

MANAGEMENT REPORT

FOR Q3 2020



“SOPHARMA” AD

30 October 2020

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“Sopharma” AD

I. General information about “Sopharma” AD

1. Registration and main activities

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

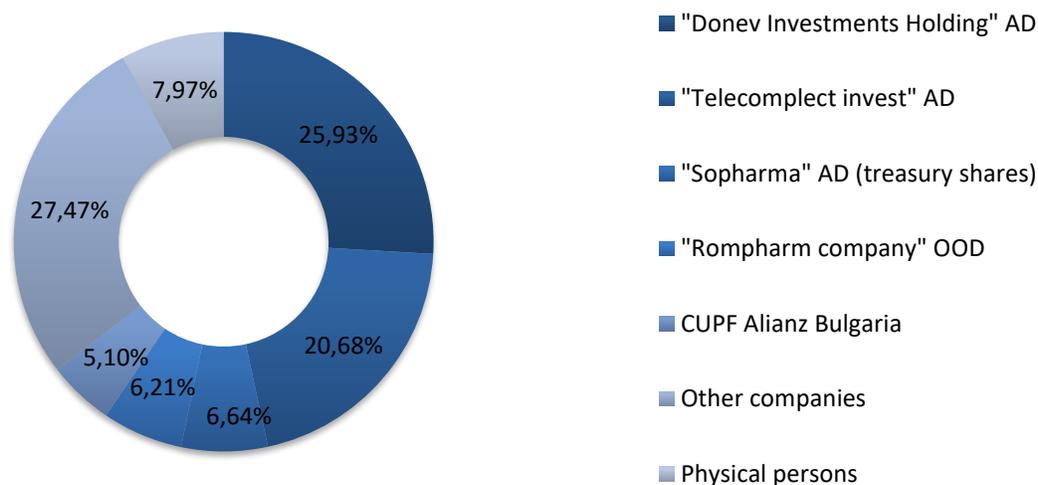
“Sopharma” AD was established in 1933. The court registration of the Company is from 15.11.1991, decision №1 / 1991 of Sofia City Court. “Sopharma” AD is a public company under the Law on Public Offering of Securities.

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

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

The Company has marketing authorizations under the Law on Medicines and Pharmaceuticals in Human Medicine for all products in its manufacturing portfolio.

2. Shareholder structure as at 30 September 2020



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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. As of 16.06.2020 Mr. Simeon Donev, Business Development Director at “Sopharma” AD, was appointed as procurator of the company. The Company is represented and managed by the Executive Director Ognian Donev, PhD.

4. Personnel

The average number of workers and employees for Q3 2020 in “Sopharma” AD is 2,098 (2,275 in 2019). The table below provides more detailed information about the company's personnel.

	30.09.2020	Rel. Share %
Number of workers and employees as at 30 September 2020	2 088	100%
Higher education	933	45%
College education	46	2%
Secondary education	1079	52%
Primary education	30	1%
Employees under 30 years	189	9%
Employees 31 - 40 years	377	18%
Employees 41 - 50 years	602	29%
Employees 51 - 60 years	721	35%
Employees over 60 years	199	10%
Women	1305	63%
Men	783	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 healthy and safety working conditions.

Employees are entitled to the higher additional remuneration required by applicable law for 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.

5. Production activity

“Sopharma” AD has ten manufacturing plants, conforming with EU Good Manufacturing Practices (GMP), which are located in Bulgaria. The company is the largest Bulgarian manufacturer of ampoules and suppositories.

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The production activities of the company are carried out and developed in the following areas:

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

6. Products

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

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

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

- Carsil – a traditional plant-based product used to treat gastroenterological diseases (liver diseases);
- Tempalgin - a traditional analgesic (painkiller);
- Tabex - a traditional plant-based smoking cessation drug;

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- 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;
- Valerianae - a generic non-prescriptional herbal medicine used to reduce stress;
- Medical devices - gauzes, compresses and dressings.

II. Development of the activity

1. Review of the main risks faced by the Company

COVID-19

On 11 March 2020 the World Health Organization declared a Coronavirus Pandemic, as a result, the Government of the Republic of Bulgaria, announced various measures to prevent the spread of the disease. Measures implemented include working from home, a temporary lockdown of schools, universities, restaurants, cinemas, theaters, museums and sports facilities, retailers, with the exception of food retailers, grocery stores and pharmacies.

The management of “Sopharma” AD has carefully analyzed the potential effects of the pandemic and the constraints imposed by government, expecting overall reductions in economic activity and liquidity in the economy of the country, which are also expected to affect the Company's activities.

The effects on the Company's activities as a result of the events may include a decrease in revenues, emergency expenses, delay in the implementation of projects, planned investments, etc.

