

ADMINISTRATOR'S REPORT January - September 2010

Quarter III Report acc. to: OMF 3055/2009
 For the financial year: 30.09.2010
 Report date: 12 octombrie 2010
 Name of the company: Antibiotice SA
 The registered office: Iasi, Strada V.Lupului nr.1
 Phone number: 0232/209000; fax: 0232/209633
 Registration number: RO1973096
 Order Number in the Trade Register: J22/285/1991
 Regulated market where issued securities are traded:
 Bucharest Stock Exchange:
 Subscribed and paid share capital: 45,489.729 lei
 The main characteristics of securities issued by the company: nominal shares, nominal value: 0.10 lei.

The main objective of Antibiotice during the first nine months of 2010 was to continue to ensure the financial and economic balance of the society by adopting the best measures in order to achieve the sales program, the reduction of costs without affecting product quality, the monthly production optimization programs as well as the rigorous management of receipts and payments.

During this period, special attention was paid to the achievement of indicators for the first nine months of 2010 as part of the annual revenue and expenditure budget for 2010 which was approved by the General Meeting of Shareholders on November 12, 2010.

1. Economic and financial situation

a) Balance sheet items

Against the backdrop of an effective activity, despite the difficult conditions due to financial and economic crisis, the main financial and economic indicators for this period were mostly performed in compliance with the provisions from this year's revenues and expenditures budget. This is also reflected in the equity value which, on September 30 2010 had an 8% growth compared to the beginning of the year, from 242.02 million lei to 261.04 million lei.

RON	31.12.2009	30.09.2010	%
1	2	3	3/2
FIXED ASSETS			
<i>I. Intangible assets</i>	1,809.414	1,938.957	7%
<i>II. Tangible assets</i>	156,831.681	156,709.711	0%
<i>III. Financial assets</i>	81.059	117.042	44%
FIXED ASSETS - TOTAL	158,722.154	158,765.710	0%
ASSETS			
<i>I.</i>			
Stocks	34,148.030	40,945.128	20%
Raw and expandable materials	10,409.543	13,284.810	28%
Production in progress	938.895	1,374.551	46%
Finished products and goods	22,639.256	26,210.257	16%
Advances for stock purchases	160.336	75.510	-53%
II. Debts	179,772.285	183,830.310	2%
<i>IV. Cash and account with banks</i>	3,576.127	9,058.070	153%
ASSETS - TOTAL	217,496.442	233,833.508	8%

PREPAYMENTS	481.812	147.968	-69%
DEBTS TO BE PAID IN A PERIOD OF ONE YEAR	114,219.143	113,418.904	-1%
DEBTS TO BE PAID IN A PERIOD OF MORE THAN ONE YEAR	33.137	5.973	-82%
PROVISIONS	14,008.241	12,504.637	-11%
DEFERRED INCOME	6,415.677	5,773.312	-10%
TOTAL EQUITY	242,024.210	261,044.359	8%
<i>Corporate funds</i>	<i>45,489.729</i>	<i>45,489.729</i>	<i>0%</i>
<i>Revaluation reserves</i>	<i>95,396.469</i>	<i>95,549.735</i>	<i>0%</i>
<i>Reserves</i>	<i>91,294.309</i>	<i>98,912.411</i>	<i>8%</i>
<i>Retained earnings</i>	<i>(1,995.648)</i>	<i>(18.258)</i>	<i>-99%</i>
<i>The result of the exercise</i>	<i>11,916.807</i>	<i>21,110.742</i>	<i>77%</i>
<i>Profit distribution</i>	<i>77.456</i>	<i>-</i>	

The intangible assets register an increase of 7%, from 1.8 million lei at the beginning of the year to 1,9 million lei at the end of September 2010.

The tangible assets have values substantially equal to those from the beginning of 2010 under the conditions of registration of the writing off of goods and the commissionings worth 2.5 million lei. Concerning the assets, the following aspects are to be taken into consideration:

- The stocks of raw materials are growing by 28% due to the beginning of production in September after the overhaul period during July and August;
- The stocks of finished products and goods register an increase of 16% from 22.6 million lei to 26.21 million lei.

The growth rate of debt (2%) is exceeded by the company's turnover growth rate, Antibiotice made intensive efforts for their recovery although the collection period increased from 292 days during the first nine months of 2009 to 320 days during the same period of 2010.

Following the release of shares of the health system payments as a result of budgetary rectification, during September the sum of 34.6 million lei was received from hospitals and distributors. Under these circumstances, the cash necessary to make payments of arrears towards some external partners was provided, as well as the honouring of all budgetary obligations.

