TO GENERAL MEETING OF
SHAREHOLDERS OF
„SOPHARMA" AD

AUDIT COMMITTEE REPORT

2021

Dear Shareholders,

This report has been prepared and adopted in connection with the completion of the work on the preparation, adoption and audit of the financial statements of the Company and the consolidated financial statements of Sopharma Group for the year 2021.
The Audit Committee was reelected at the General Meeting of Shareholders of „Sopharma" AD on 5 June 2020 on the grounds of Art. 107 of the Law on Independent Financial Audit for a new three-year term of office and comprises of three members:

1. Vasil Naydenov
2. Cvetanka Zlateva
3. Kristina Atanasova-Elliot

On the grounds of Art. 107, para 6 of the Law on Independent Financial Audit, the Audit Committee has elected as its Chairman Mr. Vasil Naydenov.

In this composition, the Audit Committee performed its functions in the reporting year 2021, in accordance with Art. 108 of the LFIA, the Statute of the Audit Committee adopted by the General Meeting of Shareholders and observing the other requirements of the Independent Financial Audit Act.

Throughout the reporting period, the Audit Committee operates in a National state of emergency announced by the Parliament and for the remaining of the reporting period in a state of emergency epidemic situation announced by the Concil of Ministers in complience with the restrictive measures, which lead to reorganization of the work of the Committee, but in compliance with the functions and performance of its duties.

At a meeting, the Audit Committee adopted a plan for its work during the reporting period and identified the main objectives in its activity, which included:

- review and coordination of the audit engagement materials provided by the independent Auditor and preparation of opinion on the Letter of Acceptance of Audit Commitment - contract between the Company and the registered Auditor for an independent financial audit of the financial statements of "SOPHARMA" AD and the consolidated statements of SOPHARMA Group for 2021 prior to signing;
- monitoring of the financial reporting processes in „SOPHARMA" AD and preparation, when necessary of recommendations and suggestions for ensuring and improving its effectiveness;

- monitor the effectiveness of the internal control systems in the Company;
- monitor the effectiveness of the Company's risk management systems;
- establishing contacts and cooperation with the Management of "SOPHARMA" AD in the processes of mutual information on key issues related to the business activities of the company with emphasis on financial reporting and independent audit;
- monitor the activities of the independent financial audit in the Company;
- verification and monitoring of the independence of the registered Auditor of the Company in accordance with the requirements of the Law and the Code of Ethics of Professional Accountants, including the provision of permitted outsourced services by the registered Auditor of the Company, if any, as well as any identified threats to the independence of the registered Auditors and the mitigation measures applied to them;
- acquaint with and provide an opinion on the additional report of the Auditor of the Company under Art. 60 of LIFA to the Audit Committee;
- prepare and submit to the General Meeting of shareholders and management of the Company a recommendation regarding the election of a registered auditor to perform the independent financial audit of the Group for the next reporting period.

The permanent objective of the Audit Committee is to verify and monitor the independence and objectivity of the independent Auditor in carrying out his work and provide active assistance in the process of work of the independent Auditor and the persons responsible for the financial activity in the Company.

The activities of the AC in pursuance of the adopted Work Plan can be summarized as follows:

Pursuant to Art. 12, item 11 of the Statutes of the Audit Committee, the latter provided an opinion regarding the contract for assigning an audit engagement for an independent financial audit of the financial report of „SOPHARMA" AD for the year 2021 and consolidated financial report of SOPHARMA GROUP preceding its conclusion. The audit program was discussed in detail and a review of the envisaged specific deadlines was performed in order to gain confidence that the latter have the potential to ensure the timely exchange of information between the Company and the Auditor and the full, accurate and timely implementation of audit procedures, as well as the potential for compliance with the statutory deadlines for disclosure of the financial statements. The Audit Committee gave a positive opinion on its signing, taking into account non-critical recommendations made by the Committee in order to achieve precision, comprehensiveness and clarity, respectively subsequent compliance with the final guidelines and clarifications on the implementation of the European Single Electronic Format (ESEF) and on the labeling of the Consolidated annual financial statements in the Extensible Business Reporting Language (XBRL) and the role of the auditor in this regard, incl. the necessary audit procedures and the format in which they should be performed when disclosed by the relevant regulators.