Based on the publicly available information, up to the date of the financial statements, the management has taken actions aimed at limiting the negative effects of the pandemic events, which include:

- Ensuring continuous operation in compliance with measures to limit the spread of COVID-19, including - strict access control and measurement of the temperature of employees and visitors, the prohibition of clustering of people and the distribution of workplaces in the production in an appropriate way, which ensures the absence of close contact

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between employees, the separation of traffic flows in buildings and spaces between them and etc.;

- Negotiations with suppliers to keep the rhythm of raw materials and supplies flowing, as well as meeting the enterprise's needs for specific raw materials dictated by the demand for specific medicine products and medical supplies needed to deal with the pandemic;
- Providing information to customers on the way of working in order to maintain delivery schedules;
- Negotiations with the financial institutions of the Company's partners and the provision of adequate information to them, so that additional financing, if it's necessary, may be provided on time or with some of the Group's entities, to postpone loan payments, if it's necessary to secure cash flows and others.

The management believes that the working company principle is appropriate for these individual financial statements, as the Company as a whole has sufficient liquid resources to continue in the foreseeable future. At the date of this individual financial statement, the management of the Company does not intend to discontinue certain activities.

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

- The Company is exposed to strong competition;
- The Company is dependent on regulatory approvals;
- Government regulations affecting the Company's business may change, thus possibly increasing compliance costs or otherwise affecting its operations;
- Part of the Company's revenues, in particular in Bulgaria, depends on the inclusion of the Company's medicines in reimbursement lists;
- The Company's production facilities and processes are subject to strict requirements and regulatory approvals that may delay or disrupt the Company's operations;
- The Company's ability to pay dividends depends on a number of factors and there can be no assurance that in a given year it will be able to pay dividends in accordance with its dividend policy;
- The Company is subject to operational risk, which is inherent to its business activities;
- The Company is subject to numerous laws and regulations in the field of environmental protection and health and safety at work and is exposed to potential environmental liabilities;
- Litigation 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 ;
- The political environment in Bulgaria and in the export markets, especially Russia and the Ukraine, has a significant effect on the Company’s operations and financial condition;
- Risks related with 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 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 Company perform 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 including the application of advance payments and the reduction of deferred payment terms and the immediate conversion of local currency earnings as well as betting on higher trading currencies mark-ups to offset possible future impairment of the hryvnia.

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.

2. Revision of the activities of the company

Key financial indicators

Indicators	1-9/2020 <i>BGN '000</i>	1-9/2019 <i>BGN '000</i>	Change %
Revenues	140 845	156 637	-10.1%
EBITDA	34 207	38 860	-12.0%
Operating profit	20 501	25 100	-18.3%
Net profit	22 134	33 509	-33.9%
CAPEX**	8 768	9 944	-11.8%
	30.09.2020	31.12.2019	
	<i>BGN '000</i>	<i>BGN '000</i>	
Non-current assets	441 406	477 027	-7.5%
Current assets	239 313	201 738	18.6%
Owners' equity	530 805	522 644	1.6%
Non-current liabilities	17 102	20 667	-17.2%
Current liabilities	132 812	135 454	-2.0%

* tangible and intangible fixed assets acquired

Ratios	1-9/2020	1-9/2019
EBITDA / Revenues	24.3%	24.8%
Operating profit/ Sales revenues	14.6%	16.0%
Net profit/ Sales revenues	15.7%	21.4%
	30.09.2020	30.06.2020
Borrowed capital/Owners' equity	0,28	0,28
Net debt**/ EBITDA	1,7x	1,6x

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

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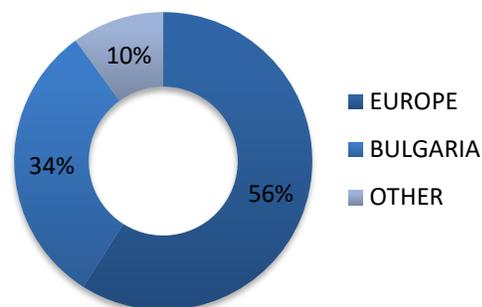
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Sales revenues from products

Sales revenues from products for Q3 2020 decrease by BGN 16 million or by 10%, to BGN 139,5 million compared to BGN 155,5 million in Q3 2019.



Revenues by market	1-9/2020 BGN '000	1-9/2019 BGN '000	Change %
Europe	77 332	84 211	-8%
Bulgaria	48 027	58 130	-17%
Other	14 126	13 104	8%
Total	139 485	155 445	-10%



- European market

Sales revenues for European countries decreased by 8% compared to Q3 2019 due to the decrease of sales in Russia with 14%, Balkan countries with 12%, Ukraine with 3%, Caucasus and Central Asia, Moldova. Revenues for Poland, Belarus and the Baltics are increasing.

- Bulgarian market

Sales of “Sopharma” AD in the domestic market decreased by BGN 10,1 million or by 17% to BGN 48 million in Q3 2020 compared to BGN 58,1 million in Q3 2019. The products with the largest share of sales in the country are Analgin, Methylprednisolone, Vicetin, Vitamin C, Nivalin and medical supplies - gauzes, compresses and bandages. “Sopharma” AD has a 3% share of the

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total Bulgarian pharmaceutical market in value and 11% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Roche – 6.8% (0.2% in kind), Novartis –6.8% (3.8% in kind), , Actavis – 4.3% (10% in kind), Merck Sharp Doh – 4.3% (0.8% in kind), Pfizer - 4% (1% in kind), Abbvie - 3.7% (0% in kind), Astrazeneca – 2.9% (0.4% in kind), Glaxosmithkline - 2.8% (2.4% in kind), Sanofi-Aventis –2.6% (2% in kind).

