

sopharma

MANAGEMENT REPORT
for 2023

SOPHARMA GROUP

February 29, 2024

CONTENT:

I.	General information about Sopharma Group	2
1.	Main activities	2
2.	Registration and activity of the Company	2
3.	Controlled companies	2
4.	Board of directors	4
5.	Shareholder structure as at 30 September 2023	5
6.	Information about the shares and other securities issued by the Company	5
II.	Recent developments	6
III.	Significant events for the nine months of 2023 and until the date of the consolidated management report	143
IV.	Review of the main risks faced by the Group	198
V.	Information on transactions with related parties	21

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

In case of divergence Bulgarian text should prevail.

I. General information about Sopharma Group

1. Main activities

Sopharma Group (the Group) is a leading Bulgarian producer, exporter and local distributor of pharmaceutical products with a strong presence in Eastern and South-eastern Europe, offering a wide range of prescription medicines and OTC products, food supplements, veterinary products, cosmetics and medical devices.

The Group operates in the following areas:

- production of pharmaceutical products, including medicines, mainly generics, herbal-based substances and food supplements, which is mainly done by “Sopharma” AD (the Company);
- production of medicinal products and medicinal cosmetics, as plasters, bandages and sanitary-hygiene products concentrated on the production site in Sandanski city;
- distribution of pharmaceuticals, medical supplies, sanitary materials, vitamins, food supplements, cosmetics and others, which is mainly performed by “Sopharma Trading” in Bulgaria and Serbia.

2. Registration and activity of the Company

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

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

The Group carries out production and trade of medicinal substances and dosage forms; research, engineering and implementation activities in the field of phytochemistry, chemistry and pharmacy, production of medical devices and cosmetic products, incl. - plasters, dressings, sanitary - hygiene products, herbal cosmetics, concentrates for hemodialysis. “Sopharma” AD provides services related to production, as well as to ancillary and supporting activities.

3. Controlled companies

Sopharma Group consists of “Sopharma” AD and the following subsidiaries, directly or indirectly controlled by the Company. Additionally, the Group has investments in four associated companies (23.46% stake in “Doverie - obedinen holding” AD, 45.65% stake in “Sopharma Imoti”

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

In case of divergence Bulgarian text should prevail.

Sopharma Group

REIT, 31.47% stake in “Sopharma buildings” REIT and 25% participation in "Farmanova" d.o.o., Serbia) and in one joint venture (“Momina krepost” AD, 37.46% stake).

Company	Interest as at 31.12.2023 in %
“Sopharma Trading” AD	87.68
“Pharmalogistica” AD	89.39
“Elektroncommerce” EOOD	100.00
“Phyto Palauzovo” AD	95.00
“Veta Pharma” AD	99.98
“Sopharmacy” EOOD **	87.68
“Sopharmacy 2” EOOD **	87.68
“Sopharmacy 3” EOOD **	87.68
“Sopharmacy 4” EOOD **	87.68
“Sopharmacy 5” EOOD **	87.68
“Sopharmacy 6” EOOD **	87.68
“Sopharmacy 7” EOOD **	87.68
“Sopharmacy 8” EOOD **	87.68
“Sopharmacy 9” EOOD **	87.68
“Sopharmacy 10” EOOD **	87.68
“Sopharmacy 11” EOOD **	87.68
“Sopharmacy 12” EOOD **	87.68
“Sopharmacy 13” EOOD **	87.68
“Sopharmacy 14” EOOD**	87.68
“Sopharmacy 15” EOOD**	87.68
“Sopharmacy 16” EOOD**	87.68
“Sopharmacy 17” EOOD**	87.68
“Sopharmacy 18” EOOD**	87.68
“Sopharmacy 19” EOOD **	87.68
“Sopharmacy 20” EOOD **	87.68
“Sopharmacy 21” EOOD **	87.68
“Sopharmacy 22” EOOD **	87.68
“Sopharmacy 23” EOOD **	87.68
“Sopharmacy 24” EOOD **	87.68
“Sopharmacy 25” EOOD **	87.68
“Sopharmacy 26” EOOD **	87.68
“Sopharmacy 27” EOOD **	87.68
“Sopharmacy 28” EOOD **	87.68
“Sopharmacy 29” EOOD **	87.68
“Sopharmacy 30” EOOD **	87.68
“Sopharmacy 31” EOOD **	87.68
“Sopharmacy 32” EOOD **	87.68

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

In case of divergence Bulgarian text should prevail.

Sopharma Group

"Sopharmacy 33" EOOD **	87.68
"Sopharmacy 34" EOOD **	87.68
"Sopharmacy 35" EOOD **	87.68
"Sopharmacy 36" EOOD **	87.68
"Sopharmacy 37" EOOD **	87.68
"Sopharmacy 38" EOOD **	87.68
"Sopharmacy 39" EOOD **	87.68
"Sopharmacy 40" EOOD **	87.68
"Sopharmacy 41" EOOD **	87.68
"Sopharmacy 42" EOOD **	87.68
"Sopharmacy 43" EOOD **	87.68
"Sopharmacy 44" EOOD **	87.68
"Sopharmacy 45" EOOD **	87.68
"Sopharmacy 46" EOOD **	87.68
"Sopharmacy 47" EOOD **	87.68
"Sopharmacy 48" EOOD **	87.68
"Sopharmacy 49" EOOD **	87.68
"Sopharmacy 50" EOOD **	87.68
"Sopharmacy 51" EOOD **	87.68
"Sopharmacy 52" EOOD **	87.68
"Sopharmacy 53" EOOD **	87.68
"Sopharmacy 54" EOOD **	87.68
"Sopharmacy 55" EOOD **	87.68
"Sopharmacy 56" EOOD **	87.68
"Sopharmacy 57" EOOD **	87.68
"Sopharmacy 58" EOOD **	87.68
"Sopharmacy 59" EOOD **	87.68
"Sopharmacy 60" EOOD **	87.68
"Sopharmacy 61" EOOD **	87.68
"Sopharmacy 62" EOOD **	87.68
"Sopharmacy 63" EAD **	87.68
"Sopharmacy 64" AD **	87.68
PAO "Vitamini"	100.00
"Sopharma" Warsaw Sp. z. o. o	100.00
"Sopharma" Poland Sp. z. o. o - in liquidation	60.00
OOO "Sopharma" Ukraine	100.00
TOO "Sopharma" Kazakhstan	100.00
"Sopharma Trading" D.o.o. **	87.68
"Pharmachim" EOOD	100.00
Sopharma Rus OOO	100.00

