.6%, in Poland by 10.2%, in Belarus by 4.3%, on markets in the Caucasus region and Moldova by 4.3% and others.

Other operating revenues increased by BGN 2 million to BGN 9,6 million in the nine months of 2021, compared to BGN 7,6 million in the previous period, on the one hand as a result of increased revenues from services provided by BGN 0,8 million, and on the other hand as a result of registered increase in foreign exchange gains on trade receivables and payables and current accounts in the amount of BGN 1 million.

Operating expenses

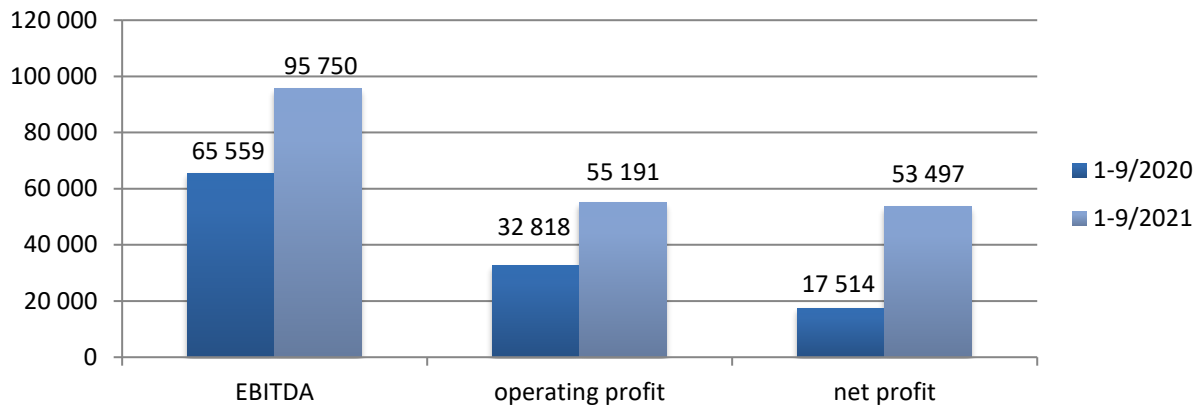
For the current period more significant changes are reported in personnel expenses, which increased by BGN 16 million and depreciation and amortization expenses, which increased by BGN 7,8 million. The main reason is the acquisition of new pharmacy companies at the end of the last year. The external service expenses decreased by BGN 5 million. The most significant change is in advertising and marketing services expenses, which decreased by BGN 4,4 million. There was also a decrease in other expenses by BGN 4,2 million mainly in the part scrappage of fixed assets.

Financial income and expenses

Financial income and expenses in the nine months of 2021 net registered a loss of BGN 3,3 million, which is a decrease of the loss by BGN 8,8 million compared to the same period of the last year. This change is primarily the result of the net foreign exchange loss registered last year

on foreign currency loans and lease agreements of BGN 5,4 million, which is mainly due to the depreciation of the Belarusian ruble and its effect on debt exposure in euros and dollars of the Group companies in Belarus. In the current period, the net profit from exchange rate differences on foreign currency loans and lease agreements amounts to BGN 2,3 million.

Financial result



Earnings before interest, taxes and depreciation (EBITDA) increased by BGN 30,2 million or by 46%, while in the nine months of 2021 it amounted to BGN 95,8 million compared to BGN 65,6 million in the nine months of 2020. The increased profit margin of the sold goods by 2.5% to 12.5% compared to the nine months of 2020 has a positive impact, largely due to the acquired new pharmacies in the Group at the end of last year.

Profit from operating activities increased by BGN 22,4 million or by 68%, to BGN 55,2 million in the nine months of 2021 compared to BGN 32,8 million in the nine months of 2020.

Net profit increased by BGN 36 million or 205% to BGN 53,5 million in the nine months of 2021 compared to BGN 17,5 million in the nine months of 2020. The reduced financial expenses as a result of losses from exchange rate differences have a positive impact, as well as the profit from associates in amount of BGN 7,8 million recorded in the current period and profit from the acquisition and disposal of shares in subsidiaries of BGN 1,2 million.

