

Non-financial Declaration

to the Annual Consolidated Financial Statements of Sopharma Group in compliance with the requirements of Articles 48-52 of the Accounting Law

2018



SOPHARMA GROUP

24 April 2019

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I. About the Declaration

The Non-Financial Reporting Declaration describes the commitments that Sopharma Group companies have made and implemented towards their stakeholders: shareholders and investors; state and local authorities; customers and partners; environment and society. The Group maintains an active dialogue with stakeholders to define important topics and communicating its activities. Group companies monitor and declare the economic, social and environmental footprint that results from their activity. The measures used are in line with the main activity of the companies and are used to reduce the negative and increase the positive impact on their stakeholders.

The report complies with the reporting requirements of Art. 48 of the Accounting Law, it contains description of the policies and enterprises regarding their activities in the fields of ecology, social affairs, employees, anti-corruption, human rights.

All companies in the Group follow the commitments and policies for good corporate citizenship of the mother company of Sopharma Group.

II. Scope of the Declaration

The information in the Declaration gives a broad insight into the different aspects of the activities of the companies in Sopharma Group as socially committed corporate citizens. It focuses on the activities of the Group for the period 1 January – 31 December 2018. The declaration contains quantitative data used as measures for impact in the main areas described below.

1. Vision, strategy and corporate governance

1.1. Vision and strategy

Sopharma Group's vision is to provide efficient and affordable treatment through an innovative approach to health care. The vertically integrated model of companies operating mainly in the healthcare field ensures and guarantees the implementation of global and European standards and practices by Sopharma Group in the different markets. Consolidation in the Group leads to better organization, centralization of major marketing and trading activities, cost optimization and better performance across markets.

The Sopharma Group's development strategy transforms the Group's companies into an attractive investment thanks to:

- Business strategy aimed at diversifying the portfolio, expanding to foreign markets, successful acquisition operations
- A financial strategy for sustainable development and strong performance in key markets
- Transparent and efficient management model

The results of the Group's work are always in favor of all stakeholders, making it a preferred partner in health and investment.

The Group is represented in over 40 countries with key markets in Bulgaria, Russia, Ukraine, Kazakhstan and Poland and a strategic plan focused on further market expansion in the region.

Mission

Sopharma Group is led by the belief that it has an active and decisive role in raising the standard of living to make people healthier, happier and more secure.

In order to ensure the realization of the vision and to pursue its mission, Sopharma Group is constantly investing in production - new technologies, research and development; in enhancing distribution efficiency; in maintaining an active and effective dialogue with all parties in the health care system; in socially significant programs related to the development of society, of the healthcare and environmental protection.

Corporate citizenship policies

The corporate citizenship of the Group operates and develops in accordance with the constitutions, laws and regulations of the countries in which the Group is active. In all its actions, it complies with the regulations of the state and local authorities and monitors the renewal and rigorous implementation of legislation concerning its activities. The Group recognizes the 10 basic principles of the United Nations General Directorate and works towards the achievement of the global sustainable development goals SDG 2015 through the active involvement of their companies in related projects.

1.2 Management systems

Corporate governance systems under which Sopharma Group is managed and operated

Each of the companies operates in accordance with the related internal rules and management systems and in accordance with the imposed legislative and regulatory requirements. Some more specific documents, related to management process, pharmaceutical production and distribution are:

| Corporate governance systems | Description | Adoption date | Last update |
|-----------------------------------|--|---------------|-------------|
| Good corporate governance program | Good corporate governance program. | 2009 | |
| Good Manufacturing Practice GMP | The good manufacturing practices is a system of rules and procedures which serves to guarantee the high quality of the medicinal products at every stage of their manufacture. Its major purpose is to protect the patient's health. | 2003 | 2018 |

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| Corporate governance systems | Description | Adoption date | Last update |
|---|--|----------------------|--------------------|
| Good distribution practices /GDP | The good distribution practices is a system of rules and procedures which serves to guarantee the high quality of the medicinal products at every stage of their manufacture. The quality and the integrity of medicinal products can be affected by a lack of adequate control. | 2003 | 2017 |
| ICH "Q8 Pharmaceutical Development" | Principles and examples of Pharmaceutical Development. | 2004 | 2017 |
| ICH "Q9 Quality Risk Management. ISO 17025 | Principles and examples of tools of quality risk management. General requirements for the competence of testing and calibration laboratories. | 2006 2014 | 2017 2018 |
| ISO 13485 | Quality management system for medicinal products manufacturing. | 2014 | 2017 |
| AXAPTA | ERP programme, business management of processes of planning, manufacturing, supplies, marketing, financial management and control, management of clients relations, business analyses, etc. | 2013 | 2018 |
| ISO 9001:2015 | Quality Management System | 2008 | 2018 |
| ISO 13485: 2003 | Quality management systems for medical devices | 2003 | 2018 |
| CE MAPKA | Conformity of Medical Device Directive 93/42 / EEC | 2003 | 2016 |
| Directive 93/42/EEC | Concentration Directive for hemodialysis | 2003 | 2016 |

| Corporate governance systems | Description | Adoption date | Last update |
|------------------------------|--|---------------|-------------|
| BDS INISI/ IEC 17025 | Standard for laboratory tests of foods of different origins; water and beverages; feed; control of technological surfaces and carcasses; diagnosis of diseases in all species of domestic and wild animals; bees and a beehive | 2006 | 2017 |
| ISO 14001:2015 | Environmental management systems | 2015 | 2018 |
| ISO 27001:2013 | Information security management systems | 2013 | 2017 |
| OHSAS 18001:2007 | Occupational health and safety management systems | 2007 | 2017 |

A detailed description of the corporate governance systems:

- **The Good Corporate Governance Program**

A system of rules protecting the rights of shareholders and other stakeholders to timely and accurately disclose information on all matters related to the company and to support its strategic management, control over the activity of the BD and its accountability to the company and the shareholders.