*effective interest in percent

**indirect participation

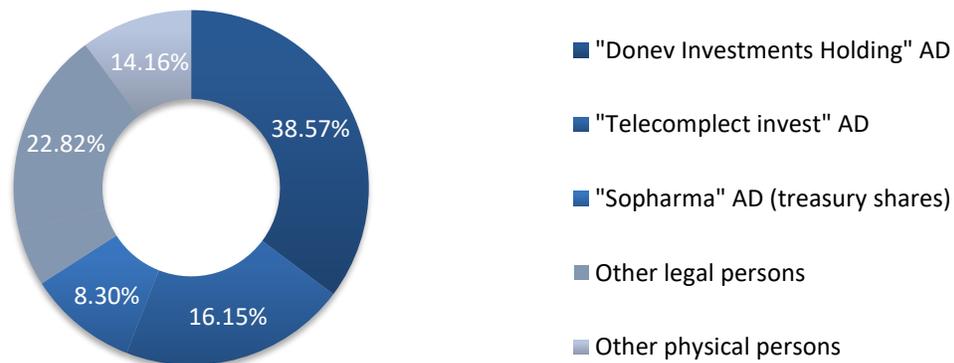
This is a translation from Bulgarian version of the Management report of Sopharma Group for 2023.

In case of divergence Bulgarian text should prevail.

4. Board of directors

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

5. Shareholder structure as of December 31, 2023



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

The total number of shares issued by “Sopharma” AD up to December 31, is 172 590 578 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 November 4, 2021 the Financial Supervision Commission entered an issue in the amount of 44,932,633 dematerialized, freely transferable and registered warrants, with an issue value of BGN 0,28, issued by “Sopharma” AD under Art. 112 b, para. 11 of the LPOS. The underlying asset of the issued warrants are future ordinary, registered, dematerialized, freely transferable shares, giving the right to one vote in the General Meeting of Shareholders, which will be issued by the company on condition only in favor of the owners of warrants. Each subscribed warrant entitles its holder to subscribe for one share of a future issue. Holders of warrants may exercise their right to subscribe for the respective number of shares from a future increase in the company's capital within 3 years at a fixed price of BGN 4,13 per share. The right to exercise arises from the date on which the issue of 44,925,943 warrants was registered at the "Central Depository" AD - 11.01.2022. The warrants are admitted to trading on the BSE main

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

In case of divergence Bulgarian text should prevail.

Sopharma Group

market of the Bulgarian Stock Exchange AD, starting from January 25, 2022. On October 6, 2023, as a result of a conditional capital increase through the exercise of 37,792,679 warrants from an issue with ISIN BG9200001212, the new capital of “Sopharma” AD in the amount of BGN 172,590,578 was entered in the Commercial Register.

II. Recent developments Sopharma Group

Key financial indicators

Indicators	1-12/2023 BGN '000	1-12/2022 BGN '000	change %
Revenues	1 874 422	1 663 016	12.7%
EBITDA	153 421	139 980	9.6%
Operating profit	97 539	87 881	11.0%
Net profit	99 077	76 333	29.8%
CAPEX*	62 263	85 154	-26.9%
	31.12.2023 BGN '000	31.12.2022 BGN '000	
Non-current assets	727 998	681 487	6.8%
Current assets	781 894	572 491	36.6%
Owners' equity	752 808	716 634	5.0%
Non-current liabilities	149 374	129 998	14.9%
Current liabilities	607 710	407 346	49.2%

*acquired tangible and intangible fixed asset

Indicators	1-12/2023	1-12/2022
EBITDA/Sales revenues	8.2%	8.4%
Operating profit / Sales revenues	5.2%	5.3%
Net profit/Sales revenues	5.3%	4.6%
	31.12.2023	31.12.2022
Debt/ Equity	1,01	0,75
Net debt*/ EBITDA on annual basis	1,4x	1,9x

* net debt includes bank loans and leasing and factoring liabilities less cash, taking into account the effects of the adoption of IFRS 16 Leasing, effective from 1 January 2019.

Operating revenues

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

In case of divergence Bulgarian text should prevail.

Sales revenues of the Group increased by BGN 211,4 million or 12.7%, reaching BGN 1 874,4 million in 2023 compared to BGN 1,663 million in 2022. Sales of goods increased by BGN 178,8 million or 13%, reaching BGN 1 557,9 million in 2023 compared to BGN 1 379,1 million in 2022. Sales of finished products increased by BGN 32,6 million or 11.5%, reaching BGN 316,5 million in 2023 compared to BGN 283,9 million in 2022.

