

## **SUBSTANTIATED REPORT**

### **BY THE BOARD OF DIRECTORS OF SOPHARMA AD, SOFIA**

#### **REGARDING: TERMS AND APPROPRIATENESS OF TRANSACTIONS UNDER ART.114, PAR.1 OF THE PUBLIC OFFERING OF SECURITIES ACT (POSA), PROPOSED FOR APPROVAL TO THE EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS, SCHEDULED FOR 19 DECEMBER 2014**

The present report has been prepared and approved by the Board of Directors of Sopharma AD, Sofia at a meeting held on 7 November 2014, subject to the provisions of art.114a, par.1 of POSA and art.46 of Ordinance №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.

According to art.114a, par.1 of POSA, the present Report of the Board of Directors of the company is part of the materials on the agenda of the Extraordinary General Meeting of Shareholders, scheduled for 19 December 2014.

Pursuant to art. 46 of Ordinance №2 from 17 September 2003 of the Financial Supervision Commission, the Report by the governing body to the General Meeting of Shareholders of a public company as per art. 114a, par. 1 of POSA includes at least the following information:

1. description of the proposed transaction, including its subject, value, beneficiaries of the transaction and the other essential elements, necessary for the provision of complete and not misleading information;

2. the name of the party in the transaction; for transactions with interested parties - the names of persons who are interested parties under art. 114, par. 6 of the POSA, the reasons why they are interested parties and the nature of their interest in the transaction;

3. on transactions with interested parties – the market value of the transaction under art. 114, par. 5 of POSA;

4. a description of the economic benefit of the public company from the proposed transaction.

If disclosure of certain information about the transaction could lead to significant harm to the public company, this information does not get included in the Report of the governing body.

The purpose of the Report is to present to the Shareholders of Sopharma AD, Sofia the essential conditions and the appropriateness of the transactions under art.114, par.1 of POSA, proposed for approval at the Extraordinary General Meeting of Shareholders, scheduled for 19 December 2014, in order to allow an informed decision by the Shareholders on the relevant agenda items - authorization of the Board of Directors of Sopharma AD, Sofia to conclude these transactions.

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

## **SECTION I.**

**CONCLUSION OF CONTRACT, BY THE FORCE OF WHICH SOPHARMA AD WILL ISSUE A CORPORATE GUARANTEE FOR THE SECURING OF A CLAIM OF DSK BANK EAD UNDER A CREDIT CONTRACT WITH BORROWER SOPHARMA PROPERTIES REIT – TRANSACTION UNDER ART.114, PAR.1, ITEM 2 OF POSA**

### **1. SUBJECT OF THE TRASNACTION**

Proposal to the General Meeting of Shareholders of Sopharma AD to authorize the Board of Directors to conclude a Contract for guarantee, by the force of which Sopharma AD will secure the claims of DSK Bank against the borrower Sopharma Properties REIT arising from contract for an investment loan of up to 23,214,504 /twenty-three million two hundred and fourteen thousand five hundred and four/ EUR for refinancing of the existing exposure on a Credit loan form 26 May 2011 concluded between Sopharma Properties REIT, as Borrower and Eurobank Bulgaria AD and DSK Bank EAD, as creditors, with an approved amount of 30,000,000 EUR and current exposure of 23,512,087 EUR as at 5 May 2014, with an annual interest rate of 3.050 percentage points formed by the three-month EURIBOR plus a contracted premium of 2,850 percentage points and maturity date on 29 July 2024.

Sopharma AD has provided a collateral in the form of a guarantee on the Credit contract from 26 May 2011, concluded between Sopharma Properties REIT – as Borrower and Eurobank Bulgaria and DSK Bank EAD – as creditors. A decision to authorize the Board of Directors of Sopharma AD to perform this transaction is taken by the General Meeting of Shareholders on 29 June 2011. The Credit contract, which is proposed to be secured by Sopharma AD, shall be used to refinance the Credit contract from 26 May 2011.

### **2. TRANSACTION PARTIES**

**GUARANTOR: SOPHARMA AD**, registered in the Commercial Register at the Registry Agency under UIC 831902088 and with seat and address of management – Sofia 1220, Nadezhda district, 16 Iliensko Shose Str., represented by Ognian Ivanov Donev in his capacity as Executive Director and representative of the company.