Assets

Non-current assets decreased by BGN 18,6 million. The decrease is due to the written-off book value of assets on disposal of investment in subsidiaries. The acquired tangible and intangible fixed assets for the period amounted to BGN 33,4 million. Investments in associates and joint ventures increased by BGN 14,6 million as a result of the reclassification of "Momina Krepost" AD as a joint venture on the one hand, as well as from the reported share in the current

Sopharma Group

profit and the increased share in the associated company “Doverie-obedinen holding” AD in the amount of BGN 12,5 million.

Current assets increased by BGN 7,1 million, mainly due to the increase of trade receivables with BGN 22,6 million. This was partially compensated by the decrease in inventories by BGN 13,3 million and cash by BGN 3,1 million. Receivables from related companies increase by BGN 2,6 million.

Owners' equity and liabilities

The equity of Sopharma Group increased by BGN 48,7 million compared to 31.12.2020 as a result of the reported net current profit.

The liabilities decreased by BGN 60,3 million compared to the end of 2020. Total liabilities on bank loans, leasing and factoring of the Group decreased by BGN 84,5 million, as the net debt after deduction of cash and cash equivalents decrease with BGN 81,6 million to BGN 318,6 million. The trade liabilities increased by BGN 23,7 million compared to the end of the last year.

Cash Flows

| | 30.09.2021 BGN '000 | 30.09.2020 BGN '000 |
|--|------------------------|------------------------|
| Net cash flows from operating activities | (70 441) | (141 077) |
| Proceeds of amounts by factoring | 169 542 | 178 341 |
| Purchases of property, plant and equipment, intangible assets, net | (18 686) | (24 799) |
| Payments under lease agreements | (15 957) | (11 363) |
| Free cash flow (normalized) | 69 610 | 1 102 |

The free cash flow (normalized with the revenues from factoring and payments under leasing contracts), generated for the nine months of 2021, amounts to BGN 69,6 million inflow compared to BGN 1,1 million outflow in the nine months of 2020.

New developments and products for the period July – September 2021

New registrations and re-registrations / changes

New registrations of medicinal products

- Received 6 Authorizations for the use of medicinal products for new destinations, namely:
 - *Carsil 22,5 mg film-coated tablets – Bulgaria;*
 - *Betagamma 50mg/50mg/0,5mg/10mg solution for injection – Bulgaria;*

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- *Broncholytin 40 mg - tablets – Uzbekistan;*
- *Sophalor 5 mg film - coated tablets – Uzbekistan;*
- *Talert 10 mg film - coated tablets – Uzbekistan;*
- *Hellituspan syrup - Peru.*

Food additives

- **6** food supplements for Bulgaria and **1** for Serbia have been notified.
- Documentation has been submitted for the registration of **19** medicinal products to agencies of new destinations.
 - *Valeriana Max 200 mg film- coated tablets – Ukraine;*
 - *Tempofen Active 200mg/500mg (Ibuprofen/paracetamol) - Ukraine;*
 - *Carsil 22,5 mg film-coated tablets – Ukraine;*
 - *Carsil 22,5 mg coated tablets – Kyrgyzstan, Tajikistan;*
 - *Carsil Forte 90 mg capsules, hard – Armenia, Georgia, Kyrgyzstan, Tajikistan;*
 - *Carsil Max 110 mg capsules, hard – Tajikistan;*
 - *Analgin Kids 500 mg/ml oral drops, solution – Armenia;*
 - *Deavit Neo 0,5 mg/ml oral drops, solution – Armenia;*
 - *Otofix 40mg/g+10 mg/g ear drops, solution – Armenia;*
 - *Tempalgin Trio tablets – Columbia;*
 - *Verapamil 2,5 mg/ml solution for injection – Denmark, Sweden, Norway, Finland.*

Re-registrations / changes

- Renewed Marketing Authorizations for **22** medicinal products.
- Submission of documentation for the renewal of the Marketing Authorizations for **14** medicinal products.
- **156** changes for medicinal products approved by agencies.
- **139** changes for medicinal products submitted to agencies.

