

Non-financial Declaration to the Annual Financial Statement of “Sopharma” AD according to the requirements of Articles 48-52 of the Accountancy Act - 2020



This document is a translation of the original text in Bulgarian, in case of divergence the Bulgarian original is prevailing.

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Statement of support

Dear partners,

We bring to your attention the Non-Financial Declaration to the Annual Financial Statements of “Sopharma” AD for 2020. The document describes the policies that the Company follows as a corporate citizen with an active and responsible attitude to the footprint of its activities.

2020 questioned all boundaries, challenged us to make difficult choices, to sacrifice our own comfort to protect the most vulnerable. As a team we put in a lot of effort, were flexible and were able to maintain a normal rhythm of work, provide a safe environment for our employees and partners and remain stable in extremely uncertain times. We remained a key pillar of the peer network supporting the government in addressing the challenges in the healthcare system faced and we helped whenever needed.

Taking into account the significant events of the past year, we launched several successful campaigns, expanded the families of our most successful products, offered new forms that are more convenient to use in different age groups.

We realize that the social role and responsibilities of companies are becoming an increasingly important factor of impact and we strive for corporate social responsibility to be integrated into all processes and organizational aspects of the life of “Sopharma” AD.

This Declaration contains a description of the major initiatives directed at the integration of the principles of sustainable development into our day-to-day activities and their economic, social and environmental impact.

Your sincerely,



Ognian Donev, PhD

Executive Director

I. About the Declaration

The Non-Financial Declaration describes the commitments that “Sopharma” AD, as a corporate citizen, fulfills for the shareholders and investors, state and local authorities, consumers, customers and partners, the environment and society. The Company maintains an active dialogue with all its stakeholders in defining the important topics in an atmosphere of transparency and completeness of the disseminated information concerning its business activities to the interested parties. With a clear awareness of the impact of the Company’s business operations on the socio-economic sphere, the environment and the community in general, “Sopharma” AD has been able to implement a measurement system focused on the actually established impacts and to work towards their ongoing improvement.

The declaration complies with the reporting requirements of Art. 48 of the Accountancy Act and contains a description of the policies and companies regarding their activities in the field of ecology, social issues, employees, anti-corruption, human rights. It is based on the Official statements on the COP (UNGC Communication on Progress) submitted by “Sopharma” AD since 2006 - on the “active” level since 2012 and on the "advanced" level as of the year 2016 as a member of the Bulgarian Global Compact Network of the UN.

II. Scope of the Declaration

The Declaration gives a broad overview of a various aspects of the activity of “Sopharma” AD as a corporate citizen. It focuses on the company’s activities for the period 01.01.2020 - 31.12.2020. The declaration contains quantitative data used as impact indicators in the main areas described below.

1. Vision, strategy and corporate governance

Vision and strategy

The vision and strategy of “Sopharma” AD are determined by the corporate philosophy and the mission that the Company has adopted as the basis of its activity.

Corporate philosophy of “Sopharma” AD

The production of medicines is not a simple technological process, it is a human mission based on the highest standards of quality, safety and medicinal effectiveness.

Our core values

“Sopharma” AD has an active and decisive role in raising the standard of living and health of people. The company delivers quality products to patients around the world, working honestly and following ethical business practices.

Our values:

- **We take care of everyone's health, through our social projects and by providing reliable health information.**
- **We strive to protect the environment for future generations, as well as for the positive impact on the economy.**
- **We work to establish a permanent and effective dialogue with all participants in the pharmaceutical industry that contribute to the improvement of the health system.**
- **We build sustainable profitable partnerships with our suppliers.**
- **We care for our employees, supporting the happiness and development of our team members.**
- **We create goods through profit and growth.**

Sopharma`s mission is to be an active participant in the development of the pharmaceutical industry, which also contributes to the economic development and prosperity of the Bulgarian nation. To play a key role in raising the standard of living, in making people healthier, happier and more protected.

This highly responsible corporate behavior lays at the foundations of Sopharma’s business development. The CSR strategy is part of the development strategy and the various initiatives and projects support Sopharma's core business activities forming a part of the company's DNA.

Corporate citizenship policy

Corporate citizenship of “Sopharma” AD develops according to the following regulations and rules:

- **Regulations and rules for corporate citizenship**
- **The Constitution and the laws of the Republic of Bulgaria**
- **The ten principles of UNGC and the UN Sustainable Development Goals SDG** - The non-financial declaration of “Sopharma” AD is aligned with the guidelines of the UN Global Compact and follows 10 principles in the strategic plan 2015+.

This report is based on the Progress Communication, with which “Sopharma” AD reports from 2006, from 2016 at the advanced level.

The company monitors the updating of the legislation concerning its activity and follows for its strict implementation.

Sources of corporate governance

Corporate systems employed for the management and operation of “Sopharma” AD:

| Corporate governance systems | Description | Adoption date | Last update |
|---|--|----------------------|--------------------|
| Articles of Association | The Articles of Association determine the basic rules according to which significant decisions are made concerning the existence of the Company. | 2003 | 2020 |
| Decisions taken at the General Meeting of Shareholders | The decisions of the shareholders are fundamental for the activity of the Company. | at least once a year | 2020 |
| Code of conduct of the board of directors | Instructions and explanations for the duties and responsibilities of the members of the Board of Directors. | 2007 | |
| Good corporate governance program | A system of rules protecting the rights of shareholders and other stakeholders. | 2009 | 2020 |
| 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 manufacturing. | 2003 | 2020 |
| 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 distribution. The quality of medicinal products may be affected by a lack of adequate controls. | 2003 | 2020 |
| ICH “Q8 Pharmaceutical Development” | Principles and examples of Pharmaceutical Development. | 2004 | 2020 |
| ICH “Q9 Quality | Principles and examples of tools of quality risk | 2006 | 2020 |

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| | | | |
|-------------------------------------|--|------|------|
| Risk Management. | management. | | |
| ISO 17025 | General requirements for the competence of the laboratories for testing and calibration. | 2014 | 2020 |
| AXAPTA | ERP program, which is an integrated information system for the overall business management of production planning processes, supply chain management, sales management and planning, financial management and control, customer relationship management, business analysis and more. | 2013 | 2020 |
| Internal Insider regulations | Instructions and clarification on the obligations and responsibilities with regard to in connection with the Act against Market Abuse with Financial Instruments. | 2007 | 2020 |

