

REPORT
REGARDING
THE APPLICATION OF THE REMUNERATION POLICY FOR
THE MEMBERS OF THE BOARD OF DIRECTORS OF
SOPHARMA AD FOR 2013

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. 61 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.

Review of the application of the Remuneration policy for the period between its adoption and the end of 2013.

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.

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

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

The members of the Board of Directors and the Executive Director are entitled to a 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.

According to the Articles of Association of the Company when a positive financial

result /profit/ is present and after a decision of the AGM, the Executive Director is entitled to a one-time payment of one percent of the net profit of the Company.

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 contribute to the long-term interests of the Company;*

No stocks, stock options or other rights for acquisition of stocks of the Company are included 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 remunerations of the members of the Board of Directors are based on the operational results. 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.*

The Remuneration policy contains the 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.*

A decision of the Board of Directors, taken with a qualified majority, shall determine the group of employees, among which to distribute as a bonus an amount of up to 2% of the net profit of the Company for each separate financial year. The distribution can only take place if the AGM has voted the amount of the bonus together with the decision for approval of the audited annual financial statement and in case there is a positive financial result /profit/ for the respective financial period.

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;*

There is no information for additional voluntary retirement insurance.

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

The payment of not less than 40% of the one-time payment to the Executive Director

shall be deferred for a period of not less than 3 years. The payment of the deferred part of the variable remuneration shall be conducted proportionally, in equal monthly installments.

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 stocks cannot be transferred and the options on stocks cannot be exercised, concerning variable remuneration, based on stocks;

There are no 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 Company does not follow such policy.

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 Management contract with the Executive Director shall be signed by a person, determined in accordance with art. 244, par. 7 of CA. It shall contain the specific rights and obligations, remuneration, insurances and other terms.

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

The full remuneration of the members of the Board of Directors for the financial year of 2013 amounts to 762 669.41 BGN.

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;

Not applicable for Sopharma AD.

15. Information about stocks and/or stock options and/or other incentive schemes based on stocks;

Not applicable for Sopharma AD.

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 following principles are applied in determining the remuneration of the members of the Board of Directors:

1. Stimulation of the long-term sustainability of the Company and ensuring that the remuneration of the members of the management body are based on operational results;
2. Alignment with the business strategy, goals, values and long-term interests of the Company, as well as avoidance of discrimination, conflict of interest and unequal treatment of persons in determining their remuneration.
3. The members of the Board of Directors are required to lodge a management security within 7 (seven) days of their appointment, the amount of which shall be determined by the Annual General Meeting of Shareholders and shall be no less than their gross remuneration for 3 (three) months. The security shall be blocked in favor of the Company in a bank account of the person, opened in a bank, indicated by the Company and on the territory of the country.
4. In the event of non-payment of the security within the required period, the person concerned shall not receive remuneration as a member of the Board of Directors until the full amount of the security is reached.

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. Amendments to the Policy, approved by the General Meeting of Shareholders, shall be made in the order of its preparation and approval.

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.

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Ognian Donev, PhD
Executive Director