

# MANAGEMENT REPORT

2019



**“SOPHARMA” AD**

16 March 2020

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## I. General information about “Sopharma” AD

### 1. Registration and activity of the Company

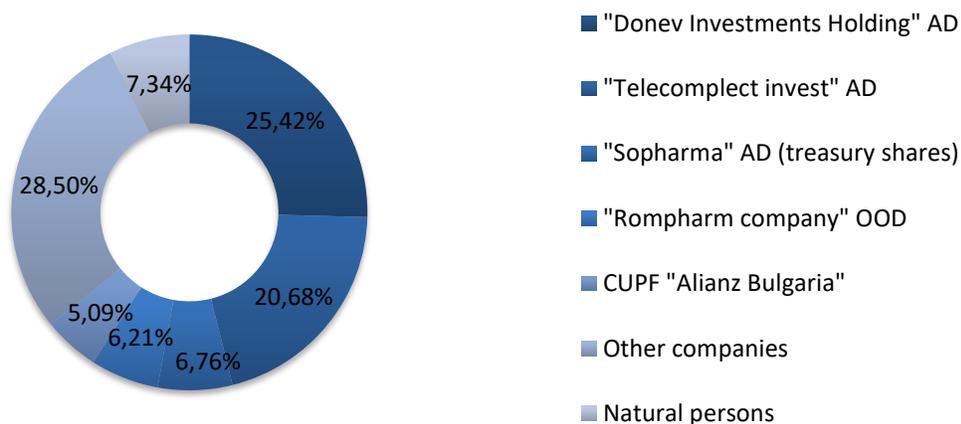
“Sopharma” AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, 16 “Iliensko shoes” str.

“Sopharma” AD was established in 1933. The court registration of the Company is from 15.11.1991, decision №1/1991 of Sofia City Court. “Sopharma” AD is a public company under the Public Offering of Securities Act.

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 Company 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 2019



### 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, Ognian Palaveev, Alexander Tchaushev and Ivan Badinski. The Company is represented and managed by the Executive Director Ognian Donev, PhD.

## II. Recent developments

### 1. Industrial activity

“Sopharma” AD has ten manufacturing plants, located in Bulgaria, which are compliant with the EU regulations. The Company is the largest Bulgarian manufacturer of ampoules and suppositories.

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

- Substances and preparations based on vegetable 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.

### 2. Products

The Company has a portfolio of more than 200 products: including. 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 traditional products of the Company (in particular Tabex, Carsil and Tempalgin) make a major contribution to its export market income, while domestic sales are of major importance to the company's generic products, including Analgine's first drug.

## “Sopharma” AD

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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 revenue are:

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

## III. Information under Article 39 of the Accountancy Act

### 1. An overview of the Company's performance and main risks facing it (Article 39 (1) of the Accounting Act /

#### Key financial indicators

Indicator	1-12/2019 BGN '000	1-12/2018* BGN '000	Change %
Revenues	230 691	212 418	8,6%
EBITDA	64 385	45 212	42,4%
Operating profit	46 038	27 798	65,6%
Net profit	40 382	33 298	21,3%
CAPEX**	10 211	14 423	-29,2%
	<b>31.12.2019</b> <b>BGN '000</b>	<b>31.12.2018</b> <b>BGN '000</b>	
Non-current assets	477 027	410 609	16,2%
Current assets	201 738	197 617	2,1%
Owners' equity	522 644	489 219	6,8%
Non-current liabilities	20 667	25 606	-19,3%
Current liabilities	135 454	93 401	45,0%

\*Recalculated data as a result of the merger of “Unipharm” AD, based on consolidation of the financial statements of “Sopharma” AD and “Unipharm” AD.

\*\* tangible and intangible fixed assets acquired

Indicators	1-12/2019	1-12/2018*
EBITDA/ Revenues	27,9%	21,3%
Operating profit/Revenues	20,0%	13,1%
Net profit/Revenues	17,5%	15,7%
	<b>31.12.2019</b>	<b>31.12.2018</b>
Attracted capital/ Equity	0,30	0,24
Net debt/ EBITDA on annual basis	1,7x	1,6x

\* Recalculated data as a result of the merger of “Unipharm” AD, based on consolidation of the financial statements of “Sopharma” AD and “Unipharm” AD

\*\* calculated on the basis of consolidated statements as at 01.01.2019.

### *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, depend on the inclusion of the Company’s medicines on 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 assurance that the Company will be able to pay dividends in accordance with its dividend policy or at all in any given year;
- 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 condition 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 and position;
- The political environment in Bulgaria has a significant effect on the Company’s operations and financial condition;
- The political environment in the Company’s export markets, especially in Russia and Ukraine, has a significant effect on the Company’s operations and financial condition.
- 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 such countries;
- Risks, related to exchange rates and the Bulgarian Currency Board;
- Interpretations of tax regulations may be unclear and tax laws and regulations applicable to the Company may be changed.

## Currency risk

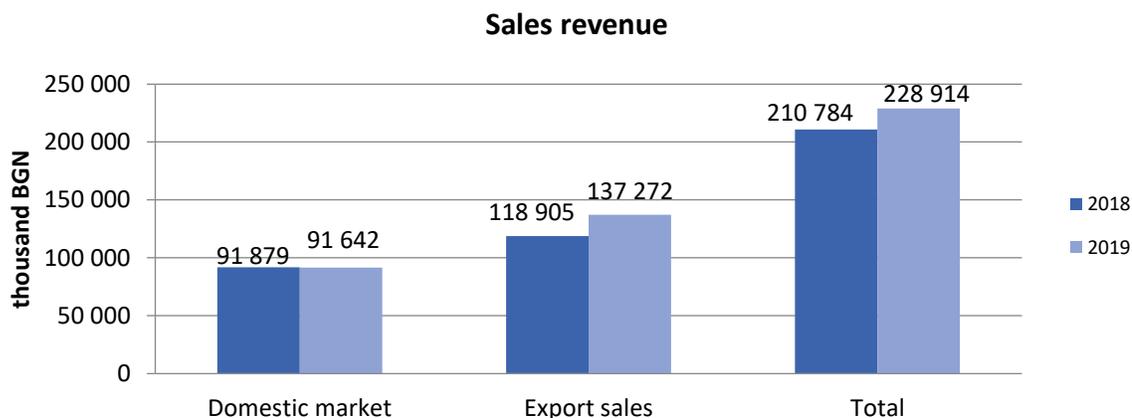
The Company performs its activities in active exchange with foreign suppliers and customers. Therefore, it is exposed to currency risk, mainly in respect of USD. The Company supplies part of its main raw materials in USD. The currency risk is related to the negative movement of the USD exchange rate 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 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 estimates with the subsidiaries in Ukraine.

However, in order to minimize currency risk, the Company conducts through its subsidiaries a monetary policy that includes the application of advance payments and the reduction of deferred payment terms and immediate currency conversion of local currency earnings as well as betting on 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 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.

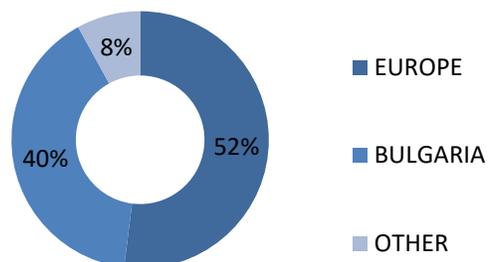
## 2. Analysis of financial and non-financial key performance indicators of Sopharma (Article 39, item 2 of the Accountancy Act), as well as a description of the company's status and explanation of the annual financial statement (Article 247 (1) of the Commercial Law/

Sales revenues from products in 2019 increase by BGN 18,1 million or by 9% to BGN 228,9 million compared to BGN 210,8 million in 2018.



## “Sopharma” AD

Revenue on markets	2019	2018	change
	BGN '000	BGN '000	%
Europe	118 380	97 580	21%
Bulgaria	91 642	91 879	0%
Other	18 892	21 325	-11%
<b>Total</b>	<b>228 914</b>	<b>210 784</b>	<b>9%</b>



- European market

Revenues from sales to European countries increase by 21% compared to 2018, mainly due to 5% increase in sales revenues in Ukraine and 32% in Russia. The increase is attributable to sales in the Balkan countries, Poland, Czech Republic, Moldova and others.

- Bulgarian market

The sales of “Sopharma” AD in the domestic market retain their value up to BGN 92 million. The products with the largest share of the sales in the country are Analgin, Methylprednisolone, Vitsetin, Vitamin C, Nivalin and medical devices - gauze, compresses, dressings and patches. The company accounts for 3% of the total volume of the Bulgarian pharmaceutical market in value and 10% of sales in kind. The positions of the main competitors of the company on the territory of the country are as follows: Novartis - 7% (4% in kind), Roche - 6% (0.2% in kind), Actavis – 4.5% (9% in kind), Pfizer - 3.8% (1% in kind), Merck Sharp Doh - 3.8% (1% in kind), Abbvie - 3.8% (0% in kind), Glaxosmithkline - 3.4% (2.5% in kind), Sanofi-Aventis - 3% (2% in kind), Astra Zeneca - 2.6% (0.5% in kind).

- Other markets

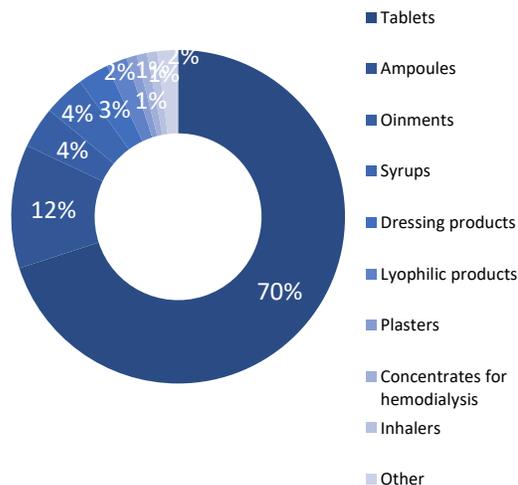
Revenue from other markets decreased by 11% compared to 2018, mainly due to Vietnam's export. Exports to Caucasus and Central Asia increased by 25%.

