

# **SUBSTANTIATED REPORT**

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

**REGARDING:** The terms and appropriateness of transactions under art. 114, par. 1 of the Public offering of securities act (POSA), proposed to the General Meeting of Shareholders, scheduled for 17 June 2016, for approval and authorization of the Board of Directors of the Company for their conclusion

The present report has been prepared and approved by the Board of Directors of Sopharma AD, Sofia at a meeting held on 21 April 2016, subject to the provisions of art.114a, par.1 of POSA, 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.

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 General Meeting of Shareholders, scheduled for 17 June 2016.

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 General Meeting of Shareholders, scheduled for 17 June 2016, in order to allow an informed decision by the Shareholders on the relevant agenda items – namely authorization of the Board of Directors of Sopharma AD, Sofia to conclude these transactions.

The Substantiated report contains four sections 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, justifying the need for authorization of the Board of Directors by the General Meeting of Shareholders for the execution of the transactions arising from the provisions of art. 114 and following of POSA.

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

**Section I.** Conclusion of contract, regulating the relations between SOPHARMA AD and UNIPHARM AD, related to the manufacturing of medicinal products – a transaction under art.114, par.1, item 2 and 3 and par. 5 of POSA.

**Section II.** Conclusion of contract for the issuing of a corporate guarantee or a pledge by SOPHARMA AD for the guaranteeing of the receivables of PRIORBANK OAO (Belarus) from a contract for factoring with the borrower BRITITRADE SOOO – a transaction within the scope of art. 114, par. 1, item 2 of POSA.

**Section III.** Conclusion of contract for the issuing of a corporate guarantee by SOPHARMA AD for the guaranteeing of the receivables of PRIORBANK OAO (Belarus) from a loan contract with the borrower BRITITRADE SOOO – a transaction within the scope of art. 114, par. 1, item 2 of POSA.

**Section IV.** Conclusion of contract, regulating the relations between SOPHARMA AD and SOPHARMA TRADING AD, related to marketing services for medicinal products – a transaction under art.114, par.1, item 2 of POSA.

## **SECTION I.**

### **CONCLUSION OF CONTRACT, REGULATING THE RELATIONS BETWEEN SOPHARMA AD AND UNIPHARM AD, RELATED TO THE MANUFACTURING OF MEDICINAL PRODUCTS – TRANSACTION UNDER ART.114, PAR.1, ITEM 2 AND 3 AND PAR. 5 OF POSA**

The Board of Directors informs the shareholders that pursuant to a decision of the General Meeting held on 23 June 2010 the Company has signed contract №420/2010 with Unipharm AD for the production of medicinal products and related supply of input substances. The term of this contract has expired. Given the current de facto relationship between the parties arising out of the subject of this contract and considering the economic relation of the two parties, the Board of Directors considers it appropriate to propose to the shareholders to approve a decision to authorize the Management for the conclusion of a subsequent deal with subject and conditions specified in the current section of the Substantiated report.

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

Proposal to the General Meeting of Shareholders of SOPHARMA AD to approve the conclusion of a Contract, the subject of which is as follows:

1.1. Manufacture of medicinal products between SOPHARMA AD as a Contracting authority and UNIPHARM AD as a Contractor at the amount of 16 000 000 /sixteen million/ BGN annually or a total amount of 80 000 000 /eighty million/ BGN for the duration of the Contract.

1.2. Supply of substances and raw materials and materials for medicinal products between SOPHARMA AD as a Supplier and UNIPHARM AD as a Receiver at the amount of 12 000 000 /twelve million/ BGN annually or a total amount of 60 000 000 /eighty million/ BGN for the duration of the Contract.

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

**CONTRACTING AUTHORITY:** SOPHARMA AD with seat and address of management – Sofia 1220, Nadezhda District, 16 Iliensko Shose Str., registered in the Commercial Register at the Registry Agency under UIC 831902088, represented by Ognian Ivanov Donev in his capacity as Executive member of the Board of Directors of the Company.

**CONTRACTOR:** UNIPHARM AD, with seat and address of management – Sofia 1797, Studentski district, Darvenitsa residential complex, 3 Traiko Stanoev Str., registered in the Commercial Register at the Registry Agency under UIC 831537465, represented by Ognian Kirilov Palaveev in his capacity as Executive member of the Management Board of the company.

#### **3. PARTICIPATION OF INTERESTED PARTIES IN THE CONTRACT WITHIN THE MEAING OF ART.114, PAR.5 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.

