

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 24 April 2017, 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 9 March 2017, 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 24 April 2017.

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 24 April 2017, 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 of the current report are the following transactions:

Chapter One. Authorization of the Board of Directors of the Company to conclude a contract for provisioning of collateral in the form of a corporate guarantee in the form of a mortgage on a real estate owned by Sopharma AD and a special pledge on machines and equipment, as a collateral under a contract with a Financial Institution (Raiffeisenbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1 of POSA;

Chapter Two. Authorization of the Board of Directors of the Company to conclude a contract as a co-debtor for a contract between a Financial Institution (Raiffeisenbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1, item 2 of POSA;

Chapter Three. Authorization of the Board of Directors of the Company to conclude a contract as a co-debtor with a Financial Institution (DSK Bank Bulgaria) for an overdraft

credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1, item 2 of POSA;

Chapter Four. Authorization of the Board of Directors of the Company to conclude a contract as a co-debtor with a Financial Institution (Societe Generale Expressbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1 of POSA;

Chapter Five. Authorization of the Board of Directors of the Company to conclude a contract for rent of real estate as a tenant with Sopharam Properties REIT as a renter – a transaction within the scope of art. 114, par. 1 of POSA, according to Chapter Five of the Substantiated report.

Chapter Six. Authorization of the Board of Directors of the Company to conclude a contract for trade of medicinal products with the subsidiary Sopharma Kazakhstan AD – a transaction within the scope of art. 114, par. 1 of POSA.

Chapter seven. Signing a contract for purchase of medicines between "Sopharma" AD as a seller and TOO "Sopharma KAZAKHSTAN" as a buyer - a transaction falling within the scope of Article 114, Paragraph 1, Item 1 and p. 3 of POSA

Chapter I

Authorization of the Board of Directors of the Company to conclude a contract for provisioning of collateral in the form of a corporate guarantee in the form of a mortgage on a real estate owned by Sopharma AD and a special pledge on machines and equipment, as a collateral under a contract with a Financial Institution (Raiffeisenbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1 of POSA

1. SUBJECT OF TRANSACTION – THE PROPOSAL IS an authorization of the Board of Directors of the Company by the EGM to conclude a contract for provisioning of collateral in the form of a corporate guarantee in the form of a mortgage on a real estate owned by Sopharma AD and a special pledge on machines and equipment, as a collateral under a contract with a Financial Institution (Raiffeisenbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1 of POSA.

2. CONTRACT PARTIES

Mortgage/pledge mortgagee/debtee: „Raiffeisenbank Bulgaria EAD” EAD, with seat and management address – Sofia 1407, Lozentetz, Expo 2000, 55, Nikola Vaptzarov blvd., VAT831558413, represented by together by any two executive directors Ani Vasileva Angelova, Oliver Roegl, Martin Pytlik, Nedialko Velikov Mihailov.

Mortgage/pledge debtor: “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.

Debtor: „Sopharma Trading“ AD, commercial company, established and operating under the Laws of the Republic of Bulgaria, registered with the Commercial Register of the Register Agency with VAT: 103267194 with seat and address of management Sofia, 5, Lachezar Stanchev Str., „Sopharma Business Towers”, building A, floor 12, represented by Dimitar Georgiev Dimitrov – Executive Director of the company.

3. PARTICIPATION OF INTERESTED PARTIES IN THE CONTRACT WITHIN THE MEANING 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:

The Executive Director representing the public company SOPHARMA AD – Ognian Ivanov Donev is also Member of the Board of Directors at the company debtor Sopharma Trading AD.

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 24 April 2017, 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 informs the shareholders with regards to the following main terms of the proposed transaction:

Secured claim arising from the credit agreement for investment financing, which is to be signed between "RAIFFEISENBANK / BULGARIA" EAD and "Sopharma Trading" AD as a borrower and "Sopharma" AD as a co-debtor, under which "Sopharma Trading" AD will receive an investment credit of up to 12 million / twelve million / EUR at an interest rate of 1M Euribor + 1.70% points, a minimum of 1.70% points.

The loan will be repaid through 81 (eighty-one) equal installments starting no later than the end of the third month from the date of signing the loan agreement.

It is envisaged that "Sopharma" AD will provide as collateral the company's own assets:

Real estate, including: buildings and service facilities of the new plant for solid pharmaceutical dosage forms in the city. Sofia, bul. Rozhen located at "NPZ Ilentsi - West", along with service infrastructure; Land - Land with ID 68134.1369.17 at the cadastral map and cadastral registers of the town. Sofia district Nadezhda - site "B" detailed in market valuations, an integral part of this substantiated report. Machinery and equipment, according to market valuation integral part of this substantiated report.

These assets will be subject to a second mortgage on land and buildings and third pledge on machinery and equipment in favor of the same lender.

Considering the provisions of article 114, paragraph 4 of the POSA and to estimate the thresholds under paragraph 1 of that provision, the value of assets provided as collateral is the higher between the market price and its value in the last audited financial statements of the company. Market price is the price determined under evaluation by independent evaluators under art. 5 of the Law on independent evaluators.

"Sopharma" AD has ordered the preparation of evaluation of the property which is to be provided as collateral by independent evaluators. The comparison with the value of the same property in the most recent audited financial statement is presented in the following table:

Market value according to evaluation	Value according to most recent audited financial report
64 885 812.30 BGN	11 640 205.17 BGN

The value of assets provided as collateral for the purposes of this Substantiated report to 64 885 812.30 BGN.

