

Non-financial Declaration

to the annual consolidated financial statements of Sopharma AD
in compliance with the requirements of Articles 48-52 of the
Accountancy Act

2017



SOPHARMA GROUP

26 April 2018

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I. About the Declaration

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

The declaration also presents the commitments of Sopharma AD and Sopharma Trading AD separately because, due to their nature of activity they have the largest contribution to the financial results of the Group.

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

II. Scope of the Declaration

The information in the Declaration gives a broad insight into the different aspects of the activities of the companies in Sopharma Group as socially committed corporate citizens. It focuses on the activities of the companies for the period 1 January – 31 December 2017. The declaration contains quantitative data used as measures for impact in the main areas described below.

Statement of support

Dear partners,

We bring to your attention a report on the policies of Sopharma Group, the companies in which actively and responsibly work to reduce the environmental impact of their activities and optimize the social and economic footprint. Taking into account the relevant topics for our stakeholders, the Group follows its commitment to achieving sustainable development and prosperity.

In its work, the Group supports and implements the principles of the UN Global Compact and works on the UN Sustainable Development Goals adopted in 2016.

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.

A handwritten signature in blue ink is positioned to the left of a circular blue stamp. The stamp features a central shield with a stylized 'S' and a cross, surrounded by the text 'БЪЛГАРИЯ' (Bulgaria) at the top and 'СОФАРМА АД' (Sopharma AD) at the bottom.

Ognian Donev, PhD

*Executive Director and chairman of the
Board of directors of Sopharma AD*

1. Vision, strategy and corporate governance

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 and its partners 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

The companies in Sopharma Group are led by the belief that they have 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, the healthcare system 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.

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 documents, related to the pharmaceutical production and distribution are:

Sopharma AD

- Statutes of the joint stock company
- The decisions of the General Meeting
- Rules of the Board of Directors
- Code of Ethics
- The Good Corporate Governance Program
- Good Manufacturing Practice
- ICH Q8 Pharmaceutical Development
- ICH Q9 Quality Risk Management
- ISO 17025
- ISO 13485
- AXAPTA

Momina krepост AD

- ISO 9001: 2008 Quality Management Systems
- ISO 13485: 2003 Quality Management Systems for Medical Devices
- CE MARK - compliance of medical device directive 93/42/EEC
- GOST R - Compliance with GOST Standards
- GMP

Unipharm AD

- GMP - Unipharm is the first Bulgarian pharmaceutical manufacturer to have been granted a Good Manufacturing Practice License by the Executive Agency for Medicines in 1999, updated 2013
- ISO 9001: 2006
- ISO 13485: 2008
- Directive 93/42/EEC for concentrate for hemodialysis

Biopharm Engineering AD, Sliven, Bulgaria

- Laboratory Block BSE, DZG is an accredited laboratory according to BIS INISI / IEC 17025 and is separate from other units in Biopharm Engineering AD.

Sopharma Trading AD

- ISO 9001: 2015 Quality Management Systems
- ISO 14001: 2015 Environmental management systems.
- ISO 27001: 2013 Information security management systems

OHSAS 18001: 2007 Occupational Health and Safety Management Systems
Good Distributing Practice - WHO Technical Report No. 937, 2006

A detailed description of the corporate governance systems:

- **Decisions of the General Meeting**

The General Meeting of Shareholders is convened at least once a year. It has the power to amend and supplement the Statutes of the company; to decide on the capital of Sopharma AD to approve the annual financial statements after certification by the appointed auditor; decides on the issue of bonds; distributes the profit. Extraordinary general meetings are also convened in case of mergers and acquisitions. As in the last two years, the company has also regularly held meetings with investors.

- **Operating Rules of the Board of Directors**

The rules ensure the effective organization of the work of the Board, which meets at least once every three months and takes decisions on the management and operation of Sopharma AD. The company's report and transactions relating to more than 50% of the company's assets are offered for voting at the GM as well as other issues related to the competence of the GM.

- **The Good Corporate Governance Program**

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

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

- **GMP**

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

- **GDP**

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

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

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

- **ICH “Q8 Pharmaceutical Development”**

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

- **ICH Q9 Quality Risk Management**

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

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

- **ISO 17025**

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

- **ISO 9001:2015**

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

- **ISO 14001:2015**

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

- **OHSAS 18001:2013**

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

- **ISO 27001:2013**

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

- **ISO 13485:2016**

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

- **BIS INISI / IEC 17025**

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

- **AXAPTA**

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

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

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

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

2. Impacts from the company's business

Economic impact

Economic and financial data	2017	2016	% change	Stakeholders
<i>Payed Taxes</i>	65 040	62 780	3.60	State and local government
<i>Payments to suppliers</i>	950 645	819 238	16	Suppliers / incl. of external services /
Salaries	93 908	81 499	15.23	Employees
<i>Investments:</i>	24 801	22 952	8.05	Other companies
Purchase of property, plant and equipment				
Purchase of intangible assets	19 191	14 217		
Purchase of investments in associated and joint ventures	2 541 1 424	4 010 2 531		
Purchase of available-for-sale nvestments	1 645	2 194		

Social impact

Economic and financial data	2017	2016	% change over the previous year	Stakeholders
Plants	12/ 4 895	10/ 4 543	7.7	Number of employees
Trainings	700	739	-5.3	Employees
/expenses thousand BGN/				
Social costs	4734	4059	16.6	Employees
/expenses thousand BGN/				
Medical service	807	822	-1.8	Employees
Donations	743	434	71.2	Local communities

Ecological footprint

Data	2017	2016	% change compared to the previous year
Cost of raw materials (electricity, heat, fuels, water, without the main raw materials)	26 344	22 980	14.64
Separate waste collection	Most of the companies in the Group collect separate waste		
Emissions of exhaust gases into the ambient air	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.

The data on emissions of waste gases into the ambient air and waste water concern the production of the Group (the factories of Sopharma AD), where the GMP requirements regarding the pollution of the surrounding environment are met.

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

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

Sopharma Trading AD is ISO 14001: 2015 certified, which guarantees the rational use of natural resources and permanent control over the identified environmental aspects. Measures are implemented to manage the environmental aspects, those that can be controlled and those that can have an impact from the side of the company.

Biopharm Engineering AD signed a contract BG16RFOP002-3.002-0048-C01 of 15.12.2017 for the grant from the Ministry of Economy for the implementation of the project "Energy Efficiency Enhancement in "Biopharm - engeneering" AD.

The project is related to the purchase and commissioning of a compact line for dispensing vials under insulator as a measure to achieve energy savings as a result of an energy audit, thereby increasing energy efficiency and expanding the capacity of the existing business site. There is also an activity including CMP for construction of waste heat utilization system and activity for acquisition of automated system for monitoring and control of energy consumption. During the implementation of the project, as part of the project activities, the beneficiary will introduce an energy management system according to the requirements of the standard BDS EN ISO 50001 / EN ISO 50001. A certification audit will be carried out to meet the requirements of the standard.

Employees

The companies in Sopharma Group guarantee:

- *equal opportunities regardless of gender and age, and depending on the education and qualifications of employees;*
- *equal opportunities for career development;*
- *equal opportunities for upbringing and education; and*
- *the right to association.*

Personnel costs (with a 10% share) increased by BGN 14.3 million or by 16% to BGN 101.4 million in 2017 compared to BGN 87.1 million in 2016. The total growth of these expenses is due both to the increase in the remuneration of the hired personnel and to the increased staff in the Group as a result of the consolidation of new companies.

2. Structure of the Group

Company	Interest as at 31.12.2017 in %
Sopharma Trading AD, Sofia, Bulgaria*	72.85
Biopharm Engineering AD, Sliven, Bulgaria	97.15
Pharmalogistica AD, Sofia, Bulgaria	89.39
Elektroncommerce EOOD, Sofia, Bulgaria	100.00
Sopharma Buildings REIT, Sofia, Bulgaria	40.38
Momina Krepost AD, Veliko Tarnovo, Bulgaria	93.55
Unipharm AD, Sofia, Bulgaria*	98.77
Phyto Palauzovo AD, Kazanluk, Bulgaria	95.00
Sopharmacy EOOD, Sofia, Bulgaria**	72.85
Sopharmacy 2 EOOD, Sofia, Bulgaria**	72.85
Sopharmacy 3 EOOD, Sofia, Bulgaria**	72.85
Sopharmacy 4 EOOD, Sofia, Bulgaria**	72.85
Sopharmacy 5 EOOD, Sofia, Bulgaria**	72.85
Sopharmacy 6, EOOD, Sofia, Bulgaria**	72.85
Sopharmacy 7, EOOD, Sofia, Bulgaria**	72.85
Sopharmacy 8, EOOD, Sofia, Bulgaria**	72.85
Sopharmacy 9, EOOD, Sofia, Bulgaria**	72.85
Sopharmacy 10, EOOD, Sofia, Bulgaria**	72.85
Veta Pharma AD, Veliko Tarnovo, Bulgaria	99.98
Aromania OOD, Sofia, Bulgaria	76.00
Pharmastore 1 OOD, Sofia, Bulgaria**	72.85
Pharmastore 2 OOD, Sofia, Bulgaria**	72.85
Pharmastore 3 OOD, Sofia, Bulgaria**	72.85
Pharmastore 4 OOD, Sofia, Bulgaria**	72.85
Pharmastore 5 OOD, Sofia, Bulgaria**	72.85
PAO Vitamini, Uman, Ukraine	99.56
Sopharma Poland LLC, Warsaw, Poland in Liquidation	60.00
Sopharma Warsaw Sp. z. o. o, Warsaw, Poland	100.00
Sopharma Trading d.o.o. Belgrade, Serbia**	72.85
BRIZ SIA, Riga, Latvia	66.13
Brititrade SOOO, Minsk, Belarus**	52.90
Tabina SOOO, Minsk, Belarus **	54.37
Brizpharm SOOO, Minsk, Belarus**	31.45
OOO Sopharma Ukraine, Kiev, Ukraine	100.00
OOO Med-dent, Bobruisk, Belarus***	50.00

OOO Pharmacist Plus, Minsk, Belarus**	35.60
BOOO SpetzApharmacia, Bobruisk, Belarus***	50.00
ZAO TBS Pharma, Vilnius, Lithuania**	33.73
OOO Bellerofon, Minsk, Belarus***	50.00
TOO Sopharma Kazakhstan, Almaty, Kazakhstan	100.00
ZAO Interpharm, Vitebsk, Belarus**	59.52
OOO Galenapharm, Pinsk, Belarus**	54.62
ODO Medjel, Minsk, Belarus**	55.55
ODO Alenpharm-Plus, Belarus**	52.24
OOO Pharmateia, Minsk, Belarus**	38.18
ODO Salius Line, Grodno, Belarus**	52.24
Rap Pharma International OOD, Kishinev, Moldova	51.00
Lekovit D.o.o., Sabac, Serbia**	50.96
OOO Zdorovei, Minsk, Belarus**	35.00
OOO Ivem i K, Minsk, Belarus**	39.62
OOO Ariens, Plotzk, Belarus**	35.30





* effective interest in percent

**indirect interest

***joint venture

3. Products and services

The Group operates in the following areas:

-  production of pharmaceutical products including medicines, primarily generics, herbal-based substances and food supplements, which is primarily done by Sopharma AD (the Company) and to a lesser extent by its production subsidiaries including Unipharm AD in Bulgaria and PAO Vitamini in Ukraine;
-  production of medicinal products and medicinal cosmetics, as plasters, bandages and sanitary-hygiene products focused on the production site in Sandanski city (after the merger of Medica AD in Sopharma AD);
-  distribution of pharmaceuticals, medical supplies, sanitary materials, vitamins, food supplements and cosmetics, which is mainly performed by Sopharma Trading in Bulgaria, Briz SIA in the Baltic region and Brititrade SOOO in Belarus;
-  production and distribution of non-pharmaceutical products, primarily medical supplies such as syringes and other disposables used in medicine, which is mainly performed by Momina Krepost AD, and other complementary activities to the production of pharmaceutical products and distribution of pharmaceutical products.

