

MANAGEMENT REPORT

January-September 2018

Q3 Report as per:	IFRS
For the period:	1.01 - 30.09.2018
Report date:	October 25, 2018
Name of trading company:	Antibiotice SA
Head office:	Iasi, 1 Valea Lupului St.
Phone number:	0232/209 000
Fax:	0232/209 633
Fiscal registration code:	RO1973096
Order number in the Trade Register:	J22/285/1991
Regulated market in which the issued securities are traded:	Bucharest Stock Exchange (BVB)
Subscribed and paid-up share capital:	67,133,804 lei
The main characteristics of securities issued by the company: nominative shares, nominal value: 0. 10 lei	

In the first three quarters of this year, Antibiotice SA achieved sales revenue of 241.25 million lei, higher by 3% and a net profit by 21.17 million lei, higher by 5% compared to the same period of 2017.

Profitability (gross profit / sales income) calculated from these indicators was 8.8.%, maintaining the same level as the previous year.

COMPREHENSIVE INCOME STATEMENT

Comprehensive income statement (LEI)	30.09.2017	30.09.2018	2018/ 2017
Sales income	234.210.689	241.251.421	1,03
Other operating income	18.857.951	24.491.926	1,30
Income related to product stock costs	-160.508	4.449.274	
Income from the work performed by entity and capitalised	1.269.892	2.381.088	1,88
Expenditure on raw materials and consumables	84.127.323	94.208.926	1,12
Staff costs	60.150.288	64.763.769	1,08
Amortization and depreciation expense	13.104.815	14.863.487	1,13
Other operating expense	74.391.993	73.955.331	0,99
Operating profit	22.403.604	24.782.196	1,11
Financing costs	-1.345.469	-2.907.952	2,16
Pre-tax profit	21.058.134	21.874.244	1,04
Profit tax expense	813.166	700.700	0,86
Profit	20,244,968	21,173,544	1.05

The increase in sales income was due to the values higher by 5.3 % in the domestic market as a result of the destocking in the market.

Domestic market

From structural viewpoint, positive evolution of the sales in the domestic market was influenced by:

- increases per therapeutic class: cardiovascular system (+6.5 million lei), anti-infectives (+5.6 million lei) and central nervous system (+3 million lei), generated by new products and by the positive evolution of the company's top products.

- performance of some products, such as: Fluxiv®, Meropenem® range for injection, Nolet® 5 mg tablets, Glycerin suppository range, Cefort® range for injection, Colistina Antibiotic® for injection and Eficef® range, capsules.

(million lei)

Name of indicator	30.09.2017	30.09.2018	Δ 01 - 09 2018/2017
Net sales (domestic market)	142.69	150.20	5.3%
Sell IN distribution	230.72	237.90	3.1%
Sell OUT (Pharmacies+Hospitals)*	234.40	250.38	6.8%

*forecast (data source: Cegedim Romania)

International market

Antibioce's revenue from the international market represents 37,8% of the company's sales, remaining constant compared to the previous period.

Compared to the first 9 months of 2017, the most significant increases per geographic area were achieved in:

- Asia - a 35% increase in the sales of finished products in Vietnam;
- Latin America - the sales of Nystatin doubled in Brazil;
- Middle East - both the sales of finished products and active substance Nystatin grew by 35% in Jordan and Iraq.

Other operating income (amounting to 24.49 million lei) grew by 30% compared to the same period last year, this increase stemming from the exchange rate differences as well as the provisions for the collected receivables.

Income related to product stock costs indicator shows an increase of 4.61 million lei determined by the need for a buffer stock to ensure continuity in the sales of ointments and suppositories in the transfer period of the manufacturing facilities in the new plant which is currently in the investment phase.

Income from the work performed by entity and capitalised grew by 88% compared to the same period of last year, representing the value of our research projects.

Following the 22% increase in our production, mainly driven by the storage of ointments and suppositories, the expenditures on raw materials and consumables increased by 12 % compared to 2017. Expenditures on raw materials and consumables

are carefully monitored in accordance with the production structure and profit margin of products.

The staff costs in the first 9 months of 2018 reached the value of 64.8 million lei, up 8% compared to the previous year as a result of the wage increase granted in May 2017, in the context of the evolution of staff indicators sustained by the company's results as shown below.

