

**sopharma**

**MANAGEMENT REPORT**  
**for the nine months of 2023**

**SOPHARMA GROUP**

**29.11.2023**

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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 companies (24.97% stake in “Doverie - obedinen holding” AD, 44.65% stake in “Sopharma Imoti”

## Sopharma Group

REIT and 30.07% stake in “Sopharma buildings” REIT) and in one joint venture (“Momina krepost” AD, 37.46% stake).

<b>Company</b>	<b>Interest as at 30.09.2023 in %</b>
“Sopharma Trading” AD	87.45
“Pharmalogistica” AD	89.39
“Elektroncommerce” EOOD	100.00
“Phyto Palauzovo” AD	95.00
“Veta Pharma” AD	99.98
“Sopharmacy” EOOD **	87.45
“Sopharmacy 2” EOOD **	87.45
“Sopharmacy 3” EOOD **	87.45
“Sopharmacy 4” EOOD **	87.45
“Sopharmacy 5” EOOD **	87.45
“Sopharmacy 6” EOOD **	87.45
“Sopharmacy 7” EOOD **	87.45
“Sopharmacy 8” EOOD **	87.45
“Sopharmacy 9” EOOD **	87.45
“Sopharmacy 10” EOOD **	87.45
“Sopharmacy 11” EOOD **	87.45
“Sopharmacy 12” EOOD **	87.45
“Sopharmacy 13” EOOD **	87.45
“Sopharmacy 14” EOOD**	87.45
“Sopharmacy 15” EOOD**	87.45
“Sopharmacy 16” EOOD**	87.45
“Sopharmacy 17” EOOD**	87.45
“Sopharmacy 18” EOOD**	87.45
“Sopharmacy 19” EOOD **	87.45
“Sopharmacy 20” EOOD **	87.45
“Sopharmacy 21” EOOD **	87.45
“Sopharmacy 22” EOOD **	87.45
“Sopharmacy 23” EOOD **	87.45
“Sopharmacy 24” EOOD **	87.45
“Sopharmacy 25” EOOD **	87.45
“Sopharmacy 26” EOOD **	87.45
“Sopharmacy 27” EOOD **	87.45
“Sopharmacy 28” EOOD **	87.45
“Sopharmacy 29” EOOD **	87.45
“Sopharmacy 30” EOOD **	87.45

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## Sopharma Group

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"Sopharmacy 31" EOOD **	87.45
"Sopharmacy 32" EOOD **	87.45
"Sopharmacy 33" EOOD **	87.45
"Sopharmacy 34" EOOD **	87.45
"Sopharmacy 35" EOOD **	87.45
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"Sopharmacy 57" EOOD **	87.45
"Sopharmacy 58" EOOD **	87.45
"Sopharmacy 59" EOOD **	87.45
"Sopharmacy 60" EOOD **	87.45
"Sopharmacy 61" EOOD **	87.45
"Sopharmacy 62" EOOD **	87.45
"Sopharmacy 63" EAD **	87.45
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
"Sopharma Trading" D.o.o. **	87.45
"Pharmachim" EOOD	100.00

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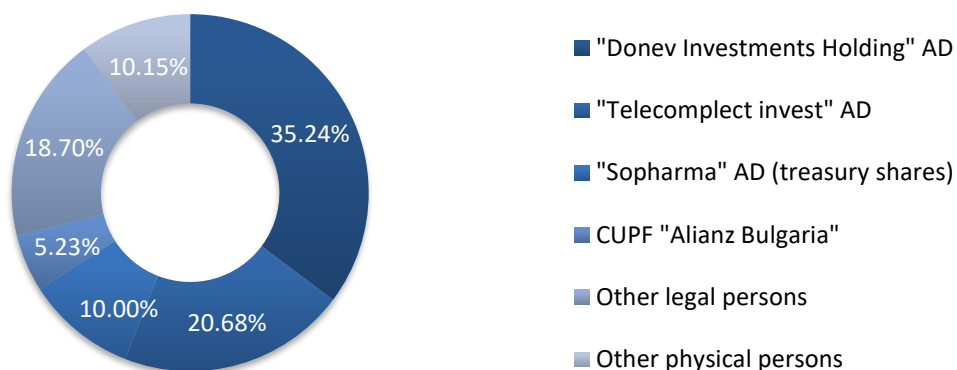
\*effective interest in percent

\*\*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 September 2023



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

The total number of shares issued on 30 September 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. The right to exercise arises from the date on which the issue of 44,925,943 warrants was registered at the "Central Depository" AD - 11.01.2022. The warrants are admitted to trading on the BSE main market of the Bulgarian Stock Exchange AD, starting from 25.01.2022. On 06.10.2023, as a result of a conditional capital increase through the exercise of 37,792,679 warrants from an issue with ISIN BG9200001212, the new capital of "Sopharma" AD in the amount of BGN 172,590,578 was entered in the Commercial Register.