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

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

The specific activities for the implementation of these CSR policies are coordinated and carried out by the units responsible for corporate communications, investor relations, marketing and human resources.

Policies and specific projects are targeted in four main areas:



Market

Responsible behavior towards stakeholders is the only way to do business and achieve prosperity. The goal is revenue growth, sustainability, ethical competition. Vertical integration not only allows for cost optimization and efficiency gains, but also ensures responsible marketing and enforcement of the standards the Group operates to all suppliers in the chain.

Transparent corporate governance, guaranteed product and service quality and security, resilience, ethical competition, and responsible marketing and sourcing are at the heart of the development of the Group's markets.



Interested parties

For Sopharma Group, relationships and interactions with stakeholders are a true indicator of the Group's success rate, location, economic and social life in the country and the correct direction of development:

- A key stakeholder is a person benefiting from Sopharma Group products for improving health and quality of life;
- Shareholders - public companies in the Group are responsible for each of their decisions to investors who have trusted the development strategy and the results shown. Therefore, CSR programs are presented with each annual report;
- State and local authorities;
- Partners - the success of the Group depends on the success of the companies in the chain of suppliers and partner companies, the sustainable development of the business sector in which the Group operates and the economy of the countries in which it operates;
- Employees - employees are among the most valuable assets of the Group, engaging in high-tech manufacturing, such as pharmaceuticals, and their investment is highly profitable. They are the first ambassadors of the Group's corporate culture and can affect its reputation. Besides the mandatory minimum, of safe working conditions and a healthy work environment, an opportunity for targeted professional development and social benefits, the Group strives to build common values with its employees and to engage in public projects that are important to them;
- Local community - the group has factories and logistics facilities in the country and markets where it operates, and as a major investor in some regions is responsible beyond its business engagements. The group supports projects that are important to the respective region;
- Society - following its mission, Sopharma Group invests in projects that contribute to raising the standard of living and culture, improving people's health, developing civil society and business climate in the markets in which the Group operates.

Environment

The Group works entirely on the standards of GMP and GDP, according to ISO 14001 standard, while investing in the creation of "smart" buildings, renewable energy facilities, growing of own plantations for raw materials, etc. The aim is to reduce the environmental footprint of the Group's operations.

Society

The group works to increase the economic and social development of society, to promote healthy lifestyles and to enhance the health culture, with companies developing specific projects in this direction. The Group invests in the civil dialogue and the development of an active civil society in Bulgaria, clearly articulating its positions on significant social issues and issues related to the Group's sphere of activity.

2. CSR management

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

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

3. Membership

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

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

- **Confederation of Employers and Industrialists in Bulgaria (CEIB).** <http://ceibg.bg/>
- **The German-Bulgarian Chamber of Commerce and Industry (GBITC),** which connects the German and Bulgarian economies with more than 450 German, Bulgarian and international companies. <http://bulgarien.ahk.de/bg/>
- **AmCham.** The American Chamber of Commerce in Bulgaria brings together over 300 US, Bulgarian and international companies operating in the country from all sectors of the economy. All members of AmCham share a common vision of corporate social responsibility, with good corporate reputation being one of the most important membership criteria. www.amcham.bg
- **The European Generics Association (EGA),** which is the official representative organization of the generic European industry, with representatives on the board of directors. <http://www.egagenerics.com>. Currently the organization transformed into Medicine for Europe <http://www.medicinesforeurope.com/>
- **The Union of Bulgarian Pharmaceutical Manufacturers, currently the Bulgarian Generic Pharmaceutical Association (BGFARMA)** whose priorities are to harmonize the interests with regard to the common national and international mechanisms regulating the production and use of medicines, to improve the application of the principles of Good Manufacturing Practice and to observe the principles of fair competition. <http://www.bgpharma.bg>
- **The European Organization of Manufacturers of OTC Prescription Drugs - The Association of the European Self-medication Industry (AESGP).** <http://www.aesgp.be>
- **The Bulgarian National Committee of the International Chamber of Commerce, accepted as a full member of the International Chamber of Commerce (ICC).** ICC is the most prestigious organization in the field of international trade and international economic relations that promotes cross-border trade and investment. <http://www.icc-bulgaria.bg> www.iccwbo.org
- **The Association of Bulgarian Exporters (AVE),** whose purpose is to establish a National Export Development Strategy
- **The Bulgarian UN Global Compact Network** <http://www.unglobalcompact.bg>

- As an active member of **BMGD**, Sopharma is working towards the achievement of the UN sustainable development goals adopted in 2015. For Bulgaria, they are specified in the Strategic Plan of the 2015+ Network, developed by the member companies themselves.
- **GIRB (Sopharma Trading AD and Lekovit)** - The Association of Wholesalers of Pharmaceuticals in Europe brings together over 750 wholesalers in more than 35 European countries. - www.girp.eu
- **Bulgarian Association of Drug Wholesalers (Sopharma Trading AD)** - The mission of the Association is to ensure fair and transparent drug delivery and provision of services in the pharmaceutical sector in Bulgaria. It protects the branch interests and rights of its members before state authorities, institutions and producers - www.batel.bg
- **Genezis (Sopharma Trading Serbia)** - The Genezis Association brings together generic manufacturers of generic medicines and holders of a marketing authorization in the Republic of Serbia - www.genezis.rs
- **The Serbian Association of Drug Wholesalers (Lekovit)** - The mission of the association is to ensure fair and transparent drug delivery and service provision in the pharmaceutical sector. It protects the branch interests and rights of its members before state authorities, institutions and producers.
- **Member of the National Alliance for Local Economic Development NALED (Lekovit)** Independent, non-financial and non-party organization of companies, municipalities and civil organizations working together to create better working and living conditions in Serbia.
- ✓ **European Medicines Agency,**
- ✓ **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

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. Dialogue with shareholders, central and local authorities, business partners, non-governmental organizations takes place both through traditional channels of communication and participation and support of events, discussions and joint projects.

- The Group communicates with all stakeholders through different channels and with different frequency;
- Patients and end users: daily through product sites, official sites of Group companies; Group site www.sopharmagroup.com; company profiles and their social networking brands;

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

IV. Areas of non-financial reporting

1. Market

Sopharma Group (the Group) is a leading Bulgarian producer, exporter and local distributor of pharmaceutical products with a strong presence in Eastern and South-eastern Europe, offering a wide range of prescription medicines and OTC products. As at 31 December 2017 Sopharma Group consists of Sopharma AD and 48 subsidiaries, directly or indirectly controlled by the Company. In addition the Group has investments in 3 joint ventures and 1 associated company.

The participation of Sopharma in the companies of the group is described in details in the Sopharma Group Management Report.

Industrial activity

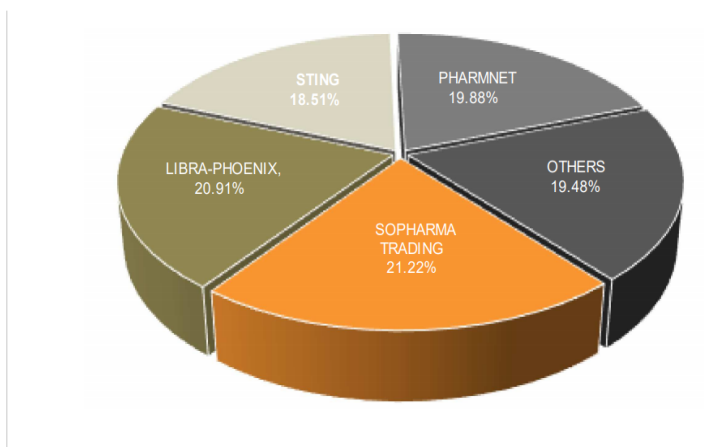
The company and its production subsidiaries have 12 pharmaceutical plants in Bulgaria, conforming to EU regulations - GMP, a factory in Ukraine certified by local authorities, which is recognized in all CIS countries.

Sopharma AD – the main producer in the Group has a portfolio of more than 210 products: mainly generics and 15 original products, of which 12 products are phyto-based.

Distribution

The company is a leading distributor of pharmaceutical products and cosmetics in Bulgaria with a market share of pharmaceutical products of 21% (according to IMS). This position is based on the company's strategy in the recent years to diversify its operations so that a distribution company becomes a provider of integrated, innovative and quality healthcare services.

Market shares of distributors of General Pharmaceutical market in value for 10 December 2017



On the total pharmaceutical market, Sopharma Trading AD achieved a market share of 21.22%, according to the data of the IMS for the period October-December 2017. Within the two market segments, the share of the company in value was 18.96% for pharmacy and 30.97% for the hospital market.

In the fourth quarter of 2017 Sopharma Trading Group realizes sales amounting to BGN 217,040 thousand.

The Company offers more than 10 000 products (particularly pharmaceutical products, medical equipment and devices, accessories, cosmetics, vitamins and food supplements) in its portfolio, in addition to the brands of Sopharma, the company holds exclusive rights for Bulgaria for brands of strategic partners such as Aboca, Colief, Jamieson, Planter's, Premax, Skincode, SVR Laboratories, US Pharmacia and Wyeth, specialized services (such as software solutions for pharmacies and advice and consulting services) and national logistics services. Sopharma Trading cooperates with more than 400 partners and over 3 000 clients.

The contribution of sales in Bulgaria to the consolidated sales revenue in 2017 amounted to 68%, increasing by 8% compared to 2016. Revenues from sales of the Group in Europe (outside the Bulgarian market) amount to 29% of total consolidated sales revenues for 2017 and increase with 38% compared to 2016.

Sopharma Group includes 5 public companies:

- Sopharma AD - the parent company, Bulgarian pharmaceutical producer
- Sopharma Trading AD - one of the largest companies in Bulgaria and a leader in the pharmaceutical sector
- Unipharm AD - a company with traditions in the production of medicinal products
- Momina Krepost AD - producer and exporter of disposable plastic materials mainly for the hospital market
- Sopharma Buildings REIT - a special investment purpose company in the sphere of real estate.



Results review

Key indicator	Unit	2017	2016	% change
Sales revenues	BGN '000	1 017 105	877 085	16%
Profit before interest, taxes and depreciation	BGN '000	86 551	73 656	17.5%
Market Share in Natural Expression	%			
Sopharma AD		13	14	-1%
Sopharma Trading AD		21	21	No change



Management

The key management personnel of the Group include the Executive Director and members of the Board of Directors of Sopharma AD and the executive directors, the members of the Board of Directors and the directors of the subsidiaries of the Group.

Sopharma AD has a one tier management system with a Board of Directors of five members as follows: Ognian Donev, PhD - Chairman and members Vessela Stoeva, Alexander Tchaushev, Andrey Breshkov and Ognian Palaveev. The company is represented and managed by the Executive Director Ognian Donev, PhD.



Production activities

The group is the largest Bulgarian ampoules and suppository manufacturer and the only producer of lyophilised pharmaceutical forms in Bulgaria. A new plant for lyophilised medicinal products and a new extraction power will be built in Sopharma - Kazanlak.

The production activities of the Group are carried out and developed in the following areas:

- production of pharmaceutical products;
- substances and preparations based on vegetable raw materials (phytochemical production);
- veterinary vaccines;
- infusion solutions;
- concentrates for hemodialysis;
- medical disposable products for human and veterinary medicine;
- injection molded products for the industry, agriculture and households.
- Medical supplies and cosmetic products incl. patches; dressing products; sanitary-hygienic products; curative cosmetics.

2. Employees

- Sopharma Group companies treat their employees as their most valuable asset and work towards employer branding. As a responsible employer, the Group follows labor relation principles that are a way to achieve a partnership with employees and sustainable development:
- Equal rights and lack of any discrimination in the workplace;
- Ensuring healthy and safe working conditions;
- Providing opportunities for development based on gender and age equality;
- Ensure the right of association and employee protection.

