

PRELIMINARY MANAGEMENT REPORT

2021



“SOPHARMA” AD

31 January 2022

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

Content

I. General information about “Sopharma” AD	2
1. Registration and activity of the Company	2
2. Shareholder structure as at 31 December 2021.....	2
3. Board of Directors	2
4. Personnel	3
5. Production activity	3
6. Products.....	3
7. Information about the shares of “Sopharma” AD.....	4
II. Development of the activity.....	5
III. Significant events in 2021 and until the publication of the preliminary management report	10
IV. Review of the main risks faced by the Company	12
V. Information on related party transactions.....	14

This is a translation from Bulgarian of the Preliminary Management report
of “Sopharma” AD for 2021.

In case of divergence Bulgarian text should prevail.

I. General information about “Sopharma” AD

1. Registration and activity of the Company

“Sopharma” AD (The Company) is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, 16 “Iliensko shose” Str.

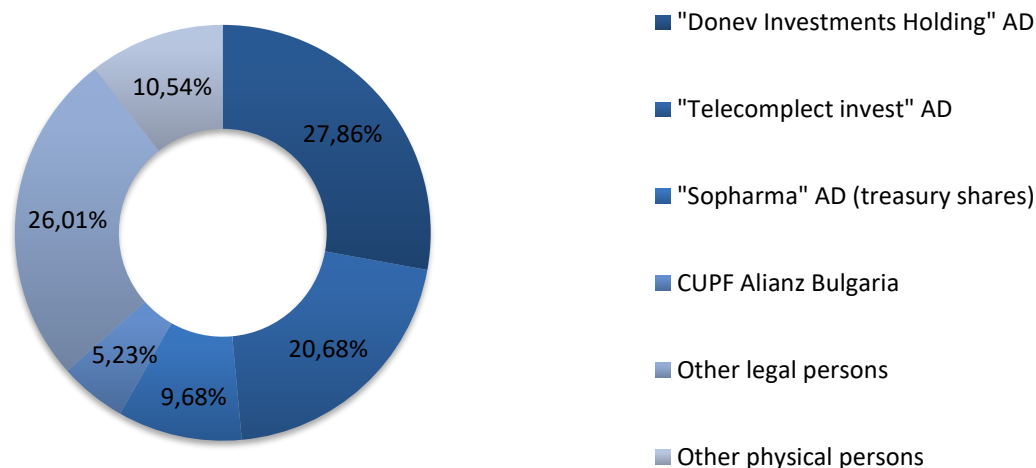
“Sopharma” AD was established in 1933. The court registration of the Company is from 15 November 1991, decision №1/1991 of Sofia City Court. “Sopharma” AD is a public company under the Law on Public Offering of Securities.

The Company conducts the production and marketing of medicinal substances and dosage forms; research, engineering and implementation activities in the field of phytochemistry, chemistry and pharmacy, production of medical products and cosmetics, incl. - plasters, bandages, sanitary-hygiene products, herbal cosmetics, concentrates for hemodialysis.

“Sopharma” AD provides services related to production, as well as to ancillary and supporting activities.

The Company has marketing authorizations under the Law on Pharmaceutical products in Human Medicine for all products of its manufacturing portfolio.

2. Shareholder structure as at 31 December 2021



3. Board of Directors

“Sopharma” AD has a one tier management system with a Board of Directors of five members as follows: Ognian Donev, PhD - Chairman and members: Vessela Stoeva, Bissera Lazarova, Alexander Tchaushev and Ivan Badinski. The Company is represented and managed by the Executive Director Ognian Donev, PhD. The company has two procurators - Simeon Donev and Ivan Badinski.

This is a translation from Bulgarian of the Preliminary Management report of “Sopharma” AD for 2021.

In case of divergence Bulgarian text should prevail.

4. Personnel

The average number of workers and employees for 2021 in “Sopharma” AD is 1 860 (1 991 in 2020).

