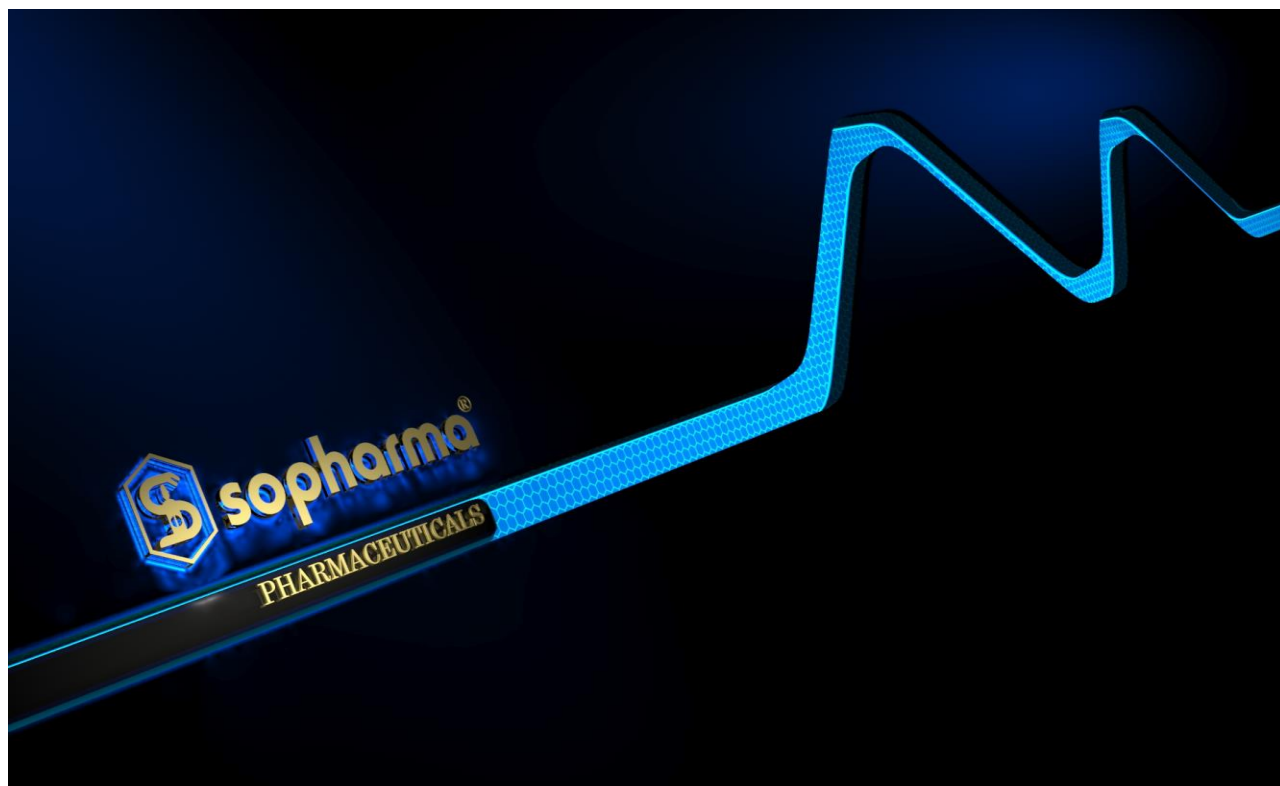


MANAGEMENT REPORT for the first half of 2023



“SOPHARMA” AD

31 July 2023

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

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I. General information about “Sopharma” AD

1. Registration and activity of the Company

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

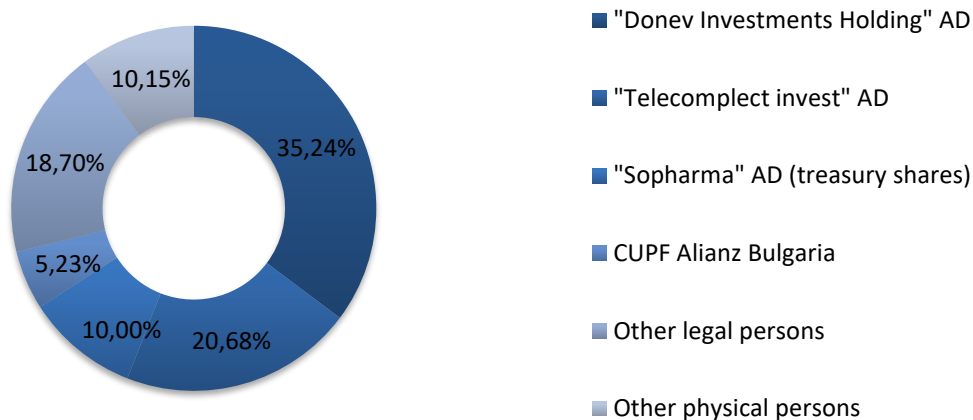
“Sopharma” AD was established in 1933. The court registration of the Company is from 15 November 1991, decision №1/1991 of Sofia City Court. “Sopharma” AD is a public company under the Law on Public Offering of Securities.