The training programs offered to employees of the Group aim to develop employee competencies. The training policy is specifically aimed at providing high professional knowledge also in relation to the requirements for health and safety at work.

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. The training forms are different: courses, trainings, seminars, ongoing trainings, a pre-developed plan-specific skills acquisition program according to the professional activity and training in good manufacturing practice.

Since 2017, a system of additional material stimulation has been introduced in a tablet factory in Sofia, whose aim is to increase the motivation of the employees by introducing it to the Ampule Plant.

In Unipharm's factory, employees have additional material benefits such as a city transport card; cash benefits at marriage and birth of a child in an employee's family; covering renting costs for the rental of workers and employees, materially handicapped, by decision of the Managing Board; support for long-term illness and treatment; additional funding to cover holiday, official and business holidays.

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

3. Ecology

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

- 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.
- Once a month, a report is made on the packaging imported and / or marketed by type of material for which a monthly installment is paid to EcoBulpak AD, with which Sopharma AD has concluded a contract for the recovery of packaging waste.

The Group's plants are GMP certified and control the degree of environmental pollution.

The Group is investing in a project for increasing energy efficiency and expanding the production capacity of Momina Krepost AD by supplying and putting into operation of new energy-saving equipment. It will contribute to enhancing the competitiveness of the enterprise but also to sustainable ecological development and growth and will reduce the negative impact of the production on the environment (contract BG16RFOP002-3.002-0125-C01 of 15.12.2017 of Momina Krepost AD).

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: WED 2017: the relationship between man and nature "Rediscover your nature" - Organized walking tours with botanists across the city parks and gardens and a short story about the return to nature. WED 2016: Wildlife, a topic focused on poaching, illegal trade in wildlife or trophies, unregulated fisheries - an information campaign with the help of the Green Balkans Association and the support of the Bulgarian Chamber of Mining and Geology.

The offices of companies are located in "smart" buildings, such as Sopharma Warsaw, which is housed in a business center with The Leadership in Energy & Environmental Design, with energy

saving systems, rainwater use, roofing of bees and Sopharma's office at Sopharma Business Towers, Sofia, whose lifts produce electricity, and the façade is designed to allow a maximum amount of daylight. Employees in the Towers also enjoy the green roof, the "smart" heating / cooling control and the light in the buildings.

4. Society

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

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

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

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

Risk	Low	Medium	High
Social - political		<p>Loss of trust in the media (the consumer also stops believing the ads included);</p> <p>Reducing the macroeconomic stability:</p> <p>The unstable political situation in Bulgaria and the countries in which Sopharma operates may affect the company's activities;</p> <p>Decline in foreign investment</p> <p>Household indebtedness</p>	<p>The reputation of Sopharma Group may be adversely affected by misleading or misleading information in the media;</p> <p>Changes in legislation and regulations that may lead to an increase in the Group's expenses;</p> <p>Loss of confidence in the expertise (of doctors or pharmacists,</p> <p>Restrictions on household consumption</p>

Non-financial Declaration to the Annual Financial Statement of Sopharma Group according to the requirements of Articles 48-52 of the Accountancy Law

Employees		Fluctuation due to the highly competitive market Pressure to raise wages	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	SOP for decision-making	An attempt to involve non-transparent practices on the part of monitoring institutions; Unethical competition.	

V. Sopharma AD

Our Values

- ***We produce generic medicines, traditional products and our top quality brands***
- ***We promote health care through social projects and provide reliable information***
- ***We practice and develop a responsible attitude towards the environment***
- ***We work with and support local and global communities***
- ***We build sustainable profitable partnerships with our suppliers***
- ***We support development and strive to contribute to the happiness of our team member***
- ***We create wealth through profit and growth***

1. Vision, strategy and corporate governance

Vision and strategy

The vision and strategy of Sopharma AD is determined by the corporate philosophy and the mission that the company has taken as a basis for its activity.

Corporate philosophy

Drug production is not just a technological process, it is a human mission based on the high standards of quality, safety and effectiveness of medicines.

Mission

To contribute to the progress and development of the pharmaceutical industry and to the economic development and prosperity of the Bulgarian nation.

Since its founding in 1933, the company has been striving to provide affordable, effective and modern medicines to the Bulgarian patient. Sopharma AD is the successor of the production and pharmacy laboratory of the Bulgarian Pharmacy Cooperative Society, founded in 1914. The production of medicines from a wide and modern portfolio, job creation, sustainable development and the economic contribution of the company are leading principles since the establishment of the production laboratory, which Sopharma still adheres to today.

Sopharma AD aims to develop, produce and deliver affordable, modern and efficient treatment to millions of patients in Bulgaria and in the markets where it produces its products.

The company formalized its sustainable development activity by joining the UNGC in 2004. After the establishment of the BMGD, the company has been actively involved in regional network projects and, since 2016, is considered "advanced" with the Progress Communiqué.

The responsible corporate behavior is the basis of the business development of Sopharma AD.

The CSR strategy is part of the company's economic program, and initiatives and projects support Sopharma's core business and are part of the company's DNA.

Sopharma AD has a clearly defined vision, mission and values that determine the company's activities and direction.

Corporate Citizenship Policy

Corporate Citizenship of Sopharma is developed according to the following regulations and rules:

Regulations and Corporate Citizenship	Description	Year of adoption	Updating
The Constitution and the Laws of the Republic of Bulgaria		1879	2015
The ten principles of the UN General Assembly	<p>The Global Compact calls on companies to adopt, support and implement in their sphere of influence a set of values divided into four main categories:</p> <p>Human rights:</p> <p>Principle 1. Respect and support for the protection of human rights.</p> <p>Principle 2. Guaranteeing non-commitment to human rights abuses.</p> <p>Labor standards:</p> <p>Principle 3. Acceptance of freedom of association and effective recognition of the right to collective bargaining.</p> <p>Principle 4. Removal of all forms of forced and labor.</p> <p>Principle 5. Effective abolition of child labor.</p> <p>Principle 6. Eliminating discrimination in respect of the right to work and occupation.</p> <p>Environment:</p> <p>Principle 7. Support for preventive approaches to</p>	2004	2016 SDG

	<p>environmental protection.</p> <p>Principle 8. Undertaking initiatives to encourage greater responsibility for the environment.</p> <p>Principle 9. Encourage the development and diffusion of environmentally friendly technologies.</p> <p>Anticorruption:</p> <p>Principle 10. Supporting anti-corruption initiatives and transparency policy.</p>	
Goals for Sustainable Development of the UN SDG	<ol style="list-style-type: none"> 1. Eradicate poverty all over and in all its forms. 2. Eliminate hunger, achieve food security and better nutrition and promote sustainable agriculture. [5] 3. Ensure a healthy lifestyle and promote well-being for all at all ages 4. Ensure inclusive and equitable quality education and stimulate lifelong learning opportunities. 5. Achieving gender equality and empowering all women and girls. 6. Ensure accessibility and sustainable management of water supply and sewerage for all. 7. Ensure access to affordable, reliable, sustainable and modern energy for all. 8. Promote sustainable, inclusive and sustainable economic growth, full and productive employment and decent work for all. 9. Build flexible infrastructure, promote inclusive and sustainable industrialization and stimulate innovation. 10. Reducing inequalities within and between countries. 11. Transforming cities and settlements into inclusive, safe, stable and sustainable centers. 	2015

	<p>12. Providing sustainable patterns of consumption and production.</p> <p>13. Take urgent action to combat climate change and its impact. Съхранение и устойчиво ползване на океаните, моретата и морските ресурси за устойчиво развитие.</p> <p>14. Conservation, restoration and stimulation of sustainable use of terrestrial ecosystems, sustainable forest management, combating desertification and cessation of soil degradation and reclamation and loss of biodiversity.</p> <p>15. Promoting peaceful and inclusive societies for sustainable development, providing access to justice for everyone, and building effective, responsible and inclusive institutions at all levels.</p> <p>16. Strengthening the means of implementation and renewal of the Global Partnership for Sustainable Development.</p>	
Ethical code of conduct	Aims to establish standards of ethical and professional conduct in all aspects of their activities, to prevent opportunities for bureaucracy, corruption and other unlawful acts, thus raising public confidence in their professionalism and morality and strengthening the authority of the company.	2007

Sopharma AD, as a corporate citizen, operates on the basis of the Constitution, laws and regulations of the Republic of Bulgaria and in all its actions respects the regulations of the state and local authorities and the regulatory bodies. The company monitors the amendments of the legislation concerning its activity and their strict application.

In preparing its development strategies and daily commitments, Sopharma AD follows the 10 principles of the UN Global Compact and creates and participates in programs that support their implementation not only by the company but also in society.

Management systems

The corporate governance systems under which Sopharma is managed and operated are described in detail in the general part of the Group's non-financial statement.

2. Footprint of company activity

Economic footprint

Economic and Financial Indicators	2017	2016	% change	Interested parties
Decision to pay dividends from the General Meeting in the amount of BGN 0.10 per share	0,10	0,10	-	Shareholders
Paid taxes	9 645	10 709	-9.94	State and local authority
Paid taxes	6 444	7 246		
Paid corporate tax	3 201	3 463		
Платания към доставчици	120 731	118 062	2.26	Suppliers / incl. of external services
Цена на труда/	40 678	36 273	12.14	Employees
Investments /	28 120	35 991	-21.8	Third companies and physical persons
Purchase of property, plant and equipment	12 649	6 061		
Purchase of intangible assets	29	130		
Purchase of investments in associated companies	4 052	2 058		
Purchase of available and for-sale investments	1 377	2 080		
Purchase of shares in subsidiaries	10 013	25 662		

Social footprint

Economic and Financial Indicators	2017	2016	% change	Interested parties
Plants / Employees	10/ 1 953	8 / 2076	25/ - 5.93	Number of employees
Trainings / expenses million BGN /	218	197	10.66	Employees
Social costs / expenses million BGN /	3 390	2 459	37.86	Employees
Medical service	792	802	-1.25	Employees
Donations	372	340	9.41	Local communities
Investments related to the development of the generic business sphere and the health system (sponsorship and participation in seminars, training of copper specialists and pharmacists, events)	7	8	-12.5	All interested parties
Investments related to the development of the business environment (CEIB, for example, IR)	71	40	77.5	All interested parties
Investments to healthy lifestyle programs	67	51	31.37	Society
Investments in public communications	50	68	-26.47	Society

Ecological footprint

Indicators	2017	2016	%
Cost of raw materials (electricity, heat, fuels, water, raw materials, marriage and impairment) BGN 000	26 344	22 980	14,6
Emissions of exhaust gases into the ambient air	0*	0	
Emissions to waste water	Waste water is treated in WWTP **		
Training and participation of the staff on the ways of preserving the environment	Instruction of employees upon entry Instructions for recovery and separate collection of waste Instructions on how to deal with waste substances in the units		

* Sopharma plants are GMP certified, which also controls the level of environmental pollution. Emissions of waste gases are below 50 tonnes per year, which according to standards approximates to 0. At the same time, the use of water 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

Equal opportunities for work by gender, age and education:

Employees	2017	%	2016	%
Women	1291	62	1138	62
Men	778	38	696	38

Employees	Number		% change	Women			Men		
Age	2017	2016		2017	2016	%	2017	2016	%
Employees up to 30 years.	210	189	11.11	181	110	64.54	29	79	-63.3
31- 40	435	390	11.54	280	247	13.36	155	110	40.9
41 – 50	662	617	7.29	452	416	08.65	210	201	4.48
51 – 60	628	530	18.49	383	328	16.77	245	202	21.3
Above 60	134	108	24.07	45	37	21.62	89	71	25.4

Employees	Number		% change
Education	2017	2016	2017
Higher education	893	799	11.76
College education	46	41	12.2
Secondary education	1099	965	13.9
Primary education	31	29	6.9

Equal opportunities for career development

Employees		Women			Man		
Hierarchy		2017	2016	%	2017	2016	%
Top management	4	1	1	-	3	3	-
Management bodies	39	17	12	41.66	22	21	4.76
Middle management	144	79	66	19.7	654	60	8.3
Experts	787	511	449	13.80	276	250	10.4
Non-expert personnel	1095	682	611	11.62	413	365	13.15

Right of association

In 2017, 425 employees were members of three trade union organizations - two nationally represented and one in the structure of Sopharma AD (2016: 428 employees).