## “Sopharma” AD

### Sales by type of formulation

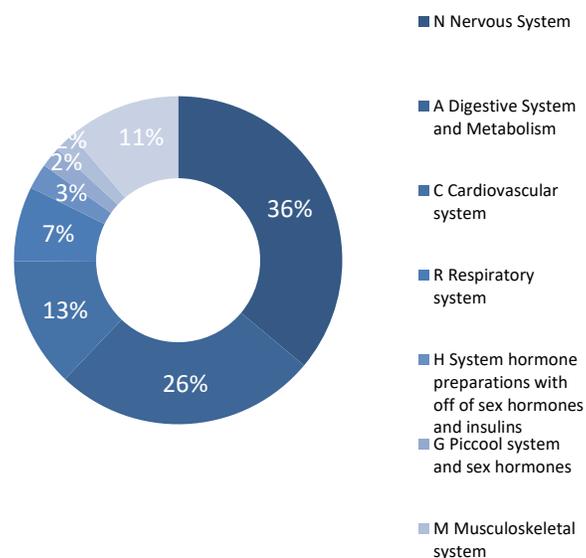
With the highest relative share in the volume of sales are tablets, followed by ampoules, ointments, syrups, dressings, dressing products, plasters and more.

Revenue from medical forms	2019 BGN '000	2018 BGN '000	Change %
Tablets	159 485	139 187	15%
Ampoules	28 670	32 995	-13%
Ointments	9 770	7 896	24%
Syrups	9 617	7 595	27%
Dressing products	6 608	6 339	4%
Lyophilic products	4 673	6 281	-26%
Plasters	3 180	3 074	3%
Concentrates for hemodialysis	1 571	1 945	-19%
Inhalers	1 226	1 128	9%
Other	4 114	4 344	-5%
<b>Total</b>	<b>228 914</b>	<b>210 784</b>	<b>9%</b>



### Sales by therapeutic groups

Revenues by therapeutic groups	2019 BGN '000	2018 BGN '000	Change %
N Nervous System	82 599	74 023	12%
A Digestive System and Metabolism	59 562	50 521	18%
C Cardiovascular system	29 289	30 919	-5%
R Respiratory system	16 909	14 574	16%
G Piccool system and sex hormones	5 766	5 834	-1%
M Musculoskeletal system	4 652	3 703	26%
H Systemic hormonal preparations with excl. of sex hormones and insulins	4 487	5 977	-25%
Other	25 650	25 233	2%
<b>Total</b>	<b>228 914</b>	<b>210 784</b>	<b>9%</b>



## “Sopharma” AD

### Other operating profit

Other operating profit	2019	2018	Change	Relative share 2019
	BGN '000	BGN '000		
Services rendered	2 792	2 612	7%	68%
Written off liabilities	746	1 398	-47%	18%
Revenue from European funding	540	588	-8%	13%
Profit from sale of goods	185	114	62%	5%
Income from sale of materials	61	72	-15%	1%
Profit from sale of long-term assets	115	148	-22%	3%
Net exchange loss on trade receivables and payables and current accounts	(311)	(226)	38%	-8%
Other (see Notes to the financial statements)	6	204	-97%	-
<b>Total other operating income</b>	<b>4 134</b>	<b>4 910</b>	<b>-16%</b>	<b>100%</b>

Other operating income decreased by BGN 0,8 million, or by 16%, from BGN 4,9 million in 2018 to BGN 4,1 million in 2019, in the part of derecognized liabilities and other income.

### Operating expenses

Operating expenses	2019	2018	Change	Relative share of expenses in 2019
	BGN '000	BGN '000		
Changes in inventories of finished goods and work in progress	6 183	(2 016)	407%	3%
Materials	75 486	75 752	0%	40%
Hired services	34 974	38 654	-10%	19%
Personnel	49 203	50 147	-2%	26%
Depreciation and amortization	18 347	17 414	5%	10%
Other operating expenses	4 594	9 579	-52%	2%
<b>Total</b>	<b>188 787</b>	<b>189 530</b>	<b>-0.4%</b>	<b>100%</b>

## “Sopharma” AD

*Operating expenses* decreased by BGN 0,7 million or by 0.4% from BGN 189,5 million in 2018 to BGN 188,8 million in 2019 mainly in the cost of external services and cost of other operating expenses.

*The costs of materials* (with a 40% share) decreased by BGN 0,3 million or by 0.3% from BGN 75,8 million in 2018 to BGN 75,5 million in 2019, with the biggest impact being the decrease of the basic materials by BGN 1,2 million, mainly in the part of substances, herbs, ampoules and tubes.

*External services expenses* account for 19% relative share of operating expenses and decreased by BGN 3,7 million or by 10% to BGN 35 million for 2019 compared to BGN 38,7 million for 2018. The most significant impact is the decrease of the cost of maintenance of buildings and equipment by BGN 1,5 million, the cost of renting by BGN 2,2 million and advertising and marketing costs by BGN 0,5 million.

*Personnel costs* (with a relative share of 26% of operating expenses) decreased by BGN 0,9 million or by 2% from BGN 50,1 million in 2018 to BGN 49,2 million in 2019, due to a decrease in share-based payments of BGN 1,2 million and tantieme by BGN 0,3 million.

*Other operating expenses* (with a relative share of 2% of operating expenses) decreased by BGN 5 million in 2019 compared to 2018, mainly in the part of representative activities, accruals of depreciation of finished products and work in progress, accrued impairment for credit losses of receivables, scrap of fixed assets and others.

*Depreciation costs* (with 10% relative share of operating expenses) increased by BGN 0,9 million or 5% from BGN 17,4 million in 2018 to BGN 18,3 million in 2019.

*Changes in inventories of finished goods and work in progress* have raise the reported costs by BGN 6,2 million compared to an adjustment of BGN -2 million in 2018.

### Finance income and costs

Finance income	2019		2018		Change %	Relative share of revenue for 2019 %
	BGN '000	BGN '000	BGN '000	BGN '000		
Income from equity share	10 653	8 789	8 789	8 789	21%	63%
Interest income on granted loans	3 342	1 579	1 579	1 579	112%	20%
Net gain from investment operations in securities and shares	2 924	-	-	-	-	17%
<i>including profits from the sale of investments in subsidiaries</i>	242	-	-	-	-	1%
Net profit from exchange differences on the sale of a subsidiary	47	152	152	47	-69%	-
<b>Total</b>	<b>16 966</b>	<b>10 520</b>	<b>10 520</b>	<b>16 966</b>	<b>61%</b>	<b>100%</b>

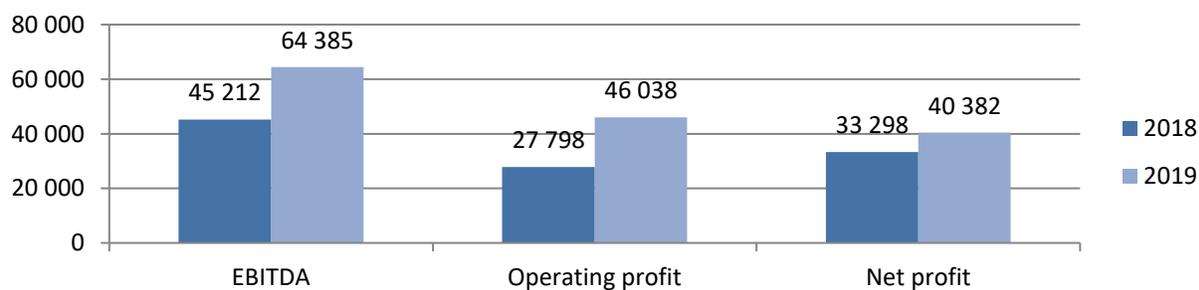
Finance costs			Change %	Relative share of expenses in 2019
Interest expenses on loans	1 698	1 255	35%	65%
Bank fees on loans and guarantees	267	222	20%	10%
Financial guarantee provision	54	30	80%	2%
Interest expense on leases	58	1	100%	2%
Net change in impairment of loans	526	154	241%	20%
Effects of derivatives	-	47	-100%	-
Net loss from exchange differences on leases	8	-	100%	1%
<b>Total</b>	<b>2 611</b>	<b>1 709</b>	<b>53%</b>	<b>100%</b>

*Financial income* increased by BGN 6,5 million or by 61%, to BGN 17 million in 2019 compared to BGN 10,5 million in 2018. The reason is the increase in net profit from operations with investments in securities with BGN 2,9 million, as well as increase of income from equity share by BGN 1,9 million and interest income on loans extended with BGN 1,8 million.

*Financial expenses* increased by BGN 0,9 million or by 53% to BGN 2,6 million in 2019 compared to BGN 1,7 million in 2018. This is mainly due to an increase in interest expense on received loans, a net change in the impairment of loans and more.

*Net financial revenues (expenses)* increased by BGN 5,5 million to BGN 14,3 million in 2019 compared to BGN 8,8 million in 2018.

### Financial results



*Profit before interest, taxes and depreciation (EBITDA)* in 2019 increased by BGN 19,1 million or 42.4% to BGN 64,4 million compared to BGN 45,2 million in 2018.

*Operating profit* increased by BGN 18,2 million or 65.2% to BGN 46 million in 2019 compared to BGN 27,8 million in 2018.