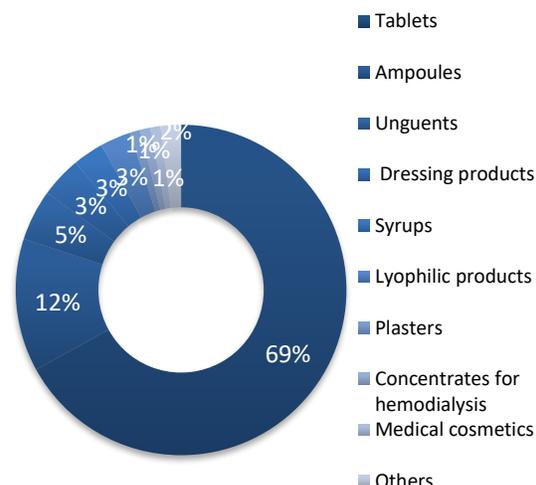
- Other markets

Revenues from other markets increased with 8% compared to Q3 2019, mainly as a result of an increase of the export for Vietnam.

Sales by type of formulation

The types of formulation with the highest share in the volume of sales are tablet forms, followed by ampoules, unguents, dressing products, syrups, lyophilic products, plasters and others.

Revenues by type of formulation	1-9/2020 BGN '000	1-9/2019 BGN '000	Change %
Tablets	96 853	108 419	-11%
Ampoules	16 445	18 218	-10%
Unguents	7 026	6 630	6%
Dressing products	4 639	5 053	-8%
Syrups	3 809	6 035	-37%
Lyophilic products	3 794	3 770	1%
Plasters	2 260	2 534	-11%
Concentrates for hemodialysis	1 017	1 205	-16%
Medical cosmetics	928	577	61%
Others	2 714	3 004	-10%
Total	139 485	155 445	-10%



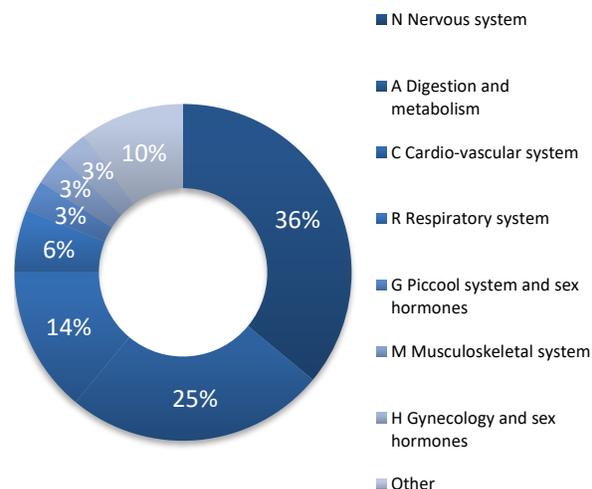
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Sales by therapeutic group

Revenues by therapeutic group	1-9/2020 BGN '000	1-9/2019 BGN '000	Change %
N Nervous system	50 206	53 177	-6%
A Digestion and metabolism	34 593	43 713	-21%
C Cardio-vascular system	19 099	18 907	1%
R Respiratory system	7 780	11 014	-29%
G Urinary system and sex hormones	4 130	3 712	11%
M Musculoskeletal system	3 762	3 579	5%
H Gynecology and sex hormones	3 649	3 689	-1%
Other	16 266	17 653	-8%
Total	139 485	155 445	-10%



Other operating revenues

Other revenues	1-9/2020 BGN '000	1-9/2019 BGN '000	Change %	Rel. share 2020 %
Services rendered	1 637	2 257	-27%	54%
Income from government grants under European projects	405	405	0%	13%
Revenues from fines and penalties	293	10	2830%	10%
Gain on sale of long-term assets	284	28	914%	9%
Amounts awarded	166	52	219%	6%
Profit on sale of goods	200	169	18%	7%
Profit on sale of materials	119	47	153%	4%
Gains / (Losses) from revaluation of agricultural production to fair value	114	(43)	-365%	4%
Net exchange losses on trade receivables and payables and current accounts	(298)	(204)	46%	-10%
Other revenues (see Notes to the FS)	84	874	-90%	3%
Total other operating revenues	3 004	3 595	-16%	100%

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Other operating income decreased by BGN 0,6 million in Q3 2020 compared to same period in 2019 mainly in the part of revenues from services rendered and other revenues and increased in the part of the amounts awarded, profit from sale of long-term assets, revenues from fines and penalties and others.

