

## THE ADMINISTRATOR'S REPORT FOR THE FIRST SEMESTER OF 2018

Half-yearly report according to:	IFRS
For the financial year:	30.06.2018
Report date:	August 8, 2018
Company name:	Antibiotice SA
Head office:	Iasi, Strada Valea Lupului nr.1
Phone number:	+40232/209000; fax: +40232/209633
Fiscal registration code:	RO1973096
Trade Register Registration Number:	J22/285/1991
Regulated market which trades shares:	Bucharest Stock Exchange
Subscribed and paid up capital:	RON 67.133.804
Main characteristics of the securities issued by the company:	Nominative shares, nominal value: RON 0.10

### CORPORATE GOVERNANCE

The governance system complies with the provisions of Law 24/2017 on the issuers of financial instruments and market operations, Law no. 31/1990 republished, with all subsequent amendments, of the NSC (National Securities Commission) Regulation no. 6/2009, subsequently amended and supplemented, of Law no. 111/2016 for the approval of the Government Emergency Ordinance no. 109/2011 on Corporate Governance of Public Enterprises of the BSE Code, the Corporate Governance Code of the BSE and those of the Articles of Incorporation of the Company.

Structures on which the Antibiotice governance system is based:

- The Management Board
- The Advisory Boards
- The Executive Management
- The Code of Ethics
- The Code of Corporate Governance
- Internal Audit, Management Control

### The Management Board

Antibiotice is administered by a Management Board responsible for fulfilling all the strategies necessary to achieve the performance indicators, 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 that its own decisions, those of the Company's management, the General Meeting of Shareholders, as well as the internal regulations, be lawful and properly implemented. The Board is responsible for monitoring the company's management on behalf of its shareholders.

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

**The structure of the Management Board of the Antibiotice SA Company on June 30, 2018**

**Legal adviser, IAVOR Ionuț-Sebastian, 42 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, 58 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 Management Board, 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**

**Provisional member of the Management Board and representative of the Ministry of Health.**

At the Ordinary General Assembly of the Shareholders of April 26, 2018, he was elected as a member of the Management Board, in accordance with the provisions of art.641<sup>1</sup> of GEO no. 109/2011.

Mr. Alexandrescu Dan-Octavian is a physician, State Secretary in the Ministry of Health, coordinator of the Medicines and Medical Devices Policy Division.

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

**Ec. Nicolae STOIAN, 61 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 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.

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

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**Eng. Elena CALIȚOIU, 55 years old**

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

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

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

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

### **The advisory committees**

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

- *the Audit Committee*: Mr. Ionuț Sebastian IAVOR and Mr. Nicolae STOIAN and Mrs. Elena CALIȚOIU;

- *the Nomination and Remuneration Committee*: Mrs. Elena CALIȚOIU and Mr. Ionuț Sebastian IAVOR

- *the Trade Policies Committee*: Mr. Dan Octavian ALEXANDRESCU 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 risk management**

Within Antibiotice SA, the risk management is a continuous process that involves the identification of significant risks that may affect the company or a component structure, their assessment, ranking and prioritization, as well as the establishment of measures to mitigate the exposure in accordance with the limits of risk tolerance, in order to provide a reasonable assurance that the objectives and activities are being met.

The main categories of risks that may arise in the company's activity are: financial risks, image risks and legislative risks.

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

- The foreign Exchange Risk;
- The liquidity risk;
- The commercial risk/default risk.

*The foreign exchange risk*, a component of the financial risks, occurs frequently in the current market economy where monetary rates fluctuate under the supply and demand rule. Another factor also causing the occurrence of the currency risk is the national and international political context.

The exchange rate fluctuations are reflected both in the costs of imported raw materials, as well as in the prices of the finished goods for export.

The company's strategy of the risk management involves: synchronizing the import activity with the export activity by correlating the payment and collection deadlines and correlating the weight of the currencies so that the moments in which the payments are to

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be made are as close or even simultaneous as possible to the proceeds from export; anticipating or delaying the payment or cashing by the due matching of the date and introducing insurance margins into price, correlated with forecasts for the currency of the payment; covering the gap between earnings and credit payments in the transaction currency.

*The liquidity risk* results from the company's failure to honor the short-term payment obligations at any time.

The circumstances of the occurrence of liquidity risk: the collection of receivables at terms exceeding 300 days; the increased tax/lack of predictability (claw-back tax); the insolvency of some clients; the increasing of the price of utilities, raw materials and services.

For the risk management, the following measures have been proposed: an accurate estimate of payments and receipts; the business internationalization; the assessing of customer creditworthiness; the monitoring of receivables; reducing the debt collection period on the domestic market; the increasing of the payment period for suppliers; covering the gap between short-term credits and payments.

*The commercial (non-payment) risk* - is defined as the risk of loss or the nonachievement of estimated earnings due to lack of financial liquidity of the debtor and the non-fulfillment of the payment obligation at the end of its maturity.

The circumstances of non-payment risk: large exposures to major distributors, long payment periods, plus re-allocations, the insolvency of pharmacies and distributors and the withdrawal of distribution authorization.

In order to manage the commercial (non-payment) risk, the following measures were taken: the assessment of the creditworthiness of commercial partners by checking, before the conclusion of the contract, by multiple methods; the monitoring of receivables through control and permanent risk assessment; developing a customer loyalty relationship through regular meetings for their knowledge and addressing a constructive attitude; solicitation of guarantees (insurance policies, collateral security agreements, cheque filings, guaranteed promissory notes, bank guarantee letters); stopping deliveries until the liquidation of outstanding amounts; diversifying the client portfolios to reduce the exposure to large clients; the provisioning of expenses to cover the risk of non-payment.

The legislative changes aimed at the pharmaceutical market lead to the emergence of a *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 medicines present on the market, as well as to avoid counterfeiting.

The adaptation to these provisions is reflected both in additional costs related to updating the documentation of compliance with the latest quality standards, in terms of the impact on the maximum sales prices and on the delays in the marketing of the products.

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The company's strategy for managing these risks involves a permanent concern for obtaining international certifications of the manufacturing lines, updating the authorization documentation for portfolio products, undertaking bioequivalence and stability studies and continuously pursuing international legislative changes.

The image risk is defined as the current or future risk of negative profits and capital damage caused by the unfavorable perception of the company's image and reputation. In order to prevent and manage efficiently the events that can generate image risks, the following measures are envisaged: monitoring the way in which the media reflect the company's activity, the constant communication to the media of the performances of the company as well as the projects related to the involvement in the life of the community, the continuous development of relations with the press and target audiences, the control of the risks that can affect the image of the company.

### **The executive management**

Antibiotice is represented by the General Manager, according to the prerogatives established by the law and the Articles of Incorporation of the company. The Management Board maintains the company's attribution in relation to the directors whom it has appointed.

The executive management of Antibiotice is ensured by nine directors, one of whom is the General Manager and he is Vice-Chairman of the Management Board, and eight specialty directors.

### **Structure of the Executive Leadership of Antibiotice SA on June 30, 2018**

#### **Ec. Ioan NANI, 58 years old**

##### **General Manager and Vice-Chairman of the Management Board**

Mr. NANI, a graduate of the Faculty of Economic Sciences of the „Alexandru Ioan Cuza” University of Iasi, is an economist specialized in management and is also an accounting expert.

Mr. NANI began his activity as an economist at Antibiotice in 1987. Between 1991 and 1993 he was a financial control inspector at the General Public Finance Department of Iasi and then at the Romanian Court of Accounts. In 1994 he has returned to Antibiotice as Chief Financial Officer, and in 1998 he became General Manager. In February 2009 he was appointed Vice-President of the Authority for State Assets Recovery (AVAS), and in June of that year, General Manager of Antibiotice.

Mr. Nani has been holding the position of General Manager since 2009.

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

#### **Eng. Cornelia MORARU, 52 years old**

##### **Technical and Production Director**

Mrs. Moraru graduated from the Faculty of Chemical Technology, the Technical University “Gheorghe Asachi” of Iasi. 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

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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 Director since 2005.

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

### **Ec. Paula Luminița COMAN, 50 years old**

#### **Economic Director**

Mrs. Coman has graduated from the Faculty of Economics and Business Administration of 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, 63 years old**

#### **Commercial and Logistics Director**

Mr. Chebac has graduated from the Faculty of Economics of the "Alexandru Ioan Cuza" University of Iași and has been an active member of the Body of Chartered Accountants, Iași Branch since 1993 and a financial auditor and 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. In January 1998 Mr. Chebac was appointed Chief Commissioner at the Fraud Squad of Iași. In September 2001 Mr. Chebac returned 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\***

### **Eng. Cristina Lavinia DIMITRIU, 60 years old**

#### **Strategic Development Director**

Mrs. Dimitriu, a graduate of the "Gheorghe Asachi" Technical University of Iași, the Faculty of Chemical Technology was granted in 2000 a Master's Degree in Management and Business Administration by the same university. Mrs. Dimitriu has been the holder of a Master's Degree Diploma in Management and Marketing granted by the Faculty of Pharmacy, the "Grigore T. Popa" University of Medicine and Pharmacy since 2007. During the same year, Mrs. Dimitriu became a PhD student of the Faculty of Pharmacy of Iași.

After graduation, Mrs. Dimitriu worked as a chemical engineer at the Făgăraș Chemical Plant. Mrs. Dimitriu has been working at Antibiotice SA since 1987, when she has worked at

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the Lysine -Biosynthesis Plant. In 1990 Mrs. Dimitriu has become a Production Manager at the Parenteral Plant and in 2000 she has held the position of Quality Control Manager for Physico-chemical and Microbiological Analysis. Since 2007 Mrs. Dimitriu has become a qualified person for the manufacture/import of medicinal products for human use and a Management Representative for the Integrated Management System.

Mrs. Dimitriu has been the Quality Manager from 2003 until 2018.

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

**Ec. Gica RUSU, 54 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 she 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, 40 years old**

**Domestic Sales and Marketing Director**

Mr. Bățaga, a graduate of the Faculty of Economics and Business Administration (FEAA) of the "Alexandru Ioan Cuza" University of Iași holds three titles of Masters in Financial 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. Bățaga worked as a junior in the Currency and Credit Chair, Finance specialty, within the FEAA. Mr. Bățaga has been working at Antibiotice SA since February 2001 as an economist in the Economic Analysis, Accounting and Marketing Department. In January 2006 Mr. Bățaga was appointed Head of Market Analysis and Strategic Planning Department.

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

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

**Dr. Mihaela MOSNEGUTU, 48 years old**

**Medical Director**

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

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

Dr. Moșneguțu has been Medical Director since 2011.

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

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### **Ec. Mihai STOIAN, 43 years old International Business Director**

A Graduate of the Faculty of Economic Sciences at the "Alexandru Ioan Cuza" University of Iași, with a specialization in International Economic Relations.

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.

Since August 2009 Mr. Stoian was appointed Export Manager and 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\***

*\* Number of Antibiotice Company shares (ATB) owned on September 11 2017 according to the latest database held by Antibiotice on the year 2017.*

### **The General Meeting of Shareholders**

The executive management of the company coordinates the strategic development of the company, in close cooperation with the Management Board. Periodically, the two bodies analyze the results obtained in implementing the strategy according to the business plan, the performance criteria and the revenue and expenditure budget. In this regard, the Management of the Company informed the Management Board in five meetings during the first half of 2018 on all significant aspects of the activity carried out and its evolution in relation to the previous forecast, presenting reports according to the agenda of the meetings. These reports were analyzed by the members of the Management Board and upon their basis, as well as on other information, decisions were made with effects on the company's activities.

The Management Board retains the Company's representation attribution in relation to the directors whom it has appointed.

The President coordinates the activity of the Management Board and reports on this to the General Meeting of Shareholders. He oversees the proper functioning of the internal structures of the company.

The President represents the Management Board in relations with third parties. Other powers may be delegated to him by the Management Board.

The Vice-President replaces de jure the Chairman of the Management Board when he/she is missing (according to Article 29, Chapter V, Articles of Incorporation of the Antibiotice Trade Company - S.A., Iasi).

The executive management of Antibiotice Iasi is ensured by executive directors, one of whom is the General Manager and the Vice-President of the Management Board.

The General Meeting of Shareholders is the company's highest decision-making body, where shareholders participate directly and make decisions. Among other attributions, it decides on the distribution of profits, chooses the Management Board, appoints the auditors and establishes the remuneration of the Management Board.



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During the first half of 2018, the Management Board convened a General Assembly of Ordinary Shareholders and an Extraordinary General Meeting on **March 5, 2018**.

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

The **Ordinary Shareholders' General Assembly** approved:

- The income and expenditure budget for 2018 and
- The increase of fixed indemnity and monthly gross variables of the members of the Management Board and of the 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 completing the Law no. 227/2015 regarding the Fiscal Code and GEO no. 90/2017 regarding some fiscal-budgetary measures, amending and completing some normative acts and extending some deadlines.

During the **General Extraordinary Meeting of Shareholders**, the establishment of two representatives of the company, one in the Republic of Moldova and the second in Ukraine was approved, the date for identifying the shareholders on whom the effects of the adopted decisions are reflected, according to the provisions of art. 238, par. 1 of the Law no. 297/2004 regarding the capital market, modified and completed by the provisions of L10/2015, was 20.03.2018, establishing ex-date for 19.03.2018.

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

The **Ordinary General Meeting of the Shareholders** approved:

- The financial statements of the company for the financial year 2017, based upon the Administrators' Report and the Financial Auditor's Report.

### IFRS

• Sales income	RON	336.904.666
• Gross profit	RON	35.361.430
• Net profit	RON	33.558.354

- the distribution of the net profit for 2017, the fixing of the gross dividend amounting to RON 0.026552598 per share and the establishment of the payment date as of 14.09.2018.

- **Net profit to be distributed:** RON  
33.558.354

- legal reserve	0
- other earnings reserves provided by law	15.732.585
- dividends of which:	17.825.769
- dividends to the majority shareholder	9.450.737
- dividends due to other legal entities and individuals	8.375.032

- the income registration of unclaimed and not collected dividends for the 2013 financial year.

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- the achievement of the objectives and performance criteria for the year 2017 for the members of the Management Board.
- the discharge from the administration for the activity carried out in the financial year 2017, based on the reports submitted.
- the objectives of 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 Corporate Governance of Public Enterprises.
- the election of Mr. Dan-Octavian ALEXANDRESCU as interim 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 registration date **31.08.2018**, 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 Law 24/2017 on issuers of financial instruments and market operations, and setting ex-date for **30.08.2018**.