3. Organizational structure

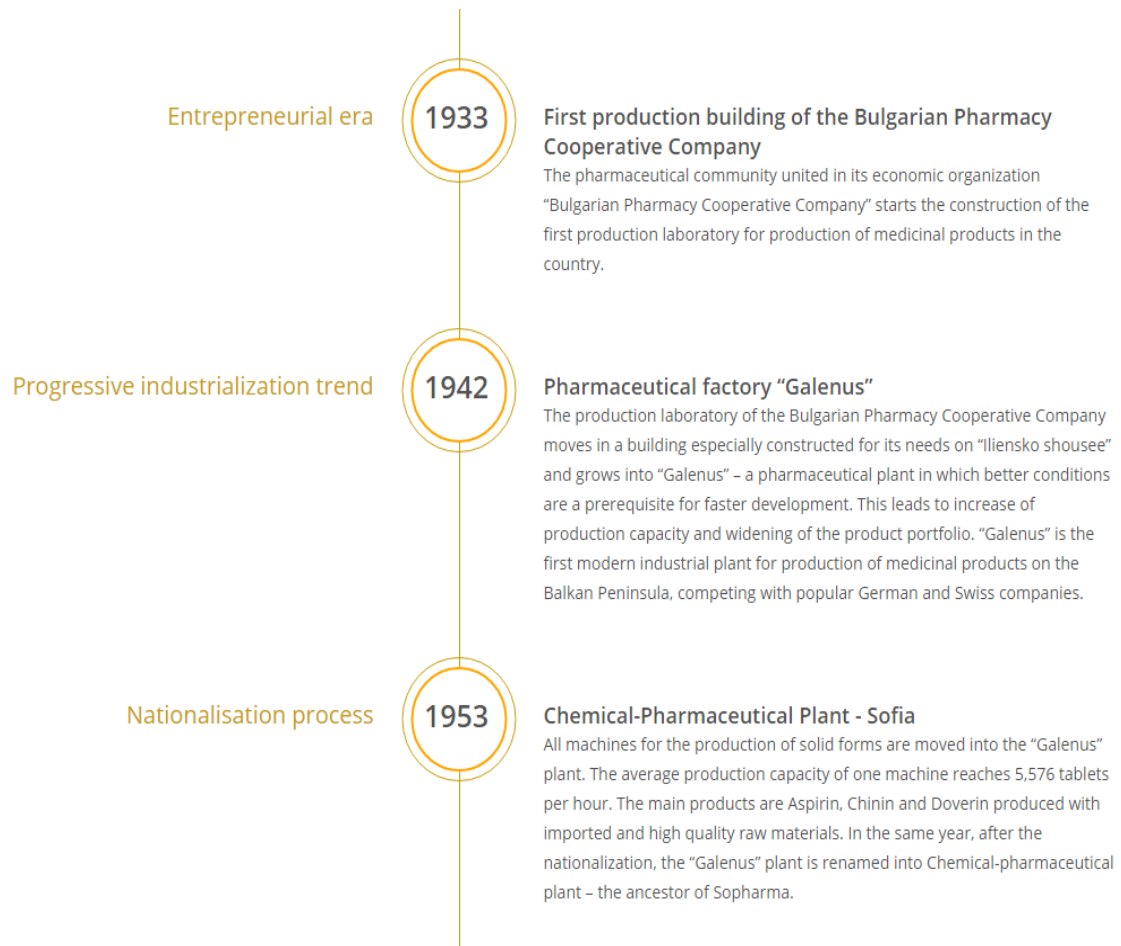
Chairman of the Board of Directors and Executive Management			
Deputy-chairman of the Board of Directors	Member of the Board of Directors	Independent Member of the Board of Directors	Independent Member of the Board of Directors
Director "Business operations, Strategic and Organizational development"	Director "Marketing"	Head of "Quality Assurance"	Representative office of Sopharma AD in: <ul style="list-style-type: none"> → Ukraine → Poland → Kazakhstan → Baltic states and Belarus → Turkey → Azerbaijan → Georgia → Armenia → Tunisia → China → Israel and Palestinian territories
Chief "Financial Officer"	Director "Security"	Division "Regulatory Affairs - Bulgaria and third markets"	
Deputy Chief "Financial Officer"	Director "Technical matters"	Division "Medical Affairs and Clinical Trials"	
Director "Investor Relations"	Director "Production matters"	Division "European Regulations"	
Director "Institutional Relations"	Director "Coordination of production"	Division "Pharmaceutical Products Safety"	
Director "Intellectual property"	Chief of Production department	Human Resources	
Director "Advertising and Corporate Communications"	Director "Quality Management"	Chief Accountant	

4. Products and services

The company manufactures and trades medicinal substances and forms and develops scientific research and engineering activities in the field of phytochemistry, chemistry and pharmaceuticals. Sopharma AD has 10 plants in Bulgaria for production of finished pharmaceutical forms and substances.

The company's activities and production processes are in accordance with national and European legislation and Good Manufacturing Practice and Good Laboratory Practice requirements. In addition to the standards required by pharmaceutical manufacturers, Sopharma AD has standardized its ISO activity through risk management programs and corporate governance systems.

5. Company development



Non-financial Declaration to the Annual Financial Statement of Sopharma Group according to the requirements of Articles 48-52 of the Accountancy Law

Modern history- period of constant modernization and development

2000

Privatization

After a successful privatization Sopharma becomes a private pharmaceutical company. The first years after privatization are a period of constant modernization and improvement. For the two years after the privatization period Sopharma unites six enterprises in a modern and dynamic corporate structure including: Sopharma AD, Unipharm ASD, Vramed AD, Pharmachim Holding AD, NIFHI AD and Rostbalkanpharm.

Market economy

2003

Pharmaceutical plant "Sopharma – Vrabevo", which is fully compliant with the European standards for Good Manufacturing Practices (GMP)

The President of the Republic of Bulgaria George Parvanov officially opened the new pharmaceutical plant "Sopharma – Vrabevo". In this modern plant for production of medicinal products Sopharma invested 20 million BGN. Each step of the construction of the plant followed internationally accepted GMP (Good Manufacturing Practices) standards.

2004

Sopharma fully licenses its production capacities according to the European standards for Good Manufacturing Practices

In 2004 Sopharma licensed its production facilities according to the European GMP which secured its strategic position after the EU accession in 2007. In the same year Sopharma increased its production capacity by adding another member to its group of companies - Bulgarian Rose - Sevtopolis AD.

2005

Most modern Bulgarian logistics center

In 2005 Sopharma opened the most modern logistics center in Bulgaria (logistics terminal) for distribution of pharmaceutical products. The logistics center fully complies with the European Good Distribution Practice (GDP).

Distribution market

2006

Construction of a new high-tech tablet factory for production of solid forms

Sopharma initiated the planning and construction process of a new highly technological tablet factory for the production of solid forms with doubled capacity and investment potential of over 40 million EUR. All activities related to planning, construction and validation fully comply with the European standards for pharmaceutical production and are approved by the Bulgarian Health Agency. For this project Sopharma received the First Class Investor Award.

2007

Completion of a new ampoule plant in Sofia

In 2007 Sopharma made the next step in modernization and increased production capacity in the tablet production of Bulgarian Rose - Sevtopolis AD, Kazanlak.

2008

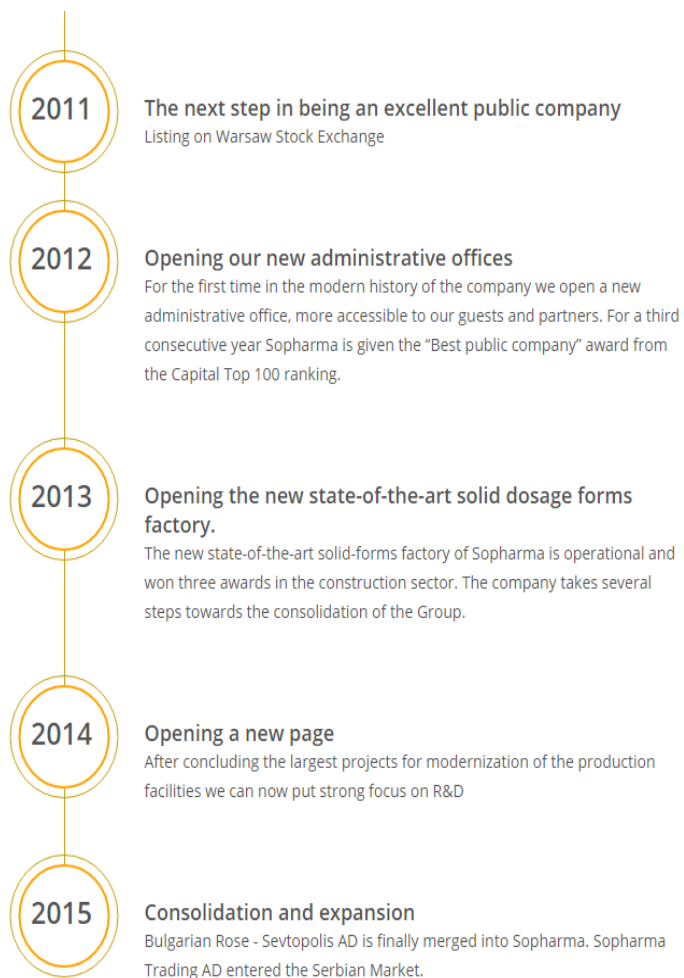
The official opening of the new plant for pharmaceutical substances took place in 2008.

Being the only producer of ampoules in Bulgaria in 2007 Sopharma undertook a reconstruction of its ampoule facility in order to increase its production capacity.

2010

Registration of the first original product of Sopharma in Western Europe.

Start of construction of two new production plants in Serbia and Bulgaria and establishing of a subsidiary in Poland.



6. The CSR Strategy

6.1 Definition

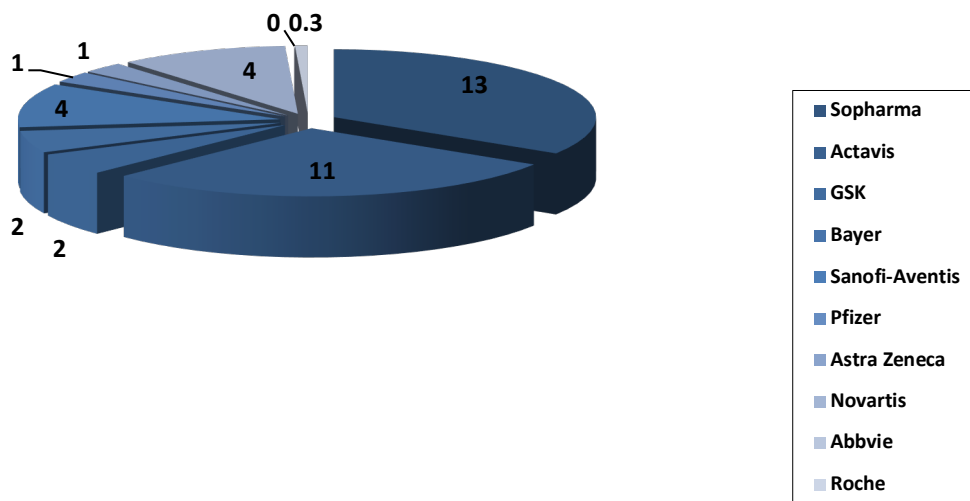
Responsible Corporate Citizenship for Sopharma is the only way for sustainable business development with a clear vision of the goals, the necessary resources to achieve them and the footprint in the economic, social and environmental sphere of the company's business. Along with the investments in its business, Sopharma AD is working on the achievement of UN SDR 2016. Sopharma AD actively communicates with all stakeholders.