The transaction, proposed for approval, involves interested parties within the meaning of art. 114, par. 6 of POSA by the following features:

Two of the members of the Board of Directors of the public company SOPHARMA AD – Ognian Ivanov Donev, who is also Executive Director and Ognian Kirilov Palaveev, participate in the management of the other party to the proposed transaction UNIPHARM AD as Chairman of the Supervisory Board and as Executive Director respectively.

SOPHARMA AD is the parent company with relation to the counterparty, exercising control through the ownership of more than 50% of the capital of that company.

These persons, as well as the parties, related to them, are interested parties within the meaning of that cited law and pursuant to art. 114, par. 4 of POSA, they cannot exercise their voting right during the voting on this decision by the General Meeting of the Company, scheduled for 17 June 2016, to authorize the Board of Directors concerning the conclusion of the proposed transaction. The decision on this agenda item shall be taken by a majority of the remaining represented shares.

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

The Board of Directors proposes the following main terms of the Contract relating to the manufacture of medicinal products, in which SOPHARMA AD is a Contracting authority and UNIPHARM AD is a Contractor:

Term of the contract – 5 /five/ years;

Value of the contract – up to 16 000 000 /sixteen million/ BGN annually or a total transaction value of 80 000 000 /eighty million/ BGN.

Subject of the contract will be medicinal products for which the Contracting Authority has marketing authorizations. Medicinal products will be manufactured upon ordering of the Contracting authority. The contracts will be for quarterly periods and will contain at least the following: type, quantity, range, execution time and the unit cost of production of each of the products ordered.

The contract payments will be performed after approval by the Contracting authority of the delivered products on each separate order and issued invoices by the Contractor for each separate outstanding payment.

The manufactured medicinal products shall meet the quality requirements according to their registration documentation. Quality control of manufactured medicinal products under the

contract will be conducted by the Principal, who is authorized for this under the power of their permit for usage of the respective medicinal product.

The Contractor will use in the manufacturing of the ordered medicinal products substances and raw materials supplied by the Principal under the same contract:

The Board of Directors proposes the following main terms of the Contract related to the supply of substances and raw materials, in which SOPHARMA AD is a Supplier and UNIPHARM AD is a Client.

The value of the supply is established at up to 12 000 000 /twelve million/ BGN annually or a total transaction value of up to 60 000 0000 /sixty million/ BGN for the contract duration of 5 /five/ years.

The Receiver UNIPHARM AD shall commit to pay the ordered and received quantities and types of substances and raw materials within a period indicated in the invoice issued by the Supplier for each separate delivery.

The supply shall be based on periodic orders by UNIPHARM AD, with the periods being no shorter than 1 month and no longer than 3 months. Each order shall contain at least information about the type and quantities of the required substances and raw materials and delivery time.

The Supplier shall have the option within a period, but not less than 7 days, to assess their ability to perform the supply by range and deadlines and to accept or deny the order.

The payment shall be made upon delivery of the ordered goods and after receiving an invoice issued by the Supplier.

Quality control of the supplied substances and raw materials shall be performed by both parties on the following principle: the Supplier shall commit to provide a quality certificate for the supplied goods and the Receiver shall be required to exercise incoming quality control of the products of each delivery. Quality disputes shall be solved by an independent laboratory designated by both parties.

The contract for manufacturing of medicinal product and the supply of the necessary substances and raw materials between SOPHARMA AD and UNIPHARM AD shall be concluded within one month of the approval by the General Meeting of Shareholders of SOPHARMA AD, scheduled for 17 June 2016 according to the parameters set out in the current Report of the Board of Directors. The General Meeting of Shareholders of SOPHARMA AD 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. BENEFICIERIES OF THE TRANSACTIONS**

Both parties are beneficiaries of the transaction.

**6. ASSESSMENT OF THE CONDITIONS UNDER ART.114, PAR. 1, ITEM 2 AND 3 AND PAR. 5 OF POSA – the conditions under par.1, item 2 and 3 shall be assessed, when under the power and in execution 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, as well as when under the power and in execution of the transaction the public company acquires receivables to a single person or related parties in excess of the threshold under art.114, par.1, item 1, letter "a" of POSA and when debtors of the Company are interested parties – over 10 percent of the value under item 1, letter "b" of the same regulation;**

the conditions under par.5 shall be assessed, when there are transactions that are individually below the thresholds under art. 114, par. 1, item 1-4, 6 and 7, but in aggregate lead to a change of property exceeding these thresholds – transactions shall be considered as a whole, if they are executing within a period of three calendar years, in favor of one party or a related party, accordingly if a party in the transaction is a party or related parties, in which the subject of approval by the General Meeting of Shareholders is the action or transaction, that crosses the thresholds under art. 114, par. 1 and 3;