The Extraordinary General Meeting of Shareholders of "Sopharma" AD has to authorize the Board of Directors of the Company to close the deal and carry out all legal and factual actions necessary for its implementation in compliance with the decision of the general meeting of shareholders, the company statutes and in accordance with applicable provisions of the current legislation.

5. BENEFICIERIES OF THE TRANSACTIONS

All parties are beneficiaries of the transaction.

6. ASSESSMENT OF THE CONDITIONS UNDER ART.114, PAR. 1, ITEM 2 AND 3—
the conditions under par.1, item 2 and 3 shall be assessed, when under the power and in execution of the transaction the company provides as any form of collateral assets with value more than 2% of the lower value between the most recent audited and the most recent published financial report, when interested parties participate in the transaction.

As part of the proposed transaction "Sopharma" AD will provide its own assets as collateral to cover all receivables of the financial institution from the debtor, falling under the provisions of art. 114, para 6, item 2 and 3 of the LPOS (interested parties), because of which the provision of art. 114, para 1, item 1, letter b of the LPOS is applicable.

Value of assets in the audited financial statements as at 31 December 2015 in BGN	Value of assets in the unaudited financial statements as at 31 December 2016 in BGN	Amount of the collateral in BGN	Threshold under art.114, par.1, item 1, letter "b" of POSA in BGN
570 609 000	568 983 000	64 885 812.30	11 420 000

The above tables illustrate that the total value of the proposed transaction exceeds the thresholds of art.114, par.1, item 1, letter "b" 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

"Sopharma" AD is mainly engaged in the manufacturing of medicinal products. The revenue and profit of the company from carrying out this activity are directly and immediately related to the realization of the production of the company products on the domestic and foreign markets. The major role in this process belongs to the wholesalers - distributors of products manufactured by "Sopharma" AD.

"Sopharma Trading" AD is mainly engaged in the wholesale and retail of medicines and sanitary products. The company is the main and largest distributor of "Sopharma" AD for the Bulgarian territory.

The efforts of both companies to target and penetrate the Serbian market, where "Sopharma Trading" AD plans an acquisition of shares of the capital in an acting and established local wholesaler of medicines. In view of the current market conditions, the optimal way to finance the acquisition is through an investment credit. This determines the nature of the interest of "Sopharma Trading" AD in this deal.

By participating in the transaction by providing a collateral, "Sopharma" AD facilitates the provision of timely financing on acceptable market conditions to "Sopharma Trading" AD. Through the received funding, "Sopharma Trading" AD will be able to implement its investment strategy to expand the company's market share in the region, respectively ensuring the subsequent significant growth in revenues and profits achieved in the segment of wholesale trade in medicinal products. The described revenue growth would be reflected in the consolidated financial results of "Sopharma" AD leading to higher returns for its shareholders.

The interest of "Raiffeisenbank Bulgaria" from the transaction is conditioned by the fact that the bank would have realized revenues from its core business, working with stable corporate clients as "Sopharma" AD and "Sopharma Trading" AD.

The foregoing determines tripartite economic benefits and appropriateness of the proposed transaction.

CHAPTER II

Authorization of the Board of Directors of the Company to conclude a contract as a co-debtor for a contract between a Financial Institution (Raiffeisenbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1, item 2 of POSA

1. SUBJECT OF TRANSACTION – THE PROPOSAL IS an authorization of the Board of Directors of the Company to conclude a contract as a co-debtor for a contract between a Financial Institution (Raiffeisenbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1, item 2 of POSA.

2. CONTRACT PARTIES

Creditor: „Raiffeisenbank Bulgaria EAD” EAD, qith seat and management address – Sofia 1407, Lozentetz, Expo 2000, 55, Nikola Vaptzarov blvd., VAT831558413, represented by together by any two executive directors Ani Vasileva Angelova, Oliver Roegl, Martin Pytlik, Nedialko Velikov Mihailov.

Co-debtor: “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.

Debtor: „Sopharma Trading“ AD, commercial company, established and operating under the Laws of the Republic of Bulgaria, registered with the Commercial Register of the Register Agency with VAT: 103267194 with seat and address of management Sofia, 5, Lachezar Stanchev Str., „Sopharma Business Towers”, building A, floor 12, represented by Dimitar Georgiev Dimitrov – Executive Director 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:

4. are a party, its representative or proxy in a transaction or when actions or transactions are being conducted in their favor, or
5. 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;
6. 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:

The Executive Director representing the public company SOPHARMA AD – Ognian Ivanov Donev is also Member of the Board of Directors at the company debtor Sopharma Trading AD.

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 24 April 2017, 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 informs the shareholders with regards to the following main terms of the proposed transaction:

Obligation arising from the credit agreement for investment financing, which is to be signed between "RAIFFEISENBANK / BULGARIA" EAD and "Sopharma Trading" AD as a borrower and "Sopharma" AD as a co-debtor, under which "Sopharma Trading" AD will receive an investment credit of up to 12 million / twelve million / EUR at an interest rate of 1M Euribor + 1.70% points, a minimum of 1.70% points.

The loan will be repaid through 81 (eighty-one) equal installments starting no later than the end of the third month from the date of signing the loan agreement.

