

Communication on Progress 2020

By Sopharma AD

COMMUNICATION
ON PROGRESS



This is our **Communication on Progress** in implementing the Ten Principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

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Our Commitment

We bring to your attention this annual Communication on Progress of “Sopharma” AD for 2020, where we describe our actions to continually improve the integration of the Global Compact and its principles into our business strategy, culture and daily operations. The document describes the policies that the Company follows as a corporate citizen with an active and responsible attitude to the footprint of its activities.

2020 questioned all boundaries, challenged us to make difficult choices, to sacrifice our own comfort to protect the most vulnerable. As a team we put in a lot of effort were flexible and were able to maintain a normal rhythm of work, provide a safe environment for our employees and partners and remain stable in extremely uncertain times. We remained a key pillar of the peer network supporting the government in addressing the challenges the healthcare system faced and we helped whenever needed.

We realize that the social role and responsibilities of companies are becoming an increasingly important factor of impact and we strive for corporate social responsibility to be integrated into all processes and organizational aspects of the life of “Sopharma” AD.

This document contains a description of the major initiatives directed at the integration of the principles of sustainable development into our day-to-day activities and their economic, social and environmental impact.

Ognian Donev, PhD
Executive Director

I. About the Document

The Non-Financial Document describes the commitments that “Sopharma” AD, as a corporate citizen, fulfills for the shareholders and investors, state and local authorities, consumers, customers and partners, the environment and society. The Company maintains an active dialogue with all its stakeholders in defining the important topics in an atmosphere of transparency and completeness of the disseminated information concerning its business activities to the interested parties. With a clear awareness of the impact of the Company’s business operations on the socio-economic sphere, the environment and the community in general, “Sopharma” AD has been able to implement a measurement system focused on the actually established impacts and to work towards their ongoing improvement.

The Document complies with the reporting requirements of Art. 48 of the Accountancy Act and contains a description of the policies and companies regarding their activities in the field of ecology, social issues, employees, anti-corruption, human rights. It is based on the Official statements on the COP (UNGC Communication on Progress) submitted by “Sopharma” AD since 2006 - on the “active” level since 2012 and on the “advanced” level as of the year 2016 as a member of the Bulgarian Global Compact Network of the UN.

II. Scope of the Document

The Document gives a broad overview of a various aspects of the activity of “Sopharma” AD as a corporate citizen. It focuses on the company’s activities for the period 01.01.2020 - 31.12.2020. The Document contains quantitative data used as impact indicators in the main areas described below.

1. Vision, strategy and corporate governance

Vision and strategy

The vision and strategy of “Sopharma” AD are determined by the corporate philosophy and the mission that the Company has adopted as the basis of its activity.

Corporate philosophy of “Sopharma” AD

The production of medicines is not a simple technological process, it is a human mission based on the highest standards of quality, safety and medicinal effectiveness.

Our core values

“Sopharma” AD has an active and decisive role in raising the standard of living and health of people. The company delivers quality products to patients around the world, working honestly and following ethical business practices.

2. Our values

3.

We take care of everyone's health, through our social projects and by providing reliable health information.

We strive to protect the environment for future generations, as well as for the positive impact on the economy.

We work to establish a permanent and effective dialogue with all participants in the pharmaceutical industry that contribute to the improvement of the health system.

We build sustainable profitable partnerships with our suppliers.

We care for our employees, supporting the happiness and development of our team members.

We create goods through profit and growth.

Sopharma's mission is to be an active participant in the development of the pharmaceutical industry, which also contributes to the economic development and prosperity of the Bulgarian nation. To play a key role in raising the standard of living, in making people healthier, happier and more protected.

This highly responsible corporate behavior lays at the foundations of Sopharma's business development. The CSR strategy is part of the development strategy and the various initiatives and projects support Sopharma's core business activities forming a part of the company's DNA.

