

SUBSTANTIATED REPORT

BY THE BOARD OF DIRECTORS OF SOPHARMA AD, SOFIA

REGARDING: The terms and appropriateness of transactions under art. 114, para 1 of the Public offering of securities act (POSA), proposed to the Extraordinary General meeting of shareholders, scheduled for 1 August 2018, for approval and authorization of the representative 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 18 June 2018, subject to the provisions of art.114a, para 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, para 1 of POSA, the present Report of the Board of Directors of the Company is part of the materials on the agenda of the Extraordinary General meeting of shareholders, scheduled for 1 August 2018.

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, para 1 of POSA, proposed for approval at the Extraordinary General meeting of shareholders, scheduled for 1 August 2018, in order to allow an informed decision by the Shareholders on the agenda items – namely authorization of the representative of the company for the conclusion of these transactions.

The Substantiated report contains information about the parties, the subject, the conditions, the amount and the terms of the particular transactions, 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:

Concluding an **Investment Bank Loan Agreement for the implementation of a project under an Operational Program** and a **Contract for a Credit Line for working capital related to the payment of VAT on an investment project co-financed under Operational Program** between DSK Bank EAD as creditor, Biopharm Engineering AD as borrower and Sopharma AD as a joint debtor - a transaction falling within the scope of art. 114, para 1, item 2 of POSA.

Considering the connection between the objectives of the two transactions, the Board of Directors proposes to the shareholders to assess the basic conditions in their entirety and to make a joint decision on the empowerment of the persons representing Sopharma AD for their conclusion.

1. SUBJECT OF TRANSACTION

It is proposed that the General meeting of shareholders of Sopharma AD approve the conclusion of the following transaction under which Sopharma AD will enter as a co-debtor under conditions of solidarity under: a) an **Investment Bank Loan Agreement for the implementation of a project under an operational program**; and b) a Contract for a **Loan Line for working capital related to the payment of VAT on an investment project co-financed under the Operational Program**, to be concluded between DSK Bank EAD as creditor and the subsidiary of Sopharma AD, Biopharm-Engineering AD as a borrower and to empower the persons representing the public company Sopharma AD for the conclusion of these transactions.

2. CONTRACT PARTIES

Creditor: DSK Bank Bulgaria EAD, registered in the Commercial Register at the Registry Agency, UIC 121830616, with headquarters and address of management and correspondence: Sofia 1036, Sofia Municipality, Oborishte district, 19 Moskovska Str.;

Borrower: Biopharm Engineering AD, registered in the Commercial Register at the Registry Agency, UIC 119055339, with headquarters and address of management and: Sliven, 75 Trakiya Str.;

Co-debtor: Sopharma AD, a commercial company established and existing under the laws of Republic of Bulgaria, entered in the Commercial Register of the Registry Agency under UIC 831902088 and having its registered office and business address in Sofia 1220, Nadezhda district, 16 Iliensko Shose Str.

3. PARTICIPATION OF INTERESTED PARTIES IN THE CONTRACT WITHIN THE MEANING OF ART.114, PARA 7 OF POSA

Within the meaning of art.114, para 7 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, or
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, para 7 of POSA by the following features:

The persons involved in the transaction are related to each other on the following grounds:

Sopharma AD is a person controlling Biopharm-Engineering AD by holding more than 50% of the voting shares in the general meeting of that company, which determines the relatedness between them, respectively interest within the meaning of the said provision of the Public Offering of Securities Act regarding the public company and the members of its management body.

Pursuant to Art. 114a, para 4 of the Public Offering of Securities Act, the interested persons mentioned here, as well as the persons related thereto, defined within the meaning of § 1, items 13 and 14 of the additional provisions of the Public Offering of Securities Act, whether mentioned in this Substantiated Report or not, cannot exercise their voting rights at the General meeting of the company scheduled for 1 August 2018, when making a decision to empower the representative of the company to conclude the proposed transactions. When determining the quorum for making a decision under sentence one, all votes cast to the General meeting will be taken into consideration, and the votes of the persons concerned shall not be included in the determination of the majority of the decision.