### **The Extraordinary Shareholders' General Assembly approved:**

- the extension of the validity of the multi-volume multi-product limit of RON 30 million contracted by SC Antibiotice SA from the Export Import Bank of Romania - EximBank SA for a period of 12 months.
- the maintaining of the guarantees for multiproduct multipurpose limit of RON 30 million for the entire validity period resulting from the extension under point 1 of the Agenda of the Meeting.
- the issuance of a decision-making commitment of SC Antibiotice SA not to divide, not to merge and not to decide on the early dissolution during the validity period of the multiproduct multipurpose limit without the prior agreement of the Export Import Bank of Romania - EximBank SA.
- the empowerment of the General Manager Ioan NANI and the Economic Director Paula COMAN to sign on behalf of the company all the documents related to the extension, according to the 1st and 2nd point of the Agenda of the Meeting, as well as the documents related to the obligations assumed by the company according to point 3 of the Agenda of the Meeting.
- contracting a long-term investment facility (10 years) in the amount of EUR 15.406.300 from UniCredit Bank.
- guaranteeing the investment credit facility amounting to EUR 15.406.300 to be contracted from UniCredit Bank with:
  - the mortgage, the mortgage of the financier, the prohibition of alienation, encumbrance, renting, dismantling, joining, demolition, restructuring, improvement and construction, as well as the mortgage on the present and future rents and rents on the land consisting of land in surface of 5.075 sqm and building C1 with a 421 sq m built-up area, with a spread area of 1.263 sqm, built from the ground floor with a surface of 351.44 sqm, 1st floor with a surface of 354.16 sqm and 2nd floor with a surface of 347.745 sqm. Cadastral identification for land, cadastral no. 133207 and for construction, cadastral no. 133207;

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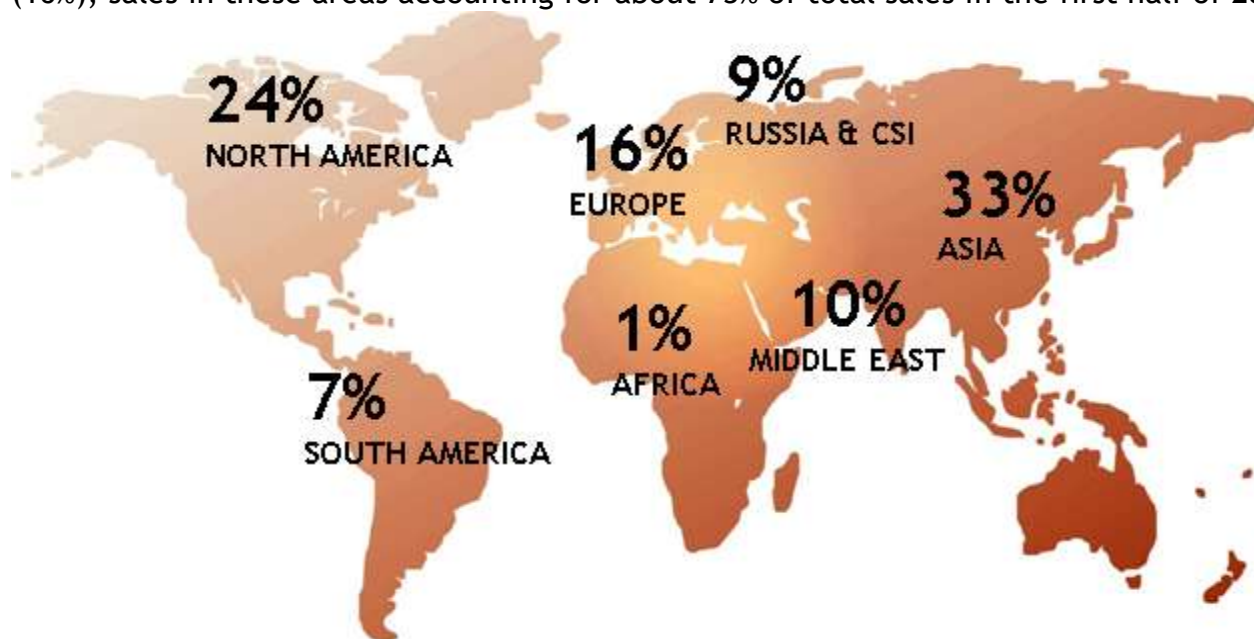
### **Activity analysis**

In order to meet the expectations of its shareholders - to increase confidence in Antibiotice and stock market capitalization - the priority actions of the management were grouped on the following strategic directions:

- I. Developing the international business component;
- II. Ensure a sustainable and sellable portfolio by increasing the degree of innovation;
- III. Optimizing operating costs and increasing operating efficiency
- IV. Adapting the human resource and providing the necessary skills to achieve strategic direction;
- V. Quality management for compliance with the legal, national and international requirements specific to the pharmaceutical industry.

### **I Developing the international business component**

Exports of US \$ 17.65 million in the first half of 2018 were 9.8% higher than in the first half of 2017, when sales were \$ 16.08 million. The main destinations for Antibiotic products (Finished Products and Nystatin) were Asia (33%), North America (24%) and Europe (16%), sales in these areas accounting for about 73% of total sales in the first half of 2018.



These results were possible by applying the strategies from the international markets as it follows:

- strengthening the world leader position for Nystatin active substance by maintaining traditional markets and increasing exports on regulated markets, especially in the US;
- exporting finished products under Antibiotice brand to foreign markets through partnerships with local distributors, partnerships that allow stable long-term development of exports;
- the opening of representative offices in certain territories on the basis of the potential assessment in terms of: market characteristics, compatibility of the company's portfolio with consumption in the evaluated markets, economic and political-social environment, etc.

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On the U.S. market Nystatin exports have grown with 52% in terms of value compared with the similar period of 2017. US Market represents the largest and most valuable market for Nystatin and the increase of its presence on this market was a strategic objective of Antibiotice company. During this year, strategic parities with the most important Nystatin end-users have been strengthened on this market in order to create the premises for business stability developed for this product in the U.S.

In South East Asia, the main market that will generate increases in the coming years is Vietnam. The sales of finished products on this market increased by 31% compared to the first half of 2017. The opening of the Vietnam representation aims at the strategic development of this market by registering new products, developing appropriate commercial policies and addressing all sales channels. Other markets in South East Asia, such as the Philippines, Thailand and Hong Kong, are also targeted.

On the South American market has recorded a doubling of Nystatin's export value, mainly due to the Brazilian market growth, the most important South American market for this product and one of the largest in the world.

On the European market there was an increase of 6.6%, mainly due to the export of finished products, which was by 14% bigger than in the previous year. In European area, the development strategy targets both countries in Central and Eastern Europe (Serbia, Albania, the Baltic States) and Western Europe, particularly through licensing partnerships with local firms, especially for injectable and dermatological products.

Exports from Russia & C.I.S. registered an increase of 9.4% especially due to the Ukrainian market. In the first semester of 2018, the procedures for registering the Antibiotice's own Antibiotice were initiated considering the potential of the market and the growth prospects. The opening of the representative office is aimed at registering the product portfolio, promoting the Antibiotice brand and developing its own sales team for the development of long-term exports.

### **II. Ensure a sustainable and sellable portfolio by increasing the degree of innovation**

The Romanian pharmaceutical market recorded an increase of 16.8% in the first half of 2018 compared to the same period of the previous year, reaching 7.6 billion lei compared to 6.51 billion lei made in the first half of 2017. The positive evolution is also recorded at the level of physical consumption of drugs, increasing it by 377 million physical units, from 6.16 billion units in I semester of 2017 to 6.54 billion in I semester of 2018.

The market is continuously sustained by the value of national programs for hepatitis and the products recently introduced in the cost-volume contracts/ cost-volume results. If we relate to the pharmaceutical market excepting the value of these contracts, during the first semester of 2018 a value growth of 8,9% was registered from RON 6.38 million (first semester of 2017) to RON 6.94 million (in the first semester of 2018). As much as the drug consumption is concerned, it grew by 6% reaching 6.54 million units compared to 6.16 million units registered during the same period of the previous year.

The Hospital market (the one without cost-volume contracts/ cost-volume result) registered a slightly growth of 2,72% compared to the interval January-June 2017, while the

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Retail market (without cost-volume contracts/cost-volume results) registered a value growth of 9,8% compared to the anterior period.

In the context of the pharmaceutical market from Romania, the activity on the internal market developed taking into account the following risks:

- progressive growth of clawback tax which has come to represent in the first quarter of 2018: 24,13%, from 19,86% in the similar period 2017 and 15,62% in the first quarter of 2016;

- increasing of the manufacturing costs as a result of the increase in the costs of raw materials;

- recast on pharmaceutical categories (chain pharmacies, minichains, and independent pharmacies), which attracted the allocation of more important budgets on segments of pharmaceutical chains and minichains by adjusting sales policy of minichain and independent pharmacies to the implemented policies of the chain pharmacies (molecule negotiations, portofolio negotiations, promoting the products by diseases, providing a zero coplanar level for patient);

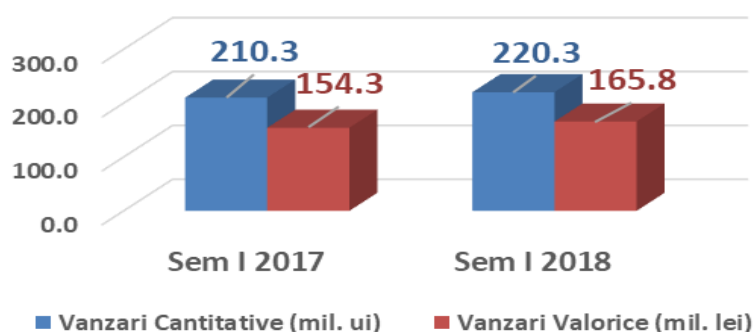
- the lists of compensated medicines have seen updates on introducing new molecules such that the Romania patients to have acces to last generation therapies;

- centralised auctions for medicine acquisitions, antibiotics and oncological drugs wich will have as a result the rationalizing of resources consumption in 2018 from the health budget;

- the premises of lowering the prices of inovative medicines that come out of the patent protection affect the drug manufacturers by embittering the competitive enviroment, and the patients that will be confrunted with the dissapereance of the products from the market, in this way limitting the acces to medicinal products.

In this context, Antibiotice company register a sales growing from pharmacies and hospitals with 7,5% compared to the first semester of 2017, while sales in therapeutic units registered a growing by 4,8%.

**The evolution of Antibiotice's sales in pharmacies and hospitales (sell out)**



*Data sources: Sales Cagedim January-June 2018*

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With a sales value of 165,8 million lei, the company keeps the 4<sup>th</sup> place in the line of generic medicines producers of over the counter medicines.

The retail pharmacy segment is growing by + 5.6% compared to the first semester of 2017, from 116.4 million lei to 122.9 million lei, while the Hospital segment registered an increase of + 13.1%, from 37,95 million lei in 2017 to 42,94 million lei in 2018.

The main therapeutic classes with significant increase in value compared to the first half of 2017 are: Cardiovascular system (+6.3 million lei), Antiinfectious (+3.6 million lei) and Central Nervous System (+1.9 million lei) generated both the contribution of new products and the positive evolution of the company's top products.

Products with a contribution of more than 1 million lei are: Fluxiv® (+ 2.8 million lei), Meropenem® injectable products (+2 million lei), Indapamida Atb® tablets (+1.7 million lei), Cefort® injectables 1gr (1.15 million lei) and Nolet® tablets (+1.14 million lei).

In the first half of 2018, Antibiotice company maintains its leading position in the generic and OTC drug market, marketed in hospitals, with a market share of 18.8%.

On the generic and OTC segment, the company occupies the 4th position, with a market share of 5,13%, while in the total pharmaceutical market occupies 16<sup>th</sup> place, climbing a position compared to the same period of the previous year, with a market share of 2.18%.

At the level of the first semester of 2018, Antibiotice maintains its leading position in terms of value ounces with a market share of 26.7%, suppositories with a market share of 41.8% and injectable powders with a market share of 72.4%.

During the analyzed period, Antibiotice Iași generated net sales on the internal market (ATB outputs) of 89.91 million lei, while in the sale from the distribution of See IN it amounted to 156.72 million lei, and in the pharmacies and hospitals at 165.8 million lei (estimate, source of data: Cegedim Romania).

*(million lei)*

<b>Indicator name</b>	<b>I Sem 2017</b>	<b>I Sem 2018</b>	<b>I Δ Sem 2018/2017</b>
<b>Net sales (domestic market)</b>	79,70	89,91	+12,8%
<b>Distribution Sell INN</b>	149,98	156,72	+4,5%
<b>Sell OUT (Pharmacy and hospital)</b>	154,31	165,8	+7,4%

### **PRODUCT STRATEGY**

## *The Administrator's Report for the first semester of 2018*

The entire activity of the company - from research, production to the sales - is structured on a portfolio of generic drugs, ranging from pharmaceutical forms and therapeutic classes.

The portfolio of 141 medicines (finished products marketed at the exit of Antibiotice in 2018) covering 12 therapeutic classes confirms that Antibiotice's strategy is the permanent orientation towards the renewal of the product portfolio and the manufacture of bioequivalent generic therapeutics with the original products while maintaining the high standards of quality.

The new products assimilated to the company's portfolio in the first half of 2018 are:

- Tinero® cream - Cosmetic product for acne skin care, imperfections with excess sebum, redness, itching, dilated pores, black dots; the product has begun to be rolled out since April 2018;

- Fluxiv® cream - a cosmetic product of which ingredients help maintain elasticity, hydration and skin tonicity, provide skin softening, protects microcirculation from its level providing comfort and relaxation for the feet; this product has begun to be harnessed since April 2018 and together with the oral form provides a complete therapeutic option for the health of vascular circulation;

- Perasin® - powder for solution for infusion - medicine used to treat bacterial infections such as those affecting the lower respiratory tract (lungs), urinary tract (kidney and bladder), abdomen, skin or blood. In the first half of 2018, the Marketing Authorization was obtained;

In the same period, first half of 2018, variations were made regarding the packaging form for the following products: Clafen® gel 1%, Clafen® gel 5% and Cutaden Bebe® - packaging form: 100 g tube and Saliform forte® - the form of newly introduced packaging: 50 g and 100 g, respectively.

### **PRICE STRATEGY**

Price strategies have consistently pursued the correlation between the maximum level required by law, increasing of profitability and ensuring competitiveness compared to other players from the market (positioning as the first generic, positioning as the reference medicine, best price / quality ratio).

On the Hospitals segment, the average price of the products in the Antibiotice portfolio was RON 2.503/therapeutic unit, representing 37.8% of the average market price (RON 6.733/therapeutic unit);

On the retail segment - prescription medicinal products, Antibiotice recorded an average price of RON 0.548 / therapeutic unit, representing 48.9% of the average market price (RON 1.122/therapeutic unit), according to the Cegedim Romania reporting source. with the legislation in force regulating the prices for prescription products (maximum 65% of the price of the innovator).

On the OTC segment - products without prescription, Antibiotice recorded an average price of RON 0.888/therapeutic unit, being positioned at the same level as the market price of non-prescription medicines (RON 0.890/therapeutic unit), according to the Cegedim Romania source, being constantly adapted to positioning strategies in the pharmaceutical market.

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In the first half of 2018, the non-prescription drug portfolio (11 OTC products) recorded a price increase, aiming both at a competitive market positioning and optimizing the profit margin.

Also, in the first semester 2018 the price order for the product Perasin® injectable products was obtained.

### **DISTRIBUTION STRATEGY**

The primary objective of 2018 is to strengthen partnerships with major national distributors through which significant sales growth has been planned.

The product portfolio was supported in the first semester by distribution (monthly offer, periodic campaigns, promotion and merchandising on OTC products) as well as through its own business team and Call Center team by specific actions.

Monthly, an offer calendar has been prepared to support profitable products with significant weightings in the planned figures as well as those that represent a significant share in the stock of distributors.

Actions carried out in the first semester 2018:

- Establishment of monthly / quarterly sales shares with each partner so as to generate sales growth in the market as compared to 2017;
- scrolling actions for stock diminishing - monthly stock analysis on each partner in terms of products representing 80% of the value stock, products with high storage times (over 2.5 months) and the validity terms;
- setting additional monthly bids on BBD products under one year following stock analysis of each partner or products where the product's life is longer than the storage life;
- keeping offers with constant business conditions for specified periods. Antibiotic portfolio products have been delivered to partner and pharmacies and hospitals in continuity, by providing optimal stocks to provide for any possible consumption.

### **THE MARKETING STRATEGY**

Marketing actions carried out in the first semester 2018:

- Direct promote to healthcare professionals (doctors, pharmacists)
  - participation in events organized by student societies to promote the brand among future specialists;
  - Participation in national events to increase the brand awareness of the company brand and product brands;
  - Organizing Interdisciplinary Antibiotic Events to increase Nutriensa brand awareness of food supplements;
  - media projects to make known the product brands;
  - actions to promote to the general public;
  - shelf products marketing campaigns in open-circuit pharmacies.
- Events with regional and national coverage attended by Antibiotice in 2018:
- Alphega Conference, Farmexpert: January-Constanta, February-Sibiu, March-Timisoara; April Craiova;
  - Beneficia course, Farmexim: "The role of the pharmacies manager" - for the pharmaceutical professionals: February-Brasov, Sibiu; March Timisoara; April Cluj;



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- Mediplus Conference - June: Galati, Braila, Vrancea, Buzau;
- National Congress of Pharmacist Students, March-Iasi;
- Dermatology Conference "Gheorghe Nastase Days" April 26-28, 2018, Iasi;
- National Conference "Critical Patient Management in Infectious Pathology", 25-27 April 2018, Targu-Mures;
- National Conference "Medical Days Vasile Dobrovici" 19-21 April 2018, Iasi;
- The XVIth Congress of the Romanian Society of Neurology 08-12 May 2018, Bucharest;
- National Conference on Psychiatry on "Mental Health, Person and Society" 16-19 May 2018, Timisoara;
- The Infectious Diseases Conference, Timisoara 23-25 May;
- National Conference with International Participation Problems of Infectious Pathology at the Border, 7-9 June 2018, Galati;
- The 44th Congress of the Romanian Society of Anesthesia and Intensive Care under the aegis of the Romanian Society of Intensive Care Anesthesia, 9-13 May 2018, in Sinaia;
- "Spring Dermatological Ieseana" - 7th edition, 23-27 May 2018 - launch of cosmetic product, Tinero® gel;
- Suceava Medical Days, 24-26 May 2018;
- National Conference of Otolaryngology and Cervico-Facial Surgery - 6-9 June 2018, Arad;
- "National Conference of Infectious Diseases" - Infectious pathology problems at the borders "07-09 June 2018, Galati;
- Interdisciplinary Symposium Antibiotice - We Know a Life, 14 June 2018, Galati, 26 June 2018, Ploiesti, 29 June - 1 July 2018, Paltinis
- Jubilee Conference of the Association of Traumatologists and Orthopedists from Moldova, June 14-16, 2018;
- National Conference of Hospital Pharmacists - 5th edition, Bucharest, 14-16 June 2018;
- Conference on Infectious Pathology, June 21-23, 2018, Iasi
- Days of Anesthesia Cluj, June 21 - 23, 2018, Cluj Napoca;
- Ginecofocus - June 22-24, 2018, Campulung Moldovenesc;

### Media communication projects for the OTC category and food supplements:

- Spaverin® radio campaign.
- Facebook Sprinten® Campaign.
- Sprinten® radio campaign.
- Radio and Facebook Fezivit C® campaign.
- Promoting Equilibra®, Silithor®, Fluxiv®, Soriso®, Sprinten®, Cutaden Bebe®, Tinero® in the Food Supply Chain

### Promotions to the general public:

- further branding project of RATP Iasi stations (company of local public transport)
- Car Fleet Adhesive coating for Distributor Partners.