Corporate citizenship policy

Corporate citizenship of "Sopharma" AD develops according to the following regulations and rules:

- **Regulations and rules for corporate citizenship**
- **The Constitution and the laws of the Republic of Bulgaria**
- **The ten principles of UNGC and the UN Sustainable Development Goals SDG** - The non-financial Document of "Sopharma" AD is aligned with the guidelines of the UN Global Compact and follows 10 principles in the strategic plan 2015+.

| <i>Sources of corporate governance</i> | | | |
|---|--|----------------------|--------------------|
| Corporate governance systems | Description | Adoption date | Last update |
| Articles of Association | The Articles of Association determine the basic rules according to which significant decisions are made concerning the existence of the Company. | 2003 | 2020 |
| Decisions taken at the General Meeting of Shareholders | The decisions of the shareholders are fundamental for the activity of the Company. | At least once a year | 2020 |
| Good corporate governance program | A system of rules protecting the rights of shareholders and other stakeholders. | 2009 | 2020 |
| Good Manufacturing Practice GMP | The good manufacturing practices is a system of rules and procedures which serves to guarantee the high quality of the medicinal products at every stage of their manufacturing. | 2003 | 2020 |
| Good distribution practices /GDP | The good distribution practices is a system of rules and procedures which serves to guarantee the high quality of the medicinal products at every stage of their distribution. The quality of medicinal products may be affected by a lack of adequate controls. | 2003 | 2020 |
| ICH “Q8 Pharmaceutical Development” | Principles and examples of Pharmaceutical Development. | 2004 | 2020 |

| | | | |
|-----------------|--|------|------|
| ICH "Q9 Quality | Principles and examples of tools of quality risk | 2006 | 2020 |
|-----------------|--|------|------|

2. Imprint of the company's activity

Social Impact

We promote a culture of healthcare and invest in civil society

| Economic and financial data | 2020 | 2019 | Stakeholders |
|---|----------|-----------|-------------------------|
| Plants / Number of employees | 9/ 1 991 | 10/ 2 275 | Work places - employees |
| Training courses /expenses BGN '000/ | 123 | 183 | Employees |
| Social benefits and payments /expenses BGN '000/ | 2 037 | 3 266 | Employees |
| Medical services /expenses BGN '000/ | 830 | 817 | Employees |
| Donations /expenses BGN '000/ | 465 | 299 | Local communities |
| Investments related to the development of the generic business sphere and the health system / number (sponsorships and participation in seminars) | 15 | 10 | All stakeholders |
| Investments related to development of the business | 9 | 6 | All stakeholders |

Projects related to promoting a culture of healthcare and investing in civil society.

"Sopharma" AD works to increase the economic and social development of society, to promote a healthy lifestyle and to improve the health culture.

The company holds on to traditions that nurture fundamental values, such as health care in harmony with nature, strengthening the community and nurturing the competitive spirit.

- Supporting various sports activities and competitions:
 - Support for the International Cycling Tour (ICBM) of Bulgaria
 - Sponsorship of the European Cycling Championship
 - Support for the DRAG Vitosha Uphill Challenge road cycling competition
 - UN Global Compact Network Initiatives - **"Games of Goodness"** - Supporting sport with a cause: collective, individual or virtual games
- In 2020, efforts were made to provide a safe environment for employees and partners in a COVID-19 pandemic situation. In the face of lockdown and difficult deliveries, measures were

introduced to prevent the lack of vital medicines, medicines with increased consumption and directly related to the treatment of COVID-19.

- Investing in new digital communication channels to help society tackle smoking.
 - **Tabex Application** - a tool for creating community, advice and mutual support between people who want to quit smoking. The application is installed by 10 540 people for a period of one year.
 - **Creation and development of 3 product pages with up-to-date product information and long-standing advice to the public.**
- Donations to hospitals, Bulgarian Red Cross, homes for the elderly.

Environment

Responsible use of resources and environmental protection

| Indicators | 2020 | 2019 |
|--|----------|---|
| Cost of raw materials (electricity, headenergy, fuels, water; without main materials, waste and impairment) /expenses BGN '000/ | 16 305 | 19 393 |
| Separate waste collection | 3 700 m. | |
| Exhaust emissions into the atmosphere | 0* | 0 |
| Emissions to wastewater | | Waste water is treated in WWTP ** |
| Employees trainings and inclusion in environmental protection activities | | <p>Instruction of employees;</p> <p>Instructions for recovery and separate collection of waste;</p> <p>Instructions on how to deal with waste substances in the units;</p> <p>Participation of employees in an initiative of the UN Global Compact - Action to collect household appliances for recycling.</p> |

** Sopharma plants are GMP certified, which also controls the degree of environmental pollution. Emissions of waste gases are less than 50 tons per year, which according to the standards tends to 0. In parallel, the use of water film is a prerequisite for the non-release of gases into the atmosphere.*

*** For years in the production in the factories of the company no organic substances are used for filming the tablets, which guarantees zero pollution of the wastewater.*

Projects related to responsible use of resources and environmental protection:

- Separate waste collection, minimization, utilization and recycling of production and municipal waste;
- Participation of the company and employees in environmental projects - #BeatEWaste - In the first edition of the initiative for proper disposal of electronic waste of the Bulgarian Network of the UN Global Compact. Within the initiative, 1 740 kg were collected, which generates BGN 425.30. The collected amount will be used for a charitable cause;
- Caps for the Future - Charity collection of plastic caps at all production sites;
- Providing regular training of personnel on environmental issues and pollution prevention;
- Responsible implementation of the mandatory requirements of Decree of the Council of Ministers 137 and the Ordinance on packaging and waste;
- Switching from plastic to paper sticks in the production of ear sticks;
- Separate collection of household waste (paper, plastic, batteries) at the workplace. Containers provided at all production sites;
- Reduction of printed advertising materials by 30% per year, by switching to digital content;
- Annual measurement of waste gas emissions into the atmosphere;
- Monthly measurement of emissions into wastewater at production sites A and B of Sofia Water;
- Investments in the creation of “smart” buildings, facilities for renewable energy sources;
- Zero pollution of wastewater and the atmosphere, through the use of water film, instead of organic substances for filming the tablets in the production in the company's plants;
- Measurement of the annual emissions of waste gases in the atmospheric air from the Phytochemical Plant and the Factory for Dosage Forms.
- Emissions of waste gases are less than 50 tons per year, which according to the standards tends to 0. In parallel, the use of water film is a prerequisite for the non-release of gases into the atmosphere.

Human Rights

We are focused on the responsible behavior of our employees and provide equal job opportunities

- Zero tolerance for any kind of discrimination in the workplace;
- Ensuring healthy and safe working conditions;
- Ensuring opportunities for development based on equality;
- Ensuring the right of association and labor protection of employees.

Structure of employees by gender 2020 (2019)

| Gender of employees | 2020 | 2019 |
|---------------------|------|------|
| Man | 37% | 37% |
| Women | 63% | 63% |

Structure of employees in education 2020 (2019)

| Employees/ education | Number 2020 | Relative share% 2020 | Number 2019 |
|-------------------------|----------------|-------------------------|----------------|
| Higher education | 891 | 45% | 952 |
| Colleges | 41 | 2% | 47 |
| Secondary school | 1 024 | 52% | 1212 |
| Elementary education | 28 | 1% | 35 |

Structure of employees by age 2020 (2019)

| Employees / Age | Number 2020 | Relative share% 2020 | Number 2019 |
|--------------------|----------------|-------------------------|----------------|
| under30 | 184 | 9% | 219 |
| 31-40 | 360 | 18% | 416 |
| 41 –50 | 574 | 29% | 651 |
| 51 –60 | 679 | 34% | 755 |
| Over 60 | 187 | 9% | 205 |

Market

“Sopharma” AD is aware of its role of a significant factor in the pharmaceutical sector at a European level and in the Bulgarian economy.

As a leading Bulgarian manufacturer, exporter and distributor of pharmaceutical products, the Company imposes standards to the companies along the chain, following the principles of transparency and responsibility of the management.

“Sopharma” AD invests in the fields of science and development, quality management, industrial property, publicity and transparency.

The products and business model it creates position Sopharma AD among the top 10 companies on the Bulgarian pharmaceutical market and first in terms of sales in units with a 10% of the market.

The group is represented in more than 45 countries, but the key markets are Bulgaria, Russia, Ukraine, Kazakhstan and Poland, and the strategic plan focuses on further expanding its presence in the region.

The market share in units of the products of “Sopharma” AD as well as the share of the OTC products are an indicator for the positioning of the Company in the consciousness of the users. The reputation of the Company as a function of the sustainable business model, the quality and the accessibility of the medicines as well as the adequate CSR (Corporate Social Responsibility) Strategy have an impact over the preferences by the end user at the point of purchase of medicines.

Production activity

“Sopharma” AD has nine manufacturing plants in Bulgaria, which function with regard to the requirements of the EU and of the Bulgarian legislation:

1. Plant for solid dosage forms, city of Sofia
2. Plant for solid dosage forms, village of Vrabevo
3. Plant for solid dosage forms, city of Kazanlak
4. Ampoule plant, city of Sofia
5. Lyophilic production, city of Sofia
6. Chemical plant, city of Sofia
7. Suppository plant, city of Sofia
8. Gamma sterilization, city of Sofia
9. Plant for medical consumables, city of Sandanski

“Sopharma” AD is the largest Bulgarian manufacturer of ampoules and suppositories and a sole manufacturer of lyophilic dosage forms in Bulgaria.