The transaction, proposed for approval, represents a continuation of the de facto relations between the two parties arising in the course of a deal with the same subject, concluded in pursuance of the decision of the General Meeting of Shareholder of the public Company on 23 June 2010. This decision has been taken on the basis of a Substantiated report, which reviews the conditions under art. 114, par. 1, 2 and 3 and indicates the exceeded thresholds, subject to these provisions. While this is a sufficient reason for proposing the deal for approval by the AGM because of the conditions under art. 114, par. 5 of POSA, here again will be mentioned the thresholds under art. 114, par. 1, 2 and 3 of the same Act, determined on the basis of the current value of the assets on the balance sheet of the Company as follows:

In the course of the proposed transaction SOPHARMA AD will acquire a monetary **liability** under the contract for production of medicinal products at a total amount of 80 000 000 /eighty million/ BGN for the duration of the contract to **the related party** UNIPHARM AD, which circumstance falls within the scope of **art.114, (1), item 1, letter "b" in connection with the second hypothesis of item 2 of the same provision of POSA.**

Value of assets in the audited financial statements as at 31 December 2015 in BGN	Amount of the liability in BGN	Threshold under art.114, par.1, item 1, letter “b” of POSA in BGN
570 609 000	80 000 000	11 412 180

In the course of the contract for supply of substances and raw materials, part of the same transaction, SOPHARMA AD will acquire a **receivable** at the value of the supplied goods, amounting to a total of 60 000 000 /sixty million/ BGN from the **related party** UNIPHARM AD, which circumstance falls within the scope of **art.114, (1), item 1, letter "b" in connection with the second hypothesis of item 3 of the same provision of POSA** is applicable.

Value of assets in the audited financial statements as at 31 December 2015 in BGN	Amount of receivable in BGN	Threshold under art.114, par.1, item 1, letter “b” of POSA in connection with item 3, second hypothesis in BGN
570 609 000	60 000 000	5 706 090

The above tables illustrate that the total value of the proposed transaction exceeds the thresholds of art.114, par.1, item 1, letter "b" in connection with items 2 and 3 of the same provision of POSA and given the presence of the grounds under art. 114, par. 5 of POSA 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**

The companies - parties to the proposed transaction, traditionally cooperate in their activities related to the production of medicinal products and provide each other services in the production of medicinal products.

SOPHARMA AD has proven and respected suppliers of raw materials and an export network, which ensures the profitability of production and distribution of the finished products.

The production and storage facilities operated by UNIPHARM AD are licensed for the respective activities, as required by current national legislation. Due to the technological specifics of certain products from the portfolio of SOPHARMA AD, upon excessive capacity utilization of the Company, their production could be outsourced to UNIPHARM AD.

That, as well as the fact that UNIPHARM AD is part of the economic-related group SOPHARMA determines the appropriateness of the proposed transaction. The contract is related to the ordinary activities of SOPHARMA AD.

## **SECTION II.**

### **CONCLUSION OF CONTRACT FOR THE ISSUING OF A CORPORATE GUARANTEE OR A PLEDGE BY SOPHARMA AD FOR THE GUARANTEEING OF THE RECEIVABLES OF PRIORBANK OAO (BELARUS) FROM A CONTRACT FOR FACTORING WITH THE BORROWER BRITITRADE SOOO – A TRANSACTION WITHIN THE SCOPE OF ART. 114, PAR. 1, ITEM 2 OF POSA.**

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

Proposal to the General Meeting of Shareholders of Sopharma AD to authorize the Board of Directors to provide an unconditional corporate guarantee or pledge at the amount of not less than 2 000 000 EUR for the guaranteeing of the receivables of PRIORBANK OAO (Belarus) from the borrower BRITITRADE SOOO (Belarus), arising from General Contract for factoring with right of recourse №244F form 16 March 2016, with an approved limit of up to 45 618 000 000 BYR, with an annual interest rate based on a percentage rate for refinancing of the National Bank of the Republic Belarus plus a fixed mark-up of 7.0 percentage points and the repayment term on 15 March 2017.