The total current assets register this year an increase of 7.5% as compared with the values outlined at the beginning of the year (from 217.5 million lei to 233.8 million lei).

The company debts are mostly amounts to be paid in a period of one year and have the following structure:

- millions lei -

Capital attracted post	01.01.2010	30.09.2010
Bank loans of which:	74.7	68.5
- short term	74.7	68.5
- long term	-	-
Commercial debts	29.6	33.2
Other debts, including taxation, of which:	9.9	10.3
- short term	9.9	10.2
- long term	0.1	0.1

The equity increase from 242 million lei at the beginning of the financial year to 261 million lei on September 30 2010, proves the company's management continuous concern to increase company value.

b) Profit and loss account

The net turnover on September 30 2010 was 177.3 million lei on the increase by 12.4% as compared to the value recorded in the same period last year, which was 157.8 million lei.

The turnover was reached through market capitalization of both the production the company made on its own platform (160.5 million lei gross) and the merchandise (28.5 million lei) representing the value of the medicines of the company's list of goods which were manufactured on other manufacturing flows outside the country as a result of requirements imposed by the good manufacturing practice regulations in force.

The operating incomes achieved during this period were worth of 182.5 million lei (14.5% more than the incomes recorded during the same period of the last year) given that the operating expenses were 148.5 million lei (11% more than those recorded during the same period of the last year).

Lei	30.09.2009	30.09.2010	%
0	1	2	3[(2-1)/2]
The net turnover	157,792.938	177,324.762	12.4%
I OPERATING INCOME	159,375.932	182,460.469	14.5%
Expenditures - Total	(30,111.301)	(35,953.097)	19.4%
Energy and water expenses	(3,882.750)	(4,931.640)	27.0%
Purchase of goods	(9,801.961)	14,011.510)	42.9%
Staff costs	(47,612.455)	(47,945.087)	0.7%
Adjustment of tangible and intangible value	(10,358.503)	(9,851.617)	-4.9%
Adjustment of current assets value	295.406	(5,293.145)	-1891.8%
Other operating expenses	(32,322.592)	(30,474.254)	-5.7%
OPERATING EXPENSES - TOTAL	(133,794.156)	(148,460.350)	11.0%
OPERATING RESULT	25,581.776	34,000.119	32.9%
Financial income	2,019.262	12,337.920	511.0%
Financial expenses	(8,434.922)	(20,460.807)	142.6%
FINANCIAL RESULT	(6,415.660)	(8,122.887)	26.6%
RESULT	19,166.116	25,877.232	35.0%
TOTAL INCOME (class 7)	161,395.194	194,798.389	20.7%
TOTAL EXPENSES (class 6)	(142,229.078)	(168,921.157)	18.8%
GROSS PROFIT	19,166.116	25,877.232	35.0%
Profit tax	(3,399.347)	(4,766.490)	40.2%
NET RESULT OF THE YEAR	15,766.769	21,110.742	33.9%

Although the production value of goods manufactured during the first nine months of this year was 163.2 million lei, by 35% higher than that manufactured during the same period of 2009, the costs of raw materials and consumables increased only by 19% while the staff-related costs have registered a growth of only 0.7%, from 47.6 million lei to 47.95 million lei, thus causing the reduction of the wage bill share of the total operational expenses.

During January - September 2010 a program to reduce the external operations and the costs of other operating expenses was implemented, leading to their reduction by 5.7% over the same period of the last year amid the increasing of the turnover by 12.4%.

Expenditure items	30.09.2009		30.09.2010	
	Value Millions lei	%	Value Millions lei	%
Expenses on raw materials	30.1	22.51%	36.0	24.22%
Expenditure of goods	9.8	7.33%	14.0	9.44%
Energy and water expenses	3.9	2.90%	4.9	3.32%

Staff costs	47.6	35.59%	48.0	32.29%
Adjustment of tangible assets, current assets and provisions	9.1	6.77%	13.8	9.33%
Other operating expenses	33.3	24.91%	31.8	21.40%
Total operating expenses	133.8	100.00%	148.5	100.00%

Due to a consistent attitude towards the organization of company in profit centers and cost centers in order to track the performance of each company activity, the operating profit was increased by 33%, to 34 million lei in comparison with the profit achieved during the first nine months of 2009, which was 25.6 million lei.

The financial expenses recorded during this period were 20.46 million lei and it is due primarily to exchange rate differences calculated for the obligations towards the suppliers as well as towards the banking companies to which interest expenses and financial reductions granted for collections made prior to contractual terms were added.