2. Imprint of the company's activity

Economic impact

We create added value for our stakeholders



Shareholders
and investors



State and local
authorities



Clients and
partners



Environment
and society

| Economic and financial data | 2020 | 2019 | % change | Stakeholders |
|-----------------------------|------|------|-------------|--------------|
|-----------------------------|------|------|-------------|--------------|

| | | | | |
|--|-----------------------------------|----------|------|-----------------------------------|
| Decision for payment of dividends by the General Meeting in the amount of BGN per 1 share | BGN 0.04 for the first half | BGN 0.12 | N/A | Shareholders |
| Taxes paid in thousand BGN Incl: | 9 488 | 12 223 | -22% | State and local authorities |
| Taxes paid (other) in thousand BGN | 5 220 | 7 653 | -32% | |
| Corporate tax paid in thousand | 4 268 | 4 570 | -7% | |

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| BGN | | | | |
|---|---------|---------|-----|--------------------------------------|
| Payments to suppliers in thousand BGN | 118 969 | 122 956 | -3% | Suppliers /including hired services/ |
| Payments for wages and social insurance in thousand BGN | 48 807 | 46 835 | 4% | Employees |

The economic footprint is most clearly tracked through dividend decisions that show the relationship with stakeholders as shareholders; paid taxes, incl. paid corporate tax, which is a contribution to state and local authority; 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

We promote a culture of healthcare and invest in civil society

| Economic and financial data | 2020 | 2019 | Stakeholders |
|---|----------|-----------|-------------------------|
| Plants / Number of employees | 9/ 1 991 | 10/ 2 275 | Work places - employees |
| Training courses /expenses BGN '000/ | 123 | 183 | Employees |
| Social benefits and payments /expenses BGN '000/ | 2 037 | 3 266 | Employees |
| Medical services /expenses BGN '000/ | 830 | 817 | Employees |
| Donations /expenses BGN '000/ | 465 | 299 | Local communities |
| Investments related to the development of the generic business sphere and the health system / number (sponsorships and participation in seminars) | 15 | 10 | All stakeholders |
| Investments related to development of the business | 9 | 6 | All stakeholders |

environment (KRIB, ABIRD etc.) / number

| | | | |
|--|----|---|---------|
| Investments to sport and healthy lifestyle programs / number | 14 | 9 | Society |
|--|----|---|---------|

| | | | |
|--|---|---|---------|
| Investments in public communications /number | 3 | 3 | Society |
|--|---|---|---------|

Projects related to promoting a culture of healthcare and investing in civil society.

“Sopharma” AD works to increase the economic and social development of society, to promote a healthy lifestyle and to improve the health culture.

The company holds on to traditions that nurture fundamental values, such as health care in harmony with nature, strengthening the community and nurturing the competitive spirit.

- Supporting various sports activities and competitions:
 - Support for the International Cycling Tour (ICBM) of Bulgaria
 - Sponsorship of the European Cycling Championship
 - Support for the DRAG Vitosha Uphill Challenge road cycling competition
 - UN Global Compact Network Initiatives - **“Games of Goodness”** - Supporting sport with a cause: collective, individual or virtual games

- In 2020, efforts were made to provide a safe environment for employees and partners in a COVID-19 pandemic situation. In the face of lockdown and difficult deliveries, measures were introduced to prevent the lack of vital medicines, medicines with increased consumption and directly related to the treatment of COVID-19.

- Investing in new digital communication channels to help society tackle smoking.
 - **Tabex Application** - a tool for creating community, advice and mutual support between people who want to quit smoking. The application is installed by 10 540 people for a period of one year.
 - **Creation and development of 3 product pages with up-to-date product information and long-standing advice to the public.**

- **Donations to hospitals, Bulgarian Red Cross, homes for the elderly.**

Ecologic impact

Responsible use of resources and environmental protection

| Indicators | 2020 | 2019 |
|--|--|--------|
| Cost of raw materials (electricity, headenergy, fuels, water; without main materials, waste and impairment) /expenses BGN ‘000/ | 16 305 | 19 393 |
| Separate waste collection | 1 700 m. | |
| Exhaust emissions into the atmosphere | 0* | 0 |
| Emissions to wastewater | Waste water is treated in WWTP ** | |
| Employees trainings and inclusion in environmental protection activities | Instruction of employees; Instructions for recovery and separate collection of waste; Instructions on how to deal with waste substances in the units; Participation of employees in an initiative of the UN Global Compact - Action to collect household appliances for recycling. | |

* Sopharma plants are GMP certified, which also controls the degree of environmental pollution. Emissions of waste gases are less than 50 tons per year, which according to the standards tends to 0. In parallel, the use of water film is a prerequisite for the non-release of gases into the atmosphere.

** For years in the production in the factories of the company no organic substances are used for filming the tablets, which guarantees zero pollution of the wastewater.

Projects related to responsible use of resources and environmental protection

- Separate waste collection, minimization, utilization and recycling of production and municipal waste;
- Participation of the company and employees in environmental projects - #BeatEWaste - In the first edition of the initiative for proper disposal of electronic waste of the

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Bulgarian Network of the UN Global Compact. Within the initiative, 1 740 kg were collected, which generates BGN 425.30. The collected amount will be used for a charitable cause;

- **Caps for the Future** - Charity collection of plastic caps at all production sites;
- Providing regular training of personnel on environmental issues and pollution prevention;
- Responsible implementation of the mandatory requirements of Decree of the Council of Ministers 137 and the Ordinance on packaging and waste;
- Switching from plastic to paper sticks in the production of ear sticks;
- Separate collection of household waste (paper, plastic, batteries) at the workplace. Containers provided at all production sites;
- Reduction of printed advertising materials by 30% per year, by switching to digital content;
- Annual measurement of waste gas emissions into the atmosphere;
- Monthly measurement of emissions into wastewater at production sites A and B of Sofia Water;
- Investments in the creation of “smart” buildings, facilities for renewable energy sources;
- Zero pollution of wastewater and the atmosphere, through the use of water film, instead of organic substances for filming the tablets in the production in the company's plants;
- Measurement of the annual emissions of waste gases in the atmospheric air from the Phytochemical Plant and the Factory for Dosage Forms.
- Emissions of waste gases are less than 50 tons per year, which according to the standards tends to 0. In parallel, the use of water film is a prerequisite for the non-release of gases into the atmosphere.

