

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

**REGARDING:** The terms and appropriateness of transactions under art. 114, para 1 of the Law on public offering of securities (LPOS), proposed to the Annual general meeting of shareholders, scheduled for 4 June 2021, for approval and authorization of the persons representating the Company.

The present report has been prepared and approved by the Board of directors of “SOPHARMA” AD, Sofia city at a meeting held on 14 April 2021, in compliance with the provisions of art. 114a, para 1 of LPOS, art. 46 of Regulation № 2 from 17 September 2003 of the Financial Supervision Commission for prospectuses for public offering and admission to trading on a regulated market of securities and for disclosure of information by public companies and other issuers of securities and the Articles of Associations of the Company.

Mr. Ognian Donev - Chairman of the Board of directors and Ms. Vessela Stoeva – Deputy-Chairperson of the Board of directors appointed as stakeholders within the meaning of art. 114, para 7 of LPOS on the transaction proposed for approval by this report, shall not participate in the preparation and adoption of this report. The report was prepared and adopted by the other members of the Board of directors.

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 items on the agenda for the General meeting of shareholders, scheduled for 4 June 2021 from 11:00 a.m. (UTC 8:00 a.m.).

The Substantiated report contains a section with information about the parties, the subject, the conditions, the amount and the terms of the particular transaction, 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 in order to provide authority information to shareholders to take an informed decision on the relevant items of the AGM agenda.

**Subject of the current report are the following transactions:**

**Chapter One: Conclusion of a contract for the purchase and sale of electricity between “Sopharma” AD as a buyer and “Energoinvestment” AD as a seller - a transaction falling within the scope of art. 114, para 1, item 1 of LPOS.**

## **CHAPTER I**

### **CONCLUSION OF A CONTRACT FOR THE PURCHASE AND SALE OF ELECTRICITY BETWEEN “SOPHARMA” AD AS A BUYER AND “ENERGOINVESTMENT” AD AS A SELLER – TRANSACTION FALLING WITHIN THE SCOPE OF ART. 114, PARA 1, ITEM 1 OF LPOS.**

#### **1. SUBJECT OF TRANSACTION**

It is proposed that the General meeting of shareholders of “SOPHARMA” AD approves and empowers the Board of directors and the representative of the Company for concluding a Framework Contract for purchase and sale of electricity between “SOPHARMA” AD as a buyer and “ENERGOINVESTMENT” AD as a seller, by virtue of which “SOPHARMA” AD will purchase electricity from the seller “ENERGOINVESTMENT” AD for a period of three years /from 1 July 2021 to 30 June 2024/.

#### **2. CONTRACT PARTIES**

**SELLER:** “ENERGOINVESTMENT” AD with headquarters and address of management – Sofia, Sredets District, 9 Slaveykov Square, UIC 200929754, represented by Hristo Alexandrov in his capacity as an Executive Director and Representative of the Company;

**BUYER:** “SOPHARMA” AD with headquarters and address of management – Sofia, Nadezhda District, 16 Iliensko Shose Str., UIC 831902088, represented by Ognian Donev in his capacity as an Executive Director and Representative of the Company.

#### **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 may be defined as a transaction involving a interested parties within the meaning of art. 114, para 7 of LPOS due to the following:

Ognian Donev - representing the public company “Sopharma” AD as a part of the transaction indirectly owns over 25% of the capital of “Energoinvestment” AD – a counterparty to the transaction – grounds for interest under art. 114, para 7, item 2 LPOS;

Ventsislav Stoev is an interested party, as on the one hand he is a related person within the meaning of §1, item 13 of the LPOS with a member of the Board of director of “Sopharma” AD and on the other hand – he owns indirectly over 25% of the capital of “Energoinvestment” AD - a counterparty to the transaction – grounds of interest under art. 114, para 7, item 2 LPOS;

The member of the Board of directors of “Sopharma” AD Vessela Stoeva is an interested party, as a related person within the meaning of §1, item 13 of the Additional Provisions of the LPOS indirectly owns over 25% of the capital of “Energoinvestment” AD - counterparty to the transaction - grounds for interest under art. 114, para 7, item 2 of LPOS.

The interested parties shall not have the right to vote in the General meeting of shareholders with the shares own by them when making a decision on the item on the agenda for approval of this transaction.

#### **4. TERMS AND CONDITIONS OF THE TRANSACTION**

The basic terms of the proposed transaction are as follows:

**Duration of the contract:** three years, as of 1 July 2021 to 30 June 2024.

Subject of the transaction: purchase and sale of active net electrical energy (electrical energy) between “SOPHARMA” AD as a buyer and “ENERGOINVESTMENT” AD as a seller.

The deliveries of energy will be made according to consumption schedules/hourly schedules for estimated electricity consumption in the objects of the Buyer/, prepared on the basis of a schedule submitted by the Buyer for operation of the objects. The obligations of the Seller include the preparation of consumption schedules in accordance with the data submitted by the Buyer and their registration in ESO. The delivered energy is reported according to the readings of the commercial measurement instruments and its payment will be made monthly according to a schedule agreed between the parties and against invoices issued by the Seller.

**Value of the transaction:** According to art. 114, para 5, the value of the acquired property under para 1, item 1 is the agreed price, as according to art. 114 “a”, para 6, the transactions under art. 114, para 1, item 1 involving interested parties may be carried out only at market price. A market valuation has been prepared for the proposed transaction by the licensed appraiser “Consultprice” OOD appointed by the Board of Directors. The market valuation is attached to this report, according to which the market value of electricity on the free market varies depending on many different factors. The price of electricity is set at BGN 121.50 per Mw / h without VAT, excise duty and “responsibility to society” fee. The indicated taxes and fees are determined by law, are added to the value of the consumed energy on each invoice and are the same for all energy suppliers.