On a consolidated basis, the growth in sales of finished products in Bulgaria for 2023 is 11.3% compared to the previous period. According to IQVIA data, at the end of 2023, the company occupies 2.06% (seventeenth position) of the Bulgarian pharmaceutical market in value and 7.22% (second position) in volume. The positions of main competitors of the company on the territory of the country are as follows: Roche - 5.29% (0.19% in volume), Merck Sharp & Dohme - 4.69% (0.14% in volume), Novartis - 4.27% (1.20% in volume), AstraZeneca – 4.03% (0.46% in volume), Pfizer – 3.85% (0.68% in volume), Abbvie – 3.56% (0.07% in volume), Swixx Biopharma – 3.40% (1.12 % in volume), Teva – 3.33% (8.90% in volume), Phoenix – 2.80% (4.03% in volume). The products with the largest share of sales in the country are Analgin, Vicetin, Famotidine, Vitamin C, Paracetamol, Methylprednisolone.

On a consolidated basis for 2023, sales revenues in Russia grow by 17.4%. Growth was also registered in other traditional markets, with sales revenue increasing in Georgia by 24%, in Azerbaijan by 69.7%, in Uzbekistan by 6.1%, in Vietnam by 111.9%, in Moldova by 72.8% and in Poland by 22.1%.

A decrease in sales revenue was registered in Ukraine by 4.1%, in Belarus by 19% and in Kazakhstan by 8.4%.

Other operating income increased by BGN 8 million to BGN 21 million in 2023 compared to BGN 13 million in 2022 as a result of sales of fixed assets and an increase in income from services rendered.

Operating revenues

For the current period, the costs of materials increased by BGN 4,7 million to BGN 103,8 million, with the most significant change being recorded in the costs of basic materials, which increased by BGN 7 million, and costs for electricity and heat, decreasing by BGN 1,8 million and BGN 2,6 million, respectively. Costs for external services increased by BGN 17,4 million to BGN 87,5 million, as the most significant change there are expenses for advertising, which increased by BGN 14,7 million, and in the costs of production, which increased by BGN 1,9 million. Expenses for consulting services decreased by 3,9 BGN million. Personnel expenses increased by BGN 22,9 million to BGN 170,7 million as a result of updating the current remuneration of the average number of employees in the Group. Other expenses for the activity decreased by BGN 0,2 million.

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

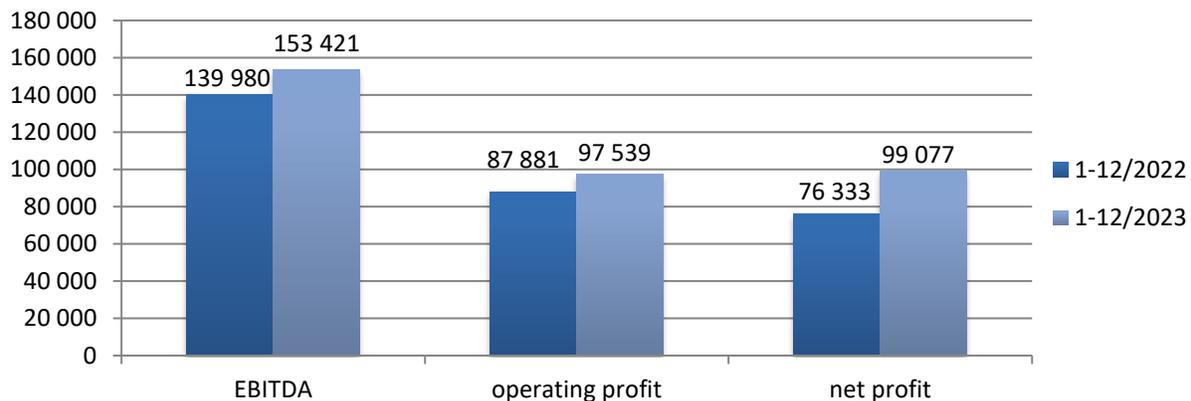
In case of divergence Bulgarian text should prevail.

Sopharma Group

Financial income and expenses

Financial income and expenses in 2023 registered a net loss of BGN 9,5 million, which is an increase of BGN 3,4 million compared to the same period the previous year. Financial income increased by BGN 1,1 million. Financial expenses increased by a total of BGN 4,5 million, and interest expenses on received loans and leases for the current period increased by BGN 4,7 million.

Financial result



Earnings before interest, taxes and depreciation (EBITDA) increased by BGN 13,4 million or by 9.6%, and in 2023 it amounted to BGN 153,4 million compared to BGN 140 million in 2022. The main factors behind this growth are the increase in sales in both main business segments.

Profit from operating activity increased by BGN 9,7 million or by 11%, to BGN 97,5 million in 2023 compared to BGN 87,9 million in 2022.

Net profit increased by BGN 22,7 million or 29.8% to BGN 99,1 million in 2023 compared to BGN 76,3 million in 2022. In addition to the effect of operating activity, the increase during the current period in profits from associated companies by BGN 2,1 million has a positive impact.

Assets

Non-current assets at the end of 2023 increased by BGN 46,5 million compared to the end of the previous year. Investments in associated and joint companies increased by BGN 68,7 million as a result of the reported share in the current profit in the associated company "Doverie-obedinen holding" AD, as well as from the increased participation in "Sopharma Imoti" REIT and in "Sopharma" buildings" REIT. Long-term receivables from related enterprises decreased by BGN

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

In case of divergence Bulgarian text should prevail.

Sopharma Group

14,1 million as a result of loans granted by "Doverie Invest" EAD and "Industrial Holding Doverie" AD.