3. Employees

**We are focused on the responsible behavior of our employees
and provide equal job opportunities**

- Zero tolerance for any kind of discrimination in the workplace;
- Ensuring healthy and safe working conditions;
- Ensuring opportunities for development based on equality;
- Ensuring the right of association and labor protection of employees.

Structure of employees by gender 2020 (2019)

| Gender of employees | 2020 | 2019 |
|---------------------|------|------|
| Man | 37% | 37% |

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| | | |
|-------|-----|-----|
| Women | 63% | 63% |
|-------|-----|-----|

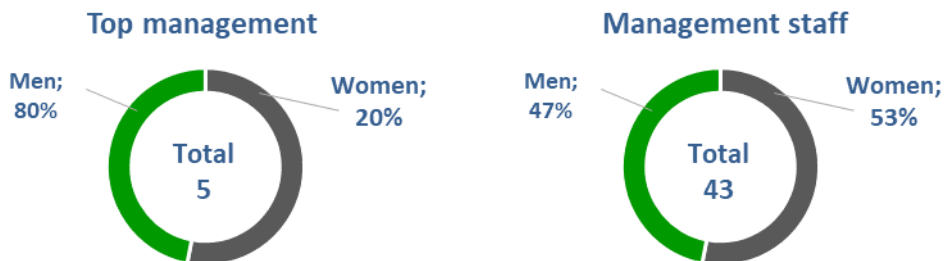
Structure of employees in education 2020 (2019)

| Employees/education | Number | Relative share % | Number |
|----------------------|--------|------------------|--------|
| | 2020 | 2020 | 2019 |
| Higher education | 891 | 45% | 952 |
| Colleges | 41 | 2% | 47 |
| Secondary school | 1 024 | 52% | 1 212 |
| Elementary education | 28 | 1% | 35 |

Structure of employees by age 2020 (2019)

| Employees / Age | Number | Relative share % | Number |
|-----------------|--------|------------------|--------|
| | 2020 | 2020 | 2019 |
| under 30 | 184 | 9% | 219 |
| 31- 40 | 360 | 18% | 416 |
| 41 – 50 | 574 | 29% | 651 |
| 51 – 60 | 679 | 34% | 755 |
| Over 60 | 187 | 9% | 205 |

Structure of the employees of the group of “Sopharma” AD in 2020



III. Spheres covered by the non-financial declaration

1. Market

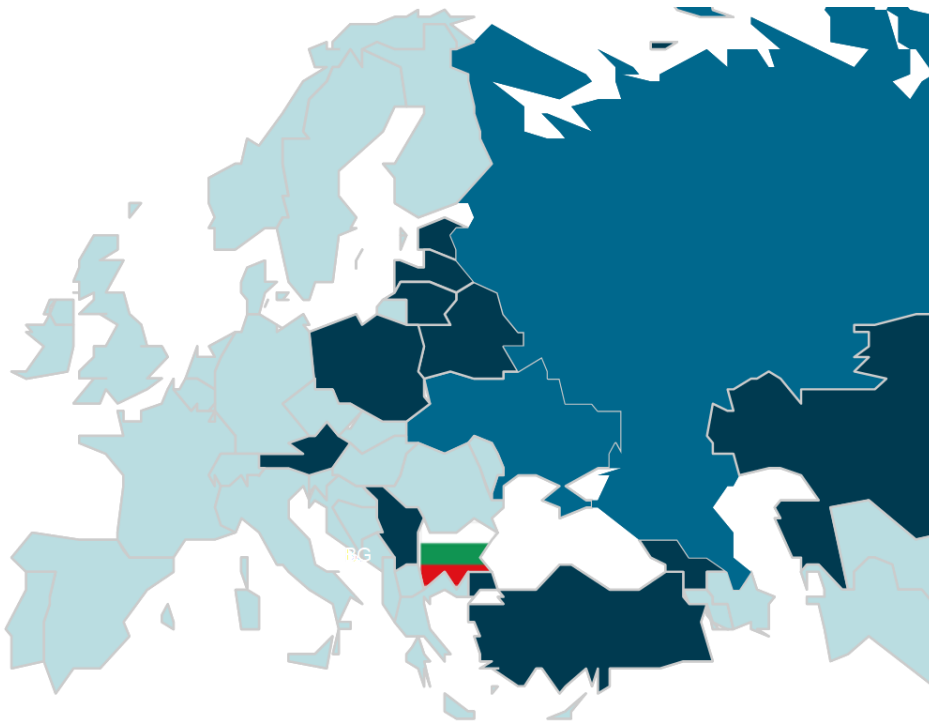
“Sopharma” AD is aware of its role of a significant factor in the pharmaceutical sector at a European level and in the Bulgarian economy.

As a leading Bulgarian manufacturer, exporter and distributor of pharmaceutical products, the Company imposes standards to the companies along the chain, following the principles of transparency and responsibility of the management.

“Sopharma” AD invests in the fields of science and development, quality management, industrial property, publicity and transparency.

The products and business model it creates position Sopharma AD among the top 10 companies on the Bulgarian pharmaceutical market and first in terms of sales in units with a 10% of the market.

The group is represented in more than 45 countries, but the key markets are Bulgaria, Russia, Ukraine, Kazakhstan and Poland, and the strategic plan focuses on further expanding its presence in the region.



Review of the results

| Key indicator | Unit | 2020 | 2019 |
|--------------------------------------|------|------|------|
| Market share in natural terms | % | 11 | 10 |
| Market share as % of volume in value | % | 3 | 3 |

The market share in units of the products of “Sopharma” AD as well as the share of the OTC products are an indicator 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 have an impact over the preferences by the end user at the point of purchase of medicines.

The positions of the main competitors of the company on the territory of the country are as follows: Novartis — 6.8% (3.7% in number), Roche - 6.7% (0.2% in number), Actavis - 4.3% (10% in number), Merck Sharp Doh - 4.3% (0.8%), Abbvie - 3.7% (0%), Pfizer - 3.5% (0.5%), Glaxosmithkline - 2.8% (2.3%), Astrazeneca - 2.8% (0.4% in number), Sanofi-Aventis - 2.8% (2% in number). The products with the largest share of sales in the country are Analgin, Methylprednisolone, Vicetin, Vitamin C, Famotidine and medical devices - gauze, compresses and bandages.