## “Sopharma” AD

*Net profit* increased by BGN 7,1 million or 21.3% to BGN 40,4 million in 2019 compared to BGN 33,3 million in 2018. The growth reflects the improved operating results and financial income / expenses (net). The accrued impairment of non-current assets outside the scope of IFRS 9 amount to BGN 15,1 million. It is mainly a result of the accumulated impairment of goodwill in the amount of BGN 2,5 million, in addition as of 31.12.2019 an analysis of the investment of “Sopharma” AD in BRIZ OOO was carried out in order to establish the lack or the presence of reasons for impairment. The conclusions show that the value in use, determined by discounted cash flows, is lower than the investment of “Sopharma” AD in the capital of the company, which requires an impairment of BGN 11,3 million. The analysis is based on the estimated cash flows of recent financial plans / forecasts reflecting restructuring of the Company's business model in the Baltic States and Belarus, resulting in diversification of distribution channels in these regions.

### Assets

	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>Change</b>	<b>Relative share 2019</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
<b>Non-current assets</b>				
Property, plant and equipment	224 654	226 956	-1%	33%
Intangible assets	8 524	11 881	-28%	1%
Investment property	39 329	37 451	5%	6%
Investments in subsidiaries	87 146	89 945	-3%	13%
Investments in associated companies	6 062	7 962	-24%	1%
Other long - term equity investments	9 621	7 599	27%	1%
Long-term receivables from related parties	91 794	23 055	298%	14%
Other long-term receivables	9 897	5 760	72%	1%
	<b>477 027</b>	<b>410 609</b>	16.2%	70%
<b>Current assets</b>				
Inventories	61 365	68 499	-10%	9%
Receivables from related parties	97 014	91 509	6%	14%
Trade receivables	27 212	19 431	40%	4%
Loans granted to third parties	6 044	3 270	85%	1%
Other receivables and prepayments	6 144	5 937	3%	1%
Cash and cash equivalents	3 959	8 971	-56%	1%
	<b>201 738</b>	<b>197 617</b>	2%	30%
<b>TOTAL ASSETS</b>	<b>678 765</b>	<b>608 226</b>	12%	100%

## “Sopharma” AD

*Total assets* increased by BGN 70,5 million or by 12% to BGN 678,7 million, compared to BGN 608,2 million as at 2018.

*Non-current assets* increased by BGN 66,4 million, or 16%, mainly due to an increase of long-term receivables from receivables from related parties by BGN 68,7 million. Property, plant and equipment decreased by BGN 2,3 million mainly due to a decrease in carrying amount of machines, facilities and equipment with BGN 3,1 million and a decrease in the carrying amount of assets under acquisition with BGN 0,8 million.

*Current assets* increased by BGN 4,1 million or by 2% to BGN 201,7 million as at 31.12.2019 compared to BGN 197,6 million as at 31.12.2018. Inventories decreased by BGN 7,1 million or 10% compared to 31.12.2018 mainly due to a decrease in inventories of finished goods by BGN 5,1 million and semi-manufactured by BGN 1,8 million. Receivables from related parties increased by BGN 5,5 million, mainly in the part of receivables of contracts with customers by BGN 6.2 million and in the part of claims on dividends by BGN 1,3 million. Trade receivables increased by BGN 7,8 million. Cash and cash equivalents decreased with BGN 5 million.

### Liabilities and owners' equity

EQUITY	31.12.2019	31.12.2018	Change	From owners' equity
	BGN '000	BGN '000	%	%
Share capital	134 798	134 798	-	26%
Treasury shares	(34 142)	(33 337)	2%	-7%
Reserves	382 549	357 310	7%	73%
Retained earnings	39 439	30 448	30%	8%
<b>TOTAL EQUITY</b>	<b>522 644</b>	<b>489 219</b>	<b>7%</b>	<b>100%</b>
LIABILITIES	31.12.2019	31.12.2018	Change	% Total liabilities 2019
	BGN '000	BGN '000	%	
<b>Non-current liabilities</b>				
Long-term bank loans	2 398	9 556	-75%	2%
Deferred tax liabilities	6 209	6 235	-	4%
Government grants	4 858	5 397	-10%	3%
Leasing liabilities to related parties	1 610	-	100%	1%
Lease obligations to third parties	954	-	100%	1%
Long-term liabilities to personnel	4 638	4 418	5%	3%

## “Sopharma” AD

	<b>20 667</b>	<b>25 606</b>	-19%	13%
<b>Current liabilities</b>				
Short-term bank loans	100 359	65 652	53%	64%
Current portion of long-term bank loans	7 181	7 168	-	5%
Trade payables	6 074	8 922	-32%	4%
Payables to related parties	6 664	633	953%	4%
Tax payables	2 329	1 884	24%	1%
Payables to the personnel and for social security	7 266	7 119	2%	5%
Other current liabilities	5 581	2 023	176%	4%
	<b>135 454</b>	<b>93 401</b>	45%	87%
<b>TOTAL LIABILITIES</b>	<b>156 121</b>	<b>119 007</b>	31%	100%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>678 765</b>	<b>608 226</b>	12%	

The equity of “Sopharma” AD increased by BGN 33,4 million or 7%, reaching BGN 522,6 million as at 31.12.2019 compared to BGN 489,2 million as at 31.12.2018, mainly as a result of the profit from the current period.

*Non-current liabilities* decreased by BGN 4,9 million, or 19% to BGN 20,7 million at the end of 2019, compared to BGN 25,6 million at the end of 2018, mainly from a decrease in long-term bank loans with BGN 7,1 million and the subscription of new leasing liabilities in the amount of BGN 2.6 million.

*Current liabilities* increased by BGN 42,1 million to BGN 135,5 million at the end of 2019 compared to BGN 93,4 million at the end of 2018. Short-term bank loans increased by BGN 34,7 million, commercial payables to related parties by BGN 6 million, tax liabilities by BGN 0,4 million and other current liabilities of BGN 3,5 million. Commercial payables decreased by BGN 2,8 million.

## “Sopharma” AD

### Ratios

	31.12.2019	31.12.2018	Change
ROE	7,9%	6,9%	1%
ROA	6,0%	5,5%	0.5%
Asset turnover	0,35	0,35	-
Current liquidity	1,49	2,12	-0,63
Quick ratio	1,01	1.38	-0,34
Cash/current liabilities	0,03	0,1	-0.07
Owners' equity/liabilities	3,35	4,11	-0,76

1 Net profit on an annual basis / arithmetic mean of equity for the last five quarters

2 Net profit on an annual basis / arithmetic mean of total assets for the last five quarters

3 Revenue from sales on an annual basis / arithmetic mean of total assets for the last five quarters

4 Current assets / current liabilities

5 Receivables + Cash / Current liabilities

6 Cash / Current liabilities

7 Equity / Liabilities

### Cash flow

	1-12/2019 BGN '000	1-12/2018 BGN '000
Net cash flow from/(used in) operations	47 591	32 317
Net cash flow used in investment activities	(77 448)	(13 032)
Net cash flow (used in)/from financial operations	24 845	(16 078)
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>(5 012)</b>	<b>3 207</b>
Cash and cash equivalents on 1 January	8 971	5 764
Cash and cash equivalents on 31 December	<b>3 959</b>	<b>8 971</b>

Net cash flows in 2019 generated by operating activities amounted to BGN 47,6 million inflow, from investment activity amounted to BGN 77,4 million outflow and from financial activity amounted to BGN 24,8 million inflow. As a result of these activities, the cash and cash equivalents net decreased by BGN 5 million and as at 31.12.2019 amounted to BGN 4 million compared to BGN 9 million at 01.01.2019.

## “Sopharma” AD

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### *Ecology and environmental protection*

“Sopharma” AD maintains and observes its commitments in compliance with the national legislation in the field of environmental protection. The company applies measures to:

- separate collection of waste, minimization, recovery and recycling of production and household waste;
- providing appropriate personnel training on environmental and pollution prevention issues;
- responsibly fulfills the imperative requirements of the Council of Ministers Decree 137 and the Packaging and Waste Ordinance;
- annual emissions of waste gases into the ambient air from the Solid Form Factory are measured;
- Monthly Sofiyska Voda measures the emissions in waste water on production sites A and B.

In 2019 the separately collected waste was increased by 4 % compared to the previous year. Production waste is handed over to licensed recyclers. The annual emissions of waste gases into the ambient air as well as the emissions in the wastewater are within the required standards. The conditions of the Discharge Permit are fulfilled. Once a month, a report is made on the packaging imported and / or marketed by type of material for which a monthly installment is paid to “EcoBulpak” AD, with which “Sopharma” AD has concluded a contract for the recovery of packaging waste.

### *Personnel*

As at 2019, the average number of employees of “Sopharma” AD is 2 275 (compared to 2 137 in 2018). The table below provides more detailed information about the company's personnel.

	<b>31.12.2019</b>	<b>Relative share %</b>
Number of employees as at 31.12.2019	2 246	100%
Higher education	952	42%
College education	47	2%
Secondary education	1212	54%
Primary education	35	2%
Employees up to 30 years	219	10%
Employees 31 - 40 years	416	18%
Employees 41 - 50 years	651	29%
Employees 51 - 60 years	755	34%
Employees over 60 years	205	9%
Women	1408	63%
Men	838	37%

The training programs offered to employees of the Company aim to develop employee competencies. The training policy is specifically aimed at providing high professional knowledge as well as in relation to the requirements for health and safety at work.

Employees are entitled to the higher additional remuneration required by applicable law on overtime, night shifts and work on Saturdays, Sundays and holidays. Employees who work under specific, harmful or dangerous conditions receive personal protective equipment and allowances.