Current assets at the end of 2023 increased by BGN 209,4 million compared to the end of the previous year, the most significant being the impact of the increase in cash and cash equivalents by BGN 109 million as a result of an increase in the capital of the company. An increase was recorded in inventories by BGN 52,9 million and in trade receivables by BGN 44,5 million.

Owners' equity and liabilities

The equity of Sopharma Group at the end of 2023 increased by BGN 36,2 million compared to December 31, 2022 as a result of an increase in the basic capital and reserves.

Liabilities at the end of 2023 increased by BGN 219,7 million compared to the end of 2022 as a result of the increase in liabilities under bank loans by BGN 67,2 million, as well as a result of accrued liabilities to related and third parties to receive dividends in the amount of BGN 142,6 million. Trade payables increased by BGN 12,6 million compared to the end of the previous year.

Cash Flows

	31.12.2023	31.12.2022
	BGN '000	BGN '000
Net cash flows from operating activities	45 033	110 082
Proceeds of amounts by factoring after interest and fees	621	30 836
Purchases and revenues from sales of property, plant and equipment, intangible assets, net	(28 258)	(21 733)
Payments under lease agreements	(18 792)	(16 081)
Free cash flow (normalized)	(1 396)	103 218

The free cash flow (normalized with the revenues from factoring and payments under leasing contracts), generated in 2023, amounts to BGN 1,3 million outflow compared to BGN 103,2 million inflow in 2022. The recorded net cash outflow from operating activities during the current period is affected by advance payments received from customers in 2022, related to realized sales of production in 2023.

New developments and products

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

New medicinal products

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

In case of divergence Bulgarian text should prevail.

- During the reporting period, Authorizations for Use were received for three new medicinal products:
 - *Glycerax Pico oral drops solution (Bulgaria);*
 - *Suxamethonium Sopharma 10 mg/mL solution for injection (Bulgaria);*
 - *Suxamethonium Sopharma 20 mg/mL solution for injection (Bulgaria).*

New registrations and re-registrations / changes

New registrations of medicinal products

- Documentation for the registration of 27 medicinal products has been submitted:
 - Paracetamol 500 mg tb. (Belarus);
 - Paracetamol Sopharma 500 mg tb. (Moldova)
 - Tempalgin (paracetamol) 500 mg tb.;
 - Carsil 90 mg caps. – (Belarus);
 - Molsidomin 8 mg SR tb. (Russia);
 - Aminophylline sfi (Lithuania);
 - Digoxin Sveikuva sfi (Lithuania);
 - Felogel 2.32% gel (Lithuania);
 - Carsil 22.5 mg film-coated tb. (Azerbaijan);
 - Carsil 22.5 mg film-coated tb. (Tadzhikistan);
 - Carsil 22.5 mg film-coated tb. (Georgia) MRP;
 - Carsil 22.5 mg film-coated tb. – (Moldova);
 - Tribestan 250 mg film-coated tb.;
 - Digoxin Sveikuva 0.25 mg/ml sfi (Lithuania);
 - Pethidine hydrochloride Sveikuva 50 mg/ml sfi (Lithuania);
 - Amrex 30 mg/5 ml syrup (Lithuania) MRP
 - Ambrolytin 30 mg tb. (Lithuania) MRP
 - Ambrolytin 30 mg tb. (Kirgizstan);
 - Sodium picosulfate oral drops solution (Ukraine);
 - Carsil 22,5 mg film-coated tb. (Turkmenistan);
 - Videral 0,5 mg/ml oral drops, solution (Czech Republic);
 - Deavit Neo 0.5 mg/ml oral drop, solution (Kirgizstan);
 - Felogel 5 % gel (Kirgizstan);
 - Felogel 2.32 % gel (Kirgizstan);
 - Tempalgin 500 mg/20 mg film-coated tb. (Armenia) New manufacturing site;

Licensing

- Sophamet XR 500 mg; 750 mg; 1000 mg SR tb. (Bulgaria);
- Trachihelp 5 mg/1,5 mg lozenges (Ukraine);

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

In case of divergence Bulgarian text should prevail.

Medicinal products have been registered for 43 new directions:

- Verapamil sfi (DCP – Denmark; Sweden; Norway; Finland)
- Carsil 110 mg caps. (Georgia);
- Isocor 2,5 mg/ml sfi (Malaysia);
- Cinnarizine 25 mg tb. (Vietnam);
- Carsil 22.5 mg film-coated tb. (Ukraine)
- Carsil Forte 90 mg caps. (Kirgizstan);
- Pethidine Macure sfi (DCP – Finland; Norway; Sweden; Denmark);
- Carsil Max 110 mg caps. (Peru);
- Syafen 100 mg/5 mL oral susp. (Georgia) MRP;
- Furosemide Sopharma 40 mg tb. (Georgia) MRP;
- Zondaron 2 mg/mL sfi (Georgia) MRP;
- Digoxin Sopharma 0.25 mg/mL sfi (Georgia) MRP;
- Valeriana 30 mg tb. (Georgia) MRP;
- Ambrolytin 30 mg tb., (Georgia);
- Valeriana Max 200 mg fct, (Georgia);
- Valeriana 30 mg film-coated tb. (Georgia);
- Feloran Forte 5 % gel (Georgia);
- Alergosan (Desloratadin) oral solution (Peru);
- Carsil 22.5 mg film-coated tb. (Ukraine);
- Tempofen DUO film-coated tb. (Ukraine);
- Tempaforte 500 mg effervescent powder;
- Tempaforte 1000 mg effervescent powder (Azerbaijan);
- Tamoxifen Sopharma 10 mg tb. (Georgia) MRP;
- Carsil 35 mg coated tablets (Russia) EAEU;
- Carsil Max 110 mg caps. (Russia) EAEU;
- Dexketoprofen Sopharma 50 mg/ 2 ml solution for inj/inf (Ukraine);
- Carsil 22.5 mg film-coated tb. (Tajikistan);
- Persen tb. (Georgia);
- Persen tb. (Belarus);
- Troxerutin 300 mg caps. (Vietnam);
- Talert 1mg/ml syrup (Vietnam);
- Diclofenac diethylamine Sopharma 23,2 mg/g gel (Lithuania);
- Carsil 22,5 mg film-coated tb. (Moldova);

Licensing

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

In case of divergence Bulgarian text should prevail.