Developments

- The development of Glycerax Pico oral drops has been completed.
- Pharmaceutical development of **4** new medicinal products / projects is underway.
- **1** active substance is being developed.

Transfer and validation of technological processes

- **1** medicinal product and **2** food supplements were transferred.
- **2** production processes / technologies are validated / optimized.

III. Significant events for the nine months of 2021 and until the date of the consolidated management report

- On 10 March 2021 the Company sold 396,600 of its shares in the capital of “Momina krepost” AD, as a result of which the share of ownership of “Sopharma” AD became 37.46%. On 15 March 2021 an agreement was concluded between “Sopharma” AD and “Medical Consumables” OOD for a common policy in the management of Momina krepost” AD through joint exercise of voting rights.

- At the Extraordinary General Meeting of Shareholders of “Sopharma” AD, held on 2 April 2021, the amendments to the Articles of Association of the Company proposed by the Board of Directors were adopted by a majority of 85.93% of the presented capital.

- At its meeting the Board of Directors adopted a decision for issuance, under the conditions of initial public offering, of warrants as follows:

Exercise value: BGN 4.13

Issuance price of one warrant: BGN 0.28

Number of warrants: 44,932,633

Minimum success threshold of the issue: 22,466,317

Term in which the right can be exercised: 3 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 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 1750070052, with registered office in Sofia and management address, 8, “Tsar Osvoboditel” Blvd.

- At the Regular General Meeting of Shareholders of “Sopharma” AD, held on 4 June 2021, the decisions proposed by the Board of Directors on the relevant items of the agenda were adopted.
- On 3 August 2021 in accordance with Art. 25 of the Articles of Association of the Company, at its meeting the Board of Directors approves a prospectus for initial public offering of warrants with an issue price of BGN 0.28 and a total number of 44,932,633 warrants. The prospectus was submitted to the Financial Supervision Commission.
- On 1 October 2021 the Group was relieved of its participation in the subsidiary UAB Recessus, Lithuania.

IV. Review of the main risks faced by the Group

COVID-19

On 11 March 2020 the World Health Organization declared a Coronavirus Pandemic, as a result, the Government of the Republic of Bulgaria, announced various measures to prevent the spread of the disease. Measures implemented include working from home, a temporary lockdown of schools, universities, restaurants, cinemas, theaters, museums and sports facilities, retailers, with the exception of food retailers, grocery stores and pharmacies.

The management of “Sopharma” AD has carefully analyzed the potential effects of the pandemic and the constraints imposed by the government, observing a decrease in economic activity and liquidity in the country's economy, which also affects the Company's activities.

The effects on the Company's activities as a result of the events include: a decrease in revenues, emergency expenses, delay in the implementation of projects, planned investments, etc.

The management continues to take actions aimed at limiting the negative consequences of the pandemic- related events, which include:

- Ensuring continuous operation in compliance with measures to limit the spread of COVID-19, including - strict access control and measurement of the temperature of employees and visitors, the prohibition of clustering of people and the distribution of workplaces in the production in an appropriate way, which ensures the absence of close contact between employees, the separation of traffic flows in buildings and spaces between them, etc.;

- Negotiations with suppliers to keep the rhythm of raw materials and supplies flowing, as well as meeting the enterprise's needs for specific raw materials dictated by the demand for specific medicine products and medical supplies needed to deal with the pandemic;
- Providing information to customers on the way of working in order to maintain delivery schedules;
- Negotiations with the partner financial institutions of the Company and the provision of adequate information to them, so that additional financing may be provided timely on a need basis or for some of the Group's entities, to postpone loan payments, if it's necessary to secure cash flows and others.