Operating expenses

Operating expenses	1-9/2020	1-9/2019	Change	Rel. share 2020
	BGN '000	BGN '000		
Changes in inventories of finished goods and work in progress	(12 960)	222	-5938%	-11%
Materials	52 936	55 130	-4%	43%
External services	25 217	25 276	0%	20%
Personnel	38 080	36 968	3%	31%
Depreciation and amortization	13 706	13 760	-0.4%	11%
Other operating expenses	6 369	3 776	69%	5%
Total	123 348	135 132	-8.7%	100%

Operating expenses decreased by BGN 11,8 million from BGN 135,1 million in Q3 2019 to BGN 123,3 million in Q3 2020, mainly due to the cost of materials and changes in inventories of finished goods and work in progress.

The costs of materials (43% share) decreased by BGN 2,2 million or 4% from BGN 55,1 million in Q3 2019 to BGN 52,9 million in Q3 2020, with the biggest impact being the decrease in the costs for heat energy, laboratory materials, technical materials, auxiliary materials, etc.

External services expenses account for 20% relative share of operating expenses and decreased by BGN 0,1 million or 0.2% to BGN 25,2 million in Q3 2020 compared to BGN 25,3 million in Q3 2019. The most significant impact was the decrease of the expenses for advertising and marketing services by BGN 1,4 million, the expenses for maintenance of buildings and equipment by BGN 0,7 million. The costs for the production of medicines increased by BGN 1,5 million and etc.

Personnel expenses (with a relative share of 31% of operating costs) increased by BGN 1,1 million or by 3% from BGN 37 million in Q3 2019 to BGN 38,1 million in Q3 2020.

Other operating expenses (with a relative share of 5% of operating costs) increased by BGN 2,6 million in Q3 2020 compared to the same period in 2019 mainly in the part of scrapped fixed assets and decrease in the part of accrued impairments of finished products and work in progress, etc.

Depreciation costs (with a relative share of 11% of operating expenses) registered a decrease of BGN 0,05 million or by 0.4%, retaining their value from BGN 13,7 million.

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Changes in inventories of finished goods and work in progress have an impact on the decrease in operating expenses by BGN 13,2 million.

Financial income and costs

Financial income	1-9/2020 BGN '000	1-9/2019 BGN '000	Change %	Rel. share 2020 %
Shareholding income	9 217	10 653	-13%	79%
Interest income on loans extended	2 476	2 441	1%	21%
Net profit from exchange rate differences under lease contracts	17	-	-	0%
Impairment reimbursement for credit losses of cash	12	-	-	0%
Net profit from exchange differences on the sale of a subsidiary	-	171	-100%	0%
Impairment reimbursement for credit losses on trade loans	-	124	-100%	0%
Net gain on transactions with investments in securities	--	435	-100%	0%
<i>Incl. profits from the sale of investments in subsidiaries</i>		227	-100%	0%
Total	11 722	13 824	-15%	100%
Financial costs			Change %	Rel. share 2020 %
<i>Impairment for credit losses on receivables from trade loans</i>	3 893	-	-	53%
<i>Recovered impairment for credit losses on trade loans</i>	(261)	-	-	-4%
Net change in impairment on loans granted	3 632	-	-	49%
<i>Impairment for credit losses on dividend receivables</i>	1 293	-	-	18%
Interest expense on loans received	1 055	1 173	-10%	14%
Bank fees and charges on loans and guarantees	229	235	-3%	3%
Net foreign exchange loss on receivables from the sale of a subsidiary	136	-		2%
Interest expense on leasing contracts	68	43	58%	1%
Deregistered capital of a company from the scope of long-term capital investments	25	--		0%
<i>Accrued provision for financial guarantees</i>	930	231	303%	13%
<i>Reimbursed provision for financial guarantees</i>	(3)			0%
Net provision for financial guarantees	927	231	301%	13%
Net loss from operations with investments in securities	1	-	-	0%
Total	7 366	1 682	338%	100%

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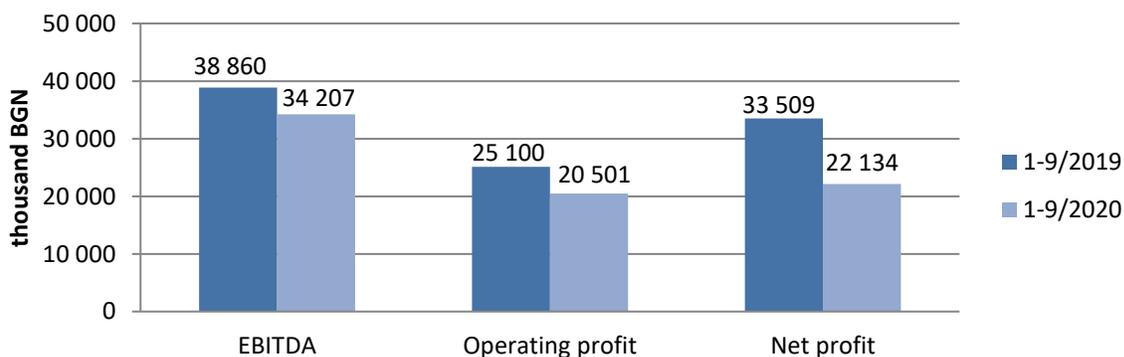
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Financial revenues decreased by BGN 2,1 million to BGN 11,7 million in Q3 2020 compared to BGN 13,8 million in Q3 2019, mainly in the part of shareholding income by BGN 1,4 million and net profit from operations with investments in securities by BGN 0,4 million.