The production activities of the Company are realized and developed in the following areas:

- Substances and preparations based on plant raw materials (phytochemical production);
- Ready-to-use formulations, incl.: hard tablets, coated tablets, film-coated tablets, capsules;
- Galenic – suppositories, drops, syrups, ointments, gels, creams;
- Parenteral – injection solutions, lyophilisate powder for injections;
- Hemodialysis solutions;
- Medical and cosmetic products, incl.: plasters; dressing products; sanitary-hygiene products; herbal cosmetics.

Products

“Sopharma” AD produces products for the following therapeutic groups: cardiovascular, gastroenterological, dermatological, psycho-neurological, antiallergic, respiratory, analgesic, rheumatological.

The Company has more than 200 products in its portofolio, mainly generics and 15 traditional products, of which 12 are plant-based.

Taking into consideration the responsibility related to its market position, Sopharma invests in new production capacities, technologies and products for the attainment of more accessible and efficient treatment.

The Company invests in enrichment of the generic portfolio by working on the implementation of generics:

- Proven to be efficient
- Ratified as a golden standard in the treatment of various diseases
- Topical with regard to the markets

Responsible marketing

“Sopharma” AD pursues a flexible marketing policy, taking into account the possible increase of the delivery prices of the raw materials, the changes in the requirements to the manufacturers of medicines for the suppliers of raw materials, as well as the specifics of the market of medicines.

Activities are consistent with the Change Control Criteria (ICH Q10 3.2.3) and Material and Process Requirements under Good Manufacturing Practice (GMP) guidelines Part 1, with internal procedures approved in a standard operating procedure for change control and standard operating procedures on the approval of manufacturers of active substances, auxiliary substances, packaging materials, feedstock and are managed through an internal eDMS system.

The selection and evaluation criteria cover quality criteria, regulatory compliance, certification status, documentation as well as economic, financial criteria and delivery parameters. Approved manufacturers and the implementation of deliveries are subject to continuous monitoring as part of the management of the purchase process.

To guarantee the required quality of the substances for its original products (Tabex, Nivalin) “Sopharma” AD made permanent plantations of yellow acacia and grows a marsh snowdrop in its own greenhouse in Sopharma Kazanlak.

Sopharma has a developed policy and procedures for evaluation of its counteragents making a regular risk assessment. The Company has over 70 Bulgarian and foreign licensed traders of medicines, with proven history of the interrelations on the main markets as its partners.

The communication messages of the Company are in conformity with the national ethical rules for advertisement and commercial communication.

Ethical competition

“Sopharma” AD strictly observes the national and European legislation and the requirements related to the rules for competition. The Company is guided in its activity by the conviction that ethical behavior is a mandatory condition for development of the free market. The Company is exposed to strong competition on the one hand and on the other hand – to new forms of cooperation in the sphere of health care.

“Sopharma” AD invests mainly in the development of generic production and the role of the generic industry for sustainable healthcare in Bulgaria and in Europe is expected to grow.

Employees

“Sopharma” AD invests in its employees with the conviction that they are its most valuable asset. As a responsible Employer the Company follows up certain principles of labor interrelations:

- • Zero tolerance to any kind of discrimination at the workplace;
- • Provision of healthy and safe working conditions;
- • Provides opportunities for development based on equality;
- • Provision of a right of affiliation and labor protection of the employees.

Safe working conditions

Due to the nature of its activity Sopharma guarantees the safe health working conditions following the standards of the GMP.

- For the jobs, professions and types of work for which Personal protective equipment is applied, including special work clothes, an order is followed, signed by the Executive Director of “Sopharma” AD - Ognian Donev, prepared according to Regulation No. 3 on Minimum Safety and Protection Requirements workers' health when using PPE on work place / Prom. State Gazette, no. 46/2001), Ordinance on free working and uniform clothing (promulgated SG No. 9/2011) and in accordance with Article 284 of the Labor Code.
- For safe work with machines and equipment, follow the Instructions for safe work for each of them, with which the operating machines are familiar and obliged to follow. / Approved by the signature of the Deputy Director "Production Issues" /.
- Prevention of risk situations concerning the health of the employees - a three-month periodic briefing is conducted in all factories on sections of the employees in them, documented with the personal signature of the employee.

Workplaces corresponding to the knowledge and skills of employees

The funds (training) invested in raising the qualification of employees in 2020 amounted to BGN 123 thousand.