**CEDITOR: DSK BANK EAD**, registered in the Commercial Register at the Registry Agency under UIC 121830616 and with seat and address of management – Sofia, 19 Moskovska Str., represented by Violina Marinova Spasova – Chief Executive Director and Diana Decheva Miteva – Executive Director.

**BORROWER: SOPHARMA PROPERTIES REIT**, registered in the Commercial Register at the Registry Agency under UIC 175059266 and with seat and address of management – Sofia 1756, Izgrev district, 5 Lachezar Stanchev Str., Sopharma Business Towers, Tower A, floor 20, represented by Boris Anchev Borisov in his capacity as Executive Director and representative of the company.

### **3. PARTICIPATION OF INTERESTED PARTIES IN THE TRANSACTION WITHIN THE MEAING OF ART.114, PAR.6 OF POSA**

Within the meaning of art.114, par.6 of POSA “Interested parties are members of the management and supervisory bodies of a public company, persons - representatives of legal entities, members of such bodies, its procurator, persons who hold directly and/or indirectly at least 25 percent of the votes in the General Meeting of the company or control it, and in transactions with a subsidiary - members of its management and supervisory bodies, persons - representatives of legal entities, members of such bodies, its procurator, persons who hold directly and/or indirectly at least 25 percent of the votes in the General Meeting of the company other than the public company, as well as the parties related to them when they:

1. are a party, its representative or proxy in a transaction or when actions or transactions are being conducted in their favor, or

2. hold directly and/or indirectly at least 25 percent of the votes in the General Meeting or control the legal entity, which is a party, its representative or proxy in the contract or in favor of whom the actions or transactions are being conducted;

3. are members of managing or supervisory bodies, representatives of legal entities, members of such bodies or procurators of a legal entity under item 1 and 2.

According to art. 114, par. 9 of POSA, the regulations of art. 114, par. 1 do not apply in the case of transactions carried out in the course of ordinary business of the company, including contracts for bank loans and collateral, unless they involve interested parties.”

Participation of an interested person within the meaning of art. 114, par. 6 of POSA, in the transaction subject to approval is determined by the fact that Ognian Ivanov Donev, as Executive Member of the Board of Directors of the public company Sopharma AD owns directly or indirectly more than 25% of the capital of the company-borrower, the liabilities of which are secured to the bank through the provision of the corporate guarantee.

On the basis of art. 114, par. 4 of POSA, the interested persons cannot exercise their voting right on the Extraordinary General Meeting of the Company, scheduled for 19 December 2014.

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

The Board of Directors proposes the following main terms of the Contract for guarantee:

SOPHARMA AD will conclude a Contract for guarantee for securing the claims of DSK Bank EAD – creditor, against SOPHARMA PROPERTIES REIT – borrower, arising from contract for an investment loan of up to 23,214,504 /twenty-three million two hundred and fourteen thousand five hundred and four/ EUR for refinancing of the existing exposure on a Credit loan form 26 May 2011 concluded between Sopharma Properties REIT, as Borrower and Eurobank Bulgaria AD and DSK Bank EAD, as creditors, with an approved amount of 30,000,000 EUR and current exposure of 23,512,087 EUR as at 5 May 2014, with an annual interest rate of 3.050 percentage points formed by the three-month EURIBOR plus a contracted premium of 2,850 percentage points and maturity date on 29 July 2024.

The General Meeting of Shareholders of Sopharma AD is the body that should authorize the Board of Directors of the company to conclude the transaction and to perform all legal and factual actions necessary for its implementation in compliance with the decision

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

The Contract for guarantee must be concluded after the date of the General Meeting of Shareholders of Sopharma AD, on which is decided by the shareholders to authorize the Board of Directors within the meaning of art. 114, par. 1 of POSA.

## 5. BENEFICIARIES OF THE TRANSACTION

The beneficiary of the transaction is DSK Bank EAD. Through it is secured an obligation of a related party to Sopharma AD.

## 6. ASSESSMENT OF THE CONDITIONS UNDER ART.114, PAR. 1, ITEM 2 OF POSA

These conditions are assessed, when under the power and in the course of the transaction the public company acquires liabilities to a person or to related parties in excess of the threshold under art.114, par.1, item 1, letter “a” of POSA and when the liabilities are to interested parties or in favor of interested parties - above the threshold under item 1, letter “b” of the same regulation.