The monitoring of the financial reporting of "SOPHARMA" AD is a continuous process in which the Audit Committee establishes that the management of the Company applies adequate accounting policy and directly controls the financial reporting processes. For the reporting financial year, the Company has adopted new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and resp. by the IFRS Interpretations Committee, which were relevant to its work. Since the adoption of these standards and / or interpretations, effective for annual periods beginning on or after 1 January 2021, there have been no changes in the Company's accounting policy, except for a few new disclosures and the expansion of already existing disclosures, without an impact and other changes in the classification or evaluation of individual reporting objects and operations.

The members of the Audit Committee held special consultative meetings with the Financial Director, the Chief Accountant and the Head of the Reporting Department of "SOPHARMA" AD. The issues of the quality indicators of the accounting, its completeness, comprehensibility and reliability, communication with the Auditors were discussed.
From the information received, the Audit Committee found that the Company maintains a streamlined organization for reporting the financial year. The activities of the Reporting Department, established specifically to work with subsidiaries continue to contribute effectively to improving the quality of the financial year reporting processes on a consolidated basis.

From the collected information and the communication a full and responsible joint work of the financial and accounting team of the Company with the independent Auditor was established, while maintaining the practice of providing the audit team with complete and accurate financial and accounting information. The Auditor reports to the Audit Committee that in the course of the audit he received all the required documents and explanations, and no significant difficulties were encountered, except for partial delays in providing information in connection with the audit of the consolidated report.

The financial reporting of the business, as far as we are aware, presents reliably the financial position of the Company and the Group. The information provided in the annual reports of the management for the activities of „Sopharma" AD and Sopharma Group corresponds in all material respects to the information presented and disclosed in the financial statements of the Company and the consolidated financial statements of the group as at 31 December 2021, in accordance with International Accounting Standards. This statement is also confirmed by the independent Auditor in the expressed Audit opinion and the findings under Art. 37, para. 6 of the Accountancy Law and Art. 100n of LPOS, contained in the Audit Reports on the Financial Statements. The findings of the Audit Committee are that no omissions, lack of reliability of financial information or non-compliance with the policy of financial reporting of business operations have been identified. There were no significant findings in the process of implementation of the audit program for the independent financial audit, which were not taken into account by the responsible specialists, respectively have not been reflected in the financial statements. The monitoring of the financial reporting processes contributes to the reliability of financial reporting. In this context, the Audit Committee should report that it did not receive any signals of irregularities in the Company's financial reporting and auditing activities.

The Audit Committee takes a special approach to **monitoring the effectiveness of the Company's internal control and risk management systems.** The management of the Company is responsible for risk management in the Company and in the group. The management is responsible for identifying, assessing and taking corrective action to eliminate or reduce the relevant risks. The management has taken an approach to expand the scope of internal control by assigning control functions to individuals and structures related to both financial and production and economic activities. The Audit Committee found that the established system of internal control operates in a way that allows identifying the risks associated with the activities of the Company and supporting their effective management. **The Board of directors has adopted basic principles for the general management of financial risk,** on the basis of which specific procedures have been developed for the management of individual specific risks:
Currency – To control the currency risk the Company introduced import supply planning system, foreign currency sales, as well as procedures for daily monitoring of movements in the USD exchange rate and control of forthcoming payments. The management conducts, through its subsidiaries, a currency policy in order to optimize and minimize the currency risk;
Price - To eliminate this risk, the Company has applied a strategy aimed at optimizing production costs, validating alternative suppliers offering favorable trading conditions, expanding the nomenclature by developing new generic products for the market and last but not least, flexible marketing and pricing policy. With regard to the long-term capital investments owned by the Company, the management

monitors and analyzes all changes in the securities market and the management has decided to reduce the operations on the stock markets and ongoing monitoring of financial and business indicators reported by the issuer;
Interest - The Company's management is currently monitoring and analyzing its exposure to changes in interest rates. Different scenarios of refinancing, renewal of existing positions and alternative financing are simulated;
Credit - A number of policies and practices to reduce the credit risk of loans are introduced. The most common is providing a collateral. The Company assigns an evaluation by external experts - independent appraisers of the collateral received, as part of the lending process. This assessment is reviewed periodically.
As a result of the meetings with the Management, during which the approaches for monitoring and risk management were discussed, the Audit Committee was able to find that an adequate policy is pursued in terms of risk clarification and prevention of actions. The latter is also reflected in the Reports of the Management for the activity of “SOPHARMA” AD and Sopharma Group for 2021, as well as in the Corporate Governance Declarations under Art. 40 of the Accounting Act and Art. 100n, para 8 of the Law on Public Offering of Securities. The risk management policy is subject to ongoing analysis and control.
The management has identified the entry of the Russian army into Ukraine as a risk, which could have a serious impact on the Group's activities. At this stage, the Company has reduced its activity in these markets, including due to logistical inability to deliver. As at the date of approval of both the individual financial statements and the consolidated financial statements of the group, “SOPHARMA” AD and its subsidiaries have no commercial counterparties included in the sanction lists published by the European Union. Despite the potential negative economic effects of the war and the posibility that it could escalate into a long and protracted conflict, the Group has sufficient current assets and funding to continue to operate as a going entity.