It is envisaged that "Sopharma" AD will sign as a co-debtor in addition to the as collateral discussed in Chapter One:

The Extraordinary General Meeting of Shareholders of "Sopharma" AD has to authorize the Board of Directors of the Company to close the deal and carry out all legal and factual actions necessary for its implementation in compliance with the decision of the general meeting of shareholders, the company statutes and in accordance with applicable provisions of the current legislation.

5. BENEFICIERIES OF THE TRANSACTIONS

All parties are beneficiaries of the transaction.

6. ASSESSMENT OF THE CONDITIONS UNDER ART.114, PAR. 1, ITEM 2 AND 3–
the conditions under par.1, item 2 and 3 shall be assessed, when under the power and in execution of the transaction the company provides as any form of collateral assets with value more than 2% of the lower value between the most recent audited and the most recent published financial report, when interested parties participate in the transaction.

As part of the proposed transaction “Sopharma” AD will provide its own assets as collateral to cover all receivables of the financial institution from the debtor, falling under the provisions of art. 114, para 6, item 2 and 3 of the LPOS (interested parties), because of which the provision of art. 114, para 1, item 1, letter b of the POSA is applicable.

Value of assets in the audited financial statements as at 31 December 2015 in BGN	Value of assets in the unaudited financial statements as at 31 December 2016 in BGN	Amount of the collateral in BGN	Threshold under art.114, par.1, item 1, letter "b" of POSA in BGN
570 609 000	568 983 000	64 885 812.30	11 420 000

According to the provision of art. 114, para 4 of the POSA, the value of the payables and receivables according to para 1, item 2 and 3 include the interest rates. The value includes the interest rate for one year.

The above tables illustrate that the total value of the proposed transaction exceeds the thresholds of art.114, par.1, item 1, letter "b" 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

"Sopharma" AD is mainly engaged in the manufacturing of medicinal products. The revenue and profit of the company from carrying out this activity are directly and immediately related to the realization of the production of the company products on the domestic and foreign markets. The major role in this process belongs to the wholesalers - distributors of products manufactured by "Sopharma" AD.

"Sopharma Trading" AD is mainly engaged in the wholesale and retail of medicines and sanitary products. The company is the main and largest distributor of "Sopharma" AD for the Bulgarian territory.

The efforts of both companies to target and penetrate the Serbian market, where "Sopharma Trading" AD plans an acquisition of shares of the capital in an acting and established local wholesaler of medicines. In view of the current market conditions, the optimal way to finance the acquisition is through an investment credit. This determines the nature of the interest of "Sopharma Trading" AD in this deal.

By participating in the transaction as a co-debtor, "Sopharma" AD facilitates the provision of timely financing on acceptable market conditions to "Sopharma Trading" AD. Through the received funding, "Sopharma Trading" AD will be able to implement its investment strategy to expand the company's market share in the region, respectively ensuring the subsequent significant growth in revenues and profits achieved in the segment of wholesale trade in medicinal products. The described revenue growth would be reflected in the consolidated financial results of "Sopharma" AD leading to higher returns for its shareholders.

The interest of "Raiffeisenbank Bulgaria" from the transaction is conditioned by the fact that the bank would have realized revenues from its core business, working with stable corporate clients as "Sopharma" AD and "Sopharma Trading" AD.

The foregoing determines tripartite economic benefits and appropriateness of the proposed transaction.

CHAPTER III

Authorization of the Board of Directors of the Company to conclude a contract as a co-debtor with a Financial Institution (DSK Bank Bulgaria) for an overdraft credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1, item 2 of POSA, in relation to item 1, letter b from POSA.

1. SUBJECT OF TRANSACTION - THE PROPOSAL IS an authorization of the Board of Directors of the Company to conclude a contract as a co-debtor under art. 101 from the Law on obligations and contracts for a overdraft contract for up to 14 000 000 BGN (fourteen million BGN) between the Bank and the subsidiary Sopharma Trading AD as a debtor.

2. CONTRACT PARTIES

Bank: „DSK BANK” EAD, with seat and management address – Sofia 1036, Oborishte, 19, Moskovska Str., VAT 121830616, represented together by any two of the executive directors Diana Dacheva Miteva, Dorothea Nikolaeva Nikolova, Violina Marinova Spasova, Yurii Blagoew Genow, Margarita Dobrova Petrova - Caridi.

Co-debtor: “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.

Debtor: „Sopharma Trading“ AD, commercial company, established and operating under the Laws of the Republic of Bulgaria, registered with the Commercial Register of the Register Agency with VAT: 103267194 with seat and address of management Sofia, 5, Lachezar Stanchev Str., „Sopharma Business Towers”, building A, floor 12, represented by Dimitar Georgiev Dimitrov – Executive Director of the company.

3. PARTICIPATION OF INTERESTED PARTIES IN THE CONTRACT WITHIN THE MEANING 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:

7. are a party, its representative or proxy in a transaction or when actions or transactions are being conducted in their favor, or
8. 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;
9. 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:

The Executive Director representing the public company SOPHARMA AD – Ognian Ivanov Donev is also Member of the Board of Directors at the company debtor Sopharma Trading AD.

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 24 April 2017, 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 informs the shareholders the following main terms of the proposed transaction:

Secured claim under the contract for overdraft credit of up to 14 million (fourteen million) BGN, funds that will be used by the Creditor to finance the current activities of the company.