### The shelf products marketing campaigns in open-circuit pharmacies:

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Non-prescription products were present on the pharmacy shelves, displayed by categories of affections. The projects aimed to increase brand awareness. The products involved in this project were: Equilibra® (x60cps, x120cps), Ibufen®, Spaverin®, Paracetamol suppository, Silithor®, Fluxiv®, Cicatrol®, Sprinten®, Fezivit®, Tinero®. Through these projects, the products have been promoted in printed materials, promotion in the online environment (banners on specialized sites, discount products in the product presentation section).

### **Development of research and development structures for the sustainable adaptation and consolidation of the company portfolio**

The development activity has as main objective the development, optimization and maintenance of the portfolio of over 150 products (injectables, topical application forms, ova, suppositories, tablets, capsules). Strategic therapeutic areas (anti-infectives, cardiovascular, dermatology, women's health products) are strengthened by national and international authorization of new prescription drugs, OTCs, cosmetics, or dietary supplements.

The international expansion took place in the first half of 2018, with the acquisition of 22 new Antibiotic Marking Authorizations in three Asian and European countries.

For the consolidation of the non-prescription product portfolio, the notification to the Ministry of Health of two new cosmetic products was made.

In order to maintain the current portfolio, it was intended to align with the current pharmacopoeial changes for a number of 4 products.

The research product pipeline includes 33 projects at different stages of development, from the therapeutic classes that define the company: oral anti-infectives, injectable anti-infectives, dermatological products, cardiovascular, non-steroidal anti-inflammatory drugs, digestive tract and medication for women's health.

Within the Centre for Drug Evaluation, two bioequivalence clinical trials were conducted between January and June 2018. Also, the stage of documenting and drawing up clinical trial protocols for three other new products has been completed, and they will be submitted for approval to the authorities.

Permanent monitoring of efficacy and safety in the management of Antibiotic drugs is being conducted through the Pharmacovigilance Department, linked to the European Medicines Data Processing Network - EudraVigilance.

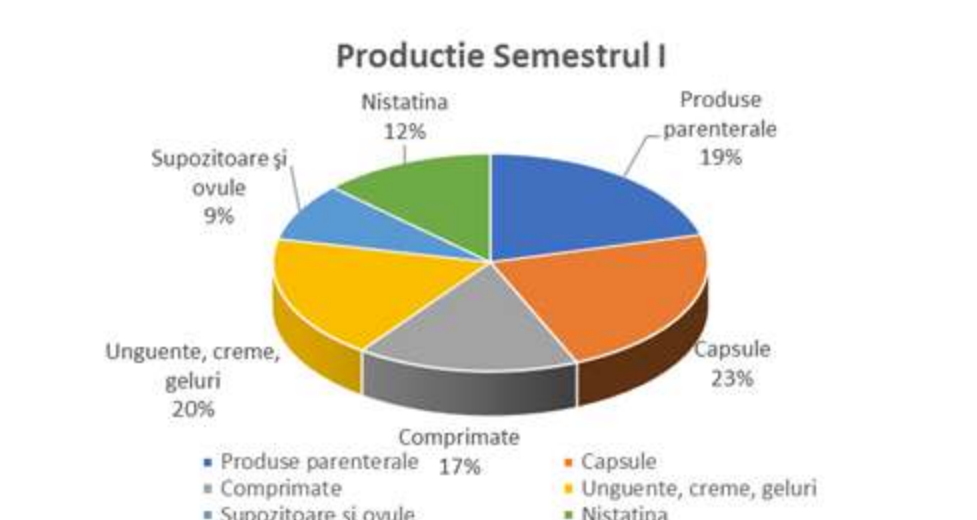
#### **Production activity - Modernizing and streamlining manufacturing flows**

Antibiotic produced in the first semester 2018:

- 343 million pharmaceutical units in the form of tablets, capsules, parenteral products, ointments, creams, gels, suppositories and ovules;
- bulk active substance (Nystatin) in a quantity comparable to that of the previous year;

The value of manufactured goods for export (Nystatin and finished products) represents 26% of the total value of production made in the first half of 2018.

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### **Objectives of Antibiotics in the first semester of 2018 in the field of pharmaceuticals manufacturing:**

- Manufacture of parenteral products for foreign companies based on manufacturing and control contracts. Production for export of parenteral products accounted for 35% of the total value of products destined for foreign markets;
- Reduce raw material costs by optimizing manufacturing formulations and identifying new sources for excipients used in conditioned products technology;
- Reduction of utilities consumption, through careful management, in all manufacturing areas;
- Efforts to implement the environmental protection program on volatile organic emissions during the Nystatin extraction phase and reduction of solvent consumption in the specific technological process have continued.

### **Investment policy - Medium and long-term development by investing in new facilities**

The planned value for investments for the year 2018 is 116,280,727 lei. From this value, up to 30.06.2017 were realized investments of 30,170,162 lei, representing 26% of the total programmed.

The total value of the contracts concluded for investments is 96,532,862 lei, representing 83%.

At this time, the realization percentage is relatively small, because in the first part of the year, for many of the investment objectives, the activities prior to the contracting are carried out in accordance with the internal procedures, consisting in: the realization of projects (when applicable) technical, obtaining opinions, authorizations; requesting and analyzing offers; negotiation of contracts, and in the second part of the year, the acquisitions and settlements to the suppliers will actually take place.

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	Objectives of Investments (thousands of lei)	Approved 2018	Accomplished by 30.06.2018
	<b>Investment Expenditure as follows:</b>	<b>116.280.727</b>	<b>30.170.162</b>
<b>1</b>	<b>Ongoing investment as follows:</b>	<b>59.484.987</b>	<b>16.371.840</b>
	Set up of an Ointment and Suppositories production Capacity	44.814.272	9.086.585
	Equipment for the manufacturing plants, Quality Division, Medical Division	9.245.476	4.740.411
	Infrastructure Modernization of Utilities	3.769.240	2.137.784
	Set up a storage of pharmaceutical alcohol	1.656.000	407.060
<b>2</b>	<b>New investments as follows:</b>	<b>56.795.740</b>	<b>13.798.321</b>
	Serialisation Equipment (Parenteral products Plant, Capsules Plant, Tablets Plant, Ointments and Suppositories Plant, Finished Product Storage)	17.250.000	4.872.357
	Smart Energy Monitoring System of the company	1.081.000	357.241
	Feasibility and design study to increase the production capacity of nystatin	92.000	3.000
	Rehabilitation of faades of the Parenteral Products Plant	46.000	0.000
	Tablets Plant investments	11.676.640	2.616.504
	Biosynthesis investments	2.950.900	509.091
	Parenteral Products Plant investments	1.127.460	35.903
	Capsules Plant investments	2.680.880	886.264
	Ointment and Suppositories Plant investments	89.240	18.374
	Medical Division -Acquisition of new licenses for new products and research projects	4.140.000	1.336.018
	Laboratory equipment for Medical Division	2.848.550	611.550
	Laboratory equipment for Quality Division	3.663.440	372.326
	Economic Division- Achizitie de tehnica de calcul	92.000	82.578
	Commercial Division- Equipment and installation acquisition, refurbishments, rehabilitations	3.402.390	1.280.211
	Achieving a roundabout on access from gate 2 of the company in DN (national roads) (Iasi-Pascani) Realizarea unui sens giratoriu la accesul de la poarta nr.2 a societatii in DN (Iasi-Pascani)	92.000	0.000
	Parking lot	920.00	0.000
	Engineering and Investment Division - Equipment and installation acquisition, refurbishments, rehabilitations	4.229.240	498.192
	Marketing Division	0.000	276.106
	Main Division/General Division	0.000	34.562

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The objectives of the investments included in the program are:

- achieving a new, high performance capacity, equipped with modern production facilities for the manufacture of ointments and suppositories, that can receive the GMP and FDA approval;
- modernization and refurbishment of existing production flows to increase production capacities, product quality and reduce production costs;
- modernization of installations that provide utilities for the entire platform;
- achieving objectives that are in line with the strategy for pollution reduction and environmental protection;
- to consolidate the integrated management system, create new production facilities to reduce costs, utilities consumption and increase work productivity, constant compliance with GMP Good Manufacturing Practice, as well as with Work and Protection environment rules and practices;
- increasing the storage capacity for raw materials corresponding to the increase of the production capacity.

### **I. ONGOING INVESTMENTS**

#### **1. Creating a Production Capacity for Ointments and Suppositories**

The aim of the project is creating a new production facility for the manufacturing of semi-solid pharmaceutical products divided into tubes and suppositories in order to increase the turnover and the capacity of Antibiotice S.A. to register, produce and market qualitative Romanian medicines on all regulated pharmaceutical markets (Europe, USA and Canada) by investing in a new plant that can receive GMP approval.

#### **Investment Objectives**

- construction and proper equipping of an Ointment and Suppository Plant that can receive the EU-GMP and FDA approval
- GMP Certification of the newly developed Ointments and Suppositories Plant by the national regulatory authority in the field (National Agency for Medicines and Medical Devices)
- appropriate conditions for the manufacture of medicines in compliance with legislative and pharmacopoeial requirements and their registration and marketing on all regulated markets, especially in Europe, USA and Canada.

#### **Justification of the investment**

The establishment of a modern plant for the manufacture of semisolid medicinal products divided into tubes (ointments, creams, gels) and suppositories is a guarantee of a long-term business development for Antibiotice S.A.

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

The strategy focuses on the development of the portfolio for the domestic market, but also on the diversification and penetration of new important foreign markets in Europe, North America, Asia and Africa.

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In order to ensure the main characteristics of the medicines (quality, efficiency, safety), their manufacture must be carried out in facilities equipped with performant equipment and critical utilities that meet the requirements of Good Manufacturing Practice (GMP).

For the second stage of this important investment project which is the development of the clean rooms and the related installations, the selection procedure of a specialized company for the contracting of turnkey works was carried out.

In February of 2018, a team of specialists of the company, together with the designer's representative for the company evaluation, carried out a reference visit to determine the capacity and capability to develop clean rooms and related facilities, specific to the pharmaceutical industry.

Following the reference visit, the following conclusions were drawn:

- the selected company has proven to have experience, logistics, trained and dedicated personnel for each component of such a complex project (design specialists, engineers of execution on specialties, engineers specialized in qualifications, etc.);
- the selected company has carried out manufacturing flows for the pharmaceutical industry of a complexity similar to our investment and at a very good quality level;
- the company owns production capacities for making the vast majority of the clean room components: partition elements (walls, doors, glazing, ceilings), ventilation plants, accessories for ventilation installations, etc. which can have an important contribution to quality, performance speed and flexibility of the Antibiotice S.A. project;
- an important asset is the fact that they have their own specialists for the necessary qualification and validation activities and a project manager will be appointed for this project only, a project which is considered large and complex.
- during the discussions regarding our project, they were willing to fully collaborate with the other suppliers (the technological equipment supplier, the supplier of the purified water system, the compressed air supplier, etc.) in order to avoid delays or damage to clean room furnishings or installations and to optimize installations and correlation of utility routes so that no intersections will occur.

Currently the contract was signed and the design phase is in progress. Technical meetings were held during which technical details were set regarding: ventilation-air-conditioning installations, clean room partitioning system, installations, etc.

### **2. Equipment for production plants, Quality Division, Medical Division**

Laboratory equipment and apparatus were contracted in 2017 for the purpose of refurbishing production flows and quality control and research laboratories for which payments will be made in 2018. Both manufacturing equipment and laboratory equipment, are the latest generation, with high productivity, low energy consumption, and high operational safety. The manufacturing equipment is designed to replace equipment with significant physical wear, which generates high maintenance costs and low productivity. Acquisition of modern laboratory equipment is necessary due to continuous revision of pharmacopoeial monographs and increased precision of analytical methods in the pharm industry laboratories.

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### **3. Investments aimed at modernizing the infrastructure of utilities**

Investments aimed at modernizing the infrastructure for the production, transport and distribution of utilities (technological steam, drinking water, district heating, demineralized water, power supply, sewage treatment) were started in 2017 and will be completed in 2018.

The main objectives of these investments are sizing and adapting utility routes to the current consumption of production flows, so as to save energy by reducing consumption and eliminating losses.

### **4. Set up a storage of pharmaceutical alcohol with flow sampling**

The need for such an investment has emerged as a result of the recommendations received from the Quality Assurance Structure in order to comply with the GMP standards. Also, as a result of the external audits that took place in recent years, it has become necessary to set up a storage for pharmaceutical alcohol. Since the pharmaceutical alcohol is raw material, the new storage must be organised in accordance with the GMP provisions. Alcohol being considered a solvent, the characteristics of the construction and the adjustments to be made in the new warehouse must also comply with the provisions of the Norms P118 / 1-2013 concerning the fire safety of the constructions.

## **II. NEW INVESTMENTS**

### **1. Serialisation equipment (Parenteral Products Plant, Capsules Plant, Tablets Plant, Ointments and Suppositories Plant, Finished Products Storage)**

Given that since 2019 all pharmaceutical products to be marketed both on the domestic and foreign markets (USA, EU) have to be serialized, it is also mandatory that the products that will be manufactured by Antibiotice S.A., to be serialized starting this year.

This measure becomes mandatory according to the requirements of the European Directive 2011/62 / EU and the Drug Quality and Security Act USA, concerning the policy to prevent counterfeit medicines from entering the market.

The serialisation systems will be purchased and included in the manufacturing flows within the production plants and finished products storage.

### **2. Smart Energy Monitoring System of Antibiotice S.A. - project co-financed by European funds, through the Operational Program High Infrastructure, Axis 6.2, with the title: Monitoring of Energy Consumption in Industrial Consumers.**

The overall objective of this project is to reduce the specific energy consumption (kgep / 1000 euro) within Antibiotice S.A. by an average of 1%, the period of 5 years after the implementation of the project, as a result of monitoring the consumption through the implementation of a smart metering system energy.

The specific objectives are as follows:

- monitoring and storing the consumption of electric power, natural gas in the company plants and other users where the monthly energy deduction is made;
- preparing daily reports of monitored energy consumption or, as the case may be, seasonal reports, reports on shifts and manufacturing cycles;

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- conducting consumption analyses / energy costs of the consumers or installations / equipment;
- the calculation of specific consumption that allows to establish the proper measures / strategies for a better efficiency of equipment / installations, and ethnic support for future upgrading projects.

### **3. Feasibility and design study to increase the production capacity of nystatin and modernize the clean area**

Creating a modern plant for the manufacture of active substance Nystatin represents the guarantee of a long-term business development for Antibiotice S.A.

The company's development strategy also focuses on maintaining and expanding of sales markets for the active substance Nystatin.

### **4. Investments in manufacturing flows**

In 2018 it was proposed the acquisition of equipment, installations, various equipment and laboratory apparatus in order to refurbish the production flows. The manufacturing equipment and the installations to be purchased are the latest generation, with high productivity, low energy consumption, and high operational safety. The manufacturing equipment is designed to replace equipment with significant physical wear, which generates high maintenance costs and low productivity. It is also necessary to purchase equipment and installations to ensure environmental protection measures, to reduce energy consumption and work safety.

### **5. Licensing new products and acquisition of research projects**

The new product development program has the following objectives:

- modernization of the company's product portfolio in order to provide last generation generic medicines, therapeutically effective and safe in administration for the internal market
- providing competitive pharmaceuticals on the foreign market and ensuring, in the long run, the growth of company's turnover and competitiveness
- reducing NHIH expenditures for the purchase of expensive imported medicines or under risk to be discontinued.

### **6. Research investments**

Research is one of the most dynamic activities in the company with continuous changes and an ascending evolution. Throughout the whole company, research acts as a dynamic element of the whole system, generating new products that drive growth in production. With specific use of intelligence and creativity, research contributes to product portfolio development.

Given the importance of the information obtained through the Medicines Evaluation Center, the investment program includes a range of equipment, endowments and software to support and improve research activities to obtain qualitative, valuable, competitive new products.



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### **7. Quality investments**

Considering the ongoing revision of pharmacopoeial monographs and the increased accuracy of analytical methods in the pharmaceutical industry laboratories, it has become imperative to acquire the latest generation equipment to make it possible to check the quality of the products manufactured by Antibiotice S.A. according to international standards. Quality Control Laboratories have a decisive role in demonstrating the quality and compliance of the products manufactured in our company, which is why they continuously need to be equipped with the most modern and performing laboratory equipment.

### **8. Logistics investments - Commercial Division**

Investments are mainly directed towards supplying the finished product storages with equipment that improves storage conditions and working conditions and increases labor productivity. Furthermore, by making certain acquisitions. replacement of old, high-wear equipment, which is no longer safe in operation, is also our objective.

### **9. Investments for the management and transport of utilities**

Investments are mainly focused on modernization and renewal of the systems, equipment and facilities that are used to manage the utilities (steam, compressed air, water, demineralized water, methane gas, electricity, drinking water, sewerage, etc.) of the entire platform of the company, in order to size and adapt the utility routes to the current consumption of manufacturing flows, so as to save energy by reducing consumption and eliminating losses.

By making these investments there will be benefits such as:

- safety in operation;
- increasing labor productivity;
- reducing intervention times by implementing a powerful diagnosis system based on error messages that reduce maintenance and repairs;
- energy and resource savings and, implicitly, better environmental protection;
- ease of use of the equipment by the human operator.

### **I. Optimizing operating costs and increasing operating efficiency**

#### **NET PROFIT OF THE TARGET PERIOD INCREASED WITH 5% COMPARATIVE TO SEMESTER I OF 2017**

Antibiotice S.A. carried out activity during the first half of 2018 in the spirit of achieving the objectives and indicators established through the Income and Expenditure Budget.

#### **Overall result**

Sales revenues of the target period recorded 157.7 million lei, an increase of 7% compared to 2017, when 147.2 million lei were registered, as a result of the company's sustained effort to consolidate the business.

Within the structure, the main expenditures evolved as presented below:

- the increase of 12% in raw material and material expenses is determined by both the manufacturing structure and a value of 26% of the superior production compared to the same period of 2017;

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- staff expenses registered an increase of 10% compared to 2017 due to the salary increases granted in May 2017, according to BVC approved in the General Meeting of Shareholders;
- Other operating expenses registered a value of 50 million lei, an increase of 5% compared to the same period of last year. These values were determined by the increase of the value of the claw back tax up to 18 million lei, higher than the planned value in BVC of 12 million lei and the value registered in the first semester of 2017 of 14 million lei. When preparing this report, the value of the claw back tax for the second quarter is at the estimated level, the final amount set by CNAS will be communicated at the beginning of August.

### **6. Investments in Research**

Research is one of the most dynamic activities in the company, which experiences permanent changes and an ascending evolution. Throughout the whole of the company, research acts as a dynamic element of the whole system, generating new products that drive a growth in production. With specific consumption of intelligence and creativity, research contributes to product portfolio development.

Given the importance of the information generated in the Center for Drug Evaluation, the investment program includes a range of equipment, endowments and software to support and improve research activities to obtain new, quality, valuable and competitive products on the market.

### **7. Investing in Quality**

Given the ongoing review of pharmacopoeial monographs and the increased accuracy of analytical methods in the pharmaceutical industry laboratories, it has become imperative to acquire the latest generation equipment to make it possible to check the quality of the products manufactured by Antibiotice at international standards. The Quality Control Laboratories have a decisive role in demonstrating the quality and compliance of the products manufactured in our company, which is why they need to be permanently equipped with cutting edge and performing laboratory equipment.

### **8. Investments to ensure logistics - the Commercial Unit**

The investments are mainly directed towards the endowment of the finished product warehouses with equipment that improves the storage conditions and working conditions and increases labor productivity. Also, by making certain acquisitions, the replacement of old, high-wear equipment, which is no longer safe in operation, is being performed.

### **9. Investments for the production and transportation of utilities**

The investments are mainly focused on the modernization and upgrading of the systems, equipments and installations for producing the utilities (steam, compressed air, water, demineralized water, methane gas, electricity, drinking water, sewerage, etc.) from the entire platform of the company, in order to dimension and adapt the utility routes to the current consumption of the production lines, so as to save energy by reducing consumption and eliminating losses.

By making these investments there will be benefits such as:

- safety in operation;

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- increase in labor productivity;
- a reduction of the intervention times by implementing a powerful diagnosis system based upon error messages that reduce the maintenance and repair work;
- energy and resource savings and, implicitly, a better environmental protection;
- ease of use of the equipment by the human operator.

### **I. Optimizing the operating costs and increasing the operating efficiency**

#### **THE NET PROFIT OF THE PERIOD UP BY 5% COMPARED TO THE FIRST SEMESTER OF 2017**

Antibiotice carried out its activity during the first half of 2018 in the spirit of achieving the objectives and indicators established through the Income and Expenditure Budget.

#### **The overall result**

The sales revenues of the period amounted to RON 157.7 million, up by 7% compared to 2017, when RON 147.2 million were registered, as a result of the company's sustained effort to consolidate the business.

In the structure, the main expenditures evolved according to the table below:

- the increase in raw material and consumable expenses is 12% and is determined by both the manufacturing structure and the value of the superior production by 26% compared to the same period of 2017;
- the staff expenses registered an increase of 10% compared to 2017 due to the salary increases granted in May 2017, according to the IEB approved in the General Meeting of Shareholders;
- other operating expenses registered a value of RON 50 million, up by 5% compared to the same period last year. These values were determined by the increase of the value of the claw-back tax to the level of RON 18 million, higher than the planned value in IEB of RON 12 million and the value registered during the first semester 2017 by RON 14 million. When drafting this report, the value of the claw-back tax for the second quarter is at the estimated level, the final amount set by NHIH will be communicated at the beginning of August.

<b>The overall result (RON)</b>	<b>30.06.2017</b>	<b>30.06.2018</b>	<b>2018/2017</b>
<b>Sales income</b>	<b>147.200.095</b>	<b>157.700.486</b>	<b>1.07</b>
Other operating revenues	13.517.588	14.810.614	1.10
Income related to product stock costs	19.038.444	23.440.792	1.23
Income from the activity of the entity and capitalized	800.167	1.549.525	1.94
Expenditure on raw materials and consumables	65.349.770	73.332.578	1.12

**The Administrator's Report for the first semester of 2018**

Staff costs	38.235.362	41.996.215	1.10
Expenses with amortization and depreciation	8.574.285	9.800.119	1.14
Other operating expenses	47.749.054	50.067.426	1.05
<b>Profit from exploitation</b>	<b>20.647.822</b>	<b>22.305.078</b>	<b>1.08</b>
Financing costs	-590.220	-1.460.910	2.48
<b>Profit before tax</b>	<b>20.057.602</b>	<b>20.844.169</b>	<b>1.04</b>
Profit before tax	861.407	741.122	0.86
<b>Profit</b>	<b>19.196.195</b>	<b>20.103.047</b>	<b>1.05</b>

The revenue and financial expenses are the income and expense with the interest of the period.

The profit before tax is for the reported period of RON 20.8 million, superior to that registered in 2017 by 4%, and 23% higher compared to the profit estimated in IEB.

The profit after tax is RON 20.1 million, higher than 2017 by 5% and to the budgeted profit by 41%.

**Situation of the financial position**

On June 30, 2018, the fixed assets of the company recorded a higher value of 3% compared to the beginning of the year. Accounting depreciation is calculated using the straight-line method according to IFRS.

	<b>01.01.2018</b>	<b>30.06.2018</b>	
<b>ASSETS</b>			
<b>FIXED ASSETS</b>			
Tangible assets	223.242.890	229.561.070	1.03
Intangible assets	13.107.622	13.412.260	1.02
<b>TOTAL FIXED ASSETS</b>	<b>236.350.512</b>	<b>242.973.330</b>	<b>1.03</b>
<b>CURRENT ASSETS</b>			
Stocks	67.264.546	103.634.791	1.54
Commercial and similar receivables	264.212.743	294.715.288	1.12
Financial assets held for sale	0	0	
Cash and cash equivalents	5.107.743	1.767.891	0.35
<b>TOTAL CURRENT ASSETS</b>	<b>336.585.032</b>	<b>400.117.970</b>	<b>1.19</b>
<b>TOTAL ASSETS</b>	<b>572.935.544</b>	<b>643.091.300</b>	<b>1.12</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Commercial and similar debts	55.535.974	72.933.264	1.31
Amounts owed to credit institutions	69.731.310	114.081.765	1.64
Tax and current tax liabilities	9.792.887	9.064.331	0.93
Short-term provisions			

## *The Administrator's Report for the first semester of 2018*

Investment grants	326.246	403.229	1.24
<b>TOTAL CURRENT LIABILITIES</b>	<b>135.386.417</b>	<b>196.482.589</b>	<b>1.45</b>
<b>LONG TERM DEBT</b>			
Investment grants	2.498.889	2.619.070	1.05
Deferred tax	18.172.398	17.924.462	0.99
Amounts owed to credit institutions	0	7.182.635	
<b>LONG TERM DEBT</b>	<b>20.671.287</b>	<b>27.726.167</b>	<b>1.34</b>
<b>TOTAL LIABILITIES</b>	<b>156.057.704</b>	<b>224.208.756</b>	<b>1.44</b>
<b>Social capital and reserves</b>			
<b>Social capital</b>	<b>264.835.156</b>	<b>264.835.156</b>	<b>1.00</b>
Revaluation reserves	14.556.141	13.569.294	0.93
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	-59.936.426	0.84
Current result	33.558.354	20.103.047	0.60
<b>TOTAL EQUITY</b>	<b>416.877.840</b>	<b>418.882.544</b>	<b>1.00</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>572.935.544</b>	<b>643.091.300</b>	<b>1.12</b>

### **Current assets:**

- the stocks experience a 54% higher level compared to the beginning of the year, due to the additional production achieved both for the revision period and for the period before the achievement of the new Ointments Plant;
- the total receivables amount to 12% higher due to the payment delays in the healthcare system.

For 2018, Antibiotice has proposed an ambitious Investment Plan worth RON 116.3 million approved by the GMS on 26.04.2018, supported by both the company's own resources and short-term bank loans (financing lines) and long-term loans, which led to an increase in indebtedness and a decrease in current liquidity, values that fit into the safety and economic efficiency panel.

Name of indicator	Calculation method	30.06.2017	30.06.2018
Current liquidity	Current assets/Current liabilities	2.36	2.04
Level of indebtedness	Borrowed capital/Equity x 100	17.7%	28.9%
Turnover speed, for client debit items	Average Customer Balance/Sales revenue x Time	325 days	322 days
Turnover speed for fixed assets	Sales income/Fixed assets	0.67	0.65

### **Balance sheet liability items**

The company records on 30 June 2018 current debts worth RON 135.4 million, increasing by 45% compared to 2017; the cash demand of the company in 2018 was higher

## *The Administrator's Report for the first semester of 2018*

than 2017, both for the payment of the claw-back tax, dividends to the shareholders as well as to support purchases for the Investment Plan, leading to greater use of credit lines.

### **Amounts owed to credit institutions on 30.06.2018**

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

Objective	Credit Line - Circulating Capital
Amount	RON 50.000.000
Maturity	16.08.2018
<b>Balance on June 30 2018</b>	RON 46.623.059
Guarantees	Mortgage contract for buildings, land/Contract for assignment of receivables

The long-term investment credit agreement no. IAS3-20-2018/03.05.2018 concluded with Unicredit Bank S.A.

Objective	Long-term investment credit
Amount	EUR 15.406.300
Maturity	02.05.2028
<b>Balance on June 30 2018</b>	EUR 1.540.974.33 (RON 7.182.635.45)
Guarantees	Mortgage contract for buildings, land, equipment purchased under the investment project/Contract for the assignment of receivables

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

Objective	Credit Line - Circulating Capital
Amount	RON 30.000.000
Maturity	25.06.2019
<b>Balance on June 30 2018</b>	RON 29.339.449.08
Guarantees	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 - Circulating Capital
Amount	EUR 9.500.000
Maturity	22.05.2019
<b>Balance on June 30 2018</b>	RON 14.513.695,84 EUR 5.064.375.49 (RON 23.605.560.60)
Guarantees	Mortgage contract for buildings, land/Contract for assignment of receivables

## ***The Administrator's Report for the first semester of 2018***

SC Antibiotice SA has not posted guarantees and has not pledged or mortgaged its own assets to guarantee obligations in favor of a third party.

### **Cash flow**

The level of cash and cash equivalents at the beginning of the period was -RON 64.6 million, representing credit lines worth RON 69.7 million, of which RON 5.1 million remained unused in accounts with banks in the same lines credit. The cash receipts from operating activities amounted to RON 151 million. The cash payments to suppliers of goods and services amounted to RON 106.3 million, and those to and on behalf of employees of RON 40.5 million.

At the same time, payments of RON 3.2 million, representing corporate tax, VAT, local taxes and bank interest, were made and payments were made for the purchase of fixed assets of RON 26.9 million. Contributions were paid to the Ministry of Health (claw-back tax) worth RON 19.1 million.

Regarding the financing activity, the long-term bank credits worth RON 7.2 million were accessed and RON 9.5 million worth dividends were paid.

At the end of the period, cash and cash equivalents amounted to -RON 112.3 million, which represents the value of credits for the current activity (RON 114.1 million) of which RON 1.8 million remained available in banks in the same credit lines.

The company has paid its entirety to the state and local budget amounting to RON 41 million.

## **II. The motivation of the human resource and the provision of the necessary skills to achieve strategic directions**

The human resources policy promotes the diversity and equal opportunity in recruiting, selecting and integrating employees. We provide employees with all the rights deriving from the law, offering fair and equitable working and professional development conditions.

**On 30.06.2018 the average number of the staff was 1420.**

By the nature of the specific activities carried out within Antibiotice, the structure of the staff on levels of education and professional training is as follows:

Higher education - 599 employees out of which:	42.19%
- 32 PhD employees (5%)	
Secondary education - 821 employees	57.81%
Total 1420	100%

**In order to achieve the strategic objectives** of the Business Plan for the period 2018-2020, the activity of Human Resources Management Unit during the first half of 2018 aimed to fulfil the specific objectives, structured within the strategies and action measures.

## *The Administrator's Report for the first semester of 2018*

The strategy “The staffing, the training of the skills needed to reach the objectives and the increase of the degree of involvement”

The concrete actions taken in implementing this strategy aimed at:

### **1. *Identify the staffing needs of each structure to achieve the objectives***

In order to put into practice an integrated vision of all the company's directions regarding the staffing corresponding to the needs of the proposed strategic objectives, Antibiotice operates the **Human Resources Commission**, which has the role of establishing the necessary staffing to ensure an optimal structure functioning, but also to maintain the balance of indicators assumed and approved through the Income and Expenditure Budget.

During the commission meetings in the year 2018, the results of the staffing needs analysis on the organizational structures of the company were presented taking into account the following:

- the need to fill vacancies
- developing teams in priority areas:
  - o quality assurance
  - o production
  - o promotion and commercial
  - o automation and investments

### **2. *The staffing with specialized personnel and the training of the necessary skills***

#### **Ensuring the staffing needs**

According to the approved human resources drawing plan, 39 people were employed between January and June 2018, namely:

- 15 higher education employees of which 4 for the development of the teams within the Quality Assurance, Promotion and Commercial, Production and 11 employees for completing vacancies;
- 24 secondary education employees of which 4 for the development of production and engineering teams and 20 for filling vacancies.