## II. Recent developments Sopharma Group

### Key financial indicators

Indicators	1-9/2023 BGN '000	1-9/2022 BGN '000	change %
Revenues	1 374 982	1 218 800	12.8%
EBITDA	122 285	103 651	18.0%
Operating profit	80 104	65 016	23.2%
Net profit	80 929	72 256	12.0%
CAPEX*	40 447	53 598	-24.5%
	<b>30.09.2023</b>	<b>31.12.2022</b>	
	<b>BGN '000</b>	<b>BGN '000</b>	
Non-current assets	710 083	681 487	4.2%
Current assets	729 491	572 491	27.4%
Owners' equity	731 385	716 634	2.1%
Non-current liabilities	132 892	129 998	2.2%
Current liabilities	575 297	407 346	41.2%

\*acquired tangible and intangible fixed asset

Indicators	1-9/2023	1-9/2022
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EBITDA/Sales revenues	8.9%	8.5%
Operating profit / Sales revenues	5.8%	5.3%
Net profit/Sales revenues	5.9%	5.9%
	<b>30.09.2023</b>	<b>31.12.2022</b>
Debt/ Equity	0,97	0,75
Net debt*/ EBITDA on annual basis	2,5x	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 156,2 million or 12.8%, reaching BGN 1 375 million in the nine months of 2023 compared to BGN 1 218,8 million in the nine months of 2022. Sales of goods increased with BGN 124,5million or 12.3%, reaching BGN 1 139,4 million in the nine months of 2023 compared to BGN 1 014,9 million in the nine months of 2022. Sales of finished products increased by BGN 31,7 million, or 15.6%, to BGN 235,6 million in the nine months of 2023 compared to BGN 203,9 million in the previous period.

On a consolidated basis, the growth in sales of finished products in Bulgaria for the nine months of 2023 is 8% compared to the previous period. The company retains its market share and according to IQVIA data, at the end of the nine months of 2023, it occupies 2.08% (fifteenth position) of the total volume of the Bulgarian pharmaceutical market in terms of value and 7.62% (second position) of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis –6.47% (4.39% in volume), Roche – 5.47% (0.20% in volume), Merck Sharp & Dohme– 4.60% (0.14% in volume), Pfizer – 3.87% (0.68% in volume), Astrazeneca – 3.84% (0.45% in volume), Abbvie – 3.49% (0.07% in volume), Teva – 3.41% (9.09 % in volume), Swixx Biopharma – 3.29% (1.07% in volume), Phoenix 2.88% (4.19% in volume). The products with the largest share of sales in the country are Analgin, Vicetin, Famotidine, Vitamin C, Paracetamol, Methylprednisolone.

On a consolidated basis for the nine months of 2023, sales revenue in Russia increased by 39.5%. Growth was also registered in other traditional markets, with sales revenue increasing in Georgia by 52.6%, in Azerbaijan by 114.8%, in Uzbekistan by 14%, in Vietnam by 114.6%, in Belarus by 3.6%, in Moldova by 72.8%, in Poland with 24.8% and in Serbia with 29.3%



A decrease in sales revenue was recorded in Ukraine by 12.1% and in Kazakhstan by 8.9%.

*Other operating revenues* increased by BGN 3,8 million to BGN 13 million in the nine months of 2023 compared to BGN 9,2 million in the previous period.