The program is in line with effective regulation, internationally recognized standards for good corporate governance and the Bulgarian National Code for Corporate Governance.

- **GMP**

Good manufacturing practice is a system of rules and procedures that guarantee the quality of medicinal products at every stage of their production. Its purpose is to protect the patient's health. GMP includes rules for both production and working conditions, qualification of production personnel, sales system and product withdrawal from the market.

- **GDP**

GDP includes tools for distribution businesses, including the prevention of falsified medicinal products entering the legal supply chain. Its implementation ensures control of the distribution chain and hence maintains the quality and integrity of medicinal products.

GDP applies to any activity that includes the supply, possession or export of medicinal products, excluding population sourcing.

And this system includes staff competence, working conditions and product storage control at any time from production to final delivery.

- **ICH “Q8 Pharmaceutical Development”**

The standard applies to the overall process of creating new products, from development to registration, and also includes risk assessment, quality assurance systems as part of product design. It covers all the components of the medicinal product, the substances, the excipients, the drug, the development of the formulation and the process of creation, the accumulated knowledge during the process, the physicochemical and biological properties, the development of the manufacturing process and all the information that may influence the final result.

- **ICH Q9 Quality Risk Management**

Quality principles and tools for risk management that can be applied to all aspects of pharmaceutical products - creation, production, distribution and verification of life-cycle processes of substances and medicinal, biological and biotechnological products, including raw and supplementary ingredients and materials used for packaging and labeling.

ICH Q9 together with ICH Q8 promote the development of science-based and risk-based approaches to quality. ICH Q9 Quality Risk Management refers to quality management, creation, buildings, equipment and capabilities, material management, production, laboratory testing and testing, packaging and labeling, checking all these activities.

- **ISO 17025**

This International harmonized standard contains the general competence requirements for testing and / or calibration laboratories, including sampling. The standard is intended to be used by laboratories that set up their quality management system for both administrative and technical activities. The results (protocols, certificates) issued by accredited laboratories are used by regulators, conformity assessment bodies, product certification, product manufacturers, and others. The presence of this certificate is part of the risk management and guarantees the reliability of the results of the laboratories and accordingly - the safety and the quality of the medicines.

- **ISO 9001:2015**

The implementation of the Quality Management System to the requirements of ISO 9001: 2015 ensures the company's ability to continuously provide services that meet the customer's and applicable legal and regulatory requirements. Effective implementation of the system leads to increased customer satisfaction.

- **ISO 14001:2015**

Through the implementation of the standard, Sopharma Trading AD undertakes a commitment to rational use of natural resources and to ensure constant control over the identified environmental aspects. Measures are implemented to manage the environmental aspects, those that can be controlled and those that are expected to have an impact on the part of the company.

- **OHSAS 18001:2013**

Through the implementation of the standard, Sopharma Trading demonstrates its commitment to the health of its employees by providing a safe working environment, managing and minimizing the risks to the health of the personnel as well as to the staff of the stakeholders who work at the company's premises.

- **ISO 27001:2013**

By applying the requirements of the standard, Sopharma Trading AD provides adequate and coherent security mechanisms, whose purpose is to protect the information assets of the company and to ensure the confidence of each interested party with special attention to the clients.

- **ISO 13485:2016**

The standard specifies the requirements for a quality management system when an organization needs to demonstrate its ability to provide medical devices and related services that consistently meet customer requirements and applicable regulatory requirements.

- **BIS INISI / IEC 17025**

Laboratory Block BSE, DZG is an accredited laboratory according to BIS INISI / IEC 17025 by the Bulgarian Accreditation Service (BSA) and has the right to carry out tests which are recognized by all national and European food control authorities. The scope of accreditation includes tests of foods of different origins; water and beverages; feed; control of technological surfaces and carcasses; Diagnosis of diseases in all species of domestic and wild animals; bees and a beehive
Since 2014, the Lab Unit has been housed in new laboratory premises including Biosafety Level 3 for disease diagnosis as required by the OIE.

- **AXAPTA**

Integrated information system for high-end management of business processes in the company's corporate activity. It improves efficiency, assists in making more precise solutions and improves interconnections with the supply chain. Supports sales management and planning, production in the direction of material planning and production capacity, supply chain management - stocks, warehouses and relationships, quality management.

The program facilitates accounting, financial management and control, budget control and business analysis capabilities.

- **World Health Organization Good Distribution practices (WHO Technical Report Series, No 937, 2006)**

By applying the requirements of the European Commission described in Directive 2001/83 / EC, the Management Manual of Good Practice of Distributing Practice of 5 November 2013 and the World Health Organization Sopharma Trading AD declares its expertise and constant control over quality assurance, ensuring that products consistently stored, transported and handled under appropriate conditions as required by the marketing authorization or product specification.

