

**REPORT OF THE MANAGEMENT BOARD OF PELION SPÓŁKA AKCYJNA  
OF ŁÓDŹ**

**ON FINANCIAL ASSISTANCE PROVIDED BY THE COMPANY TO PURCHASE  
ITS OWN SHARES**

**(“Report”)**

**dated May 8th 2017**

In accordance with Art. 345.1 of the Commercial Companies Code, the Company may, directly or indirectly, finance the subscription or purchase of its own shares, particularly by providing a loan, advance payment or security.

Acting pursuant to Art. 345.6 of the Commercial Companies Code of September 15th 2000 and with regard to the draft resolution concerning provision by Pelion Spółka Akcyjna of Łódź (the “**Company**”, “**Pelion**”) of financial assistance for the purchase of its own shares and establishment of a reserve account for the purposes specified in Art. 345.1 of the Commercial Companies Code, submitted to the General Meeting by a shareholder, together with amendments proposed by the shareholder during the General Meeting (the “**Resolution**”), the Management Board presents to the General Meeting a report on financial assistance provided by the Company to purchase its own shares (the “**Management Board’s Report**”).

### **1. Reasons and purpose of the financial assistance**

The reason for providing the financial assistance is the common intention of the Company and its shareholders Korporacja Inwestycyjna Polskiej Farmacji Sp. z o.o. (“**KIPF**”), Jacek Sz wajcowski and Zbigniew Molenda, to delist the Company from the regulated market of the Warsaw Stock Exchange (the “**WSE**”) and to convert the Company shares back into certificated form. This is based on the following rationale:

- i. Stabilisation of the Company’s shareholder base is in the Company’s interests;
- ii. The Company is subject to disclosure requirements and other limitations associated with its public company status which, coupled the fact that it operates in a strictly regulated healthcare market, may have an adverse effect on its competitiveness relative to private companies;
- iii. Availability of financing on the capital market has recently been limited; and
- iv. The Company bears the costs of listing of its shares on the regulated market and other costs incurred by public companies, including the costs associated with fulfilment of various requirements applicable to such companies.

On March 13th 2017, KIPF (Jacek Sz wajcowski’s subsidiary), Jacek Sz wajcowski and Zbigniew Molenda (the “**Entities Acting in Concert**”) entered into an agreement to vote in concert at the Company’s General Meetings, conduct a long-term policy with respect to the Company and jointly acquire Company shares (the “**Agreement**”), as referred to in Art. 87.1.5 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, dated July 29th 2005 (the “**Act**”).

In the Agreement, the parties agreed to vote in concert at the General Meetings, to pursue a long-term policy with respect to the Company and to acquire Company shares through KIPF. Pursuant to Art. 87.3 of the Act, the Entities Acting in Concert delegated KIPF to perform all duties and obligations related to the Agreement, including the obligation to announce a tender offer for all Company shares under Art. 74.1 of the Act.

On March 13th 2017, acting in accordance with Art. 74.1 of the Act, KIPF announced a tender offer for all Company shares held by shareholders other than the Entities Acting in Concert (the “**Tender Offer**”). The shares tendered for sale in the Tender Offer will be acquired by KIPF.

As at the date of this Report, the Entities Acting in Concert held a total of 2,872,021 shares, representing 25.77% of the Company's share capital and conferring the right to 9,872,021 votes, or 54.13% of total votes at the General Meeting, while the shareholders who are not parties to the Agreement held 8,250,393 ordinary bearer shares in the Company, representing 45.24% of total votes at the General Meeting, and 23,300 voting preference registered shares in the Company, carrying 116,500 votes or 0.64% of total votes at the General Meeting. In accordance with Art. 9 of the Company's Articles of Association, once sold in the Tender Offer, the registered shares will lose their voting preference and the total number of votes at the General Meeting will be reduced by up to 93,200 votes, i.e. by four votes per each registered share purchased in the Tender Offer.

Following settlement of the Tender Offer and any subsequent transactions in the Shares, including a squeeze-out, the Entities Acting in Concert intend to achieve the number of votes at the General Meeting required by applicable laws to enable them to decide on conversion of the Company shares back into certificated form and their delisting from the regulated market.

The purpose of the financial assistance is to:

- i. finance or refinance existing bank or non-bank borrowings by the Company, directly or indirectly, including through a subsidiary, in the form of a loan or loans provided by the Company or its subsidiaries to the Entities Acting in Concert or in any other form agreed by the Company and the Entities Acting in Concert, for the purchase of up to 8,250,393 ordinary bearer shares and up to 23,300 registered shares in the Company (the "**Shares**") by the Entities Acting in Concert, whether in the Tender Offer or a squeeze-out, and
- ii. grant security (in the form of a surety, pledge, etc.) by the Company or its subsidiaries to secure the repayment of funds raised to purchase the Shares by the Entities Acting in Concert.

