

# PRELIMINARY MANAGEMENT REPORT

2022



## “SOPHARMA” AD

30 January 2023

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

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## I. General information about “Sopharma” AD

### 1. Registration and activity of the Company

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

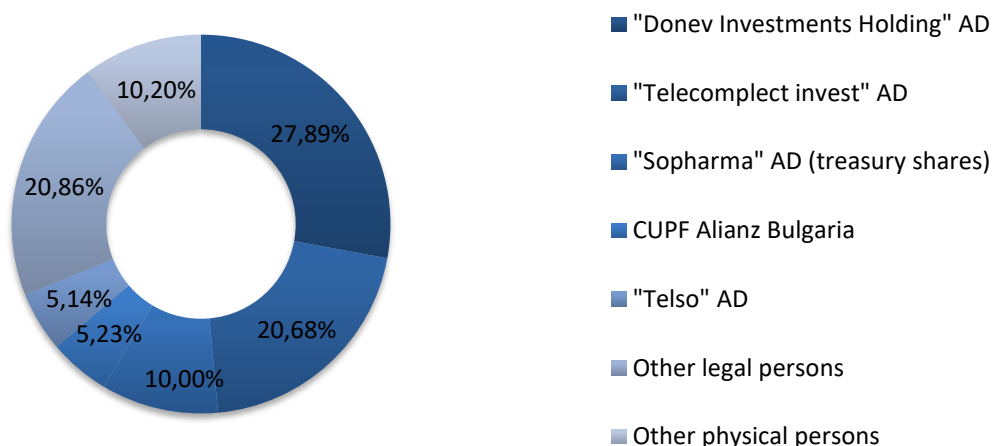
“Sopharma” AD was established in 1933. The court registration of the Company is from 15 November 1991, decision №1/1991 of Sofia City Court. “Sopharma” AD is a public company under the Law on Public Offering of Securities.

The Company conducts the production and marketing of medicinal substances and dosage forms; research, engineering and implementation activities in the field of phytochemistry, chemistry and pharmaceuticals.

“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 pharmaceutical products of its manufacturing portfolio.

### 2. Shareholder structure as at 31 December 2022



### 3. Board of Directors

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

#### 4. Personnel

The average number of workers and employees for 2022 in “Sopharma” AD is 1 715 (1 860 in 2021).

	31.12.2022	rel. share %
<b>Number of workers and employees as at 31 December 2022</b>	1 696	100%
Higher education	799	47%
College education	32	2%
Secondary education	844	50%
Primary education	21	1%
Employees under 30 years	142	8%
Employees 31 - 40 years	273	18%
Employees 41 - 50 years	444	26%
Employees 51 - 60 years	662	39%
Employees over 60 years	174	10%
Women	1076	63%
Men	620	37%

#### 5. Production activity

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

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

#### 6. Products

The Company has more than 200 products in its portfolio: incl. nearly 190 medicinal products and 11 groups of medical devices. Medicinal products mainly include generics and 15 traditional products, 12 of which are plant-based. The Company's traditional products (in

particular Tabex, Carsil and Tempalgin) make up a major share of its export market revenues, while the company's generic products are of major importance for domestic sales, Analgin being the leader among these products.

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

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

- Carsil - traditional plant-based product used to treat gastroenterology diseases (liver diseases);
- Tempalgin - traditional analgesic (painkiller);
- Tabex - traditional plant-based smoking cessation product;
- Tribestan - traditional plant-based product that stimulates the functions of the sexual system;
- 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 and other securities issued by the Company**

The total number of shares as of 31 December 2022 of “Sopharma” AD, is 134 797 899 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, ordinary and indivisible, according to the Articles of Association of the Company. All issued shares are of one class. Each share gives equal rights to its holder in proportion to the nominal value of the share.

By Decision № 804 - E of 4 November 2021, the Financial Supervision Commission registered an issue of 44,932,633 dematerialized, freely transferable and registered warrants, with par value of BGN 0.28, issued by “Sopharma” AD under Art. 112 b, para. 11 of the LPOS. The underlying asset of the issued warrants are future ordinary, registered, dematerialized, freely transferable shares, giving the right to one vote in the General Meeting of Shareholders, which will be issued by the company only in favor of the owners of warrants. Each warrant entitles its holder to subscribe for one share of a future issue. Holders of warrants may exercise their right

to subscribe for the respective number of shares from a future increase in the company's capital within 3 years at a fixed price of BGN 4.13 per share.