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

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

**CREDITOR:** PRIORBANK OAO (Belarus), UNP 100220190 and with seat and address of management in Belarus, Minsk, 31-A Horuzhe, represented by E.O. Shishenko, in his capacity as Executive Director and representative of the company.

**BORROWER:** BRITITRADE SOOO (Belarus), UNP 190567633 and with seat and address of management in Belarus, Minsk region, Schomyslitsky s/s pom. 18, represented by Konstantin Shalak, in his capacity as Director and representative of the company.

#### **3. PARTICIPATION OF THE INTERESTED PARTIES IN THE TRANSACTION WITHIN THE SCOPE 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 provision of art. 114, par. 1 shall not apply to transactions, carried out in the course of ordinary business of the company, including contracts for bank loans and collateral unless they involve interested parties.”

The participation of interested parties within the meaning of art. 114, par. 6 of POSA in the transaction, proposed for approval, is determined by the following circumstances:

SOOO BRITITRADE, Belarus is a company indirectly controlled by SOPHARMA AD through its subsidiary BREEZE OOD, Latvia. There is a connection between SOPHARMA AD and SOOO BRITITRADE, Belarus, which is a party in the guaranteed transaction. The members of the Board of Directors and the procurator of the public company SOPHARMA AD, controlling one of the parties in the guaranteed transaction, are interested parties in a combination under the conditions of item 1-3 of art. 114, par. 6 of POSA.

These persons and the parties related to them are interested parties within the meaning of that cited law and pursuant to art. 114, par. 4 of POSA cannot exercise their voting right during the voting on this decision by the General Meeting of the Company, scheduled for 17 June 2016, to authorize the Board of Directors to conclude the proposed transaction. The decision on this agenda item shall be taken by a majority of the remaining represented shares.

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

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

SOPHARMA AD shall provide an unconditional corporate guarantee or pledge at the amount of not less than 2 000 000 (two million) EUR for the guaranteeing of the receivables of PRIORBANK OAO (Belarus) from the borrower BRITITRADE SOOO (Belarus), arising from General Contract for factoring with right of recourse №244F form 16 March 2016, with an approved limit of up to 45 618 000 000 (forty-five billion, six hundred and eighteen million) BYR, with an annual interest rate of 31 percentage points, based on a percentage rate for refinancing of the National Bank of the Republic Belarus (as of April 2016 it amounts to 25 percentage points) plus a fixed mark-up of 7.0 percentage points and the repayment term on 15 March 2017.

The General Meeting of Shareholders of SOPHARMA AD is the body, that has to authorize the Board of Directors of the Company to conclude 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.

The Contract of guarantee shall be concluded after the date of the General Meeting of Shareholders of Sopharma AD, which has taken a decision to authorize the Board of Directors in accordance with art. 114, par. 1 of POSA.

#### **5. BENEFICIERIES OF THE TRANSACTIONS**

The transaction is in favor of PRIORBANK OAO (Belarus) and it secures an obligation of party, related 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 execution of the transaction the public company acquires liabilities to a party 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 a liability as a guarantor in favor of a financial institution - PRIORBANK OAO (Belarus) for the securing of the receivables of the Bank from a party, related to SOPHARMA AD, in the presence of a combination of the grounds of art. 114, par. 6, item 1-3 of POSA, which requires the application of a threshold under art.114, par. 1, item 1, letter b in connection with item 2 of the same provision of POSA.

Value of assets in the audited financial statements as at 31 December 2015 in BGN	Amount of the liability in BGN	Threshold under art.114, par.1, item 1, letter b of POSA in BGN
570 609 000	principal: 3 911 660 interest: refinancing rate of NBRB + 7.0%	11 412 180

Pursuant to art. 114, par. 4 of POSA, the amount of the liabilities and receivables under par. 1, item 2 and 3 also includes the negotiated interests.

The above table illustrates that the total amount of the liabilities of SOPHARMA AD as a guarantor does not exceed the threshold of art. 114, par. 1, item 1, letter b in connection with item 2 of the same provision of POSA.

However, in the last three years SOPHARMA AD has provided collateral in various forms /corporate guarantees, entering as a co-debtor and others/ on liabilities of parties, related to the Company, to a bank, which is in the same economic group as PRIORBANK OAO (Belarus). The collaterals do not exceed the above threshold individually, but the amount of the current collateral causes the exceeding of the threshold and therefore, pursuant to the provisions of art. 114, par. 5 of POSA, the Board of Directors needs an explicitly authorization to conclude the proposed transaction by a decision of the General Meeting of Shareholders.