CSR is part of the responsible corporate citizenship of Sopharma AD. The CSR strategy, initiatives and specific activities are created, coordinated and implemented by the Communication Strategies and CSR Directorate after approval of the strategy by the Executive Director of Sopharma AD. The Director of Communication Strategies and CSR is directly subordinated to the Executive Director of the company, and has a CSR and corporate communications manager at its headquarters.

Policies and specific projects are targeted in four main directions:

✓ Market

Responsible behavior towards stakeholders is the only way to do business and achieve prosperity. The products and business models we create position Sopharma among the top 10 companies in the Bulgarian pharmaceutical market and first in terms of sales in natural terms with 13% of the market.



✓ Interested parties

For Sopharma AD an interested party is any group that is directly or indirectly related to the company's activities, it has the potential to influence it and may influence the decision making process about the company's business development as a socially responsible organization on the one hand. On the other hand, it is any group that Sopharma AD affects during the performance of its activity.

For the company, stakeholder relationships are a true indicator of the company's success rate, place and economic and social life in the country, and the correct direction of development.



- ✓ A key stakeholder for us are the patients for whom Sopharma's products provide treatment and are a means of improving the quality of life;
- ✓ Shareholders - as a public company Sopharma AD are responsible for each of their decisions to investors who have trusted the strategy for development and the results shown. That is why the CSR programs of the company are presented with every annual report of Sopharma AD;
- ✓ State and local authorities;
- ✓ Partners - the success of Sopharma AD depends on the success of the companies in the chain of suppliers and partner companies;

- ✓ Employees - employees today are among the most valuable assets of any company, especially in high-tech manufacturing, such as pharmacy, and their investment is highly profitable. They are the first ambassadors of the company's mission and corporate culture. Beyond the healthy work environment, career opportunities, social benefits that Sopharma accepts as a minimum in its labor relations, the company strives to build common values with its employees and to engage in public projects that are important to them;
- ✓ Local community - Sopharma AD owns 10 factories in the country and as a major investor in some regions is responsible beyond the business commitments. The company invests resources in projects that are important to the region. At the same time, as the biggest Bulgarian pharmaceutical producer, Sopharma Plc has launched national campaigns;
- ✓ Environment - Sopharma AD works entirely on the GMP and GDP standards, but also invests in the creation of "smart" buildings, renewable energy facilities, growing of own plantations for raw materials, etc. The goal is to reduce the company's footprint on the environment;
- ✓ Society - Sopharma uses its expertise and resources to contribute not only to economic and social development, but also to enhance culture and quality of life through the creation and development of concrete projects. The company supports the development of an active civil society in our country and takes strong positions on various socially important topics.

6.2 CSR management

Corporate responsibility is the very reason for establishment of the company, whose goal was the creation of an industry that would support public health, the creation of a employment for the population and the development of the country's economy. These forward-looking purposes are a subject of a testimony from the "Pharmacy protection" journal, 1933.

".....Значението на химико - фармацевтичката индустрия за всички държави е грамадно. Тази индустрия създава един от най - Важните продукти за поддържането на народното здраве....."

В-к "Аптекарска защита",
бр. 9 - 11, 1933

"....The importance of the chemical-pharmaceutical industry for all countries is immense. This industry creates one of the most important products for the maintenance of public health...."

Journal "Pharmacy protection" ("Aptekarska zashtita") n. 9-11, 1933

Organizational CSR is defined as an activity in 2003 as part of the marketing and advertising engagements and since 2013 is among the priorities of the Advertising and Corporate Communications Directorate with the CSR Managing Director. By focusing on socially oriented projects as a tool for maintaining the reputation of the company, the unit is now referred to as Communication Strategies and CSR and works actively with both the Marketing Structures and the Investor Relations Directorate.

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 2016
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

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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		

Commitment to stakeholders

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

Dialogue with shareholders, central and local authorities, business partners, non-governmental organizations is carried out both through traditional channels of communication and participation and support in events, discussions and joint projects. Traditional communication channels include Sopharma Corp.'s corporate website, www.sopharmagroup.com, company activity reports, UN progress report, newsletters of partner organizations. Informal communication channels: profiles of Sopharma AD in the social networks, mobile applications of the company and others.

Sopharma communicates with all stakeholders through different channels and at different frequencies:

Interested parties	Communication channels	Frequency
Patients	Product websites The official corporate media of Sopharma - Corporate website www.sopharma.bg	Every week In the presence of up-to-date information; Sopharma AD uses its corporate website to provide reliable information related

Non-financial Declaration to the Annual Financial Statement of Sopharma Group according to the requirements of Articles 48-52 of the Accountancy Law

	<p>Website of the group www.sopharmagroup.com</p> <p>Company profiles at Facebook, Instagram, Twitter</p> <p>social platform Healthy</p> <p>mobile application Healthy</p> <p>mobile Ex Smoker app</p> <p>Surveys for brand recognition</p>	<p>to European generic associations; changes in regulatory frameworks concerning the end-user, etc.</p> <p>Daily</p> <p>Daily</p> <p>Daily</p> <p>Daily</p> <p>If necessary</p>
Shareholders	<p>General meeting of the shareholders</p> <p>Notifications</p> <p>Meetings</p> <p>The official corporate media of Sopharma - Corporate website www.sopharma.bg</p> <p>Website of the Group www.sopharmagroup.com</p>	<p>At least once a year</p> <p>Regularly</p>
State and local authority	<p>Participation in annual meetings "Business meets the government"</p> <p>Participation in forums dedicated to problems in pharmacy</p> <p>Official sites of state and local authorities, control authorities</p>	<p>Once a year</p> <p>2-3 events per year</p> <p>Every day</p>

Non-financial Declaration to the Annual Financial Statement of Sopharma Group according to the requirements of Articles 48-52 of the Accountancy Law

	<p>The official corporate media of Sopharma - Corporate website www.sopharma.bg</p> <p>Website of the group www.sopharmagroup.com</p> <p>Participation in working groups related to healthcare and pharmacy</p>	<p>Every day</p> <p>Regularly, depending on the program of the particular group</p>
Partners in the chain	Workshops	Regularly
Employees	<p>Intranet page</p> <p>Facebook page of Sopharma;</p> <p>Corporate website www.sopharma.bg</p> <p>Website of the Group www.sopharmagroup.com</p> <p>Ad Tracks</p> <p>Internal mailing</p>	<p>If necessary</p> <p>Daily</p> <p>If necessary</p> <p>If necessary</p> <p>If necessary</p> <p>If necessary</p>
Society	<p>Healthy life projects</p> <p>Public communications projects</p> <p>Facebook Pages Sopharma, Healthy, Strong day</p> <p>Profiles on Social Networks Twitter, Instagram</p>	<p>Daily</p> <p>4 times a year</p> <p>Daily</p> <p>Daily</p>
Partners from Memberships	<p>Meetings and conferences</p> <p>Business meetings</p>	Regularly

7. Areas of Non-financial Reporting

7.1 Market

The Parent-company realizes its role as a significant factor in the pharmaceutical sector at European level and in the Bulgarian economy. There are 12,000 highly qualified professionals in the pharmaceutical sector in Bulgaria, and since the middle of the 20th century Bulgaria has grown in the pharmaceutical sector, with the pharmaceutical market increasing by 9.5% in value and by 3.6% in volume in 2016.

As a leading vertically integrated Bulgarian manufacturer, exporter and distributor of pharmaceutical products, the Parent-company imposes standards for companies along the chain, following the principles of transparency and accountability of management.

Sustainable Corporate Development of the Parent-company also requires investment in the areas of research and development, quality management, industrial property, publicity and transparency.

✓ Review results

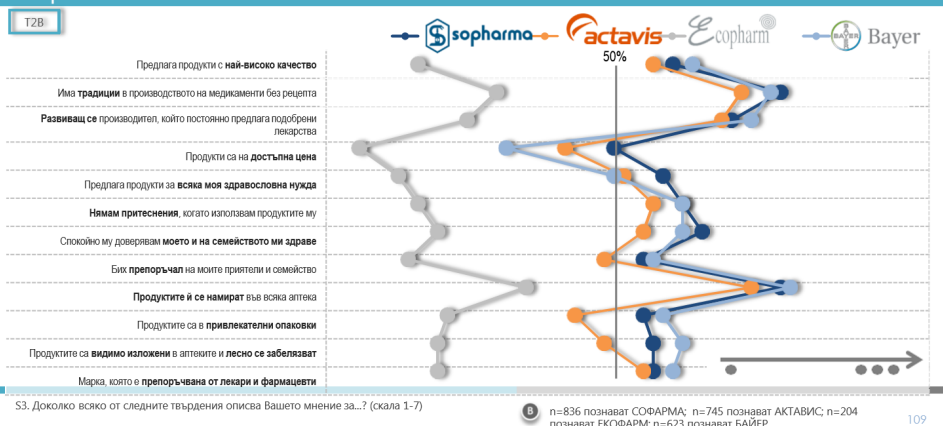
Key indicator	Unit	2017	2016	% change
Sales revenue	BGN '000	205 259	182 396	12,5
Profit before interest, taxes and depreciation	BGN '000	57 309	43 849	30,7%
Market Share in Natural Expression	%	13	14	-1%
Market share as% of volume in value	%	4	4	-

Parent-company is among the companies, together with Actavis and Bayer, with the highest consumer confidence in Bulgaria, according to a survey conducted in 2017.

Non-financial Declaration to the Annual Financial Statement of Sopharma Group according to the requirements of Articles 48-52 of the Accountancy Law

СОФАРМА се представя по-добре от основния си конкурент АКТАВИС. БАЙЕР по част от атрибутите изпреварва СОФАРМА. Включително по опаковки и видимост на продуктите в аптеката. Предимствата на СОФАРМА са традиция (почти наравно с БАЙЕР), достъпни цени и доверие.

Възприемане на основните компании



The market share in Sopharma's natural product as well as the share of OTC products are indicative of the company's position in the minds of consumers. The company's reputation, as a function of the sustainable business model, the quality and availability of medicines, and an adequate CSR strategy also influence the choice of the end user when buying drugs.

✓ Corporate governance

Sopharma Group is a Bulgarian joint-stock company with a one-tier management system. The Company is managed by a Board of Directors, consisting of: d.i. Ognian Donev - Chairman and members Vesela Stoeva, Ognian Palaveev, Alexander Chaushev, Andrei Breshkov. The Board of Directors elects from among its members an Executive Director who represents and manages the company: d.i. Ognian Donev.

The Board of Directors defines the direction and the strategic plan for the company's development, while the operational implementation is carried out by a management team reporting its activities to the Executive Director Ognian Donev, PhD.

✓ Production activity

Sopharma AD has 10 production plants in Bulgaria, which operate according to the requirements of the EU and the Bulgarian legislation.

- Solid Dosage Forms Factory, Sofia
- Factory for liquid and solid dosage forms, Vrabovo
- Factory for solid dosage forms, Kazanlak
- Phytochemical factory, Kazanlak
- Ampoule Plant, Sofia
- Lyophilic production, Sofia
- Chemical plant, Sofia
- Suppository Plant, Sofia
- Gamma Sterilization, Sofia
- Medical supplies factory, Sandanski

Sopharma AD is the largest Bulgarian ampoule and suppository manufacturer and the only producer of lyophilic pharmaceutical forms in Bulgaria. A new plant for lyophilic medicinal products is in project stage.

The production activity is developed in the following directions:

Substances and preparations based on plant raw materials (phytochemical production);

Finished dosage forms including: solid tablets, coated tablets, film-coated tablets, capsules;

Gallhenic - suppositories, drops, syrups, ointments, gels, creams;

Parenteral - injection solutions, lyophilisate powder for injection;

Solutions for hemodialysis

Medical articles and cosmetic products, incl. patches; dressing products; sanitary-hygienic products; curative cosmetics.