The Company conducts the production and marketing of medicinal substances and dosage forms; research, engineering and implementation activities in the field of phytochemistry, chemistry and pharmaceuticals, production of medical products 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 Pharmaceutical products in Human Medicine for all products of its manufacturing portfolio.

2. Shareholder structure as at 30 June 2023



3. Board of Directors

“Sopharma” AD has a one tier management system with a Board of Directors of five members as follows: Ognian Donev, PhD – Chairman, Vessela Stoeva – Deputy Chairman and members - Bissera Lazarova, Alexandar Tchaoushev and Ivan Badinski. The Company is represented and managed by the Executive Director Ognian Donev, PhD. On the basis of a commercial management contract concluded on June 9, 2020, the procurator of the company is Simeon Donev.

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4. Personnel

The average number of workers and employees for 2023 in “Sopharma” AD is 1 692 (1 715 in 2023).

	30.06.2023	rel. share %
Number of workers and employees as at 30 June 2023	1 707	100%
Higher education	801	47%
College education	30	2%
Secondary education	854	50%
Primary education	22	1%
Employees under 30 years	138	8%
Employees 31 - 40 years	293	18%
Employees 41 - 50 years	454	27%
Employees 51 - 60 years	664	39%
Employees over 60 years	158	9%
Women	1089	64%
Men	618	36%

5. Production activity

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

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

6. Products

The Company has more than 200 products in its portfolio: incl. nearly 190 medicinal products and 11 groups of medical devices. Medicinal products mainly include generics and 15 traditional products, 12 of which are plant-based. The Company's traditional products (in particular Tabex, Carsil and Tempalgin) make up a major share of its export market revenues,

while the company's generic products are of major importance for domestic sales, Analgin being the leader among these products.

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

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

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

7. Information about the shares and other securities issued by the Company

The total number of shares as of 30 June 2023 of “Sopharma” AD, is 134 797 899 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, ordinary and indivisible, according to the Articles of Association of the Company. All issued shares are of one class. Each share gives equal rights to its holder in proportion to the nominal value of the share.

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

for the respective number of shares from a future increase in the company's capital within 3 years at a fixed price of BGN 4,13 per share.

II. Development of the activity

Key financial indicators

Indicators	30.06.2023	30.06.2022	Change %
	BGN '000	BGN '000	
Revenues	124 826	110 050	13.4%
EBITDA	48 609	33 469	45.2%
Operating profit	39 146	24 592	59.2%
Net profit	37 121	23 618	57.2%
CAPEX*	8 283	7 181	15.3%
	30.06.2023	31.12.2022	
	BGN '000	BGN '000	
Non-current assets	505 425	506 718	-0.3%
Current assets	244 375	194 530	25.6%
Owners' equity	565 247	600 375	-5.9%
Non-current liabilities	28 867	27 840	3.7%
Current liabilities	155 686	73 033	113.2%

* tangible and intangible fixed assets acquired

Indicators	1-6/2023	1-6/2022
	EBITDA/Revenues	38.9%
Operating profit/Sales Revenue	31.4%	22.3%
Net profit/Sales Revenue	29.7%	21.5%
	30.06.2023	31.12.2022
Debt/Equity	0,33	0,17
Net debt*/EBITDA on annual basis	0,7x	0,4x