Beyond its direct commitments as an employer, “Sopharma” AD creates and develops social projects and programmes and participates in community events directed at the employees and at their families.

Healthy life

- Additional health services;
- Availability of nurses in the plants of the Company;
- Annual free examinations by specialists;
- Fitness free of charge;
- Courses in folk dances free of charge;
- Inclusion in the programme for physical activity Multisport;
- Involve employees in various competitions such as @SopharmaTeam: tennis court; cycling competition; participation in ultra marathons.

@SoSociety, SoSopharma

| Indicator | 2020 | 2019 |
|---|------|------|
| Parental Care | | |
| Employees that took parental leave | 4% | 5% |
| Employees that returned to work in the reporting period after parental leave ended | <1% | 2% |
| Employees that took unpaid parental leave | <1% | <1% |
| Employees that returned to work after parental leave ended that were still employed 12 months after their return to work | 3% | 3% |
| A baby set for each new-born baby/ number | 50 | 30 |
| Assistance for each first year pupil – a rucksack with all the needed aids/number | 39 | 43 |
| Free kindergarten on the territory of Sopharma for children of the employees of the Company, opened 2012/number of children | 22 | 30 |
| Leisure time | | |
| Free library / number of employees using the services | 70 | 70 |

Organizational structure

| Chairman of the Board of Directors and Executive Director | | | |
|---|--|--|--|
| Deputy Chairman of the Board of Directors | Member of the Board of Directors | Independent Member of the Board of Directors | Independent Member of the Board of Directors |
| Business Development | Resources | Finance | Representative office of "Sopharma" AD in: Ukraine Poland Kazakhstan Baltic States and Belarus Turkey Azerbaijan Georgia Armenia Tunisia China Israel and the Palestinian Territories |
| Trade Directorate | Production | Logistics | |
| Investor Relations | Legal Department | Quality management and regulatory compliance | |
| Cooperation and licenses | Labor protection | Administrative and business management | |
| Security | Quality Management and Regulatory Compliance | Operations Directorate | |
| Intellectual Property | Financial and accounting department | Human Resources | |

Risks

“Sopharma” AD monitors the following risks, identified as significant and potentially affecting its activities:

- Risks related to the macroeconomic situation in the country and other markets;
- Risks associated with the business and the industry in which the Company operates;
- Risks related to the markets in which the Sopharma operates;
- Risks related to foreign exchange rates and the currency board in force in Bulgaria;
- Credit risk.

Strategy for corporate social responsibility

For “Sopharma” AD responsible corporate citizenship is the only path to a sustainable business development with a clear vision of the goals, the necessary resources to achieve these goals and the impact from the company's business on the economic, social and environmental sphere. Along with the investments made in its business, “Sopharma” AD works hard to achieve UN’s SDG 2015.

“Sopharma” AD actively communicates its activities with all stakeholders. The CSR strategy, initiatives and specific activities are planned and developed, coordinated and implemented by the Communication strategies and the CSR Directorate, after obtaining the approval of the Board of Directors of “Sopharma” AD. The Director of the Communication strategies and the CSR Directorate is subordinate to the Executive Director of the company; the directorate itself is run by a CSR and Corporate communications manager.

The policies and specific projects are focused on 4 main areas:

- Health and healthy lifestyle
- Compassionate business and care for the environment
- Education
- Community

Strategic Management

| Market | Employees | Environment | Community | Corporate Citizenship |
|---|---|---|--------------------------------------|---|
| Transparent corporate governance | Responsible employer: Zero discrimination regarding the right to work | Environmental management systems | Contribution to economic development | Anticorruption |
| Guaranteed quality and safety of products and services | Ensuring the right of association | Reduction of environmental impacts | Developing the healthcare system | Work on SDG 2015 |
| Sustainability | Employee development: hierarchically and as a qualification and education | Responsible use of resources | Health prevention | Participation in the establishment and implementation of international pharmaceutical standards |
| Ethical Competition | Decent labor wages | Reduction of direct impacts | Providing affordable healthcare | Working with partner organizations |
| Responsible marketing | Ensuring healthy and safe work conditions | Reduction of indirect impacts | Investing in education | Joint projects of organizations in which „Sopharma“ is a member |
| Responsible procurement | Social benefits for employees | Participation in environmental projects | Investments in public communications | Development of the generic industry in the country |
| Development of pharmacy sphere | Internal communication | Training of employees for separate collection of waste and environmental issues | | |