Sopharma Group

- Analgin Max 1000 mg effervescent powder (Georgia);
- Sitagliptin/Metformin APC 50 mg/500 mg modified release tablets (Bulgaria);
- Sitagliptin/Metformin APC 50 mg/1000 mg modified release tablets (Bulgaria);
- Sitagliptin/Metformin APC 100 mg/1000 mg modified release tablets (Bulgaria);

Re-registrations/changes

- Renewed Authorizations for the use of 50 medicinal products
- Submitted documentation for renewal of Permits for use of 71 medicinal products to agencies
- Submitted 329 changes for medicinal products to agencies
- 279 changes for medicinal products approved by agencies

Food additives

- 14 food additives have been notified - 1 for Belarus; 3 for Poland; 5 for Bulgaria; 1 for Ukraine; 2 for Georgia; 1 for Azerbaijan and 1 for Kazakhstan;
- 22 food additives have been submitted for notification - 3 for Belarus; 2 for Ukraine; 3 for Poland; 4 for Azerbaijan; 3 for Kazakhstan; 7 for Bulgaria;

Medicinal supplies

- 7 Medicinal devices have been uploaded to the system of Drug Executive Agency - Bulgaria;

Developments

- Pharmaceutical development of 12 new medicinal products/projects is being carried out:
 - Cytisine 3.0 mg TB – Project with company Achieve
 - Dexcetoprofen 25 mg tb.;
 - Xylmetazoline/Dexpanthenol nasal spray;
 - Paracetamol 500 mg tab.;

 - Molsidomin 4 mg tab.;
 - Ketorolac 10 mg tab.;
 - Glauvent 40 mg film-coated tablet;
 - Vitamin C 200 mg/mL injection p-r;
 - Butamirate Citrate oral drops;
 - Simethicone oral drops;
 - Ibuprofen 200; 400 and 600 mg tb.;
 - Ibuprofen 100 and 200 mg/5 ml oral suspension;

- API - 4

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

In case of divergence Bulgarian text should prevail.

- Valeriana extract/ Maltodextrin;
- Glaucine hydrobromide;
- Dry extract of milk thistle fruits;
- Dry extract of Granny's teeth;

Development of 11 nutritional supplements is underway:

- Valeriana/Melatonin oral spray;
- Melatonin oral spray;
- Propolis nasal spray for children;
- Propolis nasal spray for adults;
- Propolis throat spray for children;
- Propolis throat spray for adults;
- Syrup (with bee products and extracts) for children;
- Syrup (with bee products and extracts) for adults;
- Valeriana Son 50/1 mg tb.;
- Valeriana Son 150/3 mg tb.;
- Vitamin C 100 mg tab.;

Transfer and validation of technological processes

- 4 new medicinal products were transferred - Glycerax Pico oral drops, p-r; Felloran 2.32% gel; Duzofarm 200 mg tab.; Dexketoprofen 25 mg tab.;
- 42 production processes/technologies have been validated/optimized.

Prepared documentation for quality assessment/production

- Documentation for quality of raw materials for production – 145;
- Production regulations – 163;
- Documentation for quality of finished forms – 267.

III. Significant events in 2023 until the date of the consolidated management report

- On January 20, 2023, according to the requirements of Art. 154, para. 1 of the Law on Public Offering of Securities, "Donev Investments Holding" AD, EIK 831915121, with registered office and address of management Sofia region (capital), Stolichna municipality, city of Sofia, p.c. 1000, Vazrazhdane District, Positano St. No. 12, represented by Ivan Ognyanov Donev, in his capacity as executive director, notifies that on 19.01.2023 the Financial Supervision Commission took a decision not to issue a final prohibition on the publication of a tender

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

In case of divergence Bulgarian text should prevail.

offering registered with the Financial Supervision Commission by "Donev Investments Holding" AD - a shareholder directly owning 37 600 000 ordinary, dematerialized shares with voting rights, representing 27.89% of the capital and votes in the General Meeting of Shareholders of "Sopharma" AD, pursuant to Art. 149b of the Law on the Public Offering of Securities for the purchase of shares from the remaining shareholders of "Sopharma" AD:

Number of voting shares that the offeror does not own

"DONEV INVESTMENTS HOLDING" AD does not own (directly, through related parties or indirectly pursuant to Art. 149, para. 2 of the Civil Code) 89,865,700 ordinary, non-cash, registered, freely transferable shares with ISIN BG11SOSOBT18, representing 66.67% of the capital and from the votes in the General Meeting of the shareholders of "SOPHARMA" AD. In accordance with the decision taken by the Offeror's Board of Directors dated October 28, 2022, the Offeror intends to increase its share in the Company's capital by acquiring directly and through related parties more than 1/3, namely - up to 41.49% of the votes in the General Meeting of the Company's shareholders, by purchasing according to the order of the Commercial Offer under Art. 149b of the LPOS, addressed to all other shareholders of "SOPHARMA" AD of up to 11,000,000 ordinary, bearer, registered, freely transferable shares, with ISIN BG11SOSOBT18, representing 8.16% of the capital and votes in the General Meeting of Shareholders of "SOPHARMA" AD.