2. Impacts from the company's business

Economic impact

| Economic and financial data /expenses thousand BGN/ | 2018 | 2017 | % change | Stakeholders |
|---|-----------|---------|----------|----------------------------|
| Dividends paid | 22 613 | 15 478 | 46 | Shareholders |
| Taxes paid (profit tax excluded) | 72 796 | 71 268 | 2 | State and local government |
| Taxes paid (profit tax excluded) | 64 569 | 65 040 | -0.22 | |
| (Paid) / refunded taxes on profit, net | 8 227 | 6 228 | 32 | |
| Payments to suppliers | 1 142 091 | 950 645 | 20 | Suppliers |
| Payments for wages and social insurance. | 110 689 | 94 348 | 17 | Employees |

The economic footprint is most clearly tracked through dividend decisions that show the relationship with shareholders as stakeholders; paid taxes, incl. paid corporate tax, which is a contribution to the local and local government; payments to suppliers showing relationships with companies in the supply chain; the cost of labor that shows employee relations as an interested party.

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Social Impact

| Economic and financial data /expenses thousand BGN/ | 2018 | 2017 | % change | Stakeholders |
|---|-------|-------|----------|------------------------------|
| Trainings | 686 | 700 | -2 | Employees |
| Social costs | 3 905 | 4 734 | -18 | Employees |
| Medical services | 856 | 807 | 6 | Employees |
| Donations | 598 | 743 | -19 | Local communities Society |
| Social activities | 910 | 874 | 4 | Local communities Society |

Ecological footprint

| Data | 2018 | 2017 | % |
|---|--|--------|---|
| Cost of raw materials (electricity, heat, fuels, water, without the main raw materials) /expenses thousand BGN/ | 27 715 | 26 344 | 5 |
| Emissions of exhaust gases into the ambient air | 0* | 0 | 0 |
| Emissions in waste water | Waste water is treated in WWTP ** | | |
| Training and participation of the employees on the ways of preserving the environment | Instruction of employees upon entry Instructions for recovery and separate collection of waste Instructions on how to deal with waste substances in the units. | | |

* Sopharma plants are GMP certified. The standart also controls the level of environmental pollution. Emissions of waste gases are less than 50 tons per year, which, according to standards, approximates 0. At the same time, the use of an aqueous film is a prerequisite for not releasing gases into the atmosphere.

** Organic fillers for tablets have not been used in manufacturing for years, ensuring zero wastewater pollution.

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Employees

Sopharma Group companies provide equal opportunities for work by gender, age and education.

Data for employees in Sopharma AD and Sopharma Trading

| Employees / sex | 2018 | % of total | 2017 | % of total |
|-----------------|--------------|------------|-------------|------------|
| Women | 1 848 | 59 | 1819 | 59 |
| Men | 1 265 | 41 | 1259 | 41 |
| Total | 3 113 | 100 | 3078 | 100 |

| Employees / Age | 2018 | share % | 2017 |
|--------------------|------|---------|------|
| Employees up to 30 | 430 | 14 | 421 |
| 31- 40 | 769 | 25 | 792 |
| 41 – 50 | 921 | 30 | 910 |
| 51 – 60 | 801 | 26 | 783 |
| 60 +. | 192 | 6 | 172 |

| Employees / Education levels | 2018 | share % | 2017 |
|------------------------------|------|---------|------|
| Higher Education | 1426 | 46 | 1330 |
| Secondary Education | 1648 | 53 | 1600 |
| Primary Education | 39 | 1 | 48 |

Employee data are provided by HR Department of Sopharma AD and are as of 31.12.2018.

A recalculation of the data for 2017 was made, with data on Unipharm AD being added for comparability, and data from the non-financial report of Sopharma Trading for 2018 were added.

The average number of employees for 2018 in Sopharma Group is 5 073 workers and employees (4 895 in 2017). The average number of employees for 2018 in Sopharma is 2 085 workers and employees (2 182 in 2017) and for Sopharma Trading – 820 (747 in 2017).

3. Structure of the Group

Sopharma Group (the Group) is a leading Bulgarian producer, exporter and local distributor of pharmaceutical products with a strong presence in Eastern and South-eastern Europe. Sopharma Group consists of Sopharma AD and 52 subsidiaries, directly or indirectly controlled by the Company. In addition, the Group has investments in 1 joint venture, and 1 associated company.

Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Law, with its registered office in Sofia, 16 Iliensko shose str. and was established in 1933. Today, Sopharma is a public company and is among the most successful Bulgarian companies after privatization, and for ten consecutive years is among the top 10 in revenues in the pharmaceutical sector in Bulgaria.