### **3. Significant events occurring after the date of preparation of the annual financial statements / Article 39, paragraph 3 of the Accounting Act /**

- On January 22, 2020, “Sopharma” AD began to pay the gross dividend of BGN 0.05 per share voted at the General Meeting of Shareholders on December 13, 2019. The persons registered in the register of “Central Depository” AD as shareholders on the 14th day after the day of the General Meeting, namely December 27, 2019, have the right to receive a dividend.

### **4. Future development of “Sopharma” AD (article 39, item 4 of the Accountancy Act) and planned economic policy in the following year (Article 247 (3) of the Commercial Law)**

- On the local market, the Company aims to provide patients with more affordable treatment by registering new generic products in shorter terms;
- On the foreign markets, efforts are focused on preserving and increasing the share of the Company in the main markets (Russia, Ukraine and Poland), as well as establishing and expanding market positions in other countries (Middle and Eastern Europe and Caucasus region).
- The Company continues the policy of active partnership with established international pharmaceutical companies, with new companies, as well as expanding the product range of already established collaborations.
- Optimization of product portfolio.

### **5. Research and development (article 39, item 5 of the Accounting Act)**

“Sopharma” AD focuses its research and development mainly on generic products. Research and development projects are focused on finding and developing new formulas and composition or physical properties (such as medicine form or tablet form) of a product in order to adapt it to current market needs. The strategic goal of “Sopharma” AD is to achieve in the future a stable result of developing eight to ten new products per year.

## “Sopharma” AD

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The Company mainly submits applications for new product authorizations including new product forms in Bulgaria and / or export markets and for existing products in new markets.

### *Intellectual Property*

Although oriented towards generic pharmaceutical products, “Sopharma” AD has been known for years with the traditional production of several unique products based on plant extracts obtained from own-produced technologies. These products are protected not only by trademark, but also by patent or company know-how.

Regarding the generic products it produces, for their market distinctiveness, “Sopharma” AD relies on brand names, all of which are registered trademarks of the Company.

In all the years of its existence, “Sopharma” AD has generated and defended its industrial property. As a result, the Company owns a large number of industrial property sites, the majority of which - registered rights (trademarks, patents, designs) and fewer unregistered objects - mainly technology.

These assets are the result of the Company's special policy towards product and technological innovation, and in particular innovation.

### *New developments and products*

- New Products for the period January - December 2019
  - Marketing Authorization for the medicinal product has been obtained - Norepinephrine 1 mg / ml concentrate for solution / infusion (Bulgaria, Latvia, Lithuania and Estonia).
- New medicinal products introduced into production
  - Norepinephrine 1 mg / ml concentrate for solution / infusion
  - By the end of 2020, 3 to 5 new medicines are expected to be introduced.
- New registrations and re-registrations / changes

### *New registrations*

- Permissions to use for new destinations of 47 medicinal products have been received, namely:
  - *Sophtensif 1.5 mg prolonged-release tablets (Albania);*
  - *Tuspan 7 mg/ml syrup (Armenia);*

- *Vicetin 5 mg/ml solution for infusion (Armenia);*
- *Pyraminol 200 mg/ml solution for injection (Armenia);*
- *Bellergamin 0.1 mg/0.3 mg/20 mg coated tablets (Armenia);*
- *Analgin Kids 500 mg/ml oral drops, solution (Armenia);*
- *Sopral 20 mg gastro-resistant capsules, hard (Armenia);*
- *Felogel 1 g/100 g gel (Azerbaijan);*
- *Tuspan 7 mg/ml syrup (Azerbaijan);*
- *Allergosan 10 mg/ml solution for injection (Azerbaijan);*
- *Captopril Sopharma 25 mg tablets (Georgia);*
- *Allergosan 10 mg/ml solution for injection (Georgia);*
- *Amikacin 125 mg/ml solution for injection (Georgia);*
- *Amikacin 250 mg/ml solution for injection (Georgia);*
- *Digoxin Sopharma 0.25 mg tablets (Georgia);*
- *Analgin 500 mg/ml solution for injection (Georgia);*
- *Antiallersin 25 mg/ml solution for injection (Georgia);*
- *Carsil Max 110 mg capsules, hard (Kazakhstan);*
- *Sophalor 0.5 mg/ml oral solution (Kazakhstan);*
- *Deavit Neo 0.5 mg/ml oral drops, solution (Kazakhstan);*
- *Deflamol 350 IU/400 IU/g ointment (Kazakhstan);*
- *Ketotifen Sopharma 0.2 mg/ml syrup (Mongolia);*
- *Metamizol sodic PML 500 mg/ml solution for injection (Romania);*
- *Paracetamol PML 500 mg tablets (Romania);*
- *Carsil Max 110 mg capsules, hard (Russia);*
- *Desloratadine Sopharma 0.5 mg/ml oral solution (Serbia);*
- *Promerol 1 mg/ml solution for injection, 10 x 5 ml (Serbia);*
- *Promerol 1 mg/ml solution for injection, 50 x 5 ml (Serbia);*
- *Vitamin C Sopharma 100 mg/ml solution for injection, 10 x 5 ml (Serbia);*
- *Vitamin C Sopharma 100 mg/ml solution for injection, 10 x 2 ml (Serbia);*
- *Ivadron 3 mg/3 ml solution for injection (Serbia);*
- *Ivadron 150 mg tablets (Serbia);*
- *Felogel 1 g/100 g gel (Tajikistan);*
- *Carsil Max 110 mg capsules, hard (Tajikistan);*
- *Silden 100 mg film-coated tablets (Tajikistan);*
- *Sophalor 0.5 mg/ml oral solution (Tajikistan);*
- *Sophalor 5 mg film-coated tablets (Tajikistan);*
- *Ketotifen Sopharma 1 mg tablets (Tajikistan);*
- *Sopral 20 mg capsules, hard (Tajikistan);*

- *Duspaverin 135 mg film-coated tablets (Tajikistan);*
  - *Otigo 40 mg/10 mg/g ear drops, solution (UK);*
  - *Allergosan (Desloratadine) Sopharma 0.5 mg/ml oral solution (Ukraine);*
  - *Allergosan (Desloratadine) Sopharma 5 mg film-coated tablets (Ukraine);*
  - *Syafen 100 mg/5 ml oral suspension (Vietnam);*
  - *Carsil 90 mg capsules, hard (Vietnam);*
  - *Vicetin 10 mg tablets (Vietnam);*
  - *Nivalin 5 mg tablets (Vietnam).*
- Documentation has been submitted for the registration of 67 medicinal products to agencies of new destinations.
    - ✓ Cosmetic products
  - 14 cosmetic products have been notified in Georgia (two), Moldova (two), Poland (two), Kazakhstan (two), Ukraine (two), Armenia (two) and Kyrgyzstan (two).
    - ✓ Food supplements
  - 4 nutritional supplements have been notified for Bulgaria, Azerbaijan and Lithuania.
    - ✓ Medical devices
  - 16 medical devices have been registered in Bulgaria.
    - Re-registrations / changes*
      - Renewed Marketing Authorizations for 81 medicinal products.
      - Documentation submitted for the renewal of the Marketing Authorizations for 107 medicinal products to agencies.
      - Agencies approved for 1 219 changes to medicinal products.
      - 1 370 drug changes submitted to agencies.
      - *Developments*
  - Pharmaceutical development of 17 new medicinal products / projects is underway.
    - 27 medicinal products were transferred in the process of transfer and 64 production processes / technologies were validated / optimized.

**6. Information on the acquisition of own shares required by Article 187d of the Commercial Code / Article 39, Item 6 of the Accountancy Act /**

In the current year 210 462 treasury shares were purchased and 3 000 shares were sold. The treasury shares purchased during the year amount to 0.16% of the Company's share capital and the average acquisition price is BGN 4,07 per share.

	Shares	Equity, net of treasury shares
	Number	BGN '000
Balance at 1 January 2019	<b>125,916,563</b>	<b>101,461</b>
Treasury shares bought back	(232,131)	(801)
Expense on treasury shares	-	(4)
Balance at 31 December 2019	<b>125,684,432</b>	<b>100,656</b>

The Board of Directors is authorized to buy treasury shares under certain conditions, according to the decisions of the GMS, held on 23.06.2010, of the EGMS from 30.11.2011, of the EGMS from 01.11.2012, of the EGMS from 28.02.2013 and of the EGMS from 23.02.2018.

*Number and nominal value of the own shares held and the proportion of the capital they represent*

“Sopharma” AD holds 9 113 467 own shares, representing 6.76% of the Company's capital.

**7. Existence of branches of the enterprise / Article 39, item 7 of the Accounting Act /**

“Sopharma” AD has no branches.

**8. Used financial instruments / Article 39, item 8 of the Accountancy Act /**

Overall risk management focuses on the difficulties in predicting financial markets and minimizing potential negative effects that may affect the financial performance and the company's performance. Financial risks are currently identified, measured and monitored by various control mechanisms introduced to determine adequate prices for the company's products and services and borrowed capital and to adequately assess the market circumstances of the company investments and forms of maintenance of the free liquid assets, without allowing undue concentration of a risk.

Risk management is currently conducted by the management of the company in accordance with the policy defined by the Board of Directors. The latter has adopted basic principles for general financial risk management, on the basis of which specific procedures have been developed for the management of individual specific risks, such as currency, price, interest, credit and liquidity, and the risk of using non-derivative instruments.

### *Credit risk*

The credit risk is the risk that the clients of the company will not be able to pay fully and within the usual time limits the amounts due from them under the trade receivables. The latter are presented in the statement of financial position in net amount after deducting the accrued impairment for doubtful and bad debts. Such impairments are made where and when there are events identifying loss of collectability under previous experience.