Corporate management

“Sopharma” AD is a Bulgarian joint-stock company with a one-tier management system. The Company is managed by a Board of Directors in a membership consisting of: Ognian Donev PhD – Chairman and members Vessela Stoeva, Ognian Palaveev, Aleksandar Tchaushev, Ivan Badinski. The company is represented and managed by the Executive Director Ognian Donev, PhD.

The Board of Directors determines the guidelines and the strategic plan for development of the Company and the operational implementation is performed by a managerial team reporting to the Executive Director.

Production activity

“Sopharma” AD has nine manufacturing plants in Bulgaria, which function with regard to the requirements of the EU and of the Bulgarian legislation:

1. Plant for solid dosage forms, city of Sofia
2. Plant for solid dosage forms, village of Vrabevo

3. Plant for solid dosage forms, city of Kazanlak
4. Ampoule plant, city of Sofia
5. Lyophilic production, city of Sofia
6. Chemical plant, city of Sofia
7. Suppository plant, city of Sofia
8. Gamma sterilization, city of Sofia
9. Plant for medical consumables, city of Sandanski

“Sopharma” AD is the largest Bulgarian manufacturer of ampoules and suppositories and a sole manufacturer of lyophilic dosage forms in Bulgaria.

The production activities of the Company are realized and developed in the following areas:

- Substances and preparations based on plant raw materials (phytochemical production);
- Ready-to-use formulations, incl.: hard tablets, coated tablets, film-coated tablets, capsules;
- Galenic - suppositories, drops, syrups, ointments, gels, creams;
- Parenteral - injection solutions, lyophilisate powder for injections;
- Hemodialysis solutions;
- Medical and cosmetic products, incl.: plasters; dressing products; sanitary-hygiene products; herbal cosmetics.

Products

“Sopharma” AD produces products for the following therapeutic groups: cardiovascular, gastroenterological, dermatological, psycho-neurological, antiallergic, respiratory, analgesic, rheumatological.

The Company has more than 200 products in its portofolio, mainly generics and 15 traditional products, of which 12 are plant-based.

Taking into consideration the responsibility related to its market position, Sopharma invests in new production capacities, technologies and products for the attainment of more accessible and efficient treatment:

| Investments | 2020 | 2019 |
|---|-------------|-------------|
| Marketing authorizations / number | 5 | 1 |
| Investments in new products / number | 4 | 1 |
| Pharmaceutical developments of medicinal products and active substances / number | 11 | 17 |
| Investments in new technologies / transferred and | 30 | 64 |

validated / number

| | | |
|---|----|----|
| Marketing authorizations for pharma products for new destinations / number | 27 | 47 |
| Cosmetic products, food supplements and medical devices notified / registered in Bulgaria and other countries | 40 | 34 |

The Company invests in enrichment of the generic portfolio by working on the implementation of generics:

- Proven to be efficient
- Ratified as a golden standard in the treatment of various diseases
- Topical with regard to the markets

Responsible marketing

“Sopharma” AD pursues a flexible marketing policy, taking into account the possible increase of the delivery prices of the raw materials, the changes in the requirements to the manufacturers of medicines for the suppliers of raw materials, as well as the specifics of the market of medicines.

Activities are consistent with the Change Control Criteria (ICH Q10 3.2.3) and Material and Process Requirements under Good Manufacturing Practice (GMP) guidelines Part 1, with internal procedures approved in a standard operating procedure for change control and standard operating procedures on the approval of manufacturers of active substances, auxiliary substances, packaging materials, feedstock and are managed through an internal eDMS system. The selection and evaluation criteria cover quality criteria, regulatory compliance, certification status, documentation as well as economic, financial criteria and delivery parameters. Approved manufacturers and the implementation of deliveries are subject to continuous monitoring as part of the management of the purchase process.

To guarantee the required quality of the substances for its original products (Tabex, Nivalin) “Sopharma” AD made permanent plantations of yellow acacia and grows a marsh snowdrop in its own greenhouse in Sopharma Kazanlak.

Sopharma has a developed policy and procedures for evaluation of its counteragents making a regular risk assessment. The Company has over 70 Bulgarian and foreign licensed traders of medicines, with proven history of the interrelations on the main markets as its partners.

The communication messages of the Company are in conformity with the national ethical rules for advertisement and commercial communication.

Ethical competition

“Sopharma” AD strictly observes the national and European legislation and the requirements related to the rules for competition. The Company is guided in its activity by the conviction that ethical behavior is a mandatory condition for development of the free market. The Company is exposed to strong competition on the one hand and on the other hand – to new forms of cooperation in the sphere of health care.

“Sopharma” AD invests mainly in the development of generic production and the role of the generic industry for sustainable healthcare in Bulgaria and in Europe is expected to grow.

2. Employees

“Sopharma” AD invests in its employees with the conviction that they are its most valuable asset. As a responsible Employer the Company follows up certain principles of labor interrelations:

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

2.1. *Safe working conditions*

Due to the nature of its activity Sopharma guarantees the safe health working conditions following the standards of the GMP.

- For the jobs, professions and types of work for which Personal protective equipment is applied, including special work clothes, an order is followed, signed by the Executive Director of “Sopharma” AD - Ognian Donev, prepared according to Regulation No. 3 on Minimum Safety and Protection Requirements workers' health when using PPE on work place / Prom. State Gazette, no. 46/2001), Ordinance on free working and uniform clothing (promulgated SG No. 9/2011) and in accordance with Article 284 of the Labor Code.
- For safe work with machines and equipment, follow the Instructions for safe work for each of them, with which the operating machines are familiar and obliged to follow. / Approved by the signature of the Deputy Director "Production Issues" /.
- Prevention of risk situations concerning the health of the employees - a three-month periodic briefing is conducted in all factories on sections of the employees in them, documented with the personal signature of the employee.

2.2. *Workplaces corresponding to the knowledge and skills of employees*

The funds (training) invested in raising the qualification of employees in 2020 amounted to BGN 123 thousand.

Beyond its direct commitments as an employer, “Sopharma” AD creates and develops social projects and programmes and participates in community events directed at the employees and at their families.

2.3. *Healthy life:*

- Additional health services;
- Availability of nurses in the plants of the Company;
- Annual free examinations by specialists;
- Fitness free of charge;
- Courses in folk dances free of charge;
- Inclusion in the programme for physical activity Multisport;
- Involve employees in various competitions such as @SopharmaTeam: tennis court; cycling competition; participation in ultra marathons.

