

## MANAGEMENT REPORT 2018

### Management Report

Yearly report according to:

	IFRS
For the financial year:	2018
Report date:	March 13, 2019
Company name:	Antibiotice SA
Head office:	Iasi, Strada Valea Lupului nr. 1
Phone number:	0232/209000, Fax 0232/209633
Fiscal registration code:	RO 1973096
Regulated market which trades shares:	Bucharest Stock Exchange
Subscribed and paid up capital:	67.133.804 LEI
Main characteristics of the securities issued by the company:	Nominative shares, nominal value: 0.10 LEI

In this Administrators' Report, the management plan for the period 2016 - 2020 is assessed at the level of the year 2018.

#### **The corporate governance**

The corporate governance is defined by the set of rules and regulatory norms whereby a Management Board demonstrates the responsibility, fairness and transparency of the company's relationship with all stakeholders, impacting upon the management, administration and control of a company.

Applying the principles embodied in the Corporate Governance Code ensures the transparency and efficiency of the activities and processes, thus providing the framework for maximizing the value of the company's long-term shareholdings and increasing the attractiveness of the company in relation to investors.

Antibiotice adopted the principles and recommendations of the Corporate Governance Code of the Bucharest Stock Exchange (CGC-BVB); these principles underpin the fulfillment of the good corporate governance standards of the company.

The company's management believes the Corporate Governance Code to be an important tool for achieving sustainable performance, ensuring the accuracy and transparency of the company's decision-making process through the equal access of all shareholders to the relevant information about the company.

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The structures on which the Antibiotice governance system is based are:

- The General Meeting of Shareholders
- The Management Board
- The Advisory Committees
- The Executive Management

### Code of Ethics

The Code of Ethics of Antibiotice SA sets out the ethical standards of conduct that establish and regulate the corporate values, the business responsibilities and obligations of the organization and how they work.

The Code of Ethics provides rules in key areas relating to employees, human rights, environmental management, social responsibility and corporate governance.

The code is binding and applies to all the structures and activities of the company. The Code of Ethics is a fundamental commitment to strive for the compliance with high ethical standards and applicable legal requirements wherever Antibiotice operates.

The Code of Ethics is presented in detail on the website of the company ([www.antibiotice.ro/Investitori/ Guvernanta Corporativa / Documente de referinta /Cod de etica](http://www.antibiotice.ro/Investitori/Guvernanta_Corporativa/Documente_de_referinta/Cod_de_etica))

### Code of Corporate Governance

The Code of Corporate Governance of Antibiotice SA retrieved the principles and recommendations of the BSE and represents the tool through which Antibiotice implements these principles and recommendations by observing the rules of corporate governance.

The Code of Corporate Governance creates the framework for establishing strong relationships with our company's shareholders and with other interested parties, as well as an effective and transparent communication, based upon trust.

The Code of Corporate Governance of Antibiotice SA is divided into four chapters:

- Chapter I - Responsibilities of the Management Board
- Chapter II - The Risk Management and Internal Control System
- Chapter III - Fair reward and motivation
- Chapter IV - Investor relations.

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It also contains two annexes, namely:

Annex I - Operating Rules of the Management Board

Anexa II - Rules for assessing the Antibiotice SA administrators

In **Chapter I - Responsibilities of the Management Board**, the role of this body is defined alongside the guidelines in terms of competence, experience, knowledge and independence of its members, enabling them to effectively perform their specific duties and responsibilities.

In **Chapter II - The risk management and internal control system** shows that the activity of the company is subject to the supervision exercised by certain risk management and internal control systems set up for this purpose. Also, internal audits are organized in order to assess independently and periodically the safety and effectiveness of the risk and internal management control systems.

The **Chapter III - Fair reward and motivation** establishes the general principles and conditions that are the foundation of the method for setting the level of remuneration of the Management Board and the company management members.

The **Chapter IV - Investor Relations** establishes that Antibiotice should make constant efforts in order to provide shareholders with updated information on events of interest to them (ex.: general meeting of shareholders, payment of dividends, etc.).

In conclusion, the Code of Corporate Governance of Antibiotice SA and its annexes outline the general framework under which the Management Board operates, complying with the rules and principles of corporate governance set by the BSE in order to create an attractive capital market, based upon the best practices, transparency and trust.

The state of compliance with the provisions of the new Code of Corporate Governance of the BSE <sup>1</sup> on December 31 2018 is presented in Annex no.1 of this report.

### General Meeting of Shareholders

The General Meeting of Shareholders (GMS) is the highest decision-making body of the company, where shareholders participate directly and make decisions. Among other duties, the GMS decides upon the distribution of the profit, elects the Management Board, appoints auditors and establishes the remuneration of the Management Board.

During the year 2018, the Board convened three Ordinary General Meetings of Shareholders and three Extraordinary General Meetings of Shareholders, on *March 5 2018*, on *April 26 2018* and on *September 25 2018*.

All the necessary documents relating to the smooth conduct of the General Meetings were published on due time and as required by the law.

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During the general meetings of March 5 2018 the following were approved:

During the Ordinary General Meeting of Shareholders:

- 
- the revenue and expenditure budget for 2018;
- the increase of the monthly fixed indemnities and gross variables of the members of the Management Board and the General Manager as well as the conclusion of the addendums according to this approval, in view of the application of GEO no. 79/2017 for amending and supplementing the Law no. 227/2015 regarding the Fiscal Code and GEO no. 90/2017 regarding some fiscal-budgetary measures, the amending and supplementing some normative acts and extending some deadlines.

During the Extraordinary General Meeting of Shareholders the establishment of two representative offices of the company, one in the Republic of Moldova and the other in Ukraine was approved.

On *April 26, 2018*, the Management Board of the company convened two General Meetings of Shareholders, one Ordinary Meeting and one Extraordinary Meeting.

The Ordinary General Meeting of Shareholders approved the following:

- the financial statements of the company for the financial year 2017, based upon the Administrator's Report and the Financial Auditor's Report;
- the registration of the unsolicited and non-requested dividends for the financial year 2013 as income;
- the degree of achievement of the objectives and performance criteria for the year 2017 for the members of the Management Board;
- the release from administration of the administrators, for the activity carried out during the financial year 2017, upon the basis of the reports submitted;
- the objectives included in the management plan for the members of the Management Board for 2018;
- the remuneration of the members of the Management Board according to the provisions of Law no. 111/2016 for the approval of the Government Emergency Ordinance no. 109/2011 on the Corporate Governance of Public Enterprises;
- the election of Mr. Dan-Octavian Alexandrescu as temporary administrator of the Management Board, according to the provisions of art. 64<sup>1</sup> of GEO no. 109/2011, following the termination of the mandate contract of Ms Adela-Petrinia Neagoe.

The Extraordinary General Assembly of Shareholders approved the following:

- extending the validity of the multi-currency multi-product limit of 30 million LEI contracted by SC Antibiotice SA from the Export Import Bank of Romania - EximBank SA for a period of 12 months;

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- maintaining the guarantees related to the multiproduct multi-currency limit in the amount of 30 million LEI for the entire validity period resulting from the extension under item 1 of the agenda of the meeting;
- the issuance of a decision of SC Antibiotice SA not to divide, not to merge and not to decide on the early dissolution during the entire validity of the multi-product multi-currency limit without the prior consent of the Export Bank of Romania - EximBank SA ;
- the empowerment of the General Manager Ioan Nani and the Economic Director Paula Luminita Coman to sign on behalf of the company all the documents related to the extension, according to the agenda items 1 and 2, as well as the documents related to the obligations assumed by the company according to point 3 of the agenda;
- Contracting a long-term investment facility (10 years) in the amount of 15,406,300 EUR from UniCredit Bank;
- guaranteeing the investment credit facility in the amount of 15,406,300 EUR to be contracted from UniCredit Bank;
- the empowerment of the General Manager Mr. Ioan Nani and Mrs. Paula Luminita Coman as Economic Director to sign on behalf of the company all the documents/credit agreements and their accessories, necessary and related to the contracting and implementation of the investment credit facility, according to points 1 and 2;
- Establishing the headquarters of the Antibiotice Representative Office in the Republic of Moldova at the following address: mun. Chisinau, Grenoble Street, 259/2, 259/3, Republic of Moldova.

The General Meetings of *September 25, 2018* have submitted for approval and approved the following items on the agenda:

The Ordinary General Assembly of Shareholders:

- the company's financial statements for the first half of 2018, based upon the Administrators' Report and the Financial Auditors' Report;
- the modification of the Management Board by appointing Mr. Dan-Octavian Alexandrescu as non-executive director for a four-year term, starting with 25.09.2018;
- the form of the mandate contract to be concluded by the company with the non-executive administrator appointed on 25.09.2018, as well as the annexes to the contract including the objectives and performance criteria, the fixed indemnity and the variable component.

The Extraordinary General Meeting of Shareholders:

- the increase of the cash-non cash multi-currency credit, contracted to UniCredit Bank from the amount of 30,000,000 RON to the amount of 50,000,000 RON;

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- the securing of the credit amounting to 50,000,000 RON contracted to UniCredit Bank;
- the empowerment of Mr. Ioan Nani as General Manager and Mrs. Paula Luminita Coman as Economic Director to sign on behalf of the company all the documents/credit agreements and their accessories, necessary and related to the contracting and implementation of the credit facility in the total amount of 50.000.000 RON from UniCredit Bank;
- the confirmation, ratification and assuming of the mortgage and real estate mortgage contracts under the Credit Agreement no. IAS3-42-2016 dated 17.08.2016, signed with UniCredit Bank S.A.
- the ratification of access to the credit facility of 4.000.000 EUR granted to the company under the article 44 of the Articles of Association, by the additional act no. 8 of 26.03.2018 to the Credit Facility Contract no. 12239/22 May 2012, as well as by the Additional Act no. 4 of 26.03.2018 to the Mortgage Contract no. 12239 / G1 / 22 May 2012 concluded with ING Bank N.V., a facility that was fully reimbursed on 29.06.2018.
- the establishment of the headquarters of the Antibiotice Representative Office in Ukraine at the following address: Kiev, 6 Mikhaila Dontsa Street, Ukraine.
- the registration date 10.10.2018, in order to identify the shareholders on whom the effects of the adopted decisions are reflected, according to the provisions of art. 86, paragraph 1 of the Law 24/2017 regarding the issuers of financial instruments and market operations and set ex-dates for 09.10.2018.

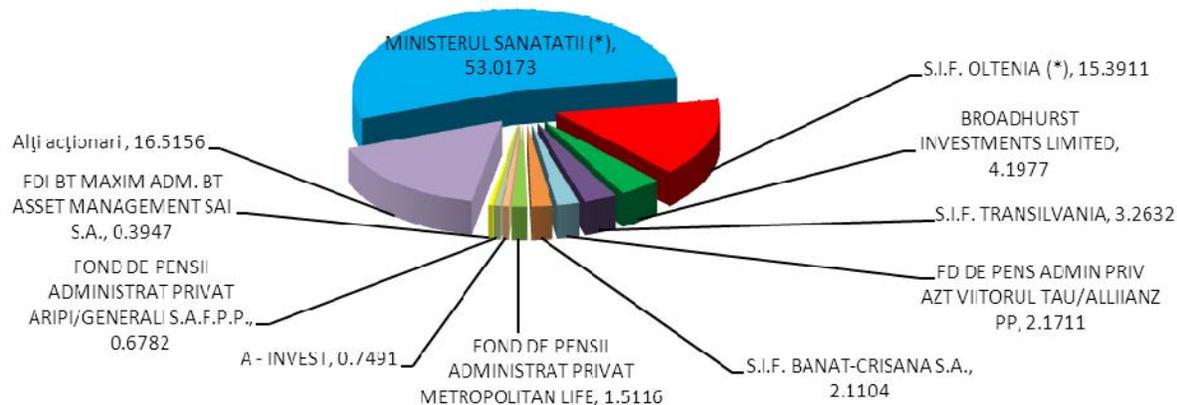
### Antibiotice SA on the capital market

#### Investors (*according to the Shareholders' Registry on 31.12.2018*)

- The Ministry of Health (\*) - 53.0173%,
- S.I.F. Oltenia (\*) - 15.3911%
- Broadhurst Investments Limited - 4.1977%
- S.I.F. Transilvania - 3.2632%
- Fondul de Pensii Administrat Privat AZT Viitorul Tau/Allianz - 2.1711%
- S.I.F. Banat-Crisana S.A - 2.1104%
- Fondul de Pensii Administrat Privat METROPLITAN LIFE - 1.5116%
- A-Invest - 0.7491%
- Fond de Pensii Administrat Privat ARIPI/GENERALI S.A.F.P.P. - 0.6782%
- FDI BT MAXIM ADM. BT ASSET MNAGEMENT SAI S.A. - 0.3947%
- Other individuals and legal entities - 16.5156%.

NOTA: (\*) - Significant shareholders, according to Law no. 297 of 28.06.2004, Art. 2, Paragraph 1

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### Classes of shareholders

- Legal entities - 8.,8571%,
- Individuals - 13.1429%.

### Dividends

During the year 2018 dividends were paid for the financial years 2014, 2015, 2016 and 2017 amounting to 16.232.891, 48 lei, as follows:

Period	Net dividends							Dividend payment suspending date	
	Due	Paid				Not collected on 31.12.2018			
		lei				% (total paid)	lei		%
		Until 31.12.2017	01.01÷31.12.2018	Total					
0	1	2	3	4	5	6	7	8	
2014	15.061.293	13.939.429.39	26.266.58	13.965.695.97	92.73	1.095.597.03	7.27	22.10.2018	
2015	13.753.343	12.620.174.10	33.033.48	12.653.207.58	92.00	1.100.135.42	8.00	Payment in progress	
2016	25.401.595	23.260.934.12	80.042.72	23.340.976.84	91.89	2.060.618.16	8.11	Payment in progress	
2017	17.588.679.97	-	16.093.548.70	16.093.548.70	91.50	1.495.131.27	8.50	Payment in progress	

### Dividend history (2014 -2015- 2016 -2017)

For the years 2014, 2015, 2016 and 2017 the payment of dividends was performed through the Central Depository Bucharest and implicitly, through the CEC Bank.

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### The evolution of the price per share

The titles issued by Antibiotice have been listed in the PREMIUM category of the Bucharest Stock Exchange under the ATB symbol since 1997.

The first transaction was registered on April 16, 1997, at a reference price of 0.3500 LEI / share. The historic maximum was reached on July 10, 2007, with the price of 2.1700 LEI / share, and the historical minimum of 0.0650 LEI / share was registered on June 8 2000.

Both the business plans and the financial results from the company have been a strong guarantee that Antibiotice has strengthened its position on the national medicines market.

The shares of Antibiotice (ATB), traded on the Bucharest Stock Exchange are included in the BET-Plus index, which includes the Romanian companies listed on BSE market that meet the minimum selection criteria except for the financial investment companies.

In 2018, the minimum price for an ATB share was 0.4550 LEI. The share price increased to a maximum of 0.5780 LEI / share.

The stock exchange capitalization of Antibiotice on December 31 2018 (the last trading day of the year) was 326.942 thousand LEI.

### Antibiotice shares - ATB / Regular Market

	2014	2015	2016	2017	2018
Number of shares	671.338.040	671.338.040	671.338.040	671.338.040	671.338.040
Stock market capitalization (thousand lei)*	390.719	357.152	349.096	361.180	326.942
Stock market capitalization (thousand euro)*	87.173	78.868	76.875	77.511	70.100
Stock market capitalization (thousand \$)*	105.978	86.167	81.123	92.813	80.259
Total value traded (million lei)	16	11	6	12	9
No. of traded shares	27.467.454	18.844.935	12.555.866	21.113.565	17.109.263
Opening price (lei/share)	0.5520	0.5850	0.5320	0.5200	0.5780
Maximum price (lei/share)	0.6170	0.6170	0.5420	0.5920	0.5780
Minimum price (lei/share)	0.5410	0.5240	0.4200	0.5200	0.4550

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Price at the end of the year (lei/share)	0.5850	0.5320	0.5270	0.5380	0.4870
Average price (lei/share)	0.5845	0.5836	0.5032	0.5585	0.5028
Earnings/share (lei/share)***	0.0464	0.0405	0.0452	0.0500	0.0511
Gross dividend/share (lei/share)**	0.0235	0.0197	0.0384	0.026552598	0.009991506
Dividend yield ****	4.03%	3.69%	4.05%	4.59%	2.05%
Dividend distribution rate *****	51%	49%	52%	53%	20%

- \* Calculated based on the share price on the last trading day of the year,
- \*\* Proposed dividend,
- \*\*\* The calculation of earnings per share is based upon the net profits of each year
- \*\*\*\* Dividend per share/share price on the first trading day of each year
- \*\*\*\*\* The dividend distribution rate = (total number of shares x gross dividend per share)/total net profit.

During the year 2018, 17,109,263 shares were traded, worth 8.6 million LEI (1.8 million euros, 2.2 million dollars), with an average price of 0.5028 LEI / share.

### The rights of the holders of financial instruments

The corporate governance framework adopted and applied:

- protects the shareholders' rights,
- ensures the fair treatment of all shareholders,
- recognizes the role of third parties with interests in the company
- guarantees the provision of information and its transparency
- assures the responsibility of the Management Board towards the company and the shareholders.

On the company's website at [www.antibiotice.ro/investitori/informatii\\_actionari](http://www.antibiotice.ro/investitori/informatii_actionari), there is a section dedicated to shareholders, where one can access and download documents related to the General Meetings of Shareholders: procedures regarding the access and participation in the meetings, the notice to attend, additions to the agenda, informative materials, special representation proxies, correspondence voting forms, decision drafts, decisions, voting results, etc.

The company makes available to all interested the periodical and annual financial statements prepared according to the legislation in force. The company also complies with all disclosure requirements under the laws of commercial companies and the capital market.

Within the company there is a structure specialized in the relationship with the existing and potential investors, called Capital Market, which has the main role of

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ensuring a good communication with the shareholders of the company. The persons appointed to keep in touch with the investors deal with shareholders' requests with maximum efficiency and facilitate the dialogue with the management of the company. The company creates and develops an appropriate policy to promote effective communication with investors and shareholders.

### **Management Board**

Antibiotice SA is administered by a Management Board responsible for fulfilling all the tasks necessary to achieve the object of the company, except as provided by law for the General Meeting of Shareholders. There is a clear division of responsibilities between the Management Board and the Executive Management.

The Management Board seeks to ensure that its own decisions, those of the company's management, the General Meeting of Shareholders as well as the internal regulations comply with the legal requirements and are properly implemented. The Board is responsible for monitoring the company's management on behalf of the shareholders.

The duties of the Management Board are described in the company's Articles of Association and the relevant internal regulations available on the website of the company under the Corporate Governance section.

During the year 2018, the Management Board met in 10 sessions, each time with 100% presence and adopted decisions that enabled it to carry out its tasks in an effective and efficient manner.

Thus, on the monthly meetings the Management Board has discussed in detail about the financial results in the reporting period and cumulatively since the beginning of the year as well as the economic performance relative to the budget and the same period last year. The Board requested, as appropriate, detailed explanations from the executive management in connection with the plans to increase production efficiency, the investment plans, the provisions made, the liquidity management, the operational profitability and of the overall activity. Following the detailed analysis of the results for the period, the Board decided the approval thereof for the publication and submission to the Bucharest Stock Exchange and the Financial Supervision Authority fitting every time the Financial Communication Calendar.

The five members of the Board shall ensure the effectiveness of the ability to monitor, analyze and assess the work of the managers as well as the fair treatment of the shareholders.

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### Management Board of Antibiotice SA on 31 December 2018

**Legal adviser, IAVOR Ionuț-Sebastian, 43 years old**

**Chairman of the Board and representative of the Ministry of Health**

At the Ordinary General Meeting of Shareholders of April 30 2015 Mr. Iavor was elected a member to the Management Board of the company and then appointed by the Board members as Chairman.

Mr. Ionuț Sebastian Iavor is currently General Manager of the General Directorate of Human Resources and Legal Department within the Ministry of Health.

**Number of Antibiotice SA shares owned - 0\***

**Ec. Ioan NANI, 59 years old**

**Vice Chairman of the Board and CEO**

At the Ordinary General Meeting of Shareholders of April 19 2016, Mr. Nani was reconfirmed as a member of the Board of Directors, for a period of four years; Mr. Nani was appointed then by the members of the Board as Vice-President. Mr. Nani is an economist specialized in management, a chartered accountant and a member of the Board since 2009 as well as CEO (1998-2008 and 2009 - present day).

**Number of Antibiotice SA shares owned - 1.513\***

**Dr. Dan-Octavian Alexandrescu, 44 years old**

**Member of the Management Board and representative of the Ministry of Health**

At the Ordinary General Shareholders Meeting of September 29, 2018, Mr. Dan-Octavian Alexandrescu was elected to the Management Board for a four-year term.

Mr. Dan-Octavian Alexandrescu is a primary care laparoscopic surgeon and secretary of state in the Ministry of Health and has been coordinator of the Medicines and Medical Devices Policy Division since March 2017.

**Number of Antibiotice SA shares owned - 0\***

**Ec. Nicolae STOIAN, 62 years old**

**Member of the Board and representative of the SIF Oltenia shareholding and other corporate shareholders**

At the Ordinary General Meeting of Shareholders of April 19 2016, Mr. Stoian was re-elected as a member of the Management Board for a period of four years.

Mr. Stoian is a chartered accountant, a tax consultant and financial auditor, as well as a representative of the Internal Control Department with SIF Oltenia.

**Number of Antibiotice SA shares owned - 0\***

**Eng. Elena CALIȚOIU, 55 years old**

**Member of the Board and representative of SIF the Oltenia and other corporate shareholders**

Mrs. Calîțoiu was confirmed during the Ordinary General Meeting of Shareholders on April 19, 2016, for a period of four years.

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Mrs. Calițoiu is a mechanical engineer and Director of Investments and Risk Management with SIF Oltenia; Mrs. Calițoiu has been a member of the Board since 2016.

**Number of Antibiotice SA shares owned - 0\***

*\*The number of Antibiotice shares (ATB) held on December 31 2018 according to the latest database held by Antibiotice for the year 2018.*

### **The advisory committees**

During the year 2018, the specialized advisory committees had the following membership:

- the Audit Committee: Mr. Ionuț Sebastian IAVOR - President and Mr. Nicolae STOIAN and Mrs. Elena CALIȚOIU;
- the Nomination and Remuneration Committee: Ionut Sebastian Iavor - President and Mrs. Elena CALIȚOIU;
- the Trade Policies Committee: Mr. Dan Octavian Alexandrescu - President and Mr. Nicolae STOIAN.

The advisory committees have conducted investigations, analyzes and have developed recommendations for the Management Board in specific areas and submitted periodic reports upon their activity.

The Audit Committee met during the year 2018 in four sessions in order to fulfill its responsibilities with regard to financial reporting, external and internal auditing, risk management and internal control.

### **Internal control**

The specialized internal control activities provided by the legislation in force are carried out through our company's own Internal Audit Office, which carries out the following activities: internal audit, financial management control, management control and is carried out in a methodological and procedural framework regulated by laws, norms and codes of professional conduct specific to each activity.

The way of setting and achieving the objectives of the Internal Audit Office, the findings and recommendations resulting from all internal control actions were submitted quarterly to the Audit Committee in the Management Board, for the assessment of the activity and the internal control exercised in the company.

During the year, 9 missions were carried out according to the approved Annual Plan 2018, which had the following general objectives adapted to the areas, according to the specifics of the audited organizational structures:

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- the examination of compliance with all principles, specific procedural and methodological rules, internal notes and decisions;
- the examination of the way in which the activity is organized;
- the evaluation of the management and control system of the activity;
- other objectives specific to the activity.

The missions were carried out in compliance with the procedural audit procedures, by going through all the stages of an internal audit mission and materialized in internal audit reports, which were approved by the General Manager. The conclusions and recommendations of the audit reports for each audit mission were acknowledged by the audited structures.

The monitoring method of the implementation of the recommendations made within the internal audit missions is provided in the operational procedure, code: AI-021 "Follow-up of recommendations". After the implementation deadline is exceeded, it is required to communicate in writing the implementation status of the recommendations by the audited structures. Thus, out of the 48 recommendations from the audit reports drawn up in 2018, 30 recommendations had a deadline for implementation on December 31, 2018 and we found that they were implemented.

Within the Internal Audit Office, the activity of inventory and control of the management with personnel with attributions in this respect is carried out. During the year a number of 15 inventory actions were carried out, which included the following entities' management:

- the company's central deposits of the raw materials and consumables;
- the places of consumption of raw materials and consumables where stock management is organized.

The inventory activity was aimed at observing the legal framework established by the following normative acts:

- the Accounting Law no. 82/1991, republished and updated;
- Law no. 22/1969 on the employment of managers, the provision of guarantees and the liability for the management of goods;
- the M.F.O.2861/09.10.2009 for the approval of the Norms regarding the organization and performance of the inventory of assets such as debts and equity;
- Operating procedures, internal notes, internal decisions of the company's management.

The findings following the control actions are: the legal regulations and the internal decisions regarding the stock management are observed, there is a consistency between the factual and the scriptic stocks as a result of the periodical checking during the year between the quantitative evidence held at the level of the management and the quantitative-value within the Accounting Office.

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In 2018, within the Internal Audit Office, the personnel with the function of financial controller also carried out financial control actions in accordance with the provisions of H.G. 1151/2012, which had as objectives:

- the verification of the compliance with the legal provisions regarding the recording of the economic and financial operations in the accounting records;
- the verification of the compliance with the legal provisions regarding the execution of the income and expenditure budget for the year 2017;
- the verification of the compliance with the legal provisions in the substantiation of the company's income and expenditure budget for the year 2018;
- the verification of the legal provisions and the internal regulations regarding the manner of carrying out the annual inventory of the assets, liabilities and equity for the year 2017;
- the verification of the observance of the legal provisions and of the internal regulations regarding the receipts and payments in LEI and foreign currency, of any kind, in cash or by transfer;
- the verification of the observance of the legal provisions and of the internal regulations regarding the drawing up, circulation, keeping and archiving of the primary, accounting and technical-operative documents.

The financial control actions of management were finalized by drawing up control reports, in which the findings and proposed measures for improvement of the verified activities were presented. The control reports issued were approved by the General Manager who ordered the application of the measures.

### **The risk management**

The risk management is the continuous identification and monitoring/evaluation of the risks to which the activity of the company is or may be exposed and which may affect the achievement of the objectives. These aim at achieving indicators that ensure both the continuity of the activity and the protection of the interests of shareholders and clients.

The risk management by the company observes the legal and regulatory requirements in force for the identification, assessment, management and reporting of risks:

- The Order of the General Secretariat of the Government (OGSG) no. 400/2015 modified and completed by OGSG no. 200/2016 and OGSG 600/2018;
- The requirements of the Code of Corporate Governance of the Bucharest Stock Exchange.

The main purpose of the risk management is to help understand and identify the risks to which the organization is exposed so that they can be anticipated and managed without adversely affecting the organization's performance goals.

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The running of the risk management processes ensures the identification, analysis, assessment and management of risks in order to keep them at acceptable levels based upon the company's risk tolerance and the ability to cover (absorb) these risks.

In 2018, the General Risk Register was developed and approved, aiming to minimizing the significant risks with impact on the objectives to which the company is exposed.

The Risk Management activity analyzes and prioritises significant annual risks that may affect the achievement of the overall objectives of the company's operations.

For 2018, at the level of the company, 14 significant risks have been identified and ranked, which may affect the achievement of the general objectives of the company.

At the level of organizational structures within Antibiotice SA specific risks were identified, which were presented to the Audit Committee.

The objectives of Antibiotice SA concerning the risk management are as follows:

- understanding the risks to which the company is exposed, their causes and the company's general and specific objectives;
- improving the company's risk profile by managing the process of identifying, assessing and managing risks and implementing the control measures needed to maintain the exposure to risk within the tolerable area.

