

Corporate Governance DECLARATION

under Article 40 of the Accounting Act and article 100n, paragraph 8 of the
Public Offering of Securities Act

SOPHARMA AD

*The undersigned Ognian Ivanov Donev, in his capacity as CEO of Sopharma AD,
declare the following:*

I. Information regarding compliance where appropriate:

- a) the Corporate Governance Code approved by the deputy chairman of the Financial Supervision Commission, or**
- b) other Corporate Governance Code;**
- c) information on corporate governance practices that are applied by Sopharma AD (the Company) in addition to the code under letter "a" or "b".**

Sopharma AD has adopted by a Decision of the Board of Directors and continues to respect the established in October 2007, with subsequent amendments in 2012 and 2016, National Corporate Governance Code / NCGC /, approved by the deputy chairman of the Financial Supervision Commission.

The good corporate governance is a set of well-balanced relationships between management bodies of the Company, its shareholders and all stakeholders - employees, business partners, creditors of the company, and potential future investors and the general public.

The Board of Directors of Sopharma AD adhere to the Good Corporate Governance Program, which is consistent with the effective regulation, the internationally recognized standards of good corporate governance and the Bulgarian National Corporate Governance Code.

Along with the principles bearing recommendatory nature, Sopharma AD establishes a set of corporate governance requirements, compliance with which is mandatory for the management bodies of the Company, namely:

- Protecting the rights of shareholders;
- Ensuring fair treatment of all shareholders, regardless of the number of shares held by them;
- Recognition of the rights of interested parties and promote cooperation between the company and stakeholders;
- Providing timely and accurate disclosure of information on all matters related to the company, including financial position, performance, ownership and management of the company;
- Supporting the strategic management of the company control over the activities of the Board and its accountability to the company and shareholders.

The Corporate Governance Code applies the principle "**comply and explain**", which means that its recommendations are followed and whether there is a deviation from them or not, the Company's management periodically discloses information on corporate governance to the type and extent, provided in NCGC, namely:

The actions of the management of Sopharma AD are in the direction of strengthening the principles of good corporate governance, enhancing the confidence of shareholders, investors and those interested in the management and operations of the Company.

The Board of Directors of Sopharma AD complies with the Good corporate governance program, which is consistent with existing regulations, internationally recognized standards of good corporate governance and the National Corporate Governance Code.

The Board of Directors approves Policy on disclosure of information in accordance with legal requirements and regulations. Sopharma AD is involved in the formation of the Association "National Committee on Corporate Governance."

1. Company management- BOARD OF DIRECTORS

1.1. Functions and duties

The Board of Directors of Sopharma AD manages independently and responsibly the Company in accordance with the established vision, goals and strategies of the Company and shareholders' interests. The Members of the Board of Directors give guarantee for their management in the amount of their quarterly gross remuneration, determined by the General Meeting of Shareholders.

During its mandate the Board of Directors shall be guided in its activities by the generally accepted principles of integrity, management and professional competence. The Board of Directors observes the Ethical code of conduct for the employees of the Company adopted by a protocol of the Board of Directors of 26.03.2007.

The management of Sopharma AD, represented by Board of Directors also:

- monitors the results of the Company's activities and, if necessary, initiate changes in the management.
- treats equally all shareholders, acts in their own interest and with due diligence;
- provides and controls the integrated functioning of the accounting and financial reporting.
- provides and controls the construction and operation of a risk management system, incl. for internal control and internal audit.
- is responsible for the establishment and proper functioning of the financial information system of the Company.
- gives guidelines, approves and controls the implementation of the business plan of the Company, material transactions and other activities set out in the statutes of the Company.
- reports on its activities to the General Meeting of Shareholders, by preparing an Annual report on its activities and submitting it for adoption by the General Meeting.

1.2. Appointment and dismissal of members of the Board of Directors

General Meeting of Shareholders elects and dismisses members of the Board of Directors of Sopharma AD, according to the law and the statutes of the Company, subject to the principles of continuity and sustainability of the work of the Board of Directors. All members meet the legal requirements for taking up their duties.

By proposals for election of new members of the Board of Directors, they shall comply with the principles of compliance competence of candidates to the character of the Company's activities.

Their duties and tasks, the criteria for their remuneration, their duties of loyalty to the Company and grounds for dismissal are determined in the contracts for management, concluded with the Board members. Management contracts with the Board of Directors or with the Executive Director comply with the Articles of Association and with the prepared by the Board of Directors Policy for the remuneration of the Board of Directors, which is approved by the General Meeting of Shareholders on 21 June 2013 .

1.3. Structure and competence

The number of members and the structure of the Board of Directors are set out in the Articles of Association. The company is managed and represented by a Board of Directors, which consists of five individuals, meeting the requirements of Article 234 of the Commercial Law and Article 116a, paragraph 2 of the Public Offering of Securities Act.

The members chosen by the General Meeting of shareholders Board of Directors is structured in a way that ensures professionalism, impartiality and independence of decisions and actions of its members in the management of the Company.

The Board ensures proper division of tasks and responsibilities among its members. The main function of independent directors is to control the actions of the executive management and to participate effectively in the work of the Company in accordance with the interests and rights of the shareholders. The main functions of the Board of Directors and the number of independent members enshrined in the Article of Association of the Company. At the Board of Directors of Sopharma AD there are two independent members.

The competencies, rights and obligations of the members of the Board of Directors follow the requirements of the law, the drafting acts and the standards of good professional and managerial practice.

The Members of the Board of Directors of Sopharma AD have appropriate knowledge and experience required for the position they take. After their election, the new members of the Board of Directors are introduced to fundamental legal and financial issues related to the Company. The company promotes training of members of the Board of Directors.

Members of the Board of Directors has sufficient time to perform their tasks and duties. The Articles of Association of the Company determined the number of companies in which members of the Board of Directors can occupy managerial positions, because the activities of the Board members cannot be restricted.

The election of the Board of Directors of the Company is through a transparent procedure which should ensure timely and sufficient information on the personal and professional qualities of the candidates. The number of consecutive mandates of the Board

of Directors ensures efficient operation of the Company and compliance with the legal requirements. According to the Articles of Association the members of the Board of Directors may be re-elected without limitation.