| Company | Interest as at 31.12.2018 in % |
|---|--------------------------------|
| Sopharma Trading AD, Sofia, Bulgaria* | 72.91 |
| Biopharm Engineering AD, Sliven, Bulgaria | 97.15 |
| Pharmalogistica AD, Sofia, Bulgaria | 89.39 |
| Elektroncommerce EOOD, Sofia, Bulgaria | 100.00 |
| Sopharma Buildings REIT, Sofia, Bulgaria | 40.38 |
| Momina Krepost AD, Veliko Tarnovo, Bulgaria | 93.56 |
| Phyto Palauzovo AD, Kazanluk, Bulgaria | 95.00 |
| Sopharmacy EOOD, Sofia, Bulgaria** | 72.91 |
| Sopharmacy 2 EOOD, Sofia, Bulgaria** | 72.91 |
| Sopharmacy 3 EOOD, Sofia, Bulgaria** | 72.91 |
| Sopharmacy 4 EOOD, Sofia, Bulgaria** | 72.91 |
| Sopharmacy 5 EOOD, Sofia, Bulgaria** | 72.91 |
| Sopharmacy 6, EOOD, Sofia, Bulgaria** | 72.91 |
| Sopharmacy 7, EOOD, Sofia, Bulgaria** | 72.91 |
| Sopharmacy 8, EOOD, Sofia, Bulgaria** | 72.91 |
| Sopharmacy 9, EOOD, Sofia, Bulgaria** | 72.91 |
| Sopharmacy 10, EOOD, Sofia, Bulgaria** | 72.91 |
| Veta Pharma AD, Veliko Tarnovo, Bulgaria | 99.98 |
| Aromania OOD, Sofia, Bulgaria | 76.00 |
| Sopharmacy 11 (Pharmastore 1) EOOD, Sofia, Bulgaria** | 72.91 |
| Sopharmacy 12 (Pharmastore 2) EOOD, Sofia, Bulgaria** | 72.91 |
| Sopharmacy 13 (Pharmastore 3) EOOD, Sofia, Bulgaria** | 72.91 |
| Sopharmacy 14 (Pharmastore 4) EOOD, Sofia, Bulgaria** | 72.91 |
| Sopharmacy 15 (Pharmastore 5) EOOD, Sofia, Bulgaria** | 72.91 |
| Sopharmacy 16, EOOD, Sofia, Bulgaria** | 72.91 |

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| Company | Interest as at 31.12.2018 in % |
|--|---|
| Sopharmacy 17, EOOD, Sofia, Bulgaria** | 72.91 |
| PAO Vitamini, Uman, Ukraine | 99.56 |
| Sopharma Poland LLC, Warsaw, Poland in Liquidation | 60.00 |
| Sopharma Warsaw Sp. z. o. o, Warsaw, Poland | 100.00 |
| Sopharma Trading d.o.o. Belgrade, Serbia** | 72.91 |
| BRIZ SIA, Riga, Latvia | 66.13 |
| Brititrade SOOO, Minsk, Belarus** | 52.90 |
| Tabina SOOO, Minsk, Belarus ** | 53.71 |
| Brizpharm SOOO, Minsk, Belarus** | 35.85 |
| OOO Sopharma Ukraine, Kiev, Ukraine | 100.00 |
| OOO Pharmacist Plus, Minsk, Belarus** | 40.72 |
| ZAO TBS Pharma, Vilnius, Lithuania** | 33.73 |
| OOO Bellerofon, Minsk, Belarus*** | 50.00 |
| TOO Sopharma Kazakhstan, Almaty, Kazakhstan | 100.00 |
| ZAO Interpharm, Vitebsk, Belarus** | 59.52 |
| OOO Galenapharm, Pinsk, Belarus** | 61.24 |
| ODO Medjel, Minsk, Belarus** | 55.55 |
| ODO Alenpharm-Plus, Belarus** | 52.24 |
| OOO Pharmateia, Minsk, Belarus** | 43.91 |
| ODO Salius Line, Grodno, Belarus** | 52.24 |
| Rap Pharma International OOD, Kishinev, Moldova | 51.00 |
| Lekovit D.o.o., Sabac, Serbia** | 51.04 |
| OOO Zdorovei, Minsk, Belarus** | 38.94 |
| OOO Ivem i K, Minsk, Belarus** | 46.18 |
| OOO Ariens, Plotzk, Belarus** | 39.83 |
| OOO Zabolivaya apteka, Minsk, Belarus** | 39.29 |
| OOO Med-dent, Bobruisk, Belarus** | 46.29 |
| B000 SpetzApharmacia, Bobruisk, Belarus** | 46.29 |