During the reporting period the Audit Committee assists in improving the conditions created by the management of the Company and the responsible employees in order to achieve an environment that provides transparency and complete independence in the process of performing the Auditor's duties. Throughout the duration of the audit, the Registered Auditor maintained communication with the Audit Committee on the key matters related to the implementation on different stages of the Audit, the progress of the audit and other ongoing issues; the essential aspects and risks to which the Company and the Group are exposed are also being communicated. At a meeting of the Audit Committee with the Registered Auditor in December 2021, the Auditor identified significant risks of misstatement and planned measures for addressing them as well as issues of communication with the responsible persons. Following an analysis, the Auditor considered as key audit matters the evaluation of trade receivables, related party receivables and loans to third parties and the valuation of investments in subsidiaries. The Auditor has identified a major risk in the inadequate evaluation of trade receivables, related party receivables and loans to third parties, since the application of IFRS 9 requires the application of models with significant judgments and assumptions. The Auditor has performed a number of procedures to ensure the accuracy of the application of the requirements of IFRS in the financial reporting of the Company, incl. reviewing and assessing the adequacy of the Company's methodology, evaluating and testing the design and operational effectiveness of key controls in the process of monitoring and determining the amount of impairment for credit losses. In order to avoid the risk of overestimation of investments in subsidiaries, the Auditor has taken measures related to a thorough review of the financial position of the subsidiaries, as well as estimates made on the basis of future discounted future cash flows. Relevant procedures have been performed in connection with the consolidation of the Group, where as key audit issues are identified valuation of trade receivables, receivables from related parties and loans to third parties and assessment of reputation and specific intangible assets arising from the business combination. The thorough and comprehensive analysis and audit procedures performed by the Auditor in relation to the implementation of the new regulatory requirements in the accounting policy of the Company and the Group creates

additional safeguards for the correctness of the financial reporting. At the same time, the discussed turn of the identified key Audit matters and significant risks of misinterpretation with the Audit Committee of an early stage of the Audit, allows the Auditor to fully monitor the focus of audit procedures to eliminate the risks and obtain sufficient audit evidence to form an audit opinion on the financial statements. This asserts the role of the Committee in assuring the credibility of the financial reporting, which is the focus of the statutory audit.

In view of the above and as a result of the overall communication with the independent Auditor, the Audit Committee finds that the audit work during the reporting period has been performed in a comprehensive, responsible and regulatory manner. The good practice of accurate audit planning has been reinforced, which provides control of results and prevention of mistakes. The latter integrally contributes to the reliability of the financial reporting in the audited entity.

The Audit Committee's observations show that the Audit Program presented in the engagement letter was fulfilled. The crisis situation on a national and global scale, dictated by the continuing COVID-19 pandemic did not impede the proper organization of both the financial reporting processes in the Company and the statutory audit and compliance with the terms under art. 100n, para 1 and 2 of the LPOS. The extraordinary events occurring after the end of the reporting period, related to the Russian Army's entry into Ukraine on 24 February 2022, necessitated an immediate analysis and assessment of the actual and potential impact of the military conflict in order to disclose the effects on the Company's financial position. Management's assessment that it has sufficient current assets and funding to meet the potential negative effects of the war is supported by the fact that the auditor's opinion is not qualified with respect to this issue.

The Audit Committee appreciates the readiness of both the Company and the Auditor for the implementation of the European Single Electronic Format (ESEF) and the marking of the Consolidated Annual Financial Statements in the Extensible Business Reporting Language (XBRL) under Commission Delegated Regulation (EU) 2018/815 of 17 December 2018 supplementing Directive 2004/109 / EC of the European Parliament and of the Council as regards the annual financial statements for 2021. The Company's financial statements were prepared in full compliance with the new regulatory requirements - as confirmed by the independent auditor in the Auditor's Reports in the relevant reporting paragraphs on the compliance of the electronic format of the financial statements with the ESEF requirements.

