

REPORT
FROM THE BOARD OF DIRECTORS OF
“SOPHARMA” AD, SOFIA

REGARDING: Payment of a 6-month dividend

This report was prepared and approved by the Board of Directors of “SOPHARMA” AD, Sofia, at a meeting held on 17 September 2024, subject to the provisions of art. 115c, para 2, item 1 of LPOS.

The purpose of this report is to inform the shareholders of “SOPHARMA” AD that on the basis of the accounting information disclosed in the individual financial statements for the first half of 2024, the Company has sufficient funds to pay a 6-month dividend and that its payment will not lead to indebtedness to creditors, personnel, budget and others.

1. PROPOSAL FOR DISTRIBUTION OF A 6-MONTH DIVIDEND

The Board of Directors proposes to distribute a 6-month dividend of BGN 0.075 per share. The shareholders with dividend right are those persons entered in the registers of the Central Depository AD (CD) as at the 14th day after the day of the general meeting at which the 6-month financial statements were adopted and a decision for dividend distribution was taken. In this regard, the exact number of outstanding shares entitled to a dividend, and therefore the specific amount necessary for its payment, cannot be specified at the date of compilation of this report. As of 30.08.2024, the outstanding shares with dividend right are 165 742 835. Therefore, the amount that will be needed to pay a dividend if the same number of shares are outstanding at the respective date will amount to BGN 12 430 712.63. The Board of Directors plans, regardless of the number of outstanding shares on the 14th day after the day of the general meeting on which a decision has been taken to pay a six-month dividend, the total amount for distribution and payment of dividend to less or equal to BGN 13 432 504.73 million. According to the legal provisions, the company is obliged to ensure the payment to the shareholders of the dividend voted by the General Meeting within 60 days of its holding.

2. FINANCIAL INFORMATION AS AT 30 JUNE 2024

Key financial indicators

Indicators	1-6/2024
	BGN '000
Sales revenues	114 911
EBITDA	31 687
Operating profit	22 275
Net profit	22 275
CAPEX	5 698
	30.06.2024
	BGN '000
Non-current assets	510 455
Current assets	265 337
Owners' equity	615 627
Non-current liabilities	65 292
Current liabilities	94 873

Ratios	1-6/2024
EBITDA / Sales revenues	27.6%

Operating profit/ Sales revenues	19.4%
Net profit/ Sales revenues	19.0%
	30.06.2024
Borrowed capital/Owners' equity	0.26
Net debt/EBITDA on an annual ind. basis	1.7x

*The data are according to cons. report of Sopharma Group as of 30.06.2024

Categories of financial instruments:

Financial assets	30.06.2024
	BGN '000
Financial assets at fair value through other comprehensive income, incl.:	12,448
<i>Equity investment</i>	12,448
Financial assets at amortised cost incl.:	167,307
Loans and receivables incl.	162,596
Long-term receivables from related parties	30,016
Other long-term receivables	3,471
Receivables from related parties	93,521
Trade receivables	22,715
Loans granted to third parties	11,320
Other current receivables	1,553
<i>Cash and cash equivalents</i>	4,711
Total financial assets	179,755

Financial liabilities	30.06.2024
	BGN '000
Financial liabilities at amortised value, incl.:	
<i>Long-term and short-term bank loans</i>	76,111
<i>Liabilities under leasing contracts to related parties</i>	15,925
<i>Liabilities under leasing contracts to third parties</i>	3,126
<i>Other loans and payables, incl.</i>	28,622
Trade liabilities	10,885
Liabilities to related parties	11,650
Other current liabilities	6,087
Total financial liabilities	123,784

The Company currently monitors the assurance and the structure of the capital on the basis of the gearing ratio. This ratio is calculated as follows: the net debt capital to the total amount of the committed capital. The net debt capital is calculated as the difference between the total borrowings, as presented in the Statement of financial position, and the cash and cash equivalents. The total amount of the committed capital is equal to owners equity and net debt.

The table below shows the gearing ratios based on capital structure as at 30.06.2024:

	BGN '000
Total borrowings, including:	95,162
<i>bank loans</i>	76,111
<i>obligations under leasing contracts</i>	15,925
<i>obligations under leasing contracts to third parties</i>	3,126
Less: Cash and cash equivalents	(4,711)

Net debt	90,451
Total equity	615,627
Total capital	706,078

Gearing ratio: **0.13**

3. JUSTIFICATION

The main activity of “SOPHARMA” AD is production of medical products. The income and profit of the Company from the implementation of this activity are directly related to the realization of the production sold by the Company on the local and foreign markets. By adhering to the highest quality standards, the Company achieves high efficiency in the production of pharmaceuticals and succeeds not only as a leader on the Bulgarian pharmaceutical market but also as a competitive player in the region.

The Board of Directors considers that the company has the necessary funds and that there is no liquidity risk after the payment of the planned dividend amount of up to BGN 13 432 504.7 million. The liquidity risk could be a negative situation of the company not being able to meet unconditionally all its liabilities according to their maturity. For the first half of 2024, the company has a net profit of BGN 22.3 million. The company's forecast is to maintain the same pace of revenue and profit in the second half of this year. The Board of Directors proposes the net profit realized for the first half of the year to be distributed as a dividend to the shareholders, and the amount up to the full amount of the dividend to be at the expense of the additional reserves of the company. The company generates and maintains a sufficient volume of liquid funds. An internal source of liquidity is the main business generating sufficient operating flows. Management intends to use the current proceeds from this activity to pay the planned 6-month dividend. External sources of financing are proceeds from an ongoing conditional capital increase procedure through the exercise of warrants from an ISIN BG9200001212 issue and from bank loans. In addition, the Company operates loans and therefore a significant part of the proceeds automatically repay existing working capital loan liabilities and are not reported to a large extent as current account balances, which is the reason for the usual for the company relatively low amount of cash and cash equivalents (as of 30.06.2024 amounting to BGN 4.7 million). At the same time, the current debt exposure to banks is in a range allowing the company, if necessary, to take advantage of additional free resources without causing difficulties in debt servicing. Bank loan contracts contain clauses with requirements to maintain certain financial ratios. The management of the company currently controls the implementation of these financial ratios in communication with the respective creditor bank, and as of 30.06.2024 the commitments have been met:

Required indicators according to concluded bank contracts

- Net debt / EBITDA < 4 on consolidated basis;
- Total liquidity based on the consolidated reports not less than 1.1;
- Ratio of equity to assets not less than 45% based on consolidated report;

Indicators as at 30.06.24

- | | |
|---------------------------------------------------|------|
| - Net debt / EBITDA per year on consolidated base | 2.4x |
| - Total liquidity on consolidated base | 1.46 |
| - Equity / Assets on consolidated base | 0.55 |

The Board of Directors of “SOPHARMA” AD, Sofia, taking into account the level of leverage of the company, fulfilling of financial commitments and restrictions, its liquidity position and expected future investments and financial results, that the proposed amount for payment of a 6-month dividend will not cause difficulties in servicing the current and upcoming liabilities of the company, as well as the indebtedness of the company to creditors, staff, budget, etc.

This report has been compiled by the Board of Directors of “SOPHARMA” AD, adopted on a meeting held on September 17, 2024 and is part of the materials on the agenda of the convened for October 25, 2024. General Meeting of Shareholders of the Company.

Board of Directors of “SOPHARMA” AD:

1. Ognian Ivanov Donev: /signature/
2. Vesela Lyubenova Stoeva: /signature/
3. Alexandar Viktorov Tchaoushev: /signature/
4. Bissera Nikolaeva Lazarova: /signature/
5. Ivan Venetkov Badinski: /signature/