* effective interest in percent

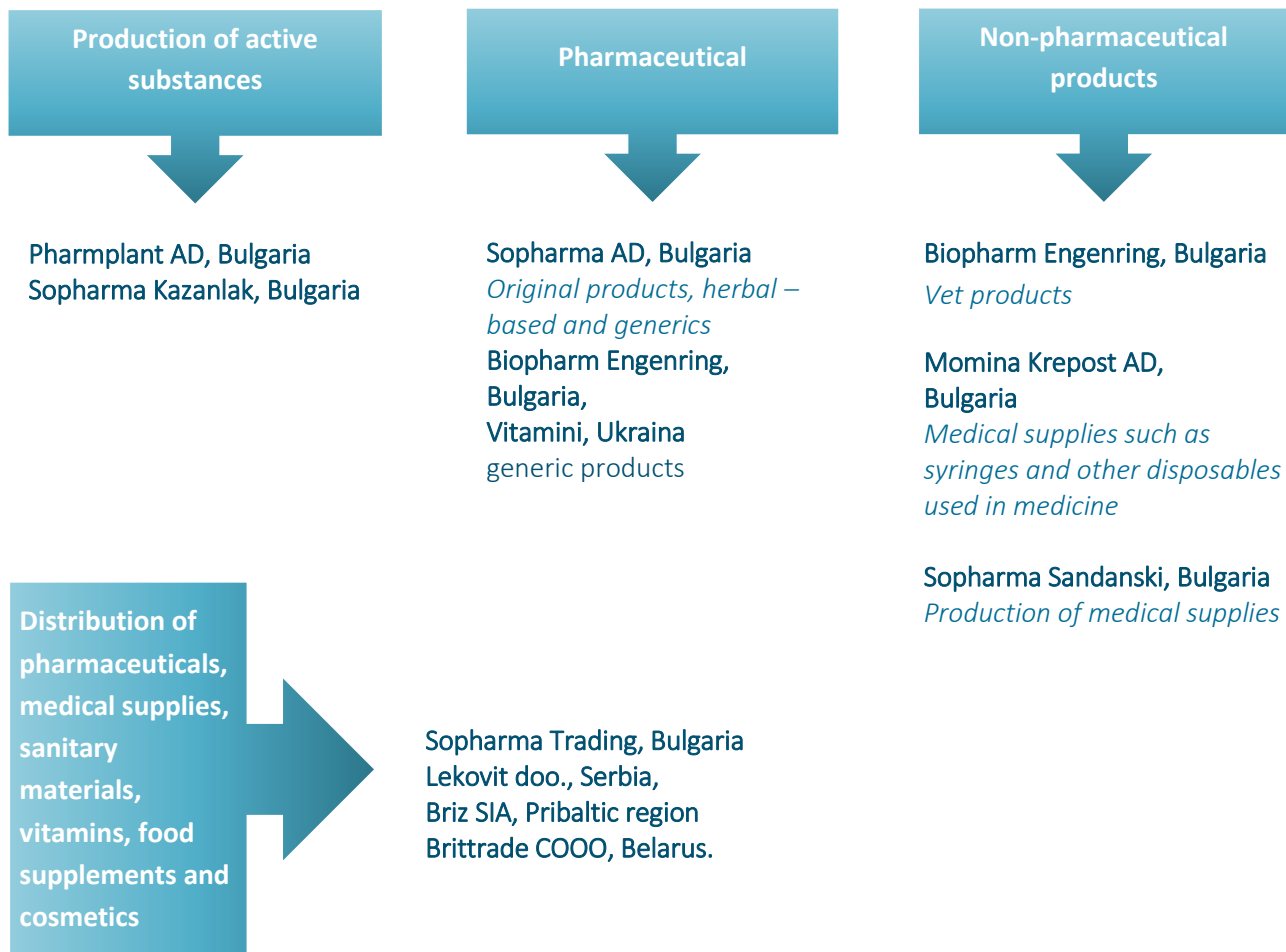
**indirect interest

***joint venture

4. Products and services

The Group operates in the following areas:

- ✚ production of pharmaceutical products including medicines, primarily generics, herbal-based substances and food supplements;
- ✚ production of medicinal products and medicinal cosmetics, as plasters, bandages and sanitary-hygiene products focused on the production site in Sandanski city;
- ✚ production and distribution of non-pharmaceutical products, primarily medical supplies such as syringes and other disposables used in medicine, which is mainly performed by Momina Krepost AD, and other complementary activities to the production of pharmaceutical products and distribution of pharmaceutical products.
- ✚ distribution of pharmaceuticals, medical supplies, sanitary materials, vitamins, food supplements and cosmetics.



Industrial activity

The company and its twelve manufacturing facilities are compliant with EU regulations and are located in Bulgaria and one facility in Ukraine certified and acknowledged by the local authorities and all countries from the CIS.

Sopharma has a portfolio of more than 210 products: mainly generics and 15 original products, of which 12 products are phyto-based. The company is the largest Bulgarian ampoule and suppository manufacturer and the only producer of lyophilised pharmaceutical forms in Bulgaria.

Biopharm Engineering AD successfully developing in the areas infusion solutions manufacturing; production of injection solutions; manufacture of veterinary medical preparations. The infusion solutions are realized through Sopharma AD on the Bulgarian and international markets. Veterinary medical products are available in Bulgaria and other European countries.

PAO Vitamini AD PAO Vitamini manufactures and sells medicines, tablets, powders, oil solutions, syrups and tinctures.

Distribution

Sopharma Trading AD is the only distributor on the Bulgarian market of particular pharmaceutical products for several leading international pharmaceutical and other companies the field of healthcare such as Amgen, Astra Zeneca, GE Healthcare, Johnson and Johnson, Abbot Diagnostics, Hartmann, Novartis and Novo Nordisk. The Group offers more than 10 000 products (particularly pharmaceutical products, medical equipment and devices, accessories, cosmetics, vitamins and food supplements) in its portfolio, including the brands of Sopharma, and holds exclusive rights for Bulgaria over brands of strategic partners such as Aboca, Colief, Jamieson, Planter's, Premax, Skincode, SVR Laboratories, US Pharmacia and Wyeth, specialized services (such as software solutions for pharmacies and advice and consulting services) and national logistics services. Sopharma Trading cooperates with more than 400 partners and over 3 000 clients.

SIA BRIZ, Latvia

Briz develops its activity in the following main directions: Distribution of medicines and food supplements in the wholesale and retail segment; distribution of cosmetics and perfumery products in the wholesale and retail segment; drug registration in Latvia, Lithuania, Estonia, Belarus, Bulgaria; presentation of medicines manufactured in third countries to the European Union; marketing support for the products in these markets; production

III. The Corporate Social Responsibility Strategy

1. Definition

Vertical integration of Sopharma Group as a strategy for business development and sustainability is a result of responsible corporate behavior of companies to stakeholders and especially to investors, partners and end users. Taking into account the vision for the Group's development, the strategic goals, the resources needed to achieve them, Sopharma Group monitors the economic, social and environmental footprint of its activities. This allows for action to reduce negative impacts and to increase sustainability. Economic and financial indicators are proof of the success of the business model, complemented by adequate CSR policies, confirming the Group's reputation. The companies in the Group are working to achieve the UN SDG 2015.

