

# **STATUTE**

**of the Audit Committee**

**of „SOPHARMA“ AD**

Sofia, 2017

## I. General

Art. 1. "SOPHARMA" AD (hereinafter referred to as "the Company") is a public interest entity within the meaning of § 1, item 26 of the Supplementary Provisions of the Independent Financial Audit Act (prom. 29.11.2016) in the words of § 1, item 22 of the Additional Provisions of the Accountancy Act (promulgated, State Gazette No. 95 of 8 December 2015, in force as of 01.01.2016, amend. , Issue 74 of 20.09.2016, in force since 1.01.2018, amended and supplemented, No. 95 of 29.11.2016, No. 97 of 6.12.2016, in force from 1.01 .2017). As such, the Company creates its Audit Committee.

Art. 2. The Audit Committee shall perform the following functions:

1. inform the Board of Directors of the Company about the results of the statutory audit and explain how the statutory audit has contributed to the reliability of the financial reporting and the role of the Audit Committee in this process;
2. monitor the financial reporting process in the Company and make recommendations and suggestions to ensure its effectiveness;
3. monitor the effectiveness of the internal control system, of the risk management system and of the internal audit activity in respect of the financial reporting in the Company;
4. monitor the statutory audit of annual financial statements, including its performance, taking into account the findings and conclusions of the Commission for Public Supervision of Registered Auditors on the Application of Art. 26, par. (6) of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 laying down specific requirements for the statutory audit of public-interest entities and repealing Commission Decision 2005/909 / EC - below "Regulation (EU) No 537/2014");
5. verify and monitor the independence of the registered auditors of the Company in accordance with the requirements of Seventh and Seventh Chapters of the Independent Financial Audit Act (promulgated, State Gazette No 95 of 29.11.2016), as well as with Art. 6 of Regulation (EC) No 537/2014, including the appropriateness of outsourcing services (if any) of the Company under Art. (5) of that Regulation;
6. is responsible for the selection procedure of the registered auditor of the Company and recommends its appointment in accordance with the Independent Financial Audit Act and Art. 16 of Regulation (EC) No 537/2014, unless and until the Company has formed a Selection Committee for the selection of a registered auditor to perform a mandatory financial audit of the Company's annual financial statements;

## II. Composition of the Audit Committee

Art. 3. (1) The Audit Committee of the Company shall consist of three persons.  
(2) The members of the Audit Committee shall be elected by the General Meeting of Shareholders of the Company on a motion by the Chairman of the Board of Directors.

Art. 4. (1) The mandate of the members of the Audit Committee is 3 (three) years.  
(2) A member of the Audit Committee shall be relieved of:

1. upon expiration of his mandate, if the General Assembly does not re-elect him for a next term of office;

2. at his motivated written request addressed to the Board of Directors, if possible until the decision for convening the annual regular General Meeting of Shareholders for the respective year is taken;

3. by decision of the General Meeting of Shareholders of the Company;

4. in case of death or disability.

(3) In the cases under para. 2, item 2, the Board of Directors shall include in the agenda of the next (after the request) meeting of the General Meeting of Shareholders a proposal for decision on the dismissal of the requesting member and on the election of a new member in its place. In any case, the member requesting his release is obliged to fulfill his engagement as a member of the Audit Committee until his release by a decision of the General Meeting.

(4) In the cases under Art. 2, item 4 The Board of Directors shall include on the agenda of the next (after the relevant circumstance referred to in paragraph 2, item 4) meeting of the General Meeting of Shareholders a proposal for decision on the release of the respective member and for the election of a new Member in his place. Until the election of a new member of the Audit Committee, the latter shall serve in a reduced capacity.

Art. 5. (1) Members of the Audit Committee shall be persons who hold a Master's degree, knowledge of the field in which the Company operates, at least one member must have no less than five (five) Years of professional experience in the field of accounting or auditing.

(2) Members of the Audit Committee may also be elected members of the Board of Directors of the Company, outside the Executive Director (s).

(3) In any case, members of the Audit Committee may be persons who meet the requirements of the law.

Art. 6. (1) The majority of the members of the Audit Committee are external to and independent of the Company.