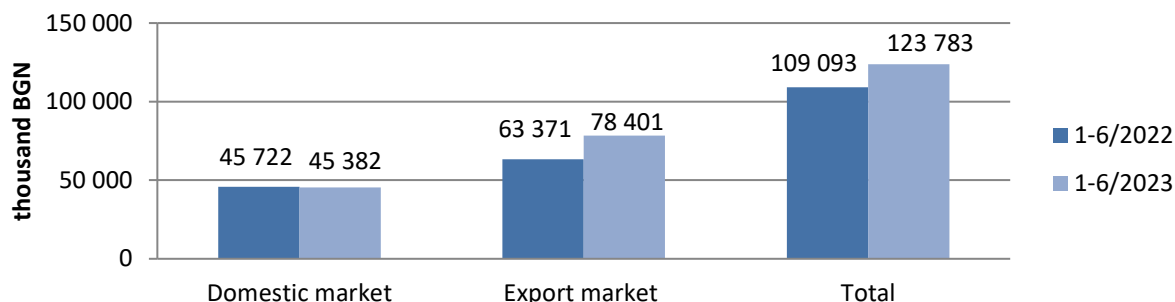
* the net debt comprises the sum of borrowings from banks and lease liabilities less cash and cash equivalents, taking into account the effects of the adoption of IFRS 16 Leases, effective from 01.01.2019

Operating revenues

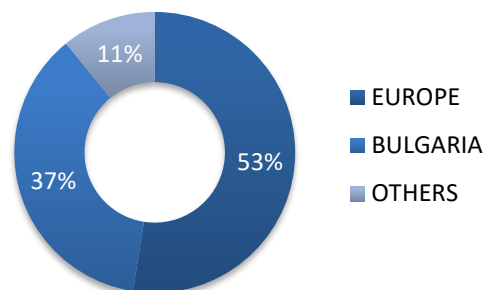
Revenues from contracts with with customers are from sales of manufactured medicinal products and in the first half of 2023 increased by BGN 14,7 million, to BGN 123,8 million, compared to BGN 109,1 million in the first half of 2022. Revenues from contracts with customers also include revenues from contract and contract manufacturing, which for the first half of 2023 amounted to BGN 5,9 million.

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Sales revenues



Revenues by market	1-6/2023 BGN '000	1-6/2022 BGN '000	Change %
EUROPE	65 245	55 106	18.4%
BULGARIA	45 382	45 722	-0.7%
OTHERS	13 156	8 265	59.2%
TOTAL	123 783	109 093	13.5%



- European market

Sales revenues for the first half of 2023 for European countries increased by BGN 10,1 million or 18.4% compared to the first half of 2022. Sales in Russia and Ukraine accounted for the largest share, and for the current period they increased by 18.8% and 1.5%, respectively. Growth was also registered in other traditional markets, with sales revenue increasing in Belarus by 69%, in Moldova by 75%, in Serbia by 40%, in Latvia by 21%, in Poland by 25%. Sales in Lithuania fell by 27%.