In the course of the proposed transaction SOPHARMA AD will acquire an obligation for guarantee in favor of a financial institution – DSK Bank EAD. In the contract for guarantee participates a person, related to a member of the Board of Directors of Sopharma AD, and therefore the provision of **art.114, (1), item 1, letter “b” in connection with the second hypothesis of item 2 of the same provision of POSA** is applicable.

Value of assets in the audited financial statements as at 31 December 2013 in BGN	Value of assets in the unaudited financial statements as at 30 September 2013 in BGN	Value of the liability in BGN	Threshold under art.114, par.1, item 1, letter “b” of POSA in BGN
549 136 000	578 916 000.00	principal: 45 403 623 interest rate: 3-month EURIBOR+2.850%	10 982 720.00

In accordance with art. 114, par. 4 of POSA, the value of the liabilities and receivables under par. 1, item 2 and 3 includes the contracted interests.

The above table illustrates that the total value of the contract for guarantee, which will be secured by Sopharma AD as guarantor, exceeds the threshold under art.114, par.1, item 1, letter “b” in connection with item 2 of the same provision of POSA, so that an explicit authorization of the Board of Directors by a decision of the General Meeting of Shareholders is necessary for its conclusion.

## 7. APPROPRIATENESS OF THE PROPOSED TRANSACTION

In 2011 the General Meeting of Shareholders of Sopharma AD, at its meeting on 29 June 2011, has authorized the Board of Directors of the company to conclude a contract for guarantee, by the force of which Sopharma AD will secure the claims of a financial institution /bank/ against the borrower Sopharma Properties REIT for a credit related to the construction

of commercial buildings at an amount of 30 million /thirty million/ EUR for a term of 10 years. In one of the constructed business buildings - Building A of administrative-commercial center "Sopharma Business Towers", with an administrative address – Sofia, Izgrev district, 5 Lachezar Stanchev Str., is located the representative office of Sopharma AD, as well as the offices, in which operate some of the main structural units of the company. With the secured transaction, subject to this section of the Substantiated report, Sopharma Properties REIT negotiates with DSK Bank EAD better conditions, under which it will refinance the same loan – the annual interest rate under the current credit contract consists of a variable part, based on 1M (one-month) EURIBOR and a contracted interest premium of 3.75%, while the annual interest rate under the contract with DSK Bank EAD consists of a variable part, based on 3M (three-month) EURIBOR and a contracted interest premium of 2.85%. These conditions positively influence the weight of the commitment of Sopharma AD as guarantor.

## **SECTION II.**

### **CONCLUSION OF CONTRACT, BY THE FORCE OF WHICH SOPHARMA AD AS LESSEE WILL CONCLUDE A CONTRACT WITH THE LESSOR SOPHARMA PROPERTIES REIT – A TRANSACTION WITHIN THE SCOPE OF ART.114, PAR.1, ITEM 2 OF POSA**

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

Proposal to the General Meeting of Shareholders of Sopharma AD to authorize the Board of Directors to conclude a contract in the form of an annex to the existing Rent Contract between the parties from 1 August 2012, under which Sopharma AD will rent the property of Sopharma Properties REIT, constituting a separate object - **a real part of Office 1-A19** (one dash letter "A" nineteen), located on floor 19 (nineteenth), elevation +67.55 of Building A, administrative and commercial complex "Sopharma Business Towers" with administrative address – Sofia, Izgrev district, 5 (five) Lachezar Stanchev Str. (former "170" Str.), which is built on regulated plot I (first) of square 2 (two) in the development plan of Sofia, Dianabad area, approved by Order №50-09-56/1989 of Chief architect and amended by Order №09-50-1049/2005 of the mayor of Izgrev district with boundaries: to the east – a street, to the west - street and land Sq. №1586, to the north – a street, to the south – regulated plot II – allocated for the Ministry of Transport - CTC with an area of 9200 (nine thousand two hundred) square meters, with administrative address – Sofia, Izgrev district, 5 (five) Lachezar Stanchev Str. (former "170" Str.); at boundaries of the floor on the sketch, notarial act and approved project to the basement: to the east – street; to the west – block "B"; to the north – a street, and to the south – regulated plot II (two) – allocated for the Ministry of Transport – CTC, on the top – twentieth floor, below – eighteenth floor; at boundaries of Office 1-A19: northwest - emergency staircase and facade; northeast – facade; southeast - emergency staircase and facade; southwest – facade, with a gross leasable area of Office-1-A19 in the amount of 312.12 (three hundred and twelve and twelve hundredths) square meters, consisting of 271.41 (two hundred seventy-one and forty one hundredths) square meters net leasable area and 40.71 (forty point seventy-one hundredths) square meters common parts, which is a real part with a gross leasable area of 155.72 (one hundred fifty-five and seventy-two hundredths) square meters, of which 135.41 (hundred thirty-five and forty-one hundredths) square meters net leasable area and 20.31 (twenty point thirty one hundredths) square meters common areas with boundaries: northwest - facade; northeast - emergency staircase, corridor, elevator cells, corridor, emergency staircase; southeast - facade; southwest - facade.