The main categories of risks identified:

### 1. Financial risks

From the viewpoint of the financial risk management, the risks to which the company is exposed are: the currency risk, the liquidity risk and the commercial (non-payment) risk.

1.1. **The currency risk**, a component of the financial risk, often occurs in the current market economy conditions in which currency rates fluctuate under the rule of demand and supply.

The exchange rate fluctuations are reflected both in the costs of the imported raw materials and in the export prices of finished products.

During 2018 there were periods with higher volatility, with depreciation rates of the leu.

At the end of 2018 the exchange rate earnings amounted to 7.373.362 LEI, the expenses to 7.109.232 LEI, resulting in a net gain from the exchange rate difference of 264.130 LEI.

1.2. **The liquidity risk** is the risk according to which the company may encounter difficulties in honoring any short-term payment obligations at any time.

The circumstances of the liquidity risk: the lack of cash-flow generated by the gap between receipts and payments, the collection of receivables over deadlines exceeding 300 days, the unpredictability and the lack of transparency for the calculation of the clawback tax, the increase in the price of utilities, raw materials and services.

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In 2018, the cash demand of the company was higher than in 2017, both for the payment of the clawback tax, dividends to shareholders and for the support of the acquisitions in the investment plan, which led to greater use of credit lines.

The company's liquidity risk policy is to maintain, to the extent possible, sufficient liquidity to meet the obligations as they mature and the availability of funding through funding lines.

**1.3. *The commercial (non-payment) risk*** - is defined as the risk of loss or of the failure to achieve the expected profits because of the debtor's lack of financial liquidity and the failure to meet the payment obligation at the due date.

The circumstances of the occurrence of the non-payment risk: large exposures to the major distributors, the long payment periods due largely to delays in the settlement of health care bills by NHIH.

The measures used by the company to control and reduce the commercial (non-payment) risk include: the monitoring of the customer creditworthiness, the diversifying of the client portfolio and the request of warranties.

### **2. The legislative risks**

The legislative changes aimed at the pharmaceutical market lead to the emergence of the legislative risk, which must be continuously managed.

The pharmaceutical market is a regulated market, with clear legislative provisions, designed to control the quality and therapeutical efficiency of the medicines present on the market, as well as to avoid counterfeiting.

The adaptation to these provisions is reflected both in additional costs related to the updating of the documentation, in aligning to the latest quality standards, in influencing the peak sales prices as well as in delays in product marketing.

The company's strategy for managing these risks involves the permanent concern for obtaining international certifications for the manufacturing lines, the updating of the authorization documentation for portfolio products, the carrying out of bioequivalence and stability studies, the constant pursuing of the legislative changes at international level and the continuous adapting of policies, rules and procedures to the latest changes.

### **3. The human resources risks**

#### **3.1. The labor shortage of candidates trained in specific fields of the pharmaceutical industry**

The measures used to control and reduce this risk are: organizing the "Summer School a+", promoting the company within the faculties, organizing study visits of the students in the company, carrying out the "Perform a+" project, partnerships with pre-university education units.

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4. **The reputational risk** refers to the possibility of occurrence of negative events, as well as of unfavorable opinions or perceptions, which can negatively impact upon the company's revenue, brand and public image.

In order to effectively identify and manage the situations that could create a reputational risk, the following measures are envisaged: the monitoring of the company's image in the media, the constant communication to the media and the relevant public of the positive information about the company's performance and development prospect, the control of risks, the continuous training of the employees, the adaptation to the legislative requirements in the field and the compliance with the procedures.

5. The company also carries out a permanent surveillance of **the operational risks** in order to take measures to maintain them at an acceptable level that does not threaten its financial stability, the interests of creditors, shareholders, employees and partners.

The risk assessment process has also identified a number of **external risks**, namely:

- the risk of natural disasters (earthquakes, floods, fires, etc.);
- the risk of wars or interethnic conflicts;
- the risk of national and international economic instability;
- the risk of legislative instability;

### Nomination and Remuneration Committee

During the year the Nomination and Remuneration Committee met in meetings where it evaluated the activity of the administrators and performed tasks related to the appointment of a member of the Management Board.

The remuneration granted to the Management Board and the Executive Management (General Manager) is presented in the table below:

Description	For the year ending on	
	31.12.2018	31.12.2017
Salaries	2.223.909	1.014.017
Taxes and social contributions	50.038	227.308
<b>Total</b>	<b>2.273.947</b>	<b>1.241.325</b>

The administrators and directors with a mandate contract (the general manager) receive, for their work, a fixed monthly indemnity and a variable indemnity.

The variable indemnity is granted depending on the fulfillment of the performance indicators and criteria established in the management contracts and the mandate contract.

The monthly fixed indemnity is established in accordance with the legal provisions, respectively the provisions of Article 1.33. paragraph (3) of the Law no. 111/2016 for the approval of the Government Emergency Ordinance no. 109/2011 on the Corporate Governance of Public Enterprises.

## MANAGEMENT REPORT 2018

The fixed and variable indemnity for the members of the Management Board is approved by the General Meeting of Shareholders. The general limits on the remuneration of directors with a mandate contract are approved by the General Meeting of Shareholders; based upon these general limits, the Management Board sets the amount of the directors' remuneration (with a mandate contract).

### Executive management

Antibiotice is represented by the General Manager, according to powers provided by law and the company's Articles of Association. The Management Board retains the duty of representing the company in relationship with the directors whom it has appointed. The executive management of Antibiotice is ensured by one General Manager, who is also the Vice-Chairman of the Management Board and nine specialized managers.

### Executive Management of Antibiotice SA on December 31, 2018

**Ec. Ioan NANI, 59 years old**

**CEO and Vice Chairman of the Board**

Mr. Nani has graduated from the Faculty of Economics, the "Alexandru Ioan Cuza" University of Iași. Mr. Nani is an economist specialized in management and a chartered accountant.

Mr. Nani began working as an economist at Antibiotice in 1987. Between 1991 and 1993 he worked as a financial control inspector with the General Directorate of Public Finance Iași and then with the Court of Auditors of Romania. In 1994 Mr. Nani returned to Antibiotice as a financial executive and in 1998, Mr. Nani became CEO. In February 2009 Mr. Nani was appointed Deputy Chairman of the Authority for State Assets Recovery (AVAS), and in the month of June of the same year Mr. Nani became CEO of Antibiotice.

Mr. Nani has been CEO since 2009.

**Number of Antibiotice SA shares owned - 1.513\***

**Eng. Cornelia MORARU, 53 years old**

**Technical and Production Manager**

Mrs. Moraru graduated from the Faculty of Chemical Technology, the Technical University "Gheorghe Asachi" of Iași. After graduation, Mrs. Moraru worked as a chemical engineer at the Fălticeni Chemical Factory. Mrs. Moraru has been working at Antibiotice since 1990. Until 1998 Mrs. Moraru has worked at the Penicillin II Plant and then at the Biosynthesis compartment for a year. From July 1999 until January 2001 Mrs. Moraru has worked as a biosynthesis technologist at the Penicillin II Plant. In January 2001 she became Head of the Tablets Plant and in May 2003 Mrs. Moraru was appointed Director of the Pharmaceutical Division.

Mrs. Moraru has been the Technical and Production Manager since 2005.

## MANAGEMENT REPORT 2018

**Number of Antibiotice SA shares owned - 1.513\***

**Ec. Paula Luminița COMAN, 51 years old**

**Economic Manager**

Mrs. Coman has graduated from the Faculty of Economics and Business Administration, the “Alexandru Ioan Cuza” University of Iași and has been a Chartered Accountant since 2006 and a tax consultant since 2007.

After graduation, Mrs. Coman has worked as an economist at the County Iași Tourism Office. Mrs. Coman has been working at Antibiotice SA since 1991 as an economist in the Rates Efficiency Office. In 1998 Mrs. Coman has become Head of the Economic Analysis Compartment and in 2003 Head of the Financial-Accounting Department.

Mrs. Coman has been the Economic Manager since 2011.

**Number of Antibiotice SA shares owned - 0\***

**Ec. Vasile CHEBAC, 64 years old**

**Commercial and Logistics Director**

Mr. Chebac has graduated from the Faculty of Economics, the “Alexandru Ioan Cuza” University of Iași, has been an active member of the Body of Chartered Accountants, Iași Branch since 1993 and a financial auditor and has been a member of the Chamber of Auditors of Romania since 2008.

Mr. Chebac has started working at Antibiotice SA in 1972. In 1987 Mr. Chebac became an economist at the Planning and Development Department within the Investment Compartment. In February 1991 Mr. Chebac has worked as a financial controller at the Directorate General of Public Finance and in July 1993 Mr. Chebac has worked as a financial controller at the Chamber of Accounts Iași, and in July 1993 the Chamber of Auditors financial controller in Iași. In January 1998 Mr. Chebac was appointed Chief Commissioner at the Fraud Squad of Iași. In September 2001 Mr. Chebac returns to Antibiotice SA to the position of Chief Commercial Officer and General Services.

Mr. Chebac has been the Commercial and Logistics Director since 2005.

**Number of Antibiotice SA shares owned - 0\***

**Ec. Gica RUSU, 55 years old**

**Human Resources Director**

Mrs. Rusu, a graduate of the “Alexandru Ioan Cuza” University of Iași, the Faculty of Economics, was granted in 2003 a master’s degree in management and business administration by the same university.

Mrs. Rusu has been working at Antibiotice since 1981. In 1986 Mrs. Rusu was an economist at the Penicillin Plant and in 1996 was working in the Financial Department. In 1999 Mrs. Rusu has become the Head of the Human Resources Department.

Mrs. Rusu has been the Human Resources Director since 2004.

**Number of Antibiotice SA shares owned - 1.510\***

**Ec. Ovidiu BĂȚAGA, 41 years old**

**Marketing and Domestic Sales Director**

Mr. Bățaga, a graduate of the Faculty of Economics and Business Administration (FEAA), the “Alexandru Ioan Cuza” University of Iași holds three titles of Masters in Financial

## MANAGEMENT REPORT 2018

Management (awarded by the same university in 2001), Pharmaceutical Marketing (from the “Grigore T. Popa” University of Medicine and Pharmacy in 2003) and Project Management (awarded by the “Gheorghe Asachi” Technical University in 2007).

After graduation Mr. Băţaga worked as a junior in the Currency and Credit Chair, Finance specialty, within the FEAA. Mr. Băţaga has been working at Antibiotice SA since February 2001 as an economist in the Economic Analysis, Accounting and Marketing Department. In January 2006 Mr. Băţaga was appointed Head of Market Analysis and Strategic Planning Department.

Mr. Băţaga has been the Marketing and Domestic Sales Director since 2010.

**Number of Antibiotice SA shares owned - 0\***

**Dr. Mihaela MOŞNEGUŢU, 49 years old**

**Medical Director**

A graduate of the Faculty of Medicine, the “Grigore T. Popa University of Medicine and Pharmacy of Iaşi, Dr. Moşneguţu is a specialist in family medicine.

Dr. Moşneguţu began work as a doctor working in County Iaşi. Dr. Moşneguţu has been working at Antibiotice since 2000. In 2000 she was working at the Promotion Office and in 2001 Dr. Moşneguţu becomes the Head thereof. In 2005 Dr. Moşneguţu became the Head of the Pharmacovigilance and Medical Consultancy Department and in 2009 she was appointed Medical and Retail Promotion Manager.

Dr. Moşneguţu has been Medical Director since 2011.

**Number of Antibiotice SA shares owned - 0\***

*\* Number of Antibiotice Company shares (ATB) owned on December 31 2018 according to the latest database held by Antibiotice on the year 2016.*

**Ec. Mihai STOIAN, 43 years old**

**International Business Director**

A Graduate of the Faculty of Economic Sciences at the “Alexandru Ioan Cuza” University of Iaşi, the International Economic Relations specialization.

Mr. Stoian has been working at Antibiotice SA since May 2005 as Export Area Sales Manager for active substances.

In July 2008 Mr. Stoian was appointed Head of Intracommunity Deliveries and Export, within the Marketing and International Relations Unit.

In August 2009 Mr. Stoian was appointed Export Manager and in June 2011 he was appointed Business Development Manager.

Mr. Stoian has been an International Business Director since 2012.

**Number of Antibiotice SA shares owned - 0\***

**Eng. Mihaiela Stoenescu, 51 years old**

**Communication Director**

A graduate of the Faculty of Chemical Technology of the “Gheorghe Asachi” Technical University of Iasi, in 1999 Mrs. Stoenescu obtained the title of Master in Business

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Management, the Faculty of Economics and Business Administration within the “Alexandru Ioan Cuza” University of Iași.

In 2010 Mrs. Stoenescu became an Expert in Public Relations, following the international certification in Public Relations of the Chartered Institute of Public Relations UK. Mrs. Stoenescu worked as an economic journalist, and then for about 20 years she has worked in the field of communication and public relations. Mrs Stoenescu has also worked for Antibiotice as a Public Relations Director, during which she coordinated the rebranding of the company.

Mrs Stoenescu currently holds the position of Communication Director.

**Number of Antibiotice SA shares owned - 0\***

**Eng. Cristina Diaconescu, 51 years old**

**Director of the Research and Development Unit**

A graduate of the Faculty of Industrial Chemistry of the “Gheorghe Asachi” Technical University of Iași, Mrs Diaconescu holds two master's degrees in business management at the Faculty of Economics and Business Administration, the “Gheorghe Asachi” University of Iași and a master’s degree in Pharmaceutical Management and Marketing of the “Gr. T. Popa” University of Medicine and Pharmacy of Iași - the Faculty of Pharmacy.

Mrs Diaconescu has been working at Antibiotice since 1994. In 2005 she was appointed Deputy Director of Marketing and Domestic Market. In January 2008 Mrs Diaconescu became Promotion & Retail Sales Manager and as of February 2015 she was appointed Quality Control Manager.

Mrs Diaconescu currently holds the position of Director of the Research and Development Unit within Antibiotice.

**Number of Antibiotice SA shares owned - 1514\***

### The activity analysis

In 2018, Antibiotice - Romania's leading manufacturer of generic medicines - continued its mission to deliver valuable, therapeutically affordable medicines, thus contributing to a better health for millions of patients in Romania and in other countries of the world.

**The characteristics of the sales on the international markets in 2018 were:**

*The export increased by 10% compared to 2017 (31.5 million USD/124 million LEI)*

Value situation (USD)			2018/2017
Category	YEAR 2017	YEAR 2018	
Nystatin	15.061.872	16.462.078	109.3%
Finished products	13.670.017	15.024.748	109.9%
<b>Total (USD)</b>	<b>28.731.889</b>	<b>31.486.826</b>	<b>109.6%</b>
<b>Total (LEI)</b>	<b>117.419.062</b>	<b>124.056.552</b>	<b>105.7%</b>

## MANAGEMENT REPORT 2018

*The main markets where Antibiotice SA has experienced growth:*

Finished products	Vietnam (37%) (share in the export value of finished products)
Nystatin	North America (31%) and South America (16%) (share in the export value of Nystatin)

*Top finished products sold for export:*

Ampicillin & Sulbactam injectable (Vietnam)  
Amoxicillin capsules (Vietnam)  
Glycerin adults (Russia)  
Nafcillin injectable 2 g (USA)

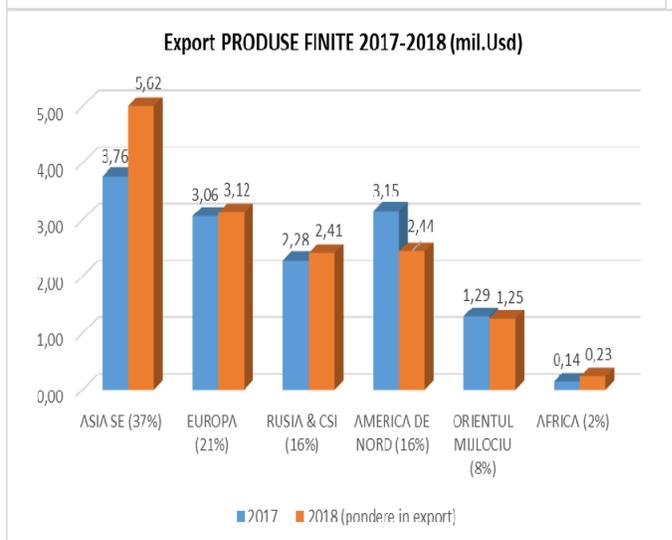
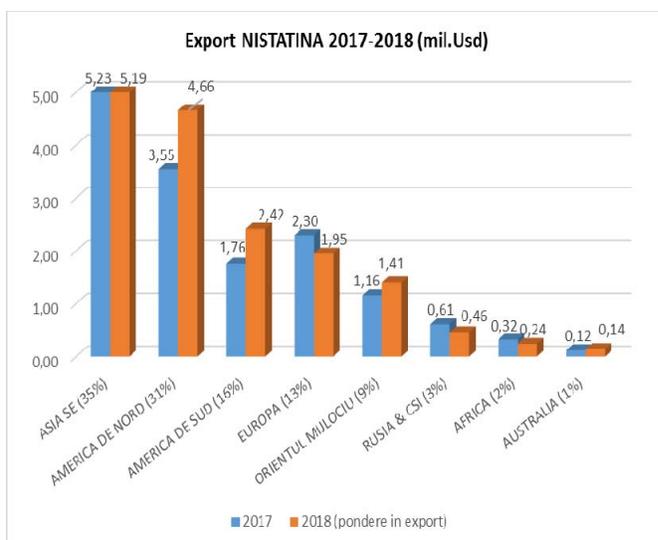
In 2018, Antibiotice's strategy on international markets has pursued:

- To maintain the world leadership for Nystatin active substance;
- To increase the market share on the regulated markets, especially in the US market;
- To develop/strengthen the presence of the company on the current markets and to identify new potential markets;
- To focus the export growth efforts on strategic markets;
- To develop new business models and partnerships in foreign markets to accelerate the company's development internationally;
- To adapt the portfolio of products traded on foreign markets according to the local specific consumption.

Antibiotice is present in 75 countries of the world with finished products made on its 8 manufacturing lines.

The export of Nystatin and finished products in 2018 has the following structure per areas - in progress compared to 2017:

## MANAGEMENT REPORT 2018



- Asia remains the main destination for finished products, up by 50% (+1.9 million USD) compared to 2017, as the sales of finished products in Vietnam increased.
- North America has become the main growth pole for micronized Nystatin, with a + 31% increase (+1.1 million USD).
- Most South American markets (excluding Colombia) experienced the tripling of their orders for Nystatin ATB Standard.

The top 10 countries where 80% of finished product sales were made in 2018 are: Vietnam - 37%, the US - 14%, Iraq 6%, Moldova 6%, The Netherlands 4%, Russia 5%, Lithuania - 4%, Ukraine - 2%, Canada - 2%, Bosnia Herzegovina - 1%.

The top 10 countries that achieved 80% of the Nystatin sales in 2018 are: the US - 28.3%, China - 12.4%, Brazil - 8.3%, Germany - 5.5%, India - 5.5%, Vietnam - 5.4%, Colombia - 4.7%, Iran - 3.7%, Pakistan - 2.9%, the Netherlands - 2.5%, Taiwan - 1.8%.

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For the 16th consecutive year, Antibiotice participated in the most important event in the world pharmaceutical industry - the international fair CPhI Worldwide, which took place from 9 to 11 October in Madrid, Spain. The fair brought together 2.500 exhibitors from 153 countries.

Along with the world's elite pharmaceutical industry, Antibiotice has presented over 25 representative products from the perspective of the pharmaceutical forms existing in its portfolio, i.e. sterile injectable powders, ointments, suppositories, capsules, tablets and supplements.

In addition to the anti-infective products, the promotion of medicines from the cardiovascular and dermatology therapeutical classes was considered.

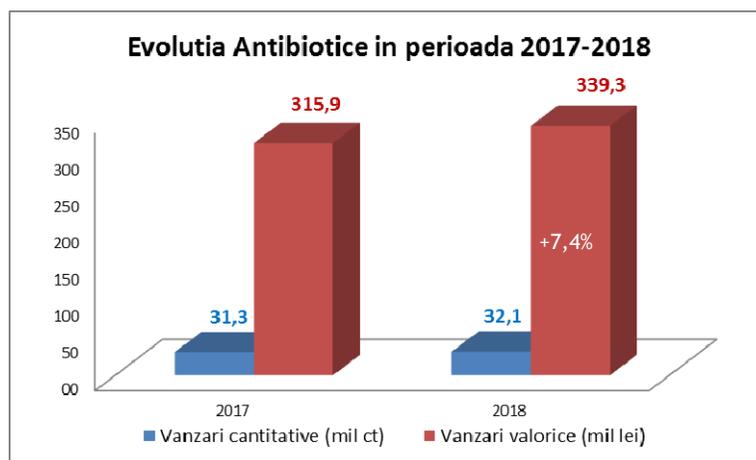
### Pharmaceutical market evolution in Romania

In 2018, the value of medicines released to patients amounted to 16.07 billion LEI (distribution price), higher by 13.8% compared to 2017. From quantitative viewpoint, the market grew by 5.9% compared to the previous year, 612.7 million of boxes being sold by the pharmacies.

In terms of prescribing, the pharmaceutical market was dominated by prescription medicines (RX) representing 78% of total value sales and 66% of the total consumption of medicines (reported as a number of boxes) in Romania. This category of products recorded a 13.6% increase in value, from 11 billion LEI in 2017 to 12.5 billion LEI in 2018.

### Antibiotice SA in the pharmaceutical market in Romania

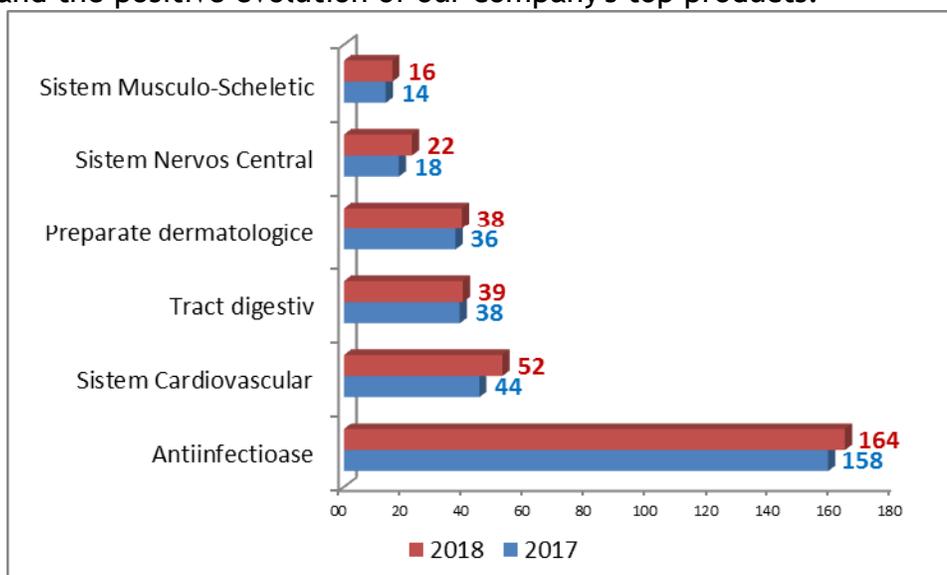
In the context of the pharmaceutical market in Romania, Antibiotice recorded a sales growth of 7.4% (339.3 million LEI) in pharmacies and hospitals compared to 2017.



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The retail pharmacy segment was up 7.3 % compared to the previous year, from 236.3 million LEI to 253.5 million LEI, while the hospital segment grew by 7.9%, from 79.5 million LEI in 2017 to 85.8 million LEI in 2018.

The main therapeutic classes which recorded significant value increases compared to 2017 were: antiinfectives (+5.5 million LEI), cardiovascular system medicines (+7.5 million LEI), digestive tract medicines (+1 million LEI), dermatological preparations (+2.1 million LEI), central nervous system medicines (+ 4.3 million LEI) and musculoskeletal system medicines (+2,1 million LEI). The increases were generated by both new products input and the positive evolution of our company's top products.



The products from our company portfolio that generated more than 1 million LEI in 2018 were: Fluxiv® range (+4.3 million LEI), Meropenem® for injection range (+2.4 million LEI), Ampiplus® (+1.9 million LEI), Nolet® (+1.9 million LEI), Glycerin range (+1.9 million LEI), Colistina Atb® (1.8 million LEI), Sprinten® (+1.7 million LEI), Memantina Atb® range (+1.6 million LEI).

In the generics and OTCs segment, Antibiotice SA ranked third, with a 5.1% market share while in terms of total pharmaceutical market, it ranked 16<sup>th</sup>, with a 2.11% market share.

In 2018, Antibiotice maintained its leading position in the segment of generics and OTCs sold in hospitals, with a 18.01% market share, higher than the percent recorded in the previous year (17.5%).

In the top of non-prescription medicines (OTCs) and dietary supplements, Antibiotice ranked 13<sup>th</sup> in a total of 221 companies, higher by one position compared to 2017. In 2018, the percentage of growth recorded by Antibiotice in this segment was 14.4%, being equal to the one recorded by the total market (14.4%).

During 2018, actions for promoting the products from our portfolio were carried out in the main therapeutic areas: antiinfectives, dermatological preparations, medicines for cardiovascular system, digestive tract and metabolism, central nervous system and musculoskeletal system. These actions aimed at increasing the reputation of the

## MANAGEMENT REPORT 2018

company brand and product brands as well as the loyalty of the target audience. Among them we mention:

- Participation in the most important national and regional scientific events;
- Organizing working meetings with independent pharmacies and mini-chain pharmacies;
- Launching the social responsibility program “Antibiotics of the 3<sup>rd</sup> Millennium” by bringing together local and international experts as well as professionals who consistently support the judicious use of antibiotics;
- Social media campaigns for Cutaden Bebe®, Sprinten®, Fezivit C® for the general public;
- National radio campaigns for Spaverin®, Sprinten®, Fezivit C® which aimed at increasing the reputation of the product brands;
- Risk awareness campaign for the chronic venous insufficiency - for promoting the product Fluxiv;
- Merchandising campaigns for our products on the shelves of open circuit pharmacies.
- Promoting information to the general public on bacterial resistance and correct use of antibiotics at the European Antibiotic Awareness Day (EAAD).

### Research-Development

The Research & Development activity had as main objectives to develop new products and optimize the current company portfolio (topicals, tablets, capsules, injectables, new pharmaceutical forms). These objectives derived from the company's strategic development directions in line with the sales plan until 2025.

The research pipeline in 2018 included 33 projects, of which: solid oral forms (18 projects), medicines for injections (5 projects) and topical forms (10 projects) in different stages of development, covering the therapeutic classes that define our company's portfolio: oral antiinfectives, injectable antiinfectives, dermatologicals, cardiovasculars, non-steroidal anti-inflammatory medicines, medicines for digestive system and for women's health. One of our goals is to strengthen the portfolio of dietary supplements, cosmetics and prophylaxis products.

As an integral part of the Research & Development activity, Biotechnology Research has been geared towards identifying the stability conditions of the product Nystatin, in parallel with works for maintaining the strains in the company's industrial culture collection laboratory.

In order to maintain the current portfolio, we aligned ourselves to the changes in pharmacopoeias in force for a number of 11 products from our portfolio and we updated the authorization documentation. We completed 7 national re-authorization procedures and reauthorized 21 international products.

In 2018, the antiinfective and cardiovascular portfolios, representative for our company both nationally and internationally, were complemented with a new product from the beta-lactam antibiotic class in combination with beta-lactamase inhibitors (in

## MANAGEMENT REPORT 2018

two concentrations) and a selective beta blocker, for which the decentralized authorization procedures (Romania and EU countries) were initiated in 2016. Two new cosmetic products were notified in 2018.

39 new Marketing Authorizations for medicines and Notifications for dietary supplements produced by Antibiotice were obtained for 8 countries from Asia, Africa, CIS area and Europe.

An ISO inspection was conducted in 2018 for recertifying the Center for Drug Evaluation in which two bioequivalence clinical trials were conducted, one of them for a product from the Antibiotice portfolio and the other one for an external sponsor.

Also, the procedures for conducting other clinical trials (preparation of the study protocols, submission of documentation to the National Agency for Medicines and Medical Devices and to the National Bioethics Commission for Medicines and Medical Devices) were initiated for other two products, one of them for a product from our own portfolio and the other one for an external sponsor.

Permanent monitoring of efficacy and safety in administration of the medicines manufactured by Antibiotice, proactive activities and risk management over the life cycle of each medicinal product are carried out by the Pharmacovigilance Department, connected to the European data-processing network for medicines safety - EudraVigilance.

### Production

In 2018 Antibiotice produced 525 million pharmaceutical units in the form of tablets, capsules, parenterals, topicals (ointments, creams, gels) suppositories and pessaries, higher by 3 million pharmaceutical units compared to 2017.

Our company produced also the active substance Nystatin in a quantity higher by 4% in 2018 as compared to the previous year. The total value of our 2018 production amounted to 326.2 million LEI, by 12.7% higher than in the previous year.

Value of production for export in 2018 (Nystatin and finished products) was by 13% higher than in 2017 and represented 28% from the total value of products manufactured on the Antibiotice site. The production of parenteral products for export represented 36% out of the total value of the products for external markets, by 5% higher compared to 2017.

Through the environmental protection program, actions were taken to reduce emissions of volatile organic substances during the extraction phase of Nystatin and specific consumption of solvents in the technological process.

The manufacturing plants were equipped with new filling and packaging equipment leading to an increase in productivity by more than 22%.

One of our important concerns in 2018 was to equip the manufacturing flows with equipment for serialization of finished prescription products in accordance with Directive 2011/62/EU as well as to start this process.

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### New products in 2018

- Antiinfectives for systemic use: **Perasin®** 2.25g and 4.5 g (Piperacillin with tazobactam);
- Topical preparations for joint and muscle pains, at high doses: **Saliform® forte**, cream, 50 g and 100 g (Methyl salicylate);
- Cosmetics: **Fluxiv®** tonic cream, 20 g, 40 g and 100 g (Troloxerutin), **Tinero®** (Nicotinamide) gel, 15 g and 40 g.

### Medium and long-term development through investments in new facilities

The approved planned value of the investment program for 2018 was 116,280,727 LEI that was rectified at 112,432,068 LEI through a justified renunciation to a series of investment objectives. The negotiated and contracted value of the investment objectives was 103,260,918 LEI of which 75,295,060 LEI represent fully achieved objectives and 27,965,858 LEI represent the objectives in progress which are to be completed by the end of 2019. The difference between the rectified and contracted value, i.e. 9,171,151 LEI were savings generated by a good negotiation of the offers with our suppliers of goods and services.

Out of the value of the objectives under execution, the amount of 22,607,501 LEI represents equipment, clean rooms and utility installations for the new Ointment & Suppository Plant, the difference of 5,358,357 LEI being represented by service contracts and contracts for purchasing equipment for manufacturing plants, Quality Control and Research & Development.

Through the investment objectives included in the program, we aim at:

- building a new, performing manufacturing capacity equipped with modern production installations for manufacturing ointments and suppositories, which can be GMP and FDA authorized.
- modernizing and revamping the existing manufacturing flows for increasing the production capacities, quality of products and for reducing the production costs;
- modernizing the utility installations within the entire enterprise;
- attaining the objectives included in the strategy for reducing the pollution and protecting the environment.

The main investments made in 2018 were:

#### I. **A new production capacity for ointments and suppositories**

Our objectives for this investment:

- to build and properly equip a new Ointment & Suppository Plant which can be EU GMP and FDA authorized;
- to obtain a GMP certification for this new plant issued by our national regulatory body (National Agency for Medicines and Medical Devices);
- to provide proper conditions for manufacturing medicines in compliance with the legislative requirements and pharmacopoeias in force for registering and

## MANAGEMENT REPORT 2018

selling them in all the regulated markets, especially in Europe, the US and Canada.

### Substantiation of investment

A new modern manufacturing plant for manufacturing semisolid medicines filled in tubes (ointments, creams, gels) and suppositories represents for Antibiotice SA the guarantee for a long-term business development.

The company's development strategy focuses on maintaining and expanding the portfolio of semisolid products filled in tubes and suppositories.

This strategy is based on developing the portfolio for the domestic market but also on diversifying and penetrating new important markets in Europe, North America, Asia and Africa.

In order to ensure the main characteristics of medicines (quality, efficiency, safety), their manufacturing must be made in facilities with high-performing equipment and critical utilities compliant with the GMP requirements.

The first stage of this investment completed in 2017 consisted of the construction of the manufacturing plant (without clean rooms and the related installations) and the technical-administrative building.

In 2018, we developed the second stage of this important investment consisting of:

1. design and construction of clean rooms and related installations;
2. design and construction of utility installations: compressed air system, industrial cold system, electricity supply, purified water system, cold water supply system (industrial cold), demineralized water supply, steam supply, technological hot water, drinking water, thermal station;
3. assembly of technological equipment correlated with the assembly of the clean rooms and all the installations.

### **II. Equipment for the manufacturing plants, Quality Control and Medical Unit**

The purchased manufacturing equipment and laboratory devices are of latest generation, with high productivity, low energy consumption and high operational safety. Manufacturing equipment replaced the equipment with significant physical wear which generated high maintenance costs and low productivity. The purchase of modern laboratory equipment was required by the continuous revisions of pharmacopoeial monographs and increased accuracy of analysis methods in the pharmaceutical laboratories.

Taking into account that, starting with 2019, all the pharmaceutical products which are to be traded both in the domestic and external markets (the US, EU) must be serialized, it is necessary that, starting with this year, the products manufactured by Antibiotice be serialized. For this purpose, we purchased serialization equipment and included them in the manufacturing flows in all the manufacturing plants and in the Finished Product Warehouse. In compliance with the requirements of European Directive 2011/62/EU and Drug Quality and Security Act to combat the counterfeit medicines.

**III. Intelligent Energy Monitoring System in Antibiotice** - a project co-funded by European funds, through the Large Infrastructure Operational Program, Axis 6.2, entitled "Monitoring Energy Consumption of Industrial Consumers".

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The overall objective of this project is to reduce by 1 %, on average the specific energy consumption (kgep / 1000 EUR) in our company, in a 5-year period after implementing the project as a result of monitoring consumption by implementing a smart metering system for energy consumption.

The specific objectives are as follows:

- monitoring the electricity and natural gas consumption and storing the data in the manufacturing plants and for other users for which the energy is monthly paid;
- drafting daily reports for the monitored energy consumption or, as the case may be, reports by work shifts, seasons, manufacturing cycles;
- performing energy consumption / cost analyzes per each consumer / installation / equipment;
- calculation of specific consumptions based on which measures / strategies for making the equipment / installations more effective can be established with the technical support for future upgrading projects.

### Optimizing the operating costs and increasing the operating efficiency

In 2018, following its strategic objectives with a special emphasis on the business internationalization, Antibiotice marked an 8% increase in the sales revenue (27,671,799 LEI) compared to 2017. Our company recorded also a net profit higher by 2% compared to 2017, reaching the value of 34,303,788 LEI.

The 2018 financial results reflect a wide-ranging activity management program meant to reduce the considerable impact generated by the **claw-back tax** which **increased by 25%** compared to 2017, reaching the value of **36,484,667 LEI**.

The company's performance was highlighted in a 8% increase in the sales income, in absolute value of 27,671,799 LEI compared to 2017. This increase is mainly due to sales in the international market, which recorded values higher by 6 %.

The production made in 2018 was higher by 13% compared to the previous year and determined expenditures with raw materials and consumables higher by 9%, an increase caused also by the increase in import prices for acquisitions.

In 2018, faithful to a responsible employer policy, our staff expenses were higher by 6% compared to 2017 as a result of wage increases made in 2017 with effect in 2018.

Amortization and depreciation expenses increased by 18% as a result of the commissioning of the equipment purchased according to the investment plan, for modernizing the company's activity.

Other operating expenses recorded a 8% increase due to the increase in the clawback tax up to 36,484,667 LEI and due to the increased utility tariffs in 2018 (electricity 29%, methane gas 7%, water 6%).

## MANAGEMENT REPORT 2018

Operating profit had a value of 39,312,791 LEI, higher by 5% compared to 2017.

After-tax profit was worth 34,303,788 LEI, higher by 2% compared to 2017.

	Financial year		2018/2017
	31.12.2017	31.12.2018	
A	1	2	3=2/1
<b>Revenue from sales</b>	336,904,666	364,576,466	1.08
Other operating income	37,796,667	45,405,000	1.20
Income related to the cost of product stocks	4,235,363	-1,259,715	-0.30
Income generated by the entity and capitalized	1,850,831	3,489,144	1.89
Expenditure on raw materials and consumables	127,072,000	138,844,375	1.09
Staff costs	85,897,194	90,864,735	1.06
Amortization and depreciation expenses	17,098,098	20,237,870	1.18
Other operating expenses	113,395,172	122,951,124	1.08
<b>Operating profit</b>	<b>37,325,063</b>	<b>39,312,791</b>	<b>1.05</b>
Net financial income	-1,963,633	-4,224,180	2.15
<b>Pre-tax profit</b>	<b>35,361,430</b>	<b>35,088,611</b>	<b>0.99</b>
Income tax expenses	1,803,076	784,823	0.43
<b>Profit</b>	<b>33,558,354</b>	<b>34,303,788</b>	<b>1.02</b>

### Assets

The 2018 current assets are higher than the short-term liabilities while the permanent capital (equity + long-term liabilities) exceeds the fixed assets, which show that the company meet the principle of aligning the maturity of assets and liabilities.

- **Fixed assets** recorded a 38% increase compared to the previous year as a result of both the investment process in 2018 and the result of the reevaluation of the buildings (according to the Fiscal Code Art. 460 and the Company's Accounting Policy).

## MANAGEMENT REPORT 2018

- **Inventory** value slightly decreased by 3%; these are managed according to the stock regulations established within our company.
- **The receivables** increased by 18%, of which the trade receivables related to the turnover increased by 14%, the difference representing advance payments for the acquisition of fixed assets according to the investment plan.

### Liabilities

The financing policy for the investments made within our company in 2018 led to a 32 % growth in the current liabilities, from 135,386,417 LEI to 178,917,540 LEI, influencing the economic indicators as follows:

- an increase in indebtedness degree (amounts owed to credit institutions / equity) from 17% to 27%, up to the level budgeted at the beginning of the year;
- a 13% increase in equity compared to 2017;
- a supraunitary current liquidity (2.12), which falls within the recommended limits

	31.12.2017	31.12.2018	
<b>ASSETS</b>			
<b>FIXED ASSETS</b>			
Tangible assets	223,242,890	310,640,665	1.39
Intangible assets	13,107,622	15,028,716	1.15
<b>TOTAL FIXED ASSETS</b>	<b>236,350,512</b>	<b>325,669,381</b>	<b>1.38</b>
<b>CURRENT ASSETS</b>			
Stocks	67,264,546	64,964,661	0.97
Trade and other receivables	264,212,743	313,094,458	1.18
Cash and cash equivalents	5,107,743	2,376,682	0.47
<b>TOTAL CURRENT ASSETS</b>	<b>336,585,032</b>	<b>380,435,802</b>	<b>1.13</b>
<b>TOTAL ASSETS</b>	<b>572,935,544</b>	<b>706,105,183</b>	<b>1.23</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and similar liabilities	55,535,974	67,181,084	1.21
Amounts owed to credit institutions	69,731,310	100,729,229	1.44
Tax and current tax liabilities	9,792,887	10,421,393	1.06
Investment subsidies	326,246	637,008	1.95
<b>TOTAL CURRENT LIABILITIES</b>	<b>135,386,417</b>	<b>178,958,714</b>	<b>1.32</b>

## MANAGEMENT REPORT 2018

### LONG-TERM LIABILITIES

Investment subsidies	2,498,889	2,489.791	1.00
Deferred tax	18,172,398	25,266,930	1.39
Amounts owed to credit institutions		26,662,433	
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>20,671,287</b>	<b>54,419,154</b>	<b>2.63</b>
<b>TOTAL LIABILITIES</b>	<b>156,057,704</b>	<b>233,377,868</b>	<b>1.50</b>

### Share capital and reserves

Share capital	264,835,156	264,835,156	1.00
Revaluation reserves	14,556,141	53,459,596	3.67
Legal reserves	13,426,761	13,426,761	1.00
Other reserves	162,134,513	190,422,002	1.17
Reported result	-71,633,085	-83,719,989	1.16
Current result	33,558,354	34,303,788	1.02
<b>TOTAL EQUITY</b>	<b>416,877,840</b>	<b>472,727,315</b>	<b>1.13</b>
<b>TOTAL ASSETS AND LIABILITIES</b>	<b>572,935,544</b>	<b>706,105,183</b>	<b>1.23</b>

		31.12.2017	31.12.2018
<b>ROE (Return on Equity)</b>	= Net profit/Equity	8,05%	7,26%
<b>ROA (Return on assets)</b>	= Net profit /Total Assets	5,86%	4,86%
<b>EPS (LEI/SHARES)</b>	= Net profit/share	0.050	0.051
<b>NET TURNOVER RATE</b>	= Profit/Sales income	9,96%	9,41%
<b>GENERAL LIQUIDITY</b>	= Current assets/Current liabilities	2,54	2,12
<b>FAST LIQUIDITY RATE</b>	=(Current assets-Stocks)/Current liabilities	2,02	1,76
<b>Degree of indebtedness</b>	= Liabilities/Total assets	25,94%	33,05%
<b>No. of shares</b>		671,338,040	671,338,040

### AMOUNTS OWED TO CREDIT INSTITUTIONS

#### Amounts owed to credit institutions at 31.12.2018

Short-term contract no. IAS3-42-2016/ 17.08.2016 concluded with Unicredit Bank S.A.

Objective	Credit line - working capital
Amount	50,000,000 LEI
Maturity	16.08.2019
<b>Balance at December 31, 2018</b>	<b>40,398,127 LEI</b>
Guaranties	Mortgage contract for buildings, land / Contract for

## MANAGEMENT REPORT 2018

assignment of receivables
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Contract no. IAS3-20-2018/03.05.2018 concluded with Unicredit Bank S.A.

Objective	Capital investment loan
Amount	15,406,300 EUR
Maturity	02.05.2028
<b>Balance at December 31, 2018</b>	<b>5,709,266.17 EUR (26,627,446.49 LEI)</b>
Guaranties	Mortgage contract for buildings, land / Contract for assignment of receivables

Short-term contract no. 12/01.07.2013 concluded with Export-Import Bank of Romania-EXIMBANK S.A.

Objective	Credit line - working capital
Amount	30,000,000 LEI
Maturity	26.06.2019
<b>Balance at December 31, 2018</b>	<b>24,158,985.50 LEI</b>
Guaranties	Mortgage contract for buildings, land / Contract for assignment of receivables

Short-term contract no. 12239/22.05.2012 concluded with ING BANK N.V. AMSTERDAM - Romania Branch

Objective	Credit line - working capital
Amount	9,500,000 EUR
Maturity	22.05.2019
<b>Balance at December 31, 2018</b>	<b>11,711,390.09 LEI 5,132,454.91 EUR ( 23,937,256.45 LEI) 128,503.05 USD ( 523,470.02 LEI)</b>
Guaranties	Mortgage contract for buildings, land / Contract for assignment of receivables

SC Antibiotice SA did not lodge guarantees and did not pledge or mortgage its own assets to guarantee certain obligations in favor of a third party.

### Cas flow

Cash and cash equivalents at the beginning of the period were -64.62 million LEI, representing credit lines amounting to 69.73 million LEI of which 5.1 million LEI remained

## MANAGEMENT REPORT 2018

available in the bank accounts from the same credit lines. Cash receipts from operating activities were 342.16 million LEI. Cash payments to suppliers of goods and services were 196.18 million LEI, and those to and on behalf of employees were 82.49 million LEI.

Payments of 64.6 million LEI were made for purchasing fixed assets. Our company paid also 6.73 million LEI, representing income tax, VAT, local taxes and bank interest and 35.89 million LEI representing contributions to the Ministry of Health (clawback tax).

Our company paid dividends under financing activities amounting to 16.23 million LEI.

At the end of the period the cash and cash equivalents were -98.35 million LEI representing credit lines for the current activity (100.72 million LEI) of which 2.37 million LEI remained available in the bank accounts from the same credit lines.

The Company did not record unpaid obligations to the state and local budget.

2019 is under the sign of further internationalizing our business, strengthening our sales in Romania and elaborating a supportive plan for the coming years as there are no legislative measures to lower the claw back tax, this burden having a high potential risk of lowering the company's medium and long-term development potential.

### **Imports of raw materials**

Acquisitions of raw materials, packaging and finished products are a support activity on the value chain of our company, with specific objectives. These include monitoring the procurement structures and negotiating the prices on raw materials and goods, managing relationships with suppliers of raw materials and goods by negotiating contracts (supply contracts based on quality specifications), identifying and managing alternative sources of active substances, with the objectives of securing the supply or obtaining lower prices, as well as meeting the deadlines set for the research development projects.

We correlated the program for procuring raw materials, secondary packaging, substances/ reference medicines, finished products with the sales structure generated both by the domestic market and by various international markets, so as to achieve the objectives proposed at the beginning of the year. We also sought to keep the existing partnerships and develop new strategic partnerships, a mandatory condition in the context of increasing the complexity and competitiveness of the pharmaceutical market worldwide.

### **Human Resources**

The human resources policy promotes the diversity and equal opportunities in recruiting, selecting and integrating the employees. Our employees benefits from all the rights deriving from the law, our company offering fair and equitable conditions of work and professional development.

#### **The average staff number on December 31, 2018 - 1415**

By nature of the specific activities carried out in Antibiotice, the staff breakdown by education and professional training is the following:

## MANAGEMENT REPORT 2018

Higher education - 600 employees, of which:	42.40%
- 32 employees with completed doctoral studies (5.3%)	
Secondary education - 851 employees	57.6 %
<b>Total 1415</b>	<b>100%</b>

The activities of the Human Resources Management Unit in 2018 aimed at achieving the specific objectives:

### *1. Identification of the staff needed in each structure for achieving the objectives*

In order to put into practice an integrated vision of all the company's units regarding the provision of personnel corresponding to the needs generated by the proposed strategic objectives, the *Human Resources Commission* operates within the company, being responsible for establishing the necessary staffing to ensure an optimal operating structure, but also to maintain the balance of the indicators assumed and approved in the Income and Expense Budget.

During the meetings of the commission held in 2018, the results of the analyzes regarding the personnel needs for each organizational structure were presented taking into account the following:

- the need to fill vacancies
- creating teams in the priority areas
  - o quality assurance
  - o research-development
  - o medical unit
  - o automation and investment
  - o production

Staffing was performed by going through the specific recruitment and selection stages, established by procedures as well as through specific projects for attracting and selecting new employees.

### **Perform a+, 3rd edition**

The project aims at developing the practical skills among pharmacists (residents and final year students) in the specific activities carried out by the Medical Unit and Research & Development Unit and also to creating a foundation for a long-term communication and collaboration with the *Grigore T.Popa* University of Medicine and Pharmacy in order to train and attract specialized personnel.

**Perform a+** project run its 3<sup>rd</sup> edition in 2018, in collaboration with the Faculty of Pharmacy Iași for selecting graduates for pharmaceutical research & development. The theoretical and practical program was supported by mentors chosen among the company's specialists.

### **Summer School a+, 9<sup>th</sup> edition**

The external component of this project seeks to identify and train specialists in pharmacy, biology, chemistry, chemical engineering and select them to fill the vacancies in Pharmaceutical Research & Development, Quality Assurance, Quality Control,

## MANAGEMENT REPORT 2018

Production. The candidates become familiar with the working environment, concepts and regulations in the pharmaceutical industry.

30 participants were selected in this project well-known in the academic environment in Iași and among the final year students of the Iași universities. They were properly trained by our specialists. The topics covered by the courses of the Summer School a+ presents information in the fields of quality assurance in a pharmaceutical company, pharmacovigilance, Regulatory Affairs, specific laboratory techniques in quality control, pharmaceutical research and formulation. The courses were held in the period July - August 2018.

**So far, our company employed 40 participants in the courses held in the 9 editions of the Summer School a+.**

### **Partnerships with pre-university education institutions**

Within the partnerships established with Petru Poni Technological High School and Technological High School of Mechatronics and Automation Iași in the school year 2017 - 2018, 70 pupils from the grades XI and XII, with the specializations of laboratory chemist technician / chemist operator in the pharmaceutical and cosmetics industry, practiced their internships in our company. As regards the pupils with the specialization of mechatronist / electromechanic, Antibiotice was a partner in running the projects and events organized to encourage them to practice the chosen profession.

The program aims at building the pupils' practical skills and enhancing their knowledge in order to attract them as future employees for replacing our employees with retirement opportunities.

Under the "Școala Altfel" (Doing School Differently) program, Antibiotice opened its gates to more than 350 pupils from pre-university education institutions in Iași presenting itself as one of the most famous landmarks in the industry from Iași, presenting its history and future development perspectives.

### ***2. Running of professional skills training programs***

In order to achieve the professional objectives and performances necessary to increase the competitiveness and quality of the business, we carry out, on a yearly basis, human resources development projects, with training programs for each unit, according to the needs identified for each organizational structure and in close correlation with the applicable EC and national legislative changes.

Training programs with internal lecturers, established for each structure according to the specifics of the activity, are complemented by the continuous professional training by accessing professional training programs with external lecturers, according to the Annual Training Plan approved and budgeted for the current year.

In 2018, a number of 665 employees attended the scheduled training sessions, by specialization fields, resulting in an average of 35.2 hours of training / employee.

Also in 2018, to its 9<sup>th</sup> edition, through its internal component, Summer School+ offered employees, the opportunity to benefit from training aiming at developing specialized competencies in quality assurance, regulatory affairs, serialization, new requirements in validating the manufacturing processes and requalifying the equipment

## MANAGEMENT REPORT 2018

as well as at the organizational development through topics related to the employer brand, employee retention, legislative provisions on health and safety at work.

### **3. Setting the 2018 objectives for the staff included in the Management by Objectives (MBO)**

Based on the indicators approved in the Income & Expenditure Budget 2018 and starting from the company's Business Plan for the period 2018-2020, Antibiotice established the annual general objectives which generate the specific objectives for each activity for the employees included in the MBO system.

The Management Performance Monitoring & Evaluation Committee analyzed the individual forms for setting the 2018 objectives of the MBO staff in all the company's structures to determine whether they subscribe to the objectives set out in the Management Plans, if they are established in accordance with the synergy principles, interdependence, standardization and to make recommendations on how to formulate and measure the indicators.

The objectives validated by the Committee were the basis for issuing the decisions of setting the objectives for 2018 and additional acts to individual labour contracts for the 340 employees included in the MBO system.

### **4. Strategies and measures to increase employee motivation**

In 2018, our company started a new, unitary and modern wage system which aims to align the revenues to each employee's level of performance, having as a consequence to increase the motivation and loyalty of the employees, respectively the attractiveness of the employer brand. Defined in line with the business development plan and labor market trends, the new system is a perfectible one that will undergo improvements over the coming years. This project implies:

- *Analysis of the higher and secondary education jobs, taking into account:*
  - *monthly net income;*
  - *calculation of the existing coefficients for the analyzed jobs in relation to the minimum wage.*
- *Setting the maximum coefficients of the net revenues by job groups, taking into account the following factors:*
  - *the level of professional training and experience required to fill the job;*
  - *the holders' responsibilities;*
  - *complexity and importance of the activity ;*
  - *availability on the labor market;*
  - *labour conditions;*
  - *other specific factors (working with confidential data, etc.).*
- *Sizing the maximum coefficients by groups of jobs with higher/ secondary education*
- *Calculation of the financial implications of implementing the new coefficients*

## MANAGEMENT REPORT 2018

- *Validation of the job hierarchy process in a team made up of directors, managers, consultants and employee representatives (trade union) - the stage completed in December 2018.*

### 5. Strategies and measures for increasing the employer brand attractiveness

In 2018 our company initiated a program to increase its attractiveness for recruiting and retaining the staff. The planning for implementing this program was established and the necessary instruments were also chosen:

- Conducting the impact study on the perception and attractiveness of the employer brand among the employees and public targeted for recruitment;
- Setting a plan to increase the employer brand awareness and to ensure the compliance of the HR practices based on the impact analysis results.

In trim IV 2018 a fost aplicat chestionarul privind perceptia angajatilor asupra In the fourth quarter of 2018 the employee perception questionnaire was applied on Antibiotice as an employer. In 2019 we will continue to measure the perception of the external public, to establish the main pillars on which the internal and external communication will be developed.

### 6. Ensuring a favorable working climate and an organizational culture geared towards innovation and performance

The employees' representatives together with the company's management identify the best solutions for maintaining a beneficial climate for the professional activities.

In 2018 an analysis study on the organizational climate was conducted for identifying the solutions to ensure a higher level of employees' performance and satisfaction. Based on the conclusions of the study, action plans will be established starting with 2019.

In its activity, Antibiotice applies ethical standards based on principles of honesty, integrity, fairness and transparency, and equally focuses on all shareholders, employees, business partners, authorities and community.

our company, there is a balanced distribution of employees by gender and age:

Age range	20-30	30-40	40-50	50-55	over 55	Total (%)
Women (%)	5.13	12.89	21.65	8.19	7.19	55.05
Men (%)	3.56	9.05	18.45	5.34	8.55	44.95
<b>Total (%)</b>	<b>8.69</b>	<b>21.94</b>	<b>40.10</b>	<b>13.53</b>	<b>15.74</b>	<b>100</b>

From a confessional point of view, 96% of our employees belong to the Orthodox confession, 4% to the Catholic confession. This proportion is in line with the confessional structure at national level. This characteristic, as well as those related to gender, age, nationality or the presence of disabilities are not limiting criteria for employment.

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Our company ensures a fair and non-discriminatory treatment at work. 11 of our employees are people with disabilities and benefit from the legal provisions.

### Quality policy

#### Certified quality

The increase of the confidence in the quality, efficiency and safety of our company's products is achieved by keeping under control and improving the Integrated Management System, attested by the results of the following inspections / audits in the period 01-12.2018.

#### Inspected conducted by authorities

In the period 13-14.02.2018 the National Agency for Medicines and Medical Devices conducted the inspection for evaluating the GMP compliance of the Quality Management System of Antibiotice S.A. and manufacturing flows for ointments and ophthalmic ointments. Our company obtained the GMP certificate for the above-mentioned manufacturing flows and the updated Manufacturing Authorization.

#### Audits conducted by the certifying bodies

In the period 29-30.09.2018 SRAC conducted the surveillance audit for aluminum tubes, polyethylene caps and metal caps manufactured by the Microproduction Plant.

In the period 12-15.11.2018, Lloyd's Register Quality Assurance conducted the ISO surveillance audit in accordance with ISO 9001:2015 and ISO 14001:2015 (new standards) and in accordance with OHSAS 18001:2007. The audit report was transmitted without critical nonconformities.

#### Audits conducted by customers

During 2017 there were audits carried out by specialized firms or external clients for qualifying Antibiotice as a finished product supplier - an audit for parenteral products and 2 audits for the manufacturing flow of Nystatin - active substance, for requalifying the company as an API supplier.

A pre-audit was also conducted before the audit of the Agency from Russia for certifying the manufacturing flow of suppositories to support the reauthorization of products in Russia. The audit was completed without critical nonconformities and the CAPA Plan was submitted.

#### Audits conducted by our specialists to suppliers of raw materials/ primary packaging materials / finished products

In accordance with the annual Audit Plan 2018, 5 external audit missions were conducted to the producers of raw materials and primary packaging materials from Germany, Spain, France and Italy (suppliers of primary packaging - foils, non-sterile active substances, suppliers of glass vials).

Also, within the Audit Campaign in India, missions to verify the compliance of Quality Management Systems with the EU GMP requirements were conducted in 9 companies, to

## MANAGEMENT REPORT 2018

determine whether these companies can be our suppliers of various active substances necessary for the manufacturing process.

Auditing the suppliers of active substances, primary packaging materials, finished products manufactured under contract is a mandatory requirement at European level for marketing authorization holders of pharmaceuticals. The current legislation obliges all the Marketing Authorization Holders to periodically verify ( a period not exceeding 3 years) the compliance of manufacturers / distributors of active substances with the EU GMP requirements.

### Labour health and safety

At the end of 2018, LRQA monitored the compliance of the Occupational Health & Safety Management System with the International Standard 18001, integrated with Quality and Environmental Management Systems.

In order to reduce professional risks and to continuously improve the labour conditions, the implementation of measures went on for:

- reducing the physical effort by completing the endowments within the Biosynthesis Plant with electrical equipment for transport and lifting the raw materials and finished products;
- reducing the exposure to chemical agents by ensuring the storage of chemical reagents in the Medical Unit's laboratories in reagent cabinets with vapor filtration system and purchasing a chemical niche for granulometric determinations.

In order to help our staff become aware of our current concerns in the field of health and safety at work:

- we promote a healthy and safety work from the very beginning of the professional life;
- we take measures for preventing the health problems during professional life.

Maintaining and developing an effective Occupational Health and Safety Management System is the guarantee for:

- o creating a unique and coherent framework to eliminate the dangers and risks related to work;
- o a more effective control of risk factors for injury and / or occupational disease;
- o improving the work environment and interpersonal relationships at the workplace;
- o higher performances obtained by our employees;
- o helping our staff become aware about the **value** our company gives to its human capital.

### Responsibility for environment

Our company' s activity in the field of environmental protection is regulated by the Integrated Environmental Authorization no. 1 / 10.01.2011 issued by the Regional Environmental Protection Agency Bacau, revised on 03.2018 (valid until 10.01.2021) and by the Water Management Permit no. 303 / 20.12.2010 issued by the National

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Administration of Romanian Waters, the Prut-Barlada Water Basin Administration (valid until 31.12.2020).

In order to comply with the environmental protection legislation, Antibiotice ensured the specific endowments and qualified personnel. The whole activity is regulated by specific procedures of the environmental management system as well as by operating procedures and working instructions.

Environmental factors were monitored according to the requirements of the Integrated Environmental Authorization, both through its own laboratories and through third laboratories, authorized by the Romanian Accreditation Association (RENAR).

### **Specific consumptions and energy use**

The activity of the Biosynthesis Plant which produces Nystatin, active substance is covered by the European Integrated Pollution Prevention and Control (IPPC) Directive. In 2018, the Biosynthesis Plant fell within the planned specific consumptions, with respect to the quantities of used solvents, the legal condition for fugitive solvents emissions being observed (less than 15% of the amount of solvents used during the year).

### **Air quality**

In 2018, air pollutant emissions/immisions analyzes were conducted by our own laboratory for the indicators: nitrogen oxides, ammonia, suspended particulates and sedimentable powders for air quality monitoring. There were no exceedances of the maximum admissible concentrations stipulated in the Integrated Environmental Authorization. Also, the determinations made by third laboratories showed that the values of the pollutants emitted in the air complied with the legal requirements established by the Integrated Environmental Authorization obtained by Antibiotice SA.

### **Water quality**

Water quality monitoring required analyzes on the quality of the water entering our own water treatment plant and discharged into the municipal sewage system, conventionally clean water discharged into the natural emissary as well as underground water. No exceedances of the maximum admissible concentrations established by the Integrated Environmental Authorization, Water Management Permit, and by NTPA 001 and NTPA 002 - 2005 were recorded.

### **Soil and groundwater protection**

Out of the total area of the land owned by Antibiotice, about 40% is covered by green spaces.

The quality of groundwater was monitored by monthly analyses of samples obtained from the perimeter drilling and drilling downstream of the landfill site. There was no accidental pollution or environmental incident leading to degradation of soil quality in the area of influence of the company's activity.

### **Waste management**

Antibiotice SA implemented a selective waste collection system, each manufacturing plant and auxiliary workplace being equipped with suitable containers for collection.

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Recyclable waste was sold to authorized economic operators on the basis of contracts. Unusable waste was incinerated in our own facility or stored at the municipal waste disposal site.

Our company complies with the packaging waste management requirements (corresponding to the quantity of products that the company introduced in the Romanian market). The overall objective set for 2018, as well as the minimum objectives of recovery by recycling, by each type of material, (according to Law No. 249/ 2015, with subsequent amendments and completions) were achieved.

### **Antibiotice - a responsible brand that supports community development**

#### *CSR projects implemented in 2018*

Antibiotice takes responsibility for contributing as a "good citizen" to the community life, being directly involved in developing a better society and a cleaner environment.

The Corporate Responsibility Strategy fundamentally supports our company's mission and vision. We produce medicinal products with science but we also put our hearts in what we do to stay always close to people.

We underline our mission to act in a sustainable way and we are committed to creating a long-term value for our company and our stakeholders, respecting the environment and supporting the communities in which we operate.

We are involved in the community's life through social responsibility programs based on four strategic pillars: health, education, social and environmental protection.

#### **Health**

*We develop social responsibility programs to improve the health of our employees, but also the health of the community in which we operate. These programs have been developed to educate and inform the population about health prevention.*

#### **Antibiotics of the 3<sup>rd</sup> Millennium**

Antibiotice launched on November 9, 2018 the social responsibility program *Antibiotics of the 3<sup>rd</sup> Millennium* by bringing together international and local experts as well as professionals who consistently advocate the judicious use of antibiotics in human and veterinary medicine. The event took place in the week ahead of the World Health Organization's World Antibiotic Awareness Week. The debate brought together different perspectives on antibiotic use and resistance, a theme with a wide social addressability.

Antimicrobial resistance is a priority for many European countries, but also worldwide, being considered a threat to public health. Antibiotice's involvement in limiting the antibiotic resistance phenomenon is a responsible approach, natural to a pharmaceutical

## MANAGEMENT REPORT 2018

producer in a continuous international development, because this is a global crisis that can not be ignored.

The Antibiotics of the 3<sup>rd</sup> Millennium program aims at drawing attention to the phenomenon, supporting the development and dissemination of good practices in the use of antibiotics, addressing a community of patients and general public, doctors, nurses, pharmacists, manufacturers, environmental experts, academic and entrepreneurial representatives.

**” Donate blood! Put your soul to life! ”**

The acute blood crisis in the Romanian hospitals determined our company's employees to involve, starting with 2010, in the blood donation campaigns initiated by the Antibiotice - ”Science and Soul” Foundation, in partnership with the Regional Blood Transfusion Center (CRTS) Iasi.

On the occasion of the World Health Day, 60 employees donated 30 liters of blood to save more than 150 lives. The second round of the campaign took place on October 11, 2018, when 50 Antibiotice employees donated 25 liters of blood, saving 130 lives.

### **Education**

*We invest, with science and soul, in the education of young people who, like our employees, can be highly performant in their career and become responsible behavior models. We recognize the role the local community and we support it in forming and developing the company's main source of value - well-trained people.*

#### **100 Antibiotice employees were trained to provide the first aid**

Antibiotice SA is constantly preoccupied with the safety of its employees and organized first aid courses for its employees on the occasion of the World Heart Day.

In the period 16-17.10.2018, 100 Antibiotice employees participated in first aid courses organized by the company in partnership with UPU-SMURD Iasi and Emergency Medicine specialists from the Grigore T. Popa University of Medicine and Pharmacy Iasi. The project titled "Everyone Can Save a Life!" aimed at promoting basic first-aid measures among the company's employees but also raising their awareness in emergency situations to support their peers.

The course was supported by doctors from SMURD Iași and consisted in the theoretical and practical presentation of first aid notions. All employees of the company were provided with flyers containing important first aid information.

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### **Antibiotice employees support 70 pupils with a high risk of school dropout**

For the second consecutive year our company's employees supported the programme "Home in the community - after school at Valea Lupului School".

The After School Program includes orphaned children, children in grandparents' care, or children with sick parents but talented and intelligent who benefit from personal development programs with a psychologist and the support of volunteer teachers.

On May 30, 2018, in the company's festive hall, our employees attended a charity theater show "Poem in clay" put into the stage by the Cantalup theater troupe from the Valea Lupului School.

The amount collected from the employees' donations was doubled by the Antibiotice's "Science and Soul" Foundation. So, 12,000 LEI were donated for this project supporting 70 students enrolled in this program in order not to drop out of school.

After a year of running this program, the learning results of the children included in the project improved significantly, and that's why we decided to extend this project.

### **Environment**

*Antibiotice develops a sustainable partnership with the community by carrying out activities meant to protect the environment, being permanently concerned with the improvement of its environmental performance.*

### **"Orchard at school" gets roots in three schools from the Iași County**

In the second year of the "Orchard at school" project, the Antibiotice volunteers together with their families planted in two stages, 300 fruit trees at schools in the neighboring localities.

The first stage of planting took place on April 21, 2018. 70 volunteers got involved and planted 200 fruit trees at the schools in Letcani and Cogeasca localities.

The second stage of planting took place on November 3, 2018 when over 50 volunteers from Antibiotice got involved in this project run by the "Science and Soul" Foundation. They planted 100 fruit trees at the school from the Rediu locality.

The management of the Gymnasium School Rediu decided that in the centennial year, the 100 trees planted to be named after 100 heroes of the First World War. The trees will be cared for by the pupils until the end of the gymnasium studies and then handed over to the future generations.

## MANAGEMENT REPORT 2018

The "Orchard at school" project is run by the "Science and Soul" Foundation through which the Antibiotice employees voluntarily engage and try to inspire the younger generation for protecting the environment, maintaining a healthy lifestyle and cultivating the civic spirit in the community.

Through the power of the example offered by Antibiotice employees, this project grew and got roots in eight schools in Iasi County contributing to the health and a better life of the community.

### **Antibiotice supports Earth Hour**

Our company participated in the Earth Hour action, the largest environmental event of all times, which draws attention to the effects of global warming. On March 24, 2018, between 20:30 and 21:30 our company symbolically switched off the lights in areas where this was possible (e.g. the administrative buildings) in the tenth consecutive participation of the company in this action.

Such actions are meant to demonstrate the importance of rational consumption of natural resources and our commitment to protecting the environment both to our employees and the communities in which we operate.

### **Doors Open Day at Antibiotice**

Antibiotice uses the resources responsibly, meets the highest quality standards for manufacturing medicines and protecting the environment.

Responsibility for the environment is a constant concern of our company and, in this respect, it opened its doors to facilitate a dialogue between the company and the communities in its neighborhood on environmental issues.

On July, 2018, in collaboration with the Valea Lupului City Hall, Antibiotice organized the Doors Open Day for the inhabitants of this community.

The company's specialists presented to all the participants how Antibiotice protects the environment. They had the opportunity to learn about the investments of more than 5 million EUR made in the recent years in modern manufacturing technologies to protect the environment:

- Antibiotice's **Wastewater Treatment Plant** that transforms technologically wastewater from production areas into pre-cleaned, odorless and non-environmentally harmful water that is then transported to the city's wastewater treatment plant;
- **Waste incineration plant** - storage, recycling and incineration in conditions of minimal impact of waste resulting from the company's activity on the environment.

## MANAGEMENT REPORT 2018

Through such actions, Antibiotice aims to convey to the community, through the power of example, responsibility for the environment.

### Social matters

*Antibiotice, through the "Science and Soul" Foundation engages itself in the community life by supporting disadvantaged groups through social programs, some of which have become traditional.*

#### **„Be generous, Be Santa Claus!”**

For the sixth consecutive year, the "Science and Soul" Foundation organized „Be generous, Be Santa Claus!” campaign in partnership with Pro Vita Department of the Iasi Archdiocese Mission District.

In the centennial year, the campaign was organized a number of 100 children from families with reduced material opportunities in rural areas from Iași and Botoșani Counties.

The toddlers aged between 1 and 13 lay their dreams in enthusiastic letters. Their emotional, lewd or elaborate, precise or idealistic ranges animated this year also our colleagues who became Santa Claus's elves.

On December 14, 2018 Santa Claus rushed to appear at a festivity organized in our company. The kids enjoyed meeting him, many of them for the first time. As a sign of thanks, the little ones played short artistic moments, singing Christmas carols.

Within the legal deadline imposed by the Order of the Minister of Public Finance 1938/2016, Antibiotice SA undertakes to elaborate - within 6 months of the publication of this document - the Non-Financial Report for 2018. It will be made available to the public on the company's website.

#### **Conclusions:**

- a 8% increase in the sales revenue compared to 2017
- a 6% increase in the international sales compared to 2017
- a 2% increase in the net profit compared to 2017

**VicePresident of Management Board**  
**Ioan Nani**

**Financial Director,**  
**Paula - Luminita Coman**

## MANAGEMENT REPORT 2018

## Declaration of conformity

The Declaration of Conformity was issued as a result of the financial situation for 2018.

These results present a correct image, and compliant with the accounting standards applicable in all material aspects, of the financial position, operational results of Antibiotice Iasi, prepared in accordance with the Order of the Minister of Public Finance no. 881 / 25.06.2012 on the application, by the trading companies whose securities are admitted to trading in a regulated market, of the International Financial Reporting Standards, Order of the Minister of Public Finance no. 2844/2016 for the approval of accounting regulations in line with International Financial Reporting Standards, Order of the Minister of Public Finance no. 10 / 03.01.2019 on the main aspects regarding the preparation and submission of the annual financial statements and annual accounting reports of the economic operators to the territorial units of the Ministry of Public Finance, as well as for amending and completing some accounting regulations.

## Annex 1

The state of compliance with the provisions of the new Corporate Governance Code of BVB <sup>1</sup> on December 31 2018	Compliance YES / NO
<b>Section A - Responsibilities</b>	
A.1. All the companies must have an internal regulation of the Council that includes terms of reference/responsibilities of the Council and the key management functions of the company, and which applies, among other things, the General Principles of this Section.	YES
A.2. The provisions for managing conflicts of interest should be included in the Council Regulation.	YES
A.3. The Council must consist of at least five members.	YES
A.4. Most members of the Council must not have executive functions. In the case of Premium Category companies, not less than two non-executive members of the Council must be independent. Each independent member of the Council shall make a declaration at the time of his nomination for election or re-election and when any change of his status occurs, indicating the elements on the basis of which he is considered to be independent in terms of his character and judgment.	YES
A.5. Other relatively permanent commitments and professional obligations of a member of the Board, including executive and non-executive positions in the Board of Nonprofit Companies should be disclosed to shareholders and potential investors prior to the nomination and during their term of office.	YES
A.6. Any member of the Council must provide to the Council information on any report with a shareholder directly or indirectly owning shares representing more than 5% of all voting rights.	YES

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<sup>1</sup> *The annex contains the main provisions of the Code. For the full text of the Code, please visit the Bucharest Stock Exchange website.*

## Annex 1

The state of compliance with the provisions of the new Corporate Governance Code of BVB <sup>1</sup> on December 31 2018		Compliance YES / NO
	A.7. The company must designate a secretary of the Council responsible for supporting the work of the Council.	YES
	A.8. The statement concerning the Corporate Governance provides information whether an evaluation of the Council has taken place under the chairmanship of the President or the nomination committee and, if so, will summarize the key measures and the resulting changes. The society must have a policy/guidance on the Council's assessment of the scope, criteria and frequency of the assessment process.	YES
	A.9. The statement concerning the Corporate Governance should contain information on the number of the Council and committee meetings over the past year, the administrators' participation (in person and in their absence) and a report by the Council and committees upon their activities.	YES
	A.10. The corporate governance statement should include information on the exact number of independent members of the Council.	YES
	A.11. The Board of the Premium Companies must establish a nomination committee made up of non-executive members, who will direct the nomination procedure of new members to the Council and will make recommendations to the Council. Most members of the nomination committee must be independent.	YES
Section B - The Risk management and internal control system		

	<p>B.1. The Council should set up an audit committee in which at least one member should be a non-executive and independent. In the case of Premium Category companies, the audit committee must be composed of at least three members and the majority of the members of the audit committee must be independent.</p>	YES
	<p>B.2. The chairman of the audit committee must be an independent non-executive member.</p>	YES

## Annex 1

The state of compliance with the provisions of the new Corporate Governance Code of BVB 1 on December 31 2018		Compliance YES / NO
	B.3. Within its responsibilities, the audit committee must carry out an annual assessment of the internal control system.	YES
	B.4. The assessment should take into account the effectiveness and coverage of the internal audit function, the degree of adequacy of the risk management and internal control reports submitted to the Council's audit committee, the promptness and effectiveness with which the executive management addresses the deficiencies or weaknesses identified in the audit Internal and the submission of relevant reports to the Council.	YES
	B.5. The Audit committee should assess the conflicts of interest in relation to the transactions of the company and its subsidiaries with the affiliated parties.	We do NOT have subsidiaries
	B.6. The audit committee must assess the effectiveness of the internal control system and the risk management system.	YES
	B.7. The Audit Committee should monitor the application of the general standards and the generally accepted legal standards and internal audit standards. The audit committee must receive and assess the internal audit team reports.	YES
	B.8. Whenever the Code mentions reports or analyzes initiated by the Audit Committee, they must be followed by periodic reports (at least annually) or ad hoc reports to be submitted to the Council.	YES

	<p><b>B.9.</b> No shareholder may be granted preferential treatment over other shareholders in connection with transactions and agreements concluded between the company and shareholders and their affiliates.</p>	YES
	<p><b>B.10.</b> The Council should adopt a policy to ensure that any company transaction with any of the companies with which it has close relationships with a value equal to or greater than 5% of the company's net assets (according to the latest financial report) is approved by the Council following a mandatory opinion of the audit committee.</p>	YES

## Annex 1

The state of compliance with the provisions of the new Corporate Governance Code of BVB <sup>1</sup> on December 31 2018		Compliance YES / NO
	B.11. The internal audits should be performed by a separate structural division (internal audit department) within the company or by hiring an independent third party.	YES
	B.12. In order to ensure the main functions of the internal audit department, it must report functionally to the Council through the audit committee. For administrative purposes and within the management's responsibility to monitor and mitigate risks, it must report directly to the General Director.	YES
<b>Section C - Fair reward and motivation</b>		
	C.1. The company must publish the remuneration policy on its website and include a statement on the implementation of the remuneration policy in the annual report during the annual period which is subject of the analysis.  Any essential change occurred in the remuneration policy must be published in a timely manner on the company's website.	YES
<b>Section D - Adding value through investor relations</b>		
	D.1. The company must organize an Investor Relations Service - indicating to the general public the responsible person(s) or the organizational unit. In addition to the information required by the law, the company must include on its website a section	

<p>dedicated to Investor Relations, in Romanian and English, with all the relevant information of interest to investors, including:</p> <ul style="list-style-type: none"><li>D.1.1. The main corporate regulations: the constitutive act, the procedures regarding the general meetings of shareholders;</li><li>D.1.2. The professional CVs of members of the company's management bodies, other professional commitments of the Board members, including the executive and non-executive positions in boards of directors in companies or non-profit institutions;</li><li>D.1.3. The current reports and periodic reports (quarterly, half-yearly and annual);</li><li>D.1.4. Information concerning the general meetings of shareholders;</li></ul>	<p>YES</p>
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## Annex 1

The state of compliance with the provisions of the new Corporate Governance Code of BVB <sup>1</sup> on December 31 2018	Compliance YES / NO
<p>D.1.5. Information concerning corporate events;  D.1.6. The names and contact details of a person who will be able to provide relevant information upon request;  D.1.7. The company presentations (e.g., investor presentations, quarterly results presentations, etc.), the financial situations (quarterly, half-yearly, annual), audit reports and annual reports.</p>	
<p>D.2. The company will have a policy on the annual distribution of dividends or other benefits to shareholders. The principles of the annual distribution policy to shareholders will be published on the company's website.</p>	YES
<p>D.3. The company will adopt a policy regarding the forecasts, whether they are made public or not. The forecasting policy will be published on the company's website.</p>	YES
<p>D.4. The rules of general shareholders' meetings should not limit the participation of shareholders to general meetings and the exercise of their rights. The changes to the rules will enter into force at the earliest, starting with the following shareholders meeting.</p>	YES
<p>D.5. The external auditors will be present at the general shareholders' meeting when their reports are presented at these meetings.</p>	YES

	<p>D.6. The Board will provide the annual general meeting of shareholders with a brief assessment of the internal control and risk management systems as well as opinions on matters subject to the decision of the general meeting.</p>	YES
	<p>D.7. Any specialist, consultant, expert, or financial analyst may attend the shareholders' meeting on the basis of a prior invitation from the Board. The accredited journalists may also participate in the general meeting of shareholders, unless the President of the Council decides otherwise.</p>	YES

## Annex 1

The state of compliance with the provisions of the new Corporate Governance Code of BVB <sup>1</sup> on December 31 2018	Compliance YES / NO
D.8. The quarterly and half-yearly financial reports will include both Romanian and English information concerning the key factors that affect the changes in sales, the operating profit, the net profit and other relevant financial indicators from quarter to quarter, and from one year to another.	YES
D.9. A company will hold at least two meetings/teleconferences with analysts and investors each year. The information presented on these occasions will be published in the Investor Relations section of the company's website at the dates of the meetings/teleconferences.	YES
D.10. If a company supports different forms of artistic and cultural expression, sporting activities, educational or scientific activities and considers that their impact upon the innovative character and the competitiveness of the company is part of its mission and development strategy, it will publish the policy on the activity in this area.	YES

**ANTIBIOTICE S.A.**

Individual financial statements for the  
year ended on December 31, 2018

drafted in accordance with the  
International Financial Reporting  
Standards (IFRS) adopted by the  
European Union

**ANTIBIOTICE S.A.**  
Financial statements for the year ending on  
December 31 2018

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**ANTIBIOTICE SA**  
**STATEMENT OF COMPREHENSIVE PROFIT**  
For the year ended on December 31 2018  
(all amounts are expressed in LEI, if not mentioned otherwise)

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	<b>NOTE</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
		<b>For the year ended on</b>	
<b>Sales revenues</b>	<b>4</b>	<b>364,576,466</b>	<b>336,904,666</b>
Other operating revenues	<b>5</b>	45,405,000	37,796,667
Revenues relative to costs of product stocks		(1,259,715)	4,235,363
Capitalized income generated by the entity's activity		3,489,144	1,850,831
Expenses with raw materials and consumables	<b>6</b>	(138,844,375)	(127,072,000)
Staff-related expenses	<b>7</b>	(90,864,735)	(85,897,194)
Expenditure on amortization and depreciation		(20,237,870)	(17,098,098)
Other operating expenses	<b>8</b>	(122,951,124)	(113,395,172)
<b>Operating profit</b>		<b>39,312,791</b>	<b>37,325,063</b>
Financial income	9	4,991	4,287
Financial expenses	9	(4,229,171)	(1,967,920)
<b>Pre-Tax Profit</b>		<b>35,088,611</b>	<b>35,361,430</b>
Current and deferred income tax expense	<b>10</b>	(784,823)	(1,803,076)
<b>Profit</b>		<b>34,303,788</b>	<b>33,558,354</b>
<b>Other items of comprehensive income</b>			
Items not to be reclassified:			
Gains/losses from revaluation of tangible fixed assets		47,199,499	-
Result reported after correcting the errors		(305,026)	-
Profit tax on other items of comprehensive income		(7,523,017)	-
<b>Total other items of comprehensive income, excluding taxes</b>		<b>39,371,455</b>	<b>-</b>
<b>Total comprehensive income</b>		<b>73,675,244</b>	<b>33,558,354</b>
<b>Earnings per share</b>	<b>11</b>	<b>0.0511</b>	<b>0.0499</b>

*Explanatory notes from 1 to 28 are an integrating part of the financial statements*

Approved by the Management Board on 13.03.2019  
and signed on behalf of:

Drafted by:

General Manager  
Ioan NANI

Financial Director  
Paula COMAN

**ANTIBIOTICE SA**  
**STATEMENT OF THE FINANCIAL POSITION**  
For the year ended on December 31 2018  
(all amounts are expressed in LEI, if not mentioned otherwise)

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	NOTE	31.12.2018	31.12.2017
<b>ASSETS</b>			
<b>FIXED ASSETS</b>			
Tangible fixed assets	12	310,640,665	223,242,890
Intangible fixed assets	13	15,028,716	13,107,622
<b>TOTAL FIXED ASSETS</b>		<b>325,669,381</b>	<b>236,350,512</b>
<b>CURRENT ASSETS</b>			
Stocks	14	64,964,661	67,264,546
Trade and similar receivables	15	313,094,458	264,212,743
Cash and cash equivalents	16	2,376,682	5,107,743
<b>TOTAL CURRENT ASSETS</b>		<b>380,435,802</b>	<b>336,585,032</b>
<b>TOTAL ASSETS</b>		<b>706,105,183</b>	<b>572,935,544</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Commercial and similar liabilities	17	67,171,084	55,535,974
Amounts owed to credit institutions	18	100,729,229	69,731,310
Tax and current tax liabilities		10,421,393	9,792,887
Short-term provisions	19	-	-
Subventions for investments	20	637,008	326,246
<b>TOTAL CURRENT LIABILITIES</b>		<b>178,958,714</b>	<b>135,386,417</b>
<b>LONG-TERM LIABILITIES</b>			
Subventions for investments	20	2,489,791	2,498,889
Deferred tax	21	25,266,930	18,172,398
Amounts owed to credit institutions	18	26,662,433	-
<b>TOTAL LONG-TERM LIABILITIES</b>		<b>54,419,154</b>	<b>20,671,287</b>
<b>TOTAL LIABILITIES</b>		<b>233,377,868</b>	<b>156,057,704</b>

*Explanatory notes from 1 to 28 are an integrating part of the financial statements*

Approved by the Management Board on 13.03.2019  
and signed on behalf of:

Drafted by:

General Manager  
Ioan NANI

Financial Director  
Paula COMAN

**ANTIBIOTICE S.A.**  
**STATEMENT OF THE FINANCIAL POSITION**

(continued)

on December 31 2018

(all amounts are expressed in LEI, if not mentioned otherwise)

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	NOTE	31.12.2018	31.12.2017
<b>Share capital and reserves</b>			
<b>Share capital</b>	22	<b>264,835,156</b>	<b>264,835,156</b>
Reevaluation reserves	23	53,459,596	14,556,141
Legal reserves	23	13,426,761	13,426,761
Other reserves	23	190,422,002	162,134,513
Reported result	24	(60,182,699)	(60,650,699)
Distribution of profit		(23,537,290)	(10,982,386)
Current result		34,303,788	33,558,354
<b>TOTAL EQUITY</b>		<b>472,727,315</b>	<b>416,877,840</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>706,105,183</b>	<b>572,935,544</b>

*Explanatory notes from 1 to 28 are an integrating part of the financial statements*

Approved by the Management Board on 13.03.2019  
and signed on behalf of:

Drafted by:

General Manager  
Ioan NANI

Financial Director  
Paula COMAN

**ANTIBIOTICE S.A.**  
**CASH FLOW STATEMENTS**

For the year ended on December 31 2018

(all amounts expressed in LEI, if not mentioned otherwise)

	<b>For the year ended on</b>	
	<b>31.12.2018</b>	<b>31.12.2017</b>
<b>I. Cash flows from operating activities</b>		
Cash collection from sales of goods and provision of services	342,163,055	313,461,633
Cash collection from royalties, fees, charges and other revenue	507,166	(9,827,652)
Cash payment to suppliers of goods and services	(196,684,926)	(169,526,601)
Cash payments to and on behalf of employees, payments made by the employer for its employees	(82,487,294)	(77,395,419)
VAT paid	-	(2,667,613)
Contributions to the Ministry of Health and the Ministry of the Environment	(35,898,778)	(28,427,073)
Other duties, taxes, and similar levies	(865,883)	(1,635,017)
	<b>26,733,341</b>	<b>23,982,258</b>
<b>Operating cash flow</b>		
Interest charged	4,991	4,287
Interest paid	(3,474,486)	(1,252,021)
Tax on profit paid	(2,400,279)	(3,328,251)
<b>Net cash flows from operating activities</b>	<b>20,863,568</b>	<b>19,406,273</b>
<b>II. Cash flows generated by investments</b>		
Cash payments for purchasing land and fixed assets, intangible assets and long-term assets	(64,596,506)	(43,312,921)
<b>Net investment cash flow</b>	<b>(64,596,506)</b>	<b>(43,312,921)</b>
<b>III. Cash flows from financing activities</b>		-
Receipts from long-term loans/reimbursements	26,627,446	
Dividends paid	(16,235,156)	(13,660,457)
<b>Net cash flows from financing activities</b>	<b>10,392,291</b>	<b>(13,660,457)</b>
Gains/losses from exchange rate differences	(388,333)	(253,181)
<b>Net increase/(decrease) in cash</b>	<b>(33,728,980)</b>	<b>(37,820,285)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>(64,623,567)</b>	<b>(26,803,281)</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>(98,352,547)</b>	<b>(64,623,567)</b>
<b>The cash and cash equivalents at the end of the period include:</b>		
Accounts in banks and cash	2,376,682	5,107,743
Credit lines	(100,729,229)	(69,731,310)
	<b>(98,352,547)</b>	<b>(64,623,567)</b>

*Explanatory notes from 1 to 28 are an integrating part of the financial statements*

Approved by the Management Board on 13.03.2019  
and signed on behalf of:

Drafted by:

General Manager  
Ioan NANI

Financial Director  
Paula COMAN

**ANTIBIOTICE S.A.**  
**MODIFICATIONS OF EQUITY**  
for the year ended on December 31 2018  
(all amounts expressed in LEI, if not mentioned otherwise)

	Subscribed capital	Capital Adjustments	Reserves	Other reserves	Current result	Result from revaluation reserves	Profit Distribution	Revaluation reserves	Reported result from the correction of errors	Result following applying IAS/IFRS for the first time	Result following applying IAS 29 for the first time	TOTAL
<b>31-12-17</b>	<b>67,133,804</b>	<b>197,701,352</b>	<b>13,426,761</b>	<b>162,134,513</b>	<b>33,558,354</b>	<b>11,702,322</b>	<b>(10,982,386)</b>	<b>14,556,141</b>	<b>-</b>	<b>125,348,331</b>	<b>(197,701,352)</b>	<b>416,877,840</b>
Current global result	-	-	-	-	34,303,788	-	-	-	-	-	-	34,303,788
Reserve from revaluation	-	-	-	-	-	-	-	47,199,499	-	-	-	47,199,499
Deferred tax relative to the revaluation difference	-	-	-	-	-	-	-	(7,523,018)	-	-	-	(7,523,017)
Result of error correction	-	-	-	-	-	-	-	789,712	(1,094,738)	-	-	(305,026)
<b>Total other items of the global result</b>					<b>34,303,788</b>			<b>40,466,193</b>	<b>(1,094,738)</b>			<b>73,675,244</b>
Transfer of reevaluation surplus	-	-	-	-	-	2,503,058	-	(1,562,738)	-	(940,320)	-	-
Allotment of other reserves	-	-	-	4,750,199	(4,750,199)	-	-	-	-	-	-	-
Dividends	-	-	-	-	(17,825,769)	-	-	-	-	-	-	(17,825,769)
Mandatory distributions	-	-	-	23,537,290	-	-	(23,537,290)	-	-	-	-	-
<b>31.12.2018</b>	<b>67,133,804</b>	<b>197,701,352</b>	<b>13,426,761</b>	<b>190,422,002</b>	<b>45,286,174</b>	<b>14,205,380</b>	<b>(34,519,676)</b>	<b>53,459,596</b>	<b>(1,094,738)</b>	<b>124,408,011</b>	<b>(197,701,352)</b>	<b>472,727,315</b>

*The explanatory notes from 1 to 28 are an integrating part of the financial statements*

**ANTIBIOTICE S.A.**  
**MODIFICATIONS OF EQUITY**  
for the year ended on December 31 2018  
(all amounts expressed in LEI, if not mentioned otherwise)

	Subscribed capital	Capital Adjustments	Reserves	Other reserves	Current result	Result from revaluation reserves	Profit Distribution	Revaluation reserves	Reported result from the correction of errors	Result following applying IAS/IFRS for the first time	Result following applying IAS 29 for the first time	TOTAL
<b>31.12.2016</b>	<b>67,133,804</b>	<b>197,701,352</b>	<b>13,426,761</b>	<b>146,528,189</b>	<b>30,370,811</b>	<b>7,901,456</b>	<b>0</b>	<b>16,925,870</b>	<b>-</b>	<b>126,779,469</b>	<b>(197,701,352)</b>	<b>409,066,360</b>
Current global result	-	-	-	-	33,558,354	-	-	-	-	-	-	33,558,354
Deferred tax relative to the revaluation difference	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation reserve	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total other items of the global result</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,558,354</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,558,354</b>
Transfer of reevaluation surplus	-	-	-	-	-	3,800,866	-	(2,369,729)	-	(1,431,137)	-	-
Distribution of legal reserve	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of other reserves	-	-	-	4,623,938	(4,623,938)	-	-	-	-	-	-	-
Dividends	-	-	-	-	(25,746,873)	-	-	-	-	-	-	(25,746,873)
Distribution of profit	-	-	-	10,982,386	-	(10,982,386)	-	-	-	-	-	-
<b>31.12.2017</b>	<b>67,133,804</b>	<b>197,701,352</b>	<b>13,426,761</b>	<b>162,134,513</b>	<b>33,558,354</b>	<b>11,702,322</b>	<b>(10,982,386)</b>	<b>14,556,141</b>	<b>-</b>	<b>125,348,331</b>	<b>(197,701,352)</b>	<b>416,877,840</b>

*The explanatory notes from 1 to 28 are an integrating part of the financial statements*

**ANTIBIOTICE S.A.**  
**STATEMENT OF THE FINANCIAL POSITION**  
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**1. GENERAL INFORMATION**

***1.1 Brief company profile***

Antibiotice SA is a joint-stock company based in Iasi, Valea Lupului street no. 1, tax registration code RO 1973096. Antibiotice was founded in 1955 and defined as a trading company as per Law 15/1990 and Government Decision no. 1200/12.11.1990, its shares being traded on the regulated capital market of the Bucharest Stock Exchange (BVB).

Our company's 8 manufacturing flows, upgraded and certified according to Good Manufacturing Practice (GMP) standards produce medicinal products in 5 dosage forms: powders for injectable solutions and suspensions (penicillins), capsules, tablets, suppositories and topical preparations (ointments, gels, creams). Altogether they form a complex portfolio of more than 153 medicinal products for human use and 4 medicinal products for veterinary use, designed to treat a wide range of infectious, dermatological, cardiovascular, digestive tract or musculoskeletal system diseases.

All production capacities owned by our company are located to the headquarters.

The Company owns the right to ownership of all the fixed assets registered in the company's accounts.

***1.2 Corporate Governance***

The Antibiotice's governance system is based on:

- General Meeting of Shareholders
- Management Board
- Advisory Committees
- Executive Management

**General Meeting of Shareholders**

The General Meeting of Shareholders (GMS) is the company's highest decision-making body, the place where shareholders participate directly and make decisions. Among other attributions, the GMS decides upon the distribution of the profit, appoints the Management Board and the auditors and establishes the remuneration of the Management Board.

Throughout 2018, the Management Board convened three Ordinary General Meetings and three Extraordinary General Meetings on *March 5, 2018, April 26, 2018, and September 25, 2018*.

All the necessary documents related to the smooth running of the General Meetings were published in due time and according to the legislation in force.

The general meetings of *March 5, 2018* approved:

The Ordinary General Meeting of Shareholders:

- revenue and expenditure budget for 2018;

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**STATEMENT OF THE FINANCIAL POSITION**  
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- increase in the monthly gross fixed and variable indemnity of the Management Board members and General Manager and the conclusion of the additional acts according to this approval, in view of the application of GEO no. 79/2017 for amending and supplementing the Law no. 227/2015 regarding the Fiscal Code and GEO no. 90/2017 regarding some fiscal-budgetary measures, amending and supplementing some normative acts and extending some deadlines.

The Extraordinary General Meeting of Shareholders approved the establishment of two representative offices of the company, one in the Republic of Moldova and the other one in Ukraine.

On *April 26, 2018*, the Management Board of the company convened two General Meetings of Shareholders (one Ordinary and the other one Extraordinary).

The Ordinary General Meeting of Shareholders approved the following:

- the financial statements of the company for the financial year 2017, based upon the Management Report and Financial Auditor's Report;
- the registration as income of unclaimed dividends for the financial year 2013;
- the degree in which the Management Board members achieved their objectives and performance criteria for 2017;
- the discharge of the administrators of any liability for the activity carried out during the financial year 2017, based on the submitted reports;
- the objectives included in the 2018 management plan for the Management Board members;
- the remuneration of the members of the Management Board according to the provisions of Law no. 111/2016 for the approval of the Government Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises;
- the election of Mr. Dan-Octavian Alexandrescu as a temporary administrator of the Management Board, according to the provisions of art. 64<sup>1</sup> of GEO no. 109/2011, following the termination of the mandate contract of Ms Adela-Petrinia Neagoe.

The Extraordinary General Meeting of Shareholders approved the following:

- the extension of the validity of the multi-product multi-currency credit facility of 30 million LEI contracted by SC Antibiotice SA from the Export Import Bank of Romania - EximBank SA for a period of 12 months;
- maintaining the guarantees for the multi-product multi-currency credit facility in the amount of 30 million LEI for the entire validity period resulting from the extension under item 1 of the Meeting's Agenda;
- the issuance of a decision-commitment of SC Antibiotice SA not to divide, not to merge and not to decide on the early dissolution during the entire validity period of the multi-product multi-currency credit facility without the prior consent of the Export Bank of Romania - EximBank SA ;
- the empowerment of the General Manager Mr. Ioan Nani and of Financial Director Mrs. Paula Luminita Coman to sign on behalf of the company all the documents related to the extension, according to the items 1 and 2 on the Agenda, as well as the documents related to the obligations assumed by the company according to point 3 of the Agenda;
- contracting a long-term investment facility (10 years) in the amount of 15,406,300 EUR from UniCredit Bank;

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- guaranteeing the investment credit facility in the amount of EUR 15,406,300 to be contracted from UniCredit Bank;
- the empowerment of the General Manager, Mr. Ioan Nani and Financial Director, Mrs. Paula Luminita to sign on behalf of the company all the documents/credit agreements and their accessories necessary and related to the contracting and implementing the investment credit facility, according to items 1 and 2;
- establishing the location of the Antibiotice Representative Office in the Republic of Moldova at the following address: mun. Chisinau, Grenoble Street, 259/2, 259/3, the Republic of Moldova.

The General Meetings of *September 25, 2018* approved the following items on the agenda:

The Ordinary General Assembly of Shareholders:

- the company's financial statements for H1 2018, based upon the Management Report and Financial Auditor's Report;
- the modification of the Management Board's membership by the appointment of Mr. Dan-Octavian Alexandrescu as non-executive administrator for a four-year term starting with 25.09.2018;
- the form of the mandate contract to be concluded between the company and the non-executive administrator appointed on September 25, 2018, as well as the annexes to the contract including the objectives and performance criteria, the fixed and varibale indemnity.

The Extraordinary General Meeting of Shareholders approved:

- the increase of the multi-currency cash-non cash credit facility, contracted to UniCredit Bank from 30,000,000 LEI to 50,000,000 LEI;
- the securing of the credit amounting to 50,000,000 LEI contracted to UniCredit Bank;
- the empowerment of Mr. Ioan Nani, General Manager and Mrs. Paula Luminita Coman, Economic Manager to sign on behalf of the company all the documents/credit agreements and their accessories, necessary and related to the contracting and implementing the credit facility in the total amount of 50,000,000 LEI from UniCredit Bank;
- the confirmation, ratification and assuming of the mortgage and real estate mortgage contracts under the Credit Agreement no. IAS3-42-2016 dated 17.08.2016, signed with UniCredit Bank S.A.
- the access ratification to the credit facility worth 4,000,000 EUR granted to the company pursuant to art. 44 of the Articles of Association, by the additional act no. 8 of 26.03.2018 to the Credit Facility Contract no. 12239/22.05.2012, as well as by the Additional Act no. 4 of 26.03.2018 to the Mortgage Contract no. 12239/G1/22.05.2012 concluded with ING Bank N.V., a facility that was fully reimbursed on 29.06.2018.
- the establishment of the location of the Antibiotice Representative Office in Ukraine at the following address: Kiev, 6 Mikhaila Dontsa Street, Ukraine.
- the registration date 10.10.2018, in order to identify the shareholders on whom the effects of the adopted decisions are reflected, according to the provisions of art. 86, par. 1 of the Law 24/2017 regarding the issuers of financial instruments and market operations and set the ex-dates for 09.10.2018.

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**Antibiotice SA in the capital market**

**Investors (according to the Shareholders' Register on 31.12.2018)**

- the Ministry of Health (\*) – 53.0173%,
- S.I.F. Oltenia (\*) – 15.3911%
- Broadhurst Investments Limited – 4.1977%
- S.I.F. Transilvania – 3.2632%
- The Privately Managed Pension Fund AZT Viitorul Tau/Allianz – 2.1711%
- S.I.F. Banat-Crisana S.A – 2.1104%
- The Privately Managed Pension Fund METROPLITAN LIFE – 1.5116%
- A-Invest – 0.7491%
- The Privately Managed Pension Fund ARIPI/GENERALI S.A.F.P.P. – 0.6782%
- FDI BT MAXIM ADM. BT ASSET MNGEMENT SAI S.A. – 0.3947%
- Other individuals and legal entities – 16.5156%.

**Classes of shareholders**

- Legal entities – 86.8571%,
- Natural persons – 13.1429%.

**Dividends**

During 2018, dividends were paid for the financial years 2014, 2015, 2016 and 2017, amounting to 16,232,891.48 lei, as follows:

Year	Net dividends							Suspension date of dividend payment
	Due	paid				Unclaimed on 31.12.2018		
		LEI			% (total Paid)	lei	%	
		Until 31.12.2017	01.01÷31.12.2018	Total				
0	1	2	3	4	5	6	7	8
2014	15,061,293	13,939,429.39	26,266.58	13,965,695.97	92.73	1,095,597.03	7.27	22.10.2018
2015	13,753,343	12,620,174.10	33,033.48	12,653,207.58	92.00	1,100,135.42	8.00	Payment in progress
2016	25,401,595	23,260,934.12	80,042.72	23,340,976.84	91.89	2,060,618.16	8.11	Payment in progress
2017	17,588,679.97	-	16,093,548.70	16,093,548.70	91.50	1,495,131.27	8.50	Payment in progress

***Dividend history (2014 -2015– 2016 -2017)***

For the years 2014, 2015, 2016 and 2017 the dividend payment is made through the Central Depository of Bucharest and, implicitly, through CEC Bank.

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**Price per share evolution**

The titles issued by Antibiotice have been listed in the PREMIUM category of the Bucharest Stock Exchange under the ATB symbol since 1997.

The first transaction was registered on April 16, 1997, at a reference price of 0.3500 LEI/share. The historical maximum was reached on July 10, 2007, with the price of 2.1700 LEI/share, and the historical minimum of 0.0650 LEI/share was registered on June 8, 2000.

Both the company's business plans and financial results have been a solid guarantee that Antibiotice has strengthened its position on the national pharmaceutical market.

The Antibiotice shares (ATB) traded on the Bucharest Stock Exchange are included in the BET-Plus index, which includes the Romanian companies listed on the BVB market that meet the minimum selection criteria, except for the financial investment companies.

In 2018, the minimum price of an ATB share was 0.4550 LEI. The share price increased to a maximum of 0.5780 LEI/share.

The stock exchange capitalization of Antibiotice as of December 31, 2018 (the last trading day of the year) was 326.942 thousand LEI.

	2014	2015	2016	2017	2018
Number of shares	671,338,040	671,338,040	671,338,040	671,338,040	671,338,040
Stock market capitalization (thousand lei)*	390,719	357,152	349,096	361,180	326,942
Stock market capitalization (thousand euro)*	87,173	78,868	76,875	77,511	70,100
Stock capitalization (thousand \$)*	105,978	86,167	81,123	92,813	80,259
Total traded value (million LEI)	16	11	6	12	9
No. of traded shares	27,467,454	18,844,935	12,555,866	21,113,565	17,109,263
Opening price (LEI/share)	0.5520	0.5850	0.5320	0.5200	0.5780
Maximum price (LEI/share)	0.6170	0.6170	0.5420	0.5920	0.5780
Minimum price (LEI/share)	0.5410	0.5240	0.4200	0.5200	0.4550
Price at the end of the period (LEI/share)	0.5850	0.5320	0.5270	0.5380	0.4870
Average price (LEI/share)	0.5845	0.5836	0.5032	0.5585	0.5028
Earnings/share (LEI/share)***	0.0464	0.0405	0.0452	0.0500	0.0511
Gross dividend/share (LEI/share)**	0.0235	0.0197	0.0384	0.026552598	0.009991506
Dividend yield ****	4.03%	3.69%	4.05%	4.59%	2.05
Dividend distribution rate *****	51%	49%	52%	53%	20%

\* Calculated based upon the share price in the last trading day of that year,

\*\* Proposed dividend,

\*\*\* Calculation of the earnings per share is based upon the net profit of each year,

\*\*\*\* Dividend per share/share price in the first trading day of each year,

\*\*\*\*\* Dividend distribution rate = (total number of shares x gross dividend per share)/total net profit.

In 2018, 17,109,263 shares were traded, worth 8.6 million LEI (1.8 million EUR, 2.2 million USD), with an average price of 0.5028 LEI/share.

**Rights of financial instruments holders**

The corporate governance framework adopted and applied:

- protects the shareholders' rights,

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- ensures the fair treatment of all shareholders,
- recognizes the role of third parties with interests in the company,
- guarantees the information and transparency,
- guarantees the responsibility of the Management Board towards the company and the shareholders.

On the company's website at [www.antibiotice.ro/investors/shareholder information](http://www.antibiotice.ro/investors/shareholder_information), there is a section in which each shareholder can access and download documents related to the General Shareholders' Meetings: procedures regarding the access and participation in the meetings, the convocation, additions to the agenda, informative materials, special representation proxies, correspondence voting forms, draft decisions, decisions, voting results, etc.

The company makes available to all interested persons the periodical and annual financial statements prepared according to the legislation in force. The company also complies with all disclosure requirements under the legislation of commercial companies and capital market.

Within the company there is a structure specialized in the relationship with the existing and potential investors, called Capital Market, with the main role of ensuring a good communication with the shareholders of the company. The persons appointed to keep in touch with the investors deal with the shareholders' requests with maximum efficiency and facilitate the dialogue with the management of the company. The company creates and develops an appropriate policy to promote an effective communication with investors and shareholders.

### **Management Board**

Antibiotice SA is managed by a Management Board responsible for carrying out all the tasks necessary to achieve the object of the company's activity, except for those provided by the law for the General Meeting of Shareholders. There is a clear division of responsibilities between the Management Board and the Executive Board.

The Management Board seeks that its own decisions, the decisions of the Company's management and those of the General Meeting of Shareholders, as well as the internal regulations, be lawful and properly implemented. The Board is responsible for monitoring the company management on behalf of the shareholders.

The tasks of the Management Board are described in the Company's Articles of Association and in the relevant internal regulations, available on the company's website, under the section Corporate Governance.

During 2018, the Management Board met in 10 sessions, each time registering a 100% presence and adopting decisions that enabled it to carry out its tasks in an effective and efficient manner.

Thus, at the monthly meetings, the Management Board analyzed in detail the financial results obtained during the reporting and cumulative period since the beginning of the year, as well as the economic performance in relation to the budget and to the similar period of last year.

The Board requested, depending upon the situation, detailed explanations to the executive management about the plans to increase the production efficiency, about investment plans, constituted provisions, liquidity management, operational and the overall profitability.

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Following the detailed analysis of the results of the period, the Board decided to approve them in order to publish and send them to the Bucharest Stock Exchange and the Financial Supervisory Authority, observing each time the Financial Communication Calendar.

The 5 members of the Management Board guarantee the efficiency of the capacity to supervise, analyze and evaluate the activity of the managers, as well as the fair treatment of the shareholders.

**Management Board of Antibiotice SA on December 31, 2018**

**Legal advisor, IAVOR Ionuț-Sebastian, 43 years old**

**President of the Management Board and representative of the Ministry of Health**

At the Ordinary General Meeting of Shareholders held on April 30, 2015 Mr. Iavor was elected as a member of the Management Board and then appointed by the Board members as a Chairman.

Mr. Ionut Sebastian Iavor is currently General Manager of the General Directorate for Human Resources, Legal Issues and Litigation of the Ministry of Health.

**Number of Antibiotice SA shares owned - 0\***

**Economist, Ioan NANI, 59 years old**

**Vice President of the Management Board and General Manager**

At the Ordinary General Meeting of Shareholders of April 19, 2016, Mr. Nani was reconfirmed as a member of the Management Board, for a 4-year period, the members of the Management Board electing him as the Board's Vice President. Mr. Nani is an economist specialized in management, a chartered accountant and a member of the Board since 2009 and General Manager (1998-2008 and 2009 - present).

**Number of Antibiotice SA shares owned - 1.513\***

**Physician, Dan-Octavian Alexandrescu, 44 years old**

**Member of the Management Board and representative of the Ministry of Health**

At the Ordinary General Shareholders Meeting of September 29, 2018, Mr. Dan-Octavian Alexandrescu was elected as a member of the Management Board for a 4-year period. Mr. Dan-Octavian Alexandrescu is a primary physician with competence in laparoscopic surgery and Secretary of State in the Ministry of Health and has been the coordinator of the Medicines and Medical Devices Policy Division since March 2017.

**Number of Antibiotice SA shares owned - 0\***

**Economist, Nicolae STOIAN, 62 years old**

**Member of the Management Board and representative of the shareholder SIF Oltenia and other corporate shareholders**

At the Ordinary General Meeting of Shareholders of April 19, 2016, Mr. Stoian was re-elected as a member of the Management Board for a 4-year period. Mr. Stoian is a chartered accountant, tax consultant and an administrator of SIF Oltenia.

**Number of Antibiotice SA shares owned - 0\***

**Engineer, Elena CALIȚOIU, 55 years old**

**Member of the Management Board and representative of shareholder SIF Oltenia and other corporate shareholders**

Mrs. Calițoiu was confirmed by the Ordinary General Meeting of Shareholders on April 19, 2016, for a 4-year period.

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Mrs. Calițoiu is a mechanical engineer and Director of Investments & Risk Management Unit with SIF Oltenia. Mrs. Calițoiu has been a member of the Board since 2016.

**Number of Antibiotice SA shares owned - 0\***

*\*The number of Antibiotice shares (ATB) held on 31 December, 2018 according to the latest database held by Antibiotice for the year 2018.*

### **The advisory committees**

During the year 2018, the specialized advisory committees had the following membership:

- Audit Committee: Mr. Ionuț Sebastian IAVOR – President, Mr. Nicolae STOIAN and Mrs. Elena CALIȚOIU;
- Nomination and Remuneration Committee: Mr. Ionuț Sebastian Iavor – President and Mrs. Elena CALIȚOIU;
- Trade Policies Committee: Mr. Dan Octavian Alexandrescu – President and Mr. Nicolae STOIAN.

The Advisory Committees conducted investigations, analyzes, and developed recommendations for the Management Board in specific areas and submitted periodic reports on their work.

The Audit Committee met in 2018 in four sessions in order to fulfill its responsibilities with regard to financial reporting, external and internal auditing, risk management and internal control.

### **Risk management**

The risk management is the continuous identification and monitoring/evaluation of the risks to which the activity of the company is or may be exposed and which may affect the achievement of the objectives. These aim at achieving indicators that ensure both the continuity of the activity and the protection of the interests of shareholders and clients.

The risk management by the company observes the legal and regulatory requirements in force for the identification, assessment, management and reporting of risks: The Order of the General Secretariat of the Government (OGSG) no. 400/2015 modified and completed by OGSG no. 200/2016 and OGSG 600/2018 as well as the requirements of the Corporate Governance Code of the Bucharest Stock Exchange.

The main purpose of the risk management is to help understand and identify the risks to which the organization is exposed so that they can be anticipated and managed without adversely affecting the organization's performance goals.

The running of the risk management processes ensures the identification, analysis, assessment and management of risks in order to keep them at acceptable levels based upon the company's risk tolerance and its ability to cover (absorb) these risks.

In 2018, the General Risk Register was developed and approved, aiming at minimizing the significant risks with impact on the objectives to which the company is exposed.

The Risk Management Department annually analyzes and prioritises significant risks that may impact the achievement of the overall objectives of the company's operations.

For 2018, at the level of the company, 14 significant risks have been identified and ranked, which may impact the achievement of the general objectives of the company.

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At the level of organizational structures within Antibiotice SA specific risks were identified and presented to the Audit Committee.

The objectives of Antibiotice SA concerning the risk management are as follows:

- understanding the risks to which the company is exposed, their causes and the company's general and specific objectives;
- improving the company's risk profile by managing the process of identifying, assessing and managing risks and implementing the control measures needed to maintain the exposure to risk within the tolerable area.

The main categories of identified risks:

**1. Financial risks**

As regards the financial risk management, the risks to which the company is exposed are: currency risk, liquidity risk and commercial (non-payment) risk.

**1.1. Currency risk**, a component of the financial risk, often occurs in the current market economy conditions when currency rates fluctuate under the rule of demand and supply. The exchange rate fluctuations are reflected both in the costs of the imported raw materials and in the export prices of finished products.

During 2018 there were periods with higher volatility, with depreciation rates of the LEU currency. At the end of 2018 the exchange rate earnings amounted to 7,373,362 LEI, the expenses to 7,109,232 LEI, resulting in a net gain from the exchange rate difference of 264,130 LEI.

**1.2. Liquidity risk** is the risk according to which the company may encounter difficulties in honoring any short-term payment obligations at any time.

The circumstances of the liquidity risk: the lack of cash-flow generated by the gap between receipts and payments, the collection of receivables over deadlines exceeding 300 days, the unpredictability and the lack of transparency for the calculation of the clawback tax, the increase in the price of utilities, raw materials and services.

In 2018, the cash demand of the company was higher than in 2017, both for the payment of the clawback tax, dividends to shareholders and for the support of the acquisitions in the investment plan, which led to the greater use of credit lines.

The company's liquidity risk policy is to maintain, to the extent possible, sufficient liquidity to meet the obligations as they mature and the availability of funding through funding lines.

**1.3. Commercial (non-payment) risk** is defined as the risk of loss or of the failure to achieve the expected profits because of the debtor's lack of financial liquidity and the failure to meet the payment obligation at the due date.

The circumstances of the occurrence of the non-payment risk: large exposures to the major distributors, the long payment periods due largely to delays in the settlement of health care bills by the National Health Insurance House (NHIH).

The measures used by the company to control and reduce the commercial (non-payment) risk include: the monitoring of the customer creditworthiness, diversifying of the client portfolio and the request of warranties.

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**2. Legislative risks**

The legislative changes affecting the pharmaceutical market lead to the emergence of the legislative risk, which must be continuously managed.

The pharmaceutical market is a regulated market, with clear legislative provisions, designed to control the quality and therapeutical efficiency of the medicines present in the market, as well as to avoid counterfeiting.

The adaptation to these provisions is reflected both in additional costs related to updating the documentation, in aligning to the latest quality standards, in influencing the peak sales prices as well as in delays in product marketing.

The company's strategy for managing these risks involves the permanent concern for obtaining international certifications for the manufacturing lines, the updating of the authorization documentation for portfolio products, the carrying out of bioequivalence and stability studies, the constant pursuing of the legislative changes at international level and the continuous adapting of policies, rules and procedures to the latest changes.

**3. Human resources risk**

**3.1. The labor shortage of candidates trained in specific fields of the pharmaceutical industry**

The measures used to control and reduce this risk are: organizing the “Summer School a+”, promoting the company within faculties, organizing study visits of students in the company, carrying out the “Perform a+” project and partnerships with pre-university education units.

**4. Reputational risk** refers to the possibility of occurrence of negative events, as well as of unfavorable opinions or perceptions, which can negatively impact upon the company's revenue, brand and public image.

In order to effectively identify and manage the situations that could create a reputational risk, the following measures are envisaged: the monitoring of the company's image in the media, the constant communication to the media and the relevant public of positive information about the company's performance and development prospect, the control of risks, the continuous training of the employees, the adaptation to the legislative requirements in the field and the compliance with the procedures. The company also carries out a permanent surveillance of **the operational risks** in order to take measures to maintain them at an acceptable level that does not threaten its financial stability, the interests of creditors, shareholders, employees and partners.

The risk assessment process has also identified a number of **external risks**, namely:

- the risk of natural disasters (earthquakes, floods, fires, etc.);
- the risk of wars or interethnic conflicts;
- the risk of national and international economic instability;
- the risk of legislative instability;

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**Internal control**

The specialized internal control activities provided by the legislation in force are carried out through our company's own Internal Audit Office which performs the following activities: internal audit, financial management control, management control and it is carried out in a methodological and procedural framework regulated by laws, norms and codes of professional conduct specific to each activity.

The way of setting and achieving the objectives of the Internal Audit Office, the findings and recommendations resulting from all internal control actions were submitted quarterly to the Audit Committee in the Management Board, for the assessment of the activity and the internal control exercised in the company.

During the year, 9 missions were carried out according to the approved Annual Plan 2018, which had the following general objectives adapted to the areas, according to the specifics of the audited organizational structures:

- the examination of compliance with all the principles, specific procedural and methodological rules, internal notes and decisions;
- the examination of the way in which the activity is organized;
- the evaluation of the management and control system of the activity;
- other objectives specific to the activity.

The missions were carried out in compliance with the procedural audit procedures, by going through all the stages of an internal audit mission and materialized in internal audit reports, which were approved by the General Manager. The conclusions and recommendations of the audit reports for each audit mission were acknowledged by the audited structures.

The monitoring method of the implementation of the recommendations made within the internal audit missions is provided in the operational procedure, code: AI-021 "Follow-up of recommendations". After the implementation deadline is exceeded, it is required to communicate in writing the implementation status of the recommendations by the audited structures. Thus, out of the 48 recommendations from the audit reports drawn up in 2018, 30 recommendations had a deadline for implementation on December 31, 2018 and we found that they were implemented.

The Internal Audit Office carries out the activity of inventory and control in each department with personnel with specific attributions. During the year a number of 15 inventory actions were carried out, which included the following entities' departments:

- the company's central deposits of the raw materials and consumables;
- the places of consumption of raw materials and consumables where stock management is organized.

The inventory activity was aimed at observing the legal framework established by the following normative acts:

- the Accounting Law no. 82/1991, republished and updated;
- Law no. 22/1969 on the employment of managers, the provision of guarantees and the liability for the management of goods;
- the M.F.O. 2861/09.10.2009 for the approval of the Norms regarding the organization and performance of the inventory of assets such as debts and equity;
- Operating procedures, internal notes, internal decisions of the company's management. The findings following the control actions are: the legal regulations and the internal decisions regarding the stock management are observed; there is a consistency between the factual and the scriptic stocks as a result of the periodical

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checking during the year between the quantitative evidence held at the level of the management and the quantitative-value within the Accounting Office.

In 2018, within the Internal Audit Office, the personnel with the function of financial controller also carried out financial control actions in accordance with the provisions of G.D. 1151/2012, which had as objectives:

- the verification of the compliance with the legal provisions regarding the recording of the economic and financial operations in the accounting records;
- the verification of the compliance with the legal provisions regarding the execution of the income and expenditure budget for the year 2017;
- the verification of the compliance with the legal provisions in the substantiation of the company's income and expenditure budget for the year 2018;
- the verification of the legal provisions and the internal regulations regarding the manner of carrying out the annual inventory of the assets, liabilities and equity for the year 2017;
- the verification of the observance of the legal provisions and of the internal regulations regarding the receipts and payments in LEI and foreign currency, of any kind, in cash or by transfer;
- the verification of the observance of the legal provisions and of the internal regulations regarding the drawing up, circulation, keeping and archiving of the primary, accounting and technical-operative documents.

The financial control actions of management were finalized by drawing up control reports, in which findings and proposed measures for improvement of the verified activities were presented. The control reports issued were approved by the General Manager who ordered the application of the measures.

### **Executive management**

Antibiotice is represented by the General Manager, according to the powers provided by law and by the company's Articles of Association. The Management Board represents the company in relationship with the appointed managers.

The executive management of Antibiotice is ensured by nine directors, one of whom is the General Manager of the company and the Vice President of the Board and eight specialty executives.

### **Antibiotice's Executive Management on 31 December, 2018**

#### **Ec. Ioan Nani, 59 years old**

#### **General Manager and VicePresident of the Management Board**

Graduated from the Faculty of Economic Sciences of Alexandru Ioan Cuza University of Iași, Mr. Nani is an economist specialized in management and an expert accountant.

He started his career as an economist at Antibiotice in 1987. Between 1991 and 1993 he worked as a financial inspector with the General Directorate of Public Finance Iași and then with the Court of Auditors of Romania. In 1994, Mr. Nani returned to Antibiotice as a Financial Executive Director and became General Manager in 1998. In February 2009, he was appointed Vice President of the Authority for State Assets Recovery (AVAS), and in June, same year, he was appointed General Manager of Antibiotice. Mr. Nani has been General Manager since 2009.

**Number of Antibiotice SA shares held – 1,513\***

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**Engineer, Cornelia Moraru, 53 years old**  
**Technical & Production Director**

Mrs. Moraru graduated from the Faculty of Chemical Technology of Gheorghe Asachi Technical University Iași. After graduation, she worked as a chemical engineer at the Fălticeni Chemical Factory. Mrs. Moraru has been working with Antibiotice since 1990, firstly in the Penicillin Plant II until 1998 and then in the Biosynthesis Department for a year. Starting July 1999 she worked as a biosynthesis technologist in the Penicillin Plant II. In January 2001 she was appointed as the Head of the Tablet Plant. In May 2003 she was appointed Director of the Pharmaceutical Division.

Mrs. Moraru has been Technical & Production Director since 2005.

**Number of Antibiotice SA shares held – 1,513\***

**Economist, Paula Luminita Coman, 51 years old**  
**Financial Director**

Graduated from the Faculty of Economics and Business Administration of Alexandru Ioan Cuza University of Iași, Mrs. Coman has been an expert accountant since 2006 and tax consultant since 2007.

After graduation, Mrs. Coman worked as an economist at the County Iași Tourism Office. Mrs. Coman has been working with Antibiotice SA since 1991. Firstly she worked as an economist in the Pricing Efficiency Office. In 1998 Mrs. Coman became the Head of Economic Analysis Department and then Head of Financial-Accounting Department in 2003. Mrs. Coman has been Financial Director since 2011.

**Number of Antibiotice SA shares held - 0\***

**Economist, Vasile Chebac, 64 years old**  
**Commercial & Logistics Director**

Graduated from the Faculty of Economic Sciences of Alexandru Ioan Cuza University of Iași, Mr. Chebac has been an active member of the Body of Expert and Licensed Accountants of Romania, Iași Branch since 1993 and a financial auditor, member of the Chamber of Auditors of Romania since 2008.

He started working with Antibiotice in 1972. In 1987 he worked as an economist in the Planning-Development Office within the Investment Department. As from February 1991 he worked as a financial inspector at the General Directorate of Public Finance Iasi and, from July 1993, he worked as a financial inspector at the Chamber of Auditors Iași. In January 1998, Mr. Chebac was appointed Chief Commissioner at the Financial Guard Iași. In September 2001, he returned to Antibiotice SA as a Commercial & General Services Director.

Mr. Chebac has been Commercial & Logistics Director since 2005.

**Number of Antibiotice SA shares held - 0\***

**Economist, Gica RUSU, 55 years old**  
**Human Resource Director**

Graduated from the Faculty of Economic Sciences of Alexandru Ioan Cuza University of Iasi, Mrs. Rusu obtained in 2003 the Master's Degree in Management and Business Administration at the same university.

She has been working with Antibiotice since 1981, initially as an economist in the Penicillin Plant and then, starting with 1996, in the Financial Department. In 1999, she became the Head of Human Resources Department.

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Mrs. Rusu has been Human Resources Director since 2004.

**Number of Antibiotice SA shares held – 1,510\***

**Economist, Ovidiu BATAGA, 41 years old**

**Marketing & Domestic Sales Director**

Graduated from the Faculty of Economics and Business Administration (FEAA) of Alexandru Ioan Cuza University of Iasi, Mr. Bătaga holds three master's degrees in financial management (granted by the same university in 2001), pharmaceutical marketing (granted by the Grigore T. Popa University of Medicine and Pharmacy Iasi in 2003) and project management (granted by the Gheorghe Asachi Technical University in 2007).

After graduating from the faculty, he was a junior teaching assistant at the Currency and Credit Department, Finance specialty within FEAA. He has been working with Antibiotice SA since February 2001, initially as an economist in the Economic Analysis Department then in the Accountancy Department and Marketing Department. In January 2006 he was appointed as the Head of Market Analysis & Strategic Planning Department.

Mr. Bătaga has been Marketing & Domestic Sales Director since 2010.

**Number of Antibiotice SA shares held – 0\***

**Physician, Mihaela MOSNEGUTU, 49 years old**

**Medical Director**

Graduated from the Faculty of General Medicine of Grigore T. Popa University of Medicine and Pharmacy Iasi, Mrs. Mosnegutu is a specialist in family medicine.

She started her professional activity as a physician in the Iasi County. She has been working with Antibiotice since 2000, initially in the Promotion Office, becoming the Head of this office in 2001. In 2005, she became the Head of Pharmacovigilance and Medical Consultancy Department and then, in 2009, she was appointed as the Medical & Retail Promotion Manager.

Mrs. Mosnegutu has been Medical Director since 2011.

**Number of Antibiotice SA shares held – 0\***

**Economist, Mihai STOIAN, 43 years old**

**International Business Director**

Mr. Stoian is a graduate of the Faculty of Economic Sciences of the “Alexandru Ioan Cuza” University of Iasi, the International Economic Relations specialization. Mr. Stoian has been working at Antibiotice SA since May 2005 as Export Area Sales Manager for active substances.

In July 2008 Mr. Stoian was appointed Head of Intracommunity Deliveries and Export, within the Marketing and International Relations Unit.

In August 2009 Mr. Stoian was appointed Export Manager and in June 2011 he was appointed Business Development Manager.

Mr. Stoian has been an International Business Director since 2012.

**Number of Antibiotice SA shares owned – 0\***

**Engineer, Mihaiela Stoenescu, 51 years old**

**Communication Director**

Graduated in 1999 from the Faculty of Chemical Technology of Gheorghe Asachi Technical University of Iasi, Mrs. Stoenescu obtained the title of Master in Business Management, the

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Faculty of Economics and Business Administration within the Alexandru Ioan Cuza University of Iasi.

In 2010 Mrs. Stoenescu became an Expert in Public Relations, following the international certification in Public Relations of the Chartered Institute of Public Relations UK. Mrs. Stoenescu worked as an economic journalist, and then for about 20 years she has worked in the field of communication and public relations. Mrs Stoenescu has also worked for Antibiotice as a Public Relations Director, during which she coordinated the rebranding of the company.

Mrs Stoenescu currently holds the position of Communication Unit Director.

**Number of Antibiotice SA shares owned – 0\***

**Engineer, Cristina Diaconescu, 51 years old**  
**Director of the Research and Development Unit**

Graduated from the Faculty of Industrial Chemistry of the Gheorghe Asachi Technical University Iași, Mrs Diaconescu holds two master's degrees in business management at the Faculty of Economics and Business Administration, the Gheorghe Asachi University Iași and a master's degree in Pharmaceutical Management and Marketing of the Gr. T. Popa University of Medicine and Pharmacy of Iași – the Faculty of Pharmacy. Mrs Diaconescu has been working at Antibiotice since 1994. In 2005 she was appointed Deputy Marketing & Domestic Market Director. In January 2008 Mrs Diaconescu became Promotion & Retail Sales Manager and as of February 2015 she was appointed Quality Control Manager.

Mrs Diaconescu currently holds the position of Director of the Research & Development Unit within Antibiotice.

**Number of Antibiotice SA shares owned – 1514\***

*\* Number of Antibiotice Company shares (ATB) owned on 31 Decembrie 2018 according to the latest database held by Antibiotice on the year 2018.*

## **2. ACCOUNTING POLICIES**

### ***2.1 Declaration of conformity***

These financial statements have been prepared in accordance with the International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively named “IFRSs”) issued by the International Accounting Standards Board (IASB) as adopted by the EU.

The separate financial statements have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (“IFRS”). This set of financial statements represents the Company's first IFRS financial statements issued to be published under IFRS 1 “First-time adoption of IFRS”.

The Company's accounting records are expressed in LEI in accordance with the Order no. 2844/2016 for the approval of the Accounting Regulations in accordance with the International Financial Reporting Standards.

The main accounting policies applied to the preparation of the financial statements are set out below. The policies have been applied consistently to all the years presented, unless stated otherwise.

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The preparation of financial statements in accordance with IFRS as adopted requires the use of certain decisive accounting estimates. It is also necessary, for the company's management to take decisions related to the application of accounting policies. The areas where decisions were taken and significant estimates were made in preparing the financial statements and their effect are shown below:

***2.2 Bases of assessment***

The separate financial statements are prepared using the historical convention/depreciated cost except for the fixed tangible assets at revalued cost by using the fair value as deemed cost and the items presented at the fair value, i.e. financial assets and liabilities at fair value through profit and loss account, and financial assets available for sale, except for those for which the fair value can not be reliably determined.

***2.3 Functional and presentation currency***

The company's management considers that the functional currency, as defined by IAS 21 "Effects of exchange rate variation" is the Romanian LEU (LEI). The separate financial statements are presented in LEI.

The transactions made by the company in a currency other than the functional currency are recorded at the rates in force at the date when the transactions take place. The monetary assets and liabilities in foreign currencies are converted at rates in effect at the reporting date.

***2.4 Critical accounting assessments and estimates***

As a result of the uncertainties inherent in business activities, many items in the financial statements cannot be precisely assessed, but only estimated. The estimation involves judgements based upon the latest available reliable information.

The use of reasonable estimates is an essential part for preparing the financial statements and does not undermine their reliability.

An estimate may need review if changes occur regarding the circumstances on which the estimate was based or as a result of new information or subsequent experiences. By its nature, the review of an estimate does not relate to prior periods and is not the correction of an error in the current period. Any effect, if any, on future periods is recognized as income or expense in those future periods.

The company makes certain estimates and assumptions about the future. The estimates and judgments are continually evaluated based upon the historical experience and other factors, including forecasting future events that are believed to be reasonable under the existing circumstances. In the future, concrete experience may differ from these estimates and assumptions.

The following are examples of assessments, estimations, assumptions applied within our company:

(a) *The evaluation of investments in land and buildings owned*

The company obtains evaluations conducted by external evaluators to determine the fair value of its real-estate investments. The current assessments are based upon assumptions

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which include future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. Evaluators also refer to market information related to the prices of transactions with similar properties.

*(b) Adjustments for the impairment of receivables*

The assessment for the impairment of receivables is performed individually and is based upon the management's best estimate of the present value of cash flows that are expected to be received. To estimate these flows, the management makes certain estimates on the financial situation of the partners. Each impaired asset is individually analyzed. The precision in adjustments depends upon the estimates of future cash flows.

*(c) Legal proceedings*

The company reviews the unsettled legal cases in compliance with the legal proceedings and the existing situation at each reporting date, in order to assess the provisions and disclosures in its financial statements. Among the factors considered in decisions related to the provisions we mention the nature of litigation or claims and the potential level of damage in the jurisdiction which settles the dispute, the progress of the case (including the progress after the date of financial statements but before those statements are issued), the opinions of legal advisors, the experience in similar cases and any decision taken by the company's management related to how it will respond to the litigation, complaint, or assessment.

*(d) Expenditure estimates*

There are situations in which, until the closing of some fiscal periods or up to the closing date of a financial year, the exact values of certain expenses incurred by the company are not known (e.g. marketing and promotion campaigns, campaigns for boosting the sales). For this category of expenditure, preliminary spending will be made, which will be corrected in the following periods when cash outflows will occur. For this category of spending preliminary expenses will be made, which will be corrected in future periods when an output of cash flows will occur. The estimates of expenditure for each category of expense will be made by someone with experience in the type of activity that generated the expense.

*(e) Taxation*

The taxation system in Romania is in a phase of consolidation and harmonization with the European legislation. However, there are still different interpretations of the tax legislation. In some cases, the tax authorities may have different approaches to certain issues, calculating additional taxes and penalties for their late payment. In Romania, the fiscal year has been remaining open for tax verification for a 5/7-year period. The company's management believes that the tax liabilities included in the financial statements are appropriate.

***2.5 Presentation of separate financial statements***

The company adopted a liquidity-based presentation in its financial position statement and a presentation of its revenue and expense according to their nature in the overall result statement, considering that these disclosures provide information that is more credible and relevant than what would have been presented under other permitted methods IAS 1 "Presentation of Financial Statements".

***2.6 Intangible assets purchased***

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The inventory of the intangible assets is done in accordance with IAS 38 “Intangible assets” and IAS 36 “The impairment of Assets”. The externally acquired intangible assets are initially recognized at cost and subsequently amortized on a straight-line basis over their useful economic life.

The expenses related to the acquisition of patents, copyrights, licenses, trademarks or factory brands and other intangible assets recognized from an accounting point of view, with the exception of formation expenses, goodwill, intangible assets with indefinite useful life, according to the accounting regulations shall be recovered by means of linear depreciation deductions for the duration of the contract or for the period of use, as the case may be.

*Intangible assets generated by the company (development costs)*

The research expenditure (or related to the research phase of an internal project) is recognized as an expense for the year to which it relates.

The development costs related to projects for new products are recognized as intangible assets. They consist of: the consumption of raw materials and consumables, labor costs related to the hours worked for each project, other authorization fees charged by NAMMD.

*Tangible assets*

Tangible assets are tangible items that:

- a) are held for use in the production of goods or the provision of services, for rental to other parties or for administrative purposes; and
- b) are expected to be used over several financial years.

***Recognition:***

The cost of a tangible asset item should be recognized as an asset if and only if: the entity is likely to generate future economic benefits related to the asset; the cost of the asset can be reliably measured.

*Evaluation after recognition*

After the recognition as an asset, an item of property, plant and equipment is accounted for at its cost or minus the accumulated depreciation and accumulated impairment losses.

After the recognition as an asset, an item of tangible assets whose fair value can be reliably measured is accounted for at a revalued amount, this being its fair value at the revaluation date.

The revaluations are made regularly enough to ensure that the accounting amount does not significantly differ from what would have been determined by using the fair value at the end of the reporting period.

The fair value of land and buildings is generally determined based upon the prices in the market through an evaluation normally performed by qualified professional assessors. The fair value of the items of tangible assets is generally their value in the market after evaluation. When an item of Category I tangible asset is revalued, any accumulated depreciation at the date of revaluation is eliminated from the gross carrying value of the asset and the net value is recalculated to the revalued value of the asset.

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If an item of tangible assets is revalued, then the entire class of property, plant and equipment to which that item belongs is revalued.

If the carrying value of an intangible asset is increased as a result of the revaluation, then the increase is recognized in other items of the comprehensive income and accrued in equity as a revaluation surplus. However, the increase should be recognized in profit or loss to the extent that it compensates for a decrease in the revaluation of the same asset previously recognized in profit or loss.

If the carrying value of an asset is diminished as a result of a revaluation, this decrease should be recognized in profit or loss. However, the decrease should be recognized in other items of the comprehensive income to the extent that the revaluation surplus shows a credit balance for that asset. The reduction recognized in other items of the comprehensive income reduces the amount accumulated in equity as a revaluation surplus.

The revaluation surplus included in equity related to an item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised. The transfers from the revaluation surplus to the retained earnings are not made through profit or loss.

If any, the effects of taxes on income from the revaluation of tangible assets are recognized and presented in accordance with IAS 12 Income Tax.

#### *Depreciation*

The depreciable amount of an asset is systematically allocated over its useful life. The depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition required to operate in the desired manner.

The land owned is not depreciated.

For the depreciable fixed assets, the company utilizes, in accounting terms, the straightline depreciation method. The depreciation periods are determined by an internal specialized committee according to the company's internal procedures. Below there is a brief presentation of the lifetimes of the fixed assets by major categories of goods:

<b>Category</b>	<b>Lifetime</b>
Buildings and constructions	24-40 years
Equipment and installations	7-24 years
Means of transport	4- 6 years
Computing	2- 15 years
Furniture and office equipment	3- 15 years

#### *Impairment*

To determine whether an item of tangible assets is impaired, an entity applies IAS 36 the Impairment of assets. At the end of each reporting period, the entity estimates if there are indications of impairment of assets. If such evidence is identified, the entity estimates the recoverable amount of the asset.

If and only if the recoverable amount of an asset is lower than its book value, the book value of the asset will be reduced to be equal to the recoverable amount. Such a reduction represents an impairment loss. An impairment loss is immediately recognized in profit or loss of the period in question, except when the asset is reported to the revalued amount, in accordance with another standard (for example, in accordance with the revaluation model in

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IAS 16 Tangible assets). Any impairment loss concerning a revalued asset is considered to be a decrease generated by revaluation.

**2.7 Financial assets - IAS 39 Financial instruments: recognition and assessment**  
*Initial assessment of the financial assets and financial liabilities*

When a financial asset or a financial liability is initially recognized, an entity assesses it at its fair value and, in the case of a financial asset or a financial liability which is not at the fair value through profit or loss, the transaction costs which can be directly attributable to the acquisition or issue of the financial asset or financial liability.

*Subsequent assessment of financial assets*

In terms of assessing a financial asset after its initial recognition, the company classifies its financial assets in the following categories:

I. A financial asset or financial liability measured at the fair value through profit or loss is a financial asset or financial liability that meets any of the following conditions:

(a) it is classified as held for trading. A financial asset or financial liability is classified as held for trading if:

(i) it is acquired or borne mainly for the purpose of selling or repurchasing to the nearest term;

(ii) at the initial recognition it is part of a portfolio of identified financial instruments managed together and for which there is evidence of a recent real tracking pattern of short-term profit; or

(iii) a derivative instrument (except for a derivative instrument that is a financial guarantee contract or a designated and effective hedging instrument).

**The loans and receivables** are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, others than:

a) those that the entity intends to sell immediately or in a short time, which have to be classified as held for trading, and those that the entity, at their initial recognition, designates at the fair value through profit or loss;

b) those that the entity, at their initial recognition, designates them as available for sale; or

c) those for which the holder might not substantially recover all of the initial investment, for any other reason than the credit deterioration, which have to be classified as available for sale.

This category includes the trade and other receivables.

**The financial assets available for sale** are those non-derivative financial assets that are designated as available for sale or which are not classified as loans and receivables, hold-to-maturity investments or financial assets at fair value through profit or loss.

This category includes investments in quoted shares.

The Company does not have held-to-maturity investments and does not own or has classified financial assets or financial liabilities at fair value through profit or loss.

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*Gains and losses*

A gain or loss on a financial asset available for sale is recognized in other items of the comprehensive income, except for impairment losses. The dividends for an equity instrument available for sale are recognized in profit or loss when the entity's right to receive payment is settled.

When a decline in the fair value of a financial asset available for sale was recognized in other items of the comprehensive income and there is objective evidence that the asset is depreciated, the cumulative loss that has been recognized in other items of the comprehensive income elements must be reclassified from equity in profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

The amount of the cumulative loss that is unrecognized in equity and recognized in profit or loss must be the difference between the acquisition cost (net of any payment of the principal and of depreciation) and the current fair value, less any impairment loss for that financial asset previously recognized in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and that increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed and the amount of the reversal recognized in profit or loss.

*Cash and cash equivalents*

The cash and cash equivalents include the cash account, the sight deposits with banks, the other short-term highly liquid investments with original maturity dates of three months or less than three months and – for the purpose of cash flow statements – overdrafts.

**2.8. Stocks**

According to IAS 2, the stocks are active:

- a) held for sale in the ordinary course of business;
- b) under production for such sale; or
- c) as raw materials, materials and other consumables to be used in the production process or in the provision of services.

*Stock assessment:*

The stocks are assessed at the lowest value between the cost and the net achievable value.

*Cost of stocks*

The cost of stocks includes all the purchase costs, conversion costs as well as other costs incurred in bringing the inventories to the state and location where they are now.

The stocks of raw materials and consumables are stated at the cost of acquisition. The inventory outflow is performed using the Weighted Average Price method.

The stocks of products in progress are stated at the value of the raw materials and consumables included in them.

The stock of finished goods is recorded at production cost upon the completion of the manufacture.

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*Adjustments for depreciation of stocks*

The stock depreciation assessment is performed individually and is based upon the best estimate of the management on the current value of the cash flows that are expected to be received. Each depreciated asset is individually analyzed. The accuracy of the adjustments depends upon the estimation of future cash flows.

The stock adjustments are based on the end-of-year calculation for adjusting the specific value of stocks of raw materials, consumables and finished products and finished products which no longer correspond from a quality viewpoint. The calculation of the general adjustment for the depreciation of inventories is based upon the life of existing items in stock.

**2.9 Receivables**

Receivables mainly arise through the supply of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary assets.

Receivables are presented in the balance sheet at historical value less the adjustments for impairment in cases where it was found that the realizable value is less than the historical value.

The impairment adjustments are recognized when there is objective evidence (such as significant financial difficulty of the partners or the non-fulfillment of payment obligations or significant payment delay) that the company will not be able to collect all the amounts due under the terms regarding the receivables, the amount of that adjustment being the difference between the net book value and the current value of expected future cash flows associated with the impaired receivable.

The assessment for impairment of receivables is performed on an individual basis and is based upon a risk analysis based on customer categories, being the best estimate of the management regarding the current value of the cash flows expected to be received.

The Company assesses at each balance sheet date the extent to which there is any objective evidence that a financial asset (receivable) is impaired. If there is any evidence of this kind, the Company treats it differently to determine the amount of any impairment loss, depending upon the type of asset: financial assets accounted for at amortized cost, financial assets accounted for at cost and available-for-sale financial assets.

The carrying amount of the asset should be reduced either directly or by using a depreciation adjustment account. The amount of the loss should be recognized in profit or loss.

If, in a subsequent period, the value of the related impairment loss decreases, and the decrease can be objectively correlated with an event occurring after the impairment has been recognized (such as an improvement in the debtor's credit rating), the loss from the previously recognized impairment should be resumed either directly or by adjusting a provision account for impairment. The resumption should not result in a carrying amount of the financial asset greater than the amount that would have been the amortized cost if the impairment would not have been recognized at the date when the impairment is resumed. The value of the resumption must be recognized in profit or loss.

The adjustments for impairment of trade receivables consist of the specific provision, entirely constituted for litigation, based upon which the general provision is calculated.

The general provision for impairment of client receivables is calculated based upon the maturity of the outstanding receivables in the balance. The calculated depreciation adjustments may not exceed from value viewpoint the amounts that are required to settle the

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trade receivable. When analyzing receivables to be cashed, based upon commercial effects, in situations where events are identified that indicate the occurrence of payment incidents or the deterioration of the debtor's financial situation, adjustments may be calculated, the amount of the provision for impairment being at most equal to the value of the effect.

### ***2.10 Value added tax***

The Value Added Tax must be paid to the tax authorities upon the basis of the monthly VAT return until the 25th of the following month, regardless of the level of recovery of receivables from customers. The tax authorities allow the VAT to be settled on a net basis. If the deductible VAT is higher than the VAT collected, the difference is refundable at the request of the company. That VAT may be reimbursed after a tax audit, or even in the absence thereof, if certain conditions are met. The VAT on sales and purchases that were not settled at the end of the reporting period is recognized in the statement of financial position at net cost and presented separately as a current asset or liability. In cases where adjustments for impairment of receivables have been recorded, the impairment loss is recorded for the debtor's gross value, including VAT. The related VAT must be paid to the state budget and can be recovered only in case of the debtor's prescription as a result of the bankruptcy decision.

### ***2.11 Financial liabilities***

The financial liabilities include primarily trade payables and other short-term financial liabilities (payables related to staff, tax and duty liabilities, short-term bank debt, debt in relation to various creditors) that are initially recognized at fair value and subsequently recorded at amortized cost using the effective interest method.

### ***2.12 Recognition of income and expenses***

#### ***2.12.1. Recognition of income and expenses***

Veniturile reprezintă, conform IFRS 15 "Venituri din contractele cu clienții", majorări ale beneficiilor economice în cursul perioadei contabile ca rezultat în decursul activităților curente ale societății sub forma intrărilor de active sau a măririi valorii activelor sau a diminuării datoriilor, care au drept rezultat o creștere a capitalurilor proprii, altele decât cele legate de contribuții ale participanților la capitalurile proprii.

The income represents, according to IAS 18 "Revenues", the gross inflows of economic benefits during the period, generated in the course of the normal activities of an entity when those entries result in increases in equity, other than the increases relating to the contributions of participants to the equity.

The fair value is the value at which an asset can be traded or a debt settled between interested and knowledgeable parties, in a transaction conducted under objective conditions.

#### ***Income assessment***

The income is measured at the fair value of the fair value of the amounts collected or net collected VAT.

The revenues are reduced by returns, trade rebates, and similar costs.

The income from the sale of goods is recognized when the obligation to register a contract is mandatory and all the following conditions have been met:

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- (a) the parties to the contract have approved the contract (in writing, verbally or in accordance with other normal business practices) and undertake to fulfill their obligations;
- (b) the company can identify the rights of each party in respect of the goods or services to be transferred;
- (c) the company may identify the terms of payment for the goods or services to be transferred;
- (d) the contract has commercial content; and
- (e) it is likely that the company collects the counterperformance to which it is entitled in exchange for the goods or services to be transferred to the customer.

The revenue from the sale of goods is recognized when the Company transfers the significant risks and benefits of ownership to the buyer and it is likely that the Company receives those previously agreed upon payment. The transfer of risks and benefits related to the ownership is considered to be achieved after the transfer of the legal title of ownership or after passing its goods to the buyer. If the entity retains significant risks of ownership, the transaction does not represent a sale and the revenues are not recognized.

The Company considers that the collection times do not generate a financial component of the revenues invoiced to the distributors.

Special cases: In the case it is found that the revenues associated with a period of the current year are encumbered by fundamental errors, their correction will be performed during the period in which the error is discovered. If the error is discovered in the following years, its correction will no longer affect the income accounts, but the account of retained earnings from corrections of fundamental errors, if the error value is considered to be significant.

#### ***2.12.2 Recognition of expenses***

The expenses are decreases in the economic benefits during the accounting period as outflows or decreases in the value of assets or increases in debt, which are materialized through reductions in equity, other than those arising from their distribution to shareholders.

#### ***2.13 The impairment of non-financial assets (excluding the stocks, real estate investments and deferred tax assets) - IAS 36 „Impairment of assets”***

The assets owned by the company, as stated in IAS 36 „*Impairment of assets*”, are subject to the impairment tests whenever events or changes in circumstances indicate that their accounting value may not be fully recovered. When the accounting value of an asset exceeds the recoverable amount (i.e. the highest amount between the value of use and fair value minus the selling costs) the assets is adjusted accordingly.

When it is not possible to estimate the recoverable amount of an individual asset, the impairment test is performed on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash-generating units („CGUs”).

The impairment costs are included in the profit and loss account unless they reduce the earnings previously recognized in other items of the comprehensive income.

#### ***2.14 Provisions – IAS37 “Provisions, contingent liabilities and contingent assets”***

The provision is measured at the best estimate of the expenses required for settlement of the liability at the reporting date, updated at a pre-tax rate reflecting the current market assessments of the value of money over time and debt specific risks.

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Under IAS 37 “Provisions, contingent liabilities and contingent assets”, a provision must be Recognized, if:

- a) the Company has a current (legal or implicit) obligation generated by a past event;
- b) it is likely that an outflow of resources incorporating economic benefits will be required to settle the obligation
- c) a reliable estimate of the amount of the obligation can be made.

If these conditions are not met, a provision must not be recognized.

The provisions are recorded in accounting using the accounts from the group 15 “Provisions” and are based upon the expenses, except those related to the decommissioning of tangible assets and other similar actions related thereto, for which the provisions of IFRIC 1 will be taken into account.

The recognition, assessment and updating of provisions are made in compliance with IAS 37 “Provisions, contingent liabilities and contingent assets”.

The provisions are grouped in accountancy by categories and are considered for:

- a) litigation;
- b) guarantees to customers;
- c) decommissioning of tangible assets and other similar actions related thereto;
- d) restructuring;
- e) employee benefits;
- f) other provisions.

The previously established provisions are periodically analyzed and regulated.

### ***2.15 Benefits of employees – IAS 19 Benefits of employees***

#### ***Current benefits granted to employees***

The short-term benefits granted to employees include allowances, salaries, and social security contributions. These benefits are recognized as expenses when providing services.

#### ***Benefits after termination of the employment contract***

Both the Company and its employees have a legal obligation to contribute to the social security established with the National Pension Fund administered by the National House of Pensions (contribution plan founded on the principle of “pay on the way”).

Therefore, the Company has no other legal or implicit obligation to pay further contributions. Its only obligation is to pay the contributions when they are due. If the Company ceases to employ people who are contributors to the financing plan of the National House of Pensions, the Company will have no obligation to pay for the benefits earned by its own employees in previous years. The Company's contributions to the contributions plan are reported as expense in the year to which they relate.

### ***2.16 Deferred tax - IAS 12***

In the deferred tax calculation, the Company will take into account the provisions of IAS 12.

The deferred tax assets and liabilities are recognized when the book value of an asset or liability in the statement of the financial position differs from the tax base.

The recognition of the deferred income tax assets is limited to those moments in which the taxable profit of the next period is likely to be available.

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The amount of the asset or liability is determined using tax rates that have been enacted or adopted largely up to the reporting date and are expected to be applied when the liabilities/(assets) concerning the deferred tax are settled/(recovered).

The Company compensates for receivables and liabilities concerning the deferred tax if and only if:

- a) it has the legal right to offset the current tax receivables with the current tax liabilities; and
- b) the deferred tax receivables and liabilities relate to the income taxes charged by the same fiscal authority

***2.17 Dividends***

The share of profits that is to be paid according to the law, to each shareholder is a dividend. The dividends distributed to shareholders, proposed or declared after the reporting period, as well as the other similar distributions made from the profit determined under the IFRS and included in the annual financial statements are not recognized as a liability at the end of the reporting period.

When accounting for the dividends, the provisions of IAS 10 are taken into consideration.

***2.18 Capital and reserves***

The capital and reserves (equity) represents the right of shareholders over the assets of an entity after deducting all liabilities. The equity includes: capital shares, reserves, reported result and the result of the financial year.

The entity was established under Law no. 31/1990 on trading companies.

In the first set of financial statements prepared under IFRS, the Company applied IAS 29 – “Financial reporting in hyperinflationary economies” for the contributions of shareholders obtained before January 1, 2004, i.e. they were properly adjusted with the inflation index.

***2.19 Financing costs***

An entity shall capitalize the borrowing costs that are directly attributable to the acquisition, construction or production of an asset with a long production cycle as part of the cost of that asset. An entity must recognize other borrowing costs as expenses during the period during which it bears them.

The Company did not finance the construction of long-term assets from loans.

***2.20 Earnings per share***

The Company shows the basic earnings per share basic for the ordinary shares. The basic earning per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company to the weighted average number of ordinary shares over the reporting period.

***2.21 Reporting on segments***

A segment is a distinct component of the Company that provides certain products or services (business segment) or provides products and services in a particular geographical

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environment (geographical segment) and which is subject to risks and benefits that are different from those of the other segments. In terms of business segments, the Company does not identify separate components in terms of associated risks and benefits.

***2.22 Affiliated parties***

A person or a close family member of that person is considered to be affiliated with the Company if that person:

- (i) has the control or a joint control over the Company;
- (ii) has a significant influence over the Company; or
- (iii) is a member of key management staff.

The key management staff includes those persons having authority and responsibility for planning, managing and controlling the activities of the Company, directly or indirectly, including any director (executive or non-executive) of that entity. The transactions with key personnel include exclusively the salary benefits granted to them as shown in Note 7. "Staff Expenses".

An entity is affiliated with the Company if it meets any of the following conditions:

- (i) The entity and the Company are members of the same group (which means that each parent company, subsidiary and subsidiary of the same group is linked to the other);
- (ii) An entity is the associate or joint venture of the other entity (or associate or joint venture of a member of the group the other entity belongs to);
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third party, and the other is an associate of the third-party entity.
- (v) The entity is a post-employment benefit plan in the benefit of the employees of the reporting entity or an entity affiliated to the reporting entity. In the event the reporting entity is itself such a plan, the sponsoring employers are also affiliates of the reporting entity.
- (vi) The entity is controlled or jointly controlled by an affiliated person.
- (vii) An affiliated person having control significantly influences the entity or is a member of the key management staff of the entity (or the parent company of the entity).

The Company does not carry out transactions with entities described in points (i) – (vii) above.

***2.23 Changing in accounting policies***

*Standards issued but not yet in force and not adopted in advance*

The following new standards, interpretations and amendments, which are not yet in force and have not been adopted in advance in these financial statements, may have an effect upon the Company's future financial statements. The list below presents IFRSs (and amendments to IFRSs) that have been issued but are not mandatory for the financial statements prepared on December 31, 2018:

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IFRS 16 *Leasing Contracts* - replaces IAS 17 *Lease Contracts*, IFRIC 4 *Determining the extent to which a Commitment contains a Lease Agreement*, SIC 15 *Operating Leasing - Incentives* and SIC 27 *Assessment of the Transactions Economic Fund that Implies the Legal Form of a Lease Agreement*. The major changes to IFRS 16 establish a unique model that eliminates the distinction between operating and financial leasing contracts, as well as results in the statement of financial position that reflect an active „right of use” and a corresponding liability for the majority of lease contracts.

There will be no significant effects upon the company's financial statements, as a result of changes to standards or annual improvements that will be in effect after January 1, 2019.

### 3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed through its operations to the following financial risks:

- Credit risk
- Foreign exchange risk
- Liquidity risk

Like all the other activities, the Company is exposed to risks arising from the use of financial instruments. This note describes the company's objectives, policies and processes for managing these risks and methods used to assess them. The additional quantitative information on these risks is presented in these financial statements.

There were no major changes in the Company's exposure to financial instruments related risks in its objectives, policies and processes for managing these risks or in the methods used to assess them in comparison to the prior periods except where otherwise stated in this note.

#### *Main financial instruments*

The main financial instruments used by the Company, of which the risk concerning the financial instruments may occur are as follows:

- Trade and other receivables
- Cash and cash equivalents
- Investments in quoted participation titles
- Trade and other liabilities

A summary of the financial instruments held by category is provided below:

	<b>Loans and receivables</b>	
<b>ASSETS</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Trade and similar receivables	292,458,773	256,590,180
Cash and cash equivalents	2,376,682	5,107,743
<b>Total</b>	<b>294,835,455</b>	<b>261,697,923</b>

	<b>Amortized cost</b>	
<b>LIABILITIES</b>	<b>31.12.18</b>	<b>31.12.17</b>
Trade and similar receivables	57,937,927	46,276,195
Short-term loans	100,729,229	69,731,310
Long-term loans	26,662,433	-
<b>Total</b>	<b>185,329,589</b>	<b>116,007,505</b>

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The overall objective of the Management Board is to establish policies that seek to reduce the risk as much as possible without unduly affecting the competitiveness and flexibility of the Company.

Further details on these policies are set out below:

***Credit risk***

The credit risk is the risk of financial loss for the Company, which occurs if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is primarily exposed to the credit risk arising from sales to customers.

Antibiotice SA has developed a Commercial Policy approved by its Management Board which includes the sales conditions and the selection conditions of the clients.

Antibiotice SA cooperates only with large distributors in the national pharmaceutical market. In all situations where possible, export sales are paid in advance.

**Calculation and analysis of the net statement (equity)**

<b>Indicators (LEI)</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Short-term credits and loans	100,729,229	69,731,310
Long-term credits and loans	26,662,433	-
Cash and cash equivalents	(2,376,682)	(5,107,743)
<b>Net debt</b>	<b>125,014,980</b>	<b>64,623,567</b>
<b>Total equity</b>	<b>472,727,315</b>	<b>416,877,840</b>
<b>Net debt in equity (%)</b>	<b>26.45%</b>	<b>15.50%</b>

***Foreign exchange risk***

The Company is mainly exposed to the currency risk in the purchases made from the suppliers of raw materials, packaging and other materials outside Romania. The suppliers from whom the company purchases these items for the production of medicines must have documents attesting the quality of their goods, as required by the European medicine registration rules. The Company cannot limit the acquisitions in third countries so much. The Financial Unit is responsible for tracking the payment deadlines and for ensuring the available funds for payment, so that the effect of foreign exchange risk to be minimized.

On December 31, 2018 the company's net exposure by types of currency to the foreign currency risk was as follows:

	<b>For the year ended on</b>	
<b>Assets/liabilities in EURO equivalent in LEI</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Monetary financial assets	3,237,508	3,902,185
Monetary financial liabilities	(16,926,430)	(12,895,388)
<b>Net financial assets</b>	<b>(13,688,922)</b>	<b>(8,993,202)</b>

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<b>LEI/EUR variation</b>	<b>Gain/Loss</b>	
Appreciation of the LEU against EUR by 5%	(684,446)	(449,660)
Depreciation of the LEU against EUR by 5%	684,446	449,660
<b>Impact upon result</b>	<u>-</u>	<u>-</u>
	<b>31.12.2018</b>	<b>31.12.2017</b>
<b>Assets and liabilities in EUR</b>		
Monetary financial assets	694,163	837,433
Monetary financial liabilities	(3,629,244)	(2,767,429)
Net financial assets	<u><b>(2,935,081)</b></u>	<u><b>(1,929,996)</b></u>
	<b>31.12.2018</b>	<b>31.12.2017</b>
<b>Assets/liabilities in USD equivalent in LEI</b>		
Monetary financial assets	22,064,544	15,609,753
Monetary financial liabilities	(7,287,274)	(9,099,908)
Net financial assets	<u><b>14,777,270</b></u>	<u><b>6,509,845</b></u>
	<b>31.12.2018</b>	<b>31.12.2017</b>
<b>LEI/USD variation</b>		
Appreciation of the LEU against USD by 5%	738,864	325,492
Depreciation of the LEU against USD by 5%	(738,864)	(325,492)
<b>Impact upon result</b>	<u>-</u>	<u>-</u>
	<b>31.12.2018</b>	<b>31.12.2017</b>
<b>Assets and liabilities in USD</b>		
Monetary financial assets	5,416,473	4,011,243
Monetary financial liabilities	(1,788,903)	(2,338,406)
Net financial assets	<u><b>3,627,570</b></u>	<u><b>1,672,837</b></u>

The company's net exposure to the foreign exchange risk, equivalent in LEI, is shown in the table below:

<b>Assets / Liabilities</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
LEI	134,865,618	148,173,777
EUR	(13,688,922)	(8,993,202)
USD	14,777,270	6,509,845
Other currency (CAD,GBP)	(876)	(62)
<b>Net exposure</b>	<u><b>135,953,089</b></u>	<u><b>145,690,358</b></u>

Given the relatively low exposure to exchange rate fluctuations, reasonable fluctuations in exchange rates are not expected to have significant effects in future financial statements.

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***Liquidity risk***

The liquidity risk arises from the company's management of the current assets, financing costs and reimbursement of the principal amount for its debit instruments.

The Company's policy is to provide the necessary cash for the payment of obligations when they become due. To achieve this objective, the Company seeks to maintain cash balances (or facilities agreed upon) to satisfy the payment needs.

The Management Board regularly receives cash flow forecasts as well as information on the company's available cash. At the end of the financial year, the Company has sufficient cash resources to meet its obligations in all reasonably foreseeable circumstances.

The following tables show the contractual maturities (representing outdated contractual cash flows) of financial liabilities:

	<b>Up to 3 months</b>	<b>Between 3 and 12 months</b>	<b>Over 12 months</b>	<b>Total</b>
<b>December 31, 2018</b>				
Commercial and similar debt	23,293,439	54,299,038		77,592,477
Short-term loans		100,729,229		100,729,229
Long-term loans			26,662,433	26,662,433
<b>Total</b>	<b>23,293,439</b>	<b>155,028,267</b>	<b>26,662,433</b>	<b>204,984,139</b>

	<b>Up to 3 months</b>	<b>Between 3 to 12 months</b>	<b>Total</b>
<b>December 31, 2017</b>			
Commercial and similar debt	17,325,401	48,003,461	65,328,862
Short-term loans		69,731,310	69,731,310
<b>Total</b>	<b>17,325,401</b>	<b>117,734,771</b>	<b>135,060,172</b>

**Bank liquidity**

The banks where the company has bank accounts are periodically reviewed by the company's management.

***Operational risk***

The operational risk is the risk of some direct or indirect losses arising from a wide range of reasons associated to the processes, staff, technology and infrastructure of the Company as well as from external factors, others than the credit, market and liquidity risk, such as those arising from legal and regulatory requirements and from the generally accepted standards on the organizational behavior. The operational risks arise from all the Company's operations.

The management is responsible for conducting operational risk related-controls. The management is supported in its mission through the development of the company's general operational risk standards in the following fields:

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- The requirements for the separation of responsibilities, including independent transaction authorization;
- The requirements for reconciling and monitoring the transactions;
- Compliance with regulatory and legal requirements;
- Documenting controls and procedures;
- Requirements for the periodic review of operational risk the Company is exposed to and the adequacy of controls and procedures to prevent the identified risks;
- Requirements for reporting the operational losses and proposals to remedy the causes that generated them;
- The development of business continuity plans;
- Professional development and training;
- Establishing ethical standards;
- Preventing the litigation risk, including insurance, where applicable;
- The mitigation of risks, including the efficient use of insurance, where applicable.

***Adequacy of capital***

The management's policy regarding the capital adequacy is focused upon maintaining a sound capital base, in order to support the company's ongoing development and reach its the investment objectives.

**4. SALES INCOME**

The sales income includes the following items:

<b>Description</b>	<b>For the year ended on</b>	
	<b>31.12.2018</b>	<b>31.12.2017</b>
Finished product sales	364,877,286	318,421,415
Sales of goods	85,005,157	89,433,883
Trade discounts	(85,305,977)	(70,950,632)
<b>Total</b>	<b>364,576,466</b>	<b>336,904,666</b>

The sales revenues are mainly driven by the sales of finished products directly to pharmaceutical distributors. In 2018, the intra and extra-community sales amounted to 123,957,121 LEI as compared to 117,526,690 LEI in 2017.

The company earns from sales in individual values greater than 10% of the total sales with a total of 5 clients.

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**5. OTHER OPERATING INCOME**

Other operating income includes the following:

<b>Description</b>	<b>For the year ended on</b>	
	<b>31.12.2018</b>	<b>31.12.2017</b>
Rental income	102,739	75,144
Income from research and studies	276,429	413,641
Income from the revaluation of fixed assets	242,323	0
Income from various activities	349,355	235,996
Subsidies income	2,743	46,794
Income from the sale of fixed assets	0	4,985
Income from indemnities, fines and penalties	29,462	19,465
Other operating income	1,391,830	963,952
Income from adjustments for depreciation of current assets	31,050,045	24,300,766
Income from provisions for risks and expenses	4,586,271	6,949,158
Exchange rate differences	7,373,803	4,786,766
<b>Total</b>	<b>45,405,000</b>	<b>37,796,667</b>

**6. RAW MATERIALS, CONSUMABLES AND GOODS**

The expenditure on raw materials and consumables consists of:

<b>Description</b>	<b>For the year ended on</b>	
	<b>31.12.2018</b>	<b>31.12.2017</b>
Raw materials	68.674.434	63.700.502
Auxiliary materials	5.081.999	4.767.726
Goods	59.083.000	53.168.204
Expenditure on fuel and spare parts	5.016.781	4.430.423
Inventory items	645.789	698.481
Other consumables	342.372	306.664
<b>Total</b>	<b>138.844.375</b>	<b>127.072.000</b>

Expenditure on raw materials and consumables has the following composition:

<b>Description</b>	<b>For the year ended on</b>	
	<b>31.12.2018</b>	<b>31.12.2017</b>
Raw materials	68,674,434	63,700,502
Auxiliary materials	5,081,999	4,767,726
Goods	59,083,000	53,168,204
Expenditure on fuel and spare parts	5,016,781	4,430,423
Inventory items	645,789	698,481
Other consumables	342,372	306,664
<b>Total</b>	<b>138,844,375</b>	<b>127,072,000</b>

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**7. STAFF COSTS**

Staff costs are as follows:

<b>Description</b>	<b>For the year ended on</b>	
	<b>31.12.2018</b>	<b>31.12.2017</b>
Wages	75,809,790	60,090,816
Civil contracts	1,201,988	455,674
Taxes and social contributions	2,580,122	15,273,047
Employee participation in profit	2,900,000	3,472,542
Variable allowance for Management Board members	2,098,241	1,113,729
Other benefits (meal vouchers and employee participation in 2017 profit)	6,274,594	5,491,386
<b>Total</b>	<b>90,864,735</b>	<b>85,897,194</b>

For the year 2018, provisions were made in the amount of 4,998,241 lei, representing the provision for the participation of the employees in the variable allowances of the Board of Directors and of the mandate contract.

The company is managed in a unitary system within the meaning of Law 31/1990 on commercial companies, the management of the company being provided by the Board of Directors of SC Antibiotice SA. The Component of the Board of Directors and Executive Management are presented in Note 1. General Information.

The remuneration granted to the Board of Directors and Executive Management is presented in the following table:

<b>Description</b>	<b>For the year closed on</b>	
	<b>31.12.2018</b>	<b>31.12.2017</b>
Wages	3,014,625	2,920,670
Civil contracts	775,473	346,330
Taxes and social contributions	104,789	757,368
Variable allowances	1,113,728	484,419
<b>Total</b>	<b>5,008,616</b>	<b>4,508,787</b>

For the year 2018, provisions were made in the amount of 2,098,241 lei representing the provision for the variable allowances of the Board of Directors and one provision for the variable allowance afferent to the mandate contract to achieving the 2018 objectives.

**8. OTHER OPERATING EXPENDITURE**

Other operating expenditure include the following:

<b>Description</b>	<b>For the year ended on</b>	
	<b>31.12.2018</b>	<b>31.12.2017</b>
Utilities	9,316,468	7,841,379
Repairs	1,476,961	2,082,724
Rent	512,622	160,174
Insurances	1,291,425	1,107,184
Bank fees	1,673,618	1,163,971
Advertising & promotion of products	7,752,450	8,287,376
Travel & transport	3,454,325	3,513,244
Post & telecommunications	561,161	503,087
Other services provided by third parties	14,596,126	22,035,655

**ANTIBIOTICE S.A.**  
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Other taxes	39,450,833	32,695,434
Environment protection	684,951	688,620
Loses and adjustments of uncertain receivables	33,180,327	21,696,464
Revaluation of fixed assets	151,809	0
Exchange rate differences	7,107,894	8,047,855
Sundries	1,740,154	3,572,005
<b>Total</b>	<b>122,951,124</b>	<b>113,395,172</b>

**9. FINANCIAL INCOME AND EXPENSES**

Net financial income consists of:

<b>Description</b>	<b>For the year ended on</b>	
	<b>31.12.2018</b>	<b>31.12.2017</b>
Interest income	1,129	2,835
Interest charges	(3,647,567)	(1,347,830)
Other financial expenses	(583,332)	(620,090)
<b>Total</b>	<b>(4,224,180)</b>	<b>(1,963,633)</b>

Other financial expenses are settlement discounts on the receivables settled before maturity, materialized in bonuses granted to the company's clients for the anticipated payment of the amounts owed by them.

**10. CURRENT AND DEFERRED PROFIT TAX EXPENSES AND OTHER TAXES**

<b>Description</b>	<b>For the year closed on</b>	
	<b>31.12.2018</b>	<b>31.12.2017</b>
Current tax	1,177,842	2,389,046
Deferred tax expense/(income)	(450,034)	(585,970)
Taxes specific to certain activities	57,015	-
<b>Total</b>	<b>784,823</b>	<b>1,803,076</b>

Profit tax to be paid was calculated taking into account the influences of non-deductible expenses and taxable income, tax incentives, effects of income tax provisions as well as the effects of applying Law 170/2016 on the tax specific for some activities.

A reconciliation between the accounting and fiscal profit which was the basis for the calculation of corporation tax is presented in the following table:

<b>Description</b>	<b>For the year ended on</b>	
	<b>31.12.2018</b>	<b>31.12.2017</b>
Total income	376,684,759	349,757,635
Total expenses (without profit tax)	(340,955,837)	(313,571,337)
<b>Gross book value</b>	<b>35,728,922</b>	<b>36,186,298</b>
Deductions	(30,259,061)	(32,004,517)
Non-deductible expenses	27,269,315	25,465,028
<b>Fiscal result</b>	<b>32,739,176</b>	<b>29,646,809</b>
<b>Profit tax (fiscal result x 16%)</b>	<b>5,238,268</b>	<b>4,743,489</b>
Tax reductions	(4,060,426)	(2,354,443)
<b>Current profit tax</b>	<b>1,177,842</b>	<b>2,389,046</b>
<b>Deferred profit tax</b>	<b>(450,034)</b>	<b>(585,970)</b>
<b>Taxes specific to certain activities</b>	<b>57,015</b>	<b>-</b>
<b>Total profit tax and other taxes</b>	<b>784,823</b>	<b>1,803,076</b>

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**11. EARNINGS PER SHARE**

<b>Description</b>	<b>For the year closed on</b>	
	<b>31.12.2018</b>	<b>31.12.2017</b>
Net profit(A)	34,303,788	33,558,354
Number of ordinary shares (B)	671,338,040	671,338,040
<b>Earning per share (A/B)</b>	<u>0,0511</u>	<u>0,0499</u>

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**12. FIXED ASSETS**

	Land	Buildings	Technical installations & equipment	Other installations, equipment & furniture	Tangible assets in progress	Total
<b>COST</b>						
<b>December 31, 2016</b>	108,306,000	79,652,492	137,223,426	5,879,485	6,322,549	337,383,953
Acquisitions	-	3,738,017	16,819,970	337,980	33,762,998	54,658,965
Outputs	-	64,344	2,441,544	24,419	20,895,966	23,426,273
<b>31 decembrie 2017</b>	108,306,000	83,326,165	151,601,853	6,193,046	19,189,581	368,616,645
Acquisitions	-	9,678,817	39,680,112	1,427,093	58,049,609	108,835,631
Reappraisal	-	48,743,396	-	-	-	48,743,396
Cancel damping	-	31,911,246	-	-	-	31,911,246
Outputs	-	1,505,048	6,320,642	75,784	50,786,021	58,687,495
<b>December 31, 2018</b>	108,306,000	108,332,084	184,961,323	7,544,355	26,453,168	435,596,930
<b>AMORTIZARE</b>						
<b>December 31, 2016</b>	-	13,836,985	111,678,213	4,862,555	-	130,377,753
Cost of the period	-	10,689,599	6,268,486	266,571	-	17,224,656
Outputs	-	64,344	2,441,544	24,419	-	2,530,307
<b>December 31, 2017</b>	-	24,462,240	115,505,156	5,104,707	-	145,072,102
Cost of the period	-	9,227,396	8,442,259	277,591	-	17,947,246
Cancel damping	-	31,911,246	-	-	-	31,911,246
Outputs	-	51,665	6,320,642	75,784	-	6,448,091
<b>December 31, 2018</b>	-	1,726,725	117,626,773	5,306,514	-	124,660,012
<b>PROVIZION</b>						
<b>December 31, 2016</b>	-	59,200	244,652	-	-	303,852
<b>Outputs 2017</b>	-	2,200	-	-	-	2,200
<b>December 31, 2017</b>	-	57,000	244,652	-	-	301,652
<b>Outputs 2018</b>	-	5,400	-	-	-	5,400
<b>December 31, 2018</b>	-	51,600	244,652	-	-	296,252
<b>NET VALUES</b>						
<b>December 31, 2018</b>	<b>108,306,000</b>	<b>106,553,759</b>	<b>67,089,898</b>	<b>2,237,841</b>	<b>26,453,168</b>	<b>310,640,665</b>
<b>December 31, 2017</b>	<b>108,306,000</b>	<b>58,806,925</b>	<b>35,852,045</b>	<b>1,088,339</b>	<b>19,189,581</b>	<b>223,242,890</b>
<b>December 31, 2016</b>	<b>108,306,000</b>	<b>65,756,308</b>	<b>25,300,561</b>	<b>1,016,931</b>	<b>6,322,549</b>	<b>206,702,347</b>

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***Depreciation of fixed assets***

Accounting depreciation is calculated using the straight line method, For the new fixed assets, entered in 2018 such as installations, machines and measuring and control devices, the useful life times have been established taking into account:

- estimated level of use based on the use of the asset' capacity;
- repair and maintenance program performed by ANTIBIOTICE SA for installations and equipment;
- obsolescence determined by possible changes in the production process according to the structure of the product portfolio provided by the company.