✓ **Products**

Sopharma produces products for the following therapeutic groups: cardiovascular, gastroenterological, dermatological, psychoneurological, antiallergic, respiratory, analgesic, rheumatological.

The company has more than 210 products in its portfolio, mainly generics and 15 original products, of which 12 are plant-based.

Taking into account its market position responsibility, Sopharma invests in new production facilities, technologies and products to achieve more affordable and efficient treatment:

Investments	2017	2016	% change
Permissions for use / number	3	3	-
Investments in new products / number	7	3	133%
Pharm. development of medicinal products and active substances / pcs	5	10	-50%
Investments in new technologies / transferred and validated/	30	5	100%
Renovation of production capacity BGN 000			

Buildings, (new and reconstruction)	1 224	1 587	-23%
Machinery, equipment	4 694	600	682%
New tablet Production	6 960	7 429	-6%
New ampoule Production	5 154	5 457	-6%
Biological assets	139	134	4%

The company invested in enhancing the generic portfolio by working on introducing generic products, which are:

- ✓ Proven effective
- ✓ Established as a gold standard in the treatment of various diseases
- ✓ Interestnig for the markets

Future investments in 2018 in:

- ✓ New lyophilic plant in Sofia
- ✓ Building extraction plant in Kazanlak for effective production of phyto products

✓ **Responsible marketing**

Sopharma AD follows a flexible marketing policy, taking into account the possible increase in raw material and material supply prices, changes in the requirements for drug suppliers for raw material suppliers, and the specificities of the drug market. In order to ensure the required quality of the substances for their original products (Tabbe, Nivalin, Carsill), Sopharma AD has permanent yellow acacia plantations, Leucojum grown in a greenhouse in Sopharma, Kazanlak and the annual white thorn. The value of the investments in biological assets for 2017 amounts to BGN 139 thousand. (31.12.2016: BGN 134 thousand).

Sopharma has developed a policy and procedures for assessing its counterparts by making a regular risk assessment. The company has partnered with more than 70 Bulgarian and foreign licensed suppliers, with proven history on the main markets.

The company's communication messages are in line with national ethical rules for advertising and commercial communication.

✓ **Ethical competition**

Sopharma AD strictly complies with the national and European legislation and the rules relating to competition rules.

The company is guided by the belief that ethical behavior is a sine qua non for the development of free market. The company is exposed to strong competition on the one hand, and on the other - to new forms of cooperation in the field of healthcare.

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. Generic medicines are a means of optimizing healthcare spending and increasing health care efficiency, providing access to efficient and modern treatment for more patients, and freeing up resources for new drugs. Governments are pursuing policies on the use of generic medicines and, at the same time, the demographic characteristics of Europe's population predict the increased demand for medicines, especially for chronic diseases.

Enhanced competition and the development of science, incl. of bioequivalent medicines, create new forms of cooperation: co-marketing and co-development; production contracts; licensed production.

Worldwide initiatives are being launched to promote successful competition:

- ✓ Cancelling patents for third countries to help generic products in the EU compete against generic companies from Canada, the United States and Japan;
- ✓ Signing of a mutual recognition agreement between US and EU countries on manufacturing sites for human medicine, which should finally come into force for all EU member states by 2019.

7.2 Employees

Sopharma AD invests in its employees with the belief that they are its most valuable asset. As a responsible employer, the company follows certain principles of labor relations:

- Zero tolerance of any kind of discrimination in the workplace.
- Ensuring health and safety at work.
- Providing opportunities for development based on gender and age equality.
- Ensuring the right of association and employee protection.

Due to its nature of activity, Sopharma AD guarantees safe and healthy working conditions following the GMP standards. Along with this, the company provides its employees with jobs that are relevant to their knowledge and skills. High-tech production, which the pharmaceutical production is today, implies a continuous upgrading and expansion, which for Sopharma AD is a significant investment in assets. The training programs and courses offered by the company to its employees aim to increase their level of competence.

As part of its social responsibility, Sopharma AD introduced a system ensuring fair remuneration of the work done and stimulating the workers. From 01.03.2017 in the Ampoule plant a direct timely system for actual working time and additional monetary stimulation of the main workers is applied on the basis of a monthly assessment of produced and reported quality output. Additional monetary remuneration is up to 30%.

Sopharma AD offers to its shareholders to distribute bonuses to its employees in the form of shares as part of its corporate social responsibility program. This will stimulate the better performance of the team and the development of investment culture.

Beyond its direct commitments as an employer, Sopharma AD creates and develops social projects and programs and participates in collective projects aimed at employees and their communities.

- Healty life:
 - Additional healthcare
 - Free dental services
 - Existence of nurses at the company's factories
 - Annual free examinations for specialists
 - Free fitness
 - Free dance classes
 - Involved in the Multisport Physical Activity Program
 - Children's camp for tennis court
 - Mobile App Activities @ Healthy
 - Provide an opportunity for employees to visit the Longevity and Freedom to Be Forums for free
 - Include employees like @SopharmaTeam in different competitions:
 - o Tennis court tennis
 - o Bicycling competition

Creation and active participation in the program "Good to work" with the pilot project "Games for good". The project includes a competition of teams from companies involved in football, tennis, cycling and volleyball.

- @SoSociety, SoSopharma
 - ✓ Free kindergarten on the territory of Sopharma for children of the employees of the company;
 - ✓ Help for every first grader - a backpack with all the necessary aids;
 - ✓ Baby kit for each newborn child;
 - ✓ Creating and actively participating in the BMGD program "I am proud of the work of my parents", in which children of employees visit their parents' place of work and learn about the value of labor as a way of creating wealth;
 - ✓ Free library;
 - ✓ Maintain accessible and modern recreation facilities for employees in Vrabevo, Boboshevo, Pomorie and Ovcharov beach.

In 2017 Sopharma celebrated five years since the establishment of the kindergarten in the company for the children of the employees of Sopharma AD!

7.3 Ecology

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

- ✓ Separate collection of waste, minimization, recovery and recycling of production and domestic waste
- ✓ Provide appropriate training for staff on environmental and pollution prevention issues
- ✓ Fulfill the imperative requirements of the Council of Ministers Decree 137 and the Regulation on packaging and packaging waste
- ✓ Exhaust gas emissions from atmospheric air from Phytochemical Plant and Solid Formation Plant
- ✓ Monthly Sofiyska Voda measures the wastewater emissions at production sites A and B
- ✓ Production waste is transferred to licensed recyclers
- ✓ The conditions of the Discharge Permit are fulfilled
- ✓ Once a month a report is made on the imported and / or placed on the market packaging by type of material, for which a monthly installment is paid to Ecobulpak AD, with which Sopharma AD has concluded a contract for recovery of packaging waste
- ✓ Sopharma plants are GMP certified, which also controls the degree of environmental pollution. The exhaust gas emissions are below 50 tonnes per year, which according to the standards tends to zero.
- ✓ Organic fillers have not been used for years in production at the company's plants to ensure zero wastewater pollution. At the same time, the use of an aqueous film is a prerequisite for not releasing gases into the atmosphere

7.4 Society

✓ Local communities

Sopharma AD invests in local productions to protect the economic life of local communities. Traditionally, the company supports various projects in Vrabevo, such as the construction of a shopping center with a pharmacy and a restaurant, the restoration of the roof of the St. Archangel Michael's Church and others.

Sopharma AD also invests in five guest houses in Vrabevo, as recreational houses for its employees. It is expected that employees of Sopharma will have access to a total of seven such houses.

Sopharma AD works with Veliko Tarnovo municipality, initially with donations of medicines for old people's homes and pension clubs. Later the cooperation developed towards the restoration of clubs, municipal centers, provision of computers to prominent students at the National Military University in Veliko Tarnovo and others.

In 2017 Sopharma continued to make donations of medicines and means for measuring health indicators such as blood sugar.

✓ **Citizens**

We change the city we live in

Eco-cycling "Healthy"

The first of the innovative eco-cycling "Zdravi" was placed during the European tennis tournament at the National Tennis Center. Volcanoes are part of the #sopharmabike project. They are for 12 bikes and are located close to the tennis courts in Knyaz - the Borisova garden and the National Library "St. St. Cyril and Methodius".

Outdoors office

A joint project with the Credo Bonum Foundation, which turns open space into a space for shared work. The office is available for anyone who wants to change the usual urban office. The outdoor office offers all the amenities at work - high-speed wireless internet, power supply for the equipment, portable solar chargers for mobile devices, recreation areas. At the same time, the office has an organized program with snacks and discussions on various topics, company NGOs and artists, presentations. The project is held for a second consecutive year.

Christmas in Sopharma

For the second consecutive year, the company organizes a Christmas Day for Children, which is accessible to anyone who wants to bring their child. The feast includes Jazz for children with Ventsi Blagoev, which allows the children themselves to participate in the performances and workshops "Daddy's Christmas Daggers" for drawing and coloring figurines.

Reading tales

In 2017 Sopharma AD organized for the first time "Fairy tales in Sopharma", which met children's books, authors and actors with small readers and their parents. Sopharma Business Towers were turned into a magical place to read fairy tales with the actors Ivailo Zahariev, Joanna Temelkova and Simona Halacheva and the author of children's books Radostina Nikolova and the author Maya Bocheva. The older children took part in writing their own books with Maya Bocheva from the "tuy-onui" studio.

In a separate corner, guests and attendees looked at handmade souvenirs they could buy, and the money raised was donated to a charity cause.

Presentation of the book "What's In My Lunch Box"

The children's book "What's In My Lunch Box" by Sopharma on the "Healthy" project presents children in a comprehensible way with the products that are contained in the usual stuff on their daily menu and where the products come from. During the day, announced as "With Children at Work", the booklet was presented through interesting experiments and healthy lifestyle activities prepared by Bio Games.

Part of the "What's In My Box for Lunch" books were donated to "Window to the Motherland", a national project of BNT for the delivery of free books to Bulgarian children living outside our country.

Project "Human body"

The project "Healthy", Bio Games and Museum realized the **"Human Body"** project for children of Sopharma employees, showing the different processes that take place in the human body on a daily basis, for example how to distinguish carbohydrates from proteins and where they are, etc.

✓ Pharmaceutical industry

The European Generic and Biomedicine Industry "fulfills its mission of delivering high-quality medicines to patients in Europe by increasing their access to effective treatment and partnership for sustainable healthcare." The generic and biosimilar industry creates a model of sustainable pharmaceutical innovations related to the creation and the production of value-added products that can improve the health benefits and efficiency of hospitals.

Sopharma participated actively in the work of "Medicines for Europe" as in 2017. has participated in various meetings and international conferences. Representative of Sopharma AD was elected to the Executive Bureau of MEDICINES FOR EUROPE for a third consecutive term, which is a recognition of Sopharma's active activity as a full member of the Association and at the same time one of the fastest growing regional leaders in Central and Eastern Europe.

Sopharma participated in the discussions during the Health Roundtable held in February 2017 at the Marinella Hotel and in Innovation and Good Health Practices in October 2017 in hotel Sheraton.

The digital platforms # Healthy and #ExSmoker were presented at the Digital Transformation Pharmacy 3.0 forum, which presented the latest trends in the digitalisation of healthcare.

✓ Partnerships

GCBN

As an active member of the UN Global Compact Bulgarian Network, Sopharma participates in the projects "I am proud of the work of my parents", "The Way of the Food", "Responsible Choice" and "Healthy Work".

"I'm proud of my parents' work"

"I'm proud of my parents' work" was held for the fourth consecutive year in Sopharma, and in 2017 the factory in Kazanlak was included. In 2017, 21 companies are participating, in 19 cities in the country, 115 professions from more than 15 sectors of the economy are shown. The idea is for the business to show the children of their employees, through specially designed programs and games, why their work is important.

"Responsible Choice"

"Responsible Choice" aims to show that companies, through transparency and responsible behavior, can convince consumers that through their choice they have the power to change production practices, dictate the fashion of advertisers and promote anti-consumerism.