## **2. TRANSACTION PARTIES**

**LESSEE: SOPHARMA AD**, registered in the Commercial Register at the Registry Agency under UIC 831902088 and with seat and address of management – Sofia 1220, Nadezhda district, 16 Iliensko Shose Str., represented by Ognian Ivanov Donev in his capacity as Executive Director and representative of the company.

**LESSOR: SOPHARMA PROPERTIES REIT**, registered in the Commercial Register at the Registry Agency under UIC 175059266 and with seat and address of management – Sofia 1756, Izgrev district, 5 Lachezar Stanchev Str., Sopharma Business Towers, Tower A, floor 20, represented by Boris Anchev Borisov in his capacity as Executive Director and representative of the company.

## **3. PARTICIPATION OF THE INTERESTED PARTIES IN THE TRANSACTION WITHIN THE MEANING OF ART.114, PAR.6 OF POSA**

Within the meaning of art.114, par.6 of POSA “Interested parties are members of the management and supervisory bodies of a public company, persons - representatives of legal entities, members of such bodies, its procurator, persons who hold directly and/or indirectly at least 25 percent of the votes in the General Meeting of the company or control it, and in transactions with a subsidiary - members of its management and supervisory bodies, persons - representatives of legal entities, members of such bodies, its procurator, persons who hold directly and/or indirectly at least 25 percent of the votes in the General Meeting of the company other than the public company, as well as the parties related to them when they:

1. are a party, its representative or proxy in a transaction or when actions or transactions are being conducted in their favor, or

2. hold directly and/or indirectly at least 25 percent of the votes in the General Meeting or control the legal entity, which is a counterparty, its representative or proxy in the contract or in favor of whom the actions or transactions are being conducted;

3. are members of managing or supervisory bodies, representatives of legal entities, members of such bodies or procurators of a legal entity under item 1 and 2.

According to art. 114, par. 9 of POSA, the regulations of art. 114, par. 1 do not apply in the case of transactions carried out in the course of ordinary business of the company, including contracts for bank loans and collateral, unless they involve interested parties.”

Participation of an interested person within the meaning of art. 114, par. 6 of POSA, in the transaction subject to approval is determined by the fact that Ognian Ivanov Donev, as Executive Member of the Board of Directors of the public company SOPHARMA AD owns directly or indirectly more than 25% of the votes in the General Meeting of the counterparty in the transaction – the public company SOPHARMA PROPERTIES REIT.

On the basis of art. 114, par. 4 of POSA, the interested persons cannot exercise their voting right on the Extraordinary General Meeting of the Company, scheduled for 19 December 2014.

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

The Board of Directors proposes the following main terms of the transaction, which will be signed as an annex to the existing Rent Contract between the parties from 1 August 2012:

**Gross leasable area:** 155.72 (one hundred fifty-five and seventy-two hundredths) square meters, of which 135.41 (hundred thirty-five and forty-one hundredths) square meters net leasable area and 20.31 (twenty point thirty-one hundredths) square meters common areas.

**Lease price:** 12 EUR/sq.m. per month

**Service fee:** 2 EUR/sq.m. per month

The rental price and the service fee are determined according to current market evaluation prepared by the licensed appraiser Rumen Dimitrov Mihailov, an integral part of the present Substantiated report.

**Lease term:** until 1 August 2022. This period is consistent with the duration of the Lease contract from 1 August 2012 concluded between the parties of the present transaction, signed after a decision of the General Meeting of Shareholders of Sopharma AD, through which decision and pursuant to art.114, par. 1 of POSA the governing body of the company has been authorized to conclude that contract. The property, subject of the current transaction, which is intended to be in the form of an annex to the Lease contract form 1 August 2012, will be rented under the terms of the contract in place and the ones proposed in the current Substantiated report.

