

**REPORT**  
**REGARDING**  
**THE APPLICATION OF THE REMUNERATION POLICY FOR**  
**THE MEMBERS OF THE BOARD OF DIRECTORS OF**  
**“SOPHARMA” AD FOR 2019**

The present report has been prepared in accordance with art. 12, par. 1 of Ordinance №48 of the Financial Supervision Commission from 20 March 2013 and art. 6.1. of the Remuneration policy for the members of the Board of Directors of “Sopharma” AD, prepared by the Board of Directors and approved by the Annual General Meeting of shareholders on 21 June 2013.

In the present report the Company discloses the details of the application of the Remuneration policy for the members of the Board of Directors and the Executive Director, putting a special emphasis on the avoidance of incentives for taking of excessive risk, conflict of interest or other behavior, leading to adverse consequences.

***1. Information about the decision process in preparing the Remuneration policy, including, if applicable, information about the term and composition of the Remuneration committee, the name of the external consultants, whose services have been used in preparing the Remuneration policy***

The Remuneration policy has been adopted in accordance with Ordinance № 48 from 20 March 2013 and in compliance with the provisions of the Public Offering of Securities Act regulating the remuneration of the members of the managing and controlling bodies of public companies.

The remunerations of the members of the Board of Directors are based on the operational results of the Company and are in accordance with the business strategy, goals, values and long-term interests of the Company, as well as the avoidance of discrimination, conflict of interest and unequal treatment of persons in determining their remuneration.

The Company has not formed a Remuneration committee. No external consultants have taken part in preparing the Remuneration policy.

In 2019 “Sopharma” AD applied Remuneration policy of the Board of Directors in accordance with legal requirements and the recommendations of the National Corporate Governance Code.

***2. Information about the relative weight of the variable and fixed components of the remuneration of the members of management and controlling bodies***

According to the Remuneration policy the members of the Board of Directors and the Executive Director are entitled to remuneration, the type, size and due period of which are determined with a decision of the Annual General Meeting and which is paid out under the terms and conditions of the management contracts between them and the Company.

On the basis of art. 24, par. 3, letter A of the Company's Articles of Association and a decision of the General Meeting of 21.06.2013. the permanent monthly remuneration of a member of the Board of Directors is 10 000 / ten thousand / BGN or 120 000 / one hundred and twenty thousand / BGN per annum, and of the Executive Director the permanent monthly remuneration is 30 000 / thirty thousand / BGN or 360 000 / three hundred and sixty thousand / levs a year, and they remain unchanged in 2019.

The Executive Director of the Company will receive an additional payment of 1% of the profit for 2018 recorded in the approved Annual Financial Statements by the General Meeting of Shareholders, namely BGN 332 983 /three hundred thirty-two thousand nine hundred eighty-three/, with 40% being deferred by the GMS for a period of three years.

The ratio between fixed and variable remuneration in 2019 is 1.08.

***3. Information about the criteria for achieved targets, based on which stock options, stocks of the Company or other types of variable payment are provided and an explanation how the criteria under art. 14, par. 2 and 3 from Ordinance 48 contribute to the long-term interests of the Company***

The current Remuneration policy for the members of the Board of Directors does not allow the inclusion of stocks, stock options or other rights for acquisition of stocks of the Company in the remuneration of the members of the Board of Directors. No part of the remuneration is based on changes in the price of the shares of the Company.

***4. Clarifications regarding the applied methods for determining the successful reaching of targets***

The remuneration of the members of the Board of Directors are consistent with the achieved economic results during the reporting period. The management contracts between the Company and the members of the Board of Directors, the Management contract with the Executive Director include a mandatory clause, allowing the Company to request the returning of the paid variable remuneration, amounting to one percent of the net profit of the Company. Remuneration based on data, which subsequently proves to be false, shall be subject to returning. The decision for requesting the returning shall be taken by the General Meeting of Shareholders of the Company.

***5. Clarification regarding the correlation between the remuneration and the achieved results***

Chapter II of the Remuneration policy contains the main guidelines applied in determining the remuneration of the members of the Board of Directors.

