

**REPORT OF THE BOARD OF DIRECTORS OF "SOPHARMA" AD
UNDER ART. 262I OF THE COMMERCIAL LAW**

This report was adopted on the basis of Art. 262i of the Commercial Law with a decision based on the minutes of the meeting of the Board of Directors of "SOPHARMA" AD, held on 17.01.2024, and was amended by decisions based on the minutes of the meetings of the Board of Directors of "SOPHARMA" AD, held on 13.03.2024 and on 29.04.2024, in connection with the transformation by merger of "VETA PHARMA" AD" AD, UIC: 104111084, hereinafter referred to as "Merging Company", into "SOPHARMA" AD, UIC: 831902088, hereinafter referred to as the "Receiving company".

The purpose of this report is to present a detailed legal and economic justification for the Merger Transformation Agreement concluded between "VETA PHARMA" AD and "SOPHARMA" AD on 16.01.2024 and amended by Supplementary Agreement No. 1 dated 08.03.2024 and by Supplementary Agreement No. 2 dated 26.04.2024.

This report was prepared on 17.01.2024 and was amended on 13.03.2024 and on 29.04.2024.

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I. LEGAL GROUNDS FOR THE TRANSFORMATION

1. Contract for Transformation by merger

With the Contract for transformation by merger concluded on 16.01.2024 and amended by Additional Agreement No. 1 dated 08.03.2024 and by Additional Agreement No. 2 dated 26.04.2024, the manner in which the Transformation by merger of "VETA PHARMA" AD" AD into "SOPHARMA" AD, referred to below in this report only as "the Merger", was detailed, as well as the resulting consequences for the merging and receiving company.

2. Merging Company

"VETA PHARMA" AD" AD is entered in the Commercial Register at the Registration Agency with UIC: 104111084. The company has its registered office and management address: the city of Veliko Tarnovo, 32, "Dulga Laka" Str.. The capital of the company is BGN 4,540,000, and is fully paid. The capital of the company is divided into 4,540,000 ordinary registered materialized shares with a nominal value of BGN 1 (one) each. "VETA PHARMA" AD" AD is not a public company.

3. Receiving company

"SOPHARMA" AD is entered in the Commercial Register at the Registration Agency with UIC: 831902088. The company's registered office and management address are: Sofia, Nadezhda district, 16, Iliensko shose Str.. The company's capital is BGN 172,590,578 and is fully paid. The company's capital is divided into 172,590,578 ordinary, registered, dematerialized shares with a nominal value of BGN 1 (one) each. "SOPHARMA" AD is a public company within the meaning of the Law on Public Offering of Securities and is entered in the register under Art. 30, para 1, item 3 of the Law on the Financial Supervision Commission.

4. Rights and obligations after the Transformation

From the moment of entry of the Merger in the Commercial Register, the rights and obligations of the Merging Company pass to the Receiving Company, and the shareholders of the Merging Company, with the exception of the Receiving Company, which is also a shareholder in the Merging Company, become shareholders of the Receiving Company.

5. Conditions

The implementation of the transformation is conditioned by the prior approval of the Financial Supervision Commission, upon proposal by the Vice-Chairman of the Commission, leading the "Investment Supervision" department, and will be completed after receiving this approval.

6. Information regarding capital increase of the Receiving company

The capital of the Receiving Company is BGN 172,590,578 divided into 172,590,578 dematerialized shares with a nominal value of BGN 1 each. In the provision of Art. 262y, para 3, item 1 of the Commercial Law, there is a prohibition on increasing the capital of the Receiving Company, since the Receiving Company owns a shareholding in the amount of 99.98% of the capital of the Merging Company. The capital of the Receiving Company cannot and will not be increased to implement the Merger and the shareholders of the Merging Company will acquire already issued shares of the capital of the Receiving Company.

7. Information regarding treasury shares owned by the receiving company, which can be used to carry out the Transformation

The receiving company "SOPHARMA" AD owns a total of 14,328,336 treasury shares.

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8. Classes of shares of the receiving company that may be used to effect the Transformation

The receiving company has issued only one class of shares - ordinary, dematerialized, registered, with the right to one vote each, kept in the registers of "Central Depository" AD. The book of shareholders of the Receiving Company is kept by the "Central Depository" AD.