(2) An independent member of an audit committee shall not be:

1. a member of the Board of Directors or employee of the Company;

2. a person who has permanent business relations with the Company;

3. a member of a management or supervisory body, procurator or employee of a person under item 2;

4. a related person with another member of the Board of Directors of the Company.  
(3) The lack of the circumstances under para. 2 shall be established by a written declaration submitted before the date of election to the General Meeting of Shareholders by each nominated person as a member of an Audit Committee. Where one or more of these circumstances arise after the election, the relevant member of the Audit Committee shall immediately notify the Board of Directors of the Company in writing and terminate the performance of its functions by electing a new member in its place at the next meeting of the General Meeting of Shareholders.

Art. 7. (1) The Chairperson of the Audit Committee shall be elected by its members. The chairman must also meet the requirements for an independent member under Art. 6, para. 2 in line with Art. 8.

(2) The Chairman may be replaced at any time by decision of the Audit Committee.

Art. 8. If the regulatory requirements for the criteria to be met by the members, incl. Independent of the Audit Committee, are amended after the entry into force of this Statute, the new regulatory requirements - where they provide for the criteria laid down in this Statute, as well as the mandatory criteria which are aggravated by the Statute, The entry into force of the respective legal act, regardless of the updating of this Statute by the General Meeting of Shareholders of the Company.

### III. Rights of the Audit Committee

Art. 9. The Audit Committee shall be entitled:

1. require and have access to any information and documents necessary for the performance of its functions and duties;

2. receive signals from the employees and shareholders of the Company for mistakes, mistakes or unlawful actions related to the financial reporting processes in the Company, the effectiveness of the internal control system, the risk management system and the internal audit activity in respect of Financial reporting in the Company;

3. to investigate all reports of irregularities related to the fulfillment of its functions and duties, receiving assistance from the Board of Directors of the Company;

4. monitor the financial reporting process in the Company and make recommendations and suggestions to ensure its effectiveness;

5. to check and monitor the independence of the registered auditors in accordance with the requirements of Seventh and Seventh Chapters of the Independent Financial Audit Act, as well as with Art. 6 of Regulation (EC) No 537/2014, including the advisability of providing services outside the Company's audit under Art. (5) of that Regulation;

6. recommend the appointment of a registered auditor of the Company in accordance with the Independent Financial Audit Act and Art. 16 of Regulation (EU) No 537/2014, unless and until

the latter has formed a deliberate Commission to select a registered auditor to perform a statutory financial audit of its annual financial statements;

7. to monitor the effectiveness of the internal control system, of the risk management system and of the internal audit activity in relation to the financial reporting in the Company;

8. to grant, in the presence of the statutory preconditions, approvals under Art. 64, para. 3 and Art. 66, para. 3 of the Independent Financial Audit Act.

Art. 10. (1) The members of the Audit Committee have the following rights:

1. participate in the meetings of the Audit Committee in person or by authorizing in writing another member of the Audit Committee;

2. request that a meeting of the Audit Committee be convened;

3. propose items on the agenda and make proposals for decisions;

4. vote in favor of or against the proposed decisions.

(2) The members of the Board of Directors and the employees of the Company shall be obliged to assist the Audit Committee in carrying out its functions, including the provision within a reasonable time of the information requested by it. Requests for information shall be made by the Audit Committee in writing and signed by the Chairperson.

Art. 11. Members of the Audit Committee receive monthly remuneration for their activities in the Audit Committee at the amount of 1 000 (one thousand) BGN. Contracts with the members of the Audit Committee are concluded on behalf of the Company represented by the Executive Director.

#### IV. Obligations of the Audit Committee

Art. 12. The Audit Committee has the following responsibilities:

1. to monitor and perform periodic reviews of the financial reporting process in the Company and to submit recommendations and proposals to ensure its effectiveness;

2. inform the Company's Board of Directors of the results of the statutory audit and explain how the statutory audit has contributed to the credibility of the financial reporting in the Company and the role of the Audit Committee in the process;

3. to monitor the effectiveness of the internal control system, of the risk management system and of the internal audit activity in respect of the financial reporting in the Company;

4. to monitor the statutory audit of the annual financial statements, including its performance,

taking into account the findings and conclusions of the Commission for Public Supervision of the Registered Auditors on the Application of Art. 26, par. 6 of Regulation (EC) No 537/2014;

5. to inspect and monitor the independence of the registered auditors of the Company in accordance with the requirements of Seventh and Seventh Chapters of the Independent Financial Audit Act (promulgated, State Gazette No. 95 of 29.11.2016), as well as with Art. 6 of Regulation (EC) No 537/2014, including the appropriateness of outsourcing services (if any) of the Company under Art. (5) of that Regulation;