- LEI -	30.09. 2017	30.09.2018
Average number of employees	1,420	1,420
Added value/Number of employees	82.670	88.443
Staff costs/Added value (<60%)	51%	52%
Staff costs/ Sales income	26%	27%
Work productivity (sales income /no. of employees)	165.162	170.345

Total depreciation expenses amounting to 14.9 million lei, up 13% compared to 2017 is the result of the investments put into operation during this period.

Other operating expenses amounting to 73.96 million lei recorded a 1% decrease compared to 2017 due to a carefully management of the company's costs for mitigating the effect of a 4.17 million lei increase in the clawback tax . From structural viewpoint they mainly include taxes and fees (37%), utility expenses (9%), expenditure on provisions for receivables (2%), commercial expenses (3%), product authorization costs (1%).

With a total value of 2.97 million lei, the financing costs (the difference between the income and the financial expenses with the interest of the period) rose by 116%, a result of attracting loans for investments and for financing the current activity.

Pre-tax profit for the reported period is **21.87 million lei**, **higher by 4% to that recorded in 2017.**

After-tax profit is **21.17 million lei**, **higher by 5 % to that recorded in 2017.**

Statement of financial position

	31.12.2017	30.09.2018	
ASSETS			
FIXED ASSETS			
Tangible fixed assets	223,242,890	239,409,398	1,07
Intangible fixed assets	13,107,622	14,067,249	1,07
TOTAL FIXED ASSETS	236,350,512	253,476,647	1,07
CURRENT ASSETS			
Stocks	67,264,546	88,248,307	1,31
Commercial and similar receivables	264.212.743	310.881.514	1,18
Financial assets held for sale	0	0	
Cash and cash equivalents	5,107,743	1,883,061	0,37
TOTAL CURRENT ASSETS	336,585,032	401,012,882	1,19
TOTAL ASSETS	572,935,544	654,489,529	1,14
LIABILITIES			
CURRENT LIABILITIES			
Commercial and similar liabilities	55,535,974	74,632,943	1,34
Amounts owed to credit institutions	69,731,310	116,236,132	1,67
Tax and current tax liabilities	9,792,887	7,595,648	0,78
Short-term provisions	0	0	
Investment subsidies	326,246	472,875	1,45
TOTAL CURRENT LIABILITIES	135,386,417	198,937,598	1,47
LONG-TERM LIABILITIES			
Investment subsidies	2,498,889	2,751,360	1,10
Deferred tax	18,172,398	17,862,975	0,98
Amounts owed to credit institutions	0	14,984,555	
TOTAL LONG-TERM LIABILITIES	20,671,287	35,598,890	1,72
TOTAL LIABILITIES	156,057,704	234,536,488	1,50
Equity and reserves			
Equity	264,835,156	264,835,156	1,00
Revaluation reserves	14,556,141	13,246,482	0,91
Legal reserves	13,426,761	13,426,761	1,00
Other reserves	162,134,513	166,884,712	1,03
Reported result	-71,633,085	-59,613,613	0,83
Current result	33,558,354	21,173,543	0,63
TOTAL EQUITY	416,877,840	419,953,041	1,01
TOTAL EQUITY AND LIABILITIES	572.935.544	654.489.529	1,14

Assets

On 30.09.2018, current assets exceeded short-term liabilities, and permanent capital (equity and long-term liabilities) were higher than fixed assets, which shows that the company complies the principle of aligning the maturity of assets and liabilities - the "golden rule" regarding the finances of a company.

- Fixed assets (investments put into operation) grew by 7% compared to the beginning of the year.
- Our company's strategy for this period was an additional production for covering the needs of the market in the overhaul period and a buffer stock of topical products to be sold prior to putting the new Ointment & Suppository Plant into operation.

The stocks were higher by 31% compared to the beginning of the year.

- Trade and similar receivables increased by 18%, as a result of an 8% increase in trade receivables (from 255.69 million lei to 277.82 million lei) and increase in advances for fixed assets from 3.13 million lei to 24.88 million lei.

Liabilities

In the reporting period, our company recorded current liabilities amounting to 198.9 million lei, up 47% compared to the beginning of the year. When decided for an additional production of ointments and suppositories in order to maintain the continuity of the business, our management team negotiated also longer payment periods with the suppliers. In 2018, the cash demand of the company has been higher than in 2017, this fact attracting the use of credit lines to a greater extent. The amounts thus attracted were intended for paying the clawback tax, dividends to the shareholders and for supporting the acquisitions included in the investment plan.

In 2018, Antibiotice established an investment plan, amounting to 116.3 million lei approved by the GMS session held on 26.04.2018. This plan was backed by both own resources and short-term bank loans (financing lines) and long-term bank loans, which led to an increase in indebtedness degree and a decrease in current liquidity. However, these indicators fall within within the optimum limits of safety and economic efficiency according to the data in the table below.

Name of indicator	Calculation method	30.09.2017	30.09.2018	Optimum limits*
Current liquidity	Current assets/Current liabilities	2.47	2.02	1 - 2.5
Degree of indebtedness	Loan capital / Equity	17%	27.68%	0 - 40
Turnover speed for client debit items	Client average balance / (Sales income)*270	294 days	313 days	<180
Rotation speed of fixed assets	Sales income / (Fixed assets)*270	1.03	0.95	>4

* specified in the literature and in the contracts concluded with our partners

On 30.09.2018, current liquidity was supraunitary and fell within the accepted limits, being the expression of a positive working capital fund worth 202.76 million lei (Working capital = Equity + Long-term liabilities - Fixed assets), the degree of indebtedness grew by 27.68% (falling within the value of 40% planned for this year. Overall solvency (Total assets/ total liabilities) has a value of 2.83, falling within the optimum limits of 1.66-3.

Turnover speed for client debit items was by 19 days higher than in the same period last year and than the accepted limit due to a 18% increase in receivables. To manage the effect of delayed receivables collection and to avoid undesirable situations, the company carefully monitors how to use the commercial credit and approved credits. In this context, the interest coverage (operating profit/interest charges) was 9.8 in the conditions in which the optimum value is ≥ 5 .

Rotation speed of fixed assets represents the number of rotations made by the fixed assets for achieving the turnover. On 30.09.2018 this indicator was 0.95, a value under the recommended limit due to the faster growth of fixed assets compared to sales revenue. The high value objectives in the investment plan last for more than 1 year and the revenues generated by these investments will come after this period.

Cash flow

I. CASH FLOWS FROM OPERATING ACTIVITIES	30.09.2018
Cash receipts from the sale of goods and the provision of services	230,134,358
Cash receipts from royalties, fees, commissions and other income	330,747
Cash payments to suppliers of goods and services	(142,774,585)
Cash payments to and on behalf of employees, payments made by the employer for staff	(61,434,181)
Contributions to the Ministry of Health and the Ministry of Environment	(27,293,844)
Other taxes, fees and dues paid	(506,521)
Interest earned	2,302
Interest paid	(2,385,814)
Profit tax paid	(2,389,375)
Net cash flows from operating activities	(6,316,914)
II. CASH FLOWS FROM INVESTMENT ACTIVITIES	
Cash payments for the purchase of land and fixed assets, intangible assets and other long-term assets	(42,016,765)
Net cash flows from the investment activities	(42,016,765)
III. CASH FLOWS FROM FINANCING ACTIVITIES	
Receipts from long-term borrowings/ reimbursements	14,967,185
Dividends paid	(16,139,023)
Net cash flows from financing activities	(1,171,838)
Net increase / (decrease) in cash	(49,729,505)
Cash and cash equivalents at the beginning of the period	(64,623,567)
Cash and cash equivalents at the end of the period	(114,353,072)
Cash and cash equivalents at the end of the period include:	(114,353,072)
Bank accounts and cash	1,883,061
Credit lines	(116,236,132)

The company paid all its obligations amounting to 58.26 million lei to the state and local budget.

Relevant events

Our company's strategies in the period January-September 2018 focused on developing its scientific and research work, partnerships in the main international markets, product portfolio by assimilating new products as well as on increasing the presence of Antibiotice medicines in pharmacies, by focusing both the sales structure and the promotion policy towards valuable therapeutic medicines. All of these has led to a long-term business consolidation and profit growth, both domestically and internationally.