## II. Development of the activity

### *Key financial indicators*

Indicators	31.12.2022 BGN '000	31.12.2021 BGN '000	Change %
Revenues	230 763	200 154	15.3%
EBITDA	65 738	53 220	23.5%
Operating profit	47 549	35 675	33.3%
Net profit	40 383	24 271	66.4%
CAPEX*	34 376	7 755	343.3%
	<b>31.12.2022 BGN '000</b>	<b>31.12.2021 BGN '000</b>	
Non-current assets	502 901	456 746	10.1%
Current assets	199 776	202 353	-1.3%
Owners' equity	601 329	564 203	6.6%
Non-current liabilities	39 598	22 436	76.5%
Current liabilities	61 750	72 460	-14.8%

\* tangible and intangible fixed assets acquired

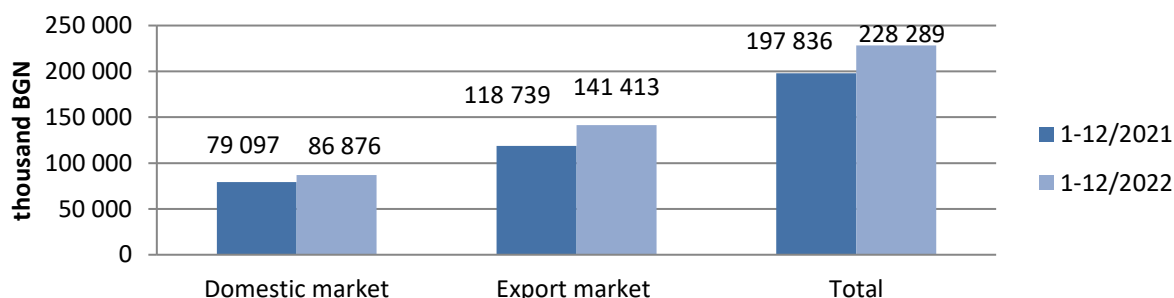
Indicators	1-12/2022	1-12/2021
EBITDA/Revenues	28.5%	26.6%
Operating profit/Sales Revenue	20.6%	17.8%
Net profit/Sales Revenue	17.5%	12.1%
	<b>31.12.2022</b>	<b>31.12.2021</b>
Debt/Equity	0,17	0,17
Net debt*/EBITDA on annual basis	0,4x	0,7x

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

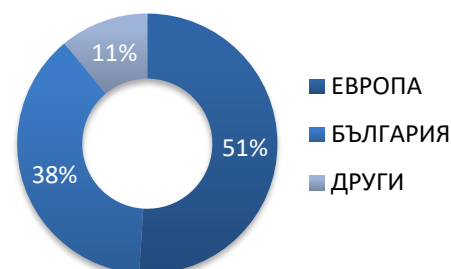
## Operating revenues

Revenues from contracts with customers are from sales of manufactured medicinal products and in 2022 will increase by BGN 30,5 million to BGN 228,3 million, compared to BGN 197,8 million in 2021.

### Sales revenues



Revenues by market	1-12/2022 BGN '000	1-12/2021 BGN '000	Change %
EUROPE	117 230	100 786	16.3%
BULGARIA	86 876	79 097	9.8%
OTHERS	24 183	17 953	34.7%
<b>TOTAL</b>	<b>228 289</b>	<b>197 836</b>	<b>15.4%</b>



- European market

Sales revenues for 2022 for European countries increased by BGN 16,4 million or 16% compared to 2021, mainly as a result of recovery of activity in the markets of Russia and Ukraine, which grew by 11% and 20%. The increase in sales in Ukraine is also due to the low base of sales in the corresponding period last year.

