

SUBSTANTIATED REPORT

BY THE BOARD OF DIRECTORS OF **“SOPHARMA” AD, SOFIA**

REGARDING: The terms and appropriateness of transaction under art. 114, para 1 of the Law on public offering of securities (LPOS) proposed to the Annual general meeting of shareholders, scheduled for 2 June 2023, for approval and authorization of the persons representing the Company

The present report has been prepared and approved by the Board of Directors of "SOPHARMA" AD, Sofia, at a meeting held on 12 April 2023, in compliance with the provisions of Art. 114a, para. 2 of the LPOS, Art. 46 of Regulation № 2 of 17 September 2003 of the Financial Supervision Commission on prospectuses for public offering and admission to trading on a regulated securities market and on the disclosure of information by public companies and other issuers of securities and the company's Articles of Association.

According to art. 114a, para 1 of LPOS the present report of the Board of directors of the Company is part of the materials on the relevant items on the agenda for the General meeting of shareholders scheduled for 2 June 2023.

The purpose of this report is to acquaint the shareholders of “SOPHARMA” AD with the essential conditions and appropriateness of transactions within the scope of Art. 114, para 1 of the LPOS proposed for approval by the Regular General Meeting of Shareholders scheduled for 2 June 2023 with a view to making an informed decision by shareholders to authorize the persons representing “SOPHARMA” AD regarding the conclusion of these transactions.

The Substantiated report contains information about the parties, the subject, the conditions, the amount and the terms of the particular transactions, as well as an analysis of the circumstances determining the need for empowerment in accordance with the provisions of art. 114 and the following of LPOS.

Subject of the current report are the following transactions:

Section One: conclusion of a contract for services between "SOPHARMA" AD as the Contracting Authority and recipient of the services and "TELECOMPLECT" AD as the contractor and supplier of the services - a transaction falling within the scope of Art. 114, Paragraph 1, Item 2 of the LPOS

Section One: CONCLUSION OF A CONTRACT FOR SERVICES BETWEEN "SOPHARMA" AD AS PROVIDER AND RECEIVER OF THE SERVICES AND "TELEKOMPLEKT" AD AS CONTRACTOR AND SUPPLIER - TRANSACTION FALLING WITHIN THE SCOPE OF ART. 114, PARAGRAPH 2 OF THE LPOS

The transaction is proposed for approval and authorization by the General Meeting of Shareholders due to the fact that the term of the previous such transaction, the conclusion of which was decided by the General Meeting of Shareholders held on 15 June 2018, expires in the current year 2023. The Board of the directors of "SOPHARMA" AD proposes to the General Meeting of Shareholders to adopt a decision on authorization regarding the conclusion of a transaction under the conditions specified below.

1. SUBJECT OF THE TRANSACTION

It is proposed that the General Meeting of Shareholders of "SOPHARMA" AD approve the conclusion of the following transaction with the subject: engineering and project management; construction-installation and repair-restoration works in the properties of the Contracting Authority or in those in which the same has the relevant rights, reconstructions, innovations and others, specified by types, volume, prices and terms of execution in requests-specifications, mutually agreed and signed by the parties to this contract. The services under this provision are intended to be performed with the means and materials of the Contractor, unless otherwise specified in the specific request-specification; and supplies and services for objects owned by or used by the Assigner.

"SOPHARMA" AD is the assigner and recipient of the services, and "TELECOMPLEKT" AD is the contractor and supplier, therefore "SOPHARMA" AD will incur an obligation to the related party "TELECOMPLEKT" AD in the amount of up to BGN 10,000,000 /ten million/ per year . The transaction is planned to be concluded with a validity period of 5 /five/ years, whereby the total value of the transaction for the envisaged term of its validity will amount to BGN 50,000,000 /fifty million/.

2. PARTIES TO THE TRANSACTION

ASSIGNER: "SOPHARMA" AD, with headquarters and address of management in Sofia city 1220, Nadezhda district, UIC 831902088, represented by Ognian Donev in his capacity as of Executive Director and representing the Company.