	31.12.2021	rel. share %
Number of workers and employees as at 31 December 2021	1 768	100%
Higher education	811	46%
College education	35	2%
Secondary education	899	51%
Primary education	23	1%
Employees under 30 years	148	8%
Employees 31 - 40 years	300	18%
Employees 41 - 50 years	492	28%
Employees 51 - 60 years	643	36%
Employees over 60 years	185	10%
Women	1 120	63%
Men	648	37%

5. Production activity

The production activities of the Company are realized and developed in the following areas:

- Substances and preparations based on plant raw materials (phytochemical production);
- Ready-to-use formulations, incl.:
 - ✓ Hard tablets, coated tablets, film-coated tablets, capsules;
 - ✓ Galenic - suppositories, drops, syrups, ointments;
 - ✓ Parenteral - injection solutions, lyophilic powder for injection.
- Medical and cosmetic products, incl.:
 - ✓ Plasters;
 - ✓ Bandages;
 - ✓ Sanitary-hygiene products;
 - ✓ Herbal cosmetics;
 - ✓ Concentrates for hemodialysis.

6. Products

The Company has more than 200 products in its portfolio: incl. nearly 190 medicinal products and 11 groups of medical devices. Medicinal products mainly include generics and 15 traditional products, 12 of the products are plant-based. The Company's traditional products (in particular Tabex, Carsil and Tempalgin) make a major share to its export market income, while the company's generic products are of major importance for domestic sales, Analgin being the leader among these products.

This is a translation from Bulgarian of the Preliminary Management report of “Sopharma” AD for 2021.

In case of divergence Bulgarian text should prevail.

The product portfolio of “Sopharma” AD focuses on the following therapeutic areas: cardiology, gastroenterology, pain management, cough and cold, immunology and dermatology, respiratory tract and asthma, neurology and psychiatry, urology and gynecology, nephrology, surgery, orthopedics and traumatology.

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

- Carsil - traditional plant-based product used to treat gastro-enterology diseases (liver diseases);
- Tempalgin - traditional analgesic (painkiller);
- Tabex - traditional plant-based smoking cessation product;
- Tribestan - traditional plant-based product that stimulates the functions of the sexual system;
- Broncholitin - traditional plant-based product used to suppress cough;
- Analgin - generic analgesic (pain reliever);
- Nivalin - traditional plant-based product used for diseases of the peripheral nervous system;
- Methylprednisolone - generic medicine for cases of severe allergies and certain life-threatening conditions;
- Vitamin C - widely used nutritional supplement;
- Valeriana - generic non-prescription herbal medicine used to reduce stress;
- Medical devices - gauzes, compresses and dressings.

7. Information about the shares of “Sopharma” AD

The total number of shares issued on 31 December 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. Development of the activity

Key financial indicators

Indicators	1-12/2021	1-12/2020	Change %
	BGN '000	BGN '000	
Revenues	200 393	206 737	-3.1%
EBITDA	50 955	51 053	-0.2%
Operating profit	33 410	32 823	1.8%
Net profit	24 492	28 664	-14.6%
CAPEX*	7 735	9 670	-20.0%
	31.12.2021	31.12.2020	
	BGN '000	BGN '000	
Non-current assets	456 727	435 891	4.8%
Current assets	202 745	214 447	-5.5%
Owners' equity	564 425	536 988	5.1%
Non-current liabilities	22 436	16 091	39.4%
Current liabilities	72 611	97 259	-25.3%

* tangible and intangible fixed assets acquired

Indicators	1-12/2021	1-12/2020
EBITDA/Revenues	25.4%	24.7%
Operating profit/Sales Revenue	16.7%	15.9%
Net profit/Sales Revenue	12.2%	13.9%
	31.12.2021	30.09.2021
Debt/Equity	0,17	0,11
Net debt*/EBITDA on annual basis	0,8x	0,4x