## 7. APPROPRIATENESS OF THE PROPOSED TRANSACTION

The main business of SOPHARMA AD is manufacturing of medicinal products. The revenue and profit of the Company from performing the mentioned activity is directly and immediately related to the selling of the production on the local and foreign markets. A main role in this have wholesale traders of medicinal products – distributors of the products, produced by SOPHARMA AD.

The main business of BRITITRADE SOOO is “wholesale of pharmaceutical products” and it is a subsidiary of BREEZE SIA (Latvia), which owns 78.50% of its capital. The main business of BREEZE SIA is "wholesale of pharmaceutical products" and is a subsidiary of SOPHARMA AD, which owns 66.13% of its capital. Under the contract for sale of medicines, BRITITRADE SOOO marketed in Belarus most of the products, produced by SOPHARMA AD, thus expanding its portfolio and creating opportunities for generating income and increasing its financial result.

On 16 March 2016 was concluded a General Contract for factoring between PRIORBANK OAO (Belarus) and BRITITRADE SOOO with an approved limit of up to 45 618 000 000 BYR. According to art. 5.2.14 of the Contract BRITITRADE SOOO pledges to provide no later than 29 July 2016 the provision by SOPHARMA AD of an unconditional corporate guarantee or pledge at the amount of not less than 2 000 000 EUR. In the event that within the period, set by the Bank, no decision by the General Meeting of Shareholders of SOPHARMA AD to authorize the Board of Directors of the Company to conclude the described secured transactions is approved, the Bank can take advantage of their right to an early termination of the Contract. The deadline for repayment of all sums will become 30 July 2016.

The loan amount will be used entirely for the repayment of the commercial liabilities of BRITITRADE SOOO to BREEZE SIA (Latvia), which in turn will repay its liabilities to SOPHARMA AD. As a result, the economic benefit of SOPHARMA AD consists in the reduction in the short-term liabilities to banks at the amount of 2 mln EUR, resulting in improvement of the financial indicators, as well as to the effective reduction of interest expenses and increase in the net profit by 100 thousand BGN annually. In the event that at 29 July 2016 the loans become chargeable there is a risk of an increase in the commercial receivables of BREEZE SIA from BRITITRADE SOOO at the amount of 2 000 000 EUR, which in turn would lead to an increase in the commercial receivables of SOPHARMA AD from BREEZE SIA EUR at the amount of 2 000 000 EUR, due to the need of the subsidiary to provide within a short period the amount to refinance the bank loan. This would reflect on SOPHARMA AD in an increase of total debt by 2 mln EUR, as well as an increase in interest expenses and consequently a decrease in the financial result by 100 thousand BGN annually.

Through the execution of the proposed transaction SOPHARMA AD indirectly ensures security on the sale of a significant share of the produces medicinal products in the pharmaceutical market in Belarus.

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

### **SECTION III.**

## **CONCLUSION OF CONTRACT FOR THE ISSUING OF A CORPORATE GUARANTEE BY SOPHARMA AD FOR THE GUARANTEEING OF THE RECEIVABLES OF PRIORBANK OAO (BELARUS) FROM A LOAN CONTRACT WITH THE BORROWER BRITITRADE SOOO – A TRANSACTION WITHIN THE SCOPE OF ART. 114, PAR. 1, ITEM 2 OF POSA.**

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

Proposal to the General Meeting of Shareholders of Sopharma AD to authorize the Board of Directors to provide an unconditional corporate guarantee at the amount of not less than 1 500 000 (one million, five hundred thousand) EUR, by the effect of which SOPHARMA AD shall guarantee of the receivables of PRIORBANK OAO (Belarus) from the borrower BRITITRADE SOOO (Belarus), arising from a Loan Contract with an approved limit of up to 1 500 000 (one million, five hundred thousand) EUR, with an annual interest rate of 10 percentage points and effective duration of eighteen months.

### **2. CONTRACT PARTIES**

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

**CREDITOR: PRIORBANK OAO (Belarus)**, UNP 100220190 and with seat and address of management in Belarus, Minsk, 31-A Horuzhe, represented by E.O. Shishenko, in his capacity as Executive Director and representative of the company.

**BORROWER: BRITITRADE SOOO (Belarus)**, UNP 190567633 and with seat and address of management in Belarus, Minsk region, Schomyslitsky s/s pom. 18, represented by Konstantin Shalak, in his capacity as Director and representative of the company.

### **3. PARTICIPATION OF INTERESTED PARTIES IN THE CONTRACT WITHIN THE SCOPE 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 provision of art. 114, par. 1 shall not apply to transactions, carried out in the course of ordinary business of the company, including contracts for bank loans and collateral unless they involve interested parties. “

The participation of interested parties within the meaning of art. 114, par. 6 of POSA in the transaction, proposed for approval, is determined by the following circumstances:

SOOO BRITITRADE, Belarus is a company indirectly controlled by SOPHARMA AD through its subsidiary BREEZE OOD, Latvia. There is a connection between SOPHARMA AD and SOOO BRITITRADE, Belarus, which is a party in the guaranteed transaction. The members of the Board of Directors and the procurator of the public company SOPHARMA AD, controlling one of the parties in the guaranteed transaction, are interested parties in a combination under the conditions of item 1-3 of art. 114, par. 6 of POSA.

These persons and the parties related to them are interested parties within the meaning of that cited law and pursuant to art. 114, par. 4 of POSA cannot exercise their voting right during the voting on this decision by the General Meeting of the Company, scheduled for 17 June 2016, to authorize the Board of Directors to conclude the proposed transaction. The decision on this agenda item shall be taken by a majority of the remaining represented shares.

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

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

SOPHARMA AD shall provide an unconditional corporate guarantee at the amount of not less than 1 500 000 (one million, five hundred thousand) EUR, by the effect of which SOPHARMA AD shall guarantee the receivables of PRIORBANK OAO (Belarus) from the borrower BRITITRADE SOOO (Belarus), arising from a Loan Contract with an approved limit of up to 1 500 000 (one million, five hundred thousand) EUR, with an annual interest rate of 10 percentage points and effective duration of eighteen months.

The General Meeting of Shareholders of SOPHARMA AD is the body, that has to authorize the Board of Directors of the Company to conclude 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.

The Contract of guarantee shall be concluded after the date of the General Meeting of Shareholders of Sopharma AD, which has taken a decision to authorize the Board of Directors in accordance with art. 114, par. 1 of POSA.

#### **5. BENEFICIERIES OF THE TRANSACTIONS**

The transaction is in favor of PRIORBANK OAO (Belarus) and it secures an obligation of party, related 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 execution of the transaction the public company acquires liabilities to a party 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 a liability as a guarantor in favor of a financial institution - PRIORBANK OAO (Belarus) for the securing of the receivables of the Bank from a party, related to SOPHARMA AD, in the presence of a combination of the grounds of art. 114, par. 6, item 1-3 of POSA, which requires the application of a threshold under art.114, par. 1, item 1, letter b in connection with item 2 of the same provision of POSA.

Value of assets in the audited financial statements as at 31 December 2015 in BGN	Amount of the liability in BGN	Threshold under art.114, par.1, item 1, letter b of POSA in BGN
570 609 000	principal: 2 933 745 interest: 10.0%	11 412 180

Pursuant to art. 114, par. 4 of POSA, the amount of the liabilities and receivables under par. 1, item 2 and 3 also includes the negotiated interests.

The above table illustrates that the total amount of the liabilities of SOPHARMA AD as a guarantor does not exceed the threshold of art. 114, par. 1, item 1, letter b in connection with item 2 of the same provision of POSA.

However, in the last three years SOPHARMA AD has provided collateral in various forms /corporate guarantees, entering as a co-debtor and others/ on liabilities of parties, related to the Company, to a bank, which is in the same economic group as PRIORBANK OAO (Belarus). The collaterals do not exceed the above threshold individually, but the amount of the current collateral causes the exceeding of the threshold and therefore, pursuant to the provisions of art. 114, par. 5 of POSA, the Board of Directors needs an explicitly authorization to conclude the proposed transaction by a decision of the General Meeting of Shareholders.

## 7. APPROPRIATENESS OF THE PROPOSED TRANSACTION

The main business of SOPHARMA AD is manufacturing of medicinal products. The revenue and profit of the Company from performing the mentioned activity is directly and immediately related to the selling of the production on the local and foreign markets. A main role in this have wholesale traders of medicinal products – distributors of the products, produced by SOPHARMA AD.

The main business of BRITITRADE SOOO is “wholesale of pharmaceutical products” and it is a subsidiary of BREEZE SIA (Latvia), which owns 78.50% of its capital. The main business of BREEZE SIA is "wholesale of pharmaceutical products" and is a subsidiary of SOPHARMA AD, which owns 66.13% of its capital. Under the contract for sale of medicines, BRITITRADE SOOO marketed in Belarus most of the products, produced by SOPHARMA AD, thus expanding its portfolio and creating opportunities for generating income and increasing its financial result.

PRIORBANK OAO (Belarus) presented an offer to BRITITRADE SOOO for the conclusion of a Loan Contract with an approved limit of 1 500 000 (one million five hundred thousand) EUR. According to the offer BRITITRADE SOOO pledges to provide no later than 29 July 2016 the provision by SOPHARMA AD of an unconditional corporate guarantee or pledge at the amount of not less than 1 500 000 EUR. In the event that within the period, set by the Bank, no decision by the General Meeting of Shareholders of SOPHARMA AD to authorize the Board of Directors of the Company to conclude the described secured transactions is approved, the Bank can take advantage of their right to an early termination of the Contract. The deadline for repayment of all sums will become 30 July 2016.

The loan amount will be used entirely for the repayment of the commercial liabilities of BRITITRADE SOOO to BREEZE SIA (Latvia), which in turn will repay its liabilities to SOPHARMA AD. As a result, the economic benefit of SOPHARMA AD consists in the reduction in the short-term liabilities to banks at the amount of 1.5 mln EUR, resulting in improvement of the financial indicators, as well as to the effective reduction of interest expenses and increase in the net profit by 75 thousand BGN annually. In the event that at 29 July 2016 the loans become chargeable there is a risk of an increase in the commercial receivables of BREEZE SIA from BRITITRADE SOOO at the amount of 1.5 million EUR, which in turn would lead to an increase in the commercial receivables of SOPHARMA AD from BREEZE SIA EUR at the amount of 1.5 million EUR, due to the need of the subsidiary to provide within a short period the amount to refinance the bank loan. This would reflect on SOPHARMA AD in an increase of total debt by 1.5 million EUR, as well as an increase in interest expenses and consequently a decrease in the financial result by 75 thousand BGN annually.

Through the execution of the proposed transaction SOPHARMA AD indirectly ensures security on the sale of a significant share of the produces medicinal products in the pharmaceutical market in Belarus.

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

#### **SECTION IV.**

### **CONCLUSION OF CONTRACT, REGULATING THE RELATIONS BETWEEN SOPHARMA AD AND SOPHARMA TRADING AD, RELATED TO MARKETING SERVICES FOR MEDICINAL PRODUCTS – A TRANSACTION UNDER ART.114, PAR.1, ITEM 2 OF POSA.**

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

Proposal to the General Meeting of Shareholders of SOPHARMA AD to approve the conclusion of a Contract with SOPHARMA TRADING AD as a provider of marketing services related to over-the-counter medicinal products of SOPHARMA AD. The total amount of the liability of SOPHARMA AD as a contracting authority to SOPHARMA TRADING AD as a contractor for the contract period of 3 /three/ years will amount to 7.2 million /seven million two hundred thousand/ BGN, VAT excluded.

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

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

**CONTRACTOR: SOPHARMA TRADING AD**, entered in the Commercial Register to the Registry Agency under UIC 103267194 and with seat and address of management – Sofia 1756, Izgrev District, 5 Lachezar Stanchev Str., 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 CONTRACT WITHIN THE SCOPE 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 provision of art. 114, par. 1 shall not apply to transactions, carried out in the course of ordinary business of the company, including contracts for bank loans and collateral unless they involve interested parties. “

The participation of interested parties within the meaning of art. 114, par. 6 of POSA in the transaction, proposed for approval, is determined by the following circumstances:

The same person participates in the management of both parties in the transaction, namely: Ognian Ivanov Donev is Executive Director of the public company SOPHARMA AD and also participates in the management of the counterparty in the transaction.

SOPHARMA AD is the parent company of the counterparty, exercising control through ownership of more than 50% of the capital of that company.

These persons and the parties related to them are interested parties within the meaning of that cited law and pursuant to art. 114, par. 4 of POSA cannot exercise their voting right during the voting on this decision by the General Meeting of the Company, scheduled for 17 June 2016, to authorize the Board of Directors to conclude the proposed transaction. The decision on this agenda item shall be taken by a majority of the remaining represented shares.

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

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

Contracting authority - SOPHARMA AD

Contractor – SOPHARMA TRADING AD

Term of the contract – 3 /three/ years;

Subject of the contract are marketing services related to over-the-counter medicinal products, for which the Contracting Authority has marketing authorization and which are distributed by the Contractor.