**The estimated annual value** of the transaction with the subject described in item 1 amounts to 26,160.96 EUR;

**The estimated total value** of the transaction with the subject described in item 1 for the remaining term of the Lease contract from 1 August 2012 (7 years and 7 months from 1 January 2015, as of which date the annex to the lease contract from 1 August 2012 is intended to come into force) will be up to 198,387.28 EUR (388 011.79 BGN at an exchange rate of 1 euro = 1.95583 BGN for purposes of determining the thresholds under art. 114, par. 1/POSA).

The General Meeting of Shareholders of SOPHARMA AD is the body, which has to authorize the Board of Directors of the Company to enter into the transaction and conduct all legal and other actions needed for its implementation in accordance with the decision of the General Meeting of Shareholders, the Articles of Association of the Company and the applicable regulations of current legislation.

#### 5. BENEFICIARIES OF THE TRANSACTION

Both parties are beneficiaries of the transaction.

#### 6. ASSESSMENT OF THE CONDITIONS UNDER ART.114, PAR. 1, ITEM 1 OF POSA

These conditions are evaluated when by the force and in the course of the transaction:

- The public company acquires, transfers, receives or grants for use or as collateral in any form assets totaling over:

a) one-third of the lower value of the assets according to the last audited or the last prepared statement of financial position of the company;

b) 2% of the lower value of the assets according to the last audited or last prepared statement of financial position of the company, when the transaction involves interested parties;

- Arise obligations for the public company to a person or to related parties totaling more than the value of art. 114, par. 1, item 1, letter “a” of POSA and when the obligations are to interested parties or to the benefit of interested parties – above the value of item 1, letter “b” of the same provision.

In the course of the proposed transaction and taking into account the participation of an interested person within the meaning of art. 114, par. 6, item 2 of POSA, for the public company Sopharma AD arise the following circumstances:

A/ The company leases an asset, the final market value of which under financial depreciation from rental income amounts to 256,122.57 EUR or 500,932.21 BGN(1 EUR = 1.95583 BGN), according to the prepared current market valuation of the property - art. 114, par. 1, letter “b” of POSA:

Value of assets in the audited financial statements as at 31 December 2013 in BGN	Value of assets in the unaudited financial statements as at 30 September 2014 in BGN	Value of the net asset in BGN	Threshold under art.114, par.1, item 1, letter “b” of POSA in BGN
549 136 000.00	578 916 000.00	500 932.21	10 982 720.00

B/ The company acquires the obligation to pay a rental price of up to 392,144.00 BGN for the duration of the Lease contract from 1 August 2012 - art. 114, par. 1, item 2 – the second hypothesis of POSA:

Value of assets in the audited financial statements as at 31 December 2013 in BGN	Value of assets in the unaudited financial statements as at 30 September 2014 in BGN	Value of the obligation in BGN	Threshold under art.114, par.1, item 1, letter “b” of POSA in BGN
549 136 000.00	578 916 000.00	388 011.79	10 982 720.00

The above tables show that the value of the lease asset, as well as the value of the obligation for lease payment do not exceed the thresholds set under art. 114, par. 1, item 1, letter “b” and item 2 – second hypothesis of POSA, but given the existence in the last three years of a transaction between the same parties, which exceeds these thresholds and for the conclusion of which has been taken a decision by the General Meeting of Shareholders of the public company Sopharma AD, held on 29 June 2011, on the basis of art. 114, par. 5 of POSA it is required the Board of Directors to be explicitly authorized by the General Meeting of Shareholders for the conclusion of the transaction, described in the present Substantiated report.



## **7. APPROPRIATENESS OF THE PROPOSED TRANSACTION**

On 29 June 2011, the AGM of Sopharma AD has authorized the Board of Directors to conclude a lease contract, by the force of which Sopharma AD rents the properties of the lessor Sopharma Properties REIT – offices and parking spaces, located in Building A of the administrative and commercial complex “Sopharma Business Towers” with administrative address in Sofia, Izgrev district, 5 Lachezar Stanchev Str., which was built on regulated plot I (first) of square 2 (two) in the development plan of Sofia, Dianabad area, approved by Order №50-09-56/1989 of Chief architect and amended by Order №09-50-1049/2005 of the mayor of Izgrev district. The lease contract was signed on 1 August 2012 and is effective until 1 August 2022. With the current transaction the number of offices leased by Sopharma AD will increase. As a result the company will be able to provide with suitable workplaces more of its structural units. The monthly rental price, including the service fee, determined by a current market valuation of the property, prepared in compliance with the requirements of art. 114, par. 4 of POSA, does not exceed the amount of the monthly rent, contracted in accordance with the decision taken by the General Meeting from 29 June 2011.