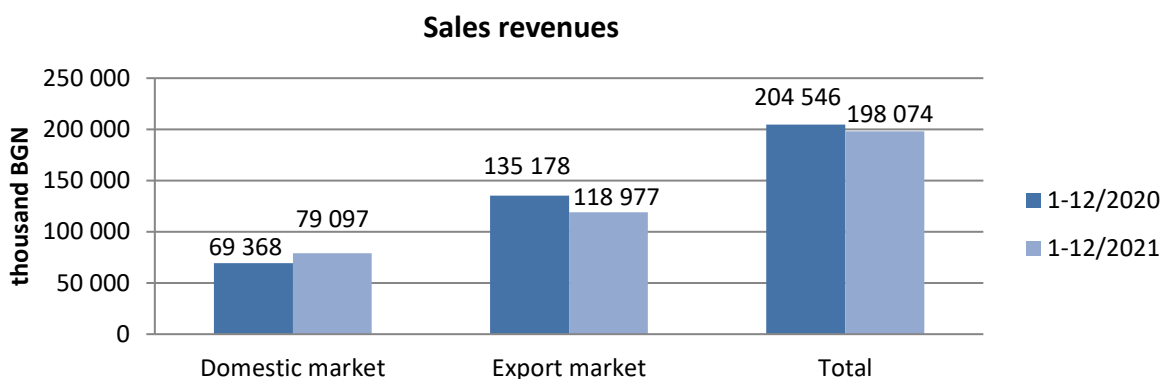
* the net debt comprises the sum of borrowings from banks and lease liabilities less cash and cash equivalents, taking into account the effects of the adoption of IFRS 16 Leases, effective from 01.01.2019

This is a translation from Bulgarian of the Preliminary Management report of "Sopharma" AD for 2021.

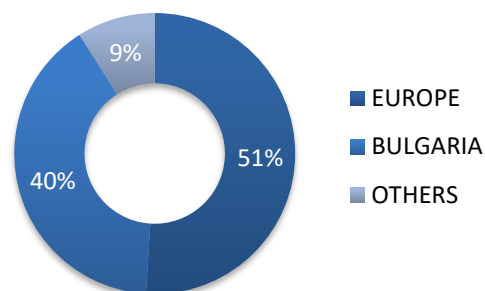
In case of divergence Bulgarian text should prevail.

Operating revenues

Sales revenues from products in 2021 decreased by BGN 6,5 million to BGN 198,1 million compared to BGN 204,5 million in 2020.



Revenues by market	1-12/2021 BGN '000	1-12/2020 BGN '000	Change %
EUROPE	100 471	114 554	-12.3%
BULGARIA	79 097	69 368	14.0%
OTHERS	18 506	20 624	-10.3%
TOTAL	198 074	204 546	-3.2%



- European market

Sales revenues for 2021 for European countries decreased by BGN 14,1 million or 12.3% compared to 2020 due to the decrease of sales in Russia with 9.1%, Ukraine with 31.4%. The decrease in sales in the Ukraine and Russia is due to the accumulated higher levels of finished products in the main distributors at the beginning of the reporting period, as in the domestic market in Ukraine the group reports an increase in value and quantity of sales compared to the previous period.