9. Description of the Transformation mechanism

As a result of the merger, all shareholders of the Merging Company, except the Receiving Company, which is also a shareholder of the Merging Company, will acquire shares of the capital of the Receiving Company and become shareholders in it.

10. Description of the rights acquired by the shareholders of the Merging Company as a result of the Transformation

From the date of entry in the Commercial Register of the merger, the shareholders of the Merging Company acquire all the rights that the Law or the Articles of Association give to the shareholders of the Receiving Company, including the right to participate in the distribution of profits.

11. Post-Transformation Accounting

According to Art. 262g, para 2, point 7 and art. 263g, para 2 of the Commercial Law, the Parties agree that the Effective Date of the Merger for accounting purposes will be 01.01.2024.

12. Information on special rights of the shareholders of the receiving company

"SOPHARMA" AD has no shareholders who have special rights related to their shares, and no rights within the meaning of Art. 262g, para 2, item 8 of the Commercial Law that they should receive, as well as no other measures beyond the rights specified in Art. 262g, para 2, item 8 of the Commercial Law.

The receiving company "SOFARMA" AD has issued warrants in the amount of BGN 44,925,943. A warrant is a security that expresses the right to subscribe for a certain number of securities at a predetermined or determinable issue value until the expiration of a certain period. A warrant is a derivative security that is issued on other securities - an underlying asset. The underlying asset of the warrants from the issue 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 Issuer of the warrants - the Accepting Company, subject to the sole benefit of the owners of the warrants. The warrants from the issue are non-cash, freely transferable and registered. All warrants of the issue give the same rights to their holders and form one class of securities. The warrants have ISIN code BG9200001212. CFI code: RWSTBE. FISN code: SOPHARMA/P WT SOPHARMA 1 20240901. Each warrant from the issue gives the following rights to its holder: Right to subscribe for shares from an upcoming capital increase of the Receiving Company, which will be carried out if the prerequisites are met, and right to one vote in the meeting of warrant holders. In the event that the holder of the warrant exercises his right to convert it into a share, he acquires the status of a shareholder, and a membership legal relationship arises between the shareholder and the Receiving Company. A capital increase through the exercise of 37,792,679 warrants was entered in the Commercial Register with entry 20231006154557 on 06.10.2023 at 15:33:05 which represents an initiation of a capital increase of the company from 172,590,578 to 179,100,063 by exercising another 6,509,485 warrants.

13. Information on classes of equity and debt financial instruments issued by the transferring company

"SOPHARMA" AD has not issued any other securities, apart from ordinary shares with voting rights and the warrants described in item 12 of this report.

14. Benefits granted to auditor

"SOPHARMA" AD does not provide any advantages to the auditor under Art. 262l of the Commercial Law.

15. Benefits granted to members of management and control bodies

No advantages are provided to the members of the Board of Directors of "SOPHARMA" AD.

II. ECONOMIC JUSTIFICATION OF THE TRANSFORMATION

16. Subject of activity of the Merging Company and the receiving company

"**Sopharma**" AD is a commercial company registered in Bulgaria under the Commercial Law, with its headquarters and management address in the city of Sofia, 16 "Iliensko shose" street. "Sopharma" dates back to 1933. The court registration of the Company dates from 15.11.1991, decision No. 1/1991 of the Sofia City Court. "Sopharma" AD is a public company according to the Law on Public Offering of Securities.

Sopharma Group consists of "SOPHARMA" AD and subsidiaries directly or indirectly controlled by the Company. Additionally, the Group has investments in three associated companies (Doverie - United Holding AD, Sopharma Imoti REIT, and Sopharma Buildings REIT) and in one joint venture (Momina Krepost AD). The group includes the following foreign legal entities:

- Sopharma Poland Z.O.O., Poland, in liquidation - a commercial company registered in Poland with decision No. KRS 0000178554 of 04.11.2003 of the XX Economic Department of the District Court Register of Warsaw and with its seat and address of management - Poland, city of Warsaw, "Shashkova" street No. 58;
- Sopharma Warsaw SP. Z.O.O., Poland - a commercial company registered in Poland with decision No. DSR 0000372245 of 17.12.2010 of the XII economic department of the State Court Register of Warsaw and with its registered office and management address - Poland, city of Warsaw, ul. "Halubinskiego" No. 8;
- OOO Sopharma Ukraine, Ukraine – a commercial company registered in Ukraine with decision No. 10691020000029051 dated 07.08.2012 of the Unified State Register of Legal Entities and Natural Entities - Entrepreneurs and with its registered office and management address – Ukraine, Kyiv, Obolonsky District, "Moskovsky" avenue No. 9, building 4, floor 2, office 4-203;
- PAD Vitamini, Ukraine - a commercial company registered in Ukraine by decision No. 133 of 15.04.1994 of the Uman City Court and with its registered office and management address - Ukraine, Cherkassy Region, Uman, 31 "Leninsky Iskri" St.;
- Sopharma Trading D.O.O., Serbia - a trading company registered in Serbia with decision No. 07829531 of 05.02.1992 of the Agency for Business Registers and with headquarters and management address - Serbia, Belgrade, 48c Zorana Djindjica Blvd.;
- Sopharma Kazakhstan LLP, Kazakhstan - a commercial company registered in Kazakhstan with decision No. 5286-1910-04-TOO dated 06.11.2014 by the Ministry of Justice, Auezovsky district, with headquarters and management address - Kazakhstan, city of Almaty, Auezovsky district, mkr. Mamir – 4, house 190;

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- Farmahim EOOD, Serbia - a commercial company registered in Serbia with ID number 27219/2020 on 14.04.2020 by the Business Register Agency of the city of Belgrade and with its registered office and management address - Republic of Serbia, the city of Belgrade, Vladimira St. Popovicha" No. 6.

Until 11.11.2022, Rap Pharma International OOD, Moldova, was also part of the group.

On 13.10.2023, a 100% owned subsidiary was registered in Russia by "SOPHARMA" AD.

On 10.11.2023, "SOPHARMA" AD acquired 25% of the capital of Pharmanova d.o.o., Serbia.

On 23.08.2023, the merger of "Biopharm Engineering" AD into "SOPHARMA" AD was entered in the Commercial Register at the Registration Agency. The merger of Biopharm Engineering AD (Merging Company) into the parent company "SOPHARMA" AD (Receiving Company) was implemented through the legal form of transformation regulated in the Commercial Law. As a result of the transaction, all assets of Biopharm Engineering AD are transferred to "SOPHARMA" AD, and Biopharm Engineering AD is terminated without liquidation.

Sopharma Group is a leading Bulgarian manufacturer, exporter and local distributor of pharmaceutical products with a strong presence in Eastern and South-Eastern Europe, offering a wide range of prescription drugs, OTC products, nutritional supplements, cosmetic products and medical devices.

The group operates in the following areas:

- production of pharmaceutical products, including medicines, mostly generic, plant-based substances and nutritional supplements, which is mainly carried out by "Sopharma" AD (the Company);
- production of medical products and medicinal cosmetics, such as plasters, bandage products and sanitary hygiene products, concentrated at the production site in the town of Sandanski;
- distribution of pharmaceutical products, medical consumables, sanitary materials, vitamins, nutritional supplements, cosmetics and others, which is mainly carried out by "Sopharma Trading" AD in Bulgaria and Serbia.

"VETA PHARMA" AD was established in 1999 and has its headquarters and management address in the city of Veliko Tarnovo, 32 "Dulga Laka" Blvd.

The main activity of the company is the production of solutions for skin, alcohol-containing disinfection solutions, non-alcohol-containing disinfection solutions, tinctures for oral administration, powdered products, nutritional supplements, and food additives intended for use in the food industry.

A significant part of the company's sales (more than 50%) are to a company from the Group - Sopharma Trading AD.

17. Presentation of the fair share prices of the two companies and the exchange ratio

With the Transformation method chosen in this way - by merger, the receiving company becomes an universal receiver of the Merging Company. For the purpose of carrying out the Transformation by merging the Merging Company into the receiving company, the fair prices of the shares of the two companies were calculated, which were used to form the exchange ratio. The principle of equivalence is observed - the acquired shares after the Transformation in the

receiving company are equivalent to the fair price of the shares owned before the Transformation in the Merging Company.