Offer price per share

The proposed price of the tender offer is BGN 4.50 per share and is higher than the average weighted market price of the shares for the last 6 months, before the registration of the Tender Offer, which is BGN 4,485.

- On January 23, 2023, the Company entered into a contract for transformation by merger of Biopharm Engineering AD in accordance with the provisions of Article 262 of the Commercial Law, as a result of which all the property of the transforming company ("Biopharm Engineering" AD) will be transferred to the receiving company ("Sopharma" AD), which will become its legal successor. The transforming company ("Biopharm Engineering" AD) will be terminated without liquidation. The contract has been submitted for approval to the Financial Supervision Commission. By letter No. RG – 05 – 684 – 1 dated February 24, 2023, the Financial Supervision Commission requested additional information and data, as well as corrected documents in connection with the requested merger. The latter were submitted to the Financial Supervision Commission on March 24, 2023 and its opinion is expected by May 2, 2023.
- On February 20, 2023, on the basis of Art. 157 of LPOS and Art. 37, para. 1 of Ordinance No. 13 for a tender offer for the purchase and exchange of shares (Ordinance No. 13) "DONEV INVESTMENTS HOLDING" AD - an offeror who made a tender offer, on the basis of Art. 149b of the Law on the Public Offering of Securities for the Purchase of Shares from

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

In case of divergence Bulgarian text should prevail.

the Remaining Shareholders of "Sopharma" AD, notified the result of the tender offer, which ended on February 17, 2023, as follows:

Shareholders who accepted the tender offer: 31 shareholders with a total number of shares: 9,902,092.

As a result of the completed tender offer and after the completion of the transactions, "DONEV INVESTMENTS HOLDING" AD will directly own 47,502,092 shares, representing 35.24% of the shares with the right to vote in the general meeting of "Sopharma" AD and in total - directly and through related persons 54,834,291 shares, representing 40.68% of the shares with the right to vote in the general meeting of "Sopharma" AD.

- On June 2, 2023, the Annual General Meeting of Shareholders of Sopharma AD accepted the proposal of the Board of Directors to distribute a gross dividend to the shareholders in the amount of BGN 0.60 /sixty stotinki/ per share.
- On June 2, 2023, the Annual General Meeting of the holders of warrants from the issue with ISIN code BG9200001212 adopted a decision to exercise the rights to subscribe for shares from a future increase in the capital of "SOFARMA" AD, by issuing 44,925,943 ordinary, registered, non-current shares, with the right to vote, with a nominal value of BGN 1 each and an issue value of BGN 4.13 per share, provided that the shares from the increase are subscribed by the warrant holders.
- On June 5, 2023, the Company's Board of Directors decided to increase the capital on the condition that the shares from the increase are subscribed by the warrant holders, on the basis of a decision lawfully taken at the Annual General Meeting of Warrant Holders (AGM) dated on June 2, 2023.
- On June 14, 2023, according to the decision of the Board of Directors of May 12, 2023, "Sopharma" AD, as the seller, concluded a contract for the transfer of the right of ownership of real estate with the address Sofia, "Studentski" district, "St. Kliment Ohridski" № 3, with an area of 17,688 sq.m. with "Sopharma Buildings" REIT, UIC 175346309. The sale price agreed upon by the parties is BGN 6,337,350 excluding VAT.
- With decision № 652-PD dated June 22, 2023, the Financial Supervision Commission approved the Agreement for the transformation by merger of Biopharm Engineering AD (transforming company) into Sopharma AD (acquiring company) from January 1, 2023.
- On July 14, 2023, in accordance with the requirements of Article 100 of the LPOS, Sopharma AD notified the Bulgarian Stock Exchange and the Warsaw Stock Exchange that the Company has signed an agreement for the phased acquisition of the Serbian pharmaceutical manufacturer Pharmanova within two years. The deal is subject to approval by the Serbian Competition Commission and will start with the acquisition of 25% of the company, followed by the acquisition of 50% after one year and 25% after two years, respectively.
- On August 4, 2023, an Extraordinary General Meeting of the company has been held with the following agenda:
 - Adoption of a decision for transformation by merger of "Biopharm-engineering" AD into Sopharma AD;

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

In case of divergence Bulgarian text should prevail.

- Approval of the Agreement for transformation through the merger of "Biopharm-engineering" AD into "Sopharma" AD, concluded on January 23, 2023 and of Additional Agreement № 1 of March 21, 2023 and Additional Agreement № 2 of May 15, 2023;
- Approval of the Report of the Board of Directors of "Sopharma" AD under Art. 262 m of the Commercial Code to the Company's shareholders regarding the transformation by merger of "Biopharm-engineering" AD into "Sopharma" AD;
- Approval of the Examiner's Report under Art. 262m of the Commercial Companies Code regarding the transformation by merger of "Biopharm-engineering" AD into "Sopharma" AD;
- Approval of the Audit Committee Statute as proposed by the Board of Directors;
- Approval of decision for buy-back of own shares;
- Miscellaneous.
- On August 2023, Sopharma Trading AD reached an agreement to acquire 9 new pharmacies in the area of Sofia, Pernik, Dupnitsa and Radomir as part of the strategy to expand its presence at the national level in the retail segment of the pharmacy market. A ruling on the transaction is pending from the Commission for the Protection of Competition.
- On August 23, 2023, under number 20230823133229, the conversion by merging "Biopharm Engineering" AD into Sopharma AD was entered in the Commercial Register, whereby "Biopharm Engineering" AD was deleted without liquidation. The activity of "Biopharm Engineering" AD is completely transferred to "Sopharma" AD, and all the assets of the merging company are transferred to "Sopharma" AD, which becomes its universal legal successor.
- On October 10, 2023, according to the requirements of Art. 100t of the Civil Procedure Code, "Sopharma" AD notified that in implementation of the decision of the General Meeting of Warrant Holders dated 02.06.2023 and the decision of the Board of Directors of "Sopharma" AD dated 05.06.2023 and based on Art. 195 and Art. 196 of the Commercial Law, art. 113, para. 2, item 2 of the LPOS and Art. 25 of the Company's Articles of Association a capital increase procedure was launched by issuing up to 44,925,943 ordinary registered, non-available freely transferable shares with a nominal value of BGN 1 each and an issue value of BGN 4.13 per share, provided that the shares from the increase are subscribed by warrant holders, issue ISIN BG9200001212, in accordance with the terms and conditions described in the Prospectus for the public offering of warrants, confirmed by FSC Decision No. 804-E/04.11.2021.