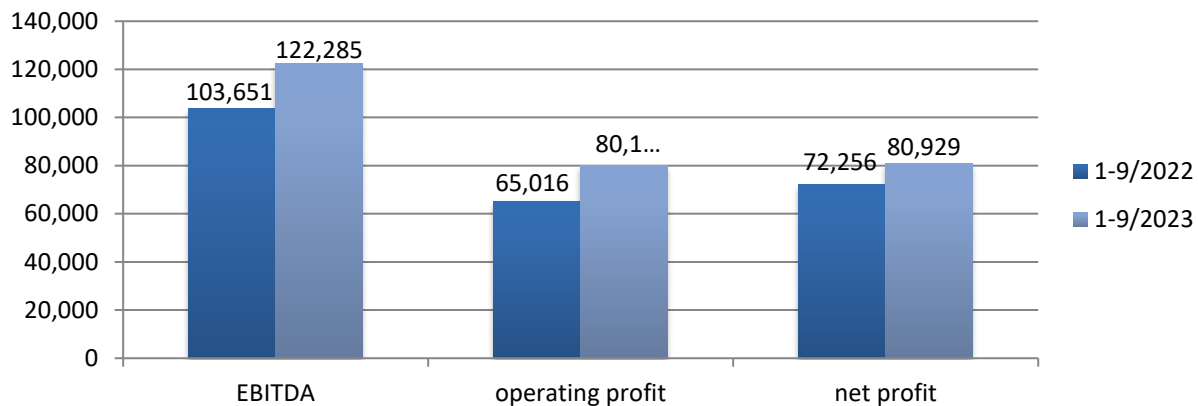
### *Operating revenues*

For the current period the expenses of materials increased with BGN 4,5 million to BGN 77 million, as the most significant change was registered in the expenses of basic materials, which increased by BGN 5,6 million, as well as in the expenses for electricity and heat, decreasing by BGN 1,7 million and BGN 1,6 million, respectively. The external service expenses increased by BGN 10,2 million to BGN 60,3 million with the most significant change in advertising costs, which increased by BGN 8,7 million in the costs of forwarding services and transport, which increased by BGN 2 million. Costs for consulting services decreased by BGN 4.4 million. Personnel costs increased by BGN 16.1 million to BGN 124.6 million or 14.8% as a result of updating the current remuneration of the average staff in the group. Other operating expenses decreased by BGN 7.2 million as a result of the net change in the adjustment for impairment for credit losses on commercial, legal and other receivables in the amount of BGN 8.6 million.

### *Financial income and expenses*

*Financial income and expenses* in the nine months of 2023 net registered a loss of BGN 7 million, which is an increase by BGN 3 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 2,7 million, with interest expenses on received loans for the current period increasing by BGN 2,9 million. An increase of BGN 0,6 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 18,6 million or by 18%, while in the nine months of 2023 it amounted to BGN 122,3 million compared to BGN 103,7 million in the nine months of 2022. The main factors for this growth are the increase in sales in both main business segments with insignificant changes in the gross profit margin, as well as the good management of operating expenses (costs of sales, marketing, logistics and administration).

*Profit from operating activity* increased by BGN 15.1 million or by 23.2%, to BGN 80,1 million in the nine months of 2023 compared to BGN 65 million in the nine months of 2022.

*Net profit* increased by BGN 8,7 million, or 12%, to BGN 80,9 million in the nine months of 2023 compared to BGN 72,3 million in the nine months of 2022. In addition to the effect of operational activity, the increase during the current period in profits from associated companies by BGN 0,5 million has a positive impact.

## Assets

*Non-current assets* at the end of the nine months of 2023 increased by BGN 28,6 million compared to the end of last year. Investments in associated and joint companies increased by BGN 60,8 million as a result of the reported share in the current profit in the associated company "Doverie-obedinen holding" AD, as well as from the increased participation in "Sopharma Imoti" REIT and in "Sopharma" buildings" REIT. Long-term receivables from related enterprises decreased by BGN 15,9 million as a result of loans granted by "Doverie Invest" EAD and "Industrial Holding Doverie" AD.

*Current assets* at the end of the nine months of 2023 increased by BGN 157 million compared to the end of last year, the most significant being the impact of the increase in other

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receivables and prepaid expenses in the amount of BGN 72,4 million as a result of the funds provided for the payment of a dividend in the amount of BGN 72,6 million. An increase is recorded in inventories by BGN 33 million and in trade receivables by BGN 48,2 million.

### *Owners' equity and liabilities*

*The equity of Sopharma Group* at the end of the nine months of 2023 increased by BGN 14.8 million compared to 12.31.2022 as a result of an increase in retained earnings.