According to the prepared justification for the fair price per share of the Merging Company as of 15.01.2024 (Attachment No. 1, an integral part of the Merger Transformation Agreement signed between "VETA PHARMA" AD and "SOPHARMA" AD), the fair price per share of "VETA PHARMA" AD" AD is **BGN 1.89**.

Calculated fair price per share of "VETA PHARMA" AD based on the valuation methods:

Evaluative method	Price per 1 Share	Weight
Market Peers	20.12 BGN	0%
Discounted cash flow	2.49 BGN	40%
Net asset value	1.49 BGN	60%
Fair value	1.8900 BGN	

The determined value of one share is BGN 1.89.

According to the prepared justification for the fair price of a share of "SOPHARMA" AD as of 15.01.2024 (Attachment No. 2, an integral part of the Contract for transformation through merger signed between "VETA PHARMA" AD and "SOPHARMA" AD), the fair price of a share of "SOPHARMA" AD is BGN 8.33.

Calculated fair price per share of "Sopharma" AD based on the valuation methods:

Evaluative method	Price per 1 Share	Relative Weight
Average weighted value from transactions on the BSE for the last 6 months	BGN 6.27	80%
Value according to evaluation methods in accordance with art. 5, para 3 from Regulation No. 41 of the FSC	BGN 16.58	20%
Fair price	BGN 8.3320	

By using rounding to the nearest number with two decimal places, we get a value of BGN 8.33.

Thus, the exchange ratio of one owned share of the capital of "VETA PHARMA" AD" AD for shares of "Sopharma" AD is 1 share of "VETA PHARMA" AD" AD is exchanged for 0.2268907563 shares of "Sopharma" AD, or when applying rounding to the second decimal place, against 0.23 shares of "Sopharma" AD.

Calculated exchange ratio:

Ratio on replacement	
Fair price on action on "VETA PHARMA" AD (BGN)	1.89
Fair price on action on Sopharma (BGN)	8.33
Ratio on replacement of one share of "VETA PHARMA" AD for one share of "SOPHARMA" AD	0.2268907563

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Thus, after the transformation, the capital of " Sopharma " AD should acquire a fair value of BGN 1,318,326 thousand or BGN 8.33 per share:

Pro-forma before transformation	Receiving company	Merging Company
Number of shares outstanding before the transformation	158,262,242	4,540,000
Fair value of 1 share before the transformation (in BGN)*	8.33	1.89
Value of the company (in BGN)	1,318,324,475.86	8,580,600.00
Pro-forma after transformation	Receiving company	Merging Company
Number of shares in the Merging Company that are not held by the receiving company	Not applicable	1,050
Fair value corresponding to shares in the Merging Company that do not belong to the receiving company (in BGN)**	1,984.50	The company is dissolved as a result of the merger
Positive adjustments (liabilities written off, additional assets recognized) on the transformation***	0.00	
Negative adjustments (newly recognized liabilities, written off assets) on the transformation***	0.00	
Reduction in cash due to cash payment of part of the merger price to minority shareholders of the merging company	-79.23	
Fair value of the receiving company after the merger (in BGN)	1,318,326,381.13	
Number of shares of the Receiving Company paid in the transformation of minority shareholders of the Merging Company	232	
Number of shares outstanding after the merger	158,262,474.00	
Fair price of 1 share after the transformation (in BGN)	8.33	
<i>* based on a fair value assessment</i>		
<i>** determined by multiplying the fair value of 1 share of the Merging Company by the number of shares in the Merging Company that are owned by persons other than the Receiving Company</i>		
<i>*** based on a preliminary assessment by Sofia International Securities. The exact value is determined at the time of accounting for the transformation, after confirmation by an independent auditor.</i>		

Pro-forma before transformation	Receiving company	Merging Company
Number of shares outstanding before the transformation	158,262,242	4,540,000
Fair value of 1 share before the transformation (in BGN)*	8.33	5.42
Value of the company (in BGN)	1,318,324,475.86	24,606,800.00
Pro-forma after transformation	Receiving company	Merging Company
Number of shares in the Merging Company that are not held by the receiving company	Not applicable	1,050

