

Non-financial Declaration

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

2019



SOPHARMA GROUP

30 April 2020

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Statement of support

Dear partners,

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

2019 was a symbolic year for Sopharma. The management of “Sopharma” AD is determined to re-examine the Company's strategy in the context of sustainable development and recognizing the increasingly important social role and responsibility of the company. As a zero-carbon company, we turn our eyes to the broader footprint and we strive for corporate social responsibility to be increasingly integrated in all processes and organizational aspects of the life of Sopharma Group.

With the construction of the new plant for solid dosage forms in Sofia, we ceased the use of organic substances in film-coated tablets, thus eliminating the need for energy-intensive and expensive water treatment and waste-water pollution. Sopharma Group is also a responsible farmer - in 2018, nearly 700,000 yellow acacia saplings were planted, the seeds of which are a raw material in the production of one of our main products Tabex for smoking cessation. We are about to plant another 300,000 trees in the spring of 2020, and in the process we have revived a number of small communities.

Our economic footprint has grown in key indicators such as dividends paid, taxes paid and corporate tax, staff payments, etc. We believe that all the steps we have taken will guarantee us another successful year.

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.

Date: 30.04.2020

*Ognian Donev, PhD
Executive Direct or
and Chairman of the
Board of Directors of
„Sopharma“ AD*

I. About the Declaration

The Non-Financial Declaration describes the commitments that the 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 all of them in defining important topics and communicating their activities. **Group companies monitor and declare the economic, social and environmental footprint that results from their economic 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 declaration complies with the reporting requirements of Art. 48 of the Accounting Law and contains a 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 Declaration provides a broad overview of a number of aspects 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 2019 and contains quantitative data used as impact indicators 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	2019
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	2019
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.	Principles and examples of tools of quality risk management.	2006	2017

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Corporate governance systems	Description	Adoption date	Last update
ISO 17025	General requirements for the competence of testing and calibration laboratories.	2014	2018
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
Rules for insiders	Instructions and clarification on the obligations and responsibilities in relation to the Financial Instruments Abuse Market Act.	2007	2019
ISO 9001:2015	Quality Management System	2008	2018
ISO 13485: 2003	Quality management systems for medical devices	2003	2018
CE Brand	Conformity of Medical Device Directive 93/42 / EEC	2003	2016
Directive 93/42/EEC	Concentration Directive for hemodialysis	2003	2016
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
WHO Good dissemination practices	WHO Technical Reports Series, № 937, 2006.	2006	

Detailed description of the corporate governance systems:

- **The program for good corporate governance**

A system of rules protecting the rights of shareholders and other stakeholders concerning the timely and accurately disclose information on all material issues related to the Company and to support its strategic management, the control over the activity of the Board of Directors and its accountability to the company and the shareholders.

This program conforms to the requirements of the regulation in the sector, to the internationally recognized standards for good corporate governance practices and to the Bulgarian national corporate governance code.

- **GMP/good manufacturing practices/**

Good manufacturing practice is a system of rules and procedures which guarantee the high quality of medicinal products at every stage of their manufacturing. Its major purpose is to protect the patient's health.

The GMP deal with both the production process and the working conditions, the qualifications of the production personnel, the sales system in use and the method of product withdrawal from the respective market. The primary purpose of these rules is to protect the health of the patient.

- **GDP /good distribution practices/**

GDP include an array of tools used in the activities of wholesale distribution, including preventing counterfeit medicinal products from entering the supply chain. Their implementation ensures control an efficient contor of the distribution chain and the maintenance of the high quality and integrity of the manufactured medicinal products.

The GDP is applicable to any and all activities including the supply, storage, delivery or export of medicinal products /excluding the sale to the end users/.

This system also includes competency of the employees, working conditions and product retention, control at any point in time to the final delivery.

