

TO THE GENERAL MEETING OF
SHAREHOLDERS OF
„SOPHARMA“ AD

AUDIT COMMITTEE REPORT

2022

Dear Shareholders,

This report has been prepared and adopted in connection with the completion of the work on the preparation, adoption and audit of Annual individual and consolidated financial statements of "SOPHARMA" AD for the year 2022.

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 the 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 2022, in accordance with Art. 108 of the LIFA, the Statute of the Audit Committee adopted by the General Meeting of Shareholders and observing the other requirements of the Independent Financial Audit Act.

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, chosen by the General Meeting of the Company for an independent financial audit of the annual individual and consolidated financial statements of "SOPHARMA" AD and for the year ending on 31 December 2022 of before signing;
- monitoring of the financial reporting process 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 activities of the AC in pursuance of the adopted Work Plan can be summarized as follows:

1. **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 annual individual and consolidated financial report and for the year ending on 31 December 2022 of „SOPHARMA“ AD preceding its conclusion. The committee gave a positive opinion on the contract, after a detailed discussion of the audit implementation program 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.

2. **Monitoring of financial reporting processes in "SOPHARMA" AD**

The Audit Committee establishes that the management of the Company applies adequate accounting policy and directly controls the financial reporting processes. For the current financial year, the Company has adopted new and/or 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 2022, 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.

In light of the Common European Implementation Priorities for Annual Financial Statements 2022 outlined by the European Securities and Markets Authority (ESMA) in its annual public statement (ESMA32-63-1320, 28 October 2022), the Audit Committee assesses the disclosures in the annual financial statements for 2022 of Sopharma AD regarding the war in Ukraine, especially given the fact that the Company owns investments in two subsidiaries on the territory of the country and it is possible that in the future a review of the balance sheet value of these investments will be required depending on the development of the war and its impact on the activities of the subsidiaries, notwithstanding that at the date of the accounts the assets of these subsidiaries are not physically affected by hostilities. Although during the reporting period the Company reports an increase in revenues from the markets in Russia and Ukraine, it is noted that its activity in the territory of both countries is and could be limited mainly due to reasons such as difficult logistics and restrictions on the free movement of funds. Management is confident that despite the potential negative economic effects of the war and the likelihood that it will develop into a protracted conflict, the Company has sufficient current assets and financing to continue as a going concern. In accordance with the General European priorities outlined by ESMA, in the Notes to the annual reports, along with the analysis of the relevant risks, the direct effects of the changed macroeconomic environment on the activity are additionally disclosed. In relation to climate-related issues, the disclosures to the annual reports contain a statement on the measures applied by the Company and the Group to protect the environment and prevent pollution. Questions related to the environmental impact of the Company are also addressed in the Non-financial declarations to the reports, including in the relevant disclosures pursuant to Art. 8 of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 to create a framework to facilitate sustainable investments and to amend Regulation (EU) 2019/2088. The presentation for the purposes of applying the Taxonomy

for environmentally sustainable economic activities contains a specific analysis of the taxonomic admissibility of the Enterprise's and the Group's activities, including capital and operational costs. Regardless of the conclusion made at this stage about the taxonomic inadmissibility of the main activity, in view of the active change and updating of the understandings of the European Commission in this regard, the Management indicates that it is possible subsequently and in the following financial statements to reassess both the reporting of the revenues as well as the disclosures of the Company and the Group.

From the consultation meetings held with the Financial Director, the Chief Accountant and the Head of the Reporting Department of "SOPHARMA" AD, 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 included 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 2022, 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.

3. Monitoring the effectiveness of 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 company realizes part of its finished production in Russia in euros and thus eliminates the currency risk associated with the depreciation of the Russian ruble. Settlements

with subsidiaries in Ukraine are also denominated in euros. However, in order to minimize the currency risk, the Company, through its subsidiaries, implements a foreign exchange policy, including the application of advance payments and shortening of deferred payment terms and immediate conversion into euros of local currency receipts, as well as betting on higher commercial markups to compensate for possible future devaluation of the hryvnia;

Price - to minimize 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 strongly reduce the operations on the stock markets and withhold the investment in shares for a longer-term horizon and it applies an 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 and serve as a base for measuring the effect on the financial result and owner's capital when change with certain percentage points occurs;

Credit - The company works with counterparties with a history of relationships in its main markets, partnering with over 70 Bulgarian and foreign licensed pharmaceutical distributors. The Company's credit policy stipulates that each new customer is examined for creditworthiness before the standard terms of delivery and payment are offered. The Company's credit risk arises both from its main activity, through trade receivables, and from its financial activity, including the provision of loans to related parties and third parties, commitments on loans and guarantees, and deposits in banks. The Company has developed policies, procedures and rules for control and monitoring of credit risk behavior.