### **SECTION III.**

**CONTRACT, UNDER WHICH SOPHARMA AD WILL ENTER AS A CO-BORROWER A CREDIT CONTRACT WITH BORROWER SOPHARMA TRADING AD AND CREDITOR RAIFFEISENBANK/BULGARIA EAD AND WILL ESTABLISH A PLEDGE ON MACHINERY AND EQUIPMENT FOR SECURING THE CLAIMS OF RAIFFEISENBANK/BULGARIA EAD ON THE CREDIT CONTRACT – A TRANSACTION WITHIN THE MEANING OF ART.114, PAR.1, ITEM 2 OF POSA**

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

Proposal to the General Meeting of Shareholders of Sopharma AD to authorize the Board of Directors to conclude a contract, by the force of which Sopharma AD will enter as a co-borrower a credit contract with borrower Sopharma Trading AD and creditor Raiffeisenbank/Bulgaria EAD and will establish a pledge on machinery and equipment for securing the claims of Raiffeisenbank/Bulgaria EAD against the borrower Sopharma Trading AD, arising from a Revolving Credit Contract, signed on 04 September 2014, with the option for issuing of bank guarantees/letters of credit in the amount of 5,000,000 /five million/ EUR, with an interest on the appropriated working capital: 1M EURIBOR + 2.80%, fee for issuing of guarantees/letters of credit and risk premium: 0.8% p.a. and repayment term of all amounts due under the Contract (principal, interest, commissions, any penalty interest, expenses): 25 June 2017 with a repayment term of the limit for working capital until 25 April 2015.

#### **2. TRANSACTION PARTIES**

**CO-DEBTOR AND PLEDGER: SOPHARMA AD**, registered in the Commercial Register at the Registry Agency under UIC 831902088 and with seat and address of management – Sofia 1220, Nadezhda district, 16 Iliensko Shose Str., represented by Ognian Ivanov Donev in his capacity as Executive Director and representative of the company.

**CREDITOR: RAIFFEISENBANK/BULGARIA EAD**, registered in the Commercial Register at the Registry Agency under UIC 831558413 and with seat and address

of management – Sofia 1504, Sredez District, 18-20 Gogol Str., represented by Dobromir Slavov Dobrev – member of the Management Board, acting as a proxy of the Executive Directors Evelina Miltenova Velikova and Ani Vasileva Angelova, in accordance with letter of attorney with a notarial certification of the signatures reg. № 3800/02.06.2014 and notarial certification of the content reg. №3801/02.06.2014, volume 1, file №83 by the description of Lili Lakova – Notary, with area of effect Sofia District Court, reg. № 151 of the Notary Chamber and Evelina Miltenova Velikova – Executive Director.

**BORROWER: SOPHARMA TRADING AD**, registered in the Commercial Register at the Registry Agency under UIC 103267194 and with seat and address of management – Sofia 1756, Izgrev district, 5 Lachezar Stanchev Str., “Sopharma Business Towers” complex, building A, floor 12, represented by Dimitar Georgiev Dimitrov in his capacity as Executive Director and representative of the company.

### **3. PARTICIPATION OF INTERESTED PARTIES IN THE TRANSACTION WITHIN THE MEANING OF ART.114, PAR.6 OF POSA**

Within the meaning of art.114, par.6 of POSA “Interested parties are members of the management and supervisory bodies of a public company, persons - representatives of legal entities, members of such bodies, its procurator, persons who hold directly and/or indirectly at least 25 percent of the votes in the General Meeting of the company or control it, and in transactions with a subsidiary - members of its management and supervisory bodies, persons - representatives of legal entities, members of such bodies, its procurator, persons who hold directly and/or indirectly at least 25 percent of the votes in the General Meeting of the company other than the public company, as well as the parties related to them when they:

1. are a party, its representative or proxy in a transaction or when actions or transactions are being conducted in their favor, or

2. hold directly and/or indirectly at least 25 percent of the votes in the General Meeting or control the legal entity, which is a counterparty, its representative or proxy in the contract or in favor of whom the actions or transactions are being conducted;

3. are members of managing or supervisory bodies, representatives of legal entities, members of such bodies or procurators of a legal entity under item 1 and 2.