CSR is part of the Group's business strategy. CSR policies and initiatives are set up in accordance with important stakeholder topics, approved by the Key Management Bodies (described below in the Declaration) and reported to shareholders mainly through the Annual Reports and General Meetings.

Sopharma Group actively communicates with all stakeholders through the appropriate channels.

Policies and specific projects are targeted in four main areas:

-  **Market**

-  **Interested parties**

-  **Environment**

-  **Society**

2. CSR management

Corporate Responsibility is embedded in the Group's mission, vision, and strategy for development and corporate governance documents for the Group.

Organizational CSR is the subject of the Corporate Responsibility, Investor Relations, Marketing, Human Resources, Ecology.

3. Membership

For the adequate creation and implementation of sustainable development policies, Sopharma Group works with partner organizations such as CEIBG, BMGD, BCAUSE Foundation, Bulgarian Public Relations Association, European Association of Communication Directors, Association of Investor Relations Directors and others.

The companies in Sopharma Group are members of various organizations and associations:

- **Confederation of Employers and Industrialists in Bulgaria (CEIB).** <http://ceibg.bg/>
- **The German-Bulgarian Chamber of Commerce and Industry (GBITC),** which connects the German and Bulgarian economies with more than 450 German, Bulgarian and international companies. <http://bulgarien.ahk.de/bg/>
- **AmCham.** The American Chamber of Commerce in Bulgaria brings together over 300 US, Bulgarian and international companies operating in the country from all sectors of the economy. All members of AmCham share a common vision of corporate social responsibility, with good corporate reputation being one of the most important membership criteria. www.amcham.bg
- **The Bulgarian Generic Pharmaceutical Association (BGFARMA)** whose priorities are to harmonize the interests with regard to the common national and international mechanisms regulating the production and use of medicines, to improve the application of the principles of Good Manufacturing Practice and to observe the principles of fair competition. <http://www.bgpharma.bg>
- **The European Organization of Manufacturers of OTC Prescription Drugs - The Association of the European Self-medication Industry (AESGP).** <http://www.aesgp.be>
- **The Bulgarian National Committee of the International Chamber of Commerce, accepted as a full member of the International Chamber of Commerce (ICC).** ICC is the most prestigious organization in the field of international trade and international economic relations that promotes cross-border trade and investment. <http://www.icc-bulgaria.bg> www.iccwbo.org
- **The National Commission on Corporate Governance,** established for the purpose of promoting the implementation of good corporate governance practices and the development of the Bulgarian National Code of Corporate Governance (the Code). The Commission is a permanent independent body set up under the auspices of the Bulgarian Stock Exchange (BSE) and the Financial Supervision Commission (FSC), with the support of the World Bank and the International Financial Corporation (IFC) www.nkku.bg
- **The Association of Bulgarian Exporters (AVE),** whose purpose is to establish a National Export Development Strategy
- **The Bulgarian UN Global Compact Network** <http://www.unglobalcompact.bg>
As an active member of **BMGD**, Sopharma is working towards the achievement of the UN sustainable development goals adopted in 2015.

- **GIRB (Sopharma Trading AD and Lekovit)** - The Association of Wholesalers of Pharmaceuticals in Europe brings together over 750 wholesalers in more than 35 European countries. - www.girp.eu
- **Bulgarian Association of Drug Wholesalers (Sopharma Trading AD)** - The mission of the Association is to ensure fair and transparent drug delivery and provision of services in the pharmaceutical sector in Bulgaria. It protects the branch interests and rights of its members before state authorities, institutions and producers - www.batel.bg
- **Genezis (Sopharma Trading Serbia)** - The Genezis Association brings together generic manufacturers of generic medicines and holders of a marketing authorization in the Republic of Serbia - www.genezis.rs
- **The Serbian Association of Drug Wholesalers (Lekovit)** - The mission of the association is to ensure fair and transparent drug delivery and service provision in the pharmaceutical sector. It protects the branch interests and rights of its members before state authorities, institutions and producers.
- **Member of the National Alliance for Local Economic Development NALED (Lekovit)** Independent, non-financial and non-party organization of companies, municipalities and civil organizations working together to create better working and living conditions in Serbia.
- **MediReg Pharmaceutical Consulting** - supports the efficient launch of new products in the Polish market and ensures regulatory compatibility and pharmacovigilance.
- **The "FARMACJA POLSKA" Chamber of Commerce**

4. Commitment to interested parties

For Sopharma Group an interested party is any group that is directly or indirectly related to the Group's activities, has the potential to influence it and may influence the decision making on the Company's business development.

Stakeholder relationships are a true indicator of the success rate of the Group, its place in the economic and social life of the country, and the correct direction of development.



The Group maintains a continuous open dialogue with all stakeholders through various communication channels depending on the target group: the official website of the group www.sopharmagroup.com, the corporate media of the individual companies, official announcements to the BSE, meetings with investors, social networks.

- Patients and end users: daily through product sites, official sites of group companies; group site www.sopharmagroup.com; company profiles and their social networking brands;
- Shareholders: General Meetings of Shareholders; notifications; meetings; official corporate sites; the Group's site; annual reports;
- Government and local authorities: participation in annual meetings "Business meets government", roundtables, forums dedicated to the pharmaceutical sector; official sites of the state and local authorities, control bodies; official corporate media.
- Partners in the chain: software solutions for pharmacies and consultancy services; free edition for Sopharma Trading customers - "Pharma Premium", intended for owners and pharmacists of pharmacies; sites of the companies in the group.
- Employees: intranet page; social networking company profiles; corporate sites; site of the Group.