## **2. Benefits to the Company**

The purchase of the Shares in the Tender Offer will help achieve the ultimate objective of delisting the Company shares from the regulated market of the WSE and their conversion back into certificated form, which is based on the following rationale:

- i. Stabilisation of the Company's shareholder base is in the Company's interests;
- ii. The Company is subject to disclosure requirements and other limitations associated with its public company status which, coupled the fact that it operates in a strictly regulated healthcare market, may have an adverse effect on its competitiveness relative to private companies;
- iii. Availability of financing on the capital market has recently been limited; and
- iv. The Company bears the costs of listing of its shares on the regulated market and other costs incurred by public companies, including the costs associated with fulfilment of various requirements applicable to such companies.

In view of the foregoing, the provision of financial assistance for the acquisition of the Company's Shares by the Entities Acting in Concert is in the Company's interest.

## **3. Terms and conditions of the financial assistance, including with respect to protection of the Company's interests**

The purchase of the Shares will be financed (or existing bank or non-bank borrowings will be refinanced) on market terms at the time of provision of financial assistance:

The key terms of the financial assistance are set out below:

- a. Number of the Shares that may be purchased with the financial assistance of the Company: 8,273,693;
- b. Total amount of the financial assistance: up to PLN 50,000,000, including the Share price and transaction costs,
- c. Direct or indirect buyers of the Shares: Entities Acting in Concert;
- d. Method of acquisition: the Tender Offer or a squeeze-out;
- e. Existing bank or non-bank borrowings may be financed or refinanced by the Company or its subsidiaries;
- f. The financing or refinancing of borrowings will take the form of:
  - a loan or loans advanced by the Company or its subsidiaries to the Entities Acting in Concert, or any other form agreed by the Company and the Entities Acting in Concert, and/or
  - security (in the form of a surety, pledge, etc.) granted by the Company or its subsidiaries to secure the repayment of funds raised to purchase the Shares by the Entities Acting in Concert;
- g. Interest on the financial assistance will be calculated based on the WIBOR rate increased by a margin reflecting market terms applicable to similar types of financing.

The Management Board has received an opinion from KPMG Advisory Sp. z o.o., as an independent expert, confirming the financial assistance is provided on market terms, regarding interest rates taking into account other funding conditions.

Accordingly, the Management Board is of the opinion that the Company's interests will be properly protected.

#### **4. Impact on the Company's liquidity and solvency**

In the Management Board's opinion, the financial assistance, limited to the amount proposed in the draft Resolution, will have no adverse effect on the Company's liquidity or solvency. The Company's balance sheet meets the criteria to provide the financial assistance, with adequate reserve funds available for distribution (as at December 31st 2016 reserve funds created out of retained earnings totalled PLN 592,962 thousand) and the financial assistance provided from permitted sources, that is in compliance with the restrictions stipulated in Art. 348.1 of the Commercial Companies Code. Financial assistance in the form of cash will be sourced from cash generated internally by the Company and its subsidiaries in the course of their operations or from external funding sources, including but not limited to bank loans.

#### **5. Purchase price of the Shares with justification why the price is fair**

In the Management Board's opinion, the purchase price of the Shares proposed in the Tender Offer, of 52.33 (fifty-two zloty and thirty-three grosz) per Share, is a fair price. The Management Board

obtained an opinion from KPMG Advisory Sp. z o.o. on March 28th 2017, confirming that the price offered for the Shares in the Tender Offer corresponds to their fair value.

The method for determining the purchase price of the Shares, including a squeeze-out: (i) will be defined taking into account any applicable legal requirements, or (ii) will be based on the average market price of the Shares on the regulated market operated by the WSE, or (iii) any other objective criteria, including the Company's valuation, which the Management Board believes is sufficient to ensure that the proposed price for the Shares will be a fair price.

In view of the foregoing, the Management Board requests that the Extraordinary General Meeting votes in favour of the resolution concerning provision by the Company of financial assistance for the purchase of the Shares.

Acting in compliance with Art. 377 of the Commercial Companies Code and Secion V.Z.2. of the Code of Best Practice for WSE Listed Companies 2016, Zbigniew Molenda, Vice-President of the Management Board, and Jacek Szwajcowski, President of the Management Board, who are Entities Acting in Concert to acquire the Shares in the Tender Offer, refrained from participating in the procedure to approve this Report and in the vote on a resolution concerning this matter.