4. TERMS AND CONDITIONS OF THE TRANSACTION

The Board of Directors informs the shareholders about the following main terms of the proposed transactions:

Credit agreements are to be concluded as follows:

(a) Investment bank credit for the implementation of a project under an operational program

Borrower	Biopharm Engineering AD
Co-debtor:	Sopharma AD
Type	Investment bank credit
Contracted amount	BGN 3 500 000
Price conditions	1. Interest rate formed by 1m Sofibor + 1.75%, but not less than 1.70% per annum; 2. Management fee: 0.50% per annum for the absorption period; 0.25% per annum after the absorption period 3. Prepayment Fee: - 2% - There is a possibility for partial early repayment of up to 6 monthly installments per year without a pre-term repayment fee. - Funds received in the form of interim and / or final grant payments under the project serve to reduce the loan debt without paying a prepayment fee.
Term of the credit	120 months
Term for absorption	18 months
Grace period	24 months
Purpose	1. Financing of up to 87.5% (excluding VAT) of the expenses related to the implementation of the Administrative Grant under the Operational Program "Innovation and Competitiveness" 2014-2020, by selection procedure BG16RFOP002-3.002; 2. Refinancing of invested own funds in the implementation of the project;
Conditions for signing the contract:	1. Validated market valuation of accepted collateral, which covers at least 125% of the approved loan amount; 2. Presentation of a legal opinion and fulfillment of the conditions and requirements therein;
Repay the principal:	Under repayment schedule with 95 equal monthly installments and one last equalization;

b) Credit line for working capital related to payment of VAT on an investment project co-financed under the Operational Program

Borrower	Biopharm Engineering AD
Co-debtor:	Sopharma AD

Type	Investment bank credit
Contracted amount	BGN 800 000
Price conditions	1. Interest rate formed by 1m Sofibor + 1.75%, but not less than 1.70% per annum; 2. Management fee: 0.5% per year; 3. Prepayment Fee: - 2% - Funds received in the form of recoverable VAT serve to reduce the loan debt without paying a prepayment fee.
Term of the credit	24 months
Term for absorption	18 months
Grace period	23 months
Purpose	Financing of 100% of the cost of recoverable VAT related to the implementation of the Administrative Grant Agreement under the Operational Program "Innovation and Competitiveness" 2014-2020, by selection procedure BG16RFOP002-3.002.
Conditions for signing the contract:	1. Validated market valuation of accepted collateral, which covers at least 125% of the approved loan amount; 2. Presentation of a legal opinion and fulfillment of the conditions and requirements therein;
Repayment:	The amounts utilized under the Loan Agreement are extinguished by the Borrower at maturity and / or the receipts from the refundable VAT.

It is envisaged that Sopharma AD will enter as a co-debtor under the described credit agreements under the conditions of solidarity with the borrower, whereby the company will incur liabilities to the creditor in the amounts and under the terms of the credit agreements.

Between Sopharma AD and DSK Bank EAD is a previous bank loan agreement with the borrower the public company and the lender, the financial institution referred to here, which has a total amount of BGN 20 000 000, which is why in relation to the current transactions it is relevant and the provision of Art. 114, para 6 of the Public Offering of Securities Act - they shall be considered together with a previous transaction with the same person on the creditor's side.

The General Meeting of Shareholders of Sopharma AD is the body that should empower the Board of Directors of the public company to conclude the transactions and to carry out all legal and factual actions necessary for their realization in compliance with the decision of the General Meeting of Shareholders, the Articles of Association of the company and in accordance with the applicable provisions of the current legislation.

5. BENEFICIARIES OF THE TRANSACTIONS

The deal is in favor of all three parties.