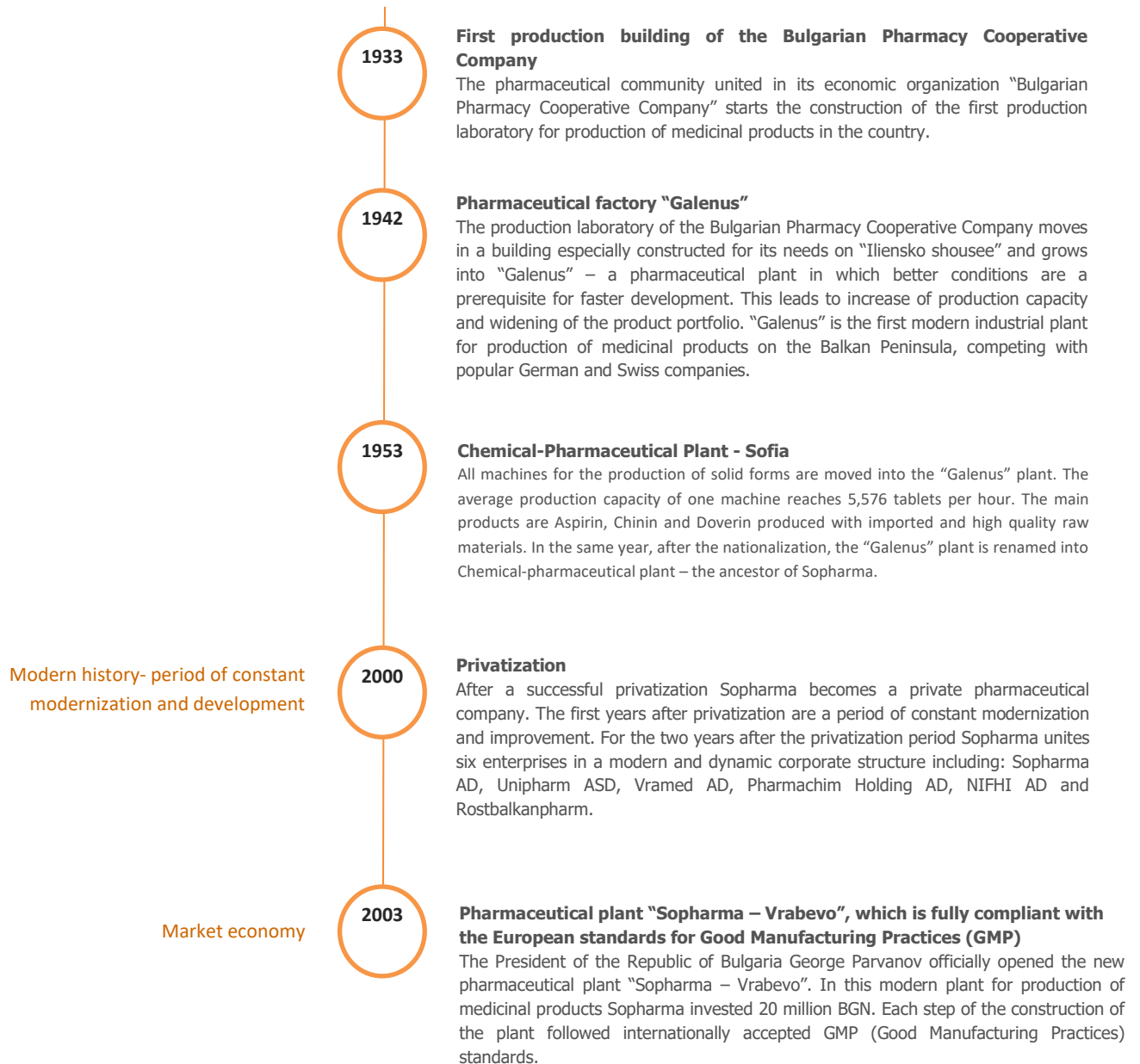
2.4. *@SoSociety, SoSopharma*

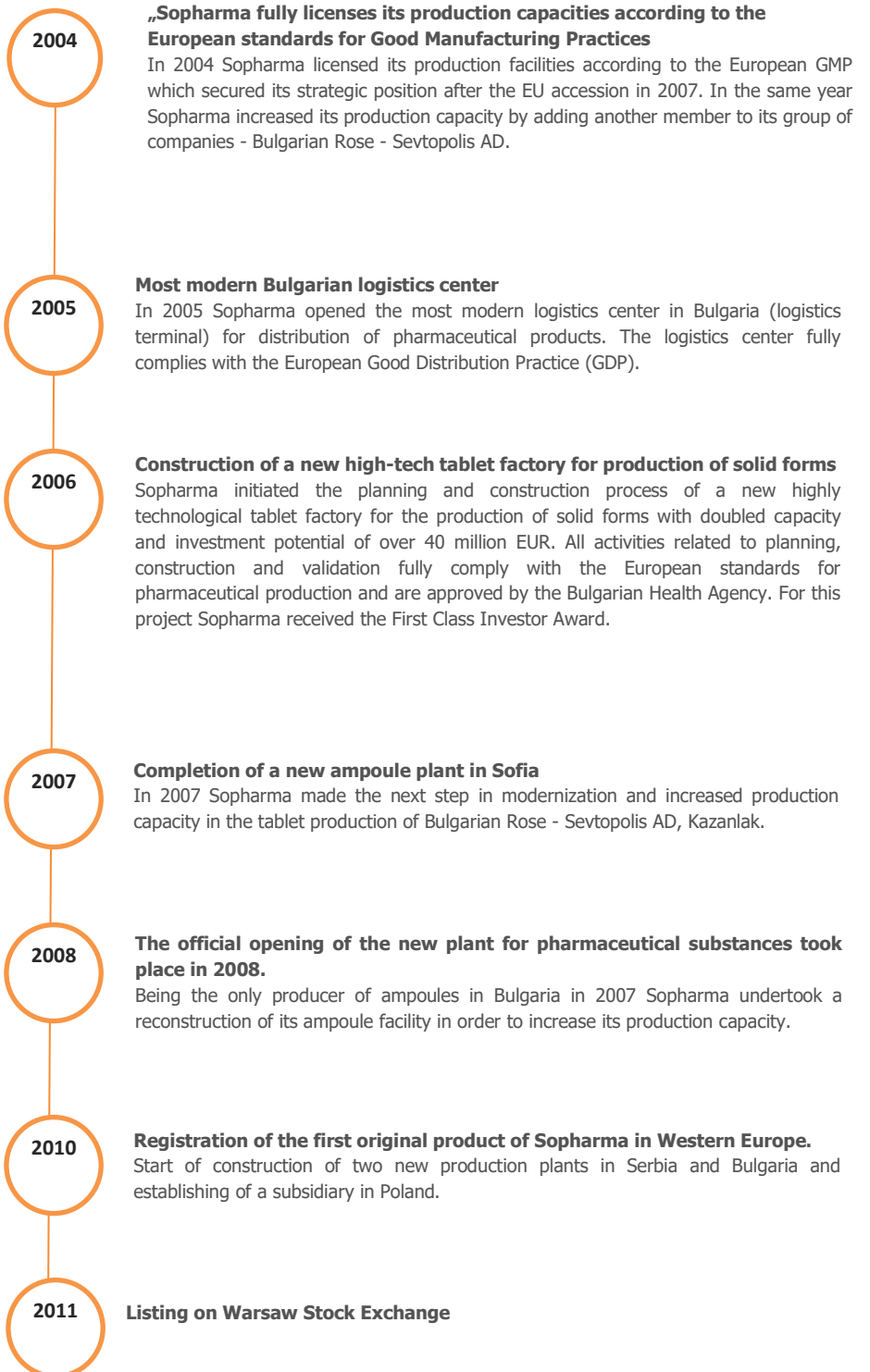
| Indicator | 2020 | 2019 |
|---|------|------|
| Parental Care | | |
| Employees that took parental leave | 4% | 5% |
| Employees that returned to work in the reporting period after parental leave ended | <1% | 2% |
| Employees that took unpaid parental leave | <1% | <1% |
| Employees that returned to work after parental leave ended that were still employed 12 months after their return to work | 3% | 3% |
| A baby set for each new-born baby/ number | 50 | 30 |
| Assistance for each first year pupil – a rucksack with all the needed aids/number | 39 | 43 |
| Free kindergarten on the territory of Sopharma for children of the employees of the Company, opened 2012/number of children | 22 | 30 |
| Leisure time | | |
| Free library / number of employees using the services | 70 | 70 |

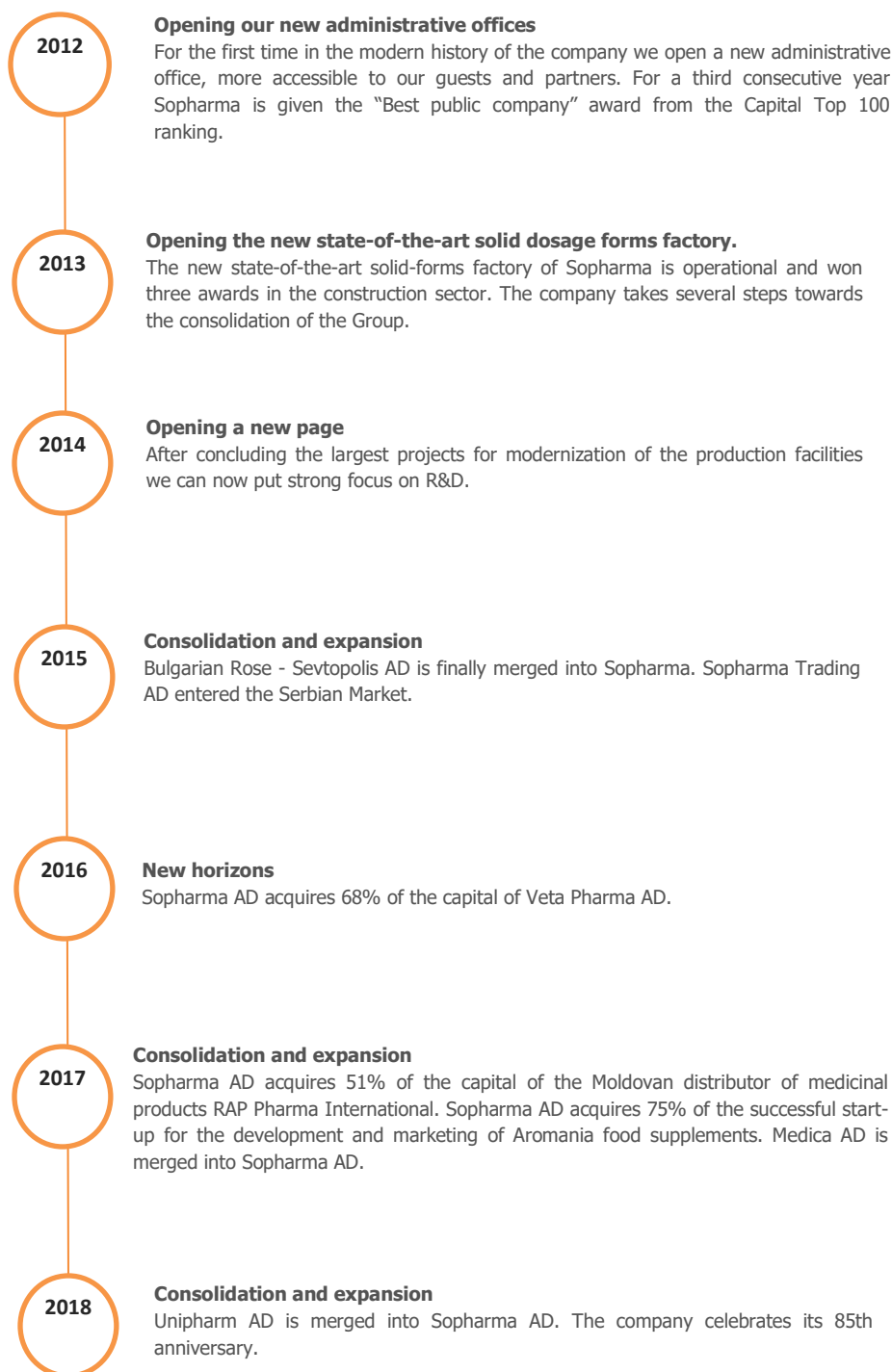
3. Organizational structure

| Chairman of the Board of Directors and Executive Director | | | |
|---|--|--|---|
| Deputy Chairman of the Board of Directors | Member of the Board of Directors | Independent Member of the Board of Directors | Independent Member of the Board of Directors |
| Business Development | Resources | Finance | Representative office of “Sopharma” AD in: Ukraine Poland Kazakhstan Baltic States and Belarus Turkey Azerbaijan Georgia Armenia Tunisia China Israel and the Palestinian Territories |
| Trade Directorate | Production | Logistics | |
| Investor Relations | Legal Department | Quality management and regulatory compliance | |
| Cooperation and licenses | Labor protection | Administrative and business management | |
| Security | Quality Management and Regulatory Compliance | Operations Directorate | |
| Intellectual Property | Financial and accounting department | Human Resources | |