***6. Base remuneration and justification of the annual scheme for bonus payments and/or all other non-monetary additional remunerations***

On the basis of art. 24, par. 3, letter B of the Articles of Association the Executive Director of the company will receive an additional payment of 1% of the profit for 2018 recorded in the approved Annual Financial Statements by the General Meeting of shareholders, namely BGN 332 983/ three hundred thirty-two thousand nine hundred eighty-three/.

In 2019 the additional payments/bonuses to Executive Director has been accrued for the amount of BGN 332 983 and during the year BGN 301 205 has been paid.

According to Article 7.2, para. 3 of the Remuneration Policy 40% of the Executive Director's additional remuneration shall be distributed as follows:

- BGN 151 046,79 has a maturity of 2020;
- BGN 166 079,36 has a maturity of 2021;
- BGN 126 400,37 has a maturity of 2022.

***7. Description of the main features of the scheme for additional voluntary retirement insurance and information about the paid and/or due contributions by the Company in favor of the Director for the respective financial year, when applicable***

The Company has no obligations regarding an additional voluntary retirement insurance of the members of the Board of Directors and the Company has no liabilities related to retirement benefits for the Executive Director during the reporting financial year.

***8. Information regarding the deferment period for the payment of the variable remuneration***

According to the Articles of Association, in case of a positive financial result /profit/ and by decision of the General Meeting, the Executive Director is entitled to receive a one-time bonus of up to one percent of the net profit of the Company.

The payment 40% of the one-time payment to the Executive Director shall be deferred for a period of 3 years. Repayment of the deferred portion of the variable remuneration is made once a year at maturity.

The payment of the deferred part of the variable remuneration shall be conducted once a year with a maturity until 2022.

***9. Information about the compensation policy after contract termination***

In case of early termination of the Management contract with a member of the Board of Directors, respectively with the Executive Director, the total amount of the compensations, due in relation to the early termination, as well as the payments, related to the notification period or provisioned in the clause, prohibiting the conduct of competing activities, cannot exceed the amount of the annual fixed remuneration of the person paid for the last two years. The above mentioned compensations shall not be payable when the contract is terminated due to unsatisfactory results and/or faulty behavior of the member of the Board of Directors, respectively of the Executive Director.

***10. Information about the period, in which the shares cannot be transferred and the options on shares cannot be exercised, concerning variable remuneration, based on shares***

The current Remuneration policy for the members of the Board of Directors does not provision for this type of remuneration.

***11. Information about the policy for retaining of certain amount of stock until the end of the term of the members of the management and controlling bodies after expiration of the period under item 10***

The Remuneration policy for the members of the Board of Directors has not provision for this type of remuneration.

***12. Information about the contracts of the members of the management and controlling bodies, including the term of each contract, the notification period for termination and details regarding the compensations and/or other due payments in the event of early termination***

The members of the Board of Directors were elected by decision of the General Meeting in 2016 for a period of 5 years.

In 2019 no new members of the Board of Directors were elected.

***13. Full amount of the remuneration and other incentives of the members of the management and controlling bodies for the respective financial year***

Total accrued remuneration of the Board of Directors for the current financial year amounted to BGN 834 904.

***14. Information about the remuneration of each person, who has been member of a management or controlling body of a public company for a certain period in the respective financial year***

**a) the full amount of the paid and/or accrued remuneration of the person for the respective financial year**

The Company has no contingent liabilities, but has deferred liabilities from accrued in 2019 tantiems amounting to BGN 133 193,20. As at 31.12.2019 “Sopharma” AD owes no sums for the payment of pensions or benefits upon retirement.

**b) the remuneration and other tangible and intangible incentives received by the person from companies of the same group**

Total remuneration received from other companies in the same group amounted to BGN 24 000 for Ognian Donev.