Type - overdraft.

Interest rate - 1M Sofibor + 1,65% points, a minimum of 1.65% points.

Term - 12 months with the possibility of revolving annually for up to 120 months.

Considering the provisions of art. 114a para. 5 of POSA The Board of Directors of "Sopharma" AD assessed the conditions of the transaction and confirms to the General Meeting of Shareholders that the transaction will be concluded at market price.

The General Meeting of Shareholders of "Sopharma" AD has to authorize the Board of Directors of the Company to close the transaction and carry out all legal and factual actions necessary for its implementation in compliance with the decision of the general meeting of shareholders, the company statute and in accordance with applicable provisions of the current legislation.

5. BENEFICIARIES OF THE TRANSACTIONS

All parties are beneficiaries of the transaction.

6. ASSESSMENT OF THE CONDITIONS UNDER ART.114, PAR. 1, ITEM 2 AND 3—
the conditions under par.1, item 2 and 3 shall be assessed, when under the power and in execution of the transaction the company provides as any form of collateral assets with value more than 2% of the lower value between the most recent audited and the most recent published financial report, when interested parties participate in the transaction.

As part of the proposed transaction “Sopharma” AD will provide its own assets as collateral to cover all receivables of the financial institution from the debtor, falling under the

provisions of art. 114, para 6, item 2 and 3 of the LPOS (interested parties), because of which the provision of art. 114, para 1, item 1, letter b of the LPOS is applicable.

Value of assets in the audited financial statements as at 31 December 2015 in BGN	Value of assets in the unaudited financial statements as at 31 December 2016 in BGN	Amount of the collateral in BGN	Threshold under art.114, par.1, item 1, letter "b" of POSA in BGN
570 609 000	568 983 000	14 235 200	11 420 000

According to the provision of art. 114, para 4 of the POSA, the value of the payables and receivables according to para 1, item 2 and 3 include the interest rates. The value includes the interest rate for one year.

The above tables illustrate that the total value of the proposed transaction exceeds the thresholds of art.114, par.1, item 1, letter "b" 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

"Sopharma" AD is mainly engaged in the manufacturing of medicinal products. The revenue and profit of the company from carrying out this activity are directly and immediately related to the realization of the production of the company products on the domestic and foreign markets. The major role in this process belongs to the wholesalers - distributors of products manufactured by "Sopharma" AD.

"Sopharma Trading" AD is mainly engaged in the wholesale and retail of medicines and sanitary products. The company is the main and largest distributor of "Sopharma" AD for the Bulgarian territory.

Providing opportunity for working capital overdraft loans on favorable market conditions, "Sopharma Trading" AD ensure the ability to meet without difficulty encountered in the course of business of the company expenses, respectively. To ensure the smooth running of this business. The provision of normal commercial process the company would contribute to the realization of operating income and an increase in the financial result, and consequently - to achieve higher returns for shareholders "Sopharma Trading" AD. This determines the nature of the interest of "Sopharma Trading" AD of the deal.

By participating in the transaction as a co-debtor, "Sopharma" AD facilitates the provision of timely financing on acceptable market conditions to "Sopharma Trading" AD. Through the received funding, "Sopharma Trading" AD will be able to maintain its optimal business operations, which would contribute to the realization of operating income and an increase in the financial result. The described revenue growth would be reflected in the consolidated financial results of "Sopharma" AD leading to higher returns for its shareholders.

The interest for the guarantors subsidiaries of the Debtor and indirectly of the Co-debtor is reasoned by the fact that part of the received funds will be used for rebranding and integration of newly acquired retail chain carrying retail medicinal products in Bulgaria, in the the group of "Sopharma Trading" AD, which would have the effect of broadening and strengthening the market presence of the retail chain Sopharmacy, respectively lead to higher revenue and realize better financial results.

The interest of "DSK Bank" of the deal is conditioned by the fact that the bank would have realized revenues from its core business, working with stable corporate clients as "Sopharma" AD and "Sopharma Trading" AD.

The foregoing determines the overall economic benefit and appropriateness of the proposed transaction.

CHAPTER IV

Authorization of the Board of Directors of the Company to conclude a contract as a co-debtor with a Financial Institution (Societe Generale Expressbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1, item 2 in relation to item.1, letter “b” of POSA.

1. SUBJECT OF TRASNACTION - THE PROPOSAL IS an authorization of the Board of Directors of the Company to conclude a contract as a co-debtor under art. 101 from the Law on obligations and contracts for a overdraft contract for up to 16 000 000 BGN (sixteen million BGN) between the Bank and the subsidiary Sopharma Trading AD as a debtor.

2. CONTRACT PARTIES

Bank: „Societe Generale Expressbank” AD, with seat and management address – Varna, 92, “Vladislav Varnenchik” Blvd., VAT 813071350, represented together by any two of the executive directors Willy-Pierre Abbal, Arnaud Leclair, Martina Angelova Macheva, Elenka Petrowa Bakalowa.

Co-debtor: “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.