The Company has re-evaluated the existing buildings in the patrimony on 31.12.2018. The land has not been re-evaluated due to lack of evidence of a significant change in its fair value, taking into account specific features (large area, utilization rate, usage restrictions), The last re-evaluation of the land was made on 31,12,2015, The re-evaluation was carried out by S.C. Professional Consulting S.R.L., through an authorized assessor EPI, EBM, VE-EPI, an accredited member of ANEVAR, The re-evaluation of fixed assets was performed in accordance with the standards of valuation practice in compliance with the legislation in force at the valuation date,

Upon registration of re-evaluation, the Company canceled the amortization accumulated on 31 December 2018 in the amount of 31,911,246 lei, in equivalent analyses with the gross value of fixed assets, The result of the re-evaluation was a net increase of the re-evaluation reserve by 47,199,493 lei, an expense in the amount of 151,809 lei and an income in the amount of 242,323 lei,

**13. INTANGIBLE ASSETS**

Intangible assets include in-house development projects, legal documentations (for licenses and patents) as well as software licenses,

Changes in the acquisition cost and amortization related to the intangible assets are presented in the following table:

	<b>31.12.2018</b>	<b>31.12.2017</b>
Initial balance	21,718,103	17,317,531
Inputs	7,570,149	11,330,798
Outputs	3,037,386	6,930,226
Final balance	26,250,866	21,718,103
<b>Amortization</b>		
Initial balance	8,610,480	7,178,073
Cost of the period	2,611,670	1,432,407
Final balance	11,222,150	8,610,480
<b>Net value</b>	<b>15,028,716</b>	<b>13,107,622</b>

**14. STOCKS**

<b>Description</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Raw materials and consumables	20,915,669	21,618,301
Production in progress	3,036,478	2,430,978
Semi-finished and finished products	33,358,323	35,603,581
Goods	7,654,192	7,611,686

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<b>Total</b>	<b>64,964,662</b>	<b>67,264,546</b>
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The value of inventories held as collateral is 34,823,504 LEI,

**15. TRADE AND OTHER RECEIVABLES**

<b>Description</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Trade receivables	325,033,175	299,570,239
Adjustments for trade receivables	(33,548,330)	(43,879,851)
Various debtors and other receivables	4,427,757	8,477,982
Adjustments for various debtors	(3,453,829)	(7,578,190)
<b>Total financial assets, other than cash, classified as loans and receivables</b>	<b>292,458,773</b>	<b>256,590,180</b>
Receivables related to employees	209	106
Other receivables from the State Budget	880,939	1,983,468
Advance payments	19,754,537	5,638,989
<b>Total</b>	<b>313,094,458</b>	<b>264,212,743</b>

On December 31, 2018 the Company recorded adjustments for trade receivables representing customer balance that are unlikely to be collected by the company, The receivables of the company were analysed and evaluated according to criteria established according to the risks per categories of costumers,

<b>Analysis of seniority</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Receivables - customers	325,033,175	299,570,239
up to 3 months	129,963,030	110,759,313
between 3 and 6 months	76,193,641	78,790,458
between 6 and 12 months	77,280,125	61,437,090
over 12 months	41,596,378	48,583,380
Value adjustments related to receivables- customers	(33,548,330)	(43,879,851)

The fluctuations in the Company's provisions for the impairment of trade receivables are presented in the following table:

<b>Adjustments of receivables</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
<b>At the beginning of the period</b>	51,458,041	59,507,495
Established during the year	18,349,355	13,293,189
Cancelling the adjustments	(32,805,238)	(21,342,643)
<b>At the end of the period</b>	<b>37,002,158</b>	<b>51,458,041</b>

Value of receivables established as guaranties is 291,678,605 lei

**16. CASH AND CASH EQUIVALENTS**

<b>Description</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Available in the bank	2,346,212	5,096,113
Cash and cash equivalents	30,470	11,630
<b>Total</b>	<b>2,376,682</b>	<b>5,107,743</b>

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**17. TRADE AND OTHER PAYABLES**

Description	31.12.2018	31.12.2017
Trade payables	34,179,575	34,385,826
Suppliers of assets	16,607,089	5,287,438
Employee-related liabilities	1,699,591	1,676,678
Wage provisions	4,998,241	4,586,271
Other debts	141,529	166,176
Interest rate of payment	311,902	173,806
<b>Total debt less loans, classified as measured at depreciated cost</b>	<b>57,937,927</b>	<b>46,276,195</b>
Taxes and social contributions	2,980,512	2,872,453
Dividends	5,751,482	5,670,739
Advances money from customers	501,163	716,587
<b>Total</b>	<b>67,171,084</b>	<b>55,535,974</b>

**18. AMOUNTS OWED TO CREDIT INSTITUTIONS**

**Amounts owed to the credit institutions at 31.12.2018**

The short-term contract no, IAS3-42-2016/ 17.08.2016 concluded with Unicredit Bank S,A,

Objective	Credit line-working capital
Amount	50,000,000 LEI
Maturity	16.08.2019
<b>Balance on December, 31 2018</b>	40,398,127 LEI
Warranties	Mortgage contract for buildings, land/ Receivable assignment contract

Credit agreement no, IAS3-20-2018/03.05.2018 concluded with Unicredit Bank S,A,

Objective	Long-term investment credit
Amount	15,406,300 EUR
Maturity	02.05.2028
<b>Balance on December, 31 2018</b>	5,709,266,17 EUR (26,627,446,49 LEI)
Warranties	Mortgage contract for buildings, land, equipment purchased under the investment project / Receivable assignment contract

The short-term contract no 12/01.07.2013 concluded with with the Export-Import Bank of Romania - EXIMBANK S,A,

Objective	Credit line-working capital
Amount	30,000,000 LEI
Maturity	26.06.2019
<b>Balance on December, 31 2018</b>	24,158,985,50 LEI
Warranties	Mortgage contract for buildings, land/ Receivable assignment contract

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The short-term contract no 12239/22.05.2012 concluded with ING BANK N,V, AMSTERDAM – Romanian Branch

Objective	Credit line-working capital
Amount	9,500,000 EUR
Maturity	22.05.2019
<b>Balance on December, 31 2018</b>	11,711,390.09 LEI 5,132,454.91 EUR ( 23,937,256.45 LEI ) 128,503.05 USD ( 523,470.02 LEI )
Warranties	Mortgage contract for buildings, land/ Receivable assignment contract

**Amounts owed to the credit institutions at 31.12.2017**

The short-term contract no, IAS3-42-2016/17.08.2016 concluded with Unicredit Bank S.A.

Objective	Credit line-working capital
Amount	30,000,000 LEI
Maturity	16.08.2018
<b>Balance on December 31, 2017</b>	28,769,000 LEI
Warranties	Mortgage contract for buildings, land/ Receivable assignment contract

The short-term contract no. 12/01.07.2013 concluded with the Export-Import Bank of Romania EXIMBANK SA.

Objective	Credit line-working capital
Amount	30,000,000 lei
Maturity	26.06.2018
<b>Balance on December 31, 2017</b>	25,905,001.42 LEI
Warranties	Mortgage contract for buildings, land/ Receivable assignment contract

The short-term contract no. 12239/22.05.2012 concluded with ING BANK N.V. AMSTERDAM - Romanian Branch

Objective	Credit line-working capital
Amount	9,500,000 EUR
Maturity	22.05.2018
<b>Balance on December 31, 2017</b>	8,739,544.83 LEI 1,355,830.54 EUR ( 6,317,763.57 LEI )
Warranties	Mortgage contract for buildings, land/ Receivable assignment contract

SC Antibiotice SA has not lodged guarantees and has not pledged or mortgaged its own assets to guarantee obligations in favour of a third party.

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**19. INVESTMENTS SUBSIDIES**

The grants for investments have the following structure:

<b>Subventions for investments</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Wastewater treatment plant	2,379,324	2,639,349
Research project-UMF Iasi	24,503	16,786
Other grants from European funds	495,489	-
Other grants from state budget funds	92,282	-
Other amounts received in the form of grants	135,201	169,000
<b>Total</b>	<b>3,126,799</b>	<b>2,825,135</b>

The amounts reflected in the account subventions for investments represent values received by the company in the form of grants in the last 10 years for investments in environmental protection and in increasing the competitiveness of industrial products through financing from the Ministry of Economy and UEFISCDI Bucharest.

**20. DEFERRED INCOME TAX**

The variation of debts regarding the postponed tax on profit is presented in the following table:

<b>Description</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Initial balance	18,172,398	18,758,368
Cost / (income) postponed tax	7,094,532	(585,970)
<b>Final balance</b>	<b>25,266,930</b>	<b>18,172,398</b>

The main components of the postponed tax are: postponed tax related to the revaluation of fixed assets during the period 2004-2009 and postponed tax related to re-evaluations in the years 2012 and 2015.

**21. SOCIAL FUND**

Subscribed social fund of the company on December 31, 2018 is 67,133,804 lei, the nominal value of an share being of 0,1000 lei/share, Our company has a number of 671,338,040 shares which confer equal rights to the company's shareholders, SC Antibiotice SA has not issued preference shares to shareholders.

In accordance with the provisions of IAS 29 - hyperinflationary economies, the share capital was restated taking into account the inflation index communicated by the National Statistics Commission, It was applied starting with the balance determined according to HG 500/ 1994, from the reporting date to 31.12.2003, the date when it was considered that the national economy has ceased to be hyperinflationary.

Subsequent to 31.12.2003, the social fund increased according to the historical amounts registered with the Trade Registry.

On 31.12.2012, in the balance sheet of the Company there was a retained earnings result from the application for the first time of IAS 29 "*Financial Reporting in Hyperinflationary Economies*" proposed to cover the amount resulting from the application of IAS 29 "*Financial Reporting in Hyperinflationary Economies*" as follows:

Reported loss result from the first application of the IAS 29	197,701,352
Adjustments of the social funds - the first application of the IFRS	197,701,352

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According to the Order 1690/2012 regarding the modifying and filling out of some accounting regulations, the accountable loss reported, coming from the transition to IFRS, from following for the first time of IAS 29, as well as the one resulting from the use, at the date of transition to the application of IFRS, of the fair value as deemed cost is covered from personal funds (including the amounts reflected in the account credit 1028 “Adjustment of social fund”), according to the AGA decision, with compliance of legal provisions.

**22. RESERVES**

Reserves include the following components:

<b>Description</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Reserves from revaluation of fixed assets	63,642,374	17,524,457
Legal reserves	13,426,761	13,426,761
Posponed tax on profit recognized on personal funds	(10,182,778)	(2,968,316)
Other reserves	166,884,712	151,152,127
Reserves from current profit	23,537,290	10,982,386
<b>TOTAL</b>	<b>257,308,360</b>	<b>190,117,415</b>

The following describes the nature and purpose of each reserve within the personal funds:

<b>Reserve</b>	<b>Description and purpose</b>
Reserves from revaluation of fixed assets	If the accountable value of a tangible asset is increased as a result of the re-evaluation, then the increase should be recognized in other items of global result and cumulated in equity, as a re-evaluation surplus, Revaluation reserves can't be distributed and can't be used to increase the share capital,
Legal reserves	According to Law 31/1990, at least 5% of the profit is taken each year for the formation of the reserve fund until it reaches at least a fifth of the share capital
Other reserves	Other reserves include reserves that represent tax incentives that can't be distributed with implications on the recalculation of the profit tax, The difference represents reserves made up of profits,

**23. REPORTED RESULT**

Reported result includes the following components:

<b>Description</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Reported result - surplus from revaluation reserves	14,205,380	11,702,322
Result reported from error correction	(1,094,738)	-
Retained earnings arising from the use of fair value as deemed cost at the date of transition to IFRSs	124,408,011	125,348,331
Retained earnings from the adoption of IAS 29 for the first time	(197,701,352)	(197,701,352)
<b>Total</b>	<b>(60,182,699)</b>	<b>(60,650,699)</b>

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**24. DISTRIBUTION OF PROFIT**

On December 31, 2018, S.C. Antibiotice S.A registered a net profit in amount of 34,303,788 lei, proposed for distribution as follows:

<b>Description</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Dividends	6,707,678	17,825,769
Other reserves	27,596,110	15,732,585
<b>Total</b>	<b>34,303,788</b>	<b>33,558,354</b>

The amount of 27,596,110 lei, representing other reserves given by the law, is composed of:

- Fiscal facilities for the profit invested in technological equipment, electronic computers and peripheral equipment, home and office machines, control and billing, as well as in software programs produced and / or purchased according to art, 22 of the Fiscal Code in the amount of 23,537,290 lei;

- Fiscal facilities for development research activities according to art, 20 of the Fiscal Code in the amount of 2,964,082 lei;

- Covering accounting losses from previous years in the amount of 1,094,738 lei;

Total dividends are in amount of 6,707,678 lei.

Gross dividend per share related to financial year 2018 was established at 0,009991506 lei and it represents a rate of distribution of 20% from the net profit of the financial year 2018.

**25. CONTINGENT LIABILITIES**

SC Antibiotice SA does not have contingent liabilities at December 31, 2018.

**26. COMPARATIVE AMOUNTS**

In the financial year ended at December 31, 2018, the Company corrected on the retained earnings basis (account 1174 "Retained earnings arising from the correction of accounting errors") fundamental errors registered in 2018 that affected the financial years 2012, 2015, 2016 and 2017.

The effect of correcting accounting errors on comparative amounts in the financial statements prepared at the date and for the period ended on December 31, 2017 are summarized in the following table:

<i>Element in financial position</i>	<b>31.12.17 (audited)</b>	<b>Corrections and reclassifications</b>	<b>31.12.17 (audited, restated)</b>
Revaluation reserves	14,556,141	931,740	15,487,880
Reported result	(71,633,085)	(1,196,019)	(72,829,104)
Current result	33,558,354	(11,843)	33,546,511
<b>Total personal funds</b>	<b>416,877,840</b>	<b>(276,123)</b>	<b>416,601,717</b>
Postponed tax	18,172,398	(7,355)	18,165,043
<b>Total long-term debts</b>	<b>20,997,534</b>	<b>(7,355)</b>	<b>20,990,179</b>
Tax and current tax liabilities	9,792,885	283,478	10,076,363
<b>Total current liabilities</b>	<b>135,060,170</b>	<b>283,478</b>	<b>135,343,648</b>
<b>Total debts</b>	<b>156,057,703</b>	<b>276,123</b>	<b>156,333,826</b>

<i>Element in financial performance</i>	<b>31.12.2017 (audited)</b>	<b>Corrections and reclassifications</b>	<b>31.12.2017 (audited, restated)</b>
Profit tax expense	(1,803,076)	(11,843)	(1,814,919)
<b>Profit of financial year</b>	<b>33,558,354</b>	<b>(11,843)</b>	<b>33,546,511</b>

**ANTIBIOTICE S.A.**  
**EXPLANATORY NOTES TO FINANCIAL STATEMENTS**  
for the year ended on December 31 2018  
(all amounts are expressed in LEI, if not mentioned otherwise)

<b>Overall result of the year</b>	<b>33,558,354</b>	<b>(11,843)</b>	<b>33,546,511</b>
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In 2018, expenditures and revenues related to previous financial years were recorded in this account. The errors found and recorded in the reported result are as follows:

Explications	Unfavourable result arising from the correction of accounting errors related to previous financial years	Favourable result arising from the correction of accounting errors related to previous financial years
Recognition in the profit and loss account of the decrease in the carrying amount of property as a result of revaluation at December 31, 2012	970,345	-
Recognition in the profit and loss account of the decrease in the carrying amount of property as a result of revaluation at December 31, 2015	242,826	-
Recognition in the profit and loss account of the increase in the carrying amount of property, that offsets a decrease in a previously recognized revaluation as a result of revaluation at December 31, 2015	-	423,459
Implement the measures ordered by the economic and financial inspection through the Mandatory Disposition nr, ISR_AIF4451/2016 representing additional income tax for the year 2015	10,234	-
Implementation of the measures ordered by ANAF- Economic and financial inspection by Mandatory Disposition nr, ISR_AIF4451/2016 representing additional income tax for the year 2016, in amount of 670 lei and of the measures ordered by ANAF through the address SAR_102/2018, representing additional established tax for 2016 as a result of documentary verification of the way of deducting some expenses in the annual tax return, in the amount of 272,574 lei	273,244	-
Correction of the postponed tax asset related to the amortization of the accounted items for inequity, within the "revaluation reserves" position for the year 2016	-	(9,704)
Correction of the postponed tax asset related to the amortization of the accounted items for inequity, within the "revaluation reserves" position for the year 2017	-	(11,843)
<b>TOTAL</b>	<b>1,496,649</b>	<b>401,912</b>

**27. ELEMENTS FOLLOWING THE REPORTING PERIOD**

There are no significative elements that weren't presented in the present financial situations.

**28. INFORMATION ABOUT THE AUDIT OF FINANCIAL STATEMENTS**

The financial audit for the financial year 2018 was carried out by SC SOCECC SRL, The auditor provided only financial audit services.

Accounting, Expertise & Accounting Consultancy Company  
SOCECC Ltd.

INDEPENDENT AUDITOR'S REPORT  
ON  
THE INDIVIDUAL FINANCIAL STATEMENTS DRAWN UP BY  
ANTIBIOTICE S.A. FOR THE FISCAL YEAR ENDED TO  
DECEMBER 31, 2018

BUCHAREST

-2019-

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF ANTIBIOTICE**

**Report on the Audit of Financial Statements**

**Our opinion**

We audit the attached individual financial statements of ANTIBIOTICE S.A. ("The Company") with its registered office in Iași, Valea Lupului St., tax identification number RO1973096, comprising the financial position statement as of December 31, 2018, statement of comprehensive income, statement of changes in equity and cash flow statement for the financial year ended at the above-mentioned date and a summary of the significant accounting policies and other explanatory notes.

The individual financial statements as of December 31, 2018 are identified as such:

- |                                 |                 |
|---------------------------------|-----------------|
| • Net assets/ total equity:     | 472,727,315 LEI |
| • Net profit of the fiscal year | 34,303,788 LEI  |

In our opinion, the attached individual financial statements give a true and fair view, in all significant aspects, on the financial position of Antibiotice company on December 31, 2018, as well as on the financial performance and cash flows for the fiscal year ended on the above-mentioned date in accordance with the Order of the Minister of Public Finance no. 2844/2016 (OMPF no. 2844/2016) for approving the accounting regulations compliant with the International Financial Reporting Standards adopted by the European Union ("IFRS-UE").

We conducted our audit in accordance with the International Standards on Auditing ("ISAs"), Regulation (EU) no. 537 of the European Parliament and of the European Council ("The Regulation") and Law no. 162/2017. Our responsibilities are described in detail in the section *Auditor's responsibilities in an audit of financial statements* in our report. We are independent of the Company, in accordance with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA code), according to the relevant ethical requirements for the audit of financial statements in Romania, including the Regulation and Law no. 162/2017 and we fulfilled our ethical responsibilities according to these requirements and IESBA code. We believe that our audit evidence is sufficient and appropriate to provide a basis for our audit opinion.

## Key issues

Key audit issues are those issues that, based on our professional judgement had the greatest importance for the audit of the financial statements of the current period. The following key issue was approached in the context of the audit of the financial statements as a whole and in forming our opinion on them and we do not offer a separate opinion on this key issue.

### Key issue - Value of trade receivables

Presentation value of trade receivables according to IFRS depends significantly on the calculation and estimation process of the trade discounts as well as on the process of estimating their recoverability. The company presented in the financial statements in the explanatory note no. 4 - "Sales Income" the value of the granted trade discounts and, in the explanatory note no. 15 - "Trade and other receivables" the company presented the trade receivables in net value of 292 million LEI, adjusted with the estimated depreciation.

During our mission, we conducted the following audit procedures that included, but were not limited to these:

- assessment of the compliance of the policies for recognizing the income and trade receivables;
- analytical review procedures and detail tests for verifying the amount of granted discounts, including through the expansion of the verifications on the granted discounts in the next fiscal year related to the sales from the audited fiscal year;
- procedures for direct confirmation of trade receivables balances;
- evaluation of internal procedures and methods used by the management team for estimating the probable amount to be collected;
- verifying the consistency of applying the accounting policies related to the adjustment of trade receivables.

### Key issue - Revaluation of constructions

Presentation value of the constructions according to IFRS depends significantly on the calculation and estimation process of the fair value, useful life and their recoverable amount. The company submitted the financial statements, in the explanatory note no. 12 "Tangible assets", net assets amounting to 310,6 million LEI.

During our mission, we conducted the following audit procedures that included, but were not limited to these:

- assessment of the compliance of policies for the presentation of tangible fixed assets as constructions;
- analytical review procedures and detail tests for verifying the amount of revaluation surpluses and decreases, including through expanding the checks on the annexes to the evaluation report;
- evaluation of internal procedures and methods used by the management team for estimating the recoverable amount of fixed assets;
- verifying the consistency of applying the accounting policies related to registering the revaluation reserve.

## Other information - Management Report

The administrators are responsible for drafting and submitting other information. Those other information include the Management Report but they do not include the financial statements and auditor's report on them. The Management team is responsible for this information.

Our audit opinion on the financial statements do not cover other information and we do not express any conclusion with regard to these.

In connection with our audit on the financial statements, our responsibility is to read this other information and, in this approach, to evaluate whether that information is significantly inconsistent with the financial statements or with the knowledge we gained from the audit or if they appear to include significant errors. If, based on the performed activity, we come to the conclusion that there are significant errors in this information, we must report this. We have nothing to report on this matter.

Additionally, in accordance with the provisions of OMPF no. 2844/2016, we read the Management Report and report the following:

- in the Management Report we did not identify information that is not consistent in all significant aspects with the information presented in the financial statements on December 31, 2018.
- The above-identified Management Report includes, in all the significant aspects, the information requested by OMPF no. 2844/2016 to the para 15-19 of the Annex no. 1;
- The Management Report does not include the non-financial declaration specified to the paragraphs 39-42 from OMPF no. 2844/2016 which will be presented later in a separate report.
- Based on our knowledge and our understanding gained during the audit of the financial statements drafted on December 31, 2018 about the company and its environment, we did not identify significant erroneous information presented in the Management Report.

## Responsibility of the management team and other persons responsible for the governance of the financial statements

The Management team is responsible for drafting and fair presentation of these financial statements in accordance with OMPF no. 2844/2016 and for the internal control which is considered relevant by the management for elaborating the financial statements without significant misstatements due to fraud or error.

When drafting the financial statement, the management is responsible for assessing the company's ability to continue its activity, presenting, if needed, the aspects related to continuation of the activity and using the accounting based on the continuity of activity unless the management plans to either liquidate the company, stop operations or it has no realistic alternative, except for these.

The persons responsible for administering the company are also responsible for supervising the financial reporting process.

## The Auditor's responsibility

Our objectives are to obtain reasonable assurance that the financial statements as a whole do not include material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. The reasonable assurance represents a high level of assurance but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a significant misstatement, if it exists. Misstatements can arise from either fraud or error and are considered material if, they reasonably can be expected, individually or cumulatively, to influence the users' economic decisions based on these financial statements.

As part of an audit in accordance with the ISA standards, we exercise our professional judgement and maintain our professional skepticism during the audit. Moreover:

- We identify and evaluate the risks of significant misstatements in the financial statements caused either by fraud or by error, establish and perform audit procedures to respond to these risks and we get enough and appropriate audit evidence to form a basis for our opinion. The risk of not detecting a material misstatement caused by fraud is greater than the risk of not detecting a material misstatement caused by error, as fraud may include complicity, forgery, intentional omissions, false statements, or avoidance of internal control.
- We consider the internal audit as relevant to the audit to establish the appropriate audit procedures in the given circumstances, but not to express an opinion on the effectiveness of internal control of the company.
- We assess the appropriateness of the used accounting policies and reasonableness of accounting estimates and related information disclosures made by Management.
- We formulate a conclusion on the appropriateness of using the going-concern principle by the company and determine, based on the obtained audit evidence whether there is significant uncertainty about events or conditions that could raise significant doubts about the Company's ability to continue its activity. If we conclude that there is a significant uncertainty, we need to draw attention in the audit report on the presentations related to the financial statements or, if these presentations are inappropriate, we must change our opinion. Our conclusions are based on the audit evidence obtained by the date of our audit report. However, future events or conditions may cause the Company not to continue operating on the going-concern principle.
- We evaluate the presentation, structure and overall content of the financial statements, including the information submissions and the extent to which the financial statements reflect the transactions and basic events in a manner that lead to the accurate presentation.

We communicate to those responsible for managing, among other things, the planned objectives and timing of the audit, as well as the significant audit findings, including any significant internal control deficiencies that we identify during our audit.

## Report on other legal and regulatory requests

We were appointed by the General Meeting of Shareholders held on June 28, 2017 to audit the financial statements of ANTIBIOTICE S.A. S.A. Iași for the fiscal year ended at December 31, 2018. The uninterrupted total duration of our commitment is 3 years, covering the financial exercises ended at 31.12.2017, 31.12.2018 and 31.12.2019.

We confirm that:

- Our audit opinion is in accordance with the additional report submitted to the Audit Committee of the Company which we issued on the same date to which we issued this report. Also, in conducting our audit, we remained independent of the audited entity.
- We did not provide non-audit services for the company that are prohibited according to the article 5, para. (1) from the UE Regulation no. 537/2014.

*Stamp of Mr. Zegrea Laurențiu and illegible signature*

*In the name of,*

Accounting, Expertise & Accounting  
Consultancy Company - SOCECC Ltd.

headquartered in Bucharest, registered in  
the Electronic Public Register with the no. 227

through Zegrea Laurențiu, registered in the Electronic Public Register with the no. 2666  
Bucharest, March 12, 2019

*Stamp of SOCECC SRL BUCHAREST*