The recruitment of personnel was carried out by carrying out the specific recruitment and selection stages, as well as by the specific projects of attraction and selection.

#### **The “Performa a+” project, 3<sup>rd</sup> edition**

The project aims at developing practical skills among pharmacists (residents and senior students) for specific activities within the Medical Unit and at the same time creating a platform for long-term communication and collaboration with the “Gr.T.Popa” University of Medicine and Pharmacy, in training and attracting specialized personnel.

The **Perform a+** project has carried out this year's third edition within the Medical Unit, in collaboration with the Faculty of Pharmacy of Iasi, for the selection of graduates for the Pharmaceutical Research and Development activity. The program of theoretical and practical activities was supported by mentors appointed amongst the company's specialists.

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



## ***The Administrator's Report for the first semester of 2018***

The external component of this project aims at identifying and training specialists in the fields of pharmacy, biology, chemistry, chemical engineering for selection in order to fill vacancies in Research - Pharmaceutical Development, Quality Assurance, Quality Control, Production, by familiarizing the candidates with the working environment, concepts and regulations in the pharmaceutical industry.

Through this project well-known in the lasi academic environment and among the students of the lasi senior students, a total of 30 participants have been selected to benefit from training from the specialists in our company. The themes approached during the Summer School a+ classes will present information in the fields of Quality Assurance in a pharmaceutical company, Pharmacovigilance, Regulatory Affairs, specific laboratory techniques in Quality Control, research and pharmaceutical formulation, and will take place between July - August 2018.

***Up to now, 38 participants have been hired during the eight previous Summer School a+ editions.***

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

Within the partnerships established with the "Petru Poni" Technological Highschool in lasi and the Technological High School of Mechatronics and Automatizations for the 2017-2018 school year, 70 senior high-school students have been practicing in the company, a specialization as laboratory chemist/chemist operator in the medicine and cosmetics industry and for the students from the mechatronist/electromechanical technician specialization Antibiotice was a partner in the development of projects and events organized to encourage them to practice the chosen profession.

The program aims at building practical skills and enhancing students' knowledge in order to attract staff to replace employees facing retirement opportunities.

Under the "A different School" program, Antibiotice welcomed more than 350 students from the pre-university education institutions in lasi to present them with one of the most famous landmarks in the lasi industry, with its history and prospects for future development.

### ***3. Carrying out professional skills training programs***

In order to achieve the professional goals and performances necessary to increase the competitiveness and quality of the business, we annually develop human resource development projects with training programs in each direction according to the needs identified for each organizational structure and in close correlation with the community applicable legislative changes and the domestic legislation.

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

During the first semester, 226 employees underwent the scheduled training sessions, by specialization fields, resulting in an average of 19 hours of training/employee.

## ***The Administrator's Report for the first semester of 2018***

The internal component of the “Summer School a+” intended for the employees will also offer this year, at the 9<sup>th</sup> edition, the possibility for employees to receive training by pursuing both the development of specialized competencies in quality assurance, regulatory affairs, serialization, new requirements in validating manufacturing processes and equipment requalification as well as the organizational development through employers' brand themes, employee retention, legislative provisions on health and safety at work.

#### **4. Increasing the awareness and information degree of the employees and their involvement at all the levels of the organizational structure**

##### ***Establishing the 2018 objectives for the MBO staff***

Upon the basis of the approved indicators in the Income and Expenditure Budget for 2018 and starting from the Company's Business Plan for the period 2018 - 2020, the annual general objectives were established and the specific objectives for each activity for the employees included in the Management by Objectives system.

These objectives are set in accordance with the company's overall mission and objectives and involve the employees' motivation to achieve them through a focused and well-coordinated effort.

Once established and assumed, the objectives were transposed into additional acts to the individual labor contracts for a total of 340 employees involved in this system.

#### **5. Strategies and measures to increase the employee motivation**

During the first semester a salary study was initiated that would form the foundation of the salary system for the positions in the organizational structure of the company based upon the analyzes of the current salary system compared to the levels of similar positions on the labor market and the hierarchy of positiond on the basis of their complexity.

The analysis aims at restoring salary scales for the higher education and secondary education job positions, establishing career plans and assessing the possibility of aligning salary levels to this grid.

The increase in staff motivation is aimed at developing performance indicators and evaluation systems specific to key organizational components of the company, analyzing the possibility of introducing modern rewarding tools.

#### **6. Strategies and measures to increase the attractiveness of the employer brand**

In 2018, the company aims to develop a program to increase the attractiveness of the company in attracting and retaining the staff for which the instruments and the planning of its achievement were established during the first half of the year, namely:

## *The Administrator's Report for the first semester of 2018*

- The carrying out the impact study on the perception and attractiveness of the employer brand among the target audiences for recruitment
- Establish a plan to increase the brand awareness of the employer and the compliance of the HR practices based on the results of the impact analysis.

### **ASPECTS OF DIVERSITY**

**Ensure a favorable work environment and an organizational culture geared towards innovation and performance**

The employees' representatives together with the management of the company identify the best solutions in order to maintain a beneficial climate for the professional activities.

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

Antibiotice increased the number of women employed each year, providing equal opportunities for personal development, so that 54.78% of the total number of employees and 58.19% of the staff with management positions are women.

In our company there is a balanced distribution of employees according to gender and age:

<b>Age range</b>	<b>20 years</b>	<b>20-30 years</b>	<b>30-40 years</b>	<b>40-50 years</b>	<b>50-55 years</b>	<b>peste 55 years</b>	<b>Total (%)</b>
Women (%)	0.07	4.04	13.18	20.34	9.71	7.44	<b>54.78</b>
Men (%)	0	3.05	9.21	18.14	6.59	8.22	<b>45.22</b>
<b>Total (%)</b>	<b>0.07</b>	<b>7.09</b>	<b>22.40</b>	<b>38.48</b>	<b>16.30</b>	<b>15.66</b>	<b>100</b>

From the confessional point of view, 96% of our employees are Orthodox Christian and 4% are Roman Catholic, a proportion that respects the confessional structure at national level. This feature, as well as those related to gender, age, nationality or the presence of disabilities, are not limiting hiring criteria.

11 of our employees are people with disabilities and benefit from the legal provisions but also from equitable and non-discriminatory treatment at the workplace.

The dialogue with the co-interested groups is important for everything that our social responsibility policy entails. Therefore, we are always looking for opportunities for dialogue with our employees, shareholders, our business partners, local communities and pharmaceutical industry organizations to see how we can work together and how we can improve our performance.

Through collective negotiation within the company, the clauses of the Collective Labor Contract are established at the company level, thus guaranteeing employees the

## ***The Administrator's Report for the first semester of 2018***

labor protection, social protection, and also providing additional facilities for professional formation and development.

### **III. Quality management for compliance with legal, national and international requirements, specific to the pharmaceutical industry.**

Increasing the confidence in the quality, efficiency and safety of the company's products is achieved daily by keeping under control and improving the Quality Management System, attested by the results obtained after the following inspections/audits during the first semester of 2018.

#### **1. Inspections performed by the authorities**

During the period 13-14.02.2018 the **NAMMD** inspection was carried out for the conformity assessment of the GMP (Good Manufacturing Practice) of the Quality Management System of Antibiotice SA and the manufacturing lines of the ointments and ophthalmic ointments. Following the receipt of the Deficiency List, the CAPA Plan was submitted and a series of subsequent additions. At this time, we expect the receipt of the GMP certificate for the mentioned manufacturing lines.

#### **2. Audits from customers**

Partners have performed 2 audits, one at the Parenteral Products Plant and one at the Ointments and Suppositories Plant to qualify the company as a finished product supplier. Audits have been finalized without critical non-compliances.

#### **3. Audits to suppliers of raw materials/primary packaging materials/finished products**

In accordance with the Annual External Audit Plan 2018, a total of 5 external audits were carried out at manufacturers of active substances and primary packaging materials. No critical non-conformities were identified. The results were appropriate, the mentioned manufacturers may be maintained/included in the *List of approved suppliers* of Antibiotice SA.

### **Environment protection**

#### **Promoting the environmental protection**

Through the Environmental Management System, the environmental protection activity of Antibiotice manages the prevention of pollution and the continuous improvement of the environmental performance, acting in order to comply with the requirements of the environmental legislation.

By obtaining in January 2011 the Integrated Environmental Authorization, valid for 10 years, Antibiotice proves to be a company that observes the environmental requirements; thus, the emissions of pollutants into the air, water and soil are below the limits stipulated by the applicable rules in the field.

## ***The Administrator's Report for the first semester of 2018***

Under the Corporate Responsibility Program “Be pro nature. Put soul in it!” during the first semester of 2018 the ***Earth Hour 2018*** event unfolded. Antibiotice participated for the tenth consecutive year at what became the largest environmental campaign of all time. The „Earth Hour” event was marked by the fact that on March 24, 2018 between 20:30 and 21:30 the external lighting system was interrupted on the territory of the company in the areas where it was possible to do so as a symbolic gesture that urges for a responsible resource management.

Also, through the same program „Be pro nature. Put soul in it!”, the “The school orchard project” started in 2017 and continued in 2018, during which, in the first stage, two orchards with fruit trees were planted in the neighboring areas of the company - in two villages in the Lețcani area, through which the respect for the environment is taught to the younger generation, as well as the maintaining of a healthy lifestyle.

### **The responsibility towards the environment**

The activity of the company in the field of the environmental protection is regulated by the Integrated Environmental Authorization no. 1/10.01.2011 issued by the Regional Environmental Protection Agency from Bacău (valid until 10.01.2021) and by the Water Management Permit no. 303/20.12.2010 issued by the National Administration of Romanian Waters, the Prut-Barlad Water Basin Administration (valid until 31.12.2020).

In March 2018, the revised Integrated Environmental Authorization was issued for the activities carried out by Antibiotice.

In order to comply with the legislation in the field of environmental protection, Antibiotice provided the necessary endowments and qualified staff. The entire activity is regulated by specific procedures of the environmental management system, as well as by operating procedures and working instructions.

The monitoring of the environmental factors has been carried out according to the requirements of the Integrated Environmental Authorization, both through its own laboratories and through third-party laboratories, authorized by the Romanian Accreditation Association (RENAR).

### **Specific consumption and energy use**

The activity within the Biosynthesis Plant where Nystatin active substance is produced falls within the scope of the European Integrated Pollution Prevention and Control Directive (IPPC). During the first semester of 2018, the Biosynthesis Plant has framed the planned specific consumption regarding the quantities of solvents used.

### **Air quality**

During the first semester of 2018, the air quality monitoring was carried out in the laboratory through air pollutant emissions/immissions analyzes for the indicators: nitrogen

## ***The Administrator's Report for the first semester of 2018***

oxides, ammonia, suspended particulates and sedimentable powders. There have been no exceedances of the maximum admissible concentrations provided in the Integrated Environmental Authorization.

### **Water quality**

The water quality monitoring required analyzes of the quality of the water entering the company's own sewage treatment plant and discharged into the municipal sewage system, of 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 have been recorded.

### **Soil protection and the groundwater**

Of the total area of the land owned by Antibiotice, about 40% is free, with green spaces.

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

### **Waste management**

Antibiotice has implemented a selective waste collection system, as each production and auxiliary plant is equipped with appropriate collection containers.

The recyclable waste was capitalized on the basis of contracts with authorized economic operators.

The waste that was not capitalized was incinerated in the company's own facility or disposed of by landfilling at the municipal landfill.

The company observes the packaging waste management requirements (corresponding to the quantity of products that Antibiotice has introduced on the Romanian market). The overall objective, as well as the minimum recycling value targets, by type of material, set for 2018 (in accordance with Law No. 249 of 2015, with subsequently amended and supplemented), have been achieved.

### **Environmental plans and programs**

For the first semester of 2018, the environmental objectives established at the company level aimed at:

- Increasing the number of vehicles with EURO 6 equipment by purchasing new vehicles with the Euro 6 pollution standard (26 units) - objective achieved.

### **Prevention and management of emergency situations**

## ***The Administrator's Report for the first semester of 2018***

At Antibiotice, the prevention of emergency situations and the provision of the intervention capacity in the event of accidents are ensured through the activity of the following departments: Emergency Situations, Environmental Protection, Prevention and Protection.

For this purpose, the accident prevention and control plan, the accident prevention policy for the use of hazardous substances (solvents), the fire protection plan (fire prevention and extinguishing), the fire safety scenario, the emergency response procedures, the emergency preparedness and response capability procedures, authorizations/documents required for all the equipment subject to the regulations of the State Inspection for the Control of Boilers, Pressure Vessels and Hoisting Equipment (ISCIR).

During the first semester of 2018, an internal alarm exercise was conducted, in which the response capabilities of the emergency response teams were tested and assessed.

Within the legal deadline imposed by the Order of the Minister of Public Finance 1938/2016, Antibiotice SA undertakes to publish a Non-Financial Report which will be made available to the public on the company's website.

### **Conclusions:**

- **Sales revenue higher by 7% compared to the same period of 2017;**
- **Higher net profit by 5% compared to the first semester 2017;**
- **22 new Antibiotice Marketing Authorizations in 3 countries in Asia and Europe;**
- **Investment program supported by contracts concluded at least 83% of the budgeted value;**
- **Starting the program to increase the attractiveness of the employer brand.**

**Vice-Chairman of the Management Board,  
Ec. Ioan Nani**

**Economic Manager,  
Ec. Paula - Luminita Coman**

ANTIBIOTICE S.A.

Financial statements, June 30,  
2018

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



**ANTIBIOTICE S.A.**  
Financial statements on  
June 30, 2018

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**ANTIBIOTICE SA**  
**STATEMENT OF COMPREHENSIVE PROFIT**  
on June 30, 2018  
(all amounts expressed in LEI, if not mentioned otherwise)

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	NOTE	30.06. 2018	30.06. 2017
<b>Sales revenues</b>	<b>4</b>	<b>157,700,486</b>	<b>147,200,095</b>
Other operating revenues	<b>5</b>	14,810,614	13,517,588
Revenues relative to costs of product stocks		23,440,792	19,038,444
Capitalized income generated by the entity's activity		1,549,525	800,167
Expenses with raw materials and consumables	<b>6</b>	(73,332,578)	(65,349,770)
Staff-related expenses	<b>7</b>	(41,996,215)	(38,235,362)
Expenditure on amortization and depreciation		(9,800,119)	(8,574,286)
Other operating expenses	<b>8</b>	(50,067,426)	(47,749,054)
<b>Operating profit</b>		<b>22,305,079</b>	<b>20,647,822</b>
Financial income	<b>9</b>	2,856	2,835
Financial expenses	<b>9</b>	1,463,766	593,055
<b>Pre-Tax Profit</b>		<b>20,844,169</b>	<b>20,057,602</b>
Current and deferred income tax expense	<b>10</b>	741,122	861,407
<b>Profit</b>		<b>20,103,047</b>	<b>19,196,195</b>
<b>Other items of comprehensive income</b>			
Items not to be reclassified:		-	-
Gains/losses from revaluation of tangible fixed assets		-	-
Profit tax on other items of comprehensive income		-	-
Result reported after correcting the errors		(272,574)	-
<b>Total other items of comprehensive income, excluding taxes</b>		<b>(272,574)</b>	<b>-</b>
<b>Total comprehensive income</b>		<b>19,830,473</b>	<b>19,196,195</b>
<b>Earnings per share</b>	<b>11</b>	<b>0,029945</b>	<b>0,028594</b>

*Explanatory notes from 1 to 26 are an integrating part of the financial statements*

Drafted by:

General Manager  
Ioan NANI

Financial Director  
Paula COMAN

**ANTIBIOTICE SA**  
**STATEMENT OF THE FINANCIAL POSITION**  
on June 30, 2018  
(all amounts expressed in LEI, if not mentioned otherwise)