CONTRACTOR: "TELECOMPLEKT" AD, with headquarters and management address in Sofia city, 5 Lachezar Stanchev Str., Sopharma Business Towers, building A, entered in the Commercial Register at the Registration Agency with UIC: 831643753, represented by Iliyan Slavov Kolev - Executive Director and representative of the company.

3.3. PARTICIPATION OF INTERESTED PARTIES IN THE ABOVE TRANSACTION WITHIN THE SCOPE OF ART. 114, PARA 7 OF LPOS

Pursuant to the provision of art. 114, para 7 of the LPOS "Interested parties are the members of the management and supervisory bodies of the public company, the persons - representatives of legal persons, members of such bodies, their procurator, persons who directly and/or indirectly own at least 25 percent of the votes in the general meeting of the company or control it and in the case of transactions of a subsidiary - the members of its management and supervisory bodies, the persons - representatives of legal entities, members of such bodies, its procurator, persons which directly and / or indirectly own at least 25 per cent of the votes in the

general meeting of the company other than the public company and the persons related to them when they:

1. are a part, a representative or intermediary in a transaction or the transactions or actions are carried out in their favor, or
2. own directly and / or indirectly at least 25 percent of the votes in the general meeting or control a legal entity that is a counterparty, a representative or an intermediary in the transaction or in whose favor the transactions or actions are carried out; or
3. are members of management or supervisory bodies, representatives of legal persons, members of such bodies or procurators of a legal person under items 1 and 2.

The transaction proposed for approval is defined as a transaction with the participation of interested persons within the meaning of Art. 114, para. 7 of the LPOS, due to the following:

The representative of the public company "Sopharma" AD directly owns more than 25% of the votes in the General Meeting of Shareholders and is the Chairman of the Supervisory Board of "Telecomplekt" AD - the company party to the transaction – on the grounds of art. 114, para. 7, item 2 and Item 3 of the LPOS for determining the representative of the public company "Sopharma" AD as an interested party.

Deputy-chairman of the public company "Sopharma" AD pursuant to §1, item 13, letter d) is a related person to a person holding more than 25% of the votes in the General Meeting of Shareholders and a member of the Supervisory Board of "Telecomplekt" AD - the company party to the transaction - the grounds of Article 114, Paragraph 7, Item 2 and Item 3 of the LPOS for determining the deputy the chairman of the public company "Sopharma" AD and the person related to him as interested parties.

Pursuant to Article 114a, para 5 of LPOS the interested parties mentioned in the the Substantiated Report, as well as the persons related to them defined in § 1, items 13 and 14 of the additional provisions of the LPOS wheather they are mentioned in the Substantiated Report or not, can not exercise their voting rights at the General Meeting of the Company, scheduled for 3 June 2022 when making a decision for authorizing the representative of the company to execute the relevant proposed transaction. When deciding on the quorum for taking a decision, all the votes registered at the general meeting will be taken into consideration and the votes of the interested parties will not be included in determining the majority for the decision.

4. TERMS AND CONDITIONS OF THE TRANSACTION

The term of the contract will be set at five years.

Value of the transaction - up to BGN 10,000,000 /ten million/ per year or in total for the planned 5-year period the value of the transaction amounts to BGN 50,000,000 /fifty million/.

The performance of each service will be carried out at the request of the Assignor and with means and materials of the Contractor, unless otherwise agreed.

The transaction is proposed for approval by the General Meeting of Shareholders, after the management body of "SOPHARMA" AD, as the contracting authority, has previously convinced itself of the competence of the Contractor and the availability of sufficient resources and capabilitie to perform the assigned work qualitatively and in accordance with the current regulations and the principles of Good Manufacturing Practice, if applicable.

