

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

**Report on the activity of the
Audit Committee in 2015**

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 its composition has been changed by the Annual General Meeting on 23 June 2010. By decision of the AGM from 20 June 2015 its term has been extended for a period of three years with the following three 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 2015, in accordance with art. 40h of IFAA.

At a meeting on 8 July 2015 the Audit Committee adopted a Working plan during the reporting period and identified the main directions and goals in its activity. In accordance with the main areas of work, enlisted in the Action plan, the Audit Committee directed its activities during the past reporting year 2015 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 control policies implemented by the Company's management and increase of their effectiveness;
- acquaintance with the approaches for monitoring and management of the risks in Sopharma AD;
- 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 2016.

Permanent objective of the Audit Committee is to guarantee the shareholders the independence and objectiveness of the External Independent Auditor in fulfilling its responsibilities and to express the views of the team regarding the correctness of the financial and accounting reporting and the system for internal control in the Company.

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 reinforced the approach to execute internal control activities in the process of consolidation of the financial statements of companies, the results of which are part of the consolidation of Sopharma AD.

There have been discussions with the Management regarding future plans for improving the internal control systems. During the reporting period was established an internal audit unit, which was structured and staffed. It is worth for the Management to consider the structural subordination of the unit. At the same time during the 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 visibly positive reaction regarding the correction of deficiencies identified by control bodies external to the system. 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 have not identified deficiencies, lack of necessary credibility of financial information or unreliability in the financial reporting processes of the business transactions. All findings in the process of executing of the audit program and the timetable for an independent financial audit are taken into account by the experts and are reflected in the reports.

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 2015, prepared in accordance with International Standards.

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. According to their opinion, the separate financial statements present fairly, in all material respects, the financial position of Sopharma AD as at 31 December 2015 as well as its financial performance and its cash flows for the year.

During the reporting period the independent auditor paid particular attention to contracts between related parties, their legality, the investment appraisals and the valuation of receivables.

During the reporting period the independent Auditor paid special attention on the issues set out in Section B "Implementation and management of the independent financial audit" of the audit program and time schedule for the conduct of an independent financial audit. In this regard, the independent auditor has not informed the audit committee for known material weaknesses in the accounting system and internal control system, which gives grounds to assume that these systems are fully operational.

The independent auditor took into serious consideration the correctness and fairness of the consolidation of the financial statements within Sopharma AD. The Management took a positive step in this direction by introducing a few years ago structural and personnel decisions for the establishment of a unit responsible specifically for the consolidation of the financial reports. The unit operates successfully.

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 2015.

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 Financial 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 2015.

The Management approved the documents regulating the conducting of an independent financial audit for 2015 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 registered Auditor acquainted the 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 concluded contract 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 on the basis of the provided documents 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 2016.

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 18 April 2016.

Chairman:

/Vasil Naidenov/

Members:

/Tsvetanka Zlateva/

/Vasil Piralkov/