In its commercial practice, the company has applied different distribution schemes until it achieves the current effective approach tailored to the market situation of business, the various forms of payment, and the inclusion of commercial rebates. The company works with contractors with a history of relationships in its core markets, partnering with more than 70 Bulgarian and foreign licensed drug dealers.

Work with NHIF and state hospitals also requires a policy of deferred payments. In this sense, although there is a concentration of credit risk, it is controlled through selection, ongoing monitoring of liquidity and financial stability of the trading partners as well as direct communication with them and the search for rapid measures at first indicators of problems.

### *Liquidity risk*

The liquidity risk is expressed in the negative situation that the company will not be able to meet unconditionally all its obligations according to their maturity. The Company generates and maintains a sufficient volume of liquidity. An internal source of liquidity for the company is its core business generating sufficient operational flows. External sources of funding are banks and other permanent partners. In order to isolate potential liquidity risk, the company operates a system of alternative mechanisms of action and forecasts, the ultimate effect of which is the maintenance of good liquidity, respectively the ability to finance its business activity. This is complemented by ongoing monitoring of the maturity of assets and liabilities and control of outgoing cash flows.

### *Risk of interest-bearing cash flows*

In the structure of the Company's assets, interest-bearing assets are represented by the cash at floating rate and the loans granted at a fixed interest rate. On the other hand, the borrowed funds of the company in the form of long-term and short-term loans are usually variable interest rates.

This circumstance partly puts the cash flows of the company in line with interest rate risk. The coverage of this risk is achieved in two ways:

(a) optimizing sources of credit resources to achieve a relatively lower cost of borrowed funds;

(b) combined structure of interest rates on loans, which contains two components - permanent and variable, the ratio between which and their absolute value can be achieved and maintained at a favorable rate for the company. The permanent component has a relatively low absolute value and a large enough relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rates with a possible update of the variable component. This also minimizes the probability of a change in the unfavorable direction of cash flows.

The management of the Company is currently monitoring and analyzing its exposure to changes in interest rates. Different scenarios of refinancing, renewal of existing positions and alternative financing are simulated. Based on these scenarios, the effect on financial result and equity is measured when changing with certain points or percentages. For each simulation, the same assumption of interest rate change applies to all major currencies. Calculations are made for significant interest-bearing items.

#### **IV. Information under Article 247 and Art. 240b of the Commercial Code**

##### **1. Information under Art. 247 of the Commercial Code**

*Information concerning the course of activity and the condition of the Company and explanations regarding the annual financial statements*

Section II, item 2 describes the activity and the state of the Company and explains the annual financial statement.

*Remuneration received during the year by members of the Board of directors*

The remuneration and other short-term income of the Board of Directors for 2019 amounted to BGN 1,242 thousand. (2018: BGN 1,401 thousand) are as follows:

- Current - BGN 909 thousand (2018: BGN 970 thousand);
- Tantieme - BGN 333 thousand (2018: BGN 429 thousand);
- Share-based payments - none (2018: BGN 2 thousand).

## “Sopharma” AD

### *Acquired, held and transferred by the members of the Board during the year shares and bonds of the company*

The shares of the Company acquired, held and transferred by the members of the Board of directors in 2019 are as follows:

Members of the Board of directors	31.12.2019		31.12.2018		Acquired in 2019	Change
	Shares	Relative share of the capital %	Shares	Relative share of the capital %		
Ognian Ivanov Donev	1 653 000	1.23%	1 391 129	1.03%	261 871	261 871
Vessela Lyubenova Stoeva	150	0.0001%	150	0.0001%	-	-
Ognian Kirilov Palaveev	187 520	0.14%	187 520	0.14%	-	-
Alexander Viktorov Tchaushev	111 142	0.08%	111 142	0.08%	-	-
Ivan Venetskov Badinski	350	0.0003%	350	0.0003%	-	-

The Company has no issued bonds.

### *Rights of members of Board to acquire shares and bonds of the company*

The Articles of Association of “Sopharma” AD do not contain any restrictions on the right of the members of the Board of directors to acquire shares and bonds of the company.

### *Participation of members of the Board of directors in commercial companies as unlimited liability partners, the holding of more than 25 percent of the capital of another company, as well as their participation in the management of other companies or co-operatives, such as procurators, managers or board members*

Participation of the members of the Board of Directors by more than 25 per cent of the capital of other companies:

*Ognian Ivanov Donev* has a direct / indirect significant share (over 25%) of the capital of the following companies:

- “Donev Investments Holding” AD, UIC 831915121, with headquarters in Sofia, 12 Pozitano Str.;
- “Telecomplect” AD, UIC 831643753, with headquarters in Sofia, 5 Lachezar Stanchev Str.
- “Sopharma Buildings” REIT, UIC 175346309, with headquarters in Sofia, 5 Lachezar Stanchev Str.;

## “Sopharma” AD

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- “Sopharma Properties” REIT, UIC 175059266, with headquarters in Sofia, 5 Lachezar Stanchev Str., Building A;
- “Sofprint Group” AD, UIC 175413277 with seat and headquarters: Sofia, 12 Pozitano Str.;
- “Sofconsult Group” AD, UIC 175413245, with seat and headquarters: Sofia, 12 Pozitano Str.;
- “Elpharma” AD - in liquidation, UIC 130299513, with headquarters: Sofia, 16 Iliensko shose Str.;
- “Sopharma” AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str;
- “Energoinvestment” AD, UIC 200929754, with a registered office in Sofia, Slaveykov Square 9
- “ZEBRA.BGN” AD, UIC 202936530, with seat and headquarters in Sofia, 5 Lachezar Stanchev Str., Building B
- “Simba Private Kindergarten” EOOD, UIC 204683684, with seat and headquarters in Sofia, 16 Iliensko Shose Str.
- SCS Franchise GROUP, UIC 175322596, with registered office and registered office in Sofia, 5 Lachezar Stanchev Str., Building A

*Vessela Lyubenova Stoeva* controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

- “VES elektroinvest systems” EOOD, UIC 201712700, with headquarters: Sofia, 9 P. R. Slaveykov Square;
- “Eco Solar Invest” OOD, UIC 201634905, with headquarters: Sofia, 48 Alabin Str;
- “Aquatex” OOD, UIC 203934379, with headquarters: Sofia, 9 P. R. Slaveykov Square.
- “VLS” AD, UIC 175082980, with headquarters in Sofia, 9 PR Slaveikov Square.

*Alexandar Victorov Tchaushev* controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

- “Alpha In” EOOD, UIC 131156322, with headquarters in Sofia, 1B Dimcho Debelianov Str.

*Ivan Venetkov Badinski* does not hold a direct / indirect significant share (over 25%) of the capital of companies.

*Ognian Kirilov Palaveev* controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

- “Mill Stefanovo Village” EOOD, UIC 201148801, with headquarters in Sofia, 3 Traiko Stanoev Str.
- “Sirius” OOD, UIC 110543305, with headquarters in Sofia, 3 Traiko Stanoev Str.
- “OKP Investments” OOD, UIC 204361991, with headquarters in Sofia, 15 Krushova gradina Str.

## “Sopharma” AD

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Participation of Board members in the management of other companies or cooperatives as procurators, managers or board members:

*Ognian Ivanov Donev* participates in the managing/controlling body in the following companies:

1. “Sopharma Trading” AD, UIC 103267194, with headquarters in Sofia, 5 Lachezar Stanchev Str. – Chairman of the Board of Directors.
2. “Donev Investments Holding” AD, UIC 831915121, with headquarters in Sofia, 12 Pozitano Str. – Member of the Board of directors.
3. “Telecomplect” AD, UIC 831643753, with address management in Sofia, 5 Lachezar Stanchev Str., Building A – Chairman of the Supervisory Board.
4. “Doverie Capital” AD, UIC 130362127, with headquarters in Sofia, 82 Knyaz Dondukov Blvd – Member of the Supervisory Board.
5. “Sopharma” AD, UIC 831902088, with seat and headquarters: Sofia, 16 Iliensko Shousse Str. – member of the Board of Directors and Executive Director.

*Vessela Lyubenova Stoeva* participates in the management/supervisory body for the following companies:

1. “VLS” AD, UIC 175082980, with headquarters in Sofia, Slaveikov Square 9 - member of the Board of Directors;
2. “VES Elektinvest systems” EOOD, UIC 201712700, with headquarters: Sofia, 9 P. R. Slaveykov Square - Manager.
3. “Sopharma” AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – Deputy Chairperson of the Board of Directors.

*Alexandar Victorov Tchaushev* participates in the management/supervisory body of the following companies:

1. “Monbat” AD, UIC 111028849, with registered office in Sofia, Lozenets area, 4 Golo Bardo Str. – member of the Board of Directors;
2. “DK-Domostroene” AD, UIC 102148397, with registered office in Burgas, PO Box 8000, Pobeda area – member of the Board of Directors;
3. “Sopharma” AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors.

*Ivan Venetskov Badinski* participates in the management/supervisory body of the following companies:

1. “Sopharma” AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors and procurator.

*Ognyan Kirilov Palaveev* participates in the management/supervisory body of the following companies:

1. “Sirius” OOD, UIC 110543305, with headquarters in in Sofia, 3 Traiko Stanoev Str – Manager

## “Sopharma” AD

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2. “Sopharma” AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors.
3. “Melnitsa Stefanovo Village” EOOD, UIC 2201148801, with headquarters in Sofia, 3 Traiko Stanoev Str
4. “OKP Investments” OOD, UIC 204361991, with headquarters in Sofia, 15 Krushova gradina Str.- Manager

### *Planned economic policy in the next year (Article 247, paragraph 3 of the Commercial Code)*

The information is reflected in Section III, paragraph 4 of this Report - Future development of the Company (Article 39, paragraph 4, of the Accounting Act).