**c) remuneration received by the person in the form of profit sharing and/or bonuses and the reasons for its provision**

In 2019 at the Regular General meeting on June 07, 2019 is voted (On the basis of art. 24, par. 3, letter "B" of the Company's Articles of Association) to Ognian Ivanov Donev, in his quality as Executive Director of the Company and member of the Board of Directors, to be paid an additional remuneration of 1% (one percent) of the amount of profits realized in 2018 according to the adopted Annual Financial statement.

None of the other members of the Board of Directors of "Sopharma" AD received any remuneration from the Company in the form of profit sharing and/or other bonuses.

**d) any additional payments for services provided by the person outside of their normal functions when such payments are allowed under the contract signed with him**

Vesela Lyubenova Stoeva - member of the Board of Directors of "Sopharma" AD was paid and BGN 72 202 under a contract of employment as an "Adviser on Economic Affairs to the Executive Director".

Ivan Venetskov Badinsky, member of the Board of Directors of "Sopharma" AD, was paid 54 288 BGN under a contract of employment as a "Director of Co-operation and Licensing" and BGN 60 000 in his capacity as procurator of the Company.

The contracts with the other members of the Board of Directors of "Sopharma" AD do not provide for additional payments for services provided by them outside of their normal functions.

**e) paid and / or accrued compensation for the termination of their contract during the last financial year**

None.

**f) an overall assessment of all non-monetary benefits, expressed as a remuneration, outside of those specified in letters a) – e)**

In 2019 no member of the Board of Directors of "Sopharma" AD has received non-monetary benefits, expressed as remuneration, outside of those specified in letters a) – e).

**g) information regarding all loans, payments of welfare costs and guarantees by the Company or its subsidiaries or other companies subject to consolidation in its annual financial statement, including data on the remaining outstanding part and interests.**

In 2019 no member of the Board of Directors of "Sopharma" AD has received loans, guarantees by the Company or its subsidiaries or other companies subject to consolidation in its annual financial statement. Social costs of the Executive Director and the members of the Board of Directors at the amount of 400 BGN have been accrued. Social insurance for the members of the Board of Directors in the amount of 13 838, 40 BGN have been accrued.

**15. Information about shares and/or share options and/or other incentive schemes based on shares**

**a) number of offered stock options or the provided shares by the Company during the financial year and the conditions under which they were proposed, respectively provided;**

- b) **the number of exercised shares options during the financial year and for each of them, the number of shares and the exercise price of the options or the interest amount under the share incentive scheme at the end of the financial year;**
- c) **the number of unexercised share options at the end of the financial year, including data on their price and date of exercise and the essential conditions for the exercise of rights;**
- d) **any changes in the terms and conditions of existing share options adopted during the financial year.**

The current remuneration policy of members of the Board of Directors of “Sopharma” AD does not provide for the provision of stock options, shares of the Company or other incentive schemes based on shares to the members of the corporate management and such were not paid or provided.

**Program for the application of the Remuneration policy for the next financial year.**

The current Policy adopts as guiding principles Recommendation 2009/386/EC in addition to Recommendation 2004/913/EC and Recommendation 2005/162/EC regarding the remuneration of directors of companies, the shares of which are admitted to trading on a regulated market, implemented through Ordinance №48 from 20 March 2013 by the Financial Supervision Commission.

The Board of Directors believes that the principles for determining the remuneration, underlying the Policy, are effective as of the present moment with regard to the accomplished financial results for the reporting period.

As at the date of preparation of the report the Board of Directors has not proposed any changes of amendments in the Remuneration policy, approved by the General Meeting of shareholders.

The Board of Directors is responsible for the timely announcement of the Remuneration policy, approved by the General Meeting of Shareholders, and its subsequent amendments, in a clear and accessible manner.

The Company prepares an annual Report on the remuneration of the members of the Board of Directors, which is a separate document to the annual financial statements. The Report contains the necessary information described in art. 13 of Ordinance №48 of the Financial Supervision Commission and after its adoption by the General Meeting of shareholders it is published on the website of the Company - [www.sopharmagroup.com](http://www.sopharmagroup.com).

16.03.2020



Ognian Donev, PhD  
Executive Director