According to art. 114, par. 9 of POSA, the regulations of art. 114, par. 1 do not apply in the case of transactions carried out in the course of ordinary business of the company, including contracts for bank loans and collateral, unless they involve interested parties.”

Participation of an interested person within the meaning of art. 114, par. 6 of POSA, in the transaction subject to approval is determined by the fact that Ognian Ivanov Donev, as Executive Member of the Board of Directors of the public company Sopharma AD is also part of the Management of the company-borrower, the liabilities of which are secured to the bank through entering as a co-borrower and establishing a pledge on machinery and equipment.

On the basis of art. 114, par. 4 of POSA, the interested persons cannot exercise their voting right on the Extraordinary General Meeting of the Company, scheduled for 19 December 2014.

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

The Board of Directors proposes the following main terms of the transaction:

A / Sopharma AD will enter as a co-borrower in a Credit contract with the following parameters:

**Credit type and amount** – revolving credit, with the option of issuing bank guarantees/letters of credit in the amount of 5,000,000 /five million/ EUR (9,779,159.00 BGN at an exchange rate 1 EUR = 1.95583 BGN);

**Interest on appropriated working capital:** 1M EURIBOR +2.80%;

**Fee for issuing of guarantees/letters of credit and risk premium:** 0.8% per annum;

**Repayment term** of all amounts due under the Contract (principal, interest, commissions, any penalty interest, expenses): 25 June 2017 with a repayment term of the limit for working capital until 25 April 2015.

B/ Sopharma AD will establish a second pledge on the following machines and equipment for securing the claims of Raiffeisenbank/Bulgaria EAD against the borrower Sopharma Trading AD, arising from the Credit contract: Tablet systems Fete - 4, Blister machines Ullman – 2, Coating system Bole, Pelletizing systems Bosch Hyutlin - 3.

For determining the value of the assets, provided as collateral, should apply art. 114, par. 4 of POSA, namely: the value of the provided for use or as collateral property is the higher of the market price and its value in the last audited financial statements of the company. Market price is the price set under evaluation by independent appraiser under art. 5 of the Independent Appraisers Act. In October 2014 has been prepared a Report for expert evaluation of machinery and equipment by Forton AD. According to the evaluation the fair market value of the proposed collateral assets as at 22 October 2014 was 11,689,244 BGN. In the last audited financial statement the proposed collateral assets were valued at 12,910,359 BGN. An excerpt from the inventory book of Sopharma AD as at 31 December 2013 and the prepared detailed market evaluation by Forton AD constitute an integral part of the Substantiated report.

The General Meeting of Shareholders of Sopharma AD is the body that should authorize the Board of Directors of the company to conclude the transaction and to perform all legal and factual actions necessary for its implementation in compliance with the decision of the General Meeting of Shareholders, the Articles of Association of the company, and in accordance with the applicable provisions of current legislation.

The Contract must be concluded after the date of the General Meeting of Shareholders of Sopharma AD, on which is decided by the shareholders to authorize the Board of Directors to execute the described transaction.

#### 5. BENEFICIARIES OF THE TRANSACTION

The beneficiary of the transaction is Raiffeisenbank/Bulgaria EAD. Through this transaction are secured the liabilities of a related party to Sopharma AD – the subsidiary Sopharma Trading AD.

#### 6. ASSESSMENT OF THE CONDITIONS UNDER ART.114, PAR. 1, ITEM 2 OF POSA

These conditions are evaluated when by the force and in the course of the transaction:

- The public company acquires, transfers, receives or grants for use or as collateral in any form assets totaling over:

a) one-third of the lower value of the assets according to the last audited or the last prepared statement of financial position of the company;

b) 2% of the lower value of the assets according to the last audited or last prepared statement of financial position of the company, when the transaction involves interested parties;

- Arise obligations for the public company to a person or to related parties totaling more than the value of art. 114, par. 1, item 1, letter “a” of POSA and when the obligations are to interested parties or to the benefit of interested parties – above the value of item 1, letter “b” of the same provision.