- **ICH “Q8 Pharmaceutical Development”**

This standard applies to the overall process of creating new products, from the development stage to their official registration and also includes risk assessment, quality assurance systems as part of the product’s design. Affects all components of the medicinal product in its entirety: the substances used, the excipients, the drug itself, the development of its formula and the process of its creation; the knowledge accumulated during the entire process and the physicochemical and biological properties of the drug; the development of the manufacturing process and the entire volume of gathered information which may be able to exert an impact on the the anticipated final result.

- **ICH Q9 Quality Risk Management**

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, serves to promote the development of science-based and risk-based approaches to quality. ICH Q9 Quality Risk Management refers to quality control, creation-related activities, construction facilities, equipment and power capacities, material control and management, the manufacturing processes, laboratory control and testing, packaging, labeling and various other activities.

- **ISO 17025**

This International harmonized standard contains the general competence requirements related to the competence of the testing and / or calibration laboratories, including sampling. The standard is intended to be used by laboratories that set up their quality control systems for both the administrative and technical activities. The results (protocols, certificates) issued by the accredited laboratories are used by regulators, the conformity assessment bodies for product certification as well as by the product manufacturers and others.

The possession of this certificate is a part of the risk control process and guarantees the reliability of the results obtained from the laboratory tests and assessments and - accordingly - the safety and the quality of the manufactured medicinal products.

- **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.

- **CE MAPKA**

Conformity of Medical Device Directive 93/42 / EEC

- **AXAPTA**

Integrated high-end ERP system for business processes in the company's corporate activity.

It improves efficiency, helps to make more precise decisions, and improves interconnections with the supply chain

It supports sales management and planning, production to material planning and production capacity, supply chain management resource - stocks, warehouses and links between them, quality management.

The program enhances the project management process: accounting and invoicing, expenditure control, splitting to sub-projects, financial and human resource management.

- **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/	2019	2018	% change	Stakeholders
Decision to pay dividends from the General Meeting in the amount of BGN per share	0.05 for the first half	0.11	-	Shareholders
Taxes paid (profit tax excluded)	78 127	72 796	7.32	State and local government
Taxes paid (profit tax excluded) (Paid) / refunded taxes on profit	69 411 8 673	64 569 8 227	7.5 5.4	
Payments to suppliers	1 143 957	1 142 091	0.16	Suppliers
Payments for wages and social insurance	120 315	110 689	-	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.

Social impact

Economic and financial data /expenses thousand BGN/	2019	2018	% change	Stakeholders
Trainings	770	686	12.4	Employees
Social costs	4 545	3 905	16.38	Employees
Medical services	828	856	-3.27	Employees
Donations	741	598	23.91	Local communities Society
Social activities	918	910	-	Local communities Society

Ecological footprint

Data	2019	2018	%
Cost of raw materials (electricity, heat, fuels, water, without the main raw materials) /expenses thousand BGN/	29 436	27 715	6.20
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“ AD 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.

Employees

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

The average number of employees for 2019 in Sopharma Group is 5 166 workers and employees (5 075 in 2018). The average number of employees for 2019 in “Sopharma” AD is 2 275 workers and employees (2 085 in 2018) and for “Sopharma Trading” AD – 833 (820 in 2018).

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 49 subsidiaries, directly or indirectly controlled by the Company (31.12.2018 r.: 52). In addition, the Group has investments in 1 associated company.

“Sopharma” AD, the parent company 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.