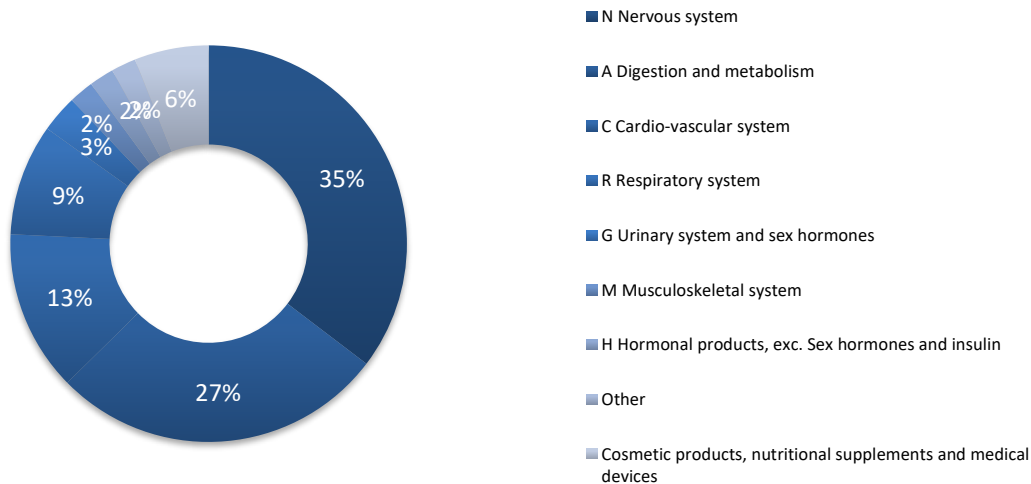
- Bulgarian market

Sales of “Sopharma” AD in the domestic market decreased by BGN 0,3 million or by 0.7% for the first half of 2023 to BGN 45,4 million compared to BGN 45,7 million for the first half of 2022. The company retains its market share and according to IQVIA data at the end of 2023 has a 2.18% (fourteenth position) of the total Bulgarian pharmaceutical market in value and 7.62% (second position) of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis –6.51% (4.49% in kind), Roche – 5.51% (0.24% in kind), Merck Sharp & Dohme – 4.43% (0.13% in kind), Pfizer – 3.88% (0.69% in kind), AstraZeneca – 3.72% (0.46% in kind), Abbvie – 3.45% (0.07%), Teva – 3.32% (8.37% in kind), Swixx Biopharma – 3.31% (1.07% in kind), Phoenix– 2.80% (4.10% in kind). The products with the largest share of sales in the country are Analgin, Sophazon, Vicetin, Fomotidine, Vitamin C, Paracetamol, Bromhexine, Methylprednisolone.

- Other markets

Revenues from other markets increased with BGN 4,9 million or 59.2% compared to first half of 2022, as a result of the growth of the sold production in the countries of the Caucasus region (Georgia with a growth of 66%, Azerbaijan with a growth of 109% and Armenia with growth 44%) and Kazakhstan with growth 12%. Vietnam recorded a 446% increase in sales revenue, while sales in Mongolia fell by 56%.

Sales by therapeutic group



Operating expenses

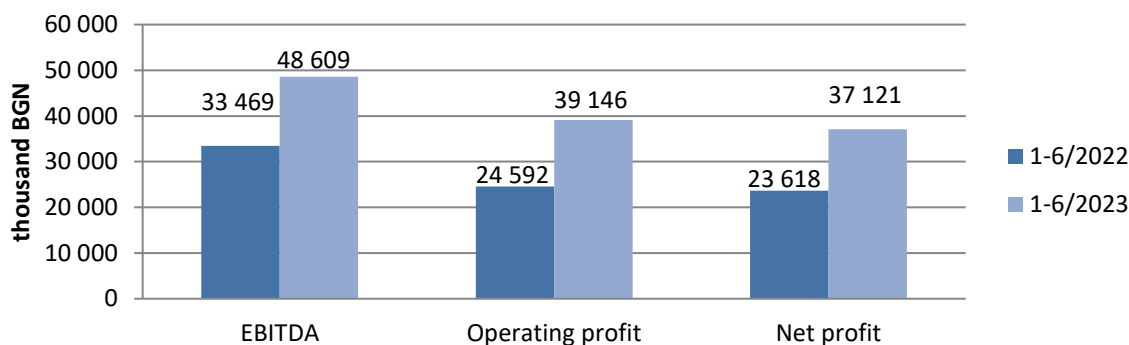
For the current period, the costs for materials increase by BGN 2 million compared to the first half of 2022 in the part of basic, laboratory and technical materials. A decrease was registered in the costs of heating and electricity. Personnel costs increased by BGN 6,1 million, as a result of an increase in remuneration, and in external service costs, which increased by BGN 5,1 million, the largest change was registered in the costs of manufacturing medicines and in the costs of advertising and marketing services, which increased by BGN 1,7 million and BGN 2,2 million, respectively.

Financial income and expenses

Financial income decreased by BGN 0,5 million to BGN 3,8 million in the first half of 2023 mainly due to the profit from operations with securities investments in the amount of BGN 0,3 million reported in the previous period.

Financial expenses increased by BGN 0,5 million to BGN 1,2 million in the first half of 2023, the main reason being the impairment charge for credit losses on receivables from commercial loans granted in the amount of BGN 0,5 million.

Financial result of the activity



Profit before interest, taxes, depreciation and amortization (EBITDA) in the first half of 2023 increased by BGN 15,1 million or by 45.2% to BGN 48,6 million compared to BGN 33,5 million for the first half of 2022. The growth achieved during the period is due to the increase in sales in the main markets and the improved gross profit margin on the one hand, as well as a relatively stable structure of operating expenses.

Operating profit in the first half of 2023 increased by BGN 14,6 million or by 59.2% to BGN 39,1 million compared to BGN 24,6 million in the first half of 2022.

Net profit in the first half of 2023 increased by BGN 13,5 million or by 57.2%, to BGN 37,1 million compared to BGN 23,6 million in the first half of 2022.