- Bulgarian market

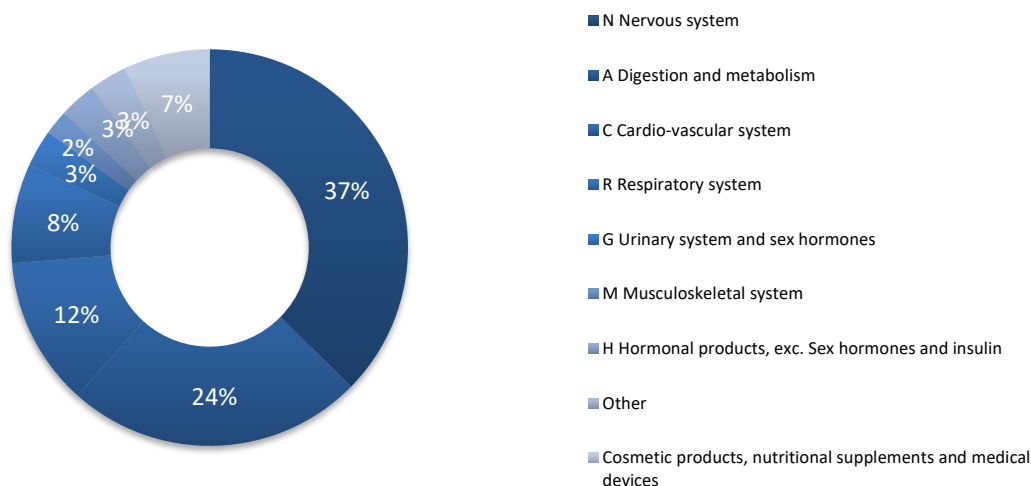
Sales of "Sopharma" AD on the domestic market increased by BGN 7,8 million or 9.8% in 2022 to BGN 86,9 million compared to BGN 79,1 million in 2021, the reason for this growth being the low base of sales in the previous period, which is due to accumulated stocks of finished products in the main distributor of the Company at the beginning of 2021. The company retains

its market share and according to IQVIA data at the end of 2022 has a 2.48% (tenth position) of the total Bulgarian pharmaceutical market in value and 9.46% (first position) of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis – 6.86% (4.03% in kind), Roche – 5.35% (0.14% in kind), Merck Sharp & Dohme – 4.37% (0.15% in kind), Pfizer – 3.72% (0.65% in kind), Teva – 3.55% (9.19% in kind), Astrazeneca – 3.11% (0.36% in kind), Abbvie – 3.05% (0.06% in kind), Swixx Biopharma – 2.95% (0.92% in kind), Bayer – 2.61% (1.82% in kind). The products with the largest share of sales in the country are Analgin, Sophazolon, Vicetin, Fomotidine, Vitamin C, Paracetamol, Bromhexine, Methylprednisolone.

- Other markets

Revenues from other markets increased by BGN 6,2 million or 34.7% compared to 2021, as a result of increase of sales in the countries of the Caucasus region (Georgia with a growth of 63%, Azerbaijan with a growth of 29% and Armenia with growth 10%) and Central Asia (Uzbekistan with growth 14% and Kazakhstan with growth 118%). Vietnam recorded a 13% decrease in sales, while sales in Mongolia grew by 113%.

### *Sales by therapeutic group*



### *Operating expenses*

For the current period more significant changes are reported in the cost of materials, mainly in the part of costs for basic materials for production, which increased by BGN 10,6 million, related to both the increase in sales during the period and the increase in the prices of materials and substances. There is a more significant increase in the costs for heat and electricity, by BGN



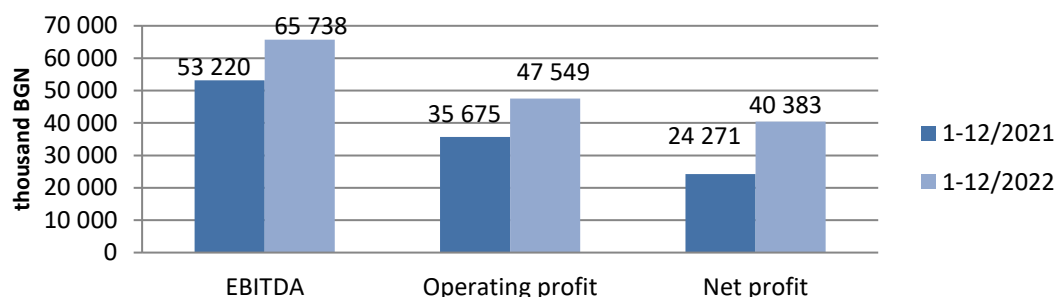
3,1 million and BGN 1,2 million. Personnel costs increased by BGN 6,4 million as a result of an increase in remuneration, and in the case of external services costs, the biggest change was in the costs of manufacturing medicines and the costs of consulting services, both of which decreased by BGN 0,5 million. An increase in the amount of BGN 7,6 million is also reported in the other expenses for the activity, mainly as a result of accrued impairment for losses on receivables net in the amount of BGN 6,4 million.

### *Financial income and expenses*

*Financial income* decreased by BGN 3,8 million to BGN 4,9 million in 2022, mainly due to the recovered impairment for credit losses on commercial loans granted in the previous period in the amount of BGN 3,4 million.

