

**TO THE GENERAL MEETING
OF SHAREHOLDERS
SOPHARMA AD**

**Report on the activity of the
Audit Committee in 2016**

Dear Shareholders,

The Audit Committee has been elected by the General Meeting of Shareholders of Sopharma AD on 20 November 2008 on the basis of art. 40e of the Independent Financial Audit Act (IFAA) and its composition has been changed by the Annual General Meeting on 23 June 2010. By decision of the AGM from 20 June 2014 its term has been extended for a period of three years with the following three members:

1. Vasil Naidenov - chairman
2. Tsvetanka Zlateva
3. Vasil Piralkov - members

In this composition the Audit Committee has performed its functions during the reporting year 2016, in accordance with art. 40h of IFAA and considering the new regulations of the changed Independent Financial Audit Act (IFAA).

At its meeting the Audit Committee adopted a Working plan during the reporting period and identified the main directions and goals in its activity. In accordance with the main areas of work, enlisted in the Action plan, the Audit Committee directed its activities during the past reporting year 2016 towards:

- assistance in improving the effectiveness of the financial reporting processes in accordance with the periodic findings of the independent Financial Audit;
- participation in the monitoring of the internal control policies implemented by the Company's management and increase of their effectiveness;
- acquaintance with the applied approaches for monitoring and management of the risks in Sopharma AD;
- monitoring of the confirmed policies by the Management of the Company for consolidating the financial statements of the companies in the Sopharma AD Group;
- review of the approaches to risk monitoring and management in Sopharma AD;
- monitoring of the activity of the independent Financial Audit in the mutual work with the financial departments and the Management of the Company in order to ensure better collaboration and with collaboration with the new regulations of the Independent Financial Audit Act;
- assessment and communication on the issues referred to in the letter for the takeover of auditors engagement an outgoing № 1144/07.10.2016 and changed with a letter an outgoing № A249/30.01.2017.
- assessment of the independence of the registered Auditor, preparation of a recommendation on selection of auditor and consulting on the Documents for independent Financial Audit for 2017.

Permanent objective of the Audit Committee is to guarantee the shareholders the independence and objectiveness of the External Independent Auditor in fulfilling its responsibilities and to express the views of the team regarding the correctness of the financial and accounting reporting and the system for internal control in the Company.

The following activities were conducted as part of the execution of the Action plan of the Audit Committee:

Generally, corresponding to the requirements of the law, the members of the Audit Committee have acquainted and communicated with the independent Auditor commitments covering organizational and content, to fully implement independent mandatory financial audit. It was ascertained profound thematic scope of the basic risk identification processes, identified at the audit of the individual financial statement of “Sopharma” AD. The completely correct registered auditor discussed with us the most important ascertainments during their work.

There have been consultative meetings with representatives of the Management related to financials, accounting, reporting and internal control. The findings are that these systems function and that the Management applies a proper accounting policy and directly controls the processes of financial accounting. During the reporting period the Management reinforced the approach to execute internal control activities and active analysis of information to prevent inaccuracies and errors in the process of consolidation of the financial statements of companies, the results of which are part of the consolidation of Sopharma AD.

There have been discussions with the Management regarding future plans for improving the internal control systems to raise the quality and effectiveness of their work. During the reporting period deepened the processes of staffing internal audit units on the proposal of the Audit Committee. The management perceived changes in the company to obey the Board of Directors, which changed are yet to be implemented. This is therefore conditions for the big independence and responsibility of the checks carried out. During the period, there were placed a number of efforts to develop and adopt internal regulations, taking care of the activities of internal financial audit in accordance with components of internal control over financial reporting in the company.

At the same time during the period have been reinforced the basic principles and methods applied by the Management for prevention, detection of errors, misuse and false statements. There is a visibly positive reaction regarding the correction of deficiencies identified by control bodies spacializing to the system. All steps in this direction are towards achieving authenticity of information, objectiveness and correctness of the accountancy.

The members of the Audit Committee conducted meetings with leading experts responsible for the financials, accounting, reporting and internal control in the Company. At this monitoring, they have not identified deficiencies, lack of necessary credibility of financial information or unreliability in the financial reporting processes of the business transactions. All findings in the process of executing of the audit program and the timetable for an independent financial audit are taken into account by the experts and are reflected in the reports.

It can be confirmed that the financial reporting system of the business, as far as we know, fairly presents the financial position of the Company. The information presented in the Annual report of the Company's Management conforms in all essential aspects to the information presented and disclosed in the separate financial statements of the Company as at 31 December 2016, prepared in accordance with International Standards.

The assessment of the properly applied financial accounting policy of the Company are reflected in the opinion of the independent Financial Audit presented in the Report of the independent Auditor. According to their opinion, the applied separate financial statements present fairly, in all material respects, the financial position of Sopharma AD as at 31 December 2016 as well as its financial performance and its cash flows for the year,

concluding on this date, in accordance with the International Financial Reporting Standards adopted by the European Union.