Capital risk – The company currently monitors the coverage and capital structure based on the debt ratio. In 2022, the strategy of the Company's Management is to maintain a ratio within 1% - 5% (2021: 5% - 10%).

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 2022, 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.

4. Efficient dialogue with the Management of "SOPHARMA" AD and monitoring of the internal audit work

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 on the different stages. At a meeting of the Audit Committee with the Registered Auditor in December 2022, 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 application of the additional requirements for the reporting periods starting on or after 01.01.2022 under Delegated Regulation (EU) 2018/815 of the Commission of 17 December 2018 for addition of Directive 2004/109/EC of the European Parliament and of the Council, for marking and the disclosures to the CGFO with the extensible business reporting language (XBRL). In relation to the KEONO Guidelines on the work of auditors in relation to financial statements in the European Single Electronic Format (ESEF) (CEAOB, 09.11.2021) and in accordance with the "Instructions on the expression of an auditor's opinion in connection with the application of the European Single Electronic Format (ESEF) for the financial statements of companies whose securities are admitted to trading on a regulated market in the European Union (EU)" of the professional organization of registered auditors in Bulgaria, the Institute of Certified Public Accountants, the auditor has performed compliance procedures of the individual and consolidated financial statements with the requirements of Delegated Regulation (EU) 2018/815. In this regard, in the Audit Reports, the auditor has confirmed that the Company's financial statements are prepared in full compliance with the new regulatory requirements.

5. 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 by the Audit Committee 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 2023 concerning the audit of the Company's individual financial statements for 2022 and a Report to the Audit Committee of „SOPHARMA“ AD dated 27 April 2023 on the auditing of the consolidated financial statements of Sopharma Group for 2022.

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 & PARTNERS" EOOD, 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 2021, 2020 and 2019 is the external auditor "BAKER

TILLY KLITOU & PARTNERS" EOOD. 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. Regardless of the approval received, the service was not provided due to a change in the Company's plans and the need for it no longer being there. In view of the latter, during the reporting period, the registered auditor did not provide "SOPHARMA" AD any services other than the audit.

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.

6. Recommendation for electing a registered auditor for the independent financial audit of the financial report of "SOPHARMA" AD for 2023

In accordance with its obligation under Art. 108, para. 1, item 4 of the LIFO, the Audit Committee found that the Commission for Public Supervision of Registered Auditors, in the decisions made public on its website, adopted on 04.04.2023 a report on the results of an unscheduled full inspection to ensure the quality of the professional activity of the auditing company "BAKER TILLY KLITOU AND PARTNERS" EOOD, and the Commission evaluates the auditing practice with grade "A", with the finding that the professional activity of the auditing company is in accordance with the essential aspects of the requirements of the auditing standards and with the legal requirements. It should be noted that in the results of previously conducted planned inspections published by the Commission, the findings for "BAKER TILLY KLITOU AND PARTNERS" EOOD, reg. No. 0129, are similar, and in the results of 2021 it is noted that for the inspected period "from 01.01.2020 to 31.12.2020 the professional activity of the registered auditor is in accordance with the essential aspects of the requirements of the auditing standards and with the legal requirements", and in those from 2019 - that "the professional activity of the auditing company was in compliance with all essential aspects of the quality requirements of the performed audit services when applying the procedures defined in the professional standards". No follow-up results regarding inspections and/or investigations were found to have been published, resp. findings under Art. 26, par. 6 of Regulation (EU) No. 537/2014, of the Commission regarding the Auditor "BAKER TILLY KLITOU AND PARTNERS" EOOD, REG. No. 0129. Bearing in mind the indicated permanently positive

assessments of the activities of the independent Auditor, the Audit Committee finds that the Auditing Company "BAKER TILLY KLITOU AND PARTNERS" EOOD has the necessary capabilities to verify and certify the Annual Financial Report of the Company for 2023 as well, according to the requirements of 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 Plinina", 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 2023. 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 2023 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 2022 is the sixth 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 2023.

CHAIRMAN: /signature/
Vasil Naidenov

AND MEMBERS:

/signature/
Cvetanka Zlateva

/signature/
Kristina Atanasova-Elliot