*Financial expenses* increased by BGN 1,5 million to BGN 3,1 million in 2022 the main reason being the accrued impairment of BGN 1,4 million per loans granted.

### *Financial income and expenses*



*Profit before interest, taxes, depreciation and amortization (EBITDA)* in 2022 increased by BGN 12,5 million, or by 23.5%, to BGN 65,7 million, compared to BGN 53,2 million in 2021, as the accrued impairments for receivables losses in the amount of BGN 6,4 million net significantly eroded the operating result achieved during the period, due to the increase in sales in the main markets and the improved gross profit margin on the one hand, as and a relatively stable structure of operating expenses.

*Operating profit* in 2022 increased by BGN 11,9 million or by 33.3% to BGN 47,5 million compared to BGN 35,7 million in 2021.

*Net profit* in 2022 increased by BGN 16,1 million or by 66.4%, to BGN 40,4 million compared to BGN 24,2 million in 2021.

### *Assets*

*Non-current assets* compared to the end of 2021 increased by BGN 46,1 million to BGN 502,9 million, the most significant being the change in investments in subsidiaries and associated companies, which grew by BGN 9,6 million and with BGN 14,9 million as a result of additionally acquired shares from the capital of “Sopharma Trading” AD and “Sopharma Imoti” REIT.

*Current assets* decreased by BGN 2,6 million to BGN 183 million, with a decrease in receivables from related enterprises in the amount of BGN 9,4 million, trade receivables by BGN 7,1 million and of cash in the amount of BGN 10,9 million, inventories increased by BGN 19,4 million.

### *Owners' equity and liabilities*

*The equity of “Sopharma” AD* increased by BGN 37,1 million to BGN 601,3 million as a result of the registered profit for the current year.

*Non-current liabilities* increased by BGN 17,2 million to BGN 39,6 million, as a result of an increase in long-term bank loans by BGN 5 million compared to the end of the previous year, as well as as a result of liabilities under concluded long-term leasing contracts with related parties in the amount of BGN 14,7 million.

*Current liabilities* decreased by BGN 10,7 million to BGN 61,8 million, as a result of the decrease in short-term bank loans by BGN 46,7 million, financed by the realized free cash flow for the period and the available cash at the end of 2021. Trade payables increased by BGN 28.5 million, which is the result of received advances for the sale of finished products, which increased by BGN 23,4 million.

### *Cash flows*

	<b>1-12/2022</b>	<b>1-12/2021</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Net cash flows from operating activities	88 971	86 468
Purchases of property, plant and equipment, intangible assets, net	(12 376)	(7 213)
Payments under lease contracts	(2 166)	(1 900)
<b>Free cash flow (normalized)</b>	<b>74 429</b>	<b>77 355</b>

The free cash flow (normalized with the payments under lease contracts), in 2022, amounts to BGN 74,4 million inflow compared to BGN 77,4 million inflow in 2021.

### *New developments and products*

During the reporting period October - December 2022 in the Division "Development and Regulatory Compliance" the following activities were performed:

#### ✓ **New medicines**

During the reporting period, a marketing authorization was obtained for **one** new medicinal products:

- Tempaforte effervescent powder for oral solution – (Belarus);

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

New registrations of medicinal products

- Documentation for registration of **3** medicinal products has been submitted:
  - Otofix ear drops. (Ukraine);
  - Carsil 110 mg caps. – (Georgia);
  - Analgin max 1000 mg eff powder in sachet – (Georgia).

Re-registrations/changes

- Renewed Marketing Authorizations for **11** medicinal products.
- Submission of documentation for the renewal of the Marketing Authorizations for **14** medicinal products.
- **52** changes for medicinal products submitted to agencies;
- **61** changes for medicinal products approved by agencies.

Nutritional supplements

- **3** nutritional supplements submitted for notification

Cosmetic products

- **2** Cosmetic products have been submitted

✓ **Developments**

- Pharmaceutical development of **4** new medicinal products/projects:
  - Citisinicline 3,0 mg tablets – Project with the company Achieve;
  - Dexketoprofen 25 mg tb.;
  - Paracetamol 500 mg tab.;
  - Sodium picosulfate oral drops;;

- Development of **3** nutritional supplements is underway:

✓ **Transfer and validation of technological processes**

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

✓ **Prepared documentation for qualification/production**

- Documentation for qualification of raw materials for production – **21**;
- Production regulations – **19**;
- Documentation for qualification of finished forms – **26**.