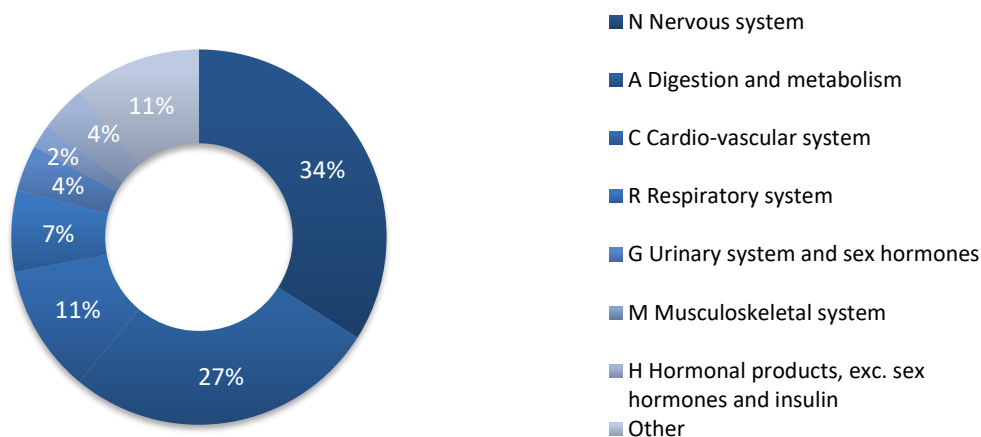
- Bulgarian market

Sales of “Sopharma” AD in the domestic market increased by BGN 9,7 million or by 14% to BGN 79,1 million in 2021 compared to BGN 69,4 million in 2020. The company retains its market share and at the end of the year has a 2.9% share of the total Bulgarian pharmaceutical market in value and 10.9% of sales in volume. The products with the largest share of sales in the country are Analgin, Methylprednisolone, Antistenocardin, Famotidine, Parecatamol, Buscolylin, Allergosan.

- Other markets

Revenues from other markets decreased with BGN 2,1 million or 10% compared to 2020, mainly as a result of a decrease of the export for Kazakhstan.

Sales by therapeutic group



Operating expenses

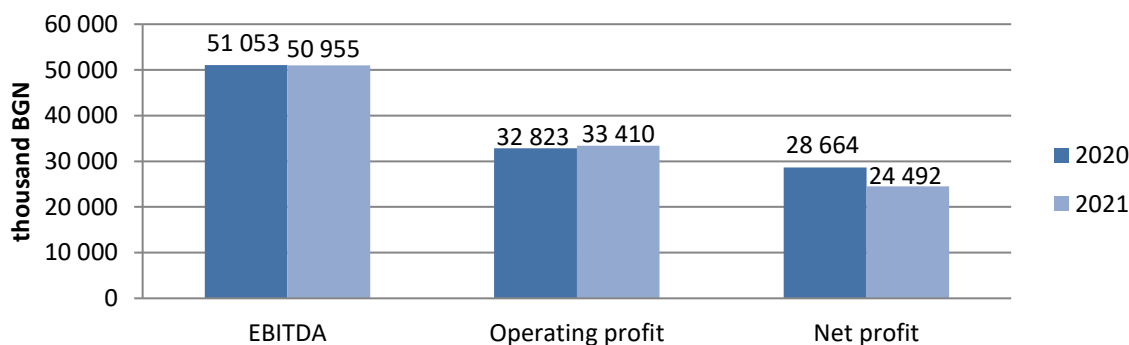
For the current period more significant changes are reported in the cost of materials, mainly in the part of basic materials for production, which is related to the reduced sales during the period. Personnel costs decreased by BGN 3,7 million as the main reason was the decrease in the total number of employees in the company. In the costs for external services the most significant change is in the costs for consulting services, which increase by BGN 2 million, while in the direction of decrease the costs of construction and maintenance of buildings have the largest contribution. Other operating expenses also decreased by BGN 2 million, mainly in the part of marriage of fixed assets.

Financial income and expenses

Financial income decreased by BGN 2,2 million to BGN 11,2 million in 2021 compared to BGN 13,4 million in 2020, as a result of the decrease in income from share participation by BGN 8,9 million, reflecting the accrued dividend from “Sopharma Trading” AD in the previous period, as this reduction was partially offset by a recovered impairment on a loan granted to a subsidiary (SIA Briz - Latvia).

Financial expenses increased by BGN 5,6 million to BGN 12,7 million in 2021, compared to BGN 7,1 million in 2020, with the most significant impact being the reported loss of BGN 11,1 million from the sale of investments in subsidiaries (SIA Briz - Latvia).

Financial result of the activity



Profit before interest, taxes, depreciation and amortization (EBITDA) in 2021 decreased insignificant by 0.2% to BGN 51,0 million compared to BGN 51,1 million 2020.

Operating profit in 2021 increased by BGN 0,6 million or 1.8% to BGN 33,4 million in 2021 compared to BGN 32,8 million in 2020.