Contract amount – the Contracting Authority will be required to pay the Contractor an amount based on the actual service covered by the subject of the contract. The estimated amount of will be 7 200 000 /seven million two hundred thousand/ BGN, VAT excluded, for the total estimated duration of the contract.

Before the beginning of each calendar month, the parties the transaction will agree on a plan for marketing activities and other marketing services that shall be carried out within the following month and will form the value of due payment for the period.

The cost of the rendered services for the past calendar month shall be paid by SOPHARMA AD based on actually executed and approved services and against invoices, issued by SOPHARMA TRADING AD.

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

Both parties are beneficiaries of the transaction.

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

These conditions are assessed, when under the power and in execution of the transaction the public company acquires liabilities to a party 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 a liability for the payment of a contractual obligation to a party, related to Sopharma AD – a subsidiary, in



the presence of a combination on the grounds of art. 114, par. 1, item 1, letter b in connection with item 2 of the same provision of POSA.

Value of assets in the audited financial statements as at 31 December 2015 in BGN	Amount of the liability in BGN	Threshold under art.114, par.1, item 1, letter b of POSA in BGN
570 609 000	7 200 000	11 412 180

The above table illustrates that the total amount of the liabilities of SOPHARMA AD as a guarantor does not exceed the threshold of art. 114, par. 1, item 1, letter b in connection with item 2 of the same provision of POSA.

It should be taken into account that the two companies already have concluded transactions within the scope of art. 114, par. 1 of POSA on the basis of decisions of the GMS. This suggests that each subsequent transaction within the scope of this provision should be concluded after explicit authorization by the shareholders of the public Company. The presence of a relation and the participation of interested parties in the transaction makes the application of the exception of art. 114, par. 9, item 1 of POSA impossible, although the transaction could be defined as related to ordinary business activities of both companies within the meaning of par. 10 of the same provision of POSA. In view of the foregoing, it is necessary, that the Board of Directors of SOPHARMA AD be expressly authorized to conclude the proposed transaction by a decision of the General Meeting of Shareholders.

## 7. APPROPRIATENESS OF THE PROPOSED TRANSACTION

The main business of SOPHARMA AD is manufacturing of medicinal products. The revenue and profit of the Company from performing the mentioned activity is directly and immediately related to the selling of the production on the local and foreign markets. A main role in this have wholesale traders of medicinal products – distributors of the products, produced by SOPHARMA AD.

**The main business of SOPHARMA TRADING AD is wholesale and retail of medicines and sanitary products.** This company is the main and largest distributor of the products of SOPHARMA AD in the country.

For SOPHARMA AD it is not appropriate to establish and maintain a structure, dealing with marketing activities related to over-the-counter products. Commissioning this activity to a contractor who has the necessary experience and has sufficient number of staff, qualified in marketing, would increase the volume of marketed production of SOPHARMA AD, respectively to higher efficiency of investment. SOPHARMA TRADING AD has a well-developed such structure, which is related to the main activity of this company.

## **CONCLUSION**

The Board of Directors of SOPHARMA AD, Sofia believes that the proposed transactions in this report are in the interest of the Company.

The Board of Directors proposes to the shareholders to accept a decision approving the conclusion of transactions under the above conditions and in compliance with the Articles of Association of the Company and POSA.

The Board of Directors of SOPHARMA AD informs all interested parties within the meaning of art.114, par.6 of POSA, whether mentioned in this report explicitly, but who meet the requirements of the mentioned provision, that in the event they are Shareholders of SOPHARMA AD, they are prohibited from voting on the relevant item of the agenda of the General Meeting of Shareholders, scheduled for 17 June 2016, which will take a decision on a transaction, in which they are a party. In these cases, decisions shall be taken by a majority of the remaining represented shares of the capital of SOPHARMA AD. The same shall apply in the case of conducting the General Meeting on 1 July 2016.

The current report has been prepared by the Board of Directors of SOPHARMA AD and approved with Record from 21 April 2016 and is part of the materials on the agenda of the Annual General Meeting of Shareholders of the Company, scheduled for 17 June 2016.

Board of Directors of SOPHARMA,

1. Ognian Ivanov Donev: .....
2. Vessela Liubenova Stoeva: .....
3. Alexandar Victorov Tchaouchev: .....
4. Ognian Kirilov Palaveev: .....
5. Andrey Liudmilov Breshkov: .....

Sofia, 21 April 2016