"Healthy Work" and "Games for Good"

"Healthy Work" is a program to build healthy lifestyles and lifestyle of company employees by sharing good practices and information. The "Good for Good" pilot project includes a team competition from companies involved in football, tennis, cycling and volleyball.

Because

Sopharma AD for the third year supports the Foundation's "Ready for Success" donation program. The program helps distinguished students and students to continue their education. Sopharma AD supports two future physicians and / or pharmacists. "Doctor" and "pharmacist" are among the professions that can not develop without the trust of the people and which together restore the most valuable possession of a person - health.

Academy of Rinker

From 2016 Sopharma supports the Rinker's Challenge Training Program for Start-up Traditional and Social Entrepreneurs at the Rinker Center at the BCause Foundation. Its first edition was translated in 2014. Rinker's Challenge offers an unique opportunity for start-ups to get through a structured training system, get personalized advice from leading professionals and entrepreneurs in all business areas, and get start-up funding for their business project.

Life is good when we are healthy

Sopharma AD supports the idea that health is a way of life and lifestyle. This also determines the direction of the various investment in a lot of small social programs and activities, including digital, health-related.

✓ **Socially significant diseases**

Affordable treatment of nicotine dependence

According to the latest scientific research, Sopharma Tapex®'s quit smoking product is the best choice for treating this addiction.

2018

Sopharma's smoking cessation drug received positive assessments in the US based on clinical trials

Preliminary data from the clinical trials conducted in the United States of Sopharma's smoking drug (3JR) are positive, the American partner of the company and the representative of Achieve Life Sciences (NASDAQ: ACHV) said.

In 2015, Achieve Life Sciences acquired the rights to commercialize Sopharma's product, Tabex, in the US. In 2017, this company filed an application with the US Food and Drug Administration to conduct a new drug study and developed a program for the clinical development of cytisine as a preparation for the launch of Phase 3 research in the US in 2018. Later, Sopharma AD has signed a twenty-year contract to acquire the exclusive cytisine-API provider rights in that country.

The year 2017 started with positive news about the registration and subsequent development of our Tabex product

Sopharma's share in Achieve at Extab Corporation Ltd. – Achieve Life Sciences has merged with another strong player in the development and registration of innovative drugs Oncogenex, a public company whose shares are traded on NASDAQ¹ (<http://in.reuters.com/article/idINFWN1EV0QP>). Sopharma AD will own about 3.5% in the newly formed company, which will seek to start the steps for registration of the TABEX product at the US Food and Drug Administration as early as 2017.

New beginning

By the end of 2014, New Zealand scientists proved that the Tabex® Tobacco Removal Product is the most effective for the purpose. Sopharma has spread the information through all possible channels of communication in the markets where the product is made, as well as those where smoking is widespread.

Ex-smoker® Tabex app

Personal smoke-quit assistant “Ex Smoker” is a mobile application for help with cigarette refuses and is provided in Bulgarian, English and Russian.

¹ <http://in.reuters.com/article/idINFWN1EV0QP>

✓ Events

Tennis Day

Sopharma AD organized together with the Bulgarian National Tennis Center a Day of Tennis for the employees of the company and their children. For third year Sopharma AD organizes a paid training camp for tennis for the children of its employees with coaches and a full-day program.

Support for the roller coasters “Draf Cherni vrah MTB race”

For another year Sopharma AD supports the mountain climbing of Cherni Vrah. More than 150 participants traveled 38 km from Boyana to Cherni Vrah at an altitude of 2 290 meters and back to the starting point.

✓ **Digital Social Responsibility**

Sopharma AD communicates with the public mainly through its new www.sopharmagroup.com site. For the first time, a Bulgarian public company provides interactive tools for investors and shareholders related to the company's shares and the structure of the group.

The company communicates with all interested parties through the new digital tools – the youtube channel of Sopharma AD and its social accounts in Twitter and Facebook and works further to digitalize the healthcare system in our country. Access to information on the questions the public is interested at, can also be found in profiles associated with different topics #Zdravi, #Silenden, #Ilovelyheart.

The company has created two mobile applications - #Exsmoker and # Healthy. # Healthy is a social platform that includes a mobile app, blog and Facebook society, active not only in social media but also in the offline environment. The goal is to create a community by providing one advise a day related to physical and spiritual health, showing that "healthy" does not mean difficult or boring. Mobile Application # Healthy won the first Digital Oscars for online project IAB and the online prize and CSR project of the Bulgarian Public Relations Business Sector.

Sopharma AD supports the development of public communications as a basis for any democracy. The company works beyond the imagination of traditional pharmaceutical projects and supports forums and festivals related to longevity and a healthy lifestyle.

Sopharma is a partner of the Bulgarian Public Relations Society, the Medimixx platform and the Annual Meetings of Bulgarian Media Abroad.

For the 6th year Sopharma AD supports Mediamixx - a platform for media development and communication. As the only one in Bulgaria, the platform brings together representatives of the mainstream media in Bulgaria, the PR public and the regulatory bodies such as the CEM. In 2016, Mediamixx went beyond the boundaries of national issues and included representatives of Southeast Europe united by similar issues. 2017 year-long has deepened the dialogue, involving participants recognized as innovators in the communications field. In 2017 Sopharma for another year supports the meeting of the Bulgarian media abroad, which was held in Belarus in 2017.

The risks that Sopharma AD monitors and manages are outlined in the general non-financial statement of Sopharma Group and are presented in detail in a report on Sopharma's activity for 2017.

VI. Sopharma Trading AD

1. Business model

1.1 Information about Sopharma Trading Group



- ✓ **2006:** Sopharma Trading AD was founded after the merger of five distributors;
- ✓ **January 2015:** The company founded its first subsidiary Sopharmacy;
- ✓ **June 2015:** Sopharma Trading started its regional expansion on the Balkans with the registration of the subsidiary Sopharma Trading d.o.o. Beograd;
- ✓ **August 2017:** The company acquired 70% of Lekovit's shares - the fastest-growing local wholesaler of pharmaceuticals over the past three years in Serbia;
- ✓ **December 2017:** Sopharma Trading AD acquired the 19 PharmaStor pharmacies with the intention of their subsequent joining the SOpharmacy family.

1.1 Mission

Our mission is to be an engine in the evolution of the healthcare sector. Since its inception in 2006, Sopharma Trading AD has been actively working to offer its clients and partners innovative and high quality services.

1.3 Vision

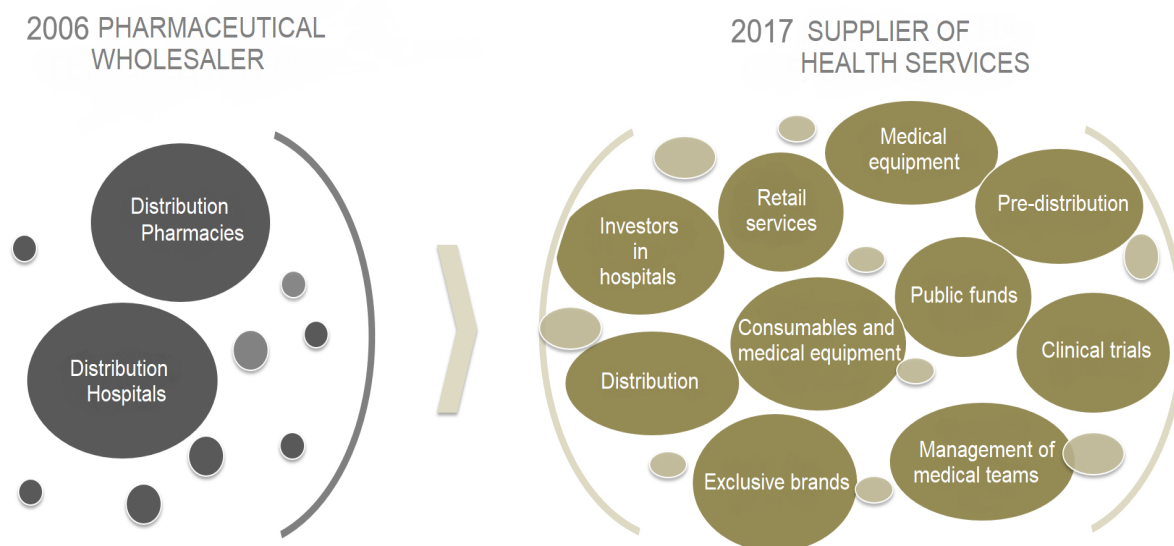
Our vision for the future provides for a strong, modern, vertically integrated regional player.

1.4 Strategy

The strategy follows the vision as the plans envisage both the development of the local market in different segments, as well as in the region.

1.5 Diversified business model

For 11 years, the company has undergone tremendous transformation, diversifying its business and entering various business segments. The plans of Sopharma Trading AD envisage multiplying the business model abroad.



1.6 Values

For the strategic development of the company and in its everyday work, the Sopharma Trading AD team confers three basic values - **Teamwork, Innovation and Passion**. They represent the team's understanding of the way we work and treat our stakeholders.

2. The Sopharma Trading Group as a corporate citizen

As a corporate citizen, the Sopharma Trading Group operates on the basis of all laws and regulations of the countries in which it operates. The Group strictly complies with all state and local government regulations by monitoring the legislation on its activities and strictly enforcing it.

2.1 Management systems

- **Parent-company**

The corporate governance systems under which Sopharma Trading AD is managed and operated are described in detail in the Group's management report.

- **Sopharmacy companies**

For their part, Sopharmacy companies use the developed procedures and policies of Sopharma Trading AD as the sole owner of the company.

- **Lekovit**

The Serbian company has the following certifications:

ISO 9001:2008	The implementation of the Quality Management System according to the requirements of ISO 9001: 2008 guarantees 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.	2015	2018 - Implementation of a Management System to meet the requirements of ISO 9001: 2015 is forthcoming
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2.2 Impacts from the company's business

Social impact

Economic and Financial Indicators	2017	2016	% change compared to the previous year	Stakeholders
Trainings / expenses million BGN /	332	159	109%	Employees
Social costs / expenses thousand BGN /	684	591	16%	Employees
Medical service / thousand BGN/	199	192	4%	Employees
Ivestments and donations /thousand BGN/	312	8	3800%	Local communities

Ecological impact

The parent-company – Sopharma Trading AD has established and maintains a certified Environmental Management System in accordance with the requirements of ISO 14001: 2015. It seeks to continually improve its environmental performance as a result of the activities it can influence.

• Commitment by the Environmental Guidance

The management of the Parent-company – Sopharma Trading AD has demonstrated a commitment to environmental protection in carrying out its activities, while respecting the requirements of applicable legislation and international standards. For the effective management of environmental protection activities, the company directs its actions to the priority management of the significant environmental aspects that affect its activities, the prevention of pollution through unauthorized disposal or the incineration of waste.

• Energy sources used

The parent-company - Sopharma Trading AD uses non-renewable sources of energy in strict compliance with the implemented procedures for control and rational use of natural resources.

Every year, the company recognizes the impact of fluorinated greenhouse gases as operator of stationary refrigeration and air conditioning systems.

- **Waste Management**

The company carries out separate collection of waste, minimization, recovery and recycling of production and household waste, while strictly observing the legal requirements for waste disposal of medicinal products. A contractual relationship with a company for separate collection and recovery of packaging waste is maintained. In addition to waste management, the parent company sets targets for reducing scrapped products with expired expiration date. For 2017, it acknowledges the achievement of the target of reducing the scrapped products by 5%.

The parent company provides appropriate training for employees on environmental and pollution prevention issues.

- **Impact of transport on the environment**

In 2017, the parent company renewed its fleet by purchasing 31 new trucks, which have an Euro 6B standard for emissions of harmful gases into the atmosphere.

2.3 Managing people

- **People management policy**

The strategy for the people at Sopharma Trading AD is focused on three main areas: company growth, leadership support and people development. In each of the focus areas, the company has a number of policies and practices.