*The liabilities* at the end of the nine months of 2023 increased by BGN 170,8 million compared to the end of 2022 as a result of the increase in bank loan liabilities by BGN 127,8 million, as well as as a result of accrued liabilities to related parties and third parties to receive dividends in the amount of BGN 72,7 million. Trade payables decreased by BGN 21,3 million compared to the end of last year.

### *Cash Flows*

	<b>30.09.2023</b>	<b>30.09.2022</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Net cash flows from operating activities	2 160	36 656
Proceeds of amounts by factoring after interest and fees	629	25 744
Purchases of property, plant and equipment, intangible assets, net	(16 693)	(13 778)
Payments under lease agreements	(13 986)	(12 286)
<b>Free cash flow (normalized)</b>	<b>(27 890)</b>	<b>36 536</b>

\* Net cash flows from/(used in) operational activity for the nine months of 2023 are normalized with the amount paid for dividends to the Central Depository in the amount of BGN 72,8 million and not reflected at the end of the period in the section "Cash flows from financial activity".

The free cash flow (normalized with the revenues from factoring and payments under leasing contracts), generated for the nine months of 2023, amounts to BGN 27,9 million outflow compared to BGN 36,5 million inflow in the first half of 2022. The recorded net cash outflow from operating activities during the current period is affected by advance payments received from customers in 2022, related to realized sales of production in 2023.

### *New developments and products*

During the period July - September 2023, the following activities were carried out in the "Development Activity and Regulatory Compliance" Department:

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

- Documentation for registration of **9** medicinal products has been submitted:
  - Carsil 22.5 mg fct (Azerbaijan);
  - Carsil 22.5 mg fct (Tajikistan);
  - Tribestan fct;
  - Tempalgin (paracetamol) tb.;
  - Digoxin Sveikuva 0.25 mg/ml solution for injection (Lithuania);
  - Pethidine hydrochloride Sveikuva 50 mg/ml solution for injection (Lithuania);
  - Amrex 30 mg/5 ml syrup (Lithuania) MRP
  - Amolytin 30 mg tb. (Lithuania) MRP
  - Paracetamol Sopharma tb. (Moldova)
  - Sodium picosulfate oral drops solution (Ukraine);
  - Carsil 22,5 mg fct (Turkmenistan).

### *New registrations of medicinal products*

- Medicinal products have been registered for 7 new directions:
  - Ambrolytin 30 mg tb., (Georgia)
  - Valeriana Max 200 mg fct, (Georgia)
  - Valeriana 30 mg fct, Georgia
  - Feloran Forte 5 % gel (Georgia)
  - Alergosan (Desloratadin) oral solution (Перу)
  - Carsil 22.5 mg fct, (Ukraine)
  - Tempofen DUO fct, (Ukraine)

### *Re-registrations/changes*

- Renewed Authorizations for the use of 14 medicinal products
- Submitted documentation for renewal of Permits for use of 15 medicinal products to agencies
- Submitted 80 changes for medicinal products to agencies
- 93 changes for medicinal products approved by agencies

### *Food additives*

Notified - 2

- Hepcarsil (Georgia);
- Broncholitin Phyto (Georgia).

Submitted for notification - 4

- Bazhana caps. (Azerbaijan);
- Bazhana sachet (Azerbaijan);
- Bazhana sachet (Kazakhstan);
- Bazhana caps. (Kazakhstan).

### *Developments*

Pharmaceutical development of 8 new medicinal products/projects is being carried out:

- Cytisine 3.0 mg TB – Project with company Achieve
- Dexcetoprofen 25 mg tb.;
- Simethicone oral drops;
- Molsidomin 4 mg tab.;
- Ketorolac 10 mg tab.;
- Ibuprofen 200; 400 and 600 mg tb.;
- Vitamin C 200 mg/mL injection p-r;
- Butamirate Citrate oral drops;

Development of 6 nutritional supplements is underway:

- Propolis nasal spray for children;
- Propolis nasal spray for adults;

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- Propolis throat spray for children;
- Propolis throat spray for adults;
- Syrup (with bee products and extracts) for children;
- Syrup (with bee products and extracts) for adults.