6. to be responsible for the selection procedure for the registered auditor of the Company and recommends his appointment in accordance with the Independent Financial Audit Act and Art. 16 of Regulation (EC) No 537/2014, unless and until the Company has formed a Selection Committee for the selection of a registered auditor to perform a mandatory financial audit of the Company's annual financial statements;

7. to notify the Commission for public oversight of registered auditors, as well as the Board of Directors of the Company for any given approval under Art. 64, para. 3 and Art. 66, para. 3 of the Independent Financial Audit Act within 7 days from the date of the decision;

8. to report its activity to the General Meeting of Shareholders of the Company;

9. to prepare and submit to the Commission for public oversight of the registered auditors by 30 June their annual activity report.

10. to ascertain whether the registered auditor selected by the Company fulfills its obligation to publish on its website a transparency report under Art. 62 of the Independent Financial Audit Act, which meets the statutory requirements;

11. to give an opinion on the audit engagement contract for an independent financial audit prior to its conclusion.

Art. 13. (1) The members of the Audit Committee have the following duties:

1. attend the meetings of the Audit Committee;

2. take part in the work and performance of the duties and functions of the Audit Committee;

3. to observe the financial reporting processes;

4. immediately notify the Audit Committee and the Board of Directors of all circumstances that are material to the financial reporting, internal control, risk management and internal audit activities in relation to financial reporting in the Company and would contribute To prevent mistakes, misuses or fraud and who have become aware of them in the course of their duties;

5. to keep the company's trade and business secrets and not to distribute the information and facts that have become known to them in exercising their rights and performing their functions and

duties, and not to use them for their own or foreign benefit. This obligation they are obliged to perform also after they cease to be members of the Audit Committee;

6. to observe their statutory obligations in relation to the inside information, in the possession of and in connection with exercising their rights and performing their functions and duties; With the prohibition of insider trading and for unlawful disclosure of inside information under Art. 14 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation) and repealing Directive 2003/6 / EC of the European Parliament and of the Council and Directives 2003 / 124 / EC, 2003/125 / EC and 2004/72 / EC and for the manipulation of the market under Art. 15 of the same Regulation (EC) No 596/2014, as well as to be aware of the established criminal, administrative, penal, administrative and disciplinary obligations and penalties for violation of these obligations within the meaning of the Law on the Application of Measures against Market Abuse with Financial Instruments (Official Gazette, No 76 of 30.09.2016, in force as of 30.09.2016) and the same Regulation (EU) No 596/2014 and Commission Delegated Regulation (EC) 2016/522 of 17 December 2015 Supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council as regards exemption To certain third-country public authorities and central banks, market manipulation indicators, disclosure thresholds, the notified body in case of delay, the marketing authorization during the prohibition period and the types of transactions to be notified to persons who Perform management functions;

(2) The independent members of the Audit Committee shall be obliged, together with the obligations under the preceding paragraph, to immediately notify the Board of Directors of the Company in writing and to cease performing their functions, if they arise after choosing circumstances incompatible with the criteria of independence under Art. . 7 of this Statute, respectively. Under Art. 107, para. 4 of the Independent Financial Audit Act or other applicable statutory provisions.

(3) The member of the Audit Committee is obliged to fulfill the assumed obligation until the end of the mandate. He may request to be released by the order of Art. 4, para. 2, item 2 in para. 3 of this Statute.

(4) The members of the Audit Committee are obliged to observe the Code of Conduct adopted by the Company for the employees of the Company.

#### V. Audit Committee meetings

Art. 14. (1) The meetings and the work of the Audit Committee shall be conducted by the Chairman elected at the first meeting after the formation of the Audit Committee.

(2) The meetings of the Committee shall be convened by the Chairman, either on his own initiative or at the suggestion of any of the members of the Audit Committee. The Chair of the Audit Committee has no right to refuse to convene a meeting.

Art. 15. (1) The session shall be regular if more than half of the members of the Audit Committee are present. No one present may represent more than one absent.

(2) At the discretion and invitation of the Audit Committee at the meetings of the Audit Committee may be attended by competent employees of the Company, registered or responsible auditors or consultants.

(3) The Audit Committee shall take its decisions by a simple majority.