#### **2. Information under art. 240b of the Commercial Code on the obligation of Board members to notify in writing the Board of Directors or the Management Board when they or their related parties conclude contracts with the company that go beyond its usual activity or substantially deviate from market conditions**

In 2019, there are no contracts that go beyond the ordinary business of the Company or significantly deviate from market conditions.

## **V. Information on Annex 10 to art. 32, para 1, item 2 of Regulation 2 of POSA**

#### **1. Information given in value or quantitative terms about the main categories of goods, products and / or services provided, including their share in sales revenue of “Sopharma” AD in general and changes in the reporting year**

The information is included in Section III, item 2 of this document. The Company does not publish quantitative information due to the specifics of the production.

#### **2. Information about the revenues allocated by separate categories of activities, domestic and foreign markets and information on sources for supply of materials needed for production of goods or the provision of services with the degree of dependence on any individual seller or buyer / user, in case their share exceeds 10 per cent of the expenses or sales revenue, provide information for each person for his share in sales or purchases and links with the issuer**

Information about the revenues allocated by separate categories of activities, domestic and foreign markets are provided in Section III item 2 of this report.

## “Sopharma” AD

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Major customers of the Company with a share over 10% in sales revenues for 2019 are “Sopharma Trading” AD with 40% share, Delta Sales Ltd. with 34% share and OOO Sopharma Ukraine with a relative share of 10%.

- “Sopharma Trading” AD is headquartered in Sofia district Nadezhda, bul. Rozhen № 16, its main activity is wholesale and retail of medicines and sanitary products. “Sopharma Trading” AD is a subsidiary of “Sopharma” AD, acting as a "pre-wholesaler" in the process of realization of its production.
- “Delta Sales” Ltd. With headquarters 45 PALL Mall London UK, with main activity trade with medicines abroad. Relations between the company and “Sopharma” AD are governed by a sales agreement.
- OOO “Sopharma Ukraine” has its headquarters and address of management - Ukraine, Kiev, Obolonski area, Prospect Moskovskii № 9, hull 4, fl. 2, office 4-203. Sopharma Ukraine is a subsidiary of “Sopharma” AD.

Materials used exceed 3500 items which have a dynamic structure and diverse origin (synthetic, vegetable), physical state (liquid, solid, gaseous).

The largest share of the cost of the basic materials are active substances - 40%, followed by packaging materials - 22%, liquid and solid chemicals - 15%, herbs – 6%, sanitary-hygienic and dressing materials – 5%, ampoules - 4% and others.

The main share of raw materials is secured by imports. Sources of supply are validated manufacturers, which is in line with regulatory requirements and aims to maintain consistency and traceability in terms of quality.

The respective counterparty companies operate according to the requirements of GMP, GDP and other industry standards. “Sopharma” AD is working with a number of Bulgarian and foreign suppliers as their selection is done according to procedure developed in-house and aims to provide an alternative security in the supply and competitive flexibility in trade relations. Non-negotiable conditions that “Sopharma” AD implies in the negotiation process are: consistent quality, competitive prices and attractive payment terms, rhythmic and timely deliveries which prevent the accumulation of inventories on the one hand, while guaranteeing the regularity of the production process. In 2019 none of the suppliers’ share exceeds 10% of the total cost of services rendered and materials.

### 3. Information on significant transactions concluded

The Company has adopted that significant transactions are those that result or may be reasonably assumed that will lead to favorable or unfavorable change in the amounts of 5 or more percent of sales revenues or net profit. There are no such transactions in 2019.

### 4. Information regarding transactions between the issuer and related parties during the reporting period, proposals for concluding such transactions as well as transactions that are outside its usual activity or substantially deviate from market conditions when, the issuer or its subsidiary is party, indicating the value of the transactions, the nature of relatedness and any information necessary to assess the impact on the financial position of the issuer

Information regarding the transactions between “Sopharma” AD and related parties during the period is specified in Notes to the Financial Statements "Related Party Transactions". At the Regular General Meeting of Shareholders, held on 07.06.2019, the following transactions were voted between the Company and related parties:

- ✓ Transaction for production services and quality control of packaging materials for the medicines manufactured by “Sopharma” AD. “Sopharma” AD is the contracting authority and the recipient of the services, and “Softprint Group” AD is the contractor and the supplier, which is why for the public company “Sopharma” AD there will be an obligation to the related person “Softprint Group” AD up to BGN 15 million per year. The deal is scheduled to be concluded with a validity period of 5 years, whereby the total value of the transaction for the estimated duration of its operation will amount to up to BGN 75 million.
- ✓ Framework contract for the lease of conference space and parking spaces between “Sopharma” AD as a Tenant and “Sopharma Properties” REIT as a Lessor for a term of 1 year with a rent price, determined depending on the capacity and duration of the use of the individual sites, the prices being in accordance with the market value for the use of the assets.
- ✓ Annex to the Lease Agreement dated 01.08.2012 between “Sopharma Properties” REIT as a lessor and “Sopharma” AD as a tenant. The lessor will lease to the tenant temporary and gratuitous use (rent) and in addition to the objects, leased pursuant to the Contract, the office areas, located in the annex of the landlord, located in the owner of the Sopharma Business Towers complex, and the lease term will be determined by the remaining lease term under the said Lease Agreement, namely until 01.08.2022, but not less than 3 years and not more than 5 years.

## “Sopharma” AD

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At the Extraordinary General Meeting of Shareholders, held on 13.12.2019, the following transactions were voted between the Company and related parties:

- ✓ Conclusion of a contract for performance of marketing services for medicinal products and medical devices between “Sopharma” AD as a Client and “Sopharma Trading” AD as a Contractor, under which obligations for “Sopharma” AD will arise in general transaction size up to BGN 14,6 million excluding VAT for a period of 2 years as of 13.12.2019.

“Sopharma” AD has not concluded transactions outside of its main activities or that substantially deviate from the market conditions.

### **5. Information about events and indicators unusual for the issuer that have a significant impact on its activity and realized income and expenses; assessment of their impact on the current year results**

In 2019 there were no events and indicators of unusual nature.

### **6. Information on off-balance sheet transactions - nature and business purpose, the financial impact of transactions on the activity, if the risks and benefits of these transactions are material to the issuer and the disclosure of this information is essential for assessing the financial position of the issuer**

The contingent obligations took by the Company as at 31 December 2019 are stated in the annual financial statements in the annex "Contingent Liabilities and Commitments".

### **7. Information on shares of the issuer, its major investments in the country and abroad (in securities, financial instruments, intangible assets and real estate), as well as investments in equity securities outside its group of companies under Accounting Law and the sources / methods of financing**

The information on shareholdings and major investments, domestic and foreign, of “Sopharma” AD are listed in the Notes to the annual financial statements - "Investments in subsidiaries", "Investments available for sale" and "Investments in associates". Information regarding investments in intangible assets and real estate is presented in the Notes “Intangible assets”, “Property, plant and equipment” and “Investment property”.

### **8. Information about the concluded by the issuer, its subsidiary or parent company in their capacity as borrowers, loan contracts specifying the terms and conditions, including the deadlines for repayment as well as information about guarantees and commitments**

The information on concluded by “Sopharma” AD loan agreements are listed in the annual report in the Notes to the annual financial report "Long-term bank loans" and "Short-term bank loans." The Information about the loans of subsidiaries will be available in the consolidated financial statements.

### **9. Information about the concluded by the issuer, its subsidiary or parent company in their capacity of lenders, loan agreements, including the provision of guarantees of any kind, including related parties, and the specific terms, including the deadlines for payment and the purpose for which they were granted**

Long-term loans by “Sopharma” AD to associated companies:

- Contractual amount 31 091 thousand EUR; interest rate - 3.5%; maturity – 31.12.2021; balance at 31.12.2019 – 6 890 thousand BGN.

Long-term loans to other related parties:

- Contractual amount 81 900 thousand BGN; interest rate - 3.0%; maturity – 31.12.2025; balance at 31.12.2019 – 87 999 thousand BGN.
- Contractual amount 3 400 thousand BGN; interest rate - 3.0%; maturity – 31.12.2021; balance at 31.12.2019 – 2 716 thousand BGN.
- Contractual amount of BGN 29 900 thousand; interest rate - 3.0%; maturity – 12.31.2021; balance as of 31.12.2019 - BGN 0 thousand.
- Contractual amount of EUR 700 thousand; interest rate - 3.0%; maturity – 12.31.2021; balance as of 31.12.2019 - BGN 0 thousand.

Long-term loans to related parties were granted to assist in financing the activities of these companies for common strategic objectives. They are secured by pledges of securities (shares) promissory notes.

Long-term loans provided by “Sopharma” AD to third parties:

- Contractual amount of EUR 695 thousand; interest rate - 3.05%; maturity – 12.10.2022; balance at 31.12.2019 - BGN 1 393 thousand;
- Contractual amount of EUR 2 500 thousand; interest rate – 3.05%; maturity – 29.06.2023; balance at 31.12.2019 - BGN 4 890 thousand;
- Contractual amount of EUR 24 thousand; interest rate – 5.00%; maturity – 14.03.2023; balance at 31.12.2019 – BGN 15 thousand.