Net profit in 2021 decreased by BGN 4,2 million or by 14.6%, to BGN 24,5 million compared to BGN 28,7 million in 2020.

Assets

Non-current assets compared to the end of the year changed mainly due to an increase in investments in associates by BGN 48,4 million, mostly as a result of reaching 32.8% share of the capital of “Sopharma Imoti” REIT. An increase is reported in investment properties (earned logistics system) and a decrease in investments in subsidiaries (exemption from participation in SIA Briz - Latvia, “Sopharma Buildings” REIT and “Momina Krepost” AD) and long-term loans by BGN 10 million.

Current assets decreased by BGN 11,9 million, while receivables from related parties (mainly in the part of receivables from contracts with customers) decreased by BGN 26,6 million, while trade receivables increased by BGN 8,5 million.

Owners' equity and liabilities

The equity of “Sopharma” AD increased by BGN 27,4 million compared to 31 December 2020.

Non-current liabilities increased by BGN 6,3 million, as a result of an increase in long-term bank loans by BGN 6,7 million compared to the end of the previous year.

Current liabilities decreased by BGN 24,6 million compared to 31 December 2020, mainly as a result of the decrease in short-term bank loans by BGN 29,1 million, financed by the realized free cash flow for the period. An increase in trade liabilities in the amount of BGN 5,9 million is reported compared to 31 December 2020.

Cash flows

	1-12/2021 BGN '000	1-12/2020 BGN '000
Net cash flows from operating activities	86 469	27 268
Purchases of property, plant and equipment, intangible assets, net	(7 213)	(6 491)
Payments under lease contracts	(1 900)	(1 928)
Free cash flow (normalized)	77 356	18 849

The free cash flow (normalized with the payments under lease contracts), generated for 2021, amounts to BGN 77,4 million inflow compared to BGN 18,3 million inflow in 2020.

New developments and products

The following activities were carried out in **October to December 2021**:

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

New registrations of medicinal products

- Documentation for registration of **2** medicinal products has been submitted:
 - *Carsil Max 110 mg capsules (Tajikistan)*.

License:

- *Nexopral 20 mg gastro-resistant tablets (Bulgaria)*.

Re-registrations / changes

- Renewed Marketing Authorizations for **2** medicinal products.
- Submission of documentation for the renewal of the Marketing Authorizations for **12** medicinal products.
- **113** changes for medicinal products approved by agencies.
- **137** changes for medicinal products submitted to agencies.

Food additives

- **5** food supplements have been notified - **2** for Serbia; **2** for Ukraine and **1** for Bulgaria.

+ **Developments**

- Pharmaceutical development of 6 new medicinal products / projects:
 - Citisinicline 3,0 mg tablets – Project with the company Achieve;

This is a translation from Bulgarian of the Preliminary Management report of "Sopharma" AD for 2021.

In case of divergence Bulgarian text should prevail.

- Suxamethonium 10 mg/ml solution for injection;
- Suxamethonium 20 mg/ml solution for injection;
- Keterolac 30 mg/ml solution for injection; 1 ml;
- Sodium picosulfate 7,5 mg/ml oral drops;
- Dexketoprophenum 25 mg tablets.

Transfer and validation of technological processes

- 5 medicinal products have been transferred / are in the process of transfer.
- 3 production processes / technologies are validated / optimized.

III. Significant events in 2021 and until the publication of the preliminary 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 Annual 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 30 December 2021 the subscription for the public offering of the issue of warrants to the Company was successfully completed.