During the reporting period the independent Auditor paid special attention on the issues set out in "Important risks identified in the planning of the audit of the individual financial statement of Sopharma AD" from the audit letter for engagements an outgoing № A249/30.01.2016. The presented audit program and management of the independent financial audit and time schedule for the conduct of an independent financial audit on our monitoring and communication are correctly completed. In this regard, the independent auditor has not informed the audit committee for known material weaknesses in the accounting system and control system, which gives grounds to assume that these systems are fully operational.

The independent auditor took into serious consideration the correctness and fairness of the consolidation of the financial statements within Sopharma AD. The Management took a positive step in this direction by introducing a few years ago structural and personnel decisions for the establishment of a unit responsible specifically for the consolidation of the financial reports. The unit operates successfully already several reporting periods.

The approaches to risk monitoring and management were also discussed with the Management. It was concluded that the Company applies a correct policy in regard to identification of risks and precautionary actions, which is also reflected in the Management Report of Sopharma AD for 2016.

It was also concluded that in accordance with the Public Offering of Securities Act all required financial reports has been prepared and presented to the Financial Supervision Commission, the regulated market and the public within the statutory deadlines, through which publicity has been guaranteed.

The Audit Committee has not received signals about malpractices in the Company harming the interests of shareholders. Also there were no signals about negligence and violations in the performance of the duties of the independent Financial Auditor.

During the reporting period the Audit Committee assisted in ensuring the good conditions provided by the Management of the Company and the responsible employees for achieving normal environment and guaranteeing of transparency and full independence in the performance of the duties of the Auditor. It was determined that the deadlines for providing the necessary information to the Auditor by the responsible employees of the Company have been met. The main findings of the interim and final audits have been taken into consideration in preparing the financial statements of the Company both on quarterly basis and for the reporting period 2016.

The Management approved the documents regulating the conducting of an independent financial audit for 2016 by the Auditor after consultation with the Audit Committee.

The Audit Committee concluded after consultations with representatives of the independent registered Auditor that the overall audit during the reporting period has been performed responsibly and in accordance with all legal requirements. The good practice of precise planning of the audit and its implementation in three phases has been reinforced, resulting in a periodic review of financial statements, control of the results and precaution for avoiding errors.

It is under the impression that for the reporting period there is an increase in the responsibility in the work of the independent financial auditor and considerable expand in the envelopment of the auditor's report. We have paid special attention on the key auditor's topics and other information that is significant for the operation of the company.

Representatives of the registered Auditor acquainted the members of the Audit Committee with key issues related to the execution of the audit and have communicated of the important aspects and risks.

According to the requirements of the new IFAA, the independent auditor communicates with the Audit Committee. Preliminary draft of the independent Auditor's report and after concentration is presented in a final species, in the relevant order.

The Audit Committee concluded that the registered Auditor has provided services within the concluded contract for audit for the reporting period. The registered auditor has not informed the Audit Committee for supplying additional services. Only in connection with the new law on independent financial audit and according to the existing requirements of article 64, AFA OOD discontinues their liability to Sopharma AD for the provision of tax services.

According to its legal obligations the Audit Committee reviewed the independence of the registered Auditor in accordance with all legal requirements and the Code of Ethics for Professional Accountants.

The independent Auditor provided a Declaration of independence from the audited company, as well as Declarations by members of the auditing team pursuant to art.40n, par.1, 2 and 3 of the Independent Financial Audit Act.

The Audit Committee determined on the basis of the provided documents that the registered Auditor meets all criteria for independence from the audited company. It also concluded that the independent Auditor meets their obligation to publish on their website a Transparency Report, which includes information conforming to all legal requirements.

Independently of the pointed out positive findings on the activity of the independent Auditor, the Audit Committee states that the auditing company "AFA" OOD has exhausted the possibilities for verification and certification of the Annual financial statement of the company for 2017 according to the requirements of IFAA.

Because of that circumstance the Audit Committee proposes for election by the General Meeting of Shareholders for an independent external Auditor of Sopharma AD specialized audit company Baker Tilly Klitou and Partners OOD, Sofia, 1612, 104 blvd "Akad. Ivan Evst. Geshov", with UIC 131349346, to verify and to carry out an independent financial audit and certification of the annual financial statement of the company for 2017.

The Company is included with registration number №0129 in the list of registered auditors, published by the Institute of Certified Public Accountants, renovated by the institute of certificated expert – accountants in Bulgaria.

After the documentary survey, we assume that the proposed independent auditor responses to the general standards for selection of auditors. This circumstance gives permission to the proposal of the Audit Committee.

The suggestion is discussed with the leadership of Sopharma AD.

The report was approved on a meeting of the Audit Committee on 21 April 2017.

Chairman:

/Vasil Naidenov/

Members:

/Tsvetanka Zlateva/

/Vasil Piralkov/