In compliance with the statutory obligations of the Audit Committee, a review of the independence of the registered Auditor "Baker Tilly Klitou and Partners” EOOD was performed in accordance with the statutory requirements and the Code of Ethics for Professional Accountants. The Independent Auditor provided a declaration of independence from the audited entity as well as declarations by team members as required by the Law on the Independent Financial Audit. No other Auditors and external experts were used in the audit of the individual statement. No external experts were used in the audit of the consolidated report; the work of the Auditors carrying out the audit of the subsidiaries of the enterprise is used. In view of the latter, the Auditor reports to the Audit Committee that it has requested and obtained from the subsidiaries' Auditors a confirmation of their independence vis-à-vis the companies in the group. The Auditors have confirmed their independence according to the applicable legal requirements and in the Supplementary Reports to the Audit Committee, incl. the implementation of the procedures under art. 53 and 67 of the LIFO for preparation of the financial audit and evaluation of the threats to independence, as well as a review for the quality of the engagement under art. 68 of the LIFO and art. 8 of Regulation (EU) 537/2014 prior to the issuance of the audit opinion and the reports under art. 60 of the LIFO. The auditor has reported on the internal organization of work in accordance with art. 55 of the LIFO. The Auditor has also confirmed that they have not established infringements of the LIFO and Regulation (EU) 537/2014.

There are no reports of complaints received in connection with the audit performed and no reports of omissions and irregularities in the performance of the Independent Auditor's duties have been received.

The Audit Committee finds, on the basis of the submitted documents, that the registered Auditor meets the criteria of independence from the audited entity. It was also found, at the date of this report, that the Independent Auditor fulfills its obligation to publish on its website a Transparency Report that includes legally required information.

In accordance with the requirements of the LIFO (Art. 60), the applicable auditing standards and the provisions of Art. 11 of Regulation (EU) No 537/2014, the Independent Auditor provided the Audit Committee with a Report to the Audit Committee of „Sopharma“ AD dated 28 March 2022 concerning the audit of the Company's individual financial statements for 2021 and a Report to the Audit Committee of „SOPHARMA“ AD dated 28 April 2022 on the auditing of the consolidated financial statements of Sopharma Group for 2021.

During the reporting period, the registered auditor made one request to the Audit Committee for the provision to “SOPHARMA” AD of permitted services outside the audit under Art. 64 of the LIFO, constituting agreed procedures, as required by Art. 89e, para. 3 of the Law on Public Offering of Securities (LPOS) and issuing a declaration under Art. 89e, para. 6 at ver. with par. 3 of the LPOS. The Audit Committee examined in detail the request made and after making a reasoned assessment of compliance with the provisions of the LIFO, Regulation (EU) № 537/2014 and the Policy adopted by the Audit Committee of the Audit Committee of “SOPHARMA” AD for approval of non-audit services, approved Art. 64, para. 3 of the LIFO for the performance of the described service by "BAKER TILLY KLITOU AND PARTNERS" OOD, incl. for the implementation, for the purposes of the same service, of agreed procedures according to International Standards on Auditing (ISA) 4400 Commitments to Perform Agreed Procedures Regarding Financial Information, respectively to issue a Report on Factual Findings in accordance with the said ISA. Based on the analysis of the request and the applicable legislation, the Audit Committee concluded that the provision of such a service does not prejudice or pose a threat and / or a threat to the independence and / or objectivity of the external auditor, which does not require the application of safeguards. The conclusion made was based on the consideration that the issuance of the declaration under Art. 89d, para. 6 in conjunction with para. 3 of the LPOS has been established by the legislator as an obligatory element of the prospectuses for public offering of securities to public companies and resp. as a mandatory, statutory commitment of the specific auditor who has audited the historical financial information, on which agreed procedures are conducted for this purpose and a Report on factual findings is issued, resp. the same declaration is issued, which in this case with regard to the historical financial information of the company for the reporting 2020, 2019 and 2018 is the external auditor "BAKER TILLY KLITOU AND PARTNERS" OOD. For the granted approval, pursuant to Art. 108, para. 1, item 7 of the LIFO, the Audit Committee notified the Commission for Public Oversight of Registered Auditors and the Board of Directors of “SOPHARMA” AD. Additionally, the Committee took action to obtain assurance that the auditor had fulfilled its respective obligation to notify the Commission of the approval received within the period under Art. 64, para. 3 of the LIFO.
The registered auditor and the members of the network to which he belongs have not provided prohibited services outside the audit under Art. 64 of the LIFO (respectively Art. 5 Regulation (EU) № 537/2014), which is confirmed in the Audit Reports according to Art. 10, para. 2, letter "e" Regulation (EU) № 537/2014.