The term for the exercise of warrants determined by the Board of Directors in accordance with the requirements of the LPOS and the Prospectus for the Public Offering of Warrants, confirmed by FSC Decision No. 804-E/04.11.2021, started on September 7, 2023 year and ended on September 29, 2023. During this period, a total of 260 requests were received for the subscription of the shares from the increase by exercising warrants, submitted by 249 persons, of which 23 legal persons and 226 individuals. A total of 37,792,679 (thirty-seven million, seven hundred and ninety-two BGN, six hundred and seventy-nine) number

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

In case of divergence Bulgarian text should prevail.

of warrants were exercised and, accordingly, 37,792,679 (thirty-seven million, seven hundred and ninety-two BGN, six hundred and seventy-nine) number of shares of the capital increase.

The issue value of the subscribed shares is in total amount of BGN 156,083,764.27 (one hundred fifty-six million eighty-three thousand seven hundred sixty-four BGN and 27 stotinki).

- On October 6, 2023, according to the requirements of Art. 100t of the LPOS, "Sopharma" AD notified that as a result of the capital increase under condition by exercising warrants from an issue with ISIN BG9200001212 in the Commercial Register, with number 20231006154857, the new capital of "Sopharma" AD was entered in the amount of 172,590,578 BGN.
- On October 16, 2023, according to the requirements of Art. 100t of the LPOS, "Sopharma" AD notified that in fulfillment of the objectives for optimization of the activity on foreign markets, the functions of the representative office of "Sopharma" AD in Russia will be taken over by the newly established subsidiary "Sopharma Rus" EOOD.
- On November 10, 2023, Sopharma AD acquired 25% of the capital of Pharmanova d.o.o., Serbia.
- On November 24, 2023, an extraordinary General Meeting of the company was held with the following agenda:
 - Adoption of the company's financial report for the first half of 2023.
 - Making a decision under Article 30, Paragraphs 5 - 7 of the Company's Articles of Association to distribute the profit and pay an interim dividend based on the six-month financial report. Based on the report prepared by the Board of Directors in accordance with the requirements of Art. 115a of LPOS, the proposal is to distribute a gross dividend in the amount of BGN 0,90 per share.
 - Miscellaneous.
- On January 10, 2024, a liquidation procedure of "Fito Palauzovo" AD was entered in the Commercial Register.
- From January 22, 2024, the payment of the accrued advance dividend from the profit for 2023, which is in the amount of BGN 141.9 million, began.
- On 23.01.2024, the Company submitted documents for consideration to the Financial Supervision Commission in connection with the merger of "Veta Pharma" AD, which is a subsidiary of "Sopharma" AD.
- On January 26, 2024, a General Meeting of the holders of warrants from the issue with ISIN BG9200001212 was held, at which a decision was made to exercise the rights under them by subscribing shares from a future increase in the capital of "Sopharma" AD, by issuing up to 7,133,264 number of ordinary, registered, dematerialized shares, with voting rights, with a nominal value of BGN 1 each and an issue value of BGN 4.13 per share, provided that the shares from the increase are subscribed by the warrant holders.

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

In case of divergence Bulgarian text should prevail.

- The holders of warrants made a request to the Board of Directors to decide on a capital increase under the condition that it be carried out on the basis of the Company's Articles of Association, Art. 195 of the Commercial Law and, accordingly, Art. 113, para. 2, item 2 of the Law on Public Offering of Securities, in which the warrant holders can exercise their rights under item 2 of the agenda, and under the terms and conditions according to the Prospectus for the public offering of warrants, confirmed by the Decision of the Financial Supervisory Service No. 804 – E/04.11. 2021. The capital increase was launched with the publication of an announcement under Art. 89t of the Law on Public Offering of Securities on January 26, 2024.
- With decision No. 1253/30.11.2023, the Competition Protection Commission of the Republic of Bulgaria authorized the acquisition of nine sites from the Royal Pharmacies chain in Sofia, Pernik, Dupnitsa and Radomir, with the intention of joining them to the Sopharmacy pharmacy chain, in "Sopharma Trading" AD. The acquisition deal is to be completed in February 2024.

IV. Review of the main risks faced by the Group

Risks related to the Group's business and the industry in which the Group operates

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

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

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

In case of divergence Bulgarian text should prevail.