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Company	Interest as at 31.12.2019 in %
"Sopharma Trading" AD, Sofia, Bulgaria*	74.23
"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	63.12
"Phyto Palauzovo" AD, Kazanluk, Bulgaria	95.00
"Sopharmacy" EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 2" EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 3" EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 4" EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 5" EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 6", EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 7", EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 8", EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 9", EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 10", EOOD, Sofia, Bulgaria**	74.23
"Veta Pharma" AD, Veliko Tarnovo, Bulgaria	99.98
"Aromania" OOD, Sofia, Bulgaria	76.00
"Sopharmacy 11" (Pharmastore 1) EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 12" (Pharmastore 2) EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 13" (Pharmastore 3) EOOD, Sofia, Bulgaria**	74.23
Sopharmacy 14 (Pharmastore 4) EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 15" (Pharmastore 5) EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 16", EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 17", EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 18", EOOD, Sofia, Bulgaria**	74.23
PAO "Vitamini", Uman, Ukraine	100.00
"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**	74.23
SIA "BRIZ", Riga, Latvia	68.14
"Brititrade" SOOO, Minsk, Belarus**	54.51
"Tabina" SOOO, Minsk, Belarus **	54.66
"Brizpharm" SOOO, Minsk, Belarus**	56.42
OOO "Sopharma Ukraine", Kiev, Ukraine	100.00
OOO "Pharmacist Plus", Minsk, Belarus**	41.28

Company	Interest as at 31.12.2019 in %
OOO "Bellerofon", Minsk, Belarus***	61.33
TOO "Sopharma Kazakhstan", Almaty, Kazakhstan	100.00
ZAO "Interpharm", Vitebsk, Belarus**	61.33
OOO "Galenapharm", Pinsk, Belarus**	61.73
ODO "Medjel", Minsk, Belarus**	55.87
ODO "Alenpharm-Plus", Belarus**	62.68
ODO "Salius Line", Grodno, Belarus**	52.47
"Rap Pharma International" OOD, Kishinev, Moldova	80.00
"Sopharma Trading" ., Sabac, Serbia**	74.23
OOO "Zdorovei", Minsk, Belarus**	46.38
BOOO "SpetzApharmacia", Bobruisk, Belarus**	47.70
UAB "Recesus", Kaunas, Litva **	34.74

* effective interest in percent

**indirect interest

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 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.

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 policies and initiatives are set up in accordance with important stakeholder topics, approved by the Key Management Personnel (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

You can find a description of the projects in the Areas of Non-Financial Report section.

2. CSR management (corporate social responsibility)

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 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 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** - 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** 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 may be any group which is directly or indirectly related to the Group's activities, which has the potential to exert an influence on the decision making process regarding the company's business development as a socially responsible organization.

Stakeholder relationships are a 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 of the business; roundtables, discussion 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“ AD 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.

5. Our social role and strategy for sustainability

➔ INNOVATIVE APPROACH TO HEALTH

Sopharma is constantly investing in new technologies, innovations, research and research.

➔ **ACCESSIBLE TREATMENT**

We are constantly refining the model for the distribution of products and services that make medicines more accessible to the majority of the population in more than 45 countries.

➔ **INCREASING THE STANDARD OF LIFE**

We have an active and key role in raising the standard of living in making people healthier, happier and more secure.

➔ **WE ARE PARTNERS**

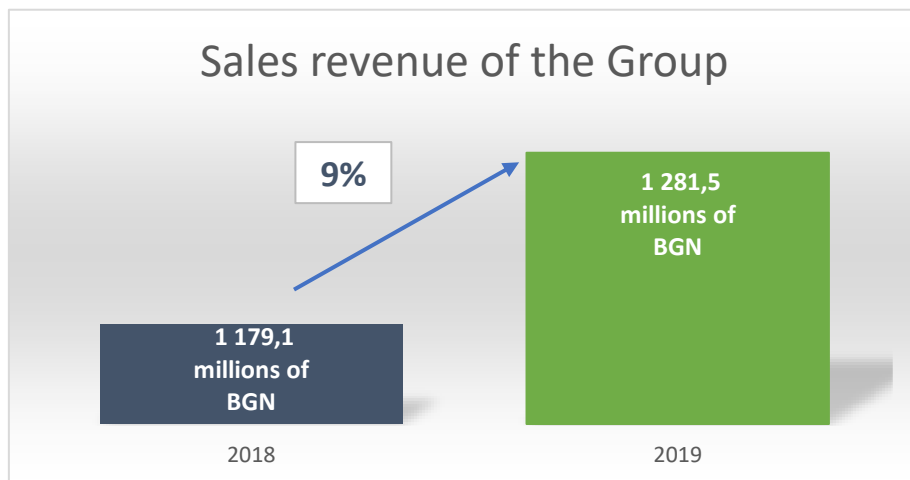
We establish a constant and continuous dialogue with all actors in the pharmaceutical sector who contribute to the improvement of the healthcare system.