In the international market, following the opening of the representative offices, sales revenues from these areas grew as follows:

South-East Asia

- Vietnam:
 - sales in the first 9 months of 2018 **rose by 35%** compared to the similar period of 2017 due to the sterile antiinfective products;
- Philippines:
 - our company concluded the distribution contracts and the first registration files of the Antibiotice products are to be transmitted;
- Other markets: Antibiotice initiated negotiations for concluding distribution contracts in the Myanmar and Hong Kong markets.

Republic of Moldova:

- It is the market with the highest growth - 35% compared to 2017, the result of the promotional activity provided by the team of the local representative office opened earlier this year.

Ukraine

- our company hired a specialized Regulatory Affairs and Pharmacovigilance staff for submitting the files for registration the products while the commercial team will be completed in the next period;
- 8 products belonging to cardiovascular system and anti-inflammatory classes have been evaluated and prepared for authorization.

Antibiotice is still the leading manufacturer of the active substance Nystatin, with a market share exceeding 50%. The main strategic market is the US market, with a 15% increase in sales compared to 2017. We estimate a 40 % increase at the end of the year compared to the previous year, our medium-term objective being the consolidation of our position in this market.

In the analyzed period, Antibiotice SA recorded net sales in the domestic market amounting to 150.2 million lei, higher by 5.3% compared to the same period of 2017 as a result of the value increases on all three sales segments: pharmacy chains and mini-chains, independent pharmacies and hospitals.

In January -September 2018, Antibiotice S.A.:

- ranked fourth among 273 competitors, recording a 5.2% market share. In the relevant market in which 137 manufacturers operate, Antibiotice is a leader from value point, with a 13.5% market share.
- leader in terms of units sold in the ointment segment with a 26.3%, market share, suppository segment with a market share of 41.7% and powders for injection with a 71.8% market share.

**estimation (data source: Cegedim Romania)*

Strengthening the presence in the international markets of interest was achieved by registering 29 new marketing authorizations for the Antibiotice products in countries from Europe and Asia.

In the reporting period, our portfolio was enriched with the product Perasin® range - powder for solution for infusion. This product belonging to the class of anti-infectives for systemic use is used to treat bacterial infections.

In order to record a significant increase of the dermatological class, Antibiotice has been investing in a new plant which will have an enriched portfolio, two new products being registered during this period, Tinero® cream and Fluxiv® cream. Two new forms of packaging have been developed for Clafen® gel 1%, Clafen® gel 5%, Cutaden Bebe® and Saliform forte® (tube of 50g and 100g).

In Q3 2018, the Clinical Unit of the Center for Drug Evaluation was reauthorized for conducting bioequivalence and phase I clinical trials. This authorization is effective until July 2020.

For revamping and developing manufacturing capabilities for supporting our rich portfolio, the value of our investments in 2018 amounted to 116,280,727 lei (the contracted value).

Until 30.09.2018 we made investments amounting to 53,969,724 lei, representing 46.41% of the total investment plan. The value of the contracts concluded for our investments is 113.179.051 lei, with the premise of achieving the planned investments.

In the remained period of this year the purchases from the suppliers for the contracted investments will be effectively carried out. For the rest of the investment objectives, the activities prior to contracting are carried out, according to the internal procedures and legislation in force, consisting of: project execution, technical specifications, obtaining of permits, authorizations; requesting and analyzing offers; negotiation and contracting.

	INVESTMENT OBJECTIVES (thousand lei)	APPROVED 2018	Made up to 30.09.2018
	EXPENDITURE ON INVESTMENTS, of which:	116.280.727	53.969.724
1	Investments in progress, of which:	59.484.987	26.313.915
	Making a manufacturing capacity for Ointments and Suppositories	44.814.272	16.297.595
	Equipment for the manufacturing plants, Quality Unit, Medical Unit	9.245.476	4.129.986
	Performing research projects and other ongoing investments	5.425.240	5.886.334
2	New investments, of which:	56.795.740	27.655.806
	Serialization equipment (Parenteral Product Plant, Operculated Capsule Plant, Tablet Plant, Ointment & Suppository Plant, Finished Product Warehouse)	17.250.000	12.789.838
	Intelligent power monitoring system within the company	1.081.000	703.348
	Feasibility study and design to increase the manufacturing capacity for Nystatin	92.000	3.000
	Investments in the manufacturing flows	18.525.120	9.538.267
	Other new investments	18.605.620	4.621.353