Sopharma Group

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

Currency risk

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

Through the companies in Ukraine and Kazakhstan, the group carries out business operations in these countries and, accordingly, has exposures in Ukrainian hryvnia and Kazakhstani tenge. The currency risk is related to the negative movement of the exchange rates of these currencies against the Bulgarian lev in the future business operations, the recognized assets and liabilities in foreign currency and the net investments in foreign companies. The rest of the companies abroad sell mainly on local markets, leading to currency risk and against their currencies - the Serbian dinar and the Polish zloty.

In order to control the currency risk, a system of planning of import deliveries, for foreign currency sales, as well as procedures for daily monitoring of movements in the dollar exchange rate and control of forthcoming payments, is introduced. The exposure of subsidiaries in Bulgaria in foreign currency is insignificant, as almost all sales are made on the local market in Bulgarian leva. Imports of goods are fully realized in euro. Borrowings denominated in foreign currency are mainly denominated in euro.

V. Information on related party transactions

<i>Related party</i>	<i>Relation type</i>	<i>Relation period</i>	
"Telecomplect invest" AD	Company shareholder with significant influence	2023	2022
"Donev Investments Holding" AD	Company shareholder with significant influence	2023	2022
"Momina krepost" AD	Joint venture	2023	2022

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

In case of divergence Bulgarian text should prevail.

Sopharma Group

“Sopharma Imoti” REIT	Associate	2023	2022
“Doverie-obedinen holding” AD	Associate	2023	2022
“Sofarma Buildings” REIT	Associate	from 08.09.2023	
Pharmanova D.O.O.	Associate	from 10.11.2023	
Subsidiaries form DOH Group	Companies controlled by an associate	2023	2022
“Sofprint Group”AD	Company related through key management personnel	2023	2022
“Sofconsult Group” AD	Company related through key management personnel	2023	2022
“VES electroinvest systems” EOOD	Company related through key management personnel	2023	2022
“Eco Solar Invest” OOD	Company related through key management personnel	2023	2022
“Alpha in” EOOD	Company related through key management personnel	2023	2022
“Consumpharm” OOD	Company related through key management personnel	2023	2022
DZZD “Veterinary Diagnostic”	Civil societies for the implementation of joint activity (direct participation)	2023	

Supplies from related parties:

Supply of inventories from:

	2023	2022
	BGN '000	BGN '000
Companies related through key management personnel	10,332	10,577
Associates	637	128
Joint ventures	322	298
Companies controlled by an associate	64	43
	11,355	11,046

Supply of services from:

Companies controlled by an associate	1,177	1,106
Shareholding companies with significant influence	581	425
Associates	468	514
Companies related through key management personnel	216	266
Joint ventures	5	3
	2,447	2,314

Deliveries of tangible fixed assets from:

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

In case of divergence Bulgarian text should prevail.

Sopharma Group

Companies controlled by an associate	3,369	1,558
	<u>3,369</u>	<u>1,558</u>
Other deliveries from:		
Companies controlled by an associate company	281	261
	<u>281</u>	<u>261</u>
Interest expenses:		
Companies shareholders with significant influence	467	9
Associates	-	33
	<u>467</u>	<u>42</u>
Accrued dividends on:		
Shareholding companies with significant influence	130,136	-
Key management personnel	17,971	-
	<u>148,107</u>	<u>-</u>
Total deliveries	<u>166,026</u>	<u>15,221</u>
Sales to related parties		
Inventory sales for:		
Companies related through key management personnel	1,219	1,109
Companies controlled by an associate company	952	1,389
	<u>2,171</u>	<u>2,498</u>
Sales of services for:		
Companies related through key management personnel	226	219
Companies controlled by an associate company	125	281
Associated companies	11	7
	<u>362</u>	<u>507</u>
Guarantee fees and guarantees of:		
Joint ventures	-	7
	<u>-</u>	<u>7</u>
Interest on granted loans:		
Companies controlled by an associate company	2,170	1,934
Joint ventures	62	46
Associated companies	31	11
	<u>2,263</u>	<u>1,991</u>
Interest on assignment contracts:		
Joint ventures	127	71

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

In case of divergence Bulgarian text should prevail.

127	71
4,923	5,074

Leasing contracts

During the reporting period, the company recognized assets, liabilities, expenses, payments in connection with **lease agreements with related parties**, as follows:

The lease obligations as of December 31, in connection with lease agreements with related parties are as follows:

	31.12.2023	31.12.2022
	BGN '000	BGN '000
Recognized lease obligations on January 1	20,616	4,314
Increases	1,851	19,305
Payments of lease obligations for the period	(2,841)	(2,462)
Lease liabilities written off	-	(541)
Leasing liabilities as of 30 September/ 31 December	19,626	20,616

The assets "right of use" as of 31 December in connection with lease agreements with related parties are as follows:

	31.12.2023	31.12.2022
	BGN '000	BGN '000
Asset "right of use" as of January 1	20,524	4,315
Increases	1,877	19,263
Depreciation accrued	(2,996)	(2,482)
Write-off book value of right-of-use assets	(82)	(572)
Assets "right of use" as of 31 December	19,323	20,524

The new right-of-use assets and lease obligations arising during the period are under lease agreements with an associate.

The accounts with related parties are presented in Note *No 20, No 24, No 29, No 36*.

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

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

In case of divergence Bulgarian text should prevail.

Sopharma Group

The remuneration and other income of the key management personnel and the executive directors, the members of the Board of Directors and the managers of the subsidiaries of the Group amount to BGN 3,619 thousand (2022: BGN 3,325 thousand) including:

- current remuneration - BGN 3,134 thousand (2022 : BGN 3,001 thousand);
- tantieme – BGN 485 thousand (2022: BGN 324 thousand);

February 29, 2024

Sofia

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

In case of divergence Bulgarian text should prevail.