As an external auditor, performing the obligatory independent audit of the subsidiary “Sopharma Trading” AD, “BAKER TILLY KLITOU AND PARTNERS” EOOD has provided to “Sopharma Trading” AD authorized services outside the audit, expressed in the issuance of a declaration under Art. 89d, para. 6 in conjunction with para. 3 of the LPOS in connection with a prospectus for public offering of securities of

the company, after receiving approval from its Audit Committee. To the extent that this service is analogous to the one described above, provided to “SOPHARMA” AD, the considerations set out in connection with the latter remain relevant. In view of the latter, it should be assumed that the performance of such a service could not undermine or create a threat and / or a threat to the independence and / or objectivity of the external auditor.

The Auditor has confirmed the assessment under art. 66, para 2 and 3 of the LIFO and art. 4 of Regulation (EU) 537/2014 resulting in the remuneration received being below the thresholds laid down in those provisions. In view of the latter, during the reporting period, the Auditor has not identified any threats to his / her independence, has not conducted communication under art. 66 of the LIFO with the Audit Committee, respectively the latter did not provide approvals under para 3 of the same provision.

In accordance with its obligations underlined in art. 108, para 1, item 4 of the LIFO, the Audit Committee found that the Commission for Public Oversight of Registered Auditors publicly announced on its website the results of scheduled inspections in 2021, when the latest inspection of the Auditor has been carried out for the period under review: “from 1 January 2020 to 31 December 2020, the specialized audit firm has operated in accordance with all the essential aspects of the quality requirements of the audit services performed by applying the procedures laid down in the professional standards". It should be noted that the results of the previously planned inspection carried out in 2019 for "Baker Tilly Klitou and Partners” OOD reg. No 0129 it was also noted that “the professional activities of the audit firm were in compliance with all material aspects of the quality requirements of the audit services performed in the application of the procedures specified in the professional standards.” In addition, in conclusion of a thematic inspection of the quality of the performance of a statutory financial audit engagement of a public company for 2018 the Commission stated that “the audit firm has fulfilled its commitment in accordance with all material aspects of the quality requirements of the audit services performed by applying the procedures set out in professional standards, fundamental ethical principles, legal and other regulatory provisions.” Other results of inspections and / or investigations were not found, respectively findings under art. 26, para 6 of Regulation (EU) 537/2014, of the Commission regarding the Auditor "Baker Tilly Klitou and Partners” OOD reg. No 0129. Taking into consideration the positive findings of the Independent Auditor's activity, the Audit Committee finds that the Audit Firm "Baker Tilly Klitou and Partners” OOD has the necessary resources for auditing and certification of the Annual Financial Report of the Company for 2022, according to the requirements of the LIFO.

Due to the above, **the Audit Committee recommends that the General Meeting of Shareholders renews the audit engagement of the auditing Company "Baker Tilly Klitou and Partners” EOOD, Sofia, 5 "Stara Plnanina”, floor 5 with UIC 131349346 by choosing it for external independent Auditor of „SOPHARMA“ AD** for verifying and certifying the Annual Individual and Consolidated Financial Statements of the Company for 2022. The Company is registered with registration number 0129 in the Register of Audit Companies art. 20, promulgated by the Law of Independent Financial Audit.

The recommendation of the Audit Committee for the election of independent Auditor of „SOPHARMA“ AD for 2022 is not influenced by a third party. The Audit Committee does not have a clause of the kind referred to in art. 16, para 6 of Regulation (EU) 537/2014.

Given the fact that the reporting year 2021 is the fifth year in which the independent financial audit of the financial statements of the Company was assigned to the recommended Auditor, the recommendation complies with the requirements of art. 65 of the LIFO on the maximum duration of audit engagements.

In view of the fact that the recommendation relates to the renewal of an audit engagement and has been made in compliance with art. 65 of the LIFO and art. 17, para 1 and 2 of Regulation (EU) 537/2014, on

the basis of art. 16, para 2, para 2 and para 3, para 1 of Regulation (EU) 537/2014, for the purposes and prior to its submission, the selection procedure under art. 17, para 3 of Regulation (EU) 537/2014 should not be applied, i.e. it is not required to justify it and to provide selection options with preference. The proposal is also communicated with the management of “SOPHARMA” AD.

The report was adopted at a meeting of the Audit Committee held on 28 April 2022.

CHAIRMAN: /signature/
Vasil Naidenov

AND MEMBERS:

/signature/
Cvetanka Zlateva

/signature/
Kristina Atanasova-Elliot