

# **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.

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.

In February 2012 the National Commission on Corporate Governance amended and supplemented the National Code of Corporate Governance. The adopted amendments are reflected in the self-assessment card of the Company, attached to the annual financial statements for 2012

## **Chapter One**

### **BOARD OF DIRECTORS**

#### **1. Functions and Duties**

1.1. The Board of Directors of Sopharma AD governs 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 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 determines and manage the strategic directions of development of the Company.

1.3. The Board of Directors of Sopharma AD establishes the corporate risk management policy and control the establishment and functioning of the Company's risk management and internal control systems.

1.4. The Board of Directors of Sopharma AD ensures the compliance of the Company with legal, normative and contractual obligations in accordance with the adopted Articles of association 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 provides 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 documents.

1.7. The Board of Directors defines the policy of the company in respect to information disclosure and investor relations, controls and bears responsibility for the timely provision to the shareholders of any information to which they are entitled in accordance with the legal requirements and the Articles of association of the Company

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 complies with an *Ethical Code of the Employees of the Company, adopted with a record of the Board of Directors from 26 March 2007.*

1.9. The Board of Directors of Sopharma AD reports for its activity to the Annual General Meeting of Shareholders by preparing an annual management report and presenting it for approval to the AGM.

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

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

2.2. The management contracts with the Board of Directors 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 is determined in the Articles of association of the Company.

3.2. The Board of Directors elected by the General Meeting is composed in a way, which guarantees professionalism, impartiality, and independence of its decisions regarding the management of the Company.

3.3. The Board provides 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 adhere to the law, the Company's documents, and the standards for good professional and management practice.

3.5. The members of the Board of Directors have the proper knowledge and experience required for the position they occupy. After their election, the new members of the Board of Directors shall be familiar with the main legal and financial issues relating to the business of the Company. Raising the qualifications of members of the Board of Directors shall be encouraged. *Sopharma AD applies this practice.*

3.6. The members of the Board of Directors are equipped with sufficient time to carry out their tasks and duties. The Company's documents 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 is conducted through a transparent procedure which among other things ensures 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 ensures the Company's efficient functioning and compliance with the statutory requirements.

***According to the Articles of association of the Company there is no limit for the re-election of the members of the Board.***

#### **4. Remuneration**

4.1. The Board of Directors has developed a clear and specific policy for the remuneration of members of the Board, which had been approved by the AGM and is enshrined in the Articles of association of the Company. The amount and structure of the remuneration of the members of the Board of Directors is determined 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 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 remuneration of the executive member of the Board of Directors consists of base salary and additional incentives:

4.3.1. The additional incentives are specifically defined and are bound with clear and specific criteria and indicators for the performance of the Company and/or the attainment of goals, which have been pre-determined by the Board of Directors. In the event of a positive financial result /profit/ and after 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.

4.3.2. As additional incentives the Company may offer to the executive member of the Board of Directors shares, options on shares, and other appropriate financial instruments. **Until this moment no shares or other financial instruments have been offered to the executive member of the Board of Directors.**

4.4. The remuneration of the independent directors is fixed only and based on their participation in Board meetings, as well as on the performance of their assigned tasks to oversee and control the operations of the executive management and their effective contribution to the Company's performance.

4.5. The General Meeting of Shareholders can vote on additional compensation to the members of the Board of Directors in the form of bonuses depending on the financial results of the Company

4.6. Disclosure of the remuneration of the members of the Board of Directors is in accordance with the law and the Company's acts.

4.6.1. Shareholders have easy access to the adopted policy determining the remuneration and bonuses of the Board members as well as information regarding their annual salaries and additional incentives. *The remuneration of the members of the Board of Directors is presented in the Company's annual report.*

## **5. Conflict of Interests**

5.1. The members of the Board of Directors are striving to 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 acts.

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

5.4. Every conflict of interests within the Company is 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 work of the Board of Directors is assisted by committees, the need for which is determined by the Board of Directors in accordance with the specifics of the Company.

6.2. In accordance with the current legal requirements and based on the rules laid determined by it, the Board of Directors proposes to the General Meeting of Shareholders to elect an audit committee that complies with the legal requirements and the specific needs of the Company.