- **Equal opportunities for gender, age and education**

Sopharma Trading Group Bulgaria (Sopharma Trading AD, Sopharmacy, PharmaStore)

Employees	Women			Men		
Age	2017	2016	growth in %	2017	2016	growth in %
18-30	274	156	76%	119	103	16%
31-40	259	165	57%	151	136	11%
41-50	133	96	39%	97	92	5%
51-60	75	63	19%	34	31	10%
Over 60	10	6	67%	6	4	50%

Employees	Women			Men		
Education	2017	2016	growth in %	2017	2016	growth in %
Basically	4	3	33%	3	3	0%
Average	254	139	83%	239	225	6%
High	493	344	43%	165	125	20%

Sopharma Trading Group Serbia (Sopharma Trading d.o.o и Lekovit)

Employees	Women		Men	
Age	2017	%	2017	%
18-30	87	66%	33	53%
31-40	31	23%	13	21%
41-50	11	8%	10	16%
51-60	2	2%	5	8%
Over 60	1	1%	1	2%

Education	Women		Men	
	2017	%	2017	%
Basically	0	0%	1	2%
Average	88	66%	49	80%
High	45	34%	11	18%

- Equal opportunities for career development

Sopharma Trading Group Bulgaria (Sopharma Trading AD, Sopharmacy EOOD, PharmaStore OOD)

Employees	Women			Men		
Hierarchy	2017	2016	%	2017	2016	%
Top management	2	0	200.0%	1	3	-67%
Managerial personnel	3	7	-57.1%	2	8	-75.0%
Middle Management	12	10	20%	1	2	50.0%
Experts	16	17	-6%	2	9	-78%
Non-expert personnel	7	2	250.0%	12	12	0.0%

In 2017 the company held a grading project for different positions, to clearly grade them according to objective criteria. This project provides a solid basis for creating office architecture.

Development of the people in Sopharma Trading Group

The development of the Group includes all employees at all levels - from colleagues working in warehouses and drivers to Chief Executive Officer.

People who have undergone development are over 60% of all employees in both years.

The Group encourages employees to be continuously trained by providing them with a variety of opportunities: trainings, conferences and seminars to increase employee competence, e-trainings that can be accessed at any one time by their business units; study of foreign languages during working hours; mentoring; coaching and more. All compulsory training 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.

General information about the parent company

	2017	2016	%
Days spent on development activities (1 day per 1 training employee)	1284	1032	24.42%
Training groups	164	213	-23%
People who have gone through training	478	466	2.58%
% of people trained in the total number of employees in the company	62% <i>(on the basis of 771 people)</i>	63% <i>(on the basis of 739 people)</i>	-1%

General data on subsidiaries in Bulgaria

	2017	2016	%
Days spent on development activities (1 day per training employee)	394	261	51%
Training groups	59	30	97%
People who have gone through training	376	169	122%
% of people trained in the total number of employees in the company	97% <i>(on the basis of 376 people)</i>	150% <i>(on the basis of 113 people)</i>	

General data on subsidiaries in Serbia

	2017	%
Days spent on development activities (1 day per 1 training employee)	8	-
Training groups	1	-
People who have gone through training	16	-
% of people trained in the total number of employees in the company	8% <i>(on the basis of 194 employees)</i>	-

Training days spent by men and women from the parent company in various types of development activities

Training and development	Women			Men		
	2017	2016	%	2017	2016	%
Key competencies	65	93	-30%	56	87	-36%
Professional skills	410	260	58%	349	240	45%
Technical skills	174	165	5%	149	152	-2%
Conferences	61	22	177%	20	13	54%

Training days spent by men and women from subsidiaries in Bulgaria in various types of development activities

Training and development	Women			Men		
	2017	2016	%	2017	2016	%
Key competencies	11	47	-77%	2	2	0%
Professional skills	151	106	42%	15	14	7%
Technical skills	166	0	100%	28	0	100%
Conferences	2	0	100%	1	0	100%

Training days spent by men and women from subsidiaries in Serbia in various types of development activities

Training and development	Women		Men	
	2017	%	2017	%
Key competencies	0	0%	0	0%
Professional skills	0	0%	0	0%
Technical skills	16	12%	0	0%
Conferences	0	0%	0	0%

- **Information on Remuneration and Benefits Policy**

Regarding remuneration, the Sopharma Trading Group applies the following four principles:

- **Pay for Performance** – we believe in fair pay for the work and contribution of each colleague
- **Internal Equity** – we respect inner justice, and colleagues with equal contributions are rewarded equally
- **Market specific** – our remuneration is consistent with the pay of the relevant labor in the country concerned
- **Legal compliance** – we strictly follow the country's legislative requirements

Participating in market research on earnings and benefits provides us with up-to-date information that we take into account when determining our pay levels.

3. CORPORATE SOCIAL RESPONSIBILITY

3.1. Main focus (Society)

Corporate Social Responsibility of Sopharma Trading AD focuses on two main areas:

- ✓ **Children** - with an accentuation on their social and cultural development and acceptance.
- ✓ **Art in all its directions** - as a means of building aesthetic perceptions and forming a broad view of the world.

In 2016, on the occasion of its tenth anniversary, the parent company Sopharma Trading AD established its own CSR platform named "Wings of Happy Childhood". Her beginning was given with the theatrical-circus performance "Cherga", realized with the support of the National Palace of Children.

In 2017, four projects were implemented within the platform:

- ✓ **Construction of a lift for children with disabilities in the 23rd school**- with the funds donated by Sopharma Trading AD in the school, a project for the construction of a lift was made to facilitate the daily life of disabled students and their parents.
- ✓ **Dances that do not know boundaries** - within the framework of this initiative, the company helped students with hearing impairment from the School of Modern Dance at the specialized school "Prof. Dr. Decho Denev "to present our country at the biggest festival that gathers hearing impaired children from all over Europe in the Czech Republic.

- ✓ **Innovations in the museum** - Sopharma Trading AD also stood behind the “Art and Child” Foundation in their ambition to involve talented children in the creation of a fund of youth works for a future Children's Art Museum. With the support of the company, a competition was organized in which the young participants were tasked to look with the eyes of an artist our capital and create a landscape by experimenting through the relationship between creativity and innovation.
- ✓ **"The Last Temptation" performance** - the company supported the realization of the performance "The Last Temptation" on the great novel by Nikos Kazantzakis in the National Theater.

3.2. Anticorruption Practices and Policies

The parent company has a well-established anti-corruption policy, and each employee is trained through effective practices. To ensure compliance with anticorruption policy, a mechanism is in place to control compliance with all policies.

3.3. Risks

Overall risk management focuses on the difficulty of predicting financial markets and minimizing potential negative effects that may affect the financial performance and performance of the group companies. Financial risks are currently identified, measured and monitored through the various control mechanisms introduced to determine adequate prices for the products and services of the Parent Company and its borrowed capital, as well as to adequately assess the market circumstances of the of its investments and the forms of maintenance of the free liquid assets, without allowing an unjustified concentration of a certain risk.

Risk management is currently carried out by the management of the Parent Company in accordance with the policy defined by the Board of Directors. The latter adopted basic principles for the general management of financial risk, on the basis of which specific procedures for the management of individual specific risks such as currency, price, interest, credit and liquidity have been developed.

- **Currency risk**

The currency risk is related to the negative movement of the US dollar exchange rate, mainly against the Bulgarian BGN / EUR in future business operations, on the recognized foreign currency assets and liabilities. The parent company carries out its activities in active exchange with foreign suppliers. However, the Company is not exposed to a significant risk of exchange rate fluctuations because:

- the bulk of the deliveries are in currency and are from the European Community and Switzerland.
- the sales of the parent company and the subsidiaries of Sopharmacy and PharmaStore Group are fully realized on the domestic market in BGN or EUR.
- sales realized by Sopharma Trading d.o.o. Serbia and Lekovit are mainly in euro and Serbian dinar.
- the rest of the Group's operations are also usually denominated in BGN and / or in EUR, which reduces their exposure to currency risk (the exchange rate between the BGN and EUR is fixed by law by the Bulgarian National Bank)

In order to manage the foreign currency risk of its future business operations and the recognized foreign currency assets and liabilities denominated in a currency other than EUR and BGN in the Parent Company, a system for planning the supply of imports is implemented, it pursues a policy of reducing the dollar's open positions and strives to maintain an optimal US dollar foreign currency reserve.

- **Liquidity risk**

The liquidity risk is due to the negative situation that the group companies will not be able to meet unconditionally all their obligations according to their maturity. An internal source of liquidity for the Parent Company is its core business generating sufficient operational flows. External sources of funding are banks and other permanent partners. The Parent company generates and maintains a sufficient volume of liquidity.

The Parent company conducts a conservative liquidity management policy, which constantly maintains an optimal liquidity reserve and a good ability to finance its business, by providing and maintaining adequate credit resources and facilities.

- **Risk of interest-bearing cash flows**

In the asset structure of the parent company, interest-bearing assets are represented by cash, receivables under deferred payments and serviced court receivables from customers with a fixed interest rate. On the other hand, the borrowed funds of the parent company in the form of long-term and short-term loans usually have variable interest rates. This circumstance partially puts the cash flows of the Parent Company in line with interest rate risk. The coverage of this risk is achieved in two ways:

- (a) optimizing the sources of credit resources to achieve a relatively lower price of attracted funds, incl. through commercial obligations; and

(b) a combined structure of interest rates on loans, which consists of two components - constant and variable, the ratio between them and their absolute value is sought to be achieved and maintained at a favorable rate for the company. The permanent component has a relatively low absolute value and a large enough relative share in the total interest rate. This circumstance eliminates the likelihood of a significant change in interest rates with a possible update of the variable component. This also minimizes the likelihood of a change in the unfavorable direction of cash flows.

The management of the Parent Company is currently monitoring and analyzing its exposure to changes in interest rates.

- **Credit risk**

In performing its activities, the Parent Company is exposed to credit risk that is related to the risk that one of its counterparties will not be able to fully execute the trade and other receivables due within the usual timeline. The underlying credit risk for the parent company is related to longterm deferred payment bidding for public procurement of medical equipment and the financial difficulties faced by the public health system. The deteriorated general macroeconomic situation and the liquidity difficulties faced by agents in drug retailing are a prerequisite and increase credit risk in the client base of the Pharmaceutical Market.

- **Operational risks**

The operational risks are related to the management of the Group's companies, namely: making erroneous decisions for the ongoing management of the Group's investments and liquidity, both by the senior managerial staff and by the operational staff, possible technical errors of the unified management information system; possible internal control system errors; possible leaving of key personnel and impossibility to replace them with qualified employees .

An adequate system for identifying, assessing and treating risk, as well as monitoring, reviewing and improving management is in place in the company. The risks for all processes in the group are assessed. In order to effectively manage them, admission criteria and acceptable levels of residual process risks are defined. To all types of risks, adequate measures are taken to minimize them.

- **Personnel**

The Group has developed a human resources management policy with key accents in the selection and appointment of specialists with significant experience and proven qualities. Also, investing in the continuous improvement of the quality of Human Resources through training and remuneration system, coupled with the results achieved, adequate to market conditions.

As part of the implemented measures to protect information from identified threats and to minimize possible damage, a personal security system has been set up. The company attaches great importance to the processes of selecting trained and motivated staff to help prevent outsourcing of confidential information.

- **Processes**

The Department of Management Systems and Good Distribution Practice in the Parent Company has as main objective the description of all the business processes in the company as well as the continuous improvement of their efficiency.

Process audits are conducted to provide recommendations for optimizing them, as well as improving control mechanisms to minimize the risks of mistakes and misuse. All activities and processes in the Parent Company are carried out under the conditions of certified management systems according to the international standards - ISO 9001, ISO 27001, ISO 14001 and OHSAS 18001.

- **Systems**

The companies of the Group have developed procedures managed by the IT department, ensuring the continuity of the company's communication and information systems as well as archiving and protection of the information. The Group has a business continuity system implemented to ensure the integrity, availability and reliability of the information.