IV. Areas of non-financial reporting

1. Market

Sopharma Group (the Group) is a leading Bulgarian producer, exporter and local distributor of pharmaceutical products with a strong presence in Eastern and South-eastern Europe, offering a wide range of prescription medicines and OTC products.

Revenue from sales of the Group increase by BGN 162 million or 16%, reaching BGN 1 179 million in 2018 compared to BGN 1 1017 million in 2017. Sales of goods increased by BGN 160.7 million or 21%, reaching BGN 928.3 million in 2018 compared to BGN 767.6 million in 2017. Sales of finished products increase by 1.3 million BGN, or 0.5%, to BGN 250.8 million in 2018 compared to BGN 249.5 million in 2017.

The contribution of sales in Bulgaria to the consolidated sales revenue in 2018 amounted to 71%, increasing by 11% compared to 2017. Sopharma has a 3.4% share of the Bulgarian pharmaceutical market in terms of value and a 11.3% share in terms of sold quantity (units). The positions of the main competitors of the Company in the country are as follows: Novartis – 7% (4% in units), Roche – 6% (0.3% in units), Actavis – 5% (10.5% in units), GlaxoSmithKline – 3.6% (2.7% in units), Pfizer – 3.6% (1% in units), Sanofi-Aventis – 2.8% (2% in units), Abbvie – 3% (0% in units), Astra Zeneca – 3% (1% in units), Merck – 2.7% (1% in units).

Top 10 Corporations in OTC market

| # | Corporations | Sales in 2018 [m BGN] | PPG [%] | MS [%] |
|---------------|--------------|--------------------------|-------------|--------------|
| 1 | Actavis | 45.2 | 5.3% | 5.3% |
| 2 | Sopharma | 39.1 | 5.5% | 4.5% |
| 3 | GSK | 33.5 | 10.0% | 3.9% |
| 4 | Novartis | 32.7 | 16.3% | 3.8% |
| 5 | Sanofi | 31.4 | 16.3% | 3.7% |
| 6 | Boots | 30.6 | 15.4% | 3.6% |
| 7 | Vedra | 25.1 | 17.4% | 2.9% |
| 8 | Walmark | 24.5 | 2.7% | 2.8% |
| 9 | Naturprodukt | 22.9 | 2.7% | 2.7% |
| 10 | Bayer | 22.2 | -10.5% | 2.6% |
| Top 10 | | 307.2 | 8.0% | 35.7% |
| <i>Others</i> | | 552.5 | 6.7% | 64.3% |
| Total | | 859.7 | 7.1% | 100% |

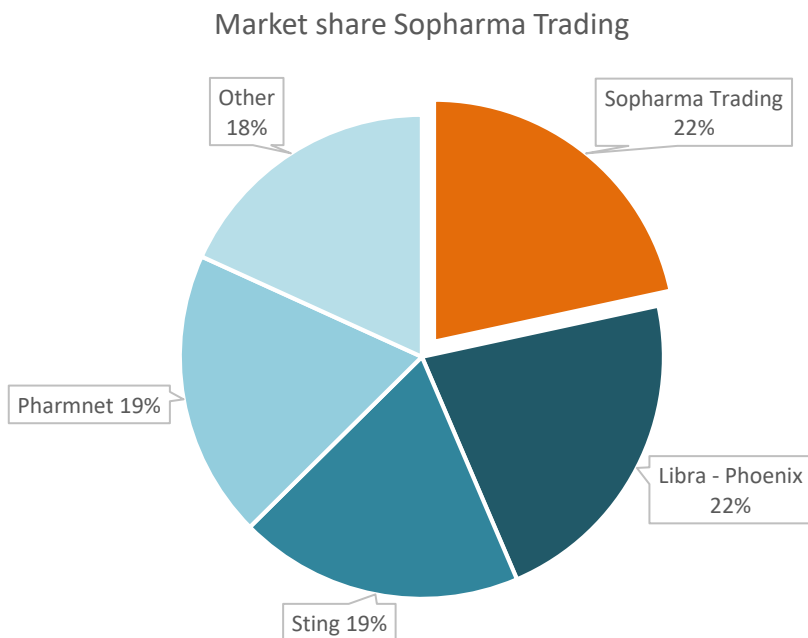
Source: IQVIA PharmaTrend
2015 - 2018 - 2020, Pharmacy & healthcare 4.0 forum 28.03



Consumer Health (OTC + FS)

The table presents the market share of Consumer Health products, which are OTC products and nutritional supplements.

Sopharma Trading AD is a leading distributor of pharmaceutical products and cosmetics in Bulgaria with a market share of 21.61% for pharmaceuticals (according to IQUVIA data) for the period January - December 2018, compared to 21.22% for the same period in 2017. Within the two market segments - pharmacy and hospital, the shares of Sopharma Trading in value are respectively 19,30% (18,96% in 2017) and 31,1% (30,97% in 2017).



The market share in natural terms of the products of Sopharma as well as the share of the products over the counter and market share of Sopharma Trading are indicators for the positioning of the Company in the consciousness of the users. The reputation of the Company as a function of the sustainable business model, the quality and the accessibility of the medicines as well as the adequate CSR (Corporate Social Responsibility) Strategy exert also impact over the selection of the end user at the purchase of medicines.