	NOTE	30.06. 2018	31.12. 2017
<b>ASSETS</b>			
<b>FIXED ASSETS</b>			
Tangible fixed assets	12	229,561,070	223,242,890
Intangible fixed assets	13	13,412,260	13,107,622
<b>TOTAL FIXED ASSETS</b>		<b>242,973,330</b>	<b>236,350,512</b>
<b>CURRENT ASSETS</b>			
Stocks	14	103,634,791	67,264,546
Trade and similar receivables	15	294,715,288	264,212,743
Cash and cash equivalents	16	1,767,891	5,107,743
<b>TOTAL CURRENT ASSETS</b>		<b>400,117,970</b>	<b>336,585,032</b>
<b>TOTAL ASSETS</b>		<b>643,091,300</b>	<b>572,935,544</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Commercial and similar liabilities	17	72,933,264	55,535,974
Amounts owed to credit institutions	18	114,081,765	69,731,310
Tax and current tax liabilities		9,064,331	9,792,887
Subventions for investments	19	403,229	326,246
<b>TOTAL CURRENT LIABILITIES</b>		<b>196,482,589</b>	<b>135,386,417</b>
<b>LONG-TERM LIABILITIES</b>			
Amounts owed to credit institutions	18	7,182,635	-
Subventions for investments	19	2,619,070	2,498,889
Deferred tax	20	17,924,462	18,172,398
<b>TOTAL LONG-TERM LIABILITIES</b>		<b>27,726,167</b>	<b>20,671,287</b>
<b>TOTAL LIABILITIES</b>		<b>224,208,756</b>	<b>156,057,704</b>

*Explanatory notes from 1 to 26 are an integrating part of the financial statements*

Drafted by:

General Manager  
Ioan NANI

Financial Director  
Paula COMAN

**ANTIBIOTICE S.A.**  
**STATEMENT OF THE FINANCIAL POSITION**  
on June 30, 2018  
(all amounts expressed in LEI, if not mentioned otherwise)

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	NOTE	June 30, 2018	Dec 31, 2017
<b>Share capital and reserves</b>			
<b>Share capital</b>	21	264,835,156	264,835,156
Reevaluation reserves	22	13,569,294	14,556,141
Legal reserves	22	13,426,761	13,426,761
Other reserves	22	166,884,712	162,134,513
Reported result	23	(59,936,426)	(60,650,699)
Distribution of profit		-	10,982,386
Current profit		20,103,047	33,558,354
<b>TOTAL EQUITY</b>		<u>418,882,544</u>	<u>416,877,840</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>643,091,300</u>	<u>572,935,544</u>

*Explanatory notes from 1 to 26 are an integrating part of the financial statements*

Drafted by:

General Manager  
Ioan NANI

Financial Director  
Paula COMAN

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

On June 30, 2018

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

	<b>H I 2018</b>	<b>H I 2017</b>
<b>I. Cash flows from operating activities</b>		
Cash collection from sales of goods and provision of services	150,552,755	136,483,579
Cash collection from royalties, fees, charges and other revenue	406,512	159,601
Cash payment to suppliers of goods and services	(106,266,915)	(86,371,622)
Cash payments to and on behalf of employees, payments made by the employer for its employees	(40,544,077)	(36,447,176)
VAT paid	0	(2,667,613)
Contributions to the Ministry of Health and Ministry of the Environment	(19,113,215)	(15,229,402)
Other duties, taxes, and similar levies	(485,069)	(989,576)
<b>Operating cash flow</b>	<b>(15,450,010)</b>	<b>(5,062,208)</b>
Interest charged	1,129	2,835
Interest paid	(1,276,903)	(489,868)
Tax on profit paid	(1,393,506)	(2,275,319)
<b>Net cash flows from operating activities</b>	<b>(18,119,291)</b>	<b>(7,824,560)</b>
<b>II. Cash flows generated by investments</b>		
Cash payments for purchasing land and fixed assets, intangible assets and long-term assets	(26,926,194)	(14,758,855)
<b>Net investment cash flow</b>	<b>(26,926,194)</b>	<b>(14,758,855)</b>
<b>III. Cash flows from financing activities</b>		
Acquisition of shares		
Dividends paid	(9,516,898)	(13,653,588)
Long-term bank credits	7,182,635	
<b>Net cash flows from financing activities</b>	<b>(2,334,263)</b>	<b>(13,653,588)</b>
<b>Gains / losses from exchange rate differences</b>	<b>(310,559)</b>	<b>(37,027)</b>
<b>Net increase / (decrease) in cash</b>	<b>(47,690,307)</b>	<b>(36,274,030)</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>(112,313,874)</b>	<b>(63,077,311)</b>
<b>Cash and cash equivalents at the end of the period include:</b>		
Accounts in banks and cash	1,767,891	8,141,408
Credit lines	(114,081,765)	(71,218,719)

*Explanatory notes from 1 to 26 are an integrating part of the financial statements*

Drafted by:

General Manager  
Ioan NANI

Financial Director  
Paula COMAN

	Subscribed capital	Adjustments regarding capital	Reserves	Other reserves	Current and reported result	Result from revaluation reserves	Distribution of profit	Reserves from revaluation	Result following applying IAS/IFRS for the first time	Result following applying IAS 29 for the first time	Error correction profit	TOTAL
<b>31.12. 2016</b>	67,133,804	197,701,352	13,426,761	146,528,189	30,370,811	7,901,456	0	16,925,870	126,779,469	(197,701,352)	-	409,066,360
Current comprehensive profit	-	-	-	-	33,558,354	-	-	-	-	-	-	33,558,354
Deferred tax relative to the revaluation difference	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation reserves	-	-	-	-	-	-	-	-	-	-	-	-
Transfer at the reported result from revaluation reserves	-	-	-	-	-	3,800,866	-	(2,369,729)	-	-	-	1,431,137
<i>Total other items of the comprehensive profit</i>	-	-	-	-	-	11,702,322	-	14,556,141	-	-	-	-
Distribution of legal reserve	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of other reserves	-	-	-	4,623,938	(4,623,938)	-	-	-	(1,431,137)	-	-	(1,431,137)
Dividends	-	-	-	-	(25,746,873)	-	-	-	-	-	-	(25,746,873)
Error correction profit	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of profit	-	-	-	10,982,386	-	-	(10,982,386)	-	-	-	-	-
<b>31.12. 2017</b>	67,133,804	197,701,352	13,426,761	162,134,513	33,558,354	11,702,322	(10,982,386)	14,556,141	125,348,331	(197,701,352)	-	416,877,840

	Subscribed capital	Adjustments regarding capital	Reserves	Other reserves	Current and reported result	Result from revaluation reserves	Distribution of profit	Reserves from revaluation	Result following applying IAS/IFRS for the first time	Result following applying IAS 29 for the first time	Error correction profit	TOTAL
<b>December 31, 2017</b>	67,133,804	197,701,352	13,426,761	162,134,513	33,558,354	11,702,322	(10,982,386)	14,556,141	125,348,331	(197,701,352)	-	416,877,840
Current comprehensive profit	-	-	-	-	20,103,047	-	-	-	-	-	-	20,103,047
Deferred tax relative to the revaluation difference	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation reserves	-	-	-	-	-	-	-	-	-	-	-	-
Transfer at the reported result from revaluation reserves	-	-	-	-	-	986,847	-	(986,847)	-	-	-	-
<b>Total other items of the comprehensive profit</b>	-	-	-	-	-	12,689,169	-	13,569,294	-	-	-	-
Distribution of legal reserve	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of other reserves	-	-	-	4,750,199	(15,732,585)	-	10,982,386	-	-	-	-	-
Dividends	-	-	-	-	(17,825,769)	-	-	-	-	-	-	(17,825,769)
Error correction profit	-	-	-	-	-	-	-	-	-	-	(272,574)	(272,574)

	Subscribe d capital	Adjustments regarding capital	Reserves	Other reserves	Current and reported result	Result from revaluation reserves	Distribution of profit	Reserves from revaluation	Result following applying IAS/IFRS for the first time	Result following applying IAS 29 for the first time	Error correction profit	TOTAL
June 30, 2018	67,133,804	197,701,352	13,426,761	166,884,712	20,103,047	12,689,169	-	13,569,294	125,348,331	(197,701,352)	(272,574)	418,882,544



**ANTIBIOTICE S.A.**  
**EXPLANATORY NOTES TO FINANCIAL STATEMENTS**

on June 30, 2018

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

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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 and is traded on the regulated market of the Bucharest Stock Exchange.

Our company's 8 manufacturing lines, 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 drugs for human use and 4 for veterinary use, designed to treat a wide range of infectious, dermatological, cardiovascular, digestive tract or musculoskeletal system diseases.

All production capacities are owned by the company and are located in the territory where the registered office is situated.

Our company has the right to ownership of all fixed assets registered in the company's accounts.

### **1.2 Corporate Governance structures**

Structuri pe care se bazeaza sistemul de guvernanta din cadrul Antibiotice: Antibiotice's governance system is based on:

- Management Board
- Advisory Committees
- Executive Management
- Code of Ethics
- Corporate Governance Code
- Internal audit, Managerial control

#### **Management Board**

Antibiotice is administered by a Board responsible for fulfilling all the tasks necessary to achieve the objective of the company, with the exception of those which fall into the task of the General Meeting of Shareholders, as provided by law. 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, 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 shareholders.

The duties 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 Corporate Governance section.

**ANTIBIOTICE S.A.**  
**EXPLANATORY NOTES TO FINANCIAL STATEMENTS**

on June 30, 2018

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

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**Management Board of Antibiotice SA on June 30th, 2018**

**Legal adviser, Ionuț-Sebastian IAVOR, 42 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's members as a President.

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 held - 0\***

**Economist, Ioan NANI, 58 years old**

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

At the Ordinary General Meeting of Shareholders held on April 19, 2016, Mr. Nani was reconfirmed as a member of 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 and accountant expert, member of the Management Board since 2009 and General Manager (1998 - 2008 and 2009 - present).

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

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

**Interim Member of the Management Board and Representative of the Ministry of Health**

At the Ordinary General Meeting of Shareholders held on April 26, 2018, Mr. Alexandrescu was elected as a member of the Management Board, in accordance with the provisions of art.64<sup>1</sup> of GEO no. 109/2011.

Mr. Dan-Octavian Alexandrescu is a State Secretary in the Ministry of Health, Coordinator of the Medicines and Medical Devices Policy Division.

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

**Economist Nicolae STOIAN, 61 years old**

**Member of the Management Board and representative of the shareholder SIF**

**Oltenia and of other shareholders - legal entities**

At the Ordinary General Meeting of Shareholders held on April 19, 2016, Mr. Stoian was elected as a member of the Management Board for a 4-year period.

Accounting expert, tax consultant and financial auditor.

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

**Engineer, Elena CALITOIU, 55 years old**

**Member of the Management Board and representative of the shareholder SIF Oltenia and of other shareholders - legal entities**

Confirmed as a member by the OGMS held on April 19, 2016, for a 4-year period.

**ANTIBIOTICE S.A.**  
**EXPLANATORY NOTES TO FINANCIAL STATEMENTS**

on June 30, 2018

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

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Mechanic engineer and Director of Placements & Risk Management Department, S.I.F. Oltenia, member of the Management Board since 2016.

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

### **Advisory committees**

The specialized advisory committees in 2018:

- *Audit Committee*: Mr. Ionut Sebastian Iavor, Mr. Nicolae Stoian and Ms. Elena Calitoiu;

- *Nomination and Remuneration Committee*: Ms. Elena Calitoiu and Mr. Ionut Sebastian Iavor;

- *Trade Policy Committee*: Mr. Dan Octavian Alexandrescu and Mr. Nicolae STOIAN.

The Advisory Committees conducted investigations, analyses, made recommendations for the Management Board in specific fields and submitted periodic reports on their activities.

### **Risk management**

Within Antibiotice S. A., risk management is a continuous process that involves identifying significant risks that may affect the company as a whole or one or more of the component structures, assessment, ranking and prioritization of these risks, while taking measures to mitigate exposure within the limits of risk tolerance in order to provide a reasonable assurance regarding the achievement of the established objectives and activities.

The main categories of risks which may occur in the company's activity are: financial, reputational and legislative.

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

- Exchange-rate risk
- Liquidity risk
- Commercial risk

***Exchange-rate risk***, a component of the financial risk, occurs frequently in the current market economy where monetary rates fluctuate under the supply and demand rule. A factor that determines the occurrence of currency risk is also the national and international political context.

Exchange rate fluctuations are reflected both in the costs of imported raw materials, as well as in the prices of finished goods for export.

Our company's risk management strategy implies: synchronizing the import with the export, by correlating the payment and collection terms as well as by correlating the share of foreign exchange, so that the moments in which the payments are to be done to be as close as possible, or even simultaneous with the export receipts; anticipating or delaying the payment or collection by fixing the appropriate maturity and introducing some protective price margins in conjunction with the forecasts on

**ANTIBIOTICE S.A.**  
**EXPLANATORY NOTES TO FINANCIAL STATEMENTS**

on June 30, 2018

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

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the evolution of the payment currency; covering the gap between earnings and payments of credits in the transaction currency.

**Liquidity risk** arises from the company's failure to honor, at any time, the short-term payment obligations.

Liquidity risk may occur in the following circumstances: collection of receivables at maturities exceeding 300 days; increased taxation/ lack of predictability (clawback tax); insolvency of some customers; increasing the price of utilities, raw materials and services.

The following measures were proposed for managing the liquidity risk: the correct estimation of payments and receipts, business internationalization, assessing the customers' creditworthiness, monitoring the receivables, reducing the receivable collection period in the domestic market, extending the payment terms for suppliers, covering the gap between receipts and payments of short-term credits.

**Commercial (default) risk** is the risk of incurring losses or not-reaching the estimated profits due to lack of financial liquidity of the borrower and the failure to pay upon maturity.

Default risk can arise in a number of circumstances: large exposures to the major distributors, long payment deadlines, plus the rescheduling, insolvency of some pharmacies and distributors, withdrawal of the distribution authorization.

In order to manage the commercial (default) risk, the company took the following steps: assessing the trading partners' creditworthiness by checking them before the conclusion of the contract, in multiple ways, monitoring the receivables through a permanent control and risk assessment, building a loyal relationship with the customers by organizing periodical meetings for constructive approaches; requesting for warranties (insurance policies, securities collateral agreements, guaranteed cheque notes and promissory notes, bank guarantee letters); ceasing the deliveries until the outstanding amounts are paid; provisioning of expenses for covering the risk of default.

Legislative changes regarding the pharmaceutical market lead to the occurrence of **legislative risk**, which must be continuously managed.

Pharmaceutical market is a regulated market, with clear legislative requirements elaborated for controlling the quality and therapeutic efficiency of the medicines present in the market and for avoiding counterfeiting.

Conformation to these requirements is reflected both in additional costs related to updating the documentation of compliance with the latest quality standards, in influences on the maximum sales prices as well as in delays in placing the products in the market.

The company's strategy of managing these risks involves a permanent concern for obtaining international certifications for the manufacturing flows, updating the authorization documentation for the products in the portfolio, conducting bioequivalence and stability studies, continuously pursuing legislative changes at international level.

**Image risk** is defined as the current or future risk which negatively affects the profits and capital because of the unfavorable perception on the company's image.

**ANTIBIOTICE S.A.**  
**EXPLANATORY NOTES TO FINANCIAL STATEMENTS**

on June 30, 2018

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

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In order to effectively manage the events that could lead to the risk of image, the following measures are envisaged: monitoring of the company's image in the mass media in order to identify any information which could generate image risks; periodical press releases with positive information; a good and transparent relation with the mass media; control of risks which could affect the company's image.

### **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 directors.

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 June 30, 2018**

**Ec. Ioan Nani, 58 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\***

**Engineer, Cornelia Moraru, 52 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, 50 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.

**ANTIBIOTICE S.A.**  
**EXPLANATORY NOTES TO FINANCIAL STATEMENTS**

on June 30, 2018

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

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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, 63 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\***

**Engineer, Cristina Lavinia Dimitriu, 60 years old**

**Strategic Development Director**

Graduated from the Faculty of Chemical Technology of Gheorghe Asachi Technical University of Iași, Mrs. Dimitriu obtained in 2000 the Master's Degree in Management and Business Administration at the same university. In 2007, she obtained the degree of Master in Management and Marketing granted by the Faculty of Pharmacy of the Grigore T. Popa University of Medicine and Pharmacy Iasi. Starting with the same year, he has become a PhD student of the Pharmacy Faculty Iasi .

After graduating from the faculty, she worked as a chemist engineer at the Fagaras Chemical Plant. She has been working with Antibiotice SA since 1987, initially in the Biosynthesis-Lysine Plant. In 1990, she became the Production Manager of the Parenteral Product Plant and, in 2000, she became Quality Control Manager for physico-chemical and microbiological analyzes. In 2007 she has become the qualified person in the manufacturing/import units of the medicines for human use and the representative of the management team for the integrated management system.