Debtor: „Sopharma Trading“ AD, commercial company, established and operating under the Laws of the Republic of Bulgaria, registered with the Commercial Register of the Register Agency with VAT: 103267194 with seat and address of management Sofia, 5, Lachezar Stanchev Str., „Sopharma Business Towers”, building A, floor 12, represented by Dimitar Georgiev Dimitrov – Executive Director 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:

10. are a party, its representative or proxy in a transaction or when actions or transactions are being conducted in their favor, or
11. 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;
12. 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:

The Executive Director representing the public company SOPHARMA AD – Ognian Ivanov Donev is also Member of the Board of Directors at the company debtor Sopharma Trading AD.

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 24 April 2017, 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 informed the shareholders the following main terms of the proposed transaction:

Secured claim arising from a contract for an investment loan of 16 million (sixteen million) BGN, funds that will be used by the Debtor to finance part of the cost for the possible acquisition of a retail chain owned by third parties carrying retail trade with medicinal products in Bulgaria.

Deadline for return of principal (repayment schedule) - the loan due to be repaid 78 (seventy eight) equal installments starting no later than the end of the seventh month of the date of signing the loan agreement.

Deadlines for payment of interest on the principal: monthly

Fixed nominal annual interest rate of 1.80% (one point eighty percent) per year

Interest period - calendar month.

Considering the provisions of art. 114a para. 5 of POSA The Board of Directors of "Sopharma" AD assessed the conditions of the transaction and confirms to the General Meeting of Shareholders that the transaction will be carried out at market price.

The General Meeting of Shareholders of "Sopharma" AD has to authorize the Board of Directors of the Company to close the deal and carry out all legal and factual actions necessary for its implementation in compliance with the decision of the general meeting of shareholders, the company statute and in accordance with applicable provisions of the current legislation.

5. BENEFICIERIES OF THE TRANSACTIONS

All parties are beneficiaries of the transaction.

6. ASSESSMENT OF THE CONDITIONS UNDER ART.114, PAR. 1, ITEM 2 AND 3–
the conditions under par.1, item 2 and 3 shall be assessed, when under the power and in

execution of the transaction the company provides as any form of collateral assets with value more than 2% of the lower value between the most recent audited and the most recent published financial report, when interested parties participate in the transaction.

As part of the proposed transaction "Sopharma" AD will provide its own assets as collateral to cover all receivables of the financial institution from the debtor, falling under the provisions of art. 114, para 6, item 2 and 3 of the LPOS (interested parties), because of which the provision of art. 114, para 1, item 1, letter b of the LPOS is applicable.

Value of assets in the audited financial statements as at 31 December 2015 in BGN	Value of assets in the unaudited financial statements as at 31 December 2016 in BGN	Amount of the collateral in BGN	Threshold under art.114, par.1, item 1, letter "b" of POSA in BGN
570 609 000	568 983 000	16 288 000	11 420 000

According to the provision of art. 114, para 4 of the POSA, the value of the payables and receivables according to para 1, item 2 and 3 include the interest rates. The value includes the interest rate for one year.

The above tables illustrate that the total value of the proposed transaction exceeds the thresholds of art.114, par.1, item 1, letter "b" 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

"Sopharma" AD is mainly engaged in the manufacturing of medicinal products. The revenue and profit of the company from carrying out this activity are directly and immediately related to the realization of the production of the company products on the domestic and foreign markets. The major role in this process belongs to the wholesalers - distributors of products manufactured by "Sopharma" AD.

"Sopharma Trading" AD is mainly engaged in the wholesale and retail of medicines and sanitary products. The company is the main and largest distributor of "Sopharma" AD for the Bulgarian territory.

The subsidiary of "Sopharma Trading" AD company - "Sofarmacy" AD provides retail services to end users by operating pharmacies under the brand SOpharmacy. The concept of pharmacies was developed with the help of international experts, offering a contemporary approach to serving the health needs of Bulgarian patients. Driven by the desire to expand its presence in the sector of retail trade in medicinal products "Sopharma Trading" AD is willing to take part in the consolidation of the sector through acquisitions of existing pharmacies - owned by third parties. Thus, increasing for a short period of time the number of pharmacies under the brand SOpharmacy, "Sopharma Trading" AD provides expanded market presence and an even better brand recognition of SOpharmacy, realizing economies of scale, resulting in reduced costs of logistics, the possibility of negotiating better market conditions for marketing activities with manufacturers and advertisers to increase the volume of products

that "Sopharma Trading" AD supplies to the retail market and improved ability to reach end customers with the exclusive brands of the company. The described positive effects will lead to increased revenues and the consolidated financial result and respectively - higher returns for shareholders of "Sopharma Trading" AD, among which is "Sopharma" AD with controlling interest of more than 50% of the capital. In view of the present market conditions, the optimal way to finance the acquisition transaction is through an investment credit. This determines the nature of the interest of "Sopharma Trading" AD of the deal.

By participating in the transaction as a co-borrower, "Sopharma" AD facilitate the timely financing of "Sopharma Trading" AD under acceptable market conditions. Through the received funding "Sopharma Trading" AD will be able to implement its investment strategy to expand the market share of pharmacies SOPharmacy, respectively ensuring the subsequent significant growth in revenues and profits achieved in the retail segment. The described revenue growth would be reflected in the consolidated financial results of "Sopharma" AD, in order to achieve higher returns for its shareholders.

The interest of " Societe Generale Expressbank " of the deal is conditioned by the fact that the bank would have realized revenues from its core business, working with stable corporate clients as "Sopharma" AD and "Sopharma Trading" AD.

The foregoing determines the overall economic benefit and appropriateness of the proposed transaction.

CHAPTER V

Authorization of the Board of Directors of the Company to conclude a contract for rent of real estate as a tenant with Sopharma Properties REIT as a renter – a transaction within the scope of art. 114, par. 1 of POSA, according to Chapter Five of the Substantiated report.

1. SUBJECT OF TRANSACTION - THE PROPOSAL IS an authorization of the Board of Directors of the Company to conclude a rental contract, under which "Sopharma" AD will rent from "Sopharma Properties" REIT a **real estate, representing the Office 1B-B18** constituting a real part of Office-1B-18, located on floor 18 in Block B of administrative - commercial building with underground garages "Sopharma Business Towers", built in Plot I, kv.2 in the development plan of the city Sofia, area Dianabad (administrative address: Izgrev area, 5, Lachezar Stanchev Str.), with borders on the floor according to sketch, deed and approved project to the basement: the east - Block A and street; west - street and land cadastre number 1586; from the north - and south street - Building II, assigned to the Ministry of Transport CTC top - technical floor 19 below - floor 17; at boundaries of Office 1-B18: northwest - Emergency staircase and facade; northeast - facade; southeast - Emergency staircase and facade; southwest - facade, with a gross leasable area of office-1-B18, in the amount of 316.81 square meters, of which 275.49 square meters net leasable area and 41.32 square meters common parts; at boundaries of Office-1B-B18: Northwest - Emergency staircase and facade; Northeast - emergency staircase, hallway, elevator shafts, a real part of Office-1-B18, facade; southeast - facade, emergency staircase facade; Southwest - facade; with a gross leasable area of office-1B-B18, in the amount of 189.91 square meters, of which 165.14 square meters net leasable area and 24.77 square meters common parts.

2. CONTRACT PARTIES

Tenant: "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.

Renter: „Sopharma Properties“ AD, commercial company, established and operating under the Laws of the Republic of Bulgaria, registered with the Commercial Register of the Register Agency with VAT: 831902088 with seat and address of management Sofia, 5, Lachezar Stanchev Str., „Sopharma Business Towers“, building A, floor 20, represented by Boris Anchev Borisov – Executive Director of the company.

3. PARTICIPATION OF INTERESTED PARTIES IN THE CONTRACT 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, para 9 of POSA, "the provisions of article 114, paragraph 1 shall 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, except if they engage stakeholders".

The proposed transaction involves an interested person as defined in article 114, paragraph 6, item 2 of POSA, namely: Ognian Ivanov Donev, who is an executive member of the Board of Directors and represents the public company "Sopharma" AD and directly and indirectly owns over 25% of the votes at the general meeting of the counterparty - public company "Sopharma Properties" REIT.

These persons and related entities are stakeholders within the meaning of that provision and pursuant to article 114, paragraph 4 of the POSA cannot exercise their right aloud in the decision by the General Meeting of the Company scheduled on April 24, 2017, to authorize the Board of Directors concerning the conclusion of the proposed transaction. The decision on this agenda item should be taken by a majority of the remaining shares represented.

4. TERMS AND CONDITIONS OF THE TRANSACTION

The Board of Directors informed the shareholders the following main terms of the proposed transaction:

Gross area for rent: amounting to 189.91 square meters, of which 165.14 square meters net leasable area and 24.77 square meters common area.

Rental price: 12 EUR/square meters per month – 2 278.92 EUR or 4 457.19 BGN without VAT.

Service fee: 2 EUR/ square meters per month – 397.82 EUR or 742.87 BGN without VAT.

Hired term: 10 years estimated.

Annual value of the transaction, as described in item 1, amounts: rent of 25 347.04 EUR per month or 53 486.18 levs without VAT, monthly service fees for common area 4 773.84 EUR or 8914.44 BGN without VAT or total: 30 120.88 EUR or 624 006.20 BGN without VAT.

Total estimated value of the transaction for the term of the contract - 301 208.80 EUR or 624 006.20 BGN without VAT.

The rental price and the reward for service fees are defined according to a prepared market valuation from a certified evaluator, which is an inseparable part of the present substantiated report.

The General Meeting of Shareholders of "Sopharma" AD has to authorize the Board of Directors of the Company to close the transaction and carry out all legal and factual actions necessary for its implementation in compliance with the decision of the general meeting of shareholders, the company statutes and in accordance with applicable provisions of the current legislation.

5. BENEFICIARIES OF THE TRANSACTIONS

All parties are beneficiaries of the transaction.

6. ASSESSMENT OF THE CONDITIONS UNDER ART.114, PAR. 1, ITEM 2 AND 3–

These conditions are assessed as a result of the transaction:

The Company uses in any form assets worth more than the value as in art.114, par.1, item 1, letter “a” of the POSA and if the transaction involves stakeholders – over the value of item 1, letter b from the same provision;

The company incurs obligations to a single person or related parties totaling more than the value of art.114, par.1, item 1, letter “a” of POSA, and when obligations are to stakeholders or for the benefit of stakeholders – over the value of item 1, letter “b” of that provision.