Provided current commercial loans by “Sopharma” AD to related companies:

Companies related through key management:

- Contractual amount EUR 4 014 thousand; interest rate – 2.81%; maturity – 31.12.2019; balance at 31.12.2019 – BGN 0 thousand;

Subsidiaries:

- Contractual amount EUR 2 770 thousand; interest rate - 4.70%; maturity - 31.12.2019; Balance at 31.12.2019 – BGN 3 443 thousand;
- Contractual amount BGN 14 109; interest rate - 4.10%; maturity - 31.12.2020; Balance at 31.12.2019 – BGN 5 664 thousand;
- Contractual amount BGN 3 050 thousand; interest rate - 3.50%; maturity – 31.12.2020; balance at 31.12.2019 – BGN 1 661 thousand;
- Contractual amount EUR 390 thousand; interest rate - 3.95%; maturity – 10.05.2020; balance at 31.12.2019 – BGN 811 thousand.

Other related parties:

- Contractual amount BGN 190 thousand; interest rate - 3.50%; maturity - 31.12.2020; balance at 31.12.2019 – BGN 49 thousand;
- Contractual amount BGN 5 990 thousand; interest rate - 3.10%; maturity - 31.12.2020; balance at 31.12.2019 – BGN 5 999 thousand.

Provided short-term loans to related parties are to help finance the activities of these companies for achieving their strategic purposes. They are secured by pledges of shares and securities.

Information on the loans of subsidiaries will be available in the consolidated financial statements.

The commercial loans provided by “Sopharma” AD to third parties are as follows:

- Contractual amount BGN 4 184 thousand; interest rate – 4.30%; maturity – 31.12.2020; balance as at 31.12.2019 – BGN 889 thousand;
- Contractual amount BGN 832 thousand; interest rate – 4.50%; maturity – 31.12.2020; balance as at 31.12.2020 – BGN 496 thousand;
- Contractual amount BGN 949 thousand; interest rate – 4.70%; maturity – 31.12.2020; balance as at 31.12.2019 – BGN 110 thousand.
- Contractual amount BGN 4 511 thousand; interest rate - 2.55%; maturity – 31.12.2020; balance as at 31.12.2019 - BGN 4 549 thousand.

### **10. Information on the use of funds from the issuance of new securities during the reporting period**

During the reporting period, the Company did not issue securities.

### **11. Analysis of the relationship between the financial results reflected in the financial statements for the financial year and earlier published forecasts for these results**

There are no published forecasts of financial results.

### **12. Analysis and evaluation of the policy on the management of financial resources, including the ability to meet its obligations, possible threats and measures that the issuer has taken or will take to resolve them**

The Company's management currently controls the collection of receivables, the implementation of financial ratios of bank contracts concluded and regularly services its obligations. Financial risk management is fully disclosed in the "Financial Risk Management" as part of the individual financial statements of the Company.

### **13. Assessment of the feasibility of investment intentions, indicating the amount of available funds and possible changes in the financing structure of this activity**

The planned investment program for 2020 includes investments of BGN 14 million for the acquisition of lands, buildings, machinery, equipment and software.

Sources of funding are its own funds from regular business. The Company is not experiencing difficulties in carrying out its investment intentions and payments for operating activity thanks to the generated positive thanks to cash flow and good liquidity.

### **14. Information about changes in the reporting period in the basic principles of management of the issuer and its group of companies under accounting the Law**

During the reporting period there were no changes in the basic management principles of “Sopharma” AD and its economic group.

### **15. Information about the main characteristics applied by the issuer in the process of preparing the financial statements, internal control system and risk management**

The information is provided in item 3 of the Corporate Governance Declaration pursuant to Art. 100m para. 8 of POSA published together with the management report.

**16. Information about changes in management and supervisory boards during the accounting year**

During the reporting period there were no changes in the management and supervisory bodies of “Sopharma” AD.

**17. Information on the amount of remuneration, rewards and / or benefits of each of the members of the management and supervisory bodies for the financial year, paid by the issuer and its subsidiaries, regardless of whether they have been included in the expenses of the issuer, or arising from profit distribution, including:**

- Amount of accrued by the Company remuneration of the Board of Directors and the Procurator:

	Remuneration BGN	Tantiems BGN	Bonus shares	By employment contract	Total
Ognian Ivanov Donev	354 104	301 205	-	-	655 309
Vesela Lyubenova Stoeva	120 000	-	-	72 202	192 202
Ognian Kirilov Palaveev	120 400	-	-	-	120 400
Alexander Victorov					
Tchaushev	120 400	-	-	-	120 400
Ivan Venetzkov Badinski	120 000	-	-	54 288	174 288
Procurator – Iv. Badinski	60 000	-	-	-	60 000

The social security contribution for the account of the members of the Board of Directors – calculated for the period January - December 2019 is in the amount of BGN 13 838,40.

- Amount of paid by the Company remuneration of the Board of Directors and the Procurator:

	Remuneration BGN	Tantiems BGN	Bonus shares	By employment contract	Total
Ognian Ivanov Donev	354 104	332 983	-	-	687 087
Vesela Lyubenova Stoeva	120 000	-	-	72 202	192 202
Ognian Kirilov Palaveev	120 400	-	-	-	120 400
Alexander Victorov					
Tchaushev	120 400	-	-	-	120 400
Ivan Venetzkov Badinski	120 000	-	-	54 288	174 288
Procurator – Iv. Badinski	60 000	-	-	-	60 000

Information about the amount of remuneration of the Board of Directors of “Sopharma” AD is referred to in Section IV of this report - information under Art. 247 of the Commercial Law, para 2.

- Deferred or contingent remuneration during the year, even if the remuneration is due at a later time:

On the grounds of Art. 24 para. 3, part B of the Articles of Association of the Company to the Executive director of the company is entitled to an additional remuneration to 1% of the profit according to the approved on the General meeting of shareholders relevant Annual Financial Report.

According to Article 7.2, para. 3 of the Remuneration policy, 40% of the additional remuneration to the CEO is deferred for three years and the amounts due are as follows:

- BGN 151 046,79 has a maturity of 2020;
  - BGN 166 0479,36 has a maturity of 2021;
  - BGN 126 400,37 has a maturity of 2022.
- The amount of accrued and paid remunerations to the members of the Audit Committee:

Members of the Audit Committee	Remuneration BGN
Tzvetanka Zlateva	12 000
Vasil Naidenov	12 000
Kristina Atanasova - Eliot	12 000

The insurance contribution for the account of the company of the members of the Audit Committee calculated for the period January - December 2019 is in the amount of BGN 2 306,40.

**18. Information on held by members of management and supervisory bodies, the procurators and the senior management of the issuer shares, including the shares held by each of them individually and as a percentage of shares of each class and provided by the issuer options on its securities - type and amount of securities on which options have been set, exercise price of the options, purchase price, if any, and the term of the options.**

Information held by members of the Board of Directors shares of “Sopharma” AD is listed in section IV of this report - information Art.247a paragraph 2 of the Commercial Law.

Members of the Audit Committee	31.12.2019		31.12.2018		Change
	Number of shares	% of the capital	Number of shares	Relative share of the capital %	
Tzvetanka Zlateva	-	-	-	-	-
Vasil Naidenov	186	0,00007%	186	0,00007%	86
Kristina Atanasova - Eliot	-	-	-	-	-

**19. Arrangements (including after the end of the financial year) as a result of which future changes may occur in the holding of shares or bonds by current shareholders or bondholders**

There are no such arrangements.

**20. Information about pending legal, administrative or arbitration proceedings relating to liabilities or receivables of the issuer of at least 10 percent of its equity; if total liabilities or receivables of the issuer in all proceedings exceeds 10 per cent of its equity, provide information about each case separately**

There are no pending legal, administrative or arbitration proceedings relating to liabilities or receivables.

**21. Information about the Investor Relations Director, including telephone number and mailing address**

Director of Investor Relations is Pelagia Viatcheva, tel. +359 2 8134 523, correspondence address - Sofia, 5 Lachezar Stanchev str., Building A, fl. 11.

**VI. Information Appendix 11 to Article 32, paragraph 1, item 4 of Ordinance 2 of POSA**

**1. Structure of the capital of the Company, including securities not admitted to trading on a regulated market in Bulgaria or another Member State, indication of the different classes of shares, the rights and obligations of each class of shares and the portion of the total capital represented by each class.**

The capital of the Company is divided into 134 797 899 registered dematerialized shares each with a nominal value of BGN 1.00. Each share entitles to one vote at a General Meeting of Shareholders, right to dividends and a liquidation share in proportion to its nominal value.

## “Sopharma” AD

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Structure of the capital of “Sopharma” AD as at 31 December 2019:

- Physical persons: 6 738 – 9 894 764 shares – 7.34%
- Legal persons: 165 – 124 903 135 shares – 92.66%

The capital of the Company may be increased by a decision of the General Meeting of Shareholders adopted by majority as required by law. In case of capital increase, each Shareholder has the right to acquire shares of the new emission, which correspond to their share in the capital before the increase. A shareholder cannot participate in person or by proxy in voting related to:

- ✓ claims against them;
- ✓ taking action or refusal to act, related to the fulfillment of obligations to the Company;
- ✓ taking of decision under art. 114, par. 1 of POSA, in case they are an interested party within the meaning of POSA;

The shares of the Company are traded on the Bulgarian Stock Exchange – Sofia AD, Main Market (BSE), Segment PREMIUM and on the official market of Warsaw Stock Exchange. Shares participate in the formation of the indices SOFIX, BGBX40 and BGTR30 of BSE - Sofia. The Company's shares are included in the indices Dow Jones STOXX EU Enlarged, Total Market Index 0.11% weight, with a weight of 5% in the Erste Bank Bulgaria Basket, the certificate of Raiffeisenbank - Raiffeisen Osteuropa Fonds and the certificate ABN AMRO SOFIX - Open-end-certificate and the new blue-chip index Dow Jones STOXX Balkan 50 Equal Weighted Index.