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Fair value corresponding to shares in the Merging Company that do not belong to the receiving company (in BGN)**	5,691.00	The company is dissolved as a result of the merger	
Positive adjustments (liabilities written off, additional assets recognized) on the transformation***	0.00		
Negative adjustments (newly recognized liabilities, written off assets) on the transformation***	0.00		
Reduction in cash due to cash payment of part of the merger price to minority shareholders of the merging company	-79.23		
Fair value of the receiving company after the merger (in BGN)	1,318,330,087.63		
Number of shares of the Receiving Company paid in the transformation of minority shareholders of the Merging Company	673		
Number of shares outstanding after the merger	158,262,915.00		
Fair price of 1 share after the transformation (in BGN)	8.33		
<i>* based on a fair value assessment</i>			
<i>** determined by multiplying the fair value of 1 share of the Merging Company by the number of shares in the Merging Company that are owned by persons other than the Receiving Company</i>			
<i>*** based on a preliminary assessment by Sofia International Securities. The exact value is determined at the time of accounting for the transformation, after confirmation by an independent auditor.</i>			

The above analysis shows that there is no material effect on the accounting value of one share (the difference is less than BGN 0.01).

In addition, it should be taken into account that:

(a) in accordance with IAS and IFRS, there is a material netting between the effect of the acquisition of all the assets and liabilities of the merging company by the receiving company (resulting in an increase in the net assets of the receiving company by an amount equal to the net assets of fair value of the Merging Company) and the effect of writing off the capital instruments of the merging company owned by the receiving company (whose fair value is equal to the net value of the assets of the Merging Company), insofar as the receiving company owns 99.98% of the capital instruments of the Receiving Company and the value of the net assets of the Receiving Company at fair value under IFRS is insignificant.

(b) there are no significant differences in the accounting policies of the receiving and merging companies that would lead to significant accounting effects in the case of different treatment of assets and liabilities by the successor company; and

(c) the receiving company becomes the successor in title to all claims and liabilities of the merging company, and during the legal due diligence carried out, no contractual clauses were established which suggest that, upon completion of the merger, the receiving company will have grounds for

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early repayment of certain obligations of the transferring company company to third parties, or to write off certain receivables of the merging company from third parties.

The capital of the Receiving Company in the amount of BGN 179,100,063, divided into 179,100,063 dematerialized shares with a nominal value of BGN 1 each. In the provision of Art. 262y, para 3, item 1 of the Commercial Law, there is a prohibition to carry out an increase in the capital of the Receiving Company, since the Receiving Company owns a shareholding in the amount of 99.98% of the capital of the Merging Company. The capital of the Receiving Company cannot and will not be increased to effect the Merger and the shareholders of the Merging Company will acquire already issued shares of the capital of the Receiving Company.

Due to the mathematical impossibility of exchanging the shares of each individual shareholder in the Merging Company for shares in the Receiving Company of fully equivalent value, the difference up to that value will be compensated by additional cash payments in the appropriate amount, so that each shareholder of the Merging Company will receive :

(a) such number of shares in the receiving company as is equal to the number of shares held by that shareholder in the Merging Company multiplied by the Transformation factor of 0.23 and rounded down to the nearest whole number, and

(b) such amount of money which is equal to (i) the determined market value of one share of the receiving company, BGN 8.33, multiplied by (ii) the difference from rounding down to a whole number of the number of shares in the rounding process under letter (a)) above.

This Transformation mechanism ensures that each shareholder will receive a price for their shares in the Merging Company to the maximum extent in the form of shares of the receiving company and cash compensation that fully covers the residual fair value.

Based on the book of shareholders of the Merging Company as of 30.09.2023, an approximate assessment of the expected cash payments was made, and their total amount is expected to be less than BGN 80.

Repayment will be made by bank transfer from the Receiving Company to the account of the relevant shareholder.

Receivables will be paid to the shareholders of the Merging Company within 5 (five) years from the date they became due.

18. Economic benefits of the Transformation

As a result of the transformation by merging "VETA PHARMA" AD into "Sopharma" AD, synergies and economies of scale will be realized, expressed in:

- ✓ Optimization of production processes (specifically, improvement of operational control over the production assets of the merging company when centralizing operations in the parent company);
- ✓ Reduced administrative costs;
- ✓ Improved ability to target new markets and scale operations, using more effectively the Receiving Company's sales and marketing potential.