(4) The Audit Committee may also take decisions in absentia if all members have given written consent to the decision and have signed the minutes.

(5) Minutes shall be kept for each meeting of the Audit Committee, which shall reflect the agenda, the decisions taken and the way of voting of the members. Protocols shall be signed by all members present at the meeting.

(6) The protocols shall be kept for five years unless a statutory instrument provides for a longer period, in which case the latter shall be applied.

#### VI. Financial reporting

Art. 16. The Audit Committee monitors the preparation of the financial statements of the Company strictly in all material respects, in accordance with the established financial reporting framework, the accounting policy adopted by the Company and the applicable regulatory regulation.

Art. 17. (1) In the course of monitoring the financial reporting in the Company, the Audit Committee monitors the observance of the following qualitative features for financial reporting:

1. comprehensibility - the information contained in the reports, reports and attachments thereto must be easily understandable to consumers who have reasonable knowledge of the business, economic activities and accounting, as well as the willingness to investigate information with the necessary diligence;

2. relevance - the information contained in the reports, reports and annexes thereto, helping consumers to assess past, current and future events or by confirming or correcting their past assessments;

3. materiality - information is material if its omission or misleading representation would affect the business decisions of users taken on the basis of the financial statements;

4. Reliability - the information contained in the reports, reports and attachments thereto must have the quality of reliability, that is to say, that it does not contain material mistakes and biases, and that consumers can rely on it to accurately present what it claims to represent, Or which can reasonably be expected to represent;

5. Reliable presentation - the information contained in the reports, reports and attachments thereto is presented in accordance with the actual relations and status as a result of the transactions and business facts;



6. Priority of content to form - Transactions and events in reports, reports, and appendices to them should be reflected according to their economic content, nature and financial reality rather than formally according to their legal form;

7. prudence - assets must not be overestimated or liabilities undervalued;

8. completeness - in quantitative and substantive terms, the information presented in the reports, reports and annexes thereto should be completed;

9. comparability - the information in the reports, reports and annexes thereto must be comparable over time and in comparing the financial statements of different entities.

Art. 18. (1) In exercising its rights and performing its duties and functions, the Audit Committee carries out ongoing monitoring of the financial reporting process in the Company, the effectiveness of the internal control system, the risk management system and the internal audit activity under Financial reporting in the Company.

(2) The Audit Committee, when exercising the rights and performance of its duties and functions and within the latter, supervises the design of the model and the effective functioning of the alert procedures and the processes for reviewing the effectiveness of the internal control of the Company.

## VII. Relationships with the Board of Directors

Art. Article 19. (1) The Audit Committee shall, in exercising the rights and fulfillment of its obligations, carry out and effectively communicate with the Board of Directors for the purpose of performing its functions and ensuring the quality of the financial reporting process in the Company. Notwithstanding the latter, the Audit Committee retains independence and objectivity in the performance of its functions and the preparation of its reports to the General Meeting of Shareholders and to the Commission for Public Oversight of Registered Auditors.

(2) The Board of Directors of the Company shall provide adequate resources - temporal, human and material - to the Audit Committee for the effective performance of its duties.

(3) The Board of Directors of the Company shall be obliged to provide the Audit Committee with access to any information and documents necessary for the performance of its functions and duties.

(4) At the discretion and invitation of the Audit Committee, the members of the Board of Directors of the Company may attend the meetings of the Audit Committee.

## VIII. Transitional and final provisions

Art. 20. The present Statute of the Audit Committee of SOPHARMA AD was developed on the

grounds of Art. 107, para. 7 of the Independent Financial Audit Act (promulgated, State Gazette No. 95 of 29.11.2016).

Art. 21. This Statute was elaborated and adopted by the Board of Directors of the Company with a Protocol dated April 18, 2017 and submitted for approval to the General Meeting of Shareholders of the Company, scheduled for June 2, 2017.

Art. 22. This Statute shall enter into force on the date on which its decision is approved by the General Meeting of Shareholders of the Company, pursuant to Art. 107, para. 7 of the Independent Financial Audit Act (promulgated in State Gazette, issue 95 of 29.11.2016) and shall be amended in the order of its adoption.

Art. 23. This Statute defines the functions, rights and responsibilities of the Audit Committee of the Company in respect of financial audit, internal control and internal audit, as well as its relationship with the Company's management bodies.