Assets

Non-current assets compared to the end of 2022 decreased by BGN 1,3 million, to BGN 505,4 million, the most significant being the change in long-term receivables from related enterprises, which increased by BGN 4,7 million.

Current assets increased by BGN 49,8 million to BGN 244,4 million, with an increase in inventories of BGN 24,6 million, where the most significant increased by BGN 15,2 million was recorded in finished products. An increase is reported in receivables from related enterprises in the amount of BGN 13,5 million, in trade receivables by BGN 9,3 million and in loans granted to third parties by BGN 2,9 million.

Owners' equity and liabilities

The equity of "Sopharma" AD decreased by BGN 35,1 million to BGN 565,2 million as a result of the distribution of additional dividend reserves.

Non-current liabilities increased by BGN 1 million, to BGN 28,9 million, as a result of a of liabilities under long-term lease contracts with related parties in the amount of BGN 0,9 million.

Current liabilities increased by BGN 82,7 million, to BGN 155,7 million, as a result of the increase in liabilities under short-term bank loans by BGN 30,3 million, as well as as a result of accrued liabilities to related parties and third parties for receiving dividends in the amount of

BGN 72,8 million. Trade liabilities decreased by BGN 23 million, which is the result of the decrease in advances received for the sale of finished products, which decrease by BGN 20 million.

Cash flows

	1-6/2023 BGN '000	1-6/2022 BGN '000
Net cash flows from operating activities	(14 232)	32 618
Purchases of property, plant and equipment, intangible assets, net	(5 268)	(5 275)
Payments under lease contracts	(1 496)	(983)
Free cash flow (normalized)	(20 996)	26 360

The free cash flow (normalized with the payments under lease contracts), generated for the first half of 2023 is BGN 21 million outflow compared to BGN 26,4 million inflow in the first half of 2022. The registered net cash outflow from operating activities in the current period is the result of advance payments received from customers in 2022 related to realized sales of output in 2023.

New developments and products

During the reporting period April ÷ June 2023 in the Division "Development and Regulatory Compliance" the following activities were performed:

✓ **New medicines**

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

o Suxamethonium Sopharma 10 mg/mL solution for injection (Bulgaria);

o Suxamethonium Sopharma 20 mg/mL solution for injection (Bulgaria).

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

- Documentation for registration of **9** medicinal products has been submitted:

- Paracetamol 500 mg tb. (Belarus);
- Carsil 22.5 mg film-coated tb. – (Moldova);
- Carsil 90 mg caps. – (Belarus);
- Molsidomin 8 mg tb. (Russia);
- Aminophylline inj. (Lithuania);
- Digoxin Sveikuva inj. (Lithuania);
- Felogel 2.32% gel (Lithuania).

Licensing:

- Sophamet XR 500 mg; 750 mg; 1000 mg prol. rel. tb. (Bulgaria);

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- Trachihelp 5mg/1,5mg lozenges - (Ukraine).

New registrations of medicinal products

- Documentation has been submitted for the registration of **12** medicinal products to agencies of new destinations:
 - Carsil 22.5 mg film-coated tb. (Ukraine)
 - Carsil Forte 90 mg caps. – (Kirgizstan);
 - Pethidine Macure inj – (DCP – Finland; Norway; Sweden; Denmark);
 - Carsil Max 110 mg caps. – (Peru);
 - Syafen 100 mg/5 mL oral susp. – (MRP Georgia);
 - Furosemide Sopharma 40 mg tb. – (MRP Georgia);
 - Zondaron 2 mg/mL inj – (MRP Georgia);
 - Digoxin Sopharma 0.25 mg/mL inj – (MRP Georgia);
 - Valeriana 30 mg tb. – (MRP Georgia).

Re-registrations / changes

- Renewed Marketing Authorizations for **21** medicinal products.
- Submission of documentation for the renewal of the Marketing Authorizations for **7** medicinal products.
- **91** changes for medicinal products submitted to agencies.
- **69** changes for medicinal products approved by agencies.

Food supplements

- **1** Food supplement is notified - for Ukraine.

✓ **Developments**

- Pharmaceutical development of **9** new medicinal products/projects:
 - Cytisine 3.0 mg TB – Project with company Achieve
 - Dexketoprofen 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;

- Development of **5** nutritional supplements is underway:

- Valeriana/Melatonin oral spray;
- Melatonin oral spray;
- Propolis nasal spray;
- Propolis throat spray;
- Syrup (with bee products and extracts).