4. Company development







5. Risks

“Sopharma” AD monitors the following risks, identified as significant and potentially affecting its activities:

- Risks related to the macroeconomic situation in the country and other markets;
- Risks associated with the business and the industry in which the Company operates;
- Risks related to the markets in which the Sopharma operates;
- Risks related to foreign exchange rates and the currency board in force in Bulgaria;
- Credit risk.

| Risk | Low | Medium | High |
|--------------------------|--|---|--|
| Socio - political | | Loss of confidence in media (consumers also stop believing the ads included or additional info); Reducing the macroeconomic stability; The unstable political situation in Bulgaria and countries in which “Sopharma” AD operates may affect the company's activities; Decline in foreign investment; Household indebtedness. | The reputation of “Sopharma” AD may be affected by misleading or incorrect information in media; Changes in legislation and regulations may lead to a Group's expenses increasing; Loss of confidence in the expertise of doctors or pharmacists; Restrictions on household consumption, including for medicines. |
| Employees | | Fluctuation due to the highly competitive market; Pressure to raise salaries and social benefits. | Shortage of skilled workers with experience. |
| Ecological | As a result of certified production, environmental risks are minimized; Potential risk as a result of natural | | |

| | | |
|-----------------------|--|--|
| | cataclysm. | |
| Anticorruption | Standart operating procedures for decion making. | An attempt for involving to non-transparent practices on the part of monitoring institutions; Unethical competition. |

IV. Strategy for corporate social responsibility

1. Definition

For “Sopharma” AD responsible corporate citizenship is the only path to a sustainable business development with a clear vision of the goals, the necessary resources to achieve these goals and the impact from the company's business on the economic, social and environmental sphere. Along with the investments made in its business, “Sopharma” AD works hard to achieve UN’s SDG 2015.

“Sopharma” AD actively communicates its activities with all stakeholders. The CSR strategy, initiatives and specific activities are planned and developed, coordinated and implemented by the Communication strategies and the CSR Directorate, after obtaining the approval of the Board of Directors of “Sopharma” AD. The Director of the Communication strategies and the CSR Directorate is subordinate to the Executive Director of the company; the directorate itself is run by a CSR and Corporate communications manager.

The policies and specific projects are focused on 4 main areas:

- **Health and healthy lifestyle**
- **Compassionate business and care for the environment**
- **Education**
- **Community**

Strategic Management

| Market | Employees | Environment | Community | Corporate Citizenship |
|---|---|----------------------------------|--------------------------------------|-----------------------|
| Transparent corporate governance | Responsible employer: Zero discrimination regarding the right to work | Environmental management systems | Contribution to economic development | Anticorruption |
| Guaranteed quality and | Ensuring the right of | Reduciton of environmental | Developing the healthcare | Work on SDG 2015 |

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| | | | | |
|--|---|---|--------------------------------------|---|
| safety of products and services | association | impacts | system | |
| Sustainability | Employee development: hierarchically and as a qualification and education | Responsible use of resources | Health prevention | Participation in the establishment and implementation of international pharmaceutical standards |
| Ethical Competition | Decent labor wages | Reduction of direct impacts | Providing affordable healthcare | Working with partner organizations |
| Responsible marketing | Ensuring healthy and safe work conditions | Reduction of indirect impacts | Investing in education | Joint projects of organizations in which „Sopharma” is a member |
| Responsible procurement | Social benefits for employees | Participation in environmental projects | Investments in public communications | Development of the generic industry in the country |
| Development of pharmacy sphere | Internal communication | Training of employees for separate collection of waste and environmental issues | | |

2. Memberships

In order to adequately create and implement its CSR strategy, “Sopharma” AD works with partner organizations such as the BCAUSE foundation, the Bulgarian Public relations association, the European association of communication directors, the Investor Relations association. The company is a member of a number of business and branch organizations with which it holds discussions and works on the objectives and challenges faced by CSR in Bulgaria.

“Sopharma” AD is member of :

- Confederation of the Employers and Industrialists in Bulgaria (CEIBG). <http://ceibg.bg/>
- Member-cofounder of the Association of Bulgarian Exporters (ABE), which goal is to develop the National strategy for export Member of AHK, a connecting link between Bulgarian and German economics, with more than 450 German, Bulgarian and multinational companies – members. <http://bulgarien.ahk.de/bg/>
- Full member of the American Chamber of Commerce in Bulgaria. The American Chamber of Commerce in Bulgaria unites more than 300 American, 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 and a good corporate reputation as one of the most important criteria for membership. www.amcham.bg
- A founder-member of the Association of Bulgarian Pharmaceutical Manufacturers, at present Bulgarian Generic Pharmaceutical Association (BGPharma), its priorities being harmonization of interests with regard to the general national and international mechanisms for regulation of drug manufacture and use, improvement of GMP principles application and observation of loyal competition principles. <http://www.bgpharma.bg>
- Founder-member of the Bulgarian National Committee of the International Chamber of Commerce and elected 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. Its principal mission is to stimulate transborder trade and investments and to assist business corporations to face the challenges and possibilities resulting from globalization. www.iccwbo.org, <http://www.icc-bulgaria.bg>
- Member of UN Global Compact Bulgarian Network. <http://www.unglobalcompact.bg>
- Member of the National Corporate Governance Committee, established to promote the implementation of good corporate governance practices and the development of the Bulgarian National Corporate Governance Code. The Commission is a permanent independent body created 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 Finance Corporation (IFC). www.nkku.bg

3. Commitment to stakeholders

From the point of view of “Sopharma” AD, an interested party is any group which is directly or indirectly related to the company's activities has the potential to influence it and can influence the decision-making for the business development of the Company. The relations with the interested parties are an indicator of the degree of success of the Company, of its

place in the economic and social life in the country and an assessment of the viability of the adopted course for its development.