1.4. Remuneration of the Board of Directors

The Board of Directors of Sopharma AD has developed and implemented Policies for the formation of the remuneration of the Board of Directors, adopted by the General Meeting of Shareholders on 21 June 2013. The remuneration policy was developed in accordance with Decree № 48 of 20 March 2013 of the Financial Supervision Commission and with the Public Offering of Securities Act. The size and structure of remuneration are determined by the General Meeting of the Company.

In accordance with legal requirements and best practice of corporate governance, the size and structure of the remuneration account:

- The responsibilities and contributions of each member of the Board of Directors on the activities and results of the Company. Members of the Board of Directors receive a fixed remuneration as determined by the General Meeting of Shareholders amount paid under the terms and conditions of agreements concluded between them and the Company management contracts.

- The ability to select and retain qualified and loyal members of the Board of Directors of Sopharma AD. These requirements are implemented through policy formation of the remuneration of the Board of Directors adopted by the General Meeting of Shareholders on 21 June 2013.

- The need for conformity to the interests of the members of the Board of Directors and long-term interests of the Company. The remuneration of the members of the Board of Directors is formed based on the results of the Company and are consistent with the business strategy, objectives, values and long-term interests of the Company.

- The Executive member of the Board of Directors receives fixed remuneration as determined by the General Meeting of Shareholders, amount paid under the terms and conditions of, the signed between him and the Company, management contract. According to the Articles of Association of the Company, when there is positive financial result /profit/ to the Company and a decision of the General Meeting, the Executive Director is entitled to receive a one-time remuneration of up to one percent of the net profit of the Company.

- Salaries and bonuses of the members of the Board of Directors and the Executive Director of the Company must be approved by the General Meeting of Shareholders.

Until now, the Executive Board member has not been provided with shares or other financial instruments.

Members of the Board of Directors receive a fixed remuneration as determined by the General Meeting of Shareholders amount paid under the terms and conditions of agreements concluded between them and the Company management contracts.

With the qualified majority, the Board of Directors may take a decision to determine the circle of employees, among which may be distributed as bonus cash amount to 2% of the profit of the Company for each financial year. The same is possible only if there is a decision of the General Meeting of Shareholders to determine the specific amount of the bonus amount taken at a meeting, which approved the corresponding audited annual financial statements and there is a positive financial result / profit /.

The disclosure of the information about the remuneration of the Board of Directors is in accordance with legal regulations and the Statutes of the Company.

The remuneration of the members of the Board is presented in the financial statements, the Report on the implementation of the remuneration policy of the Board of Directors and published on the website: www.sopharmagroup.com

1.5. Conflict of interests

Members of the Board of Directors shall endeavor to avoid and prevent real or potential conflict of interest.

Procedures for preventing and disclosing conflicts of interest are regulated by the Articles of Association of Sopharma AD, the Ethical Code of conduct for the employees of the Company, as well as instructions and explanations about the duties and responsibilities of insiders possessing inside information in Sopharma AD in connection with the requirements of the Law of enforcement measures against market abuse with financial instruments.

Members of the Board of Directors shall endeavor to disclose immediately conflicts of interest and provide shareholders access to information about transactions between the Company and members of the Board of Directors or related parties.

Any conflict of interests in the Company shall be disclosed to the Board of Directors.

Potential conflict of interest exists when the Company intends to carry out a transaction with a legal entity in which the member of the Board of Directors or related (interested) parties thereto have a financial interest.

1.6. Committees

The work of the Board of Directors is assisted by committees and The Board of Directors determines the need for setting up according to the specifics of the Company.

In accordance with the requirements of applicable law, the Board of Directors proposes to the General Meeting of Shareholders to elect an Audit Committee that complies with the legal requirements and the particular needs of the Company.

The Committees are created based on the written terms of reference, scope of tasks, operation and reporting procedures. The Audit Committee of Sopharma AD consists of three people with three-year mandate determined by the General Meeting of Shareholders. The members of the Audit Committee meet the requirements of the Independent financial audit Act.

2. INDEPENDENT FINANCIAL AUDIT AND INTERNAL CONTROL

The Audit Committee of Sopharma AD and its members as individuals charged with governance, monitor the internal audit and the overall relationship with the external auditor, including other non-audit services, provided by the auditor of the Company.

The management of Sopharma AD, assisted by the Audit Committee shall motivate its proposal for selection of auditor before General Meeting of Shareholders, guided by established professional requirements.

The management of Sopharma AD ensures compliance with the applicable to the independent financial audit law.

By selecting and appointing an external auditor, a rotation principle applies. The auditors are elected by the General Meeting of Shareholders for each financial year.

Sopharma AD has established an internal control system that identifies risks associated with the operation of the Company and supports their effective management. It ensures the effective functioning of the reporting and disclosure of information.

3. PROTECTION OF SHAREHOLDERS

The management of Sopharma AD, represented by the Board of Directors ensures equal treatment of all shareholders, including minority and foreign shareholders and protects their rights and facilitates them within the limits permitted by applicable law and in accordance with the Statutes of the Company. The Management provides information regarding their rights to all shareholders.

3.1. General Meeting of Shareholders

All shareholders are informed of the rules under which shall be convened and held General meetings of shareholders, including voting procedures. The corporate management of Sopharma AD provides sufficient and timely information concerning the date and venue of the meeting, as well as full information on the matters to be discussed and decided at the meeting.

During the General Meeting, the management of Sopharma AD, provides the right of all shareholders to express their opinions and ask questions.

All shareholders are entitled to participate in the General Meeting of Shareholders and to express their views:

- Shareholders entitled to vote are eligible to exercise their right at the General Meeting of the Company in person or by proxy, as well as by correspondence or by electronic means.

- The Management of the Company exercises effective control, through establishing the necessary organization to vote on the authorized persons in accordance with the instructions of the shareholder or authorized by the law.

- The Management of the Company organizes and conducts regular and extraordinary General meetings of shareholders of the Company in accordance with statutory procedures to ensure equal treatment of all shareholders and the right of each shareholder to express its views on the items on the agenda of the General Meeting.

- The Management of the Company organizes the procedures and conditions for holding the General Meeting of Shareholders in a manner that does not impede or unnecessarily expensive vote.

- The Management takes action to encourage the participation of shareholders at the General Meeting of shareholders, incl. by providing opportunities for telepresence by technical means (incl. Internet) where this is possible and necessary, and does not contradict the NCGC.

All members of the management are trying to attend the General Meetings of Shareholders.

3.2. Materials of the General Meeting of Shareholders

Documentation and materials related to the agenda of the General Meeting are concrete and clear and do not mislead shareholders. Any suggestions on major corporate events are presented as separate items on the agenda of the General Meeting, including proposal for profit distribution.

The Company maintains on its website a special section on the rights of shareholders and their participation in the General Meeting of Shareholders.

The Company's management assists shareholders, entitled under current law to include additional items and propose decisions on already included in the agenda of the General Meeting.

3.3. The Company's management guarantees the right of shareholders to be informed about the decisions of the General Meeting of Shareholders.

The minutes of the General Meetings of the shareholders are published within the statutory timeframe, observing the provisions on the requirements for maximum publicity and transparency of the information provided and its simultaneous publication using sufficiently accessible information disclosure platforms, including the company's own website. All materials of the General Meetings of shareholders held shall be kept available to shareholders and all interested parties for a period specified in the Public Offering of Securities Act.

3.4. Uniform treatment of the shareholders of one class

All shareholders of the same class are treated equally.

All shares within a class give equal rights to the shareholders of the same class.

3.5. The management of Sopharma AD ensures that sufficient information to investors about the rights attaching to the shares of each class prior to their acquisition.

3.6. Consultations between shareholders on major shareholder rights

Within the limits permitted by applicable law and in accordance with the Statutes of the company, corporate governance does not preclude shareholders, including institutional ones, to consult each other on matters relating to their basic shareholder rights in a way that does not admit committing abuses.

3.7. Transactions of shareholders with control rights and transactions of abuse

The Management of Sopharma AD does not allow carrying out transactions with shareholders with control rights that violate the rights and / or legitimate interests of other shareholders, including the terms negotiated with itself.

4. DISCLOSURE OF INFORMATION

The Company's management approved Policy on disclosure of information in accordance with legal requirements and regulations.

In accordance with the adopted Policy of disclosure the Management establishes and maintains a system of disclosure.

The system of disclosure ensures equal access to information (shareholders, stakeholders, Investment community) and prevents misuse of inside information.

The Company's management also:

- ensures that the system of disclosure provides complete, timely, accurate and understandable information that enables objective and informed decisions and assessments.
- timely discloses capital structure of the company and the agreements that lead to scrutiny under its rules on disclosure of information.
- in accordance with the current legislation and the Statutes of the Company, ensures that the rules and procedures under which the acquisition of corporate control and extraordinary transactions such as mergers and sales of substantial portions of the assets are made, are clearly and timely disclosed.
- approves and monitors compliance with internal rules for the preparation of annual and interim reports and procedures for disclosure.
- has adopted internal rules that provide timely disclosure of any significant periodic and occasional information about the Company, its management, its corporate manuals, operational activity, shareholding structure.

As part of the disclosure, Sopharma AD maintains a website of a company with established content, scope and frequency of information disclosed. The website of the Company is: www.sopharmagroup.com

The information disclosed by the company web site includes:

- basic identifying the Company's commercial and corporate information;
- up-to-date information on shareholding structure;
- Statutes of the Company and adopted policies related to the activities and functioning of the Company;
- information on the structure and composition of the management bodies of the Company, as well as basic information about their members, including information about committees;
- financial statements for the last 10 years;
- materials for the upcoming General Meetings of shareholders, as well as additional ones received by law;
- information on decisions of General Meetings of shareholders at least the last three years incl. information on dividends distributed by the Company for that period;
- information about the auditors;
- information about upcoming events;
- information on issued shares and other financial instruments;
- important information related to the Company;
- information about shareholder rights including sufficient information on the right of shareholders to request inclusion of items and propose decisions on already

included in the Agenda of the General Meeting under article 223a of the Commercial Law.

- Information for a contact with the Director of Investor Relations of the Company.

The company maintains also an English version of the corporate website with similar content.

The Company periodically discloses information relating to Corporate governance. Disclosure of Corporate governance is carried out in accordance with the principle "comply and explain".

The Management provides disclosure of any significant periodic and occasional information about the Company, through channels that provides equal and timely access to relevant information by users.

5. STAKEHOLDERS

The Management provides effective interaction with stakeholders. This category includes certain groups of persons who directly affect the Company and which in turn could affect its activities, including suppliers, customers, employees, creditors, civil society groups and others. The Company identifies who are the stakeholders with respect to its activities based on their degree of influence, role and relationship to sustainable development.

In its Policy towards stakeholders, the Management complies with legal requirements and principles of transparency, accountability and business ethics.

Management ensures that all stakeholders are adequately informed about the statutory rules.

In accordance with this policy, the Management of Sopharma AD has developed specific rules for addressing stakeholder interests, that rules should ensure their involvement in solving specific issues that require their input. These rules ensure balance between the development of the Company's economic, social and ecological environment in which it operates.

The management maintains effective relationships with stakeholders. Periodically, in accordance with legal norms and international best practice for disclosure of non-financial information, the Company informs the stakeholders about the economic, social and environmental related issues, such as combating corruption; working with employees, suppliers and customers; corporate social responsibility; environmental protection.

The Management guarantees the right for timely access to relevant, sufficient and reliable information on the company when stakeholders involved in corporate governance.

Disclosure

The Board of Directors approved Policy on disclosure of information in accordance with legal requirements and regulations. The system of disclosure ensures equal access to information (shareholders, stakeholders, Investment Community) and prevents dealing with inside information and market manipulation in financial instruments. Sopharma AD ensures that the system of disclosure provides complete, timely, accurate and understandable

information that enables objective and informed decisions and assessments. The Company maintains also an English version of the corporate website with similar content.

In 2016 the Management of Sopharma AD disclosed publicly regulated information through its provision of the Financial Supervision Commission and the public. Regulated information shall be disclosed to the public in a way that ensures it reaches the widest possible audience simultaneously and in a way that does not discriminate them.

Sopharma AD uses X3NEWS information system, based on the contract with Service Financial Markets EOOD, which can ensure effective dissemination of regulated information to the public in all Member States.

The Board of Directors of Sopharma AD prepares a Report on the Implementation of the remuneration policy of the members of the Board of Directors in 2016. The report reveals how the remuneration policy is being applied, paying special attention to avoid creating incentives for excessive risk taking, conflict of interest or other conduct leading to adverse effects. The size and structure of remuneration are determined by the General Meeting of the Company.

General Meeting of Shareholders

The Management takes action to encourage the participation of shareholders at the General Meeting of shareholders, incl. by providing opportunities for telepresence by technical means (incl. Internet) where this is possible and necessary, and does not make the voting more difficult or unnecessary expensive.

Processes and procedures for holding General Meetings of Shareholders ensure equal treatment of all shareholders, including minority and foreign, and protect their interests.

Materials related to the General Meeting of Shareholders are available to the shareholders on the day of the announcement of the invitation for it at the Financial Supervision Commission, on the company's website: www.sopharmagroup.com at least 30 days before the date of holding the General Meeting and, upon request, provided free of charge to shareholders.

Shareholders entitled to vote, may exercise their right at the General Meeting of Shareholders in person or by proxy, as well as by correspondence or by electronic means. The order of participation of shareholders at the General Meeting is announced in the invitation.

Sopharma AD submits the Protocol from the General Meeting in three days from holding of, to the Financial Supervision Commission, Bulgarian Stock Exchange-Sofia, the public and at the company's website: www.sopharmagroup.com .

In 2017 Sopharma AD held two General Meetings of shareholders.

The Board of Directors believes that they have created prerequisites for sufficient transparency in relationships with investors, financial analysts, media and the capital market.

II. Explanation which parts of the Code of Corporate Governance under p. 1, letter "a" or "b" of art. 100 "n" par. 8 are not complied with and the reasons for it accordingly when the issuer has decided not to invoke any of the rules of Corporate governance code – warranted

Sopharma AD complies with all parts of the Corporate governance code which are applicable to the Company.

III. Description of the main features of the internal control and risk management of the issuer in relation to the financial reporting process

The internal control system of financial reporting and accounting of Sopharma AD was developed as a result of studies of good reporting and control practices in Bulgaria and major pharmaceutical groups, and subject to national legal requirements, incl. for listed companies on regulated markets and groups. It is in a constant process of monitoring by the Management and further development and improvement.

The internal control system of financial reporting and accounting of Sopharma AD is a complex of behavioral and technical principles, rules, procedures and control activities, which are specially developed and adapted to the specifics of the Company, its activities and reporting system. It is aimed at:

- providing ongoing monitoring and reporting activities targeted towards their goals and expectations of its various users and achieve the necessary efficiency and effectiveness, incl. the use of resources employed; and
- ensuring adequate and timely address the identified business risks that have an impact on the financial, managerial and operational reporting.

In particular, it is developed in a way that creates comfort leadership that:

- The Company complies with applicable legal requirements in accounting, reporting and other directly related fields, particularly the requirements of the Accounting Act and International Financial Reporting Standards;
- the Company comply with the instructions and guidance to senior management regarding the reporting and documentation;
- there is the required effectiveness and efficiency of the financial accounting process, incl. consolidation and documentary justification;
- there is a high degree of security protection and maintenance of the company's assets, incl. and prevention of fraud and error; and
- there is provision of reliable, quality and timely financial and operational information for internal and external users.

The main components of the internal control system on financial reporting and accountability include:

a) acceptance and observance of ethical principles and rules of conduct, adopted in a Ethical Code of conduct for the employees of Sopharma AD, and in terms of financial reporting and accounting and all related processes, procedures and actions of all personnel of the Company;

b) developing and defining the optimal structure of the units involved in the processes related to financial reporting, with clearly defined responsibilities and delegation powers and duties, incl. by developing written internal documents;

c) developing policies for recruitment, training and development of personnel in the processes of accounting and financial reporting;

d) developing, implementing and maintaining control procedures and rules for each stage of the process relating to accounting, financial reporting and accountability priority gradual introduction of formalized written procedures;

e) developing procedures for identifying, monitoring and managing risks relating to accounting, financial reporting and accountability, incl. development of adequate measures and actions for their minimization; and

f) developing and maintaining adequate organization of information system incl. access controls, input, processing and retrieval of data, system changes, allocation of responsibilities of employees in her party, as well as storage and preservation of the integrity and authenticity of data in the system.

Control environment

Ethical principles and rules related to the processes of accounting, financial reporting and accountability

The Management of different levels of Sopharma AD has implemented and continuously monitors compliance with ethical values such as integrity, independence and objectivity as foundations of professional conduct of all persons involved in the processes related to accounting and financial reporting in the Company. It is the framework against which the control environment was built, and which have influenced the effectiveness of the design model, administration and ongoing monitoring of other components of internal control in the field of accounting and financial reporting. Integrity and ethical behavior are the products of established common ethical and behavioral standards of the Company. They are clearly communicated to the entire financial accounting and control staff and they constantly affirm in practice.

Ethical principles governing the professional conduct that should be observed by all persons involved directly or indirectly in accounting and business processes and related financial reporting are: objectivity; impartiality; independence; conservatism; transparency; methodological soundness; sequence and the use of independent experts. These principles apply to all stages of financial reporting in: accounting policy choice; closing of accounts; design and implementation of accounting estimates and develop public and government financial statements of other public reports and documents containing financial information.

Management bodies responsible for different components of the overall process of accounting and financial reporting

Management bodies which carry certain responsibilities and powers regarding the financial reporting process and respectively other related process are: Board of Directors, Audit Committee, Chief Financial Officer, Chief Accountant, Head of "Reporting" and Head of "Internal Audit". Their functions and responsibilities can be summarized as follows:

- The Board of Directors accepts and affirms accounting policies and changes thereto for each reporting period, developing accounting estimates at the date of each reporting period, incl. methodologies; financial statements and reports and other public documents containing financial information; functions, organization and responsibilities of all departments and their leaders involved in processes and associated financial reporting;

development, deployment and ongoing monitoring functioning of the various components of the internal control system, incl. activities of the department "Internal Audit";

- The Audit Committee independently monitors the implementation of the financial reporting processes, accounting policies and the effectiveness of the internal control system of the company, incl. risk management, as well as the implementation and results of the external and internal audit;

- The CFO is responsible for the overall organization, operation and monitoring of accounting and financial reporting. He directly manages the entire process takes all key decisions related to the financial statements and other public documents with financial information. He also approves the first level accounting policy, the main accounting methods and evaluates and approves the reports of independent experts (appraisers, actuaries, consultants and others) involved in the financial reporting process. He currently monitors, along with the chief accountant and head of the department "Reporting" effects and risks on the financial statements of the identified business risks for the Company;

- The chief accountant organizes and manages the accounting and reporting of the Company - controls and methodological manages current accounting, manages the preparation of financial and management reports; is responsible for development and implementation of accounting and reporting methods and techniques; is responsible for the process of closing of accounts and preparation of all accounting estimates, offers and develops accounting policies and changes in them, monitors ongoing changes to IFRS. He is the direct contact with internal and external experts for financial reporting purposes;

- The department "Reporting" and its head carries overall organization, providing methodological and implementation process related to the preparation of the consolidated financial statements of the Company, incl. current control, instruction, monitoring and analysis of financial statements for purposes of consolidation of group companies Sopharma;

- "Internal audit" performs subsequent control over the operations and activities related to the preparation of the financial statements of the Company and compliance with the internal controls put in place by individual routine and non-routine processes.

Policies and practices related to human resources in financial and accounting departments

The Company has established policies and rules relating to the Management of human resources in the financial reporting process and other processes associated with it. These include enforced and implemented policies and procedures for the selection and appointment of such staff aimed at education and work experience, computer literacy and possession of languages of candidates when selecting leading requirements set out in the job descriptions of individual positions.

To the policies for personnel management are included those related to continuous further professional training, upgrading and expansion of knowledge and skills of employed specialists. In case of changes in the regulations, IFRS, tax and other laws affecting their work directly, the employees must attend different kind of trainings. The purpose of this policy is to achieve an increase in their expertise and improve their skills to increase efficiency in the performance of their duties.

Procedure of the Company to assess the risk associated with financial reporting

The Board of Directors, Audit Committee, Finance Director and Chief Accountant have a key role in permanently identify, monitor and control business risks, incl. to identify

and control the effects of those that have a direct impact on individual processes and areas of accounting, financial reporting and accounting of the company. They, together, provide overall monitoring of the process of risk management.

Risk factors related to reliable financial reporting include external and internal events, transactions or circumstances that may arise and reflect negatively on the entity's ability to create, maintain and process accounting and operational data in a way that ensures reliable financial reporting, records and reports. The company has defined as essential following factors:

a) as external risks are determined: change in the business environment and market environment of the company and its major products; the activities of competitors; changes in legal and regulatory framework; changes in key suppliers or customers; fraudulent or malicious actions by outsiders; rapid corporate growth and growth of the group; development of the companies in which it holds significant investments in the form of shares and / or loans.

b) to internal risks are assigned: change the technological base of the company, the manner and intensity of use of its assets and resources; new products and activities; new accounting policies and IFRS; changes in the staff of the departments responsible for and / or financial reporting; changes in information systems; mistakes at work and / or insufficient knowledge or skills of staff rapidly expanding business abroad; administration of multiple estimates - especially use of fair values and calculating the recoverable amount of certain non-current assets, with the participation of outside experts.

Risk factors that are repetitive and / or are related to the application of accounting policies and estimates, are currently monitored by the chief accountant who offers solutions for the management and proper coverage of their effects in the financial statements. New risk factors are identified by the CFO, and are evaluated and developed together with the chief accountant and head of the department "Reporting." If necessary, technical assistance of independent consultants is used, incl. for implementation of new IFRS. The general supervision of the process of managing the risks associated with financial reporting is carried out by the Audit Committee of the Company.

Information system of the company. Department "Accounting" of the company - organization of the accounting function in the company and the financial reporting process

Information system

The information system of Sopharma AD includes infrastructure (physical and hardware components), software, people, procedures and data. In 2013 the Company has implements ERP system Microsoft Dynamics AX. It covers all processes in sales, warehouse, mainly planning, production and accounting. The system was adapted and implemented not only taking into account the specifics of the company itself but also are borrowed best practices from the pharmaceutical sector and other manufacturing industries.

Besides the main information system, the Company uses the following systems: Hermes - a system of human resource management that covers the entire management cycle associated with the planning, evaluation, remuneration and human capital development in Sopharma AD. The relationship between them is that they enter data from Hermes into Microsoft Dynamics AX. The quality of information generated by the system Microsoft Dynamics AX and other products provide significant opportunities for management to take adequate, reasonable and timely decisions in managing and controlling activities on the preparation of various financial and management reports and other public documents with financial information.

The information system, relevant to the purpose and process of the financial reporting, includes, methods and documentation, which:

- identifies and records all valid transactions;
- timely describes the transactions in sufficient detail to allow their appropriate classification for financial reporting purposes;
- evaluates transactions in a way that allows to reflect their appropriate value in the financial statements;
- determines the time period in which transactions arise, to enable their recording in the appropriate accounting period;
- present transactions and related disclosures appropriately in the financial statements in accordance with the accounting framework.

The "Information Technology" Department is responsible for the risk-free functioning of the information system in the company.

"Accounting" Department - Implementation of the accounting policy and a key role in financial reporting

The accounting department in the company is directly subordinate to the Executive Director. It is headed by the Chief accountant. The following positions are subordinate to the Chief accountant: Deputy chief accountant and heads of sectors and operational accountants. Structurally, the Department consists of the following sectors: fixed assets, materials, expenses, implementation, foreign currency transactions, local currency transactions, salaries. According to their functional characteristics they cover and fully realize the accounting and reporting function in the company's internal accounting controls and the preparation of financial statements. The Department's responsibilities include the correct and consistent application of the developed accounting policies, the development and application of internal chart of accounts; reporting methodologies, current bookkeeping; current accounting analysis and control of accounting data and documentation; addition and classification of accounting data for financial reporting purposes; preparation and / or processing of incoming data for approximate accounting estimates with the involved experts and reporting of identified deviations to the Financial Director; and compliance with regulatory requirements in the field of accounting, taxation and other related areas.

The accounting policies of the Company are subject to the approval of two levels annually - the Financial Director and the Board of Directors. The most important aspects necessary for a proper understanding of the financial statements must be disclosed.

Choosing the reporting framework is defined based on the requirements of the Accounting Act. The Company applies International Financial Reporting Standards (IFRS) as adopted by the European Union. The current control for the proper application of IFRS is performed by the chief accountant, financial director and audit committee. Further confirmation of the correctness of the application is received by the external auditors.

The preparation of financial statements of the company for public use is the result of a comprehensive process of closing an accounting period. This process is formalized through rules and instructions adopted by the management. They are linked to the performance of certain actions and procedures, respectively preparation of certain documents by persons from the "Accounting" Department or other officials and those actions and procedures are directed to: carrying out inventories; analysis of accounts; sending confirmation letters; determining the best estimates as amortization, revaluations and impairment charges, which

are based on reasonable assumptions and classification of accounting data; research and analysis of certain legal documents (contracts, litigation, opinions of legal advisors); research and evaluation reports of experts (appraisers, actuaries, internal auditors, other domestic experts and officials); preparing reports and financial packages for consolidation; preparation, analysis and discussion of draft financial statements.

The process of closure of accounts is managed directly by the Chief Accountant, while the Financial Director monitors and takes the final decisions on key issues related to the recognition, classification, evaluation, presentation and disclosure concerning certain objects, operations and events as well as overall performance financial statements.

Control activities

Control activities in the developed and implemented internal control processes include: reviewing the implementation and results of operations; information processing; physical controls and segregation of duties and responsibilities.

General controls that relate to financial reporting can be categorized as procedures relating to current and periodic reviews and analysis of financial indicators and the input data used for their calculation represented in the financial to show the results of the company. They in turn include such reviews and analysis of actual reported data on performance against budget, forecasts, prior periods and industry. Such financial analyzes are made with the platform QlikView – an addition to the ERP system Axapta 2009. They typically can also contain proposals for optimizations or revision of certain budgets.

The controls set in the information system of the company covering both the controls of application programs and general IT controls, which are policies and procedures that help ensure the continued proper operation of information systems. Typical controls over application programs that are set are: checking the mathematical accuracy of records, maintaining and reviewing accounts and trial balances, automated controls, such as checks on incoming data and checks of the sequence of numbers and non-automatic tracking reports exceptions. General IT controls include controls on change of programs, controls that restrict access to programs or data, controls over the implementation of new editions bundled software applications and controls over system software that restrict access or ongoing monitoring of the use of the system auxiliary functions that could change financial data or make records without leaving any trace for follow-up.

Applied physical controls include:

- a) measures for the physical security of assets - safe equipment and facilities, and special conditions of access to assets and documents;
- b) a specific procedure for approval of access to computer programs and data files;
- c) periodic inventories - procedures for organizing and holding inventory through physical counting / weighing of stocks / sending appropriate written confirmation and comparing the amounts reflected in inventory control and accounting records / registers. Procedures are also introduced to ensure the timely analysis of the results of the inventories and developing solutions for their accounting and respectively approval by the Executive Director.

Internal controls are provided for the developed and implemented management procedures, organization and execution of the main routine processes (supply and sales) as well as the processes of preparation and adoption of complex estimates (amortization,

impairment, revaluation actuarial calculations and long-term provisions). They include: authorization of individual transactions and issuance of primary documents; review and verification of documents issued and involved in the operation assets; subsequent restatement and comparisons with other documents (contracts, orders, confirmations, price lists, etc.) and persons, as well as segregation of duties and responsibilities of participating officials on each step of the process to ensure checks and balances between them and to reduce the possibilities that any person is in a position both to make and to conceal errors or fraud in the normal course of performing his/her duties.

The company is in constant expansion of formalized control procedures and activities.

Monitoring of controls

An important objective with high priority for the management and particularly the Financial Director is to establish and maintain continuous and effective internal controls. Monitoring of controls by management includes considering whether they are working as intended and whether they are modified appropriately to reflect changing conditions. Monitoring of controls may include activities such as management review whether internal management accounts are promptly prepared and that key data is reconciled through confirmation by third parties and its estimates, assessment by internal auditors for compliance with policies and procedures on the implementation of routine processes (sales and deliveries) by the respective employees, incl. defined internal controls including compliance with contracts provisions with partners, as well as supervision of compliance with ethical standards or business practices policies by the Legal Department of the company and the Department of Investor Relations. Ongoing monitoring is done to ensure that controls continue to operate effectively in time.

Internal auditors and other employees performing supervisory, monitoring and control functions, incl. the "Accounting" Department and the "Reporting" Department also contribute to the ongoing monitoring of internal control processes of the company through their evaluations of individual controls or groups of controls. Usually they periodically provide such information in the course of performing their duties and functions, and their judgments on the functioning of certain internal controls, focusing considerable attention on evaluating their performance, communicate the information with the respective persons identifying strengths and weaknesses of internal controls and make recommendations for their improvement.

Activities include monitoring the use of information from external parties that indicate problems or identifying areas in need of improvement. Such parties are customers, suppliers and servicing banks. In addition, the regulatory authority in the face of the FSC can also communicate with management on matters affecting the functioning of the internal control, for example, exchange of information directly monitored by the Commission related to the implementation of specific activities or transactions of the Company or revisions by the FSC itself. Also when implementing the activities on current monitoring management always takes into account the communication with external auditors related to internal control and the weaknesses discovered by them and the recommendations made.

IV. Information in accordance with Article 10, paragraph 1, letter "c", "d", "e", "h" and "i" of Directive 2004/25 /EC of the European Parliament and of the Council as at 21 April 2004 on proposals for takeover;

1. Significant direct or indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Article 85 of Directive 2001/34/EC;

There is no reaching, exceeding or falling below one of the thresholds of 10%, 20%, 1/3, 50% and 2/3 of the share capital of the Company during the year.

2. Holders of all securities with special control rights and description of these rights;

There are no securities with special rights issued. According to the Articles of Association of Sopharma, all shares issued by the Company are of the same class, registered, common and indivisible. Each share entitles to one vote at the General Meeting of Shareholders, to dividends and liquidation part, in proportion to the nominal value of the share.

3. All restrictions on the voting rights, such as restrictions on the voting rights of holders of a given percentage or number of votes, deadlines for exercising the voting rights or systems through which through cooperation with the company the financial rights attached to the securities are separated from the holding of the securities;

There are no restrictions on the voting rights.

4. The rules which regulate the appointment and replacement of Board members and amendments to its Articles of Association.

The Board of Directors proposes to the General Meeting amendments and / or supplements to the Articles of Association, changes in the constitution of the Board of Directors release and election of new Board Members.

Members of the Board of Directors may be physical or legal persons meeting the requirements of Article 234 of the Commercial Law and Article 116a, paragraph 2 of the Public Offering of Securities Act.

When a member of the Board of Directors is a legal entity, it shall designate a representative / and / for the performance of duties in the Board. The legal entity is jointly and unlimitedly liable with the other members of the Council for the obligations arising from the actions of his representative.

Natural persons who are legal persons - members of the Board of Directors must meet the requirements of Art. 234, paragraph 2 of the Commercial Law.

Persons who were members of management or supervisory body of a company terminated due to bankruptcy in the last two years preceding the date of the declaration of insolvency, if unsatisfied creditors, cannot be members of the Board of Directors.

A person who has been governor, member of the management or supervisory body of the company, which was established by an effective penalty decree defaulting on creation and preservation of its defined levels of stocks under the stocks of oil and oil products, cannot be a member of the Board of directors.

At least a third of the members of the Board of Directors must be independent entities. The independent member of the Board cannot be:

- employee of the public company;
- shareholder who owns directly or through related parties, at least 25 percent of the votes in the General Meeting or related company;
- person who is in permanent trade relations with the public company;
- member of the management or supervisory body, procurator or employee of a company or other entity.
- person connected with another member of management or supervisory body of a public company.

Members of the Board of Directors can be reelected without limitation.

In case of changes in legislation, the next General Meeting of Shareholders shall decide on amending the Articles of Association in order to align its provisions with those of existing regulations. Until making this decision, the affected versions of the Articles of Association of the Company shall be interpreted in accordance with the Constitution and laws of the country.

The Articles of Association shall be amended by the General Meeting of Shareholders with a majority of 2/3 / two thirds / of the represented at the General Meeting capital. The current Articles of Association was entered in the Commercial Register under number № 20150226134200.

5. The powers of board members and in particular the right to issue or buy back shares.

The powers of the Board of Directors are regulated in the Articles of Association of the Company. A decision to issue bonds can be taken by the Board of Directors with a qualified majority of two thirds of its members.

The Board of Directors is authorized to buy back shares under certain conditions, according to the decisions of the General Meeting held on 23 June 2010, EGM of 30 November 2011 on the EGM of 1 November 2012 and EGM of 28 February 2013 and 23 February 2018.

V. Composition and functioning of the administrative, management and supervisory bodies and their committees

1. Composition of the Board of Directors:

The company is managed and represented by a Board of Directors, which consists of five physical persons meeting the requirements of Article 234 of the Commercial Law and Article 116a, paragraph 2 of the Public Offering of Securities Act. The composition of the Board of Directors can be changed by the General Meeting at any time.

The composition of the Board of Directors is described in section I. Overview of Sopharma in the Management report.

According to Article 116 Paragraph 2 of the Public Offering of Securities Act at least one third of the members of the Board of Directors must be independent. In this case, these are:

- Andrey Lyudmilov Breshkov
- Alexander Viktorov Tchaoushev

Members of the Board of Directors are aware of their rights and duties associated with the position they take.

2. Rules of the Board of Directors

Sopharma AD has developed Rules of the Board of Directors that match and are an addition to the principles enshrined in the Good Corporate Governance Program. The Articles of Association of the Company is prepared in accordance with the requirements of POSA and include provisions on the right of shareholders to timely notification on various issues.

The Board of Directors shall hold regular meetings at least once a month.

3. Minutes of meetings

All members present at a Board meeting signs minutes of meeting with the Protocol.

Minutes of meetings are kept by the Investor Relations Director of the Company;

The minutes of meetings are trade secret. Facts and circumstances that are included therein can be published, disclosed or brought to the attention of third parties only by a decision of the Board of Directors or when it is required by law.

4. Responsibility

Members of the Board of Directors must give a guarantee for their management in an amount determined by the General Meeting, but not less than three times their monthly gross salary.

Members of the Board of Directors are jointly liable for the damages caused to the Company.

Each member of the Board of Directors may be released from liability if it is established that they have no fault for the damage. The General Meeting can discharge the Board of Directors on the Annual General Meeting in the presence of audited annual financial statements for the previous year and interim financial statements for the period from the beginning of the current year to the date of the general meeting.

The Board of Directors reports for its activities to the General Meeting of Shareholders.

5. Role of the Board of Directors to implement the principles of good corporate governance

The Board of Directors decides on all matters relating to the Company, except those under current law and the Articles of Association of the Company are of the exclusive competence of the General Meeting.

Assigns its decisions and functions under the operational management of the Company to one of its members /CEO/. The Executive Director may be changed at any time.

Members of the Board of Directors shall submit a declaration to the Financial Supervision Commission / FSC / to BSE - Sofia and the company itself in case of their participation as members of management and supervisory bodies of other companies, as well as information on legal entities, who they hold directly or indirectly more than 25% of the capital or which they control, as well as a present or future transactions which consider that they can be recognized as stakeholders. This circumstance is declared and updated within seven days of its occurrence.

In carrying out its activities the Board of Directors comply with the accepted principles of the principles of Corporate governance of the Company;

The Board of Directors shall make best efforts to ensure easy and timely access to public information for an informed exercise of shareholders' rights, respectively making an informed investment decision of investors.

6. Due diligence. Avoiding conflict of interest

Members of the Board of Directors are required to:

- carry out their duties with due diligence, to be loyal to the Company and act in the best interest of its shareholders;
- perform their duties with the inherent professional skill, diligence and responsibility in a way that they reasonably believe is in the interest of all shareholders of the Company, by using only information that they reasonably believe to be reliable, complete and timely;
- to the interest of the Company and the investors in the Company before their own interest and not used for the benefit of themselves or others at the expense of the Company and shareholders facts and circumstances that are learned in the course of their professional duties;
- avoid direct or indirect conflicts between their interests and the interests of the Company, and if such conflicts arise - to disclose promptly and fully and do not participate and do not affect the other members of the council in making decisions in such cases;
- not to disclose information about the deliberations and decisions of the meetings of the Board of Directors, as well as other non-public information about the Company, even after they cease to be members of the Board of Directors until the public disclosure of the circumstances of the Company;
- provide and disclose information to shareholders and investors in accordance with regulations and internal acts of the Company.

The Board of Directors assisted by an Audit Committee, which under the Independent Financial Audit and International Standards on Auditing, performs the following functions:

- monitors the financial reporting processes in the Company;

- monitors the effectiveness of the internal control;
- monitors the effectiveness of risk management in the Company;
- monitors the independent financial audit in the Company;
- reviews the independence of the auditor of the Company in accordance with the law and the Ethical Code of conduct for Professional Accountants, including monitoring the provision of ancillary services by the auditor to the audited Company.

At an extraordinary General Meeting of Shareholders of Sopharma AD held on 20 November 2008 was elected an Audit Committee composed of three people: Tsvetanka Zlateva, Vasil Piralkov and Vasil Naydenov , elected for a 3-year mandate, which has been re-elected two consecutive times. By a decision of the GMS dated 02.06.2017 Vasil Piralkov was replaced by Kristina Atanasova.

VI. Description of the diversity policy, applied to administrative, management and supervisory bodies of the issuer in relation to aspects such as age, sex or education and professional experience, the objectives of this policy of diversity, the manner of its implementation and results during the reporting period.

Sopharma AD is making every effort to ensure equal opportunities in recruitment and compliance in form and substance of the whole range of laws pertaining to fair employment practices and prevent discrimination.

Discrimination, whether based on race, sex, or expression of gender, color, creed, religion, national origin, nationality, citizenship, age, disability, genetic information, marital status (including domestic partnerships and civil unions as defined and recognized by applicable law), sexual orientation, culture, ancestry, veteran's status, socioeconomic status or other legally protected personal characteristic, are unacceptable and completely not consistent with the traditions of the Company, for providing a respectful, professional and dignified workplace. Retaliation against individuals for raising claims of discrimination or harassment is also prohibited.

The main objectives that the Company set itself in the implementation of diversity policies are:

- Attracting, hiring and holding on of people with a wide range of professional skills. The diverse capabilities of management and staff open new opportunities for innovative and creative solutions increase creativity and innovation. This in turn would lead to more efficient adaptation to the impact of globalization and technological change. A diverse workforce can increase company effectiveness to achieve its objectives. It can lift morale, giving access to new market segments and increase productivity.
- Fostering a working environment that accepts ethno-cultural diversity and in which individual differences are valued and respected.
- Solve one of the most important issues for the employer - that of labor shortages and problems relating to the recruitment and retention of highly skilled workers.
- Improving the reputation and overall performance of the company to external stakeholders and society.
- Creating opportunities for disadvantaged groups and building the unity of society.

Sopharma AD strives to achieve targets as approved and put into practice important for company types manifolds. By adopting best practices from other companies and institutions, the company's management wants to make diversity management a functioning

part of the company. Sopharma endeavor employees, consumers, customers and investors to be informed about the importance of diversity to them and their work, aiming to build their confidence and willingness to support.

Diversity policy provides a variety of board members, ensuring reliable system management and control, and good corporate governance is an essential element of safe and stable operation of Sopharma AD. They meet the highest standards applied by the Company in order to realize its objectives and strategies.

The composition of the Board of Directors and the number of people involved in it, is consistent with the size, complexity and scope of the Company's operations and ensure sufficient level of general expertise.

Members of the Board of Directors of Sopharma AD have extensive experience as a theoretical gained through education, training and qualifications and practical acquired during previous positions occupied. They are persons of good repute and managerial capabilities, with high professional and moral qualities.

Members of the Board of Directors of the Company are economists, financiers and individuals with higher education in the field of international relations and other areas of business.

Compliance with the principle of gender equality, as witnessed by the many women occupying senior positions in the Company, Mrs. Vessela Stoeva- member of the Board of Directors and Mrs. Tsvetanka Zlateva and Mrs. Kristina Atanasova - members of the Audit Committee, are only examples of such.

Diversity policy with respect to the management authorities does not allow a limitation of age composition.

In the company there are representatives from various minority ethnic groups-ethnicities. The company employs people from disadvantaged backgrounds. The aim is to provide young people with opportunities for professional and personal development.

Male to female ratio is 38% to 62% in favor of women and required by the nature of the production process.

Diversity policy in terms of personnel (directors of departments, heads of departments, employees) does not allow restriction of age composition.

As the Company has no discrimination on any grounds.

Section V of the Rules of Internal labor order of Sopharma AD regulates the rights and protection of employees when it comes to any discriminatory action by the employer.

On the basis of Ordinance on employment / SG, issue 7/1987, issue 7/1987, amended and supplemented. Issue 111 of 28.12.2001, amend. Issue 78 of 30.09.2005 which entered into force on 01.10.2005 /, Ordinance № 8 for designation of suitable workplaces for people with reduced working capacity / SG issue 52 / 1987. SG issue 47 / 1990 / Ordinance amending and supplementing Ordinance No 8 on the definition of jobs suitable for the re-employment of persons with reduced working capacity / SG. 44/1993. / and according to Art. 27 of the The Law on Integration of People with Permanent Disabilities, a Commission for Employment is established every year in Sopharma AD. It develops a list of suitable locations and positions for labor readjustment of disabled workers with permanent disabilities in accordance with the percentage allocated to the sector in accordance with Art.

315 of the Labor Code and of pregnant workers and workers who are breastfeeding. Commission shall examine specific cases for labor readjustment and indicates appropriate places according to the approved list.



Ognian Donev, PhD
Executive Director



27 March 2018
Sofia