- ✓ **Transfer and validation of technological processes**

- **1** new medicinal product is transferred – Glycerax Pico oral drops, poison;
- **8** production processes/technologies are validated/optimized.

- ✓ **Prepared documentation for qualification/production**

- Documentation for qualification of raw materials for production– **22**;
- Production regulations– **53**;
- Documentation for qualification of finished forms – **98**.

III. Significant events in the first half of 2023 and until the publication of the interim 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 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:

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Number of voting shares that the offeror does not own

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

Offer price per share

The proposed price of the tender offer is BGN 4.50 per share and is higher than the average weighted market price of the shares for the last 6 months, before the registration of the Tender Offer, which is BGN 4.485.

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

- ✓ 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 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 Regular 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 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 "Sopharma" AD, by issuing 44,925,943 number of ordinary, registered, non-existent 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 warrant holders.
- ✓ On June 5, 2023, announces that at its meeting the Board of Directors of the Company resolved to increase the capital on the condition that the shares from the increase are subscribed by the warrant holders, based on a resolution legally adopted at the General Meeting of Warrantholders (GMW) on June 2, 2023. The expected timetable for implementing the increase is as follows:

Date of disclosure of the announcement under Article 89t, para (2) of the Securities Act on the website www.x3news.com, on the websites of Sopharma AD and the authorised investment intermediary "Sofia International Securities" AD August 24, 2023.

Commencement date for the exercise of the warrants September 1, 2023.

Closing date for payment and subscription of shares

Registration of the issue of new shares and capital increase in the Commercial Register *
October 2, 2023.

Registration of the new shares in investors' accounts with the Central Depository *
October 10, 2023.

Registering the capital increase in the FSC register under art. 30 from the Law on the Financial Supervision Commission * October 17 or 19, 2023.

Commencement of trading in the new shares on the BSE * October 30, 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" No. 3, with an area of 17,688 sq.m. with "Sopharma Buildings" REIT, EIC 175346309. The sale price agreed by the parties on the transaction is BGN 6,337,350 excluding VAT.
- ✓ With decision No. 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, according to the requirements of art. 100t of LPOS, "Sopharma" AD notifies the Bulgarian Stock Exchange and the Warsaw Stock Exchange that in implementation of a decision of the Board of Directors after a detailed analysis and negotiations, "Sopharma" AD signed a contract 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 will be held with the following agenda:
 1. Adoption of a decision for transformation by merger of "Biopharm-engineering" AD into "Sopharma" AD.
 2. Approval of the Agreement for transformation through the merger of "Biopharm-engineering" AD into "Sopharma" AD, concluded on 23.01.2023 and of Additional Agreement № 1 of 21.03.2023 to it.
 3. Approval of the Report of the Board of Directors of "Sopharma" AD under Art. 262i of the Commercial Code to the Company's shareholders regarding the transformation by merger of "Biopharm-engineering" AD into "Sopharma" AD.
 4. 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.
 5. Approval of the Audit Committee Statute as proposed by the Board of Directors.
 6. Approval of decision for acquisition of own shares.

7. Miscellaneous.

IV. Review of the main risks faced by the Company

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

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

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

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

Currency risk

The Company performs its activities in active exchange with foreign suppliers and customers. Therefore, it is exposed to currency risk, mainly in respect of USD. The Company supplies part of its main raw materials in USD. The currency risk is related to the negative movement of the USD exchange rate against the BGN in the future business operations, the recognized foreign currency assets and liabilities and the net investments in foreign companies. The rest of the Company's operations are usually denominated in BGN and / or in EUR. The Company sells some of its finished products in Russia in EUR and thus eliminates the currency risk associated with the depreciation of the Russian ruble. In EUR are also dominated the balances with the subsidiaries in Ukraine. However, in order to minimize currency risk, the Company conducts through its subsidiaries a monetary policy that includes advance payments and the reduction of deferred payment terms and immediate currency conversion of foreign currency earnings to EUR, as well as applying higher trade mark-ups to offset possible future impairment of the hryvnia.

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

V. Information on related party transactions

Related party transactions are disclosed in the explanatory notes to the separate financial statements for the first nine months.

31 July 2023

Sofia