In the course of the proposed transaction and taking into account the participation of an interested person within the meaning of art. 114, par. 6, item 2 of POSA, for the public company Sopharma AD arise the following circumstances:

A/ The company acquires a liability against a financial institution - Raiffeisenbank/Bulgaria EAD, arising from its entering as a co-borrower in a credit contract with the borrower Sopharma Trading AD:

Value of assets in the audited financial statements as at 31 December 2013 in BGN	Value of assets in the unaudited financial statements as at 30 September 2014 in BGN	Value of the liability in BGN	Threshold under art.114, par.1, item 1, letter “b” of POSA in BGN
549 136 000.00	578 916 000.00	principal: 9,779,150 interest: 1M EURIBOR + 2.8%	10 982 720.00

B/ The company provides as collateral an asset, the value of which amounts to 12,910,359 BGN – art. 1, letter “b” of POSA:

Value of assets in the audited financial statements as at 31 December 2013 in BGN	Value of assets in the unaudited financial statements as at 30 September 2014 in BGN	Value of the asset, provided as collateral in BGN	Threshold under art.114, par.1, item 1, letter “b” of POSA in BGN
549 136 000.00	578 916 000.00	12 910 359.09	10 982 720.00

In accordance with the regulations of art. 114, par. 4 of POSA, the value of the liabilities and receivables under par. 1, item 2 and 3 includes the contracted interests.

The above tables show that the value of the assets, provided as collateral, and the amount of the arising liability for Sopharma AD exceed the thresholds set under art. 114, par. 1, item 1, letter “b” and item 2 – second hypothesis of POSA. Therefore it is required the Board of Directors to be explicitly authorized by a decision of the Extraordinary General Meeting of Shareholders, scheduled for 19 December 2014, for the conclusion of the proposed transaction.

## **7. APPROPRIATENESS OF THE PROPOSED TRANSACTION**

The core business of Sopharma AD is the production of medicinal products. Revenue and profit of the company from carrying out this activity are directly and immediately related to the selling of the production produced by the company on the domestic and foreign market, in which activity a key role is played by wholesalers of medicinal products - distributors of the products, manufactured by Sopharma AD.

The core business of Sopharma Trading AD is “wholesale and retail trade in medicinal products and sanitary products”. By the force of a concluded contract for the sale of medicines the company sells most of the products manufactured by Sopharma AD, thus extending its portfolio and creating opportunities to generate revenue and increase its financial result.

On 4 September 2014 between Raiffeisenbank (Bulgaria) EAD and Sopharma Trading AD was concluded a Revolving Credit Contracted amounting to 5,000,000 /five million/ EUR. According to art. 5.14 of the Contract, Sopharma Trading commits itself to ensure the entering of Sopharma AD as a co-borrower in the Contract, as well as securing the loan by establishing a pledge on machinery and equipment, owned by Sopharma AD. In the event that within the period set by Bank the General Meeting of Shareholders of Sopharma AD does not approve a decision to authorize the Board of Directors of the Company to conclude the described transactions, the Bank may take advantage of its right to discontinue in advance the usage of the Limit for working capital. The repayment term of all amounts due under the Limit for working capital (incl. the principal, interest, any penalty interest, commissions, fees and expenses) would become 30 December 2014.

At present, the amount of the loan has been fully utilized and is used entirely to repay commercial payables of Sopharma Trading AD to Sopharma AD. As a result, the economic benefit of Sopharma AD is the reduction of short-term liabilities to banks in the amount of 5,000,000 EUR, which leads to improved financial indicators, as well as to effective reduction of interest expenses and increase in net profit by 300 BGN annually. In the event that as at 30 December 2014 the credit becomes due in advance, there is a risk of an increase of commercial receivables of Sopharma AD from Sopharma Trading AD in the amount of 5 million EUR due to the necessity of the subsidiary to provide within a short time frame funds to refinance the bank loan, which would reflect on Sopharma AD with an increase in the amount of total debt by 5 million EUR, as well as an increase in interest expenses and therefore a decrease in the financial result by 300 thousand BGN annually.

As a wholesaler Sopharma Trading AD participates with the products of Sopharma AD in public procurement procedures for the supply of medicinal products to hospitals and other health institutions and in negotiation with the Ministry of Health for the supply of medicinal products, the value of which is covered in whole or in part by NHIF, in which procedures and negotiations one of the key elements is the provision of bank guarantees for good performance of the concluded contracts.

Through the implementation of the proposed transaction, Sopharma AD indirectly guarantees security for the selling of a significant share of the manufactured medicinal products on the local hospital market.

As a parent company Sopharma AD is directly interested in the stable positive financial results of the subsidiary Sopharma Trading AD and considers the proposed transaction appropriate.