IV. Areas of non-financial declaration

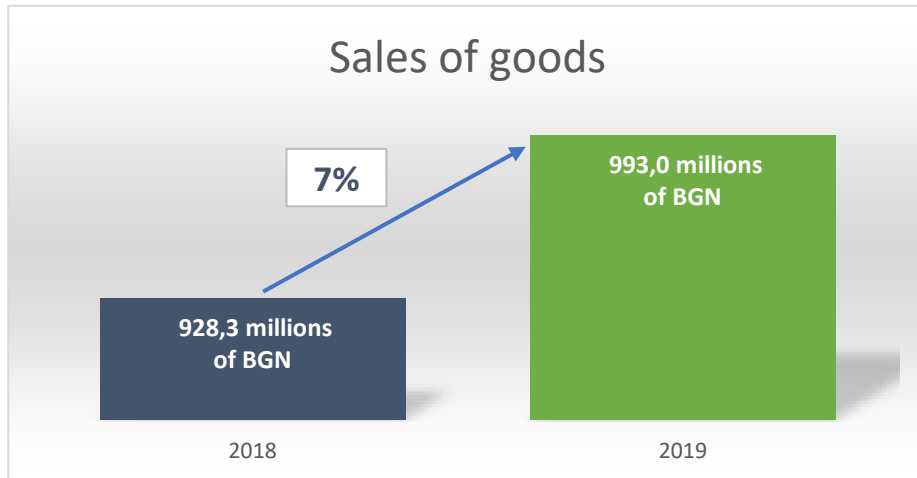
1. Market

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.

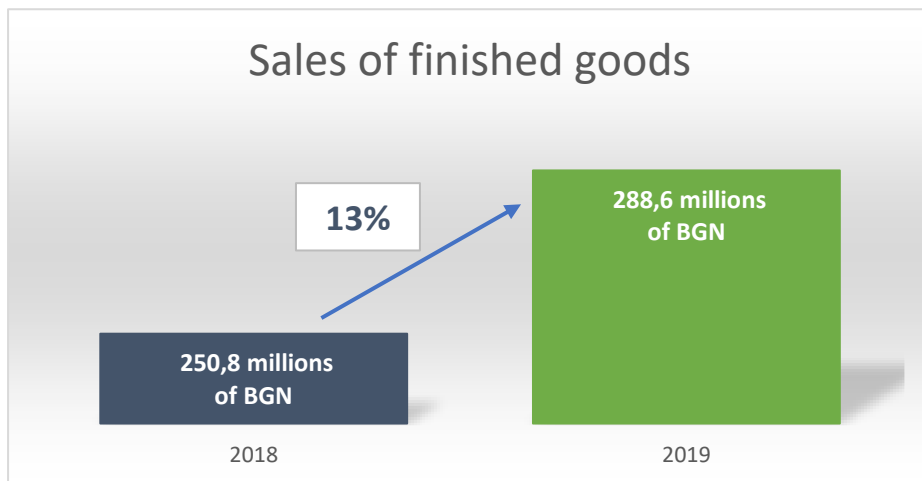
Revenue from sales of the Group increase with BGN 102,4 million or 9%, reaching BGN 1 218,5 million in 2019 compared to BGN 1 179,1 million in 2018.



Sales of goods increased with BGN 64,7 million or 7%, reaching BGN 993 million in 2019 compared to BGN 928,3 million in 2018.