In implementation 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, the public company “Sopharma” AD due following circumstances arise:

A/ The company rents an asset whose ultimate market value including financial depreciation from rental income amount to 1 500.61 EUR/sq.m. or 2 934.94 BGN (1 EUR = 1.95583 BGN) or total for the rented area of 284 980.85 EUR, respectively 557 374.46 BGN, according to the current market value of the property – Article 114, paragraph 1, letter “b” of POSA:

Value of assets in the audited financial statements as at 31 December 2015 in BGN	Value of assets in the unaudited financial statements as at 31 December 2016 in BGN	Amount of the collateral in BGN	Threshold under art.114, par.1, item 1, letter “b” of POSA in BGN
570 609 000	568 983 000	16 288 000	11 420 000

B/ The company incurs an obligation to pay the rental price up to 301 208.80 EUR or 624 006.20 BGN VAT excluded, for the duration of the rental agreement – art. 114, par. 1, item 2 – the second hypothesis of POSA:

Value of assets in the audited financial statements as at 31 December 2015 in BGN	Value of assets in the unaudited financial statements as at 31 December 2016 in BGN	Amount of the collateral in BGN	Threshold under art.114, par.1, item 1, letter “b” of POSA in BGN
570 609 000	568 983 000	624 006.20	11 412 000

The above tables illustrate that the value of the asset expected to be received for renting, as well as the value of the obligation to pay the rent does not exceed the thresholds set under art. 114, par. 1, letter “b” and item 2-second hypothesis of POSA, but given the presence in the last three years of the transactions between the same parties exceeding these thresholds, based on decisions of the General Meeting of Shareholders of the public company “Sopharma” AD, held on 29.06.2011 and 19.12.2014, and according to art.114, par.5 of the POSA it is required that the Board of Directors is explicitly authorized by the General meeting of shareholders to conclude described in this section of the substantiated report. In view of the foregoing, it is necessary that the Board of Directors of “Sopharma” AD expressly authorized to conclude the proposed transaction with a decision of the General Meeting of Shareholders.

7. APPROPRIATENESS OF THE PROPOSED TRANSACTION

"Sopharma" AD is principal activity is the manufacturing of medicinal products. The revenue and profit of the company from carrying out this activity are directly and immediately related to the realization of the production of the company products on the domestic and foreign markets in which business major role are wholesalers of medicines - distributors of products manufactured by "Sopharma" AD goods.

Sopharma Properties” REIT whose main activity is investment of funds in real estate raised through the issuance of securities /securitization of real estates/ through the other rights on real estate, construction, improvements and management, rental, leasing and/ or sale.

On 29.06.2011, the General Meeting of Shareholders of “Sopharma” AD has authorized the Board of Directors to sign a rental contract, under which “Sopharma” AD rents from “Sopharma Properties” REIT– offices and parking lots, located in a building of the administrative and commercial complex “Sopharma Business Towers” with administrative address in the city. Sofia region, 5 “Lachezar Stanchev” str. The contract was signed on 01.08.2012 and is valid until 08/01/2022, the General Meeting of “Sopharma” AD, held on 19.12.2014 the Board of Directors authorized an annex to the already existing contract for additional office space.

This transaction will optimize the number of offices of “Sopharma” AD and as a result the company will be able to provide adequate workplaces for more of its business units.

The monthly rental price, along with the service fee determined by the current market valuation of the property, prepared in compliance with the requirements of art. 114, par. 4 of the POSA does not exceed the amount of the monthly rent agreed in accordance with previous decisions of the AGM “Sopharma” AD.

CHAPTER VI

Signing a contract for purchase of medicines between "Sopharma" AD as a seller and TOO "Sopharma KAZAKHSTAN" as a buyer - a transaction falling within the scope of Article 114, Paragraph 1, Item 1 and p. 3 of POSA

1. SUBJECT OF TRANSACTION

It is proposed that the General Meeting of Shareholders of "Sopharma" AD approves the conclusion of the following transaction with subject: purchase of medicines between "Sopharma" AD as a manufacturer and seller of goods and TOO "Sopharma KAZAKHSTAN" as a buyer, under which "Sopharma" AD will incur receivables from its subsidiary TOO "Sopharma KAZAKHSTAN" amounting to the sum of 20 692 € 045.00 / twenty million six hundred and ninety-two thousand and forty-five EUR / or 40 470 122.00 lev for the purposes of this substantiated report. The deal is expected to be concluded for a term of 5 / five / years.

2. CONTRACT PARTIES

Seller: "Sopharma" AD, with registered office - c. Sofia district Hope Street. "Iliensko road" №, UIC 831902088, represented by Ognian Ivanov Donev, in his capacity as Executive Director and representative of the company.

BUYER: "TOO" Sopharma Kazakhstan "entered into the state register of legal entities of the Republic of Kazakhstan BIN 141140004760, Address: d Almaty, ISR. Мамыр 4 d.190, certificate of state registration №5286-1910-04-TOO (UE) of 06.11.2014, the represented by the Director Zhanar Kazdaeva.