- Key stakeholders are the patients for whom Sopharma's products are a a remedy and the means of improving the quality of their lives.
- Shareholders - as a public company Sopharma AD recognizes its obligation to provide adequate and timely information about its activities in the field of CSR to all shareholders and potential investors in the Company.
- The state and local government authorities.
- Partners - Sopharma's success depends on the success of the companies down the chain of suppliers and partner companies.
- Employees - Today’s employees are among the most valuable assets of any company, especially in high-tech manufacturing - such as the pharmaceutical - and the investments in personnel generate a considerable return. Employees are the first ambassadors of the company's mission, of its corporate culture and reputation. In addition to the healthy and safe work environment, career opportunities and the social benefits which Sopharma accepts to be the minimum in its labor relations, the company strives to build an atmosphere of shared common values with its employees and to engage in public projects which are of importance to them.
- Local community - “Sopharma” AD owns 9 factories in the country and being a major investor in some regions has undertaken responsibilities far beyond its business commitments. The company invests resources in projects of considerable importance for these regions. At the same time - and as the biggest Bulgarian pharmaceutical manufacturer “Sopharma” AD has been able to successfully launch a number of various nationwide campaigns.

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“Sopharma” AD maintains an ongoing open dialogue with all stakeholders through different communication channels depending on the target group: the official corporate media, official BSE announcements, the social networks.

The dialogue with the shareholders, the central and local authorities, business partners and the non-governmental organizations is carried out both through the traditional communication channels but also via the participation in and the support of a number of various events, discussions and joint projects. Traditional communication channels have been the Sopharma Group website, the company's activity reports, the COP report submitted to the United Nations Global Compact and the newsletters published by the partner organizations. The informal communication channels include Sopharma profiles in various social networks, the company’s mobile applications, etc.

“Sopharma” AD communicates to all stakeholders through different channels:

| Stakeholders | Communication channels | Frequency of communication |
|------------------------------------|---|---|
| Patients | Product websites; Official corporate sites of “Sopharma” AD. | Weekly When there is new information; “Sopharma” AD uses the group's website to provide reliable information related to European generic associations; changes in the regulatory framework concerning the end user, etc. |
| | Website of the group www.sopharmagroup.com | |
| | Copmany profiles on FB, Instagram, Twitter; Social platform “Tabex”; mobile app | Daily Daily When needed |
| Shareholders | General Meeting of Shareholders; Notifications; Meetings; Sopharma's official corporate media - Website of the group www.sopharmagroup.com | Regularly |
| State and Local authorities | Participation in online forums dedicated to problems in pharmacy; | Digital transformation in the pharma sector |
| | Official sites of the state and | Forum on the markets in the |

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| | | |
|-----------------------|--|---|
| | local authorities, of the control bodies; | Eurasian Union |
| | The official corporate media of “Sopharma” AD; | Every day |
| | Participation in working groups related to the healthcare system and pharmacy. | Regularly, depending on the program of the particular group |
| Chain partners | Business meetings . | Regularly |
| Employees | Intranet page; | When needed |
| | FB page of “Sopharma” AD; | Daily |
| | Corporate website of the Group | When needed |
| | www.sopharmagroup.com ; | |
| | New info page with inside information for employees; | When needed |
| | Bulletin boards; | When needed |
| | Internal mailing. | When needed |
| Society | Healthy life conferences; | Daily |
| | Public communication conferences; | 4 conferences per year |
| | FB pages of “Sopharma” AD; | Daily |
| | Profiles on social media | |
| | Instagram, YouTube. | Daily |
| Partners | Meetings and conferences; | Regularly |
| | Business meetings. | |

4. Society

“Sopharma” AD uses its extensive expertise and resources to contribute not only to the economic and social development, but also to enhance the cultural environment and the quality of human life through the creation and development of specific projects. The company supports the development of an active civil society in the country and takes firm positions on a number of socially important issues.

Local Societies

“Sopharma” AD invests in its local industries to protect the economic life of local communities. Traditionally, the company was a supporter of different projects in Vrabevo such as a shopping center with a pharmacy store and a restaurant; St. Archangel Mihail church’s roof repairs; local lyceum Christo Botev in Vrabevo, local lyceum in Sandanski.

“Sopharma” AD works together with the Municipality of Veliko Tarnovo and the Bulgarian Red Cross with donations of medicines to homes for the elderly and pension clubs.

In 2020 “Sopharma” AD continues with donations of medicines and tools for health indicators measurement, such as blood sugar.

Partnerships

1. Bulgarian Network of Global Compact

As an active member of the Bulgarian Network of the UN Global Compact, “Sopharma” AD participates in a number of projects focused on health and a healthy lifestyle.

Investments in public communication

“Sopharma” AD supports the development of public communications as a basis for any democracy. The Company works beyond the ideas of traditional pharmaceutical projects and supports forums and festivals related to longevity, healthy lifestyles, the development of public communications.

Investments in new communication channels, including mobile apps

“Sopharma” AD communicates through the Group's website and corporate profiles on social networks and profiles #Silenden, #Ilovelyheart profiles.

Investments in public communication development

“Sopharma” AD is a partner of the Bulgarian Public Relations Society and the Annual Meetings of Bulgarian Media Abroad.

Digital Social Responsibility

“Sopharma” AD communicates with its stakeholders through its website: <https://www.sopharmagroup.com/en> and through product pages of focal OTC products and nutritional supplements. For the first time a Bulgarian public company provides interactive tools for investors and shareholders related to the shares of the Company and the structure of the group.

The Company communicates with all stakeholders through the new digital tools and continues to invest and develop its digital channels. The Company communicates through the Youtube channel of “Sopharma” AD and its profiles in Twitter and Facebook.

Pharmaceutical Industry

The European industry for generic and biosimilar medicines „fulfils its mission by providing high-quality medicines for patients in Europe, by increasing their access to effective treatment and partnerships for sustainable health“. The generics and biosimilar industry is

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developing a model for sustainable pharmaceutical innovation related to the creation and production of value-added products that can improve health revenues and hospital efficiency.



Ognian Donev, PhD
Executive Director

26 March 2021
Sofia