Through the investment objectives included in the program, our company intends:

- to perform new, high-performing, GMP and FDA authorized capacities, endowed with modern production installations for manufacturing ointments and suppositories;
- to modernize and refurbish the existent manufacturing flows for increasing their productivity, quality of products and for reducing the production costs;
- to develop itself through its own research activity for sustaining and enriching the product portfolio;
- to modernize the installations ensuring the utilities for the entire Antibiotice site;
- to create new manufacturing facilities aiming to reduce the costs, utility consumptions and increase the labour productivity in line with a full and continuous compliance with the GMP rules and with the regulations on the labour and environment protection;
- to consolidate the integrated management system;
- to increase the storage capacity for raw materials corresponding to the increase in production capacity.

The average number of employees recorded on 30.09.2018 is 1,420, ensuring the optimum operating structure and the balance of the financial indicators assumed and approved in the Income and Expense Budget.

By the nature of the specific operations conducted by Antibiotice, the staff breakdown per levels of education and professional training is the following:

Higher education - 600 employees, of which:	42.21%
- 30 employees with completed doctoral studies (5%)	
Secondary education - 820 employees	57.79%
Total 1,420	100%

In the period January - September 2018, our company hired higher education staff for Quality Assurance, Production, International Business, Promotion and Commercial, Automation, Analytical Unit, Investments, Engineering & Equipment Qualifications, Import. The secondary education staff was hired for working in the manufacturing plants, Quality Control, Engineering & Service, Commercial & Logistics.

The specific projects dedicated to attracting and selecting staff during this period were:

- The third edition of the Performa+ project conducted by the Medical Unit, with the collaboration with the Faculty of Pharmacy in Iasi, for a total of 10 students.
- The external component of the Summer School a+, at its 9th edition aimed at identifying and training specialists in the fields of pharmacy, biology, chemistry, chemical engineering. A total of 30 participants have been selected to benefit from training from specialists in the company.
- Within the partnerships with the "Petru Poni" Technological Highschool in Iasi and the Technological High School of Mechatronics and Automation for the school year 2017 - 2018, 70 pupils from the 11th and 12th grades practiced their internships.

340 employees are involved in the Management by Objective System, actively participating in achieving the objectives included in the company's Business Plan for 2018-2020.

In order to increase our employees' motivation, Antibiotice SA has been initiated a study on the wage income that will form the basis of a new payroll system for the jobs in the organizational structure of the company. The analysis aims at restoring the salary scales, for the upper and secondary jobs, setting career plans and assessing the possibility of aligning salary levels to this wage grid.

In this period, a program for increasing the attractiveness of our company is under progress, by undertaking an impact study and establishing a plan to increase the brand awareness of the employer.

To comply with the legal, national and international requirements specific to the pharmaceutical industry, the Quality Management is achieved by keeping under control and improving the Integrated Management System.

The following inspections and audits were conducted in the period January-September:

- **conducted by the authorities** - NAMMD inspection for evaluating the GMP compliance (Good Manufacturing Practice) of the Quality Management System within Antibiotice SA and the manufacturing flows for ointments and ophthalmic ointments.
- **conducted by the certification bodies** - the surveillance audit SRAC (ISO Certification Body) for aluminum tubes, polyethylene and metal caps manufactured by the Microproduction Plant.
- **conducted by our customers** - an audit at the Parenteral Product Plant in order to qualify the company as a finished product supplier and a pre-audit to certify the manufacturing flow of suppositories for re-authorizing the products in Russia.
- **conducted to the suppliers of raw materials /primary packaging materials/finished products** - No critical non-conformities were identified in those 5 audits, the suppliers being included in the Company's Approved Suppliers List.

Conclusions:

- sales revenue rose by 3% compared to the first 9 months of 2017;
- a 5% increase in the net profit compared to the same period of 2017;
- a 5.3 % increase in sales in the domestic market compared to the same period of 2017;
- the sales income through our representative office in Vietnam grew by 35% while the representative office in Moldova succeeded in reaching the same percent (35%);
- the Clinical Unit of the Center for Drug Evaluation was reauthorized.