3. PARTICIPATION OF INTERESTED PARTIES IN THE CONTRACT WITHIN THE MEANING OF ART.114, PAR.5 OF POSA

Under Article 114, paragraph 6 of POSA "Stakeholders are members of the management and supervisory bodies of a public company, people - representatives of legal entities, members of such bodies, his procurator, persons who directly and / or indirectly hold at least 25 percent of the votes at the general meeting of the company or control it, and transactions of subsidiary - members of management and supervisory bodies, individuals - representatives of legal entities, members of such bodies, his procurator, persons directly and / or indirectly hold at least 25 percent of the votes at the general meeting of the company, other than a public company and related parties when they:

1. party, or an intermediary in the transaction or for the benefit transactions are conducted or actions or
2. hold directly and / or indirectly at least 25 percent of the votes in the General Assembly or controlled entity which is a party or an intermediary in the transaction or in whose favor the transactions are conducted or actions;

3. The members of the management or supervisory bodies, representatives of legal entities, members of such bodies or procurators of a legal person under item. 1 and 2. "

The proposed transaction can be defined as a transaction involving stakeholders within the meaning of Art. 114, para. 6 of POSA, due to the following:

"Sopharma" AD is the sole shareholder and owns 100% of votes at the General Meeting of TOO "Sopharma KAZAKHSTAN" Party to the proposed transaction.

These persons and related entities are stakeholders within the meaning of that provision and pursuant to article 114, paragraph 4 of the POSA and cannot exercise their voting right at the General Meeting of the Company scheduled on April 24, 2017, to authorize the Board of Directors concerning the conclusion of the proposed transaction. The decision on this agenda item should be taken by a majority of the remaining shares represented.

4. TERMS AND CONDITIONS OF THE TRANSACTION

Contract duration - 5 (five) years.

Value of the transaction - 20 692 045.00 (twenty million six hundred and ninety-two thousand and forty-five) EUR .

Terms of delivery - CIP Almaty Incoterms 2000

The General Meeting of Shareholders of "Sopharma" AD has to authorize the Board of Directors of the Company to conclude a 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 Company's Statute and accordance with the applicable provisions of the current legislation.

5. BENEFICIARIES OF THE TRANSACTIONS

The Transaction is beneficial to both parties.

6. ASSESSMENT OF THE CONDITIONS UNDER ART.114, PAR. 1, ITEM 2 AND 3— these conditions are assessed since the transaction receivables are due for the public company to a person or to related parties totaling more than the value of art. 114, paragraph 1, item 1, letter "a" of POSA, and when debtors of the company are interested parties - over 50 per cent of the value t. 1, letter "b" of that provision.

In implementation of the proposed transaction "Sopharma" AD will incur receivable of 20 692 045.00 / twenty million six hundred and ninety-two thousand and forty-five EUR / or 40 470 122.00 BGN for the purposes of this substantiated report. The receivable is from the

related person TOO "Sopharma KAZAKHSTAN." The transaction is with the participation of an interested person within the meaning of article 114, paragraph 6, item 2 of POSA, the applicable provision is Art. 114 (1), item 1, b. "B" in connection with the second hypothesis of 3 of the same provision of POSA.

Value of assets in the audited financial statements as at 31 December 2015 in BGN	Value of assets in the unaudited financial statements as at 31 December 2016 in BGN	Amount of the collateral in BGN	Threshold under art.114, par.1, item 1, letter "b" of POSA in BGN
570 609 000	568 983 000	40 470 122	5 710 000

It is evident from the table above, that the value of transaction exceeds the thresholds under Article 114, paragraph 1 and it needs prior authorization by the General Meeting of Shareholders of "Sopharma" AD.

7. EXPEDIENCY AND THE TRANSACTION

"Sopharma" AD is a principal activity is the manufacture of medicinal products. To implement the revenue and profit for the company from carrying out this activity is directly and immediately connected with realization of production on the domestic and foreign market.

TOO "Sopharma KAZAKHSTAN" is the mainly engaged in wholesale and retail trade in medicinal products. The company develops its activity on the territory of the Republic of Kazakhstan, and has a good market position in the territory of neighboring countries targeted by the parent company.

With the implementation of the proposed transaction the company achieve an increase in revenue and consolidated financial results, respectively - higher returns from dividend "Sopharma" AD as the sole shareholder of "Sopharma Kazakhstan" JSC.

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The Board of Directors of "Sopharma" AD Sofia proposes that the transactions in this report are in the best interests of the Company and shareholders adopt a decision approving the conclusion of transactions under the above conditions and in compliance with the Statute of the company and the POSA .

The Board of Directors of "Sopharma" AD informs all interested persons within the meaning of Art. 114, para. 6 of POSA, whether mentioned in this report or not which fulfill the

conditions of the aforesaid provision that if they one shareholders of "Sopharma" AD they shall not be entitled to vote under the relevant agenda item of the April 24, 2017 Extraordinary General meeting of shareholders which is scheduled to decide on the transaction with their participation. In these cases, the decisions should be taken by a majority of the remaining represented shares of "Sopharma" AD. The same will apply in the event of holding the General Meeting of May 8, 2017 .

This report has been compiled by the Board of Directors of "Sopharma" AD and is adopted on the Meeting held on 9 March 2017, and is part of the materials for the convened on April 24, 2017 Extraordinary General Meeting of Shareholders.

Board of Directors of “Sopharma” AD:

- | | |
|-----------------------------------|-------|
| 1. Ognian Iwanov Doneb: | |
| 2. Vessela Liubenova Stoeva: | |
| 3. Alexandar Victorov Tchaouchev: | |
| 4. Ognian Kirilov Palaveev: | |
| 5. Andrey Liudmilov Breshkov: | |

Sofia, 09 March 2017