Financial expenses increased by BGN 5,7 million to BGN 7,4 million in the current period of 2020, due to an increase in net change in impairment on loans granted to subsidiaries (SIA Briz Latvia).

Net financial revenues (costs) decreased by BGN 7,8 million compared to Q3 2019.

Financial result of the activity



Profit before interest, taxes and depreciation (EBITDA) in Q3 2020 decreased by BGN 4,7 million or by 12% to BGN 34,2 million compared to BGN 38,9 million in Q3 2019.

Operating profit decreased by BGN 4,6 million or 18.3% to BGN 20,5 million in Q3 2020 compared to BGN 25,1 million in Q3 2019.

Net profit decreased by BGN 11,4 million or by 33.9%, to BGN 22,1 million in Q3 2020 compared to BGN 33,5 million in Q3 2019.

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Assets

Non-current assets	30.09.2020	31.12.2019	Change	Rel. share
	BGN '000	BGN '000	%	2020
Property, plant and equipment	214 138	224 654	-5%	49%
Intangible assets	7 737	8 524	-9%	2%
Investment property	41 925	39 329	7%	9%
Investments in subsidiaries	90 411	87 146	4%	20%
Investments in associated companies	6 062	6 062	0%	1%
Other long-term equity investments	11 067	9 621	15%	3%
Long-term receivables from related parties	59 241	91 794	-35%	13%
Other long-term receivables	10 825	9 897	9%	2%
	441 406	477 027	-7%	65%
Current assets				
Inventories	80 191	61 365	31%	34%
Receivables from related parties	120 740	97 014	24%	50%
Trade receivables	22 683	27 212	-17%	9%
Loans granted to third parties	4 649	6 044	-23%	2%
Other receivables and prepaid expenses	7 777	6 144	27%	3%
Cash and cash equivalents	3 273	3 959	-17%	1%
	239 313	201 738	19%	35%
TOTAL ASSETS	680 719	678 765	0%	100%

Total assets increased by BGN 1,9 million or by 0.3% to BGN 680,7 million in the end of the current period, compare to BGN 678,8 million as at 31 December 2019.

Non-current assets decreased by BGN 35,6 million, or by 7%, mainly due to a decrease in long-term receivables from related parties by BGN 32,6 million and increase in the part of other long-term receivables by BGN 0,9 million, other long-term capital investments by BGN 1,4 million, investments in subsidiaries with BGN 3,3 million and investment properties by BGN 2,6 million. Property, plant and equipment decreased by BGN 10,5 million, in the part of machinery, plant and equipment by BGN 3,1 million and in the part of land and buildings with BGN 5,7 million and increased in the process of acquisition by BGN 1,4 million. Intangible assets decreased by BGN 0,8 million mainly in the software sector and intellectual property rights.

Current assets increased by BGN 37,6 million or by 19% to BGN 239,3 million as at 30 September 2020 compared to BGN 201,7 million as at 31 December 2019. Inventories increased by BGN 18,8 million or 31% compared to 31 December 2019 mainly in the part of finished products and materials. Receivables from related enterprises increased by BGN 23,7 million in the part of receivables from contracts with customers, net. Trade receivables decreased by BGN 4,5 million. Commercial loans granted to third parties decreased by BGN 1,4 million. Other receivables and prepaid expenses increased by BGN 1,6 million. Cash and cash equivalents decreased by BGN 0,7 million.

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Liabilities and owners' equity

	30.09.2020	31.12.2019	Change	Rel. share 2020
	BGN '000	BGN '000	%	%
OWNERS' EQUITY				
Share capital	134 798	134 798	0%	25%
Treasury shares	(33 455)	(34 142)	-2%	-6%
Reserves	408 996	382 549	7%	77%
Retained earnings	20 466	39 439	-48%	4%
TOTAL OWNERS' EQUITY	530 805	522 644	2%	100%
	30.09.2020	31.12.2019	Change	Rel. share 2020
	BGN '000	BGN '000	%	%
LIABILITIES				
Non-current liabilities				
Long-term bank loans	19	2 398	-99%	0%
Liabilities on deferred taxes	5 558	6 209	-10%	4%
Government grants	4 533	4 858	-7%	3%
Operating leasing liabilities to related parties	-	1 610	-100%	0%
Operating leasing liabilities to third parties	2 027	954	112%	1%
Long-term liabilities to personnel	4 965	4 638	7%	3%
	17 102	20 667	-17%	11%
Current liabilities				
Short-term bank loans	99 462	100 359	-1%	66%
Short-term part of long-term bank loans	4 203	7 181	-41%	3%
Commercial liabilities	8 027	6 074	32%	5%
Liabilities to related parties	4 456	6 664	-33%	3%
Liabilities for taxes	1 235	2 329	-47%	1%
Liabilities to the personnel and for social insurance	7 342	7 266	1%	5%
Other current liabilities	8 087	5 581	45%	5%
	132 812	135 454	-2%	89%
TOTAL LIABILITIES	149 914	156 121	-4%	100%
TOTAL OWNERS' EQUITY AND LIABILITIES	680 719	678 765	0%	

The equity of “Sopharma” AD increased by BGN 8,2 million or by 2% to BGN 530,8 million as at 30 September 2020 compared to BGN 522,6 million as at 31 December 2019, mainly as a result of the increase in reserves by BGN 26,4 million. Retained earnings decreased by BGN 19 million.