The synthetic results at company level record the following values during the first nine months of 2010:

- Total revenues = 194.8 million lei - increasing by 20.7% as compared with the values during the same period of the last year;
- Total expenditure = 168.9 million lei;
- Gross profit = 25.88 million lei - increasing by 35% compared with the same period of 2009.

a) Cash-flow

The level of cash and cash equivalents at the beginning of the period was 3.3 million lei. The cash receipts from operating activities were 159.34 million lei, increasing by 20% as compared with the same period of 2009. The cash payments to suppliers of goods and services were 81 million lei, and those by and on behalf of the employees in connection with the staff were 47.3 million lei.

We also made cash payments of 9.6 million lei, representing the value added tax, the income tax, local taxes and bank interests.

From the investing activities no receipts were recorded, but payments were performed for tangible and intangible assets worth of 7.5 million lei.

From the financing activity no collections were recorded, we made payments for short-term loans worth of 5.3 million lei, and 0.9 million lei representing long-term loans worth of 0.6 million lei.

At the end of the period, the level of cash and cash equivalents was 9 million lei.

The financial statements for the period January-September 2010 were not audited by the financial auditor.

2. Analysis of the company activity

The company strategies during 2010 - 2012, which include the development of scientific and research activities, the development of partnerships on the main international markets as well as the development of the portfolio through the assimilation of new products, will lead to the consolidation of the business on long-term and the profit growth, both on the domestic and the global level.

During the first nine months of 2010, a higher turnover was recorded as compared with the same period of the last year with a significant increase in the export activity.

Evolution of turnover in the period 2009 - 2010 (9 months)
-mii lei-
- thousand lei-

Turnover	9 months 2009	9 months 2010	Variation 2010/2009
Domestic	132.293.9	138.873.6	+5%
Export	25.499.0	38.451.2	+51%
Total	157.792.9	177.324.8	+12.4%

The Antibiotice sales towards distributors, which represent the domestic turnover during the first nine months of 2010 are worth 138,873.6 thousand lei, while the sales of Antibiotice's products distributed in pharmacies, during the same period, were worth of 171,289.1 thousand lei (increasing by 16.7% as compared with the first 9 months of 2009), and the Antibiotice' products sales from pharmacies towards patients were worth of 168,214.6 thousand lei (an increase of 11% as compared to 2009):

The evolution of Antibiotice sales on the pharmaceutical market in the period 2009 - 2010 (9 months)
- thousand lei -

Indicator	9 month 2009	9 month 2010	Variation 2010/2009
Output from distribution	146,790.4	171,289.1	+16.7%
Output from pharmacies	151,532.6	168,214.6	+11.0%

Source: distributor sales 9 months 2009 - 2010; Cegedim 9 months 2009 - 2010

As a result of the monthly destocking policy (from 3.7 months - December 31 2009 to 2.7 months - June 30 2010 and to 2.5 months - September 30 2010) the sales at retailers increased by approx. 17%, the highest level recorded by the company over the past four years.

For Antibiotice, the added value compared to 2009 was generated by the RETAIL channel (pharmacies), from 88.25 million lei (2009 - 9 months) to 110.79 million lei (2010 - 9 months). Such increase of approx. 25.5% is based on a positive trend of the average price (from 0.43 lei/unit - 2009 to 0.53 lei/unit - 2010) and on a superior level of quantitative sales (from 207 milion units - 2009 to 210 million units - 2010).

With reference to the physical consumption, the pharmaceutical forms with a positive trend are, as follows: capsules (+2.2 million units) and tablets (+7 million units), their increases being generated by the intake of new products also by the adjudgement of higher market shares.

Continuing the company's strategy for 2010, in terms of strenghtening its position as the leading manufacturer of anti-infectives, the trading and promotional policies applied during the first 9 months were aimed at optimal recovery and at a higher level than 2009 of the drug portfolios with higher weight in the share turnover but also in the medicines launched during the last two years.

During the first quarter of 2010, the capsules portfolio was focused upon (Ampicillin, Amoxicillin, Oxacillin, Cephalexin - high doses) and tablets (Erytromycin, Paracetamol, Ranitidin) and during the second quarter - upon ointments and suppositories.

On the **Retail segment**, Antibiotice strenghtens its position among the generic manufacturers through a series of measures applied in commercial policy as well as through the promotion activity, including the total reorganization of the team of 90 medical representatives. The team went through reorganization process that involved also the development of promotion skills/abilities toward

physicians (specialized training programs for product-related strategies, strategic and tactical marketing).