6. ASSESSMENT OF THE CONDITIONS UNDER ART.114, PARA 1, ITEM 2 in relation to item 1, letter b of POSA - these conditions shall be assessed when, under the transaction, liabilities arise for the public company to one person or to related persons of a total value over the value under Art. 114, para 1, item 1, letter "a" of the POSA, and where the obligations are to interested persons or for the benefit of interested persons - over the value under item 1, letter "b" of the same provision.

Pursuant to the proposed transaction for Sopharma AD obligations will arise as a co-debtor under conditions of solidarity with one person - the creditor, while at the same time the circumstances referred to in Article 114 (6) of the Public Offering of Securities Act (a set of transactions) and those under Art. 114, para 7 of POSA (participation of a related party), therefore the provision is applicable in the provision of **Art. 114, (1), item 2 in relation to item 1, letter "b" of POSA.**

Value of assets on balance as at 31.12.2017, disclosed publicly /in BGN/	Value of assets on balance as at 31.12.2017 – audited and disclosed publicly /in BGN/	Amount of the obligation in BGN with cumulation under Art. 114, para 6 of POSA	Threshold under art.114, para 1, item 1, letter “b” of POSA in BGN
589 583 000	590 305 000	24 375 300 included one-year interest	5 903 000

Pursuant to the provision of Art. 114, para 5 of POSA, in the value of the debts and receivables under para 1, items 2 and 3 shall also include the agreed interest. The stated amount of the obligation includes the value of the one-year interest payable.

From the above table it is evident that the value of the obligation, which will be assumed by the public company Sopharma AD on the proposed transactions accumulated with the obligation to the same creditor under an existing credit agreement, exceeds the threshold under Art. 114, para. 1, item 1, letter b) of POSA and it is therefore necessary for the Board of Directors to be expressly authorized to conclude them by decision of the General Meeting of Shareholders of the company.

7. APPROPRIATENESS OF THE PROPOSED TRANSACTION

Sopharma AD has as main activity the production of medicinal products and medical devices, and in the last years it has become more and more confident in the market of medical devices in Bulgaria and abroad, including through the products manufactured by the subsidiary Momina Krepost AD.

Biopharm-Engineering AD has as main activity research, development, production, implementation, diagnostics and consultancy in the field of biotechnology and biological protection of animals, plants and people, production of vaccines, sera, nutrition media, medicines and other activities permitted by law. By participating in the deal as a co-debtor, Sopharma AD facilitates the provision of timely financing under acceptable market conditions to its subsidiary as a borrower. By means of the financing provided by co-financing from Sopharma AD, Biopharm-Engineering AD will be in a position to implement the project, subject to the Administrative Grant Agreement under the Operational Program "Innovation and Competitiveness" 2014 -2020, by selection procedure BG16RFOP002-3.002.

The interest of the financial institution in the transaction is determined by the fact that the bank would generate revenues from its core business, working with stable corporate clients such as Sopharma AD and Biopharm-Engineering AD.

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

.....

The Board of Directors of Sopharma AD believes that the transactions in this report are in the best interests of the Company and proposes that shareholders adopt the 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 notifies all interested parties within the meaning of Art. 114, para. 7 of the Public Offering of Securities Act, whether expressly mentioned in this report, but who fulfill the conditions of the aforementioned provision, that, if they are shareholders in Sopharma AD, they are not entitled to vote in the relevant item on the agenda of the Extraordinary General Meeting of Shareholders, convened for 1 August 2018, on which a decision is to be taken on a transaction involving them as interested persons. In such cases the decisions should be taken by a majority of the other shares represented in the capital of Sopharma AD. The same will be applied in case of holding the General Meeting on 15 August 2018.

This report has been compiled by the Board of Directors of Sopharma AD and is adopted on the Minutes of the meeting of the Board of directors held on 18 June 2018, and is part of the materials for the convened for 1 August 2018 Extraordinary General meeting of shareholders of the Company.

Board of Directors of Sopharma AD:

- 1. Ognian Ivanov Donev:
- 2. Vessela Lyubenova Stoeva:
- 3. Alexandar Victorov Tchaushev:
- 4. Ognian Kirilov Palaveev: