



**PROGRAM**  
**FOR**  
**THE APPLICATION OF THE**  
**INTERNATIONALLY ACKNOWLEDGED**  
**PRINCIPLES FOR GOOD**  
**CORPORATE**  
**GOVERNANCE OF**  
**SOPHARMA AD**

**2019**

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## **I. BASIS FOR ADOPTION OF THE PRINCIPLES FOR GOOD CORPORATE GOVERNANCE**

The implementation of good corporate governance, in accordance with the international and nationally accepted standards, requires adherence to established basic principles and good practices in relation to the activity and the management of Sopharma AD. They cover the relations created between the corporate bodies and the investors of the Company; the measures taken to protect the rights of the shareholders and the stakeholders and to enhance their information security. The variable nature of these principles, as well as their key position in the management of the Company, imposes their systematization and detailed reading in the present Corporate Governance Program.

The Board of Directors of Sopharma AD adheres to the policies and principles enshrined in this Program: providing shareholders with the opportunity for full exercise of their rights, improving the process of disclosure of information and assisting the management in organizing the activity of the enterprise.

The Board of Directors believes that the effective implementation of the principles and timely control of the results will contribute both to improving the performance of the Company on the regulated market and to the achievement of the long-term goals of Sopharma AD. Establishing a transparent and honest relations between the participants is a key moment that the corporate management members reckon they can do and work actively to promote an even more effective management style and method that will drive growth and profitability of the Company.

The Corporate Governance Program has been developed in compliance with all provisions in the Articles of Association of the Company and the national and European legislation. The program complies with the requirements and recommendations of the National Corporate Governance Code and involves taking specific measures to implement the principles of good corporate governance.

## **II. “COMPLY OR EXPLAIN” PRINCIPLE**

The National Corporate Governance Code should be applied on the basis of the "comply or explain" principle, meaning that Sopharma AD adheres to the Code, and in case of divergence, the Management should clarify the reasons for this. The Board of Directors of Sopharma AD shall disclose information on the implementation of the Program in the annual reports and provide an explanation as to why one principle or another is not relevant to "Sopharma" AD and how problem situations will be resolved. Most significant in this process is the assessment of the Board on the appropriateness of any principle of the Code and its suitability and relevance to the activity of the Company.

## **III. OBJECTIVES OF THE PROGRAM**

- Promoting the principles of good corporate governance.
- Promoting the principles and good practices in the field of corporate social responsibility as an element of good corporate governance in the Company.
- Improvement of the decision-making system of the Board of Directors regarding the short-

and long-term development of the Company based on mutual benefit, common interests and striving to achieve the goals of the Company.

- Supporting the communication and raising the level of informational security of the Company's shareholders, financial media and analysts.
- Improving the processes related to the disclosure of information by the Company.
- Increasing the reliance of the shareholders, investors and all persons interested in the management of the Company and its development.
- Providing criteria for effective supervision and encouraging the management body to follow high ethical and moral principles, acting in the interest of the shareholders and the Company.

#### **IV. PRINCIPLES FOR GOOD CORPORATE GOVERNANCE**

*The corporate governance framework must:*

- Protect the rights of the Shareholders.
- Ensure equal treatment of all shareholders, regardless of the shares they hold.
- Recognize the rights of stakeholders and encourages their cooperation with the Company to enhance well-being, job creation and ensure the sustainable development of the enterprise.
- Ensures timely and accurate disclosure of information on all matters related to the Company, including the financial position, the results of activity, ownership and management of the Company.
- Support the strategic management of the Company, the control on the activity of the Board of Directors and its accountability to the Company and the Shareholders.

#### **V. GENERAL MEETING OF THE SHAREHOLDERS**

##### **1. Convening**

- The General Meeting is convened by the Board of Directors. It may also be convened at the request of shareholders who, for more than three months, hold shares representing at least 5 per cent of the capital. The fact that the shares have been held for more than three months is established by a notarized declaration.
- The Company declares the invitation under Art. 223, para. 4 of the Commercial Law in the Commercial Register and announces it under the conditions and in accordance with Art. 100t, para. 1 and 3 of the POSA at least 30 days before the opening of the General Meeting. The Company does not collect fees for preparing and announcing the invitation.
- The invitation together with the materials of the General Meeting under Art. 224 of the Commercial Law shall be sent to the Financial Supervision Commission no later than 30 days before its opening and shall be published on the Company's website for the period from its announcement in the Commercial Register until the close of the General Meeting.
- Shareholders have sufficient and timely information on the date, place and agenda of the General Meetings, as well as complete information on the issues discussed at these meetings - the materials for the General Meeting are available on the X3News website - [www.x3news.com](http://www.x3news.com), as well as on the Company's website - <http://www.sopharmagroup.com/en>, 30 days before the date of the General Meeting

- Besides the information under Art. 223 para 4 of the Commercial Law, the invitation for the General Meeting must also include information about:
  1. the total number of shares and voting rights in the General Meeting on the date of the decision for convening of the general meeting, including the total number of shares, as well as the right of shareholders to participate in the general meeting;
  2. the right of the shareholders to include issues on the agenda of the General meeting and to make proposals for decisions on matters included in the general meeting's agenda and the deadline for exercising that right;
  3. the right of shareholders to make substantially proposals for decisions on any matter included in the agenda and subject to the requirements of the law, according to the restriction under art. 118, para. 3 - inclusion in the agenda of the General meeting of an item, the subject of which is a decision under Art. 114, para. 1.; the deadline for exercising this right is to adjourn the debate on the matter before voting the decision of the General meeting;
  4. the shareholders' right to raise issues during the General meeting;
  5. the rules of voting through a proxy, the model forms that are used for voting through a proxy and the ways in which the Company shall be informed of authorizations made in an electronic way;
  6. the rules of voting through correspondence or electronic means, where applicable;
  7. the right to vote has the persons entered in the registers of the Central Depository as shareholders 14 days before the date of the General Meeting and only the persons registered as shareholders on that date have the right to participate and vote in the General Meeting;
  8. the place and manner of receiving the written materials related to the agenda of the General meeting under Art. 224 of the Commercial Law;
  9. the web site on which the information on the invitation and the materials for the General meeting are published.
- The company publishes the voting forms through a proxy on its website.
- The persons holding jointly or separately at least 5 per cent of the capital of a public company may:
  - Request a General Meeting of Shareholders to be convened. If within one month of the shareholders' request for convening of the General Meeting it is not satisfied or if the General Meeting is not held within 3 months after the request is made, the city court at the place of registration of the Company convenes the General Meeting or authorizes the shareholders who requested the convening, or their representative to convene the meeting.
  - Ask for inclusion of items and propose decisions on already included items in the general meeting's agenda according to the procedure of Art. 223a of the Commercial Law.

## **2. Rights of the shareholders in connection with the convening and holding of the General Meeting**

- To be notified of the convened General Meeting of Shareholders in accordance with the procedure prescribed by law. The shareholders have sufficient and timely information on the date, place and agenda of the general meetings, as well as full information on the issues discussed at these meetings - the materials for the General Meeting are generally available on FSC, BSE and on the Company's website as soon as they are published.
- Review all materials in connection with the convened General Meeting of shareholders and, upon request, receive these materials free of charge.
- Participate in the General Meeting of shareholders by expressing opinions, making proposals

and asking questions on the items included in the agenda of the meeting, as well as exercising their right to vote, to receive true and complete substantive answers from the members of the Board of Directors to the questions asked at the General Meeting concerning the financial and economic condition and commercial activity of the Company, except for circumstances which constitute inside information.

- Review the minutes of the General Meetings and the annexes thereto, retained for at least 5 years.
- To request the presence of a notary public at the General Meeting of Shareholders to draw up a statement of findings under Article 593 of the CPC.
- To claim for annulment of a decision of the General Meeting of Shareholders pursuant to Art. 74 of the Commercial Act when it contravenes mandatory provisions of the law or the Articles of Association of the Company.

### **3. Conducting**

- The General Meeting of Shareholders shall be held by the end of the first half year after the closing of the financial year at the Company's headquarter - Sofia, 16 "Iliensko shousee" Str.
- An Extraordinary General Meeting of Shareholders shall be convened in case of necessity to resolve a matter/(s) included in the competence of the General Meeting in accordance with the procedure established by the current legislation (Art. 221 et seq. of the Commercial Act).
- The General Meeting shall elect a chairman, secretary and tellers at every Meeting by a simple majority.

### **4. Participants**

- The General Meeting shall include all Shareholders. They shall attend the General Meeting in person or may authorize any person or entity to participate and vote at the General Meetings on their behalf by providing explicit instructions on the voting on each item of the agenda.
- The right to vote in the General Meeting is exercised by the persons included in the registers of the Central Depository 14 days before the date of the General Meeting according to the list of shareholders provided by the Central Depository AD at that date.
- The members of the Board of Directors take part in the work of the General Meeting without the right to vote unless they are shareholders.
- The members of the Board of Directors can't represent a shareholder.
- The shareholders participate in the General Meeting in person or through a representative authorized by explicit written power of attorney under Art. 116, para. 1 of the Public Offering of Securities Act, and when the Statutory acts of the Company provide for such an opportunity - through correspondence and / or electronically.
- The representative has the same rights to speak and ask questions on the General Meeting as the Shareholder they represent.
- The representative may represent more than one Shareholder at the General Meeting of the Company. In this case the representative may vote differently on the shares held by individual Shareholders they represent.
- The written power of attorney to represent a shareholder at the General Meeting of the Company must be granted for the specific General Meeting, must be explicitly formulated and contain at least:
  1. the data about the shareholder and the proxy;
  2. the number of shares to which the letter of authorization applies;

3. the items on the agenda;
  4. the decision proposals regarding each item on the agenda;
  5. the voting instructions in respect of each item, if applicable;
  6. date and signature.
- If the letter of authorization does not contain specific voting instructions in respect of each item on the agenda, it should state that it is within the proxy's discretion whether and how to vote.
  - The power of attorney explicitly states whether the authorization also covers issues that are included in the agenda under the terms of Art. 231, para. 1 of the Commercial Law. If the authorization also relates to the additional issues on the agenda, it is explicitly stated that in these cases the proxy has the right to make his own judgment as to whether and how to vote.
  - Reauthorization with the rights under, as well as a power of attorney given in contravention of the statutory provisions of the law is void.

## **5. Right to information**

- All written materials related to the agenda of the General Meeting shall be clear and accurate and prepared in a manner that prevents misleading of the Shareholders.
- When the agenda of the General Meeting includes election of members of the Board of Directors, the materials shall include information about the names, addresses and qualifications of the nominated members. This rule also applies when the item is included in the agenda in accordance with Art. 223a of the Commercial Act.
- Written materials related to the agenda of the General Meeting shall be available to the Shareholders not later than the date of announcement of the invitation for the General Meeting. Upon request they shall be provided by the Investor Relations Director to any Shareholder free of charge.
- The members of the Board of Directors shall answer truthfully, thoroughly and specifically all the questions of the Shareholders at the General Meeting on the economic and financial state and the business of the Company, except for circumstances that constitute inside information.

## **6. Meeting and quorum**

- All shareholders have the right to participate in the General Meeting of shareholders, to express their opinions and to make proposals on the issues included in the agenda.
- A list of the shareholders or their proxies present at the meeting and of the number of shares owned or represented shall be drawn up for the session of the General Meeting. The shareholders or proxies shall signify their presence at the meeting by a signature. The list shall be certified by the chairman and the secretary of the general meeting.
- The list of shareholders present and / or their representatives and the number of shares held or represented is an integral part of the minutes of the General Meeting.
- Pursuant to Art. 17 of the Statute /amend. with a des. of the General Meeting of 02.06.2005/ The General Meeting has the right to take decisions if more than half of the capital is presented to it, unless for certain decisions the law provides for another quorum. In the absence of a quorum, a new meeting is scheduled.
- In the absence of a quorum a new meeting shall be scheduled not earlier than in 14 days and it shall be valid regardless of the number of shares represented at it. The new meeting date may be indicated in the invitation for the first meeting.

## 7. Voting and majorities

- Voting at the General Meeting is open and each shareholder has as many votes as the number of his shares.
- The decisions for amending the Articles of association of the Company, increase or decrease of the capital, transformation and dissolving of the Company, as well as determining the number, the election and dismissal of members of the Board of Directors shall be taken with a majority of 2/3 (two-thirds) of the voting shares represented at the meeting. In the cases of acquisition or disposal of assets of the company - from the scope of Art. 114 and following of POSA shall be taken a decision by a majority of 3/4 of the capital presented to the General Meeting.
- The decisions in other cases shall be taken by a simple majority of the shares represented, unless current regulations or the Articles of association require a higher majority for taking certain decisions.
- The decisions of the General Meeting shall enter into force immediately unless their action is postponed. The decisions under Art. 14, item 1, 2, 3, item 4 - on the number, election and dismissal of the members of the Board of Directors and item 7 shall be entered in the Commercial Register and shall enter into force after their registration.
- The General Meeting of Shareholders may not take decisions on issues that have not been disclosed in accordance with the applicable provisions of the Commercial Law, unless all shareholders are present or represented at the meeting and no one objects to the issues raised.
- A shareholder or his representative may not vote in a claim against him or her and to take actions to exercise his responsibility towards the company.

### *Dividend policy*

- Each shareholder will be given an opportunity to participate in the distribution of the Company's profits in case that the General Meeting of Shareholders adopts a specific decision on the distribution of dividends. The right to a dividend is the right to receive parts of the net profit that the Company makes in the course of its business. In order the general right of dividend specified in the law to be converted into a specific dividend right, the financial year must have expired, the annual report and balance sheet must have been adopted, and there must be a corresponding explicit decision of the GMS to distribute the realized profit. In case that all three of these prerequisites exist for the benefit of the shareholders, a required and liquid right to a dividend is generated.
- The Company shall distribute dividends under the terms and conditions laid down in POSA, CA and Chapter Five of the Articles of association, upon a decision by the General Meeting.
- Each Shareholder is entitled to receive their dividend within 5 years from the time of the decision.
- Entitled to receive dividends are the persons registered with the Central Depository as shareholders on the 14th day following the General Meeting, on which the annual financial report has been approved and the decision on profit distribution has been taken.
- The Company shall pay out the dividend to the Shareholders within 3 months after the General Meeting. The payment shall be made with the assistance of the Central Depository.
- The Company may pay an interim dividend on the basis of a 6-month financial statement under the terms of Article 115c of the Public Offering of Securities Act and with the corresponding application of Article 247a of the Commerce Act and the provisions of the Articles of Association.
- The General Meeting shall determine the period and the method of payment of the dividends.

The Company shall immediately notify the Commission, the Central Depository and the regulated market for the decision of the General Meeting on the type and amount of the dividend and the terms and conditions for its payment, also announcing the name of the financial institution through which the payments will be made;

- The Shareholders shall receive their dividends after providing an identity document or in the case of representation also a notarized power of attorney.

## **8. Minutes of the General Meetings of Shareholders**

- The minutes of the session of the General Meeting shall be kept in a special book and shall indicate:
  1. the place and the time of the session;
  2. the names of the chairman and the secretary, as well as of the vote tellers;
  3. the attendance of the management board and of the supervisory board, as well as of persons who are not shareholders;
  4. the proposals made on the substance of the debate;
  5. the votes taken and the results thereof;
  6. the objections made.
- The minutes of the General Meeting include information on the number of shares in which genuine votes are cast, what proportion of the capital they represent, the total number of votes actually cast, the number of votes cast for and against and, if necessary - the number of abstentions for each of the decisions on the agenda. In the minutes of the General meeting shall be recorded the exercise of votes through representatives.
- The minutes shall be signed by the chairman and the secretary of the Meeting, as well as by the tellers. To the minutes shall be attached a list of the attendees and the documents related to the convening of the General Meeting.
- The records of the General Meeting shall be sent to the Financial Supervision Commission within three working days after the meeting is held.
- The Company shall publish the records of the General Meeting on its website for a period of not less than five years.
- The minutes and their annexes shall be kept for at least five years. They shall be provided to Shareholders free of charge.
- The minutes book is kept and stored by the Investor Relations Director.

## **VI. BOARD OF DIRECTORS**

### **1. Composition of the members of the Board of Directors**

- The Company shall be managed and represented by the Board of Directors. It consists of three to nine persons. The composition of the Board of Directors may be changed by the General Meeting at any time.
- Board members may be individuals and legal entities that meet the requirements of Art. 234 of Commerce act and Art. 116, Par. 2 of the Public Offering of Securities Act.
- The members of the Board of Directors shall become aware of the rights and obligations associated with their positions.

- Only persons who meet the requirements of the POSA, who have previously proven their professionalism, experience and qualities, are offered for election of members of the Board of Directors, after providing a criminal record certificate and declarations under Art. 116a of the POSA and under the Commerce act.
- The members of the Board of Directors must have a college degree and not:
  - have been convicted and have an effective sentence of crimes against the industry, against the tax, financial or insurance systems committed in the Republic of Bulgaria or abroad unless they have been exculpated;
  - have been members of management or supervisory body of a company or cooperative terminated for insolvency in the last two years, preceding the date of the bankruptcy decision, if there are unsatisfied creditors;
  - have been a managing director, a member of a managing or controlling body of a company, with regard to which non-performance of obligations to establish and maintain the stock levels, prescribed thereto under the Crude Oil and Petroleum Products Stocks Act, has been established by an effective penal order.
- The composition of the Board of Directors elected by the General Meeting should guarantee the independence and the impartiality of the evaluations and actions of its members in relation to the functioning of the Company.

## **2. Term**

- The members of the Board of Directors of Sopharma AD shall be elected by the General Meeting of shareholders for a term of 5 years.
- The members of the Board of Directors may be reelected without limitations.
- After expiry of their term the members of the Board of Directors shall maintain their functions until the election of a new Board by the General Meeting.

## **3. Role of the Board of Directors for applying the principles of good corporate governance**

- The Board of Directors shall decide on all matters relating to the Company, except those which according to the law and the Articles of association are of the exclusive competence of the General Meeting.
- The Board of Directors directs and controls independently and responsibly the company's activity according to the established visions, goals, strategies of the Company and the interests of the shareholders.
- The Board of Directors ensures and controls the establishment and functioning of a risk management system, including internal control and internal audit.
- The Board of Directors entrusts the implementation of its decisions and the execution of its functions in the operative management of the Company to one of its members /Executive Director/. The Executive Director may be changed at any time.
- The 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 in which they hold, directly or indirectly more than 25% of the capital or which they control, as well as present or future transactions, on which they believe they can be recognized as interested parties. This circumstance shall be declared and updated within seven days of its occurrence.
- In carrying out its duties the Board of Directors shall comply with the accepted principles of corporate governance of the Company.

- The Board of Directors shall make its best efforts to ensure easy and timely access to public information in order to make an informed exercise of the rights of shareholders, and accordingly to make an informed decision by investors.

#### **4. Due diligence. Avoidance of conflict of interest**

- The members of the Board of Directors shall perform their functions with due diligence, shall be loyal to the Company and shall act in the best interest of the Shareholders.
- They shall perform their duties with professional skills, diligence and responsibility in a manner they reasonably believe is in the interest of all Shareholders, using only information that they reasonably believe is accurate, complete and timely.
- They shall put the interest of the Company and the Company's Investors above their own interest and shall not use facts and circumstances which they have become aware of in the course of their professional duties for the benefit of themselves or others at the expense of the Company and the Shareholders.
- They shall avoid direct or indirect conflict between their interests and the interest of the Company, and if such conflicts arise – they shall disclose them promptly and fully, and shall not participate and influence the other members of the Board in making decisions in such cases.
- They shall not disseminate information regarding the discussions and decisions of the Board of Directors, and other nonpublic information about the Company, even after they cease to be members of the Board of Directors until the public disclosure of the particular circumstance by the Company.
- They shall provide and disclose information to Shareholders and Investors in accordance with the legal and internal regulations of the Company.

#### **5. Code of conduct of the Board of Directors**

- Sopharma AD has developed a Code of Conduct of the Board of Directors which complies with and supplements the principles enshrined in the Program for Good Corporate Governance. The Articles of association of the Company are in compliance with POSA and the Commercial act.
- The Board of Directors shall hold regular meetings at least once every three months.

#### **6. Records**

- The decisions of the Board of Directors shall be kept in records signed by all members present at the meeting.
- The Investor relations director maintains and keeps a record of the meetings of the management body of the Company.

#### **7. Liability**

- Members of the Board of Directors must provide a guarantee for their management in an amount determined by the General Meeting but not less than three times their monthly gross salary.
- The board members shall be jointly liable for any damages caused to the Company through fault of their own.
- Any board member may be discharged of such liability, if it is established that the damages were caused through no fault of their own. The General Meeting may discharge of liability a Board member on a Regular Annual General Meeting in case an audited annual financial report for the previous year and an interim financial report for the period from the beginning of the

current year to the date of the General Meeting are present and are verified by a registered Auditor.

- The Board of Directors reports its activity to the General Meeting of Shareholders.

#### **8. Remuneration of the members of the Board of Directors**

- The members of the Board of Directors are entitled to a remuneration as determined by the rules adopted by the General Meeting of Shareholders in compliance with the legal requirements concerning the formation of the remuneration.
- The amount of remuneration of the Board of Directors shall be determined in accordance with the provisions of Art. 24, par. 3 of the Articles of association:

“The members of the Board of Directors shall be entitled to a remuneration, the form, amount and term of which shall be determined by decision of the General Meeting in conformity to the following principles:

A/ The General Meeting shall determine the amount of the permanent monthly remuneration of the members of the Board of Directors;

B/ In case of a positive financial result /profit/ and by decision of the General Meeting, the Executive Director is entitled to receive a one-time bonus of up to one percent of the net profit of the Company.

C/ Payment of not less than 40% of the remuneration referred to in item B/ shall be deferred for a period of time specified in the approved by the General Meeting

Remuneration Policy for members of the Board of Directors, but not less than 3 years. The Company shall determine what portion of the payment shall be deferred depending on its relative weight compared to the fixed remuneration under item A/.”

#### **9. Criteria for independence of the members of the Board of Directors**

- *The independent members* of the Board of Directors of Sopharma AD must be at least one third of the members of the Board and meet the following criteria:
  - 1) not be employees of Sopharma AD;
  - 2) not be shareholders who hold, directly or through related parties at least 25% of the votes in the General Meeting or the Company;
  - 3) not be persons who have commercial relations with Sopharma AD;
  - 4) not be members of a management or a supervisory body, procurators or employees of a Company or other legal entities pursuant to it. 2 and 3;
  - 5) not be related to any other member of the Board of Directors of Sopharma AD.
- Candidates for elected office shall show lack of circumstances on item 1 by a notary certified declaration.

### **VII. RIGHTS OF THE SHAREHOLDERS ACCORDING TO THE PERSONAL DATA PROCESSED BY SOPHARMA AD:**

- To have access to the personal data processed by Sopharma AD and to receive a copy of them.
- In case of incompleteness or inaccuracy in the data processed by Sopharma AD, the personal data should be corrected.
- To ask for deletion of the personal data whenever such conditions occur. Those are the cases of achieved purpose for which the data have been collected; withdrawn consent, when the

processing is based on consent and there are no other legal grounds for processing; the data have been processed illegally etc.

- To request restricted processing of the personal data in the cases specified by law.
- To submit an objection against the processing of the personal data in the cases specified by law.
- To exercise the right to data transfer and to request the data to be submitted in a structured, generally used and machine-readable format.
- To withdraw the consent when the processing of the personal data is based on consent.

## VIII. INTERESTED PARTIES

- **"Interested parties"** within the meaning of Article 114, paragraph 7 of POSA, shall be the members of the management bodies and supervisory bodies of the public company, the representatives of legal persons that are members of such bodies, the managerial agent of the public company, as well as any persons holding, directly and/or indirectly, at least 25 per cent of the votes in the general meeting of the company or controlling the said company, while, in the case of transactions of a subsidiary, the term shall encompass the members of its management and supervisory bodies, the representatives of legal persons that are members of such bodies, the managerial agent of the subsidiary, as well as any persons holding, directly and/or indirectly, at least 25 per cent of the votes in the general meeting of the company other than those of the public company, as well as any parties related thereto when they:
  1. are a party, a representative of a party or an intermediary to the transaction, or the transactions or acts are affected in favour of the said persons; or
  2. hold, directly and/or indirectly, at least 25 per cent of the votes in the general meeting, or control any legal person which is a counter party, a representative of a party or an intermediary to the transaction, or the transactions or acts are affected in favour of any such legal person, or
  3. are members of management bodies or supervisory bodies, representatives of legal persons, the members of such bodies, or managerial agents of any legal person referred to in Items 1 and 2.
- **"Related persons"** within the meaning of Par. 1, Item 13 of the Supplementary Provisions of POSA are:
  1. persons, one of whom controls the other or their subsidiary;
  2. persons whose activity is controlled by a third person;
  3. persons who jointly control a third person;
  4. spouses, lineal relatives without restrictions, collateral relatives to the fourth degree, including relatives by marriage to the fourth degree.
- **"Control"** within the meaning of Par. 1, item 14 of the Supplementary Provisions of POSA exists where a person:
  1. holds, including through a subsidiary or by agreement with another person over 50% of the votes at the General Meeting of a Company or other entity, or
  2. can determine directly or indirectly, more than half of the members of the management or supervisory body of a legal person, or
  3. may otherwise exercise a decisive influence on decisions relating to the activities of

the entity.

*Rules for transactions with interested and related parties*

- To comply with the requirements and limitations stipulated in Art. 114 and 114a of the POSA, the Board of directors examines and approves in advance the transactions of the Company and/or its subsidiaries which would materially affect the activity of the Company and specifically its profitability, assets and liabilities or financial position.
- The Board of directors shall present to the General Meeting a substantiated report on the expediency and terms and conditions of the transactions covered under Article 114 (1) of POSA. The report shall be part of the materials provided to shareholders upon convocation of the General Meeting. The General Meeting of the company shall make a decision by a majority of three quarters in value of the capital stock represented and, in the rest of the cases, by a simple majority.
- The Executive Director and any other member of the Board of Directors shall not participate in discussions and shall not vote when issues are reviewed in which they have personal interest, whether it is direct or not.
- A member of the Board of Directors shall not try to influence in any way on the decision of the authorities on such transactions. The objective fairness of the transaction, the interest of the managers in it, the possible future benefit to the shareholders will be determined by certain criteria, and the importance of the transaction for the interests and achievement of the goals of the Company will be substantiated and how it will affect its future activity.
- The persons who manage and represent Sopharma AD, without being explicitly authorized to do so by the General Meeting, cannot carry out transactions as a result of which:
  1. the company acquires, transfers, receives or surrenders for use or provides as security in any form long term assets to a value exceeding 2 percent of the lower value of the assets according to the last two prepared balance sheets of the company, at least one of which has been audited, where interested parties are involved in the transactions;
  2. the company incurs obligations to a single person or to related parties to an aggregate value exceeding one third of the lower value of the assets according to the last two prepared balance sheets of the company, at least one of which has been audited, or, where the said obligations are incurred to interested parties or in favour of interested parties, to an aggregate value exceeding the value - 2 percent of the lower value of the assets according to the last two prepared balance sheets of the company;
  3. the receivables of the company from a single person or from related parties exceed the value one third of the lower value of the assets according to the last two prepared balance sheets of the company, at least one of which has been audited, or, where interested parties are debtors of the company, over 50 per cent of the value 2 percent of the lower value of the assets according to the last two prepared balance sheets of the company.
- Transactions of Sopharma AD with interested persons which do not exceed the thresholds of Art. 114, Par. 1 of POSA are subject to prior approval by the Board of Directors.
- Transactions which are separately below the threshold of Art. 114, Par. 1 of POSA, but in aggregate lead to material changes exceeding these thresholds are considered as a whole, if committed in a period of three calendar years and in favor of one person or related persons, or

if a party in the transaction is one person or related persons. In these cases, subject to the approval of the General Meeting of Shareholders is the act or transaction, which exceeds the thresholds of Art. 114, Par. 1 of POSA.

- Disposition transactions that exceed the thresholds of Art. 114, Par. 1, It. 1 and Par. 2, involving interested parties are made only at market price. The assessment is made by the Board of Directors and in the cases of Art. 114, Par. 1, It.1, letter "b" of POSA – by independent appraisers appointed by him under Art. 5 of the Independent Appraisers Act.

## **IX. INDEPENDENT AUDIT AND CONTROL**

These measures aim at ensuring the flawless implementation of the activity of the Company's Auditors during the performance of all necessary procedures established by the International Standards on Auditing on the basis of which there is an independent audit opinion on the fair presentation in all essential aspects of the financial statements of Sopharma AD:

- the financial condition of the Company;
- the reported financial result of the Company;
- the cash flows of the Company and any changes in them;
- the Company's equity and the changes in it.

The independent audit opinion on the auditing reports of Sopharma AD is expressed in relation to the compliance of the financial statements with the applicable accounting standards as well as with any other nationally accepted accounting basis for the preparation of the financial statements such as the formation and the expression of the independent audit opinion in accordance with the International Standards on Auditing.

The measures are mandatory for the Company's Employees and all persons who on the basis of a written contract provide ongoing financial and accounting services to Sopharma AD. The control of compliance shall be assigned to the Executive Director.

### **1. Measures for ensuring the effective performance of the duties of the Auditors of Sopharma AD**

- The Board of Directors shall enter a contract for auditing the accounts of Sopharma AD, under Article 8 of the IFAA which regulates the specific obligations of the Company based on these measures;
  - The contract shall be signed by the recommendation of the General Meeting. In the cases when the Company has established an Audit Committee, the contract for an independent financial audit shall be signed after approval by the Audit Committee;
  - The registered Auditors who are contracted to perform an independent financial audit may be dismissed only if there are appropriate grounds. Difference of opinion on accounting treatments or audit procedures are not appropriate grounds for dismissal;
  - The undertaking of responsibility for the independent financial audit shall be documented by a letter of acceptance of audit engagement. The contents of the letter are determined by the International Standards on Auditing.
- The registered Auditor/auditing company shall be required to provide guarantees that they do not fall under the restrictions for making an independent financial audit.

- According to Article 45, par. 1 of IFAA the financial audit shall encompass procedures for achieving reasonable assurance:
  - of compliance with the accounting principles according to the applicable accounting basis;
  - of the extent to which the accounting policy of the audited entity is appropriate for its activity and is consistent with the applicable accounting basis and with the accounting policies used in the specific sector;
  - of the consistence of the application of the announced accounting policy according to the applicable accounting basis;
  - of the effectiveness of the internal control system, limited to the achievement of the objectives of the audit;
  - of the process of accounting closing and of the preparation of the financial statements;
  - of the reliability and the necessary for the user's comprehensiveness of the information presented and disclosed in the financial statements according to the applicable accounting basis.
- The Board of Directors, assisted by the Audit Committee, shall submit a written motivation to the General Meeting for the proposal for selecting an Auditor, guided by the established requirements for professionalism pursuant to the Independent Financial Audit and International Accounting Standards Act.
- Rotation principle applies to proposing and selecting an external auditor.
- The audit committee shall supervise internal audit activities and monitor the overall relationship with the external auditor, including the nature of the non-audit services provided by the auditor of the Company.
- These measures are intended to ensure the smooth conduct of the auditors' activities in the process of carrying out all necessary procedures defined by the International Auditing Standards regarding the fair presentation of all aspects of the financial statements of Sopharma AD.
- When practicing the auditor's profession, the registered auditor shall be obligated:
  - to comply with the fundamental principles of the professional ethics - integrity, objectivity, professional competence and due attention, confidentiality and professional conduct in accordance with the requirements of the applicable auditing standards and the Code of Ethics;
  - to implement the audit engagement undertaken in accordance with the applicable auditing standards;
  - to protect in an appropriate manner the professional secrecy as regards the information and documents accessible to him or her, not only during the implementation of the auditing engagement, but also after its completion;
  - to provide, upon request, to a registered auditor, filling in for him or her, access to the pertinent information possessed by him or her about the audited entity and the financial audit performed by him or her for previous years according to the requirements of the applicable auditing standards and the Code of Ethics and take advantage of the right to certify the fact that he or she has provided to the registered auditor filling in for him or her access to such information;
  - to inform the management team of the audited entity of established and possible material violations of the currently effective legislation, of constituent and other internal acts of the entity, to the extent that such violations came to his or her knowledge in the process of

- implementation of an auditing engagement;
  - to explain to the management team of the audited entity the nature and the grounds for modification of the auditor's opinion in the auditor's report, as well as of the paragraphs for drawing attention to other issues that were not included in the modified auditor's opinion;
  - to report on an annual basis his or her activities.
- When performing a financial audit, the registered auditor shall have the right:
    - to request and receive full cooperation from the management team of the audited entity on issues that have a bearing on the preparation of the financial statements;
    - to get unrestricted access to any information related to the activity of the audited entity and having a bearing on the preparation of the financial statements;
    - to be present at the inventory taking of the assets and liabilities of the audited entity;
    - at his or her discretion, to monitor processes related to the activity and management of the audited entity.

## **2. Criteria for determining independence in the selection of a registered auditor / audit firm**

- According to Art. 54, para. 5 of the Independent financial audit act (IFAA), the registered auditor shall not participate in the performance of a compulsory financial audit and shall not influence in any way the results from it, if:
  - the registered auditor holds financial instruments of the audited entity other than shares held indirectly through diversified collective investment vehicles;
  - the registered auditor holds financial instruments of an entity related to the audited entity, the possession of which may generate or may be perceived to generate a conflict of interest, where such financial instruments are other than shares held indirectly through diversified collective investment vehicles;
  - the registered auditor was in labour or economic relations or in some other type of relations with this audited entity during the periods referred to in Paragraph 1, where these relations can generate or may be perceived to generate a conflict of interest;
  - a circumstance under Item 1 - 3 exists for a spouse or a relative of direct or collateral lineage up to and including the second degree of kinship or for persons related to the registered auditor.
- The registered auditor shall be obligated to inform the management team and the audit committee of the entity about all circumstances that would infringe on his or her independence in carrying out the audit engagement (Art. 31, para 2, item 1 of the IFAA).
  - The auditors act independently of the shareholders who have elected them;
  - The Board of Directors of the Company may propose to the General Meeting of Shareholders a periodic change of auditor, in case of doubt, regarding the lack of an external and objective opinion on the way the financial statements have been prepared and presented. A valid reason under shall be any of the following circumstances:
    1. existence of facts and circumstances which infringe on the independence or objectivity of the registered auditor;
    2. compelling impossibility to implement the undertaken financial audit engagement;

3. other circumstances specified in the applicable auditing standards and/or in other statutory instruments, in the case of audit engagements which are other than compulsory financial audit, which are other than services associated with the audit and which are not provided to public interest entities. In these cases, the registered auditor shall document all the circumstances justifying a premature dismissal from the engagement.

## **X. DISCLOSURE OF INFORMATION AND TRANSPARENCY**

### **1. Ensuring more effective communication and equal treatment of shareholders**

- The organization of the activities of the Board of Directors and the General Meeting of Shareholders allows for equal treatment of all shareholders, regardless of the number of shares they hold. The Investor Relations Director communicates with due care and precision both to the major and to the individual shareholders holding a small number of shares.
- The Company has established a practice for ensuring effective communication with all shareholders.
- The management of the Company is aware that the presentation of the Company in various specialized economic publications has a favorable effect on its overall appearance - widening the circle of investors and clients, promoting the production. Therefore, it is of utmost importance for the management of the company that the information provided is accurate, precise and reliable. The Investor Relations Director, as a liaison between the management of Sopharma AD and its investors, has developed a comprehensive policy regarding the relations with the economic and other media, makes direct contact with them, announces important for the investors information about the status and plans of The company strictly adheres to the principles of disclosure, assessing what information is a trade secret and what information can be made public. This policy will be further developed and regularly updated at the discretion of the Investor Relations Director. The Company continues to disclose only information that has been publicly announced to the Financial Supervision Commission, to the regulated market and to the public in the prescribed manner, and no misuse of inside information will be allowed.

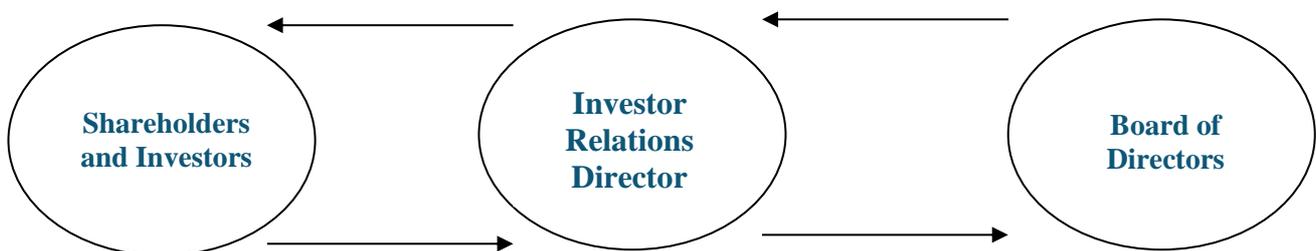
#### *Disclosure of information on the Company's Internet site*

- As part of the information disclosure system, Sopharma AD maintains the Company's website with approved content, scope and periodicity of the announced information. The Company's website is: [www.sopharmagroup.com](http://www.sopharmagroup.com).
- The information on the Company's website should not differ from the information provided to the FSC and in public.
- The information on the Company's website should be published after it has been submitted to the FSC and the public.
- The information disclosed through the Company's website includes:
  - basic business and corporate information identifying the Company;
  - current information on the shareholder structure;
  - the by-laws of the Company and the adopted policies, which are relevant to the activity and functioning of the Company;

- information on the structure and the composition of the Board of Directors, as well as basic information about its members;
  - financial statements for the last 10 years;
  - the materials for the forthcoming general meetings of the shareholders of the Company, as well as additional ones, received upon law;
  - information about the decisions taken by the general meetings of the shareholders for at least the last five years, incl. information on the dividends distributed by the Company during this period;
  - information about auditors;
  - information about upcoming events;
  - information on the issued shares and other financial instruments.
  - important information related to the activity of the Company;
  - information on the rights of shareholders, incl. sufficient information on the right of the shareholders to request the inclusion of questions and to propose resolutions on issues already included in the agenda of the General Meeting in accordance with the provisions of Article 223a of the Commercial Law;
  - Contact information for the Company's Investor Relations Director.
- The Company also maintains a foreign language version of the corporate website with similar content in the following languages: English, Russian and Polish.
  - On the website of Sopharma AD, the shareholders can get acquainted with their rights and receive useful information about the shares and the way of receiving the dividends payable.
  - Information on the Company's website should cover a period of minimum of 3 years.

## 2. Role of the Investor Relations Director

The Investor Relations Director plays an important role in the information disclosure process. He is the person who is the mediating unit between the Board of Directors of the Company and the current shareholders and future investors of securities of Sopharma AD.



In this regard, the members of the Board of Directors of the Company should provide the necessary volume of public information about the public company and will assist the Investor Relations Director in the performance of his activity.

In order to fully disclose public information and transparency, the Board of Directors imposes on the Investor Relations Director the following obligations:

- To establish effective connection between the management body of the company and its

shareholders and the persons interested in investing in the securities of the Company, providing them with information on the current financial and economic status, as well as any other information to which they are entitled by law as shareholders or investors. This means that at any time during the business day the Director should be available to shareholders and investors, maintain a database of the economic and financial condition of the Company, prepare reports on the movement of the Company's securities prices, provide the accounting records of the Company insofar it is not a trade secret, to inform shareholders and investors of corporate events that present public information; upon request to disclose periodic and incidental public information to shareholders and investors. The Director is obliged to keep a register of the requests received and the information provided above, as well as describing the reasons in case of failure to provide the requested information.

- To send the materials for the convened General Meeting to all the shareholders who requested to get acquainted with them within the statutory term. This means that 30 days before the date of the General Meeting, the Investor Relations Director should already have all the materials for the meeting, the proposals for decisions, the decision of the competent body to convene the meeting in order to be able to send them to any shareholder who wishes. The director should keep a register of the materials sent.
- To keep and maintain a register of the meetings of the Board of Directors, which in chronological order shows the date, time of opening and closing time of the meeting, agenda and decisions taken, in a way that does not allow any subsequent amendments or additions to them.
- To keep and store accurate and complete minutes of the meetings of the Board of Directors.
- To be responsible for timely submission of all necessary reports and notifications to the FSC, the regulated market on which the Company's securities are admitted to trading, and the Central Depository.
- This group of responsibilities generally includes the following:
  - a) Within 90 days of the end of the financial year, the Company is obliged to submit an annual financial statement, corresponding in content and form to the provisions of the POSA;
  - b) Within 120 days of the end of the financial year, the Company is obliged to prepare and submit to the FSC, the regulated securities market and the public a consolidated annual financial statement containing the contents specified in the POSA and its implementing acts;
  - c) Within 30 days from the end of each quarter to submit quarterly financial statements and other information under Ordinance No. 2 of FSC, meeting the form and content of the requirements of the POSA and its implementing acts;
  - d) Within 60 days from the end of each quarter, the Company is obliged to submit to the FSC, the regulated securities market, where the shares of Sopharma AD and the public are presented for the quarterly consolidated financial statements with the contents specified in the POSA and the acts under its application.
- To keep a register of the materials sent, as well as the requests received and the information provided, describing the reasons for not providing the requested information.
- To inform the FSC and the regulated market about changes in the articles of association, changes in the management and control bodies, initiation of bankruptcy proceedings, transformation of the company, any changes in the commercial activity that affect or may directly or indirectly affect the price of the securities issued by the company securities, other circumstances that may affect the stock prices of the Company.

**The Investor Relations Director is obliged to:**

- To respect the laws of the Republic of Bulgaria and its institutions, to be an example of corporate culture and personal behavior.
- To assist the Company in compliance with its norms and specific obligations under the Public Offering of Securities Act and other Ordinances and laws governing the activities of the public company.
- To respect the rights and interests of investors and to guarantee them the provision of reliable, timely and qualitative information about the Company and all its attention should be directed to them, because their needs determine the direction and goals of its work.
- To promote good and fruitful relations between the Company, its shareholders and potential investors, financial journalists, capital market analysts, stakeholders
- To be fair to the Company and to observe the terms of its contract with it.
- To present annually a report on its activities and the initiatives taken by it during the year, the results thereof and make proposals for improving coordination and contacts with shareholders, investors, the media for the coming year.
- To enable financial analysts to receive public information about the Company's activities.
- To show professionalism and competence in its activity.
- To prevent acts of bureaucracy and corruption, as well as illegal acts that impair both his personal prestige and that of the Company.

## **XI. REPORTING ON THE RIGHTS AND INTERESTS OF SHAREHOLDERS AND INTERESTED PARTIES**

### **1. Provide more secure methods for property registration**

- The issue of the Company's securities is registered on the Official Market of BSE - Sofia AD. The Company's shares are registered dematerialized, freely transferable securities, which are offered to the public.
- According to the Contract with the Central Depository AD, a Book of Shareholders of Sopharma AD is kept, where the changes of ownership are reflected. All acquisitions and transfers of shares are certified through the entries made in the book of shareholders of the Company kept by the Central Depository AD. On the basis of the data entered in the shareholders' book, certificates of ownership of the shares may be issued. Certificates of depository receipts are not securities. The holding of a depository receipt by the shareholders facilitates the disposal and trading of shares of the Company.
- The transfer of shares of Sopharma AD to the Bulgarian Stock Exchange AD, where the Company's shares are admitted to trading, is carried out through a licensed investment intermediary, respectively a registration agent. The transfer of shares to Sopharma AD is free, according to the will of their owners and is carried out under the terms and conditions of the general requirements for trading in securities.
- In transactions with the Company's shares, the provisions regarding the rules for access to inside information are complied with of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and the Markets in Financial Instruments Act.

## 2. Providing protection of the rights and interests of stakeholders

The Company assumes that the stakeholders are all non-shareholders who have an interest in the economic prosperity of the Company - employees, customers, suppliers, distributors, creditor banks and the public at **large**.

### *In regard to employees*

The Board of Directors evaluates its responsibility to the employees of the Company by pursuing a targeted social policy towards them - additional social allowances, expressed in food vouchers, are paid monthly. The employees have the opportunity to relax under preferential conditions at the holiday facilities of the Company.

### *In regard of the public*

The Board of Directors also sufficiently demonstrates its responsibility to the community, working effectively with regard to personnel policy, promoting the employment of young people

### *In regard of suppliers*

Obligations to suppliers are fulfilled correctly and on time, with the Company's management resolving disputes arising through agreements, avoiding costly litigations.

### *In regard to lending banks*

Often in its activity the Company is forced to seek the services of creditors. The Company should and will continue to pursue a policy of fair dealing with creditor banks, fulfilling its obligations under the terms of the contract. The Board of Directors encourages cooperation between the Company and stakeholders to enhance the welfare of the parties and to ensure the stable development of the Company.

The interested parties are regularly provided with the necessary information about the Company's activity, up-to-date data on the financial position and everything that would help in proper orientation and decision making.

**This Updated Program for the application of the internationally acknowledged principles for good corporate governance was adopted at a meeting of the Board of Directors of Sopharma AD by decision from 29.08.2019.**



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**Ognian Donev, PhD**  
**Executive director of Sopharma AD**