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Non-current liabilities decreased by BGN 3,6 million or 17% to BGN 17,1 million at the end of current period in 2020 compared to BGN 20,7 million as at 31 December 2019 mainly in the part of long-term bank loans by BGN 2,4 million.

Current liabilities decreased by BGN 2,6 million to BGN 132,8 million at the end of Q3 2020 compared to BGN 135,4 million as at 31 December 2019. Decrease in short-term bank loans by BGN 0,9 million, short-term part of long-term bank loans by BGN 3 million, liabilities to related parties by BGN 2,2 million and liabilities for taxes by BGN 1,1 million and trade liabilities increase by BGN 1,9 million, liabilities to personnel by BGN 0,1 million, other current liabilities by BGN 2,5 million. Total exposure to bank loans of the company as of 30.09.2020 decreases by BGN 6,3 million compared to 31 December 2019.

Cash flow

	1-9/2020 BGN '000	1-9/2019 BGN '000
Net cash flow from/ (used in) operations	(13 283)	15 299
Net cash flow used in investment activities	34 616	(69 682)
Net cash flow (used in)/from financial operations	(22 019)	46 492
Net increase/(decrease) of cash and cash equivalents	(686)	(7 891)
Cash and cash equivalents on 1 January	3 959	8 971
Cash and cash equivalents on 30 September	3 273	1 080

Net cash flows in Q3 2020 generated by operating activities amounted to BGN 13,2 million outflow, from investment activity amounted to BGN 34,6 million inflow and from financial activities were to the amount BGN 22 million outflow. As a result of these activities, cash and cash equivalents decreased net by BGN 0,7 million and by 30 September 2020 amounted to BGN 3,3 million compared to BGN 4 million as at 1 January 2020.

Ratios

	30.09.2020	30.06.2020	Change
ROE ¹	5.4%	6.8%	-1,4
ROA ²	4.2%	5.2%	-1,0
Asset turnover ³	0,31	0,34	-0.03
Current liquidity ⁴	1,80	1,81	-0,01
Quick liquidity ⁵	1,20	1,28	0,08
Monetary liquidity ⁶	0,02	0,02	-
Financial autonomy ⁷	3,54	3,55	-0,01

1 Net profit per annum / average equity for the last five quarters

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

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

4 Current assets / current liabilities

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5 Receivables + Cash / Current liabilities

6 Cash / Current liabilities

7 Equity / Liabilities

3. New developments and products

- New Products for the period January - September 2020
 - During the reporting period, a Marketing Authorization was obtained for a new medicinal product - Solifenax 5 mg film-coated tablet (Bulgaria).
- New medical products implemented in production
 - During the reporting period the following new medicinal products were introduced into the production: - Paracedol Kids 120 mg / 5 ml oral suspension; Antiemetin 5 mg / ml solution for injection; Promerol 1 mg / ml solution for injection and food supplement Aloevital oral solution 2.5 mg 5ml.
- New registrations and re-registrations / changes

New registrations

- Received 25 Authorizations for the use of medicinal products for new destinations, namely:
 - Pyraminol 800 mg film-coated tablet (Armenia);
 - Sophalor 5 mg film-coated tablet (Azerbaijan);
 - Indometacin Sopharma 100 mg suppositories (Azerbaijan);
 - Deavit Neo 0.5 mg/ml oral drops, solution (Azerbaijan);
 - Otoflox 40 mg/g+10 mg/g ear drops, solution (Azerbaijan);
 - Sophalor 0.5 mg/ml oral solution (Azerbaijan);
 - Sydnopharm 2 mg tablet (Azerbaijan);
 - Sophtensif 1.5 mg prolonged-release tablets (Azerbaijan);
 - Methadone Sopharma 10 mg/ml oral solution (Bosnia and Herzegovina);
 - Analgin Kids 500 mg/ml oral drops, solution (Georgia);
 - Verapamil Sopharma 2.5 mg/ml solution for injection (Iran);
 - Valeriana 30 mg film-coated tablet (Kazakhstan);
 - Broncholytin Ivy 7 mg/ml syrup (Kyrgyzstan);
 - Ambrolytin 15 mg/ 5 ml syrup (Kyrgyzstan);
 - Felogel 1 g/100 g gel (Kyrgyzstan);
 - Sophalor 0.5 mg/ml oral solution (Kyrgyzstan);
 - Adrenaline Sopharma 1 mg/ml solution for injection (Malta);

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- Carsil Max 110 mg capsules, hard (Mongolia);
 - Troxerutin Sopharma 2 g/100 g gel (Mongolia);
 - Troxerutin Sopharma 300 mg capsules, hard (Mongolia);
 - Dexamethasone Medszo 4 mg/ml solution for injection (Portugal)
 - Tuspan 7 mg/ml syrup (Russia);
 - Felogel 1 % gel (Serbia);
 - Amlodipine Sopharma 5 mg tablet (Serbia);
 - Sophamet 850 mg film-coated tablet (Tunisia).
- Documentation has been submitted for the registration of 44 medicinal products to agencies of new destinations.

Food additives

- 13 nutritional supplements have been notified for Bulgaria, Armenia, Azerbaijan, Kazakhstan and Kyrgyzstan.

Medical supplies

- 18 medical devices are registered in Ukraine (two) and Macedonia (sixteen).

Re-registrations / changes

- Renewed Marketing Authorizations for 70 medicinal products.
- Documentation submitted for the renewal of the Marketing Authorizations for 101 medicinal products to agencies.
- Agreements approved 680 changes to medicinal products.
- 749 drug changes submitted to agencies.

Developments

- Pharmaceutical development of 8 new medicinal products / projects is underway.
- 19 medicinal products/ active substances were transferred in the process of transfer and 24 production processes / technologies were validated / optimized.

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4. Significant events in the first nine months of 2020 and until the publication of the interim management report

- On 22 January 2020, “Sopharma” AD began to pay the gross dividend of 5 stotinki per share voted at the General Meeting of Shareholders on 13 December 2019. The persons registered in the “Central Depository” AD as shareholders on the 14th day after the day of the General Meeting, namely 27 December 2019 have a right to dividend.
- On 22 April 2020, the company received BGN 30 million, which are paid interest and loans from an associate and a controlled company by it (“Doverie - Obedinen Holding” AD and “Doverie Invest” AD).
- On 5 June 2020 the Annual General Meeting of “Sopharma” AD was held, at which the following decisions were taken: The AGM approves the Annual Report of the Board of Directors on the company's activities in 2019.; The AGM approves the Annual Report of the Investor Relations Director for 2019; The AGM approves the Audited Annual Financial Statements /Individual and Consolidated/ of the Company for 2019.; The AGM approves the Auditor's Reports on the Audit of the Annual Individual Financial Statements and of the Annual Consolidated Financial Statements of the Company for the year 2019; The AGM approves the proposal of the Board of Directors for the distribution of the Company's 2019 profit of BGN 40 382 210.24 as follows: allocating 10% or BGN 4 038 221.02 to the mandatory reserve, BGN 6 284 221.60 for the 2019 six-month preliminary dividend. After dividing the legal reserve by 10% and dividend paid in advance for the half year of 2019, to distribute a gross dividend of BGN 0.07 per share (seven stotinki). The amount remaining after the distribution above and the retained earnings from previous years in the amount of BGN 1 995 956.93 shall be transferred to additional reserves of the company.; The AGM approves the Audit Committee's report on its activities in 2019.; The AGM re-elects the current members of the Audit Committee of the company for a new term of three years.; The AGM releases the members of the Board of Directors from responsibility for their activities in 2019.; The AGM selects "Baker Tilly Klitou and Partners" OOD as a registered auditor for 2020; The General Meeting approves the Report of the Board of Directors on the implementation of the Remuneration Policy of the Members of the Board of Directors of the Company for 2019.; The AGM decided the constant remuneration of the members of the Board of Directors and the constant remuneration of the Executive Director in 2020 remain unchanged.; Pursuant to art. 24, para 3, letter B of the Articles of Association, the Executive Director of the Company shall be paid an additional remuneration of 1% (one percent) of the amount of profit realized in 2019 according to the approved Annual Financial report.; The General Meeting adopts

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a decision that of 2% (two percent) of the profit realized in 2019 will be distributed among the members of the company's senior management team, subject to the requirements of art. 26a, item 12 of the Articles of Association of the company.; AGM adopts an amendment of the Articles of Association of the Company.; AGM adopts the Substantiated Report of the Board of Directors for transactions within the scope of art. 114, para 1 of the LPOS.; The AGM authorizes the Board of Directors to conclude a transaction within the scope of art. 114, para 1 of the LPOS - under the terms of Section I,II,III, IV, V и VI of the Substantiated Report.

- On 3 August 2020 “Sopharma” AD started the payment of the dividend in the amount of 7 stotinki per share voted on the Annual General Meeting held on 5 June 2020. The persons eligible for dividend are those present in the register of the Central Depository 14 days after the date of the Annual General Meeting, i.e. 19 June 2020. In accordance with the Regulations of the Central Depository, the dividend shall be paid out as follows: for shareholders with client accounts at an investment intermediary – through the investment intermediary, for shareholders without accounts at an investment intermediary - through the branches of Postbank in the country until October 30, 2020 (after that date, shareholders who have not received their dividend in the appropriate order may do that at the cash desk of the Company in Sofia, 16 Iliensko Shose Str. every business day between 10:00 a.m. - 12:00 p.m. and 14:00 p.m. - 16:00 p.m., tel. 02/ 8134 283).
- On 25 September 2020 an Extraordinary General Meeting of the shareholders of Sopharma AD was held, at which the following decisions were taken: The General Meeting of Shareholders accepted the proposal of the Board of Directors to distribute a 6-month gross dividend to the shareholders in the amount of BGN 0.04 / four stotinki / per share. The right to receive a dividend have the persons entered in the register of Central Depository AD as shareholders on the 14th day after the day of the General Meeting, at which the 6-month financial report for the first half of 2020 was adopted and a decision was made for distribution of profits, namely 9 October 2020 (dividend record date). Ex-dividend date – 8 October 2020 (ex-dividend date). The dividend payment will start on 23 November 2020 (Monday). In accordance with the Regulations of Central Depository AD, the dividend will be paid as follows: for the shareholders who have opened client accounts with investment intermediaries - through the respective investment intermediary; for shareholders without accounts with investment intermediaries - through the branches of Eurobank and FG - Bulgaria AD / Postbank / in the country. The present Policy has been developed by the Board of Directors of the public company “Sopharma” AD in accordance

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with Regulation №48 from 20 March 2013 of the Financial Supervision Commission./ updated, SN, no. 32 of 04.04.2013, amended and supplemented, no. 41 of 21.05.2019, amended, no. 66 of 20.08.2019, amended and supplemented no. 61 of 10.07.2020/ and Article “c” of the Law on Public Offering of securities.

5. Related party information

Related party information is disclosed in the notes to the interim financial statements.

III. Information about the shares of “Sopharma” AD

The total number of shares issued by “Sopharma” as at 30 September 2020 is 134 797 899 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, ordinary and indivisible, in accordance with the Articles of Association of the Company. All issued shares are of one class. Each share entitles one vote to the General Meeting of Shareholders, a right to dividend and a liquidation share proportional to the nominal value of the share.

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

“Sopharma” AD is one of the three Bulgarian companies included in the Central and Eastern European (CEE) index. The index is called WIG-CEE and is the third after WIG-Poland and WIG-Ukraine, which is based on the company's country of origin. WIG-CEE is calculated on the basis of total profitability and includes dividend yield and share subscription rights.

Key indicators of the shares of “Sopharma” AD

	30.09.2020	30.06.2020
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the last four quarters	125 767 240	125 817 480
Number of shares outstanding at the end of the period	125 851 432	125 769 432
Net earnings per share in BGN ¹	0,231	0,285
Price per share at the end of the period in BGN	3,08	3,167
Price/Earnings ratio (P/E)	13,33	11,11
Book value per share in BGN ²	4,218	4,246
Price/Book value ratio (P/B)	0,73	0,75
Sales per share in BGN ³	1,708	1,841

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“Sopharma” AD

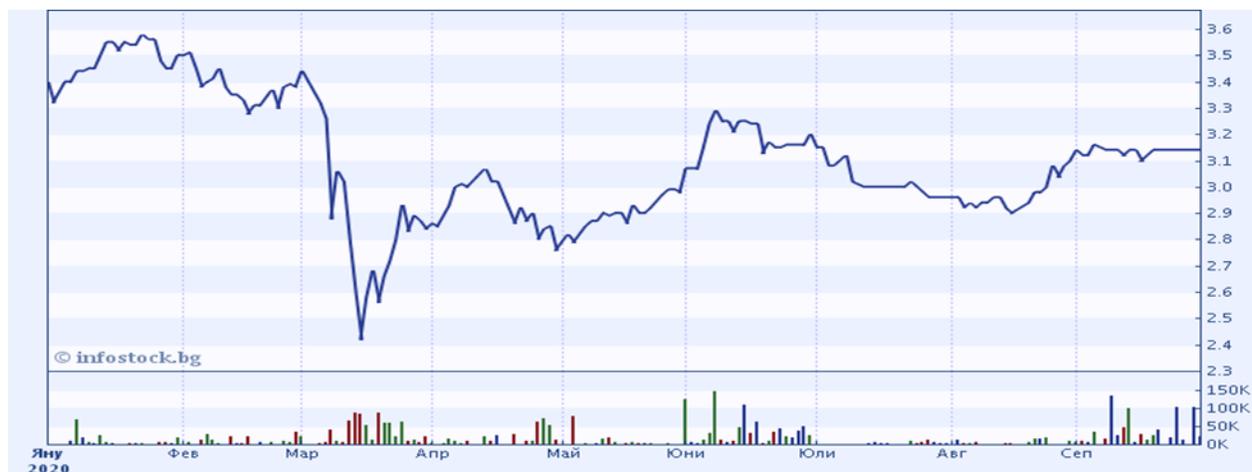
Price per share / Sales per share(P/S)	1,80	1,72
Market capitalization in BGN	415 177 529	385 772 551

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

2 Equity / number of shares outstanding at the end of the period

3 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 1 January 2020 – 30 September 2020.



/Signature/

30.10.2020
Sofia

Ognian Donev, PhD
/Executive Director/

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