We nominate the main products for which the company registered significant growths over the first nine months of 2009 (analysis of distribution output and pharmacy entry data):

Focus portfolio (with a share of approx. 20% from turnover);

- Ampicillin capsules 500 mg (14% increase)
- Amocillin capsules 500 mg (17% increase);
- Oxacillin 500 mg (15% increase);
- Ranitidine 150 mg (12% increase);
- Paracetamol 500 mg (190% increase);
- Ciproquin® (ciprofloxacin) 500 mg (13% increase).

Promo portfolio

Cardio:

- Bisotens® (bisoprolol) 5 mg; 10 mg (92% increase);
- Lisinopril Atb® 10 mg; 20 mg; 40 mg (5% increase);
- Rompirin E (acetylsalicylic acid for cardiology use) 100 mg (20% increase);

The new products launched in late 2009 (Almacor® - amlodipine, Gladycor® - Carvedilol, Nolet® - nebivolol) resulted in a 2% market share in a total market (9 months 2010) of approximately 134 million tablets.

Antiinfectives:

- Eficef® (cefixime) 200 mg (15% increase);

The new products launched in late 2009 (Norquin® - norfloxacin, Roclarin® - clarithromycin, Cefuroxima Antibiotice) generated a 6% market share in a total market of approximately 28 million tablets.

Digestive tract and medicines for osteoporosis treatment:

- Novogast® (omeprazole) 20 mg
- Lorine® (risedronic acid) 35 mg;

Preparate dermatologice (antimicotice si corticosteroizi):

Dermatological (antifungal and corticosteroids):

The three new products in this range - Taficen® (terbinafine), Naftifina ATB and Ekarzin® (betamethazone) have generated a market share of 6%.

Note that for the Promo portfolio products there is an increase of coverage at the local level both by the number of pharmacies as well as by the volume valued at consumer channel level.

Export growth by 51%

The value of exports recorded during the first nine months of 2010 reached 38.4 million lei, increasing by 51% as compared with the corresponding period of the last year, when the value of exports was 25.5 million lei.

The Nystatin export grew by 15% mainly due to the favourable evolution of markets in Russia - C.I.S. and Asia. The export of finished forms increased significantly by 67% as compared to the corresponding period of 2009, especially due to the first deliveries on the U.S. market, and also due to the increase of manufacturing contract type orders for the European market and to the increase of capsule orders on the African market.

The company's export strategy aims at strengthening markets for Nystatin and at developing the export of finished products both as direct exports of the Antibiotice's products and also on the

basis of manufacturing contract. In this respect, negotiations were started to promote finished forms on the European and Russian markets, as well as on the markets in Asia and Africa.

The main development projects in progress are:

- continuation of the registration process of a large number of products on the Russian Federation and U.S. markets;
- the development of manufacturing contract partnerships and, starting with 2011, the conclusion of the authorization procedures initiated by partners from Denmark, Germany, Czech Republic, Slovakia and Hungary.

On the medium term, (3 years), Antibiotice envisages the development of international projects with eight partners that will lead to a significant export growth. Also, all these projects will lead to an increase of the number of people involved in the Antibiotice export activity.

Certified quality

The essence of this activity is to increase confidence in the quality, efficiency and safety of the company's products through the monitoring and the improvement of the Integrated Management System, attested by the results obtained after the performance of the following inspections / audits during the first nine months of 2010:

1. **GMP (Good Manufacturing Practice) re-certification inspection** of the parenteral product manufacturing flow (sterile products - divided powders of beta-lactam penicillin antibiotics) conducted by the National Medicines Agency between May 25 and May 27 2010.
2. **GMP (Good Manufacturing Practice) re-certification inspection** of the Nystatin - active substance manufacturing flow, conducted by the National Medicines Agency between May 31 and June 4 2010.

Both inspections were concluded with no identified critical deficiencies.

3. **Re-certification audits of the Environmental Management System and of the Occupational Health and Safety System** in compliance with ISO 14001/2004 and OHSAS 18001/2007, as well as the **surveillance audit of the Quality Management System**, in compliance with ISO 9001/2008, conducted by the LRQA, between February 22 and February 25, 2010, both audits being completed without having identified non-compliances by the certification bodies.
4. **Surveillance audit of product compliance** for the products manufactured at the Microproduction and Parts Department (aluminium tubes, polyethylene stoppers and aluminum caps) conducted by the SRAC CERTSERV on May 5, 2010, completed without having identified non-compliances, with additional one year extension of the Certificate of Conformity of the above mentioned products.
5. **The audit of the Manufacturing flow for Parenteral Products for Injectable Ampicillin 250 mg, 500 mg, 1 g and 2g on the U.S. market**, between June 21 and June 23, 2010, completed without having identified critical deficiencies.
6. **Manufacturing flow audit for Nystatin - active substance**, conducted by Rephine PharmAssess in compliance with the international guide ICH Q7-Good Manufacturing Practice Guideline for Pharmaceutical Ingredients between September 22 and September 23, 2010, completed without having identified critical deficiencies.