### *Transfer and validation of technological processes*

- 3 new medicinal products were transferred - Feloran 2.32% gel; Duzofarm 200 mg tab.; Dexcetoprofen 25 mg tab.
- 10 production processes/technologies have been validated/optimized.

### *Prepared documentation for quality assessment/production*

- Documentation for quality of raw materials for production – 51;
- Production regulations – 42;
- Documentation for quality of finished forms – 57.

### **III. Significant events for the nine months 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 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.

- 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 has been 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. 262 m 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.
- On 23.08.2023, under number 20230823133229, the conversion by merging Biopharm Engineering AD into Sopharma AD was entered in the Commercial Register, whereby Biopharm Engineering AD was deleted without liquidation. The activity of "Biopharm Engineering" AD is completely transferred to "Sopharma" AD, and all the assets of the merging company are transferred to "Sopharma" AD, which becomes its universal legal successor.
- On 02.10.2023, according to the requirements of Art. 100t of the Civil Procedure Code, "Sopharma" AD notified that in implementation of the decision of the General Meeting of

Warrant Holders dated 02.06.2023 and the decision of the Board of Directors of "Sopharma" AD dated 05.06.2023 and based on Art. 195 and Art. 196 of the Commercial Law, art. 113, para. 2, item 2 of the LPOS and Art. 25 of the Company's Articles of Association a capital increase procedure was launched by issuing up to 44,925,943 ordinary registered, non-available freely transferable shares with a nominal value of BGN 1 each and an issue value of BGN 4.13 per share, provided that the shares from the increase are subscribed by warrant holders, issue ISIN BG9200001212, in accordance with the terms and conditions described in the Prospectus for the public offering of warrants, confirmed by FSC Decision No. 804-E/04.11.2021.

The term for the exercise of warrants determined by the Board of Directors in accordance with the requirements of the LPOS and the Prospectus for the Public Offering of Warrants, confirmed by FSC Decision No. 804-E/04.11.2021, started on 07.09.2023 year and ended on 29.09.2023. During this period, a total of 260 requests were received for the subscription of the shares from the increase by exercising warrants, submitted by 249 persons, of which 23 legal persons and 226 natural persons. A total of 37,792,679 (thirty-seven million, seven hundred and ninety-two BGN, six hundred and seventy-nine) number of warrants were exercised and, accordingly, 37,792,679 (thirty-seven million, seven hundred and ninety-two BGN, six hundred and seventy-nine) number of shares of the capital increase through SOFIA INTERNATIONAL SECURITIES AD.

The right to participate in the increase of the capital of "Sopharma" AD, by exercising the rights under the warrants, had the persons who acquired warrants no later than 5 working days after the later date between the date of publication of this announcement under Art. 89t, para. 2 of the LPOS on the website of Information Agency "X3news.com", on the website of "Sopharma" AD and the investment intermediary chosen to serve the capital increase. The issue value of the subscribed shares is in the total amount of BGN 156,083,764.27 (one hundred fifty-six million eighty-three thousand seven hundred sixty-four BGN and 27 cents).

During the execution of the subscription, including during the exercise of the warrants and the subscription of the shares, the Company did not encounter any difficulties, disputes or the like. The subscription is considered successful.

- On 06.10.2023, according to the requirements of Art. 100t of the LPOS, "Sopharma" AD notified that as a result of the capital increase under the condition by exercising warrants from an issue with ISIN BG9200001212 in the Commercial Register, with

number 20231006154857, the new capital of "Sopharma" AD was entered in the amount of 172,590 578 BGN.

- On 16.10.2023, according to the requirements of Art. 100t of the LPOS, "Sopharma" AD notified that in fulfillment of the objectives for optimization of the activity on foreign markets, the functions of the representative office of "Sopharma" AD in Russia will be taken over by the newly established subsidiary "Sopharma Rus" EOOD.
  
- On 10.11.2023, Sopharma AD acquired 25% of the capital of Pharmanova d.o.o., Serbia.
- On 24.11.2023, an extraordinary General Meeting of the company was held with the following agenda:
  - Adoption of the company's financial report for the first half of 2023.
  - Making a decision under Article 30, Paragraphs 5 - 7 of the Company's Articles of Association to distribute the profit and pay an interim dividend based on the six-month financial report. Based on the report prepared by the Board of Directors in accordance with the requirements of Art. 115a of LPOS, the proposal is to distribute a gross dividend in the amount of BGN 0.90 per share.
  - Miscellaneous.