Below is a brief comparative analysis of two scenarios: the transformation takes place and the transformation does not take place.

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Main risks	No transformation (status quo)	Making the transformation
For the Merging Company	<ul style="list-style-type: none"> • Dependence on receiving energy aid to maintain a positive financial result; • Focus only on the local market and dependence on a single significant customer, which is a group company; • The lack of a reliable positive result limits profitability for shareholders; • The fact that the company is not public makes the shares difficult to liquidate 	The company is dissolved and its operations transferred to the parent company, and the merging company ceases to operate as an independent company.
For the Receiving company	<ul style="list-style-type: none"> • The lack of reliably positive results limits the yield obtained from the investment • Risk in case of non-performance of the subsidiary to third parties, additional costs for the parent company 	No significant effects are expected during the transformation itself
For the Receiving company group	<ul style="list-style-type: none"> • Additional administrative costs to maintain the company as an independent, with limited out-of-group sales of the subsidiary 	No significant effects are expected during the transformation itself

The main effects for stakeholders are as follows:

- (a) the minority shareholders of the Merging Company receive, in exchange for their shares in a non-public company, shares in a public company which are liquid;
- (b) the shareholders of the receiving company are given the opportunity for the parent company to redirect investments to the main profitable businesses of the group;
- (c) the creditors of the Merging Company become creditors of the transferee whose financial position is significantly better;
- (d) the receiving company's creditors receive a reduction in the parent company's cash flow to a low-yielding business;
- (e) no significant changes occur for the business partners of the two companies;
- (f) for investors, there are no material changes to the extent that the merging company is not publicly traded;
- (g) for other interested parties (regulators, analysts, compilers of financial statements) no significant changes occur.

III. DATA ON DIFFICULTIES ARISING IN THE PROCESS OF JUSTIFICATION

19. Difficulties encountered during the justification process

During the preparation of the justification of the fair price of the shares of "Sopharma" AD, no significant difficulties arose.

IV. DATA FOR THE AUTHORIZED DEPOSITORY UNDER ART. 262H OF THE COMMERCIAL LAW

20. Depository

For a depository within the meaning of Art. 262h of the Commercial Law, the Board of Directors of "Sopharma" AD has chosen and authorized the "Central Depository" AD, with headquarters and management address: Sofia, 6, Tri Ushi Str., 4th floor.

21. Subsequent actions in connection with the transfer of the shares

Since the shareholders of the Merging Company are to receive dematerialized shares, the Board of Directors of the Receiving Company must notify the Central Depository of the transfer of already issued shares of the Receiving Company to the shareholders of the Merging Company. After the registration of the transformation, the Central Depository registers the transfer of the shares.

22. Subsequent actions related to physical delivery of financial instruments

The already issued shares of the receiving company are dematerialized, therefore no physical transfer of shares will take place. Each shareholder may request to receive a depositary receipt for the shares he owns through an investment intermediary - a member of the Central Depository.

V. DATA FOR THE AUTHORIZED AUDITOR UNDER ART. 262L OF THE COMMERCIAL LAW

23. Auditor

The Board of Directors of "Sopharma" AD has appointed NIBOS EOOD, UIC 200635432, with registered office and management address in the city of Sofia, 1111, Slatina district, g.k. GEO MILEV, 15 GEO Milev Str., Apt. 10, represented by the manager NIKOLAI MIHAILOV POLINCHEV as an auditor within the meaning of Art. 262l of the Commercial Law, to perform a review of the merger and to issue a report on the performed review.

The auditor is included in the List under Art. 123, para 3 of the Law on the Public Offering of Securities, approved by the Deputy Chairman of the Financial Supervision Commission, in charge of the "Investment Supervision" department.

BOARD OF DIRECTORS OF "SOPHARMA" AD:

OGNIAN DONEV */signature/*

VESELA STOEVA */signature/*

ALEXANDER TCHAUSHEV */signature/*

IVAN BADINSKI */signature/*

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BISERA LAZAROVA

/signature/

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