Ms. Lavinia Dimitriu was Quality Director between 2003- 2018.

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

**Economist, Gica RUSU, 54 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.

**ANTIBIOTICE S.A.**  
**EXPLANATORY NOTES TO FINANCIAL STATEMENTS**

on June 30, 2018

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

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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.

Mrs. Rusu has been Human Resources Director since 2004.

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

**Economist, Ovidiu BĂȚAGA, 40 years old**

**Marketing & Domestic Sales Director**

Graduated from the Faculty of Economics and Business Administration (FEAA) of Alexandru Ioan Cuza University of Iasi, Mr. Bățaga 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. Bățaga has been Marketing & Domestic Sales Director since 2010.

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

**Physician, Mihaela MOSNEGUȚU, 48 years old**

**Medical Director**

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

She started her professional activity as a physician in the Iași 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. Moșneguțu has been Medical Director since 2011.

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

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

**International Business Director**

Graduated from the Faculty of Economic Sciences of Alexandru Ioan Cuza University Iasi, in the International Economic Relations section.

In July 2008, Mr. Stoian was appointed the Head of the Intra-Community Deliveries & Export Department within the Marketing & International Relations Unit.

In August 2009, he became Export Manager and then, in June 2011, Business Development Manager.

Mr. Stoian has been International Business Director since 2012.

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

*\*Number of Antibiotice (ATB) shares held on September 11, 2017, according to the latest database owned by Antibiotice for 2017.*

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**General Meeting of Shareholders**

The company's executive management coordinates the strategic development of the company, in close cooperation with the Management Board. Periodically, the two bodies analyze the results obtained in implementing the strategy according to the business plan, performance criteria and Income & Expenditure Budget. In this respect, in the first half of 2018, the executive management informed the Management Board in five sessions, on all significant aspects of the activity carried out and its evolution in relation to the previous forecast, submitting reports according to the agenda of the meetings. These reports were analyzed by the members of the Management Board and based on them, as well as based on other information, decisions were made with effects on the company's activities.

Management Board represents the Company in relation with the appointed directors.

The President coordinates the Management Board's activity and submits reports to the General Meeting of Shareholders. He ensures that the company operates properly.

The President represents the Management Board in relationships with third parties.

The Vice-President replaces the President of the Management Board if the latter is temporarily absent (according to the article 29, Chapter V of Article of Association of Antibiotice SA.).

The General Meeting of Shareholders (GMS) represents the highest decision-making body of the company, where the shareholders participate directly and make decisions. Among other attributions, GMS decides the distribution of profit, elects the Management Board, appoints the auditors and set the remuneration for the members of the Management Board.

During the first half of 2018, the Management Board convoked on March 5, 2018 one Ordinary General Meeting of Shareholders and one Extraordinary General Meeting of Shareholders.

All the documents necessary for the proper conduct of the General Meetings were published in due time and according to the legislation in force.

**Ordinary General Meeting of Shareholders approved:**

- Income & Expenditure Budget for 2018; and
- increase of the fixed and variable allowances for the members of the Management Board and for the General Manager and the conclusion of additional acts under this approval, in view of the application of GEO no. 79/2017 for amending and completing the Law no. 227/2015 of Fiscal Code and GEO no. 90/2017 on some fiscal-budgetary measures, amendment and completion of some normative acts and prorogation of some deadlines.

**Extraordinary General Meeting of Shareholders** approved the establishment of two representative offices of the company, in the Republic of Moldova and Ukraine and the date for identifying the shareholders influenced by the effects of the decisions taken, in accordance with the provisions of the art. 238, para. 1 of Law no.



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297/2004 on the capital market, amended and completed by the provisions of Law no. 10/2015.

On April 26, 2018, the company's Management Board convened an Ordinary and an Extraordinary General Meeting.

**Ordinary General Meeting of Shareholders approved:**

- company's financial statements for the fiscal year 2017, based on the Management Report and Financial Auditor Report;
- distribution of net profit for 2017, setting the gross dividend per share amounting to 0.026552598 lei and setting the payment date on 14.09.2018;
- registering the unsolicited and unclaimed dividends for the financial year 2013 as revenues;
- the degree of achieving the objectives and performance criteria for 2017 for the members of the Management Board;
- discharge of administration for the activity conducted in the fiscal year 2017, based on reports submitted;
- objectives set in the Management Plan 2018 for the members of the Management Board;
- remuneration for the members of the Management Board as per [Law no. 111/2016](#) for the approval of the GEO no. 109/2011 on corporate governance of public enterprises;
- election of Mr. Dan-Octavian Alexandrescu as a temporary administrator of the Management Board, in accordance with the art. 64<sup>1</sup> of GEO no. 109/2011, following the termination of the mandate contract of Ms. Adela-Petrușia Neagoe;
- registration date 31.08.2018 in order to identify the shareholders subject to the effects of the decisions adopted, as per the provisions of art. 86, paragraph 1 of Law no. 24/2017 on issuers of financial instruments and market operations, and setting the ex-date for 30.08.2018.

**Extraordinary General Meeting of Shareholders approved:**

- to extend by 12 months the validity period of the multicurrency multiproduct credit amounting to 30 million LEI borrowed by Antibiotice from the Export Import Bank of Romania- Eximbank;
- to maintain the guarantees relative to the multicurrency multiproduct credit amounting to 30 million LEI throughout the entire term of validity resulting from the above-mentioned extension, in accordance with the article 1 on the Agenda;
- to issue a decision-commitment of Antibiotice SA not to divide itself, not to merge and decide the anticipated dissolution throughout the entire validity period of the multicurrency multi-product credit without the prior consent of Eximbank SA;
- to empower Mr. Ioan Nani, General Manager and Ms. Paula Coman, Financial Director to sign on behalf of the company all documents related to the credit facility extension, under the articles 1 and 2 of the Agenda, as well as documents related to the obligations assumed by the company in accordance with article 3 of the Agenda;

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- 
- to contract a long-term investment credit facility (10 years) amounting to EUR 15,406,300 from UniCredit Bank;
  - to guarantee the investment credit facility amounting to EUR 15,406,300 EUR;
  - to empower Mr. Ioan NANI, General Manager and Mrs. Paula-Luminita COMAN, Financial 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 the articles 1 and 2;
  - to establish the company's representative office in the Republic of Moldova, to the following address: Chişinău, 252/2, 259/3 Grenoble Street, Republic of Moldova.

S.O.C.E.C.C. SRL Bucharest audited the financial statements for the first half of 2018 and reviewed the compliance of the half-yearly report with the financial statements.

### **Code of Ethics**

The Code of Ethics of the Antibiotice SA Company presents the ethical standards of conduct that establish and regulate the corporate values, the business responsibilities and obligations of the organization and its operation procedure.

The Code of Ethics provides rules in key areas relating to employees, human rights, environmental management, social responsibility and corporate governance and contains guidelines that help the company to pursue its values.

The Code is a set of rules under which the company was developed, rules of ethical behavior in business and how to prevent illegal actions that might arise during the course of affairs within the company. The Code is binding and applies to all structures and activities of the company.

The Code of Ethics is a fundamental commitment to endeavor to comply 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/Investors/Corporate\\_Governance/Reference\\_documents/Code\\_of\\_Ethics](http://www.antibiotice.ro/Investors/Corporate_Governance/Reference_documents/Code_of_Ethics).

### **Code of Corporate Governance**

The Code of Corporate Governance of Antibiotice SA embraced the principles and recommendations of the Bucharest Stock Exchange and represents the tool through which Antibiotice implements these principles and recommendations by observing the rules of corporate governance.

The aim of the Corporate Governance Code is to create the framework for establishing strong relationships with the company's shareholders and other holders of interests, as well as for an effective and transparent, trust-based communication.

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

Chapter I - Responsibilities of the Management Board

Chapter II - Risk Management and Internal Control System

Chapter III - Fair reward and motivation

Chapter IV - Investor relations

It also has two annexes:

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Annex I - Management Board's Rules of Procedure

Annex II - Rules for evaluating the Antibiotice's administrators

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

**Chapter II - Risk Management and Internal Control System** demonstrates that the company's activity is supervised through certain risk management and internal control systems set up for this purpose. Also, internal audits are conducted in order to independently and periodically assess the safety and effectiveness of the risk management and internal control systems.

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

**Chapter IV- Investor relations** states the fact that Antibiotice must make constant efforts to provide the shareholders with updated information on events of interest to them (e.g. general meetings of shareholders, payment of dividends, etc)

In conclusion, the Corporate Governance Code of Antibiotice SA and its annexes draws the general framework under which the Management Board develops its activity in accordance with the rules and principles of corporate governance established by the Bucharest Stock Exchange, in order to create an attractive capital market, based on the best practices, transparency and trust.

### **Rights of the holders of financial instruments holders**

The corporate governance framework adopted and implemented:

- protects the rights of shareholders;
- ensures the fair treatment of all shareholders;
- acknowledges the role of third parties with interests in the company;
- ensures information and transparency;
- ensures the accountability of the Board to the company and shareholders.

On our company's website at [www.antibiotice.ro/investors/informationforshareholders](http://www.antibiotice.ro/investors/informationforshareholders), there is a section dedicated to shareholders, where one can access and download documents related to the General Meetings of Shareholders: procedures for the access and participation in meetings, the convener, additions to the agenda, informative materials, special powers of attorney, correspondence voting forms, resolution drafts, resolutions, voting results etc.

The company provides all those concerned with periodic and annual financial statements, prepared in accordance with the legislation in force. Also, the company complies with all disclosure requirements according to the legislation on the companies and the capital market.

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Within the company there is a structure specialized in the relation to the existing and potential investors called Investor Relations, whose main role is to ensure a good communication with the company's shareholders. The people appointed to liaise with investors treat with maximum efficiency the requests of shareholders and facilitate the dialogue with the company management. The company designs and develops an appropriate policy to promote effective communication with both investors and shareholders.

**Investors (according to the Shareholders' Registry on 17.04.2018)**

**I. Investors**

- Ministry of Health (\*) - 53.0173%,
- S.I.F. Oltenia (\*) - 14.4136%
- Broadhurst Investments Limited - 4.1977%
- S.I.F. Transilvania - 3.2632%
- Pension Fund AZT Your Viitorul Tau/Allianz - 2.1711%
- S.I.F. Banat-Crisana S.A - 2.1104%
- Privately managed pension Fund Metropolitan Life - 1.5116%
- Polunin Discovery Funds - Frontier Markets Fund - 0.8377%
- A-Invest - 0.7476%
- Privately managed pension Fund ARIPI/GENERALI S.A.F.P.P. - 0.6782%
- Other individuals and legal entities - 17.0516%.

During the first semester of 2018, dividends were paid for the financial years 2014, 2015 and 2016 amounting to 63,783.54 LEI, as follows:

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

Year	Net dividends						Suspensi on date of dividend payment	
	Due	Paid				Unclaimed on 30.06.2018		
		lei			% (paid in full)	lei		%
		Until 31.12.2017	01.01÷30.06 2018	Total				
0	1	2	3	4	5	6	7	8
2014	15.061.293	13,939,458.65	11,669,81	13,951,128.20	92.62	1,110,164.8 0	7,38	Payment in progress
2015	13.753.343	12,620,204.10	13,832,21	12,634,036.31	91.86	1,119,306.6 9	8,14	Payment in progress
2016	25.401.595	23,260,989.12	38,281,52	23,299.270.64	91.72	2,102,324.3 6	8,28	Payment in progress

For the financial years 2014, 2015 si 2016, the dividends are distributed directly through the Central Depository Bucharest and implicitly, through CEC Bank.

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**Antibiotice in the securities market**

The securities issued by Antibiotice are listed on the PREMIUM category on the Bucharest Stock Exchange under the symbol ATB 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, at the price of 2.1700 lei/share, and the historical minimum of 0.0650 lei/share was recorded on June 8, 2000.

Both the business plans and the financial results of the company represent a solid guarantee that the company has consolidated its position on the national pharmaceutical market.

Antibiotice shares (ATB), traded on the Bucharest Stock Exchange:

- are included in the BET-Plus index, which includes Romanian companies listed on the BVB market that meet the minimum selection criteria excluding the financial investment companies.
- are included in the BET-BK index, the index which reflects the evolution of prices of the shares issued by domestic and foreign companies admitted to trading on the regulated market administered by BVB.

This reflects the fact that Antibiotice is a sound company, developed on a durable economic foundation.

In the first half of 2018, the minimum price of an ATB share had the value of 0.4790 LEI. Share price rose to the maximum 0.5780 LEI/share.

On June 30, 2018 (the last trading day of the first semester), stock market capitalization of Antibiotice was 345, 068 thousand LEI.

**Antibiotice shares - ATB / REGULAR MARKET**

	2014	2015	2016	2017	H I 2018
Number of shares	671,338,040	671,338,040	671,338,040	671,338,040	671,338,040
Stock capitalization (thousand LEI)*	390,719	357,152	349,096	361,180	345,068
Stock capitalization (thousand EUR)*	87,173	78,868	76,875	77,511	74,031
Stock capitalization (thousand \$)*	105,978	86,167	81,123	92,813	86,196
Total transaction value (million LEI)	16	11	6	12	4
No. of traded shares	27,467,454	18,844,935	12,555,866	21,113,565	6,977,863
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	0,4790
Price at the end of the period (LEI/share)	0.5850	0.5320	0.5270	0,5380	0,5140
Average price (LEI/share)	0.5845	0.5836	0.5032	0,5585	0,5226

\* Calculated based on the share price on the last trading day of that period

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## **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 principal accounting policies applied in preparing the financial statements are set out below.

Policies have been consistently applied to all the years presented, unless otherwise stated.

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

### ***2.2 Bases of assessment***

Separate financial statements are prepared using the historical cost convention, depreciated 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). Separate financial statements are presented in LEI.

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. Monetary assets and liabilities in foreign currencies are converted at rates in effect at the reporting date.

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

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As a result of the uncertainties inherent in business activities, many items in financial statements cannot be precisely assessed, but only estimated. Estimation involves judgements based on 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. Estimates and judgments are continually evaluated based on 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 in our company:

*(a) 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 on assumptions 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 impairment of receivables*

Assessment for impairment of receivables is performed individually and is based on 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 . Precision in adjustments depends on estimates of future cash flows.

*(a) 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), opinions of legal advisors, 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.

*(b) 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

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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 will make preliminary expenses, which will be corrected in future periods when it will produce and output of cash flows. Estimates of expenditure for each category of expense will be made by someone with experience in the type of activity that generated the expense.

(c) *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 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 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 be were presented under other permitted methods IAS 1 "Presentation of Financial Statements".

**2.6 Intangible assets purchased**

Inventory of intangible assets is done in accordance with IAS 38 "Intangible assets" and IAS 36 "Impairment of Assets". Externally acquired intangible assets are initially recognized at cost and subsequently amortized on a straight-line basis over their useful economic life.

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)*

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

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



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***Tangible assets***

Tangible assets are tangible items that:

- a) are held for use in the production of goods or 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 an item of tangible asset should be recognized as an asset if and only if: it is probable that the entity will generate future economic benefits related to the asset; the cost of the asset can be reliably measured.

***Evaluation after recognition***

After 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 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.

Revaluations are made regularly enough to ensure that the accounting amount does not significantly differ from what would have been determined by using fair value at the end of the reporting period. The fair value of land and buildings is generally determined based on 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.

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.

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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. 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. Depreciation of an asset begins when it is available for use, ie 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 straight line 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. A 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 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*

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

- (I) is acquired or borne mainly for the purpose of selling or repurchasing to the nearest term;
- (II) at the initial recognition 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 an instrument designated and effective hedging instrument).

**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;
- 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 have classified financial assets or financial liabilities at fair value through profit or loss.

***Gains and losses***

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A gain or loss on a financial asset available for sale is recognized in other items of the comprehensive income, except for impairment losses. 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***

Cash and cash equivalents include the cash account, sight deposits with banks, other short-term highly liquid investments with original maturity dates of three 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.

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

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 on the completion of the manufacture.

*Adjustments for depreciation of stocks*

The stock depreciation assessment is performed individually and is based on 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 on the estimation of future cash flows.

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 quality viewpoint. The calculation of the general adjustment for depreciation of inventories is based on 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.

