

**TO THE GENERAL MEETING
OF SHAREHOLDERS
SOPHARMA AD**

**Report on the activity of the
Audit Committee in 2013**

Dear Shareholders,

The Audit Committee has been elected by the General Meeting of Shareholders of Sopharma AD on 20 November 2008 on the basis of art. 40e of the Independent Financial Audit Act (IFAA) and changed by the Annual General Meeting on 23 June 2010 and with extended three-year mandate by the General Meeting in 2011, with the following three current members:

1. Vasil Naidenov - chairman
2. Tsvetanka Zlateva
3. Vasil Piralkov - members

In this composition the Audit Committee has performed its functions during the reporting year 2013, in accordance with art. 40h of IFAA.

At a meeting the Audit Committee adopted the main directions and goals in its activity and according to them adopted an Action plan for the reporting period.

In accordance with the main areas of work, enlisted in the Action plan, the Audit Committee directed its activities during the past reporting year 2013 towards:

- assistance in improving the effectiveness of the financial reporting processes in accordance with the periodic findings of the independent Financial Audit;
- participation in the monitoring of the internal audit and control policies implemented by the Company's management and their effectiveness;
- monitoring of the applied policies by the Management of the Company for consolidating the financial statements of the companies in the Sopharma AD Group;
- review of the approaches to risk monitoring and management in Sopharma AD;
- monitoring of the activity of the independent Financial Audit in the mutual work with the financial departments and the Management of the Company in order to ensure better collaboration;
- assessment of the independence of the registered Auditor, preparation of a recommendation on selection of auditor and consulting on the documents for independent Financial Audit for 2014.

Permanent objective of the Audit Committee is to guarantee the shareholders the fairness of the accounting and financial reporting as well as the independence and objectiveness of the External Independent Auditor in fulfilling its responsibilities.

The following activities were conducted as part of the execution of the Action plan of the Audit Committee:

There have been consultative meetings with representatives of the Management related to financials, accounting, reporting and internal control. The findings are that these systems function successfully and that the Management applies a proper accounting policy and directly controls the processes of financial accounting. During the reporting period, the Management made efforts to implement the activity in the existing business unit, which is structurally distinct and is expected to improve the internal audit of the financial and accounting activity of the Company and the companies the results of which are reflected in the consolidated statement of Sopharma AD. At this stage, a significant part of the internal control is conducted during the consolidation of the financial statements.

There has been a discussion with the Management regarding future plans for improving the internal control systems. Positive trends were outlined with an expressed statement for the application of a complex and planned approach and further development of the system at company level.

During the reporting period have been reinforced the basic principles and methods applied by the Management for prevention, detection of errors, misuse and false statements. There is a positive reaction regarding the correction of deficiencies identified by external control bodies. All steps in this direction are towards achieving authenticity of information, objectiveness and correctness.

The members of the Audit Committee conducted meetings with leading experts responsible for the financials, accounting, reporting and internal control in the Company. At this monitoring they did not find any deficiencies, lack of the necessary comprehensiveness of financial information or unreliability in the financial reporting processes of the business transactions.

It can be confirmed that the financial reporting system of the business fairly presents the financial position of the Company. The information presented in the Annual report of the Company's Management conforms in all essential aspects to the information presented and disclosed in the separate financial statements of the Company as at 31 December 2013, prepared in accordance with International Standards.

The outlined facts and the assessment of the properly applied financial accounting policy of the Company are reflected in the opinion of the independent Financial Audit presented in the Report of the independent Auditor.

During the reporting period the independent auditor again paid particular attention to contracts between related parties, their legality, the investment appraisals and the valuation of receivables. The independent auditor took into serious consideration the correctness and fairness of the consolidation of the financial statements within Sopharma AD. There is a positive assessment of the approved structural and staffing decisions by the management, creating conditions for the normal functioning of the unit specifically responsible for the consolidation of the financial statements at company level.

The approaches to risk monitoring and management were also discussed with the Management. It was concluded that the Company applies a correct policy in regard to identification of risks and precautionary actions, which is also reflected in the Management Report of Sopharma AD for 2013.

It was also concluded that in accordance with the Public Offering of Securities Act all required financial reports has been prepared and presented to the Financial Supervision Commission, the regulated market and the public within the statutory deadlines, through which publicity has been guaranteed.

The Audit Committee has not received signals about malpractices in the Company harming the interests of shareholders. Also there were no signals about negligence and violations in the performance of the duties of the independent Auditor.

During the reporting period the Audit Committee assisted in ensuring the good conditions provided by the Management of the Company and the responsible employees for achieving normal environment and guaranteeing of transparency and full independence in the performance of the duties of the Auditor. It was determined that the deadlines for providing the necessary information to the Auditor by the responsible employees of the Company have been met. The main findings of the interim and final audits have been taken into consideration in preparing the financial statements of the Company both on quarterly basis and for the reporting period 2013.

The Management approved the documents regulating the conducting of an independent financial audit for 2013 by the Auditor after consultation with the Audit Committee.

The Audit Committee concluded after consultations with representatives of the independent registered Auditor that the overall audit during the reporting period has been performed responsibly and in accordance with all legal requirements. The good practice of precise planning of the audit and its implementation in three phases has been reinforced, resulting in a periodic review of financial statements, control of the results and precaution for avoiding errors.

Representatives of the Management acquainted members of the Audit Committee with key issues related to the execution of the audit. The Audit Committee concluded that the registered Auditor has provided services within the assumed responsibility for audit for the reporting period.

According to its legal obligations the Audit Committee reviewed the independence of the registered Auditor in accordance with all legal requirements and the Code of Ethics for Professional Accountants.

The independent Auditor provided a Declaration of independence from the audited company, as well as Declarations by members of the auditing team pursuant to art.40n, par.1, 2 and 3 of the Independent Financial Audit Act.

The Audit Committee determined that the registered Auditor meets all criteria for independence from the audited company. It also concluded that the independent Auditor meets their obligation to publish on their website a Transparency Report, which includes information conforming to all legal requirements.

Pursuant to Art. 40k of IFAA, the Audit Committee proposes for election by the General Meeting of Shareholders for an independent external Auditor of Sopharma AD specialized audit company AFA OOD, Sofia, 38 Oborishte Str., to carry out an independent financial audit and certification of the annual financial statement for 2014.

The Company is included with registration number №015 in the list of registered auditors, published by the Institute of Certified Public Accountants in Bulgaria.

The report was approved on a meeting of the Audit Committee on 10 April 2014.

Chairman:

/Vasil Naidenov/

Members:

/Tsvetanka Zlateva/

/Vasil Piralkov/