“Sopharma” AD is one of the three Bulgarian companies included in an index for Central and Eastern Europe (CEE), which the Warsaw Stock Exchange started to calculate on 30 May 2012. The name of the index is WIG-CEE and it is the third one after WIG-Poland and WIG-Ukraine, which is based on the origin of companies by country. WIG-CEE is calculated based on total return and includes income from dividends and subscription rights.

### Key indicators of the shares of “Sopharma” AD

	31.12.2019	31.12.2018
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the last four quarters	125 896 515	125 798 842
Number of shares outstanding at the end of the period	125 684 432	125 916 563
Earnings per share in BGN <sup>1</sup>	0,321	0,265
Price per share at the end of the period in BGN	3,406	3,517
Price/Earnings ratio (P/E)	10,61	13,27

## “Sopharma” AD

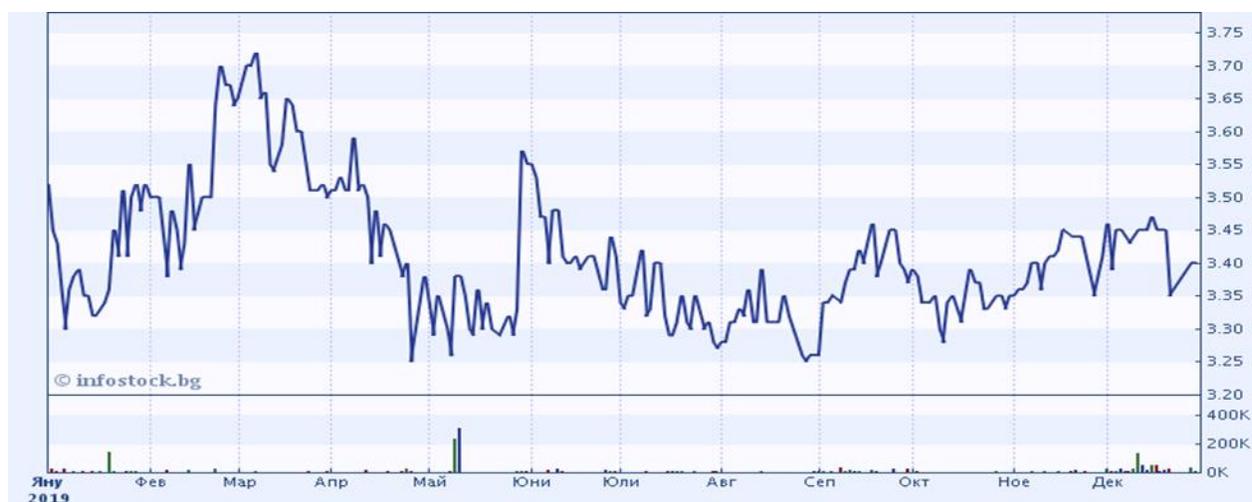
Book value per share in BGN <sup>2</sup>	4,158	3.885
Price/Book value ratio (P/B)	0,82	0,91
Sales per share in BGN <sup>3</sup>	1,835	1,687
Price per share / Sales per share(P/S)	1,86	2,08
Market capitalization in BGN	459 121 644	474 084 211

<sup>1</sup>Net profit for the last four quarters / weighted average number of shares in the same period

<sup>2</sup>Equity/number of shares outstanding at the end of the period

<sup>3</sup>Sales revenue for the last four quarters / number of shares outstanding at the end of the period

### **Trade with shares of “Sopharma” AD on “Bulgarian Stock Exchange – Sofia” AD for the period 01 January 2019 – 31 December 2019.**



## **2. Restrictions on transfer of securities, such as restrictions for possession of securities or the need to obtain approval of the Company or another shareholder**

There is no restriction on the ownership of shares or need to obtain approval from “Sopharma” AD or another shareholder. No information has been received by the Company, which gives reason to believe that there are any restrictions on the transfer of shares.

The replacement of dematerialized registered shares with bearer shares and placement of restrictions on their transfer is allowed after removal of the Company from the register of the Financial Supervision Commission.

Transactions with dematerialized shares of the Company may be made only on the regulated markets of securities by investment intermediaries, as well as in other way, regulated by law.

## “Sopharma” AD

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The transfer of registered dematerialized shares, issued by the Company, is effective at the time of entering of the transaction in the register of the Central Depository, proving the rights to these shares. The transfer of registered shares is in accordance with the requirements of current legislation.

### 3. Information regarding the direct and indirect ownership of 5 percent or more of the voting rights at the General Meeting of the Company, including details of the Shareholders, the size of their shareholding and the type of shareholding

Shareholders holding more than 5 percent of the Company’s capital as at 31 December 2019 are as follows:

Shareholders	31.12.2019		31.12.2018	
	Number of shares	% of the capital	Number of shares	% of the capital
“Donev Investment Holding” AD, UIC 0831915121, Sofia, 12 Positano Str.	34 267 577	25.42%	34 240 629	25.40%
“Telecomplect invest” AD, UIC 201753294, Sofia, 9 Slaveikov Square	27 881 287	20.68%	27 571 252	20.45%
“Sopharma” AD, UIC 831902088, Sofia, 16 Iliensko Shose Str	9 113 467	6.76%	8 881 336	6.59%
“Rompharm Company” OOD, UIC 200732874, Sofia, Mladost,7 Boian Damianov Str.	8 366 347	6.21%	8 131 347	6.03%
LPG “Allianz Bulgaria”, UIC: 130477720, Sofia, ul. Damian Gruev 42	6 860 574	5.09%	n/a	n/a

### 4. Information about shareholders with special control rights

The Articles of Association of “Sopharma” AD do not provide special control rights.

### 5. System for control of exercising votes when employees of the Company are also its shareholders and when the control is not exercised directly by them

There is no special system for control of voting in the event that employees of the Company are also its shareholders and when the control is not exercised directly by them. The shareholders may attend the General Meeting either personally or through an authorized representative. Several Shareholders may authorize a joint representative.

To participate in the General Meeting of Shareholders the Shareholders shall identify themselves with the statutory document certifying their rights on the shares they own. Representatives of the General Meeting of Shareholders shall identify themselves with an explicit written authorization having a minimum content set by Decree. The voting right shall be exercised by persons who acquired shares not later than 14 days prior to the General Meeting.

**6. Restrictions on the voting rights, such as limitations on the voting rights of Shareholders by a certain percentage or number of votes, deadlines for exercising the voting rights or systems in which with the cooperation of the Company the financial rights attached to shares are separated from the ownership of shares.**

There are no such restrictions.

**7. Agreements between Shareholders which are known to the Company and which may lead to restrictions on the transfer of shares or voting right.**

There are no such agreements.

**8. The provisions concerning the appointment and dismissal of members of the governing bodies of the Company and on the making of amendments to the Articles of Association.**

Members of the Board of Directors may be physical or legal persons meeting the requirements of Article 234 of the Commercial Law and Article 116a, paragraph 2 of the Public Offering of Securities.

When a member of the Board of Directors is a legal entity, it shall designate a representative/s/ for the performance of duties in the Board. The legal entity is jointly and unlimitedly liable with the other members of the Board for the obligations arising from the actions of his representative.

Physical persons who represent legal persons - members of the Board of Directors must meet the requirements of Art. 234, para 2 of the Commercial Law.

Members of the Board of Directors cannot be persons who were members of management or supervisory body of a company terminated due to bankruptcy in the last two years preceding the date of the declaration of insolvency, if unsatisfied creditors.

A person who has been governor, member of the management or supervisory body of a company, which was established by an effective penalty decree defaulting on creation and preservation of its defined levels of stocks under the Law on stocks of oil and oil products cannot be a member of the Board.

At least one third of members of the Board of Directors must be independent. The independent member of the Board cannot be:

- ✓ an employee of the public company;
- ✓ a shareholder, who owns directly or through related parties, at least 25 percent of the votes in the General Meeting or in a related company person who has a long-term business relation to the public company;
- ✓ a person who is in permanent trade relations with the public company;
- ✓ a member of the management or supervisory body, procurator or employee of a company or other entity;
- ✓ a person connected with another member of the management or supervisory body of the public company.

Members of the Board of Directors can be reelected without limitation.

With changes in legislation, the next General Meeting of Shareholders shall decide on amending the Articles of incorporation in order to align its provisions with those of existing regulations. By making this decision, the affected versions of the Articles of incorporation shall be interpreted in accordance with the Constitution and laws of the country.

The Articles of Association shall be amended by the General Meeting of Shareholders with a majority of 2/3 / two thirds / of the represented at the General Meeting capital. The current Articles of Association is entered in the Commercial Register under the number 20180308134116.

### **9. Powers of the management bodies of the company, including the right to decide on the issue and redemption of shares**

The powers of the Board of Directors are regulated by the Articles of Association. The decisions that may be taken by a qualified majority of two thirds of the members of the Board of Directors to be valid are defined.

The Board of Directors is authorized to acquire treasury shares under certain conditions, according to the decisions of the GMS, held on 23.06.2010, to the EGMS from 30.11.2011, to the EGMS from 01.11.2012, to the EGMS from 28.02.2013 and of the EGMS from 23.02.2018.

**10. Significant contracts of the Company that take effect, are amended or terminated due to a change in control of the company in a mandatory tender offer and the effects thereof, except where disclosure of this information may cause serious damage to the company; exemption under the preceding sentence shall not apply in cases where the company is obliged to disclose information under the Law**

There are no such contracts, amendments or terminations.

**11. Agreements between the Company and its management bodies or employees for payment of compensation upon retirement or dismissal without legal grounds or upon termination of employment for reasons related to a tender offering.**

There are no such agreements.



Date: 16.03.2020

Ognian Donev, PhD  
/Executive Director/