

COMPLY OR EXPLAIN
REPORT
of The National Code for Corporate Governance,
in accordance with Art. 100 n, Par. 4, It. 3 of POSA

In November 2007, Sopharma AD adopted the National Code for Corporate Governance and conducts its business in compliance with the provisions of the Code.

The actions of the Board of Directors of „Sopharma” AD are directed towards endorsing of the principals of good corporate governance, increasing the confidence of Shareholders, Investors and the parties, interested in the activities of the Company.

The Board of Directors of „Sopharma” AD respects the Program for Good Corporate Governance, which is in accordance with current legislation, the internationally acknowledged standards for good corporate governance and The National Code for Corporate Governance.

The managers of the Company conform to and respect the adopted Ethical Code, The Code of Conduct of the Board of the Directors and the Principles of the Global Contract of UNO.

There is a an established practice for public disclosure of information, which is essential for the Company. A set of practices has been established in order to facilitate the effective participation of the Shareholders in the work of the General Meetings of Shareholders.

The processes and procedures for the conduct of the General Meetings of Shareholders allow for the equal treatment of all Shareholders.

The Board of the Directors shall make the voting understandable and easy by including the proposals for decisions in the documents of the General Meeting.

The procedure and the agenda of the General Meeting allow for a fair attitude towards the Shareholders, regardless of the number of shares they own or represent.

When a General Meeting of Shareholders is convened, the invitation to it shall be published in the Commercial Register, at least 30 days prior to its opening. The invitation shall contain the exact date, time and place of the meeting as well as the voting order and the agenda.

The documents related to the General Meeting of Shareholders shall be available to the Shareholders from the day of the publishing of the invitation in the Commercial Register on the website of the Company: www.sopharma.bg and upon request shall be provided free of charge to the Shareholders.

The Shareholders have the right to take part in the General Meeting through a representative after providing an explicit letter of attorney with a minimum content,

determined by Decree. This order of participation shall be disclosed in the invitation to the General Meeting.

„Sopharma” AD shall notify the Commission within 7 days after the conducting of the General Meeting about voting by attorneys.

„Sopharma” AD shall send to the Commission and BSE – Sofia the record of the General Meeting of Shareholders within 3 days after its conducting. Every shareholder has the right to acquaint themselves with the content of the record.

„Sopharma” AD discloses periodic and accidental information to the FSC, BSE and the public. The Company shall prepare an annual financial report and present it within the statutory timeframe. The interim reports for every quarter of the fiscal year shall be presented to the FSC and to the public in the statutory order. The provided information shall be accessible, accurate and comprehensive and the materials laid out in manner, which shall be comprehensible for every investor. Sopharma disseminates information to the public through the X3NEWS system on the basis of a contract with Financial Markets Service Ltd. and through Investor.BG.

The Board of Directors believes that there are prerequisites for transparency in the relations with the Investors, the financial media and analysts of the capital market.

Chapter One

BOARD OF DIRECTORS

1. Functions and Duties

1.1. The Board of Directors of Sopharma AD shall govern the Company in a responsible and independent manner in accordance with the vision, goals and strategies of the Company and the interests of the Shareholders.

The members of the Board of Directors shall provide a guarantee for their governance to the amount of their quarterly gross remuneration, determined by the General Meeting of the Shareholders.

1.2. The Board of Directors of Sopharma AD shall determine and manage the strategic direction of the Company.

1.3. The Board of Directors of Sopharma AD shall determine the corporate risk management policy and control the establishment and functioning of the Company’s risk management and internal audit systems.

1.4. The Board of Directors of Sopharma AD shall ensure the compliance of the Company with legal, normative and contractual obligations in accordance with the adopted Statute and Code of Conduct for the Board of Directors.

1.5. The Board of Directors is responsible for the reliable functioning of the financial and information systems of the Company.

1.6. The Board of Directors shall provide directions for, approve and control the implementation of: the Company's business plan, transactions of significant character, as well as other operations outlined by the Company's charters.

1.7 The Board of Directors shall determine the Company's policy regarding the disclosure of information and the investor relations. It shall provide the Investors with information as required by the Company's charters and in compliance with the time and format requirements.

1.8. During their mandate, the members of the Board of Directors are guided in their work by the commonly accepted principles of honesty and managerial and professional competence.

The Board of Directors of Sopharma AD shall comply with an ***Ethical Code of the Employees of the Company, adopted with a record of the Board of Directors from 26.03.2007.***

1.9. The Board of Directors of Sopharma AD shall prepare an annual management report and presents it for approval to the General Meeting of Shareholders.

2. Election and Dismissal of Members of the Board of Directors

2.1. The General Meeting of Shareholders shall elect and dismiss members of the Board of Directors of Sopharma AD in compliance with the law and the Company's charters, while respecting the principles of continuity and sustainability of the Board of Directors' work.

2.2. The management contracts with the Board of Directors shall determine their duties and responsibilities, the criteria for the level of their remuneration, their duties of loyalty to the Company and the grounds for dismissal.

3. Structure and Competence

3.1. The number of members and the structure of the Board of Directors shall be determined in the Statute of the Company.

3.2. The composition of the Board of Directors elected by the General Meeting shall guarantee independence and equity of the assessments and actions of its members regarding the functioning of the Company. The number and quality of the independent directors shall guarantee the Shareholders' interests.

3.3. The Board shall provide proper distribution of duties and responsibilities among its members. The main function of the independent directors is to control the executive management and to participate effectively in the work of the Company in accordance with the interests and rights of Shareholders.

3.4. The competences, rights and responsibilities of the members of the Board of Directors shall be determined according to the law, the Company's charters, and the standards for good professional and management practice.

3.5. The members of the Board of Directors shall have the proper knowledge and experience required for the position they occupy.

3.6. The members of the Board of Directors shall be equipped with sufficient time to carry out their tasks and duties. The Company's charters do not limit the number of governing positions a Board member can hold, e.g. the activity of the members of the Board of Directors cannot be limited.

3.7. The election of Board members shall be done through a transparent procedure which shall among other things ensure timely and complete information regarding the personal and professional qualities of the candidates.

The number and consecutive terms of the members of the Board of Directors shall ensure the Company's efficient functioning and compliance with the statutory requirements.

According to the Statute of the Company there shall be no limit for the re-election of the members of the Board.

4. Remuneration

4.1. The amount and criteria for the remuneration of the members of the Board of Directors shall be approved by the General Meeting of Shareholders.

4.2. In accordance with the law and the practices for good corporate governance the amount and criteria for the remuneration shall take into account:

4.2.1. the responsibilities and contribution of each member of the Board of Directors to the Company's performance and results;

4.2.2. the possibility to select and retain qualified and loyal members of the Board of Directors;

4.2.3. the requirement to align the interests of the members of the Board of Directors with the long-term interests of the Company.

4.3. The members of the Board of Directors have the right to a remuneration, which is determined by a decision of the General Meeting, taking into consideration the following principles:

- The General Meeting of Shareholders shall define the amount of the monthly remuneration of the members of the Board of the Directors.
- In case of a positive financial result /profit/ and a decision by the General Meeting, the Executive Director has the right to receive a one time remuneration amounting to 1% of the net profit of the Company.

4.3.1. In addition to a fixed compensation, the Company can offer to the Board members shares, options on shares, and other appropriate financial instruments, but **until this moment no shares or other financial instruments have been offered to the Board members.**

4.4. The remuneration of the independent directors shall be fixed and based on their participation in Board meetings, their performance level with regard to their assigned tasks to oversee and control the operations of the executive management and their effective contribution to the Company's performance.

4.5. *Information regarding the remuneration of the Board members is presented in the annual report, which is in compliance with current legislation and the Company's charters. Shareholders have easy access to the information concerning the remuneration of the Directors.*

5. Conflict of Interests

5.1. The members of the Board of Directors shall avoid and prevent any real or potential conflict of interests.

5.2. The procedures for preventing and disclosing conflicts of interests are described in the Company's charters.

5.3. The members of the Board of Directors shall immediately disclose any conflicts of interests and provide Shareholders with access to information about transactions concluded between the Company and members of the board or any related parties.

5.4. Each conflict of interests shall be disclosed to the Board of Directors.

5.5. A potential conflict of interests exists when the Company intends to conduct a transaction with a legal entity, in which:

(a) a Board member or related (interested) parties to the Board member have a financial interest;

(b) a Board member is also a member of the Management board, the Supervisory board or a member of the Board of the Directors.

Sopharma AD applies this practice.

6. Committees

6.1. The Board of Directors is assisted by committees and determines the need for their establishment in accordance with the specifics of the Company.

6.2. The Board of Directors established an audit committee.

6.3 The committees shall be based on a pre-established documented structure, scope of activities, functioning mechanism and reporting procedures.

The audit committee of "Sopharma" AD consists of three members: Tsvetanka Stoyanova Zlateva, Vasil Piralkov and Vasil Naydenov with a three-year mandate. The members of the audit committee comply with the requirements of Art. 40e, Par. 3 and 4 of the Independent Financial Audit Act.

Chapter Two

AUDIT AND INTERNAL CONTROL

1. The corporate management, assisted by the audit committee, shall motivate in written form its nomination for an auditor before the General Meeting, guided by the established professional requirements.
2. The principle of rotation shall be applied in nominating and selecting an external auditor.
Auditors shall be selected by the General Meeting of Shareholders every fiscal year.
3. The Company has set up an internal control system that guarantees effective reporting and disclosure of information.
4. The internal control system also develops and operates in order to ensure the early identification of any risks the Company may face and to effectively manage those risks.

Chapter Three

PROTECTION OF SHAREHOLDERS' RIGHT

1. Protection of Shareholders' Right

1.1. The corporate management shall guarantee the equitable treatment of all Shareholders, including minority and foreign Shareholders, and shall protect their rights.

2. General Meeting of Shareholders

2.1. All Shareholders shall have the right to participate in the General Meeting of Shareholders and to express their opinion.

2.1.1. Shareholders with voting rights shall have the opportunity to exercise their vote on the General Meeting of Shareholders or through a representative.

2.1.2. The corporate management shall exercise an effective control by providing the necessary arrangements for voting by authorized representatives (proxies) in accordance with the instructions of the Shareholders and in compliance with the law.

2.1.3. The corporate management has established rules for the organization and conduct of the regular and extraordinary General Meetings of Shareholders of the Company, which guarantee an equitable treatment of all Shareholders and the right of each shareholder to express their opinion regarding the items on the General Meeting's agenda.

2.1.4. The Board of Directors has established the rules and procedures for the conduct of the General Meeting of Shareholders in a manner which does not make voting unnecessarily difficult or expensive.

2.1.5. The Board of Directors encourages the participation of all Shareholders in the General Meeting, including by allowing the remote presence through information technology (including Internet) whenever possible and necessary, and in accordance with item 2.1.4. of the present Code and *when normative regulations and reliable and safe technical infrastructure is established.*

2.2. All members of the Board shall attend the General Meeting of Shareholders.

2.3. Materials for the General Meeting of Shareholders

2.3.1. Documentation and reference materials related to the agenda of the General Meeting of Shareholders shall be accurate and clear and shall not mislead the Shareholders. All proposals concerning the major corporate events shall be presented as separate items on the agenda of the General Meeting, including the proposal for the distribution of dividends.

2.3.2. The Company shall maintain a special section on its website describing the rights of Shareholders and the rules and procedures for their participation in the General Meeting of Shareholders.

2.3.3. The corporate management shall assist court-authorized Shareholders in placing additional items on the agenda of the General Meeting.

2.4. The corporate management shall guarantee the right of all Shareholders to be informed about the decisions that have been taken on the General Meeting of Shareholders.

Chapter Four

DISCLOSURE OF INFORMATION

1. The corporate management establishes the Company's information disclosure policy in compliance with legal requirements and the Company's charters.

2. In accordance with the adopted policy from It. 1 the corporate management shall oversee the implementation and ensure proper support for an effective system for disclosure of information.

3. The system for disclosure of information shall guarantee distinguishability of the addressee of the information (Shareholders, interested parties, the investor community) and shall not allow for any abuse of internal information.

4. The corporate management shall guarantee that the system for information disclosure provide comprehensive, timely, true and understandable information to allow for objective and well-informed decision making and assessments.

5. The corporate management shall establish and control the internal rules for the preparation of interim and annual reports and the order of information disclosure in a manner, which guarantees compliance with It. 3.

6. The system for information disclosure, the development and support of the Company's website is with an established content, scope and regularity of the disclosed information. **The website of the Company is: www.sopharma.bg.**

7. The disclosure of corporate governance information shall be conducted in accordance with the "comply or explain" principle. This principle requires companies to comply with the recommendations of the present Code or to explain the reasons for not complying with individual provisions of the Code.

Chapter Five

STAKEHOLDERS

1. Corporate governance ensures effective interaction with the Company's Stakeholders. This category covers certain interested parties and groups of individuals who are directly influenced by the Company and who influence and/or are in a position to influence the Company, including: suppliers, clients, employees, creditors, civil society groups, and others. The Company shall identify the Stakeholders who are interested in its activities, on the base of their scale and sphere of influence and impact, as well as their role and relationship to its sustainable development.

2. In its policy towards Stakeholders the Company shall comply with legal requirements in accordance with the principles of transparency, accountability and business ethics.

3. The management of Sopharma AD has established specific rules for addressing the interests of Stakeholders. These rules ensure appropriate stakeholder engagement when decisions requiring their input are made.

These rules also guarantee the balance between the development of the Company and the development of the economic, social and ecological environment in which the Company operates.

4 The Company's management shall maintains an effective relationship with Stakeholders in accordance with the law and the international good practices for disclosure of non-financial information such as information regarding economical, social and ecological issues, concerning Stakeholders.

Ognian Donev
Executive Director