### **III. Significant events in 2022 and until the publication of the interim management report**

- On February 24, 2022, Russian military forces started hostile invasion in Ukraine. Subsequently, a number of countries imposed sanctions on certain individuals and legal entities in Russia. It is expected that the war in Ukraine and related economic sanctions and other measures taken by governments around the world will have a significant impact on both local and global economies. As of the date of approval of these separate financial statements, the Company has no commercial counterparties included in sanctions lists published by the European Union.

The company has investments in two subsidiaries in Ukraine. As of the date of approval of these separate financial statements the assets of these subsidiaries companies are not physically affected by military activities, but it may be necessary in the future to reconsider the value of these investments depending on the development of the war and its impact on the activities of companies.

- At the Regular General Meeting of the shareholders of "Sopharma" AD, held on 3 June 2022, the decisions proposed by the Board of Directors on the relevant items of the agenda were adopted.
- On July 7, 2022, at its meeting, the Board of Directors adopted a decision to issue warrants under the conditions of an initial public offering, as follows:

Exercise price: BGN 6.10

Issuance price of one warrant: BGN 0.48

Number of warrants: 26 959 580

Minimum success threshold of the issue: 13 479 790

Term in which the right can be exercised: 5 years

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

The consultant and investment intermediary selected by the Board of Directors in

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

- On August 26, 2022, according to the requirements of Art. 100t of the LPOS, "Sopharma" AD notified that as a result of the tender offer extended to the shareholders of "Sopharma Imoti" REIT, "Sopharma" AD will directly own 7 788 145 shares of the capital of "Sopharma Imoti" REIT, representing 35.48% of the capital of "Sopharma Imoti" REIT. The tender offer was accepted by 24 shareholders, owning a total of 469,480 shares of Sopharma Imoti REIT.
- On October 26, 2022, the Board of Directors of "Sopharma" AD adopted a decision to initiate a procedure for the merger of the subsidiary "Biopharm-Engineering" AD, UIC: 119055339 in "Sopharma" AD under the conditions and in accordance with Chapter XVI of the Commercial Law and Art. 122 of the Law on the Public Offering of Securities. At the start of the procedure Sopharma AD owns 97.15% in the capital of the company.
- 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.

The Tender Offer is available to each of the shareholders of "Sopharma" AD on an electronic page on the Internet as follows: <https://www.sopharmagroup.com/bg/investitori/novini-za-investitori>, as well as on the electronic page of the authorized investment intermediary IB "Karol" JSC: [www.karollbroker.bg](http://www.karollbroker.bg).

## **IV. Review of the main risks faced by the Company**

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

- The Company faces significant competition.
- The Company is dependent on regulatory approvals.
- Government regulations affecting the Company's business may change, thus possibly increasing compliance costs or otherwise affecting its operations.
- Part of the Company's revenues, in particular in Bulgaria, depends on the inclusion of the Company's medicines in reimbursement lists.
- The Company's production facilities and processes are subject to strict requirements and regulatory approvals that may delay or disrupt the Company's operations.
- The Company's ability to pay dividends depends on a number of factors and there can be no guarantee that the Company will be able to pay dividends in accordance with its dividend policy.
- The Company is subject to operational risk, which is inherent to its business activities.
- The Company is subject to multiple laws and regulations on environmental protection and health and safety work conditions and is exposed to potential environmental liabilities.
- Litigations or other out-of-court proceedings or actions may adversely affect the Company's business, financial position and results of operations;
- 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 the USD. The Company supplies part of its main raw materials in USD. The currency risk is related to the negative movement of the USD exchange rate against the BGN in the future business operations, the recognized foreign currency assets and liabilities and the net investments in foreign companies. The rest of the Company's operations are usually denominated in BGN and/or in EUR. The Company sells some of its finished products in Russia in EUR and thus eliminates the currency risk associated with the depreciation of the Russian ruble. In EUR are also dominated the balances with the subsidiaries in Ukraine. However, in order to minimize currency risk, the Company conducts through its subsidiaries a monetary policy that includes advance payments and the reduction of deferred payment terms and immediate currency conversion of foreign currency earnings to EUR, as well as applying higher trade mark-ups to offset possible future impairment of the hryvnia.

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

## **V. Information on related party transactions**

Related party transactions are disclosed in the notes to the standalone financial statements for the year.

January 30, 2023  
Sofia