The results of the public offering are as follows:

- Closing date of the public offering – 23 December 2021.
- Total number of issued rights – 134 797 899 /one hundred and thirty-four million seven hundred ninety-seven thousand eight hundred ninety-nine/.
- Total number of warrants offered for subscription – BGN 44 932 633 /forty four million nine hundred and thirty two thousand six hundred and thirty three/.
- Total number of warrants subscribed and paid – BGN 44 925 943 /forty four million nine hundred and twenty-five thousand nine hundred and forty-three/.
- Amount received in the account opened at "Raiffeisenbank" (Bulgaria) EAD for the subscribed and paid warrants – BGN 12 579 264.04 /twelve million five hundred and seventy-nine thousand two hundred and sixty-four leva and four stotinki/.
- Amount of all expenses for the public offering – BGN 50 825.45 /fifty thousand eight hundred and twenty five leva and 45 stotinki/.
- During the subscription, the Company and the servicing intermediary did not have any difficulties, disputes and the like in the trading of the rights and the subscription of the warrants, excluding overpayed amounts of BGN 6 137.32 /six thousand one hundred and thirty-seven leva and thirty-two stotinki/ which are due to duplicated payments and will be refunded to the respective persons after the accumulation account has been unblocked.

IV. Review of the main risks faced by the Company

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.

The management believes that the going concern principle is appropriate for these separate financial statements, as the Company has sufficient liquid resources to continue in the foreseeable future. At the date of these separate financial statements, the management of the Company does not intend to discontinue operations.

This is a translation from Bulgarian of the Preliminary Management report of “Sopharma” AD for 2021.

In case of divergence Bulgarian text should prevail.

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

- The Company faces significant competition.
- The Company is dependent on regulatory approvals.
- Government regulations affecting the Company's business may change, thus possibly increasing compliance costs or otherwise affecting its operations.
- Part of the Company's revenues, in particular in Bulgaria, depends on the inclusion of the Company's medicines in reimbursement lists.
- The Company's production facilities and processes are subject to strict requirements and regulatory approvals that may delay or disrupt the Company's operations.
- The Company's ability to pay dividends depends on a number of factors and there can be no guarantee that the Company will be able to pay dividends in accordance with its dividend policy.
- The Company is subject to operational risk, which is inherent to its business activities.
- The Company is subject to multiple laws and regulations on environmental protection and health and safety work conditions and is exposed to potential environmental liabilities.
- Litigations or other out-of-court proceedings or actions may adversely affect the Company's business, financial position and results of operations.

Risks related to Bulgaria and other markets in which the Company operates

- The macroeconomic environment, particularly in Bulgaria, Russia and Ukraine, has a significant effect on the Company's operations;
- The political environment in Bulgaria and in the export markets, especially Russia and the Ukraine, has a significant effect on the Company's operations and financial position;
- Risks related to the Bulgarian legal system;
- Developing legal frameworks in some countries in which the Company sells its products, in particular Russia and Ukraine, may negatively impact the Company's operations in these countries;
- Risks relating to exchange rates and the Currency Board in Bulgaria;
- The interpretations of tax regulations may be unclear and tax laws and regulations applicable to the Company may change.

Currency risk

The Company performs its activities in active exchange with foreign suppliers and customers. Therefore, it is exposed to currency risk, mainly in respect of USD. The Company supplies part of its main raw materials in USD. The currency risk is related to the negative movement of the USD exchange rate against the BGN in the future business operations, the recognized foreign currency assets and liabilities and the net investments in foreign companies. The rest of the Company's operations are usually denominated in BGN and / or in EUR. The

This is a translation from Bulgarian of the Preliminary Management report
of "Sopharma" AD for 2021.

In case of divergence Bulgarian text should prevail.

Company sells some of its finished products in Russia in EUR and thus eliminates the currency risk associated with the depreciation of the Russian ruble. In EUR are also dominated the balances with the subsidiaries in Ukraine. However, in order to minimize currency risk, the Company conducts through its subsidiaries a monetary policy that includes advance payments and the reduction of deferred payment terms and immediate currency conversion of foreign currency earnings to EUR, as well as applying higher trade mark-ups to offset possible future impairment of the hryvnia.

In order to control the foreign currency risk in the Company, a system of planning import deliveries, foreign currency sales, as well as procedures for daily monitoring of movements in the dollar exchange rate and control of forthcoming payments, is introduced.

v. Information on related party transactions

Related party transactions are disclosed in the explanatory notes to the preliminary financial statements for 2021.

January 31, 2022

Sofia