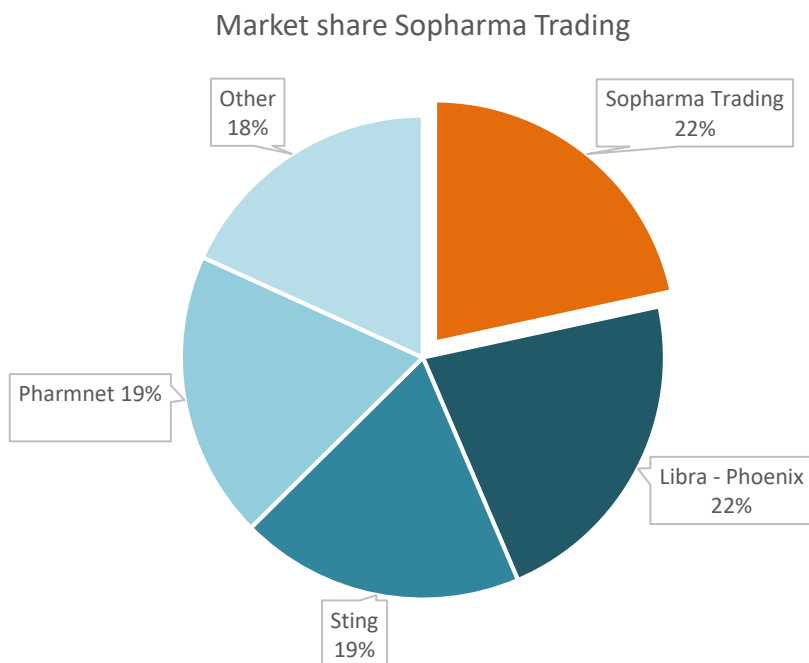


Sales of finished products increase by BGN 37,7 million, or 13%, to BGN 288,6 million in 2019 compared to BGN 250,8 million in 2018.



The contribution of sales in Bulgaria to the consolidated sales revenue in 2019 amounted to 64%, increasing by 9% compared to 2018. Sopharma has a 3% share of the Bulgarian pharmaceutical market in terms of value and a 10% 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% (0.2% in units), „Actavis“ – 4.5% (9% in units), „Pfizer“ – 3.8% (1% in units), „Merck Sharp Doh“ – 3.8% (1% in units), „Abbvie“ – 3.8% (0% in units), „GlaxoSmithKline“ – 3.4% (2.5% in units), „Sanofi-Aventis“ – 3% (2% in units), „Astra Zeneca“ – 2.6% (0.5% in units).

“Sopharma Trading” AD is a leading distributor of pharmaceutical products and cosmetics in Bulgaria with a market share of 21.30% for pharmaceuticals (according to IQVIA data) for the period January - December 2019. Within the two market segments - pharmacy and hospital, the shares of “Sopharma Trading” AD in value are respectively 19.06% and 24.49% .



Market share in natural terms of the products of Sopharma

The share of OTC products and market share of “Sopharma Trading” AD 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:

- ➔ Zero tolerance to any kind of discrimination at the workplace;
- ➔ Provision of healthy and safe working conditions;
- ➔ Providing opportunities for development based on gender and age equality;
- ➔ Provision of a right of affiliation and labor protection of the employees.

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 sphere of the preservation of the environment. 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.

Planting of 300,000 trees in the spring of 2020 is lie ahead, and in 2018, nearly 700,000 yellow acacia saplings were planted, the seeds of which are a raw material in the production of one of our main products Tabex for smoking cessation

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 2019, 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		

30 April 2020
Sofia



The image shows a handwritten signature in blue ink to the left of a circular blue stamp. The stamp contains a central shield with a dollar sign (\$) and the text 'БЪЛГАРИЯ' (Bulgaria) at the top and 'СОФАРМА АД' (Sopharma AD) at the bottom.

Ognian Donev, PhD
Executive director