*Sopharma AD applies this practice.*

6.3 The committees are 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 Zlateva, Vasil Piralkov and Vasil Naydenov with a three-year mandate, determined by the AGM. 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**

8. The corporate management of Sopharma AD, assisted by the audit committee, motivates in written form its nomination for an auditor before the General Meeting, guided by the established professional requirements.

8. The principle of rotation is applied in nominating and electing an external auditor.  
*The Auditors are elected by the General Meeting of Shareholders every financial year.*

9. It is recommendable to set up an internal control system, which should also identify the risks, accompanying the business of the Company and to assist in their effective management.  
*Sopharma applies this practice.*

10. The internal control system also guarantees the effective functioning of the system for reporting and information disclosure.

## **Chapter Three**

### **PROTECTION OF SHAREHOLDERS' RIGHT**

#### **11. Protection of Shareholders' Right**

**The corporate management guarantees the equal treatment of all Shareholders, including minority and foreign Shareholders, and protects their rights.**

#### **12. Annual General Meeting of Shareholders**

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

12.1.1. Shareholders with voting rights have the opportunity to exercise their vote on the Annual General Meeting of Shareholders personally or through representatives, and when the organizational acts of the company provide such an option – also through correspondence and/or electronically.

12.1.2. The corporate management exercises 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.

12.1.3. 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.

12.1.4. 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.

12.1.5. The Board of Directors undertakes actions to encourage 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.

12.2. All members of the Board strive to attend the Annual General Meeting of Shareholders.

12.3. Materials for the Annual General Meeting of Shareholders

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

12.3.2. The Company maintains 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.

12.3.3. The corporate management assists court-authorized Shareholders in placing additional items on the agenda of the General Meeting.

12.4. The corporate management guarantees 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**

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

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

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

16. The corporate management guarantees that the system for information disclosure provides comprehensive, timely, true and understandable information to allow for objective and well-informed decision making and assessments.

17. The corporate management establishes and controls 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.

18. As part of the system for information disclosure, Sopharma AD has developed and maintains a Company's website with established content, scope and regularity of the disclosed information. *The website of the Company is: [www.sopharma.bg](http://www.sopharma.bg).*

The information disclosed on the Company's website includes:

- basic trading and corporate information; identifying the Company;
- current information about the shareholder structure;
- the organizational acts of the Company and the adopted policies, related the activities and functioning of the Company;
- information regarding the structure and composition of the management and supervisory bodies of the Company, as well as basic information about their members, including information on the committees;
- financial statements for the past three years;
- materials for upcoming Annual General Meetings of Shareholders, and additional ones received by law. Information about adopted decisions by the AGM in at least the last three years, incl. information on dividends distributed by the Company for that period;
- Information about the auditors;
- information about upcoming events;
- information on issued shares and other financial instruments;
- important information relating to the business of the Company;
- information about shareholders' rights, including sufficient information on the right of shareholders to request inclusion of items and to propose draft decisions on included items in the agenda of the General Meeting under art. 223a of the Commercial Act;
- contact information of the Investor Relations Director of the Company.

18.1. The Company maintains an English version of its corporate website with an identical content.

19. The Company periodically discloses information about corporate governance. Information disclosure on corporate governance is conducted in accordance with the "comply or explain" principle. In the event of non-compliance with the recommendations of the Code an explanation is provided.



## **Chapter Five**

### **STAKEHOLDERS**

20. *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 identifies 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.

21. In its policy towards Stakeholders the Company complies with the legal requirements. The good practice of corporate governance requires taking into consideration of the stakeholders in accordance with the principles of transparency, accountability and business ethics.

22. In accordance with this policy the corporate 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.

23. The Company's management maintains an effective relationship with Stakeholders. Periodically, in accordance with the law and the international good practices for disclosure of non-financial information the Company discloses information regarding economic, social and ecological issues, concerning the Stakeholders, such as the fight against corruption, the work with employees, suppliers and customers; the social responsibility of the Company; the preservation of the environment.

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**Ognian Donev**  
**Executive Director**