The General Meeting of Shareholders of "SOPHARMA" AD is the body that should authorize the representatives of the public company to conclude the transaction, as well as to perform all legal and factual actions necessary for its implementation in compliance with the

decision of the General Meeting of the shareholders, the Articles of Association of the company and in accordance with the applicable provisions of the current legislation.

5. BENEFICIARIES OF THE TRANSACTIONS

Both parties are beneficiaries of the transaction.

6. ASSESSMENT OF THE CONDITIONS UNDER ART. 114, PARA 1, ITEM 1 AND 2 OF LPOS - these conditions are assessed when, by virtue of and in execution of the transaction, liabilities arise for the public company to one person or to related persons of a total value exceeding the value under Art. 114, paragraph 1, item 1, letter "a" of the Civil Code, and when the obligations are to interested parties or for the benefit of interested parties - above the value under item 1, letter "b" of the same provision.

In the implementation of the proposed transaction, "SOPHARMA" AD will have an **obligation** to pay for the services provided with a total estimated value of up to BGN 50,000,000 /fifty million/ for the duration of the contract. The obligation is to a person related to the person representing the public company - presence of an interest within the meaning of Art. 114, Para. 7 of the LPOS, which is why the provision of **Art. 114, para. 1, item 1, b. "b" in connection with the second hypothesis of item 2 of the same provision of the LPOS.**

Value of assets on balance as at 31.12.2022, and disclosed publicly /in thousand BGN/	Value of assets on balance as at 31.12.2022 audited and disclosed publicly /in thousand BGN/	Value of the obligation in thousand BGN	Threshold under art.114, para 1, item 1, letter "b" of LPOS in thousand BGN
702 677	701 248	50 000	14 054

As can be seen from the above table, the value of the proposed transaction exceeds the thresholds under Art. 114, Para. 1, and its conclusion requires prior authorization by the General Meeting of Shareholders of "SOPHARMA" AD.

7. APPROPRIATENESS OF THE PROPOSED TRANSACTION

"SOPHARMA" AD is mainly engaged in the manufacturing of pharmaceutical products and medical devices. The maintenance and repair activities of the production facilities, the construction of new facilities need to be secured by the company by using the services of a qualified, reputable and experienced partner.

"TELECOMPLECT" AD has traditions and experience in the field of construction and repairs, it has the necessary licenses and equipment to perform construction and assembly and repair activities, which are also the subject of the proposed transaction.

With the conclusion of the proposed transaction, "SOPHARMA" AD will receive high-quality and at a reasonable price performance of the agreed activities, which has been proven during the current transaction between the parties with the same subject.

The Board of Directors of "SOPHARMA" AD considers that the transaction proposed in this report is in the interest of the Company and proposes to the shareholders to adopt a decision approving the conclusion of the transactions under the above conditions and in compliance with the requirements of the Company's Articles of Association and the LPOS.

The Board of Directors of "SOPHARMA" AD notifies all interested parties pursuant to Art. 114, para. 7 of the LPA persons, regardless of whether they are mentioned in this report explicitly, but who fulfill the conditions of the above-mentioned provision, that they, in case they are shareholders in "SOPHARMA" AD, do not have the right to participate in the voting on the relevant item on the agenda of convened for 2 June 2023. Regular General Meeting of shareholders, at which it is planned to take a decision regarding a transaction with their participation as interested parties. In these cases, the decisions should be taken with a majority of the remaining represented shares from the capital of "SOPHARMA" AD. The same will apply in case of holding the General Meeting on 23 June 2023.

The report is part of the materials on the agenda of the Annual General meeting of shareholders of "Sopharma" AD convened for 2 June 2023 as well as the eventual holding of the General Meeting on the reserve date set by the invitation to convene it.

Board of Directors of "SOPHARMA" AD,

1. Aleksandar Viktorov Tchaoushev /signature/

2. Ivan Venetskov Badinski /signature/

3. Bissera Nikolaeva Lazarova /signature/

Sofia, 12.04.2023