2. Employees

Sopharma Group companies treat their employees as their most valuable asset and work towards employer branding. As a responsible employer, the Group follows labor relation principles that are a way to achieve a partnership with employees and sustainable development:

- Equal rights and lack of any discrimination in the workplace;
- Ensuring healthy and safe working conditions;
- Providing opportunities for development based on gender and age equality;
- Ensure the right of association and employee protection.

The Group encourages employees to be continuously trained by giving them a variety of opportunities: trainings, conferences and seminars to increase employee competence, e-trainings that can be accessed at any one time by their office equipment; learning foreign languages during working hours, coaching, etc. All compulsory trainings and refresher courses are conducted according to the legislation for a certain type of qualification for the qualitative and safe fulfillment of the official duties.

Employees are entitled to the additional remuneration required by applicable law on overtime, night shifts and work on Saturdays, Sundays and holidays. Employees who work under specific, harmful or dangerous conditions receive personal protective equipment and allowances.

Sopharma Group's companies implement different employee-targeted policies, depending on the topics that are relevant to the employees of the particular company, which differ due to the specifics of the country in which they operate and the business activities of the companies.

3. Ecology

Sopharma Group maintains and observes its commitments in compliance with the national legislation in the field of environmental protection. The company applies measures to:

- waste Management: separate collection of waste, minimization, recovery and recycling of production and household waste;
- providing appropriate personnel training on environmental and pollution prevention issues;
- responsibly fulfills the imperative requirements of the Council of Ministers Decree 137 and the Packaging and Waste Ordinance;
- annual emissions of waste gases into the ambient air from the Phytochemical Plant and the Solid Form Factory are measured;
- monthly Sofiyska Voda measures the emissions in waste water on production sites A and B.
- transfer of production waste to licensed recyclers;
- fulfillment of the conditions of the Discharge Permit;
- maintaining contractual relations with companies for separate collection and recovery of waste.
- used energy sources - the companies in the group use mainly non-renewable sources of energy in strict compliance with the implemented procedures for control and rational utilization of natural resources.

Sopharma Trading AD maintains a certified Environmental Management System according to the requirements of ISO 14001: 2015.

In parallel with the statutory and certified environmental protection measures, employees from different Group companies are involved in environmental projects, such as planting trees on Earth Day; World Environment Day projects 5 June.

The offices of companies are located in "smart" buildings, such as Sopharma Warsaw, which is housed in a business center with The Leadership in Energy & Environmental Design, with energy saving systems, rainwater use, roofing of bees and Sopharma's office at Sopharma Business Towers, Sofia, whose lifts produce electricity, and the façade is designed to allow a maximum amount of daylight. Employees in the Towers also enjoy the green roof, the "smart" heating / cooling control and the light in the buildings.

4. Society

Companies in Sopharma Group are committed to society through policies and activities that are redefined on issues that are relevant to the stakeholders of the particular companies, in active dialogue with them. To maximize impact, different projects are implemented jointly with partner organizations and other companies.

The Group monitors the following risks that are identified as significant and potentially affecting its activities:

- Associated with the Group's business and the industry in which the Group operates;
- Risks associated with the markets in which the Group operates;
- Risks related to foreign exchange rates and the currency board in force in Bulgaria;
- Currency risk.

They are presented in detail in a report of Sopharma Group for 2017, part of the Consolidated Group Report.

Core areas of corporate responsibility
Strategic Management

| Market | Employees | Environment | Society | Corporate Citizenship |
|--|---|---|--|--|
| Transparent corporate governance | Responsible employer: Zero discrimination regarding the right to work, sex | Environmental management systems | Contribution to economic development | Anticorruption |
| Guaranteed quality and safety of products and services | Guaranteeing the right of association | Reducing the environmental footprint | Development of the healthcare system | Work on SDG 2015 |
| Resistance | Employee development: hierarchically and as a qualification and education | Responsible use of resources | Health Prevention | Participation in the development and implementation of international standards related to pharmacy |
| Ethical competition | A decent pay for labor | Reducing direct impact | Providing affordable and quality treatment | Working with partner organizations |
| Responsible Marketing | Ensuring health and safety at work | Reducing indirect impacts | Investments in education | Joint projects of organizations where members of the Group are members |
| Responsible supply | Social benefits for employees | Participation in environmental projects | Investments in public communications | Development of the generics industry in the country |
| Development of the field of pharmacy | Internal communication | Training of employees for separate collection of waste and environmental issues | | |

Statement of support

Dear partners,

We bring to your attention a report on the policies of Sopharma Group.

2018 was a symbolic year for Sopharma. On our 85th anniversary, we looked back to enjoy our successes, to thank the people with whom we've achieved them and to celebrate with everyone we want to share our future with.

In 2018 Sopharma has been among the pioneers with two major initiatives - we have distributed shares to all our employees according to their length of service and contribution to the company's successes and distributed the first interim dividend. We have received support from our shareholders for both initiatives, which has always been an important indication for us confirming that we are doing the right thing. And we are still growing.

Today Sopharma Group is the epitome of a successful and modern business with responsible corporate behavior. The companies in the Group actively work to optimize the economic, social and environmental impact of their activities and footprint. Taking into account the relevant topics for our stakeholders, the Group follows its commitment to achieving sustainable development and prosperity.

In its work, the company supports and implements the principles of the UN Global Compact and works on the UN Sustainable Development Goals adopted in 2015.

In the Declaration we present the main initiatives for the integration of sustainable development principles into our day-to-day activities and their economic, social and environmental impact.

Sopharma Group companies provide information to stakeholders on meeting their commitments through all communication channels.



*Ognian Donev, PhD
Executive Director*