According to the quoted market valuation, within its period of validity/ 36 months / the expected changes in the price levels of the respective market are in the range of deviation +/- 15%. According this and in view of the proposed term of the contract and the historical fluctuations in the prices of electricity on the free market, as of the date of concluding the

contract, the average unit market price is set at BGN 121.50 per Mw / h excluding VAT, excise and fee “responsibility to society” /according to the determined average unit market price as of the date of preparation of the valuation /. In case of change in market conditions during the term of the contract, leading to change in market prices of electricity on the free market, the contract price may be renegotiated in accordance with current market prices /according to current market valuation / without, in case of increase to exceed the limits of the envisaged deviation of + 15% of the initial price and provided that the total value of the contract for the period of 3 years does not exceed the maximum value of the transaction voted by the General Meeting. The proposal is for the General Meeting to empowers the Board of directors to adopt decisions for concluding Annexes for changing the price under the contract under the conditions and within the limits specified in the previous sentence.

Based on the determined market values of the asset at the time of preparation of the valuation, the projected minimum and maximum amount of energy that will be needed for the term of the contract and the expected deviations in the average unit market price, the following forecast values of the transaction are formed:

- ✓ Minimum value of the transaction for the term of the framework contract - not less than BGN 11,770,155.44 excluding VAT, excise duty and “responsibility to society” fee.
- ✓ Maximum value of the transaction for the entire term of the framework contract / based on market valuation / - up to BGN 14,104,206.09 excluding VAT, excise duty and “responsibility to society” fee;

## **5. BENEFICIARIES OF THE TRANSACTIONS**

Both parties are beneficiaries of the transaction.

**6. ASSESSMENT OF THE CONDITIONS UNDER ART. 114, PARA 1, ITEM 1 OF LPOS** – these conditions shall be assessed when by virtue of and in execution of the transaction the company acquires, transfers, receives or provides for use or as collateral in any form assets of total value above the value under art. 114, para 1, item 1, letter "a" of LPOS, and when interested parties participate in the transactions - above the value under item 1, letter "b" of the same provision.

In implementation of the proposed transaction “SOPHARMA” AD will acquire total electricity for the period of the contract at a total minimum value of BGN 11,770,155.44 excluding VAT, excise duty and “responsibility to society” fee and total maximum value / based on maximum value according to market valuation, increased with the maximum increase in the market prices envisaged in the assessment for the term of the contract/ - up to BGN 14,104,206.09 without VAT, excise duty and “responsibility to society” fee, respectively by virtue of the contract liabilities to the supplier will arise up to the specified total maximum value for the period of the contract.

Since interested parties are involved in the transaction, the applicable threshold for assessing the conditions under art. 114(1) of LPOS will be the threshold under item 1(b) of the same provision, and pursuant to art. 114 "a", para 7 the calculation for the purposes of art. 114 para 1 shall be carried out in relation to the maximum value of the transaction.

Value of assets on balance as at 31.12.2020, unaudited and disclosed publicly /in BGN/	Value of assets on balance as at 31.12.2020 audited and disclosed publicly /in BGN/	Minimum value of the asset / liability for the term of the contract (according to market valuation in BGN)	Maximum value of the asset / liability for the term of the contract (according to market valuation in BGN)	Threshold under art.114, para 1, item 1, letter “b” of LPOS in BGN
649 809 000	650 338 000	11 770 155.44	14 104 206.09	13 007 000

As can be seen from the table above, 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 medicinal products and medical devices. The operation of the company's production facilities is linked to the need for continuous supply of electricity. With the amendments to the Energy Act and the abolition of price regulation for non-household consumers, for all non-household consumers there is a need to switch to choosing an electricity supplier at free market prices. Legal entities which until 30 June 2021 have not concluded a contract with an electricity trader on a free electricity market will be officially transferred to a Supplier of last resort / SLR /, where the prices paid for electricity are expected to be higher. The purpose of the proposed transaction is to ensure security of production of the company and predictability of costs by ensuring a reliable and loyal supplier of electricity, as the Board of directors sees in the face of "ENERGOINVESTMENT" AD.

“ENERGOINVESTMENT” AD is mainly engaged in research, development, investment and implementation of energy projects, sale of electricity and has established experience in the industry. The company is a licensed electricity trader with license № L-330-15/21.06.2010 issued by SEWRC, amended by Decision № I1-L-330/17.05.2016 of the EWRC with the rights and obligations of a “coordinator of a standard balancing group” and has a quality certificate according to the standard ISO 9001:2008, regarding all activities related to electricity trade. For “ENERGOINVESTMENT” AD the transaction is within the scope of its main activity, in which the company has many years of experience and from which it receives its revenues.

This report has been prepared and signed by the Board of directors of “Sopharma” AD and is adopted on the Minutes of the meeting of the Board of directors held on 14 April 2021. Pursuant to art. 114a, para 2 of LPOS in the preparation and adoption of this report did not participate Mr. Ognian Donev - Chairman of the Board of Directors and Ms. Vessela Stoeva - Deputy Chairperson of the Board of Directors, identified as an interested party within the meaning of art. 114, para 7 of LPOS on transactions proposed for approval with this report, as indicated in the relevant sections of the report.

The report is part of the materials on the agenda of the Annual General meeting of shareholders of “Sopharma” AD convened for 4 June 2021 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:

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

1. Alexandar Victorov Tchaushev: /Signature/

2. Ognian Kirilov Palaveev: /Signature/

4. Ivan Venetskov Badinski: /Signature/

Sofia city, 13.04.2021