In terms of investment, the following objectives were aimed to be achieved:

1. Modernization of the Tablet Plant

At the beginning of the overhaul period, a committee of specialists within the company analyzed in detail the compressed tablets production flow in order to prepare the section mainly for GMP re-authorization which should have taken place in the spring of 2011. All the aspects concerning the partitioning, ventilation and air-conditioning installation, utilities-distribution facilities, equipment, qualification and validation documents, etc. to be taken into account to assess their

compliance with the latest requirements of the Good Manufacturing Practice guidelines were rediscussed.

It was unanimously decided that it is compulsory to completely rethink and modernize the production flow.

Currently, the works are completed and the audit of the National Medicines Agency can be scheduled for the re-authorization of the compressed tablets manufacturing flow.

2. Pilot research center for oral solid forms

The pilot will be located on the fourth floor of the Drug Evaluation Center building, in compliance with the already finished project.

The next period will be dedicated to the technical analysis of the bids for equipment required for the production flow and, later, depending on the qualified bids, the initial partitioning draft will be adapted.

3. Manufacturing unit

During the first part of the year, the works were completed on the "Manufacturing unit" objective. After the construction works were completed, the systematization of the adjacent area of the new building was performed.

In June, the documentation necessary for accessing structural funds was submitted to the Ministry of Economy (Annex 1 - Large Enterprises) for financing the project named "*Acquisition of machinery and technological equipment for the creation of a manufacturing capacity for non-penicillin antibiotics, as injectable, sterile powders to be divided into vials*". The new manufacturing facility will be located in the building called the "Manufacturing Hall/Unit".

4. Modernization of the Biosynthesis section

This objective includes:

4.1. The thermal rehabilitation of the Biosynthesis section

The performance of this modernization aims at the thermal rehabilitation through external thermal insulation which will lead to significant thermal energy savings (by reducing thermal losses through walls and joinery). The area to be rehabilitated during the first stage is ~5700 sqm and 60 sqm of joinery.

4.2. The arrangement of a "wash room" within the "clean" area of the Biosynthesis plant. This room is required for the washing of various components of the equipment from the "clean" area and it is a part of the manufacturing flow. Currently, the works are completed.

5. Compressed air pipeline for the Biosynthesis section

Currently, the works are completed and the pipeline was put into operation. The realization of this pipeline was required to maintain the sterility of the technological compressed air. The investment consisted in the realization of an inox pipe track for 220 meters in length on an already existing scaffold (a track with a diameter of 500 meters).

Specialized personnel

The premise of increasing business competitiveness and quality within the company is to develop educational programs in each direction, in compliance with the identified needs for each organizational structure and in close correlation with the applicable community and domestic legislation changes, as follows:

- specialized trainings conducted by external lecturers on issues meant to develop managerial skills:
 - Leadership and Coaching
 - Communication and presentation skills

These trainings were attended by over 100 employees in areas such as: Marketing, Promotion, Export, Import, Regulatory Affairs, Pharmaceutical Development, Quality, Financing - Accounting, Human Resources, Technical and Production.

- GMP training conducted by external lecturers that included the following modules:

1. Aseptic filling / Media fills
2. Monitoring of environmental conditions
3. Risk Management System
4. Primary cause investigation for CAPA
5. Residual solvents testing
6. Theory and practice in Near InfraRed (NIR) in the pharmaceutical industry
7. Development of the HPLC method and their validation procedures
8. Pharmaceutical impurities

These trainings were attended by 76 specialists of the Quality, Technical and Production, Automation, Equipment Qualification and Pharmaceutical Development departments.

A new component of the training process, which took place in 2010, is the "Summer school a+" aiming at the attraction of specialists in pharmacy, marketing, chemistry, chemical engineering domains for vacancies in the Pharmaceutical Development, Quality Assurance, Quality Control, Strategic Marketing by familiarising candidates with the work environment, the concepts and regulations of the pharmaceutical industry;

- The increase of the management training level of the Antibiotice's employees who are in leadership positions - top managers, middle managers, line managers.

The research and knowledge of the domestic and international pharmaceutical market, the continuous modernization of the manufacturing flows, the improvement of the personnel training are the guarantees for the Antibiotice economic performances, as well as the development on substantiated scientific foundations of the future.

Chairman of the Board,
Ec. Ioan Nani



Ec. Constantin Nicuta
Financial Manager