#### 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.
- 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
“Sofarma Buildings” REIT	Associate	from 08.09.2023	
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

DZZD “Veterinary Diagnostic” Civil societies for the implementation of joint activity (direct participation)  
2023

	<b>1 January – 30 September 2023 BGN ‘000</b>	<b>1 January – 30 September 2022 BGN ‘000</b>
<b>Supplies from related parties:</b>		
<b>Supply of inventories from:</b>		
Companies related through key management personnel	7,806	7,779
Joint ventures	267	283
Associates	80	81
Companies controlled by an associate	37	32
	<b>8,190</b>	<b>8,175</b>
<b>Supply of services from:</b>		
Companies controlled by an associate	857	833
Shareholding companies with significant influence	424	294
Associates	350	375
Companies related through key management personnel	178	198
Joint ventures	4	2
	<b>1,813</b>	<b>1,702</b>
<b>Deliveries of tangible fixed assets from:</b>		
Companies controlled by an associate	1,813	1,015
	<b>1,813</b>	<b>1,015</b>
<b>Supplies for the acquisition of fixed assets:</b>		
Company controlled by an associate company	1,822	-
	<b>1,822</b>	<b>-</b>
<b>Other deliveries from:</b>		
Companies controlled by an associate company	174	155
	<b>174</b>	<b>155</b>
<b>Interest expenses:</b>		
Companies shareholders with significant influence	467	-
	<b>467</b>	<b>-</b>
<b>Accrued dividends on:</b>		
Shareholding companies with significant influence	45,229	-
Key management personnel	4,081	-
	<b>49,310</b>	<b>-</b>

This is a translation from Bulgarian of the Management report of Sopharma Group for the nine months of 2023.

In case of divergence Bulgarian text should prevail.

	63,589	11,047
<b>Total deliveries</b>	<u>                    </u>	<u>                    </u>
		-
<b>Sales to related parties</b>		
<b>Inventory sales for:</b>		
Companies related through key management personnel	940	862
Companies controlled by an associate company	<u>814</u>	<u>1,116</u>
	<u>1,754</u>	<u>1,978</u>
<b>Sales of services for:</b>		
Companies related through key management personnel	160	168
Companies controlled by an associate company	110	202
Associated companies	6	6
	<u>276</u>	<u>376</u>
<b>Guarantee fees and guarantees of:</b>		
Joint ventures	-	7
	<u>                    </u>	<u>                    </u>
	-	7
<b>Interest on granted loans:</b>		
Companies controlled by an associate company	1,685	1,417
Joint ventures	44	34
Associated companies	31	-
	<u>1,760</u>	<u>1,451</u>
<b>Interest on assignment contracts:</b>		
Joint ventures	95	-
	<u>95</u>	<u>                    </u>
<b>Other income</b>		
Companies controlled by an associate company	-	12
	<u>                    </u>	<u>                    </u>
	-	12
	<u>3,885</u>	<u>3,824</u>

### **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 September in connection with lease agreements with related parties are as follows:

**30.09.2023**                      **31.12.2022**

23

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In case of divergence Bulgarian text should prevail.

	<i>BGN '000</i>	<i>BGN '000</i>
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	(2,137)	(2,462)
Lease liabilities written off	-	(541)
<b>Leasing liabilities as of 30 September/ 31 December</b>	<b>20,321</b>	<b>20,616</b>

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

	<i>30.09.2023</i>	<i>31.12.2022</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Asset "right of use" as of January 1	<b>20,524</b>	<b>4,315</b>
Increases	1,877	19,263
Depreciation accrued	(2,246)	(2,482)
Write-off book value of right-of-use assets	(82)	(572)
<b>Assets "right of use" as of 30 September/ 31 December</b>	<b>20,073</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 № 20, № 24, № 29, № 36.

The composition of the Group's key management personnel is disclosed in Note 1.

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 2,934 thousand (2022: BGN 2,825 thousand) including:

- current remuneration - BGN 2,449 thousand (2022 : BGN 2,501 thousand);
- tantieme – BGN 485 thousand (2022: BGN 324 thousand);

29.11.2023

Sofia