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

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

Through the companies in Belarus and Ukraine, the group carries out business operations in these countries and, accordingly, has substantial exposures in Belarusian rubles and Ukrainian hryvnia. 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 | 2021 | 2020 |
| "Donev Investments Holding" AD | Company shareholder with significant influence | 2021 | 2020 |
| "Momina krepost" AD | Joint venture | Since 10.03.2021 | - |
| "Doverie-obedinen holding" AD | Associate | 2021 | 2020 |
| Subsidiaries form DOH Group | Companies controlled by an associate | 2021 | 2020 |
| "Sofprint Group" AD | Company related through key management personnel | 2021 | 2020 |
| "Elpharma" AD – in liquidation | Company related through key management personnel | - | Until 28.08.2020 |
| "Sofconsult Group" AD | Company related through key management personnel | 2021 | 2020 |
| "VES electroinvest systems" EOOD | Company related through key management personnel | 2021 | 2020 |
| "Eco Solar Invest" OOD | Company related through key management personnel | 2021 | 2020 |
| "Sirius" OOD | Company related through key management personnel | Until 14 June 2021 | 2020 |
| „Mill village Stefanovo“ EOOD | Company related through key management personnel | Until 14 June 2021 | 2020 |
| "OKP Investments" OOD | Company related through key management personnel | Until 14 June 2021 | 2020 |
| "Alpha in" EOOD | Company related through key management personnel | 2021 | 2020 |
| "Consumpharm" OOD | Company related through key management personnel | Since 14 June 2021 | - |
| | | 1 January – 30 September 2021 BGN '000 | 1 January – 30 September 2020 BGN '000 |
| Supplies from related parties: | | | |
| Supply of inventories from: | | | |
| Companies related through key management personnel | | 6,544 | 8,154 |
| Joint ventures | | 38 | - |
| Companies controlled by an associate | | 36 | 202 |
| | | 6,618 | 8,356 |

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Supply of services from:

| | | |
|--|--------------|--------------|
| Companies controlled by an associate | 846 | 969 |
| Shareholding companies with significant influence | 291 | 280 |
| Companies related through key management personnel | 184 | 166 |
| Joint ventures | 3 | - |
| | <u>1,324</u> | <u>1,415</u> |

Supplies for acquisition of fixed assets:

| | | |
|--|------------|------------|
| Companies controlled by an associate | 380 | - |
| Companies related through key management personnel | - | 151 |
| | <u>380</u> | <u>151</u> |

Interest expenses:

| | | |
|---|------------|----------|
| Shareholding companies with significant influence | 130 | - |
| | <u>130</u> | <u>-</u> |

Dividends accrued on:

| | | |
|---|--------------|---------------|
| Shareholding companies with significant influence | - | 3,815 |
| Key management personnel | - | 448 |
| Companies controlled by an associate | - | 471 |
| Associates | - | 2 |
| | <u>-</u> | <u>4,736</u> |
| | <u>8,452</u> | <u>14,658</u> |

Sales to related parties

Sales of inventories to:

| | | |
|--|--------------|--------------|
| Companies controlled by an associate | 625 | 490 |
| Companies related through key management personnel | 549 | 713 |
| | <u>1,174</u> | <u>1,203</u> |

Sales of services to:

| | | |
|--|------------|------------|
| Companies controlled by an associate | 217 | 206 |
| Companies related through key management personnel | 181 | 198 |
| Associates | 6 | 5 |
| | <u>404</u> | <u>409</u> |

Guarantee fees and guarantees of:

| | | |
|--------------------------------------|-----------|----------|
| Joint ventures | 10 | - |
| Companies controlled by an associate | 5 | - |
| | <u>15</u> | <u>-</u> |

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This is a translation from Bulgarian of the Management report of Sopharma Group for the nine months of 2021.

In case of divergence Bulgarian text should prevail.

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Interest on loans granted:

| | | |
|------------------------------------|--------------|--------------|
| Companies controlled by associates | 1,463 | 1,705 |
| Joint ventures | 17 | - |
| Associates | 2 | 76 |
| | <u>1,482</u> | <u>1,781</u> |
| | <u>3,075</u> | <u>3,393</u> |

29 November 2021
Sofia