Vice-President of the Management Board
Ioan NANI

Financial Director
Paula Coman

COUNTY: IASI
 COMPANY: SC ANTIBIOTICE SA
 ADDRESS: 1 VALEA LUPULUI ST.
 PHONE : 0232/209000 FAX: 0372/065633
 NUMBER IN THE TRADE
 REGISTER: J22/285/1991

OWNERSHIP FORM: 27
 ACTIVITY : Manufacture of basic
 pharmaceutical products
 CAEN CODE:2110
 FISCAL CODE:1973096

STATEMENT OF FINANCIAL POSITION
 30.09.2018

	01.01.2018	30.09.2018
ASSETS		
FIXED ASSETS		
Tangible fixed assets	223,242,890	239,409,398
Intangible fixed assets	13,107,622	14,067,249
TOTAL FIXED ASSETS	236,350,512	253,476,647
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TOTAL ASSETS	572,935,544	654,489,529
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CURRENT LIABILITIES		
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LONG-TERM LIABILITIES		
Investment subsidies	2,498,889	2,751,360
Deferred tax	18,172,398	17,862,975
Amounts owed to credit institutions		14,984,555
TOTAL LONG-TERM LIABILITIES	20,671,287	35,598,890
TOTAL LIABILITIES	156,057,704	234,536,488
Equity and reserves		
Equity	264,835,156	264,835,156
Revaluation reserves	14,556,141	13,246,482
Legal reserves	13,426,761	13,426,761
Other reserves	162,134,513	166,884,712
Reported result	-71,633,085	-59,613,613
Current result	33,558,354	21,173,543
TOTAL EQUITY	416,877,840	419,953,041
TOTAL EQUITY AND LIABILITIES	572,935,544	654,489,529

CHIEF EXECUTIVE OFFICER
 IOAN NANI

FINANCIAL DIRECTOR
 EC. PAULA COMAN

COUNTY: IASI
 COMPANY: SC ANTIBIOTICE SA
 ADDRESS: 1 VALEA LUPULUI St.
 PHONE: 0232/209000; FAX: 0232/209633
 NUMBER IN THE TRADE
 REGISTER: J-22-285-1991

OWNERSHIP FORM: 27
 ACTIVITY: Manufacture of basic pharmaceutical products
 CAEN CODE: 2110
 FISCAL CODE: 1973096

COMPREHENSIVE INCOME STATEMENT
 at September 30, 2018

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	Nr. rd.	Financial	exercise
		30.09.2017	30.09.2018
A	B	1	2
Sales income	1	234,210,689	241,251,421
Other operating income	2	18,857,951	24,491,926
Income related to product stock costs	3	-160,508	4,449,274
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Other operating expense	8	74,391,993	73,955,331
Operating profit	9	22,403,604	24,782,196
Net financial income	10	-1,345,469	-2,907,952
Pre-tax profit	11	21,058,134	21,874,244
Profit tax expense	12	813,166	700,700
Profit	13	20,244,968	21,173,544

CHIEF EXECUTIVE OFFICER
 IOAN NANI

FINANCIAL DIRECTOR
 PAULA COMAN

Report date: 14.11.2018

Name of issuing company: Antibiotice SA

Headquarters: Iași, str. Valea Lupului nr. 1, cod poștal 707410, <http://www.antibiotice.ro>

E-mail: relatiicuinvestitorii@antibiotice.ro

Telephone/fax no.: 0232 209000 / 0232 209633

Unique registration code in the Trade register Office: RO1973096

Order number in the trade Register: J22/285/1991

Subscribed and paid-up capital: 67.133.804 lei

Regulated market on which the securities issued are traded: Bucharest Stock Exchange

Notice of availability for de Annual Report on 30 September 2018

Antibiotice Iași informs the investors that the **Report at 30.09.2018**, is available through the *Bucharest Stock Exchange, Financial Surveillance Authority* as well as through its website: www.antibiotice.ro (Investors/Financial Information/Financial Reports -2018 / 9 months).

We mention the fact that the above-mentioned report can also be obtained from our company's headquarters (Investor Relations, fax no. 0372. 065.633, e-mail: relatiicuinvestitorii@antibiotice.ro).

General Director,
ec. Ioan NANI

Financial Director,
ec. Paula-Luminița COMAN