Impairment adjustments are recognized when there is objective evidence (such as significant financial difficulty of the partners or non-fulfillment of payment obligations or significant payment delay) that the company will not be able to collect all 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 on 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 in 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 on the type of asset: financial assets accounted for at amortized cost, financial assets accounted for at cost and available-for-sale financial assets.

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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, 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. 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 rebound must be recognized in profit or loss.

Adjustments for impairment of trade receivables consist of the specific provision, entirely constituted for litigation, based on which the general provision is calculated.

The general provision for impairment of client receivables is calculated based on the maturity of the outstanding receivables in the balance. Calculated depreciation adjustments may not exceed from value viewpoint the amounts that are required to settle the trade receivable. When analyzing receivables to be cashed, based on commercial effects, in situations where there are identified events 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***

Value Added Tax must be paid to the tax authorities on the basis of the monthly VAT return until the 25th of the following month, regardless of the level of recovery of receivables from customers. Tax authorities allow 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. 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***

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

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subsequently recorded at amortized cost using the effective interest method.

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

### ***2.12.1. Recognition of income***

Income represent, 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.

Income represents the recorded increases in economic benefits recorded during the accounting period in the form of inputs or increases of assets or debt reductions, which materializes in increases in equity other than those resulting from the contributions of shareholders.

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

#### **Income assessment**

Income is values at the fair value of the received counterperformance or which is to be received after reducing rebates and discounts.

The revenues are measured at the fair value of the counterperformance received or receivable after reducing rebates or discounts.

Income from the sale of goods is recognized when all the following requirements were met:

- (a) The entity has transferred to the buyer the significant risks and benefits related to the ownership of goods;
- (b) The entity no longer manages the goods sold to the extent that it would have done it normally in the case of the ownership of their property and no longer has effective control over them;
- (c) value of income can be reliably measured;
- (d) It is likely that the economic benefits associated with the transaction to be generated for the entity; and
- (e) The costs incurred or to be incurred in respect of the transaction can be reliably assessed.

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 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 revenue are not recognized.

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

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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 will be considered significant.

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

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 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 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.

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.

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 outflow of resources year incorporating economic benefits will be required to settle the obligation; and
- 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.

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



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

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

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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, 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 in 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 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 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.

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### ***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.

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 to which the other entity belongs);

(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) to (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 on 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 June 30, 2017:

- IFRS 9 *Financial Instruments* - replaces IAS 39 *Financial Instruments: Recognition and Measurement*. It includes the latest requirements for all three phases of the financial instruments project - classification and valuation, depreciation and hedge accounting that were issued between 2009 and 2013.

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- IFRS 15 *Revenue from Customer Contracts* and related amendments - replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and Related Interpretations (IFRIC 13 *Customer Loyalty Programs*, IFRIC 15 *Agreements on Property Construction*, IFRIC 18 *Transfers of Assets from Customers* and SIC 31 *Income - Barter transactions involving advertising services*). The objective of IFRS 15 is to clarify the principles of revenue recognition. This includes eliminating inconsistencies and weaknesses perceived, and improving the comparability of revenue recognition practices generated by companies, industries and capital markets. In this respect, IFRS 15 establishes a unique income recognition framework. The underlying principle of the framework is that an entity must recognize revenue to describe the transfer of goods or services promised to clients in an amount that reflects the consideration the entity expects to have the right in exchange for those goods or services.

- 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*. 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.

Effects of IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* are still under evaluation, but significant effects on the Company's future financial statements are not expected.

There will be no significant effects on the company's financial statements, as a result of changes to standards or annual improvements that will be in effect after January 1, 2018.

### **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. 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.

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***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>30.06. 2018</b>	<b>31.12 2017</b>
Trade and similar receivables	270,757,518	256,590,180
Cash and cash equivalents	1,767,891	5,107,743
<b>Total</b>	<b>272,525,409</b>	<b>261,697,923</b>
	<b>Amortized cost</b>	
<b>LIABILITIES</b>	<b>30.06. 2018</b>	<b>31.12 2017</b>
Trade and similar receivables	57,045,906	46,276,195
Short-term loans	114,081,765	69,731,310
Long-term loans	7,182,635	-
<b>Total</b>	<b>178,310,306</b>	<b>116,007,505</b>

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.

***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>30.06. 2018</b>	<b>31.12 2017</b>
Credits and loans	121,264,400	69,731,310
Cash and cash equivalents	(1,767,891)	(5,107,743)
<b>Net debt</b>	<b>119,496,509</b>	<b>64,623,567</b>
<b>Total equity</b>	<b>418,882,544</b>	<b>416,877,840</b>
<b>Net debt in equity (%)</b>	<b>28.53%</b>	<b>15.50%</b>

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**Foreign Exchange Risk**

The Company is mainly exposed to currency risk in the purchases made from the suppliers of raw materials, packaging and other materials outside Romania. Suppliers from whom the company purchases these items for production of medicines must have documents attesting the quality of their goods, as required by the European medicine registration rules. 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 June 30, 2018 the company's net exposure by types of currency to the foreign currency risk was as follows:

<b>Assets/liabilities in EURO equivalent in LEI</b>	<b>30.06. 2018</b>	<b>31.12 2017</b>
Monetary financial assets	5,916,192	3,902,185
Monetary financial liabilities	(24,215,959)	(12,895,388)
Net financial assets	<u>(18,299,766)</u>	<u>(8,993,202)</u>

<b>RON/EUR variation</b>	<b>Gain/ Loss</b>	
Appreciation of the LEU against EUR by 5%	(914,988)	(449,660)
Depreciation of the LEU against EUR by 5%	914,988	449,660
<b>Impact on result</b>	<u>-</u>	<u>-</u>

<b>Assets and liabilities in EUR</b>	<b>30.06. 2018</b>	<b>31.12 2017</b>
Monetary financial assets	1,269,270	837,433
Monetary financial liabilities	(5,195,331)	(2,767,429)
Net financial assets	<u>(3,926,062)</u>	<u>(1,929,996)</u>

<b>Assets/liabilities in USD equivalent in LEI</b>	<b>30.06. 2018</b>	<b>31.12 2017</b>
Monetary financial assets	25,450,370	15,609,753
Monetary financial liabilities	(7,600,621)	(9,099,908)
Net financial assets	<u>17,849,749</u>	<u>6,509,845</u>

<b>LEI/USD variation</b>		
Appreciation of the LEU against USD by 5%	892,487	325,492
Depreciation of the LEU against USD by 5%	(892,487)	(325,492)
<b>Impact on result</b>	<u>-</u>	<u>-</u>

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<b>Assets and liabilities in USD</b>	<b>30.06. 2018</b>	<b>31.12 2017</b>
Monetary financial assets	6,357,348	4,011,243
Monetary financial liabilities	(1,898,589)	(2,338,406)
<b>Net financial assets</b>	<b>4,458,759</b>	<b>1,672,837</b>

The company's net exposure to the foreign exchange risk, equivalent in LEI, is shown in the table below:

<b>Assets / Liabilities</b>	<b>30-lun-18</b>	<b>31-Dec-17</b>
LEI	101,847,757	148,173,777
EUR	(18,299,766)	(8,993,202)
USD	17,849,749	6,509,845
Alte valute (CAD,GBP)	-	(62)
<b>Net exposure</b>	<b>101,397,740</b>	<b>145,690,355</b>

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.

**Liquidity risk**

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 outstanding debts. To achieve this objective, the Company seeks to maintain cash balances (or facilities agreed upon) to satisfy the payment needs.

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 reasonable 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>30.06.2018</b>				
Commercial and similar debt	46,461,459	35,536,136	-	81,997,595
Credits and loans		114,081,765	7,182,635	121,264,400
<b>Total</b>	<b>46,461,459</b>	<b>149,617,901</b>	<b>7,182,635</b>	<b>203,261,995</b>

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	Up to 3 months	Between 3 and 12 months	Over 12 months	Total
<b>31.12.2017</b>				
Commercial and similar debt	17,325,401	48,003,461	-	65,328,862
Credits and loans		69,731,310	-	69,731,310
<b>Total</b>	<b>17,325,401</b>	<b>117,734,771</b>	<b>-</b>	<b>135,060,172</b>

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**Bank liquidity**

The banks where the company has bank accounts are periodically reviewed by the company's management.

**Operational risk**

Operational risk is the risk of some direct or indirect losses arising from a wide range of reasons associated to 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. Operational risks arise from all the Company's operations.

Management is responsible for conducting operational risk related-controls. Management is supported in its mission through the development of the company's general operational risk standards in the following fields:

- Requirements for separation of responsibilities, including independent transaction authorization;
- Requirements for reconciling and monitoring the transactions;
- Compliance with regulatory and legal requirements;
- Documenting controls and procedures;
- Requirements for periodic review of operational risk to which the Company is exposed 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;
- Development of business continuity plans;
- Professional development and training;
- Establishing ethical standards;
- Preventing litigation risk, including insurance, where applicable;
- Mitigation of risks, including the efficient use of insurance, where applicable.

**Adequacy of capital**

The management's policy regarding the capital adequacy is focused on maintaining a sound capital base, in order to support the company's ongoing development of and reach its the investment objectives.



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**4. SALES INCOME**

Sales income includes the following items:

<b>Description</b>	<b>30.06.18</b>	<b>30.06.17</b>
Finished product sales	163,227,620	142,123,765
Sales of goods	32,699,203	35,478,367
Trade discounts	(38,226,337)	(30,402,037)
<b>Total</b>	<b><u>157,700,486</u></b>	<b><u>147,200,095</u></b>

Sales revenue is mainly driven by sales of finished products directly to pharmaceutical distributors. On June 30, 2018, intra and extra-community sales amounted to 67,961,579 LEI as compared to 67,635,402 LEI on June 30, 2017.

The company earns from sales in individual values greater than 10% of total sales with a total of 5 clients.

**5. OTHER OPERATING INCOME**

Other operating income includes the following:

<b>Description</b>	<b>30.06.18</b>	<b>30.06.17</b>
Rental income	35,095	47,188
Income from research studies	173,398	135,632
Income from various activities	159,974	24,595
Income from indemnities, fines and penalties	29,462	19,233
Other operating income	1,322,041	956,506
Income from adjustments for depreciation of current assets	8,412,312	5,355,344
Income from provisions for risks and expenses	1,686,271	4,049,156
Exchange rate differences	2,992,061	2,929,934
<b>Total</b>	<b><u>14,810,614</u></b>	<b><u>13,517,588</u></b>

**6. RAW MATERIALS, CONSUMABLES AND GOODS**

Expenditure on raw materials and consumables consists of:

<b>Description</b>	<b>30.06.2018</b>	<b>30.06.2017</b>
Raw materials	43,475,560	38,158,361
Auxiliary materials	2,691,040	2,528,850
Goods	24,543,132	22,237,629
Expenditure on fuel and spare parts	2,125,682	1,900,497
Inventory items	299,044	353,316
Other consumables	198,121	171,117
<b>Total</b>	<b><u>73,332,578</u></b>	<b><u>65,349,770</u></b>

**7. STAFF EXPENSES**

Staff expenses consist of:

**ANTIBIOTICE S.A.**  
**EXPLANATORY NOTES TO FINANCIAL STATEMENTS**

on June 30, 2018

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

<b>Description</b>	<b>30.06. 2018</b>	<b>30.06. 2017</b>
Wages	38,199,336	29,253,528
Civil contracts	673,119	245,674
Taxes and social contributions	1,296,847	7,187,992
Other benefits (meal tickets)	1,826,913	1,548,168
<b>Total</b>	<b><u>41,996,215</u></b>	<b><u>38,235,362</u></b>

The company is managed in a unitary system, in accordance with the Law 31/1990 on trading companies, the management of the company being ensured by the Management Board of Antibiotice SA. The structure of the Management Board and Executive Team are presented in the Note 1. General Information.

Remuneration granted to the members of the Management Board and to the Executive Team is presented in the following table:

<b>Description</b>	<b>30.06.2018</b>	<b>30.07. 2017</b>
Wages	2,089,629	1,507,738
Civil contracts	673,119	245,674
Taxes and social contributions	64,267	339,473
<b>Total</b>	<b><u>2,827,015</u></b>	<b><u>2,092,885</u></b>

#### 8. OTHER OPERATING EXPENSES

Other operating expenses include the following:

<b>Description</b>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Utilities	5,347,690	4,696,756
Repairs	580,268	681,807
Rent	87,826	77,749
Insurances	620,116	663,012
Bank fees	985,572	688,498
Advertising & promotion of products	3,324,462	3,472,615
Travel & transport	1,797,146	1,759,469
Post & telecommunications	277,650	241,854
Other services provided by third parties	7,669,587	10,478,798
Other taxes	19,561,028	16,293,142
Environment protection	318,030	363,898
Losses and adjustments of uncertain receivables	5,561,145	1,501,702
Exchange rate differences	2,818,135	4,937,960
Sundries	1,118,771	1,891,794
<b>Total</b>	<b><u>50,067,426</u></b>	<b><u>47,749,054</u></b>

#### 9. FINANCIAL INCOME AND EXPENSES

Net financial income consists of:

**ANTIBIOTICE S.A.**  
**EXPLANATORY NOTES TO FINANCIAL STATEMENTS**

on June 30, 2018

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

Description	June 30, 2018	June 30, 2017
Interest income	1,129	2,835
Other financial income	1,727	-
Interest expenses	(1,389,097)	(498,246)
Other financial expenses	(74,669)	(94,809)
<b>Total</b>	<b>(1,460,910)</b>	<b>(590,220)</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**

Description	June 30, 2018	June 30, 2017
Current tax	960,550	1,184,810
Deferred tax expense/ income	(247,936)	(323,403)
Taxes specific to certain activities	28,508	-
<b>Total</b>	<b>741,122</b>	<b>861,407</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 and other taxes is presented in the following table:

Description	June 30, 2018	June 30, 2017
Total income	187,454,629	171,277,314
Total expenses (without profit tax)	166,270,944	150,775,946
<b>Gross book value</b>	<b>21,183,685</b>	<b>20,501,368</b>
Deductions	(11,783,345)	(11,443,492)
Non-deductible expenses	8,522,775	5,629,203
<b>Fiscal result</b>	<b>17,923,115</b>	<b>14,687,079</b>
<b>Profit tax (fiscal result x 16%)</b>	<b>2,867,698</b>	<b>2,349,933</b>
Tax reductions	(1,907,148)	(1,165,123)
<b>Current profit tax</b>	<b>960,550</b>	<b>1,184,810</b>
<b>Deferred profit tax</b>	<b>(247,936)</b>	<b>(323,403)</b>
<b>Taxes specific to certain activities</b>	<b>28,508</b>	<b>-</b>
<b>Total profit tax and other taxes</b>	<b>741,122</b>	<b>861,407</b>

**ANTIBIOTICE S.A.**  
**EXPLANATORY NOTES TO FINANCIAL STATEMENTS**  
on June 30, 2018  
(all amounts expressed in LEI, if not mentioned otherwise)

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**11. EARNINGS PER SHARE**

<b>Description</b>	<b>30-lun-18</b>	<b>30-lun-17</b>
Net profit(A)	20,103,047	19,196,195
Number of ordinary shares (B)	671,338,040	671,338,040
<b>Earning per share (A/B)</b>	<b>0,029945</b>	<b>0,028594</b>

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**ANTIBIOTICE S.A.**  
**EXPLANATORY NOTES TO FINANCIAL STATEMENTS**  
on June 30, 2018  
(all amounts expressed in LEI, if not mentioned otherwise)

**12. FIXED ASSETS**

	Land	Buildings	Technical installations & equipment	Other installations, equipment & furniture	Tangible assets in progress	Total
<b>COST</b>						
December 31, 2016	108,306,000	79,652,492	137,223,427	5,879,485	6,322,549	337,383,953
Acquisitions	-	3,738,017	16,819,970	337,980	33,762,998	54,658,965
Inputs	-	64,344	2,441,544	24,419	20,895,966	23,426,273
December 31, 2017	108,306,000	83,326,165	151,601,853	6,193,046	19,189,581	368,616,645
Acquisitions	-	-	14,924,673	97,888	15,010,409	30,032,970
Outputs	-	51,666	5,262,337	75,784	15,022,561	20,412,348
June 30, 2018	108,306,000	83,274,499	161,264,189	6,215,150	19,177,429	378,237,267
<b>AMORTIZATION</b>						
December 31, 2016	-	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
December 31, 2017	-	24,462,240	115,505,156	5,104,707	-	145,072,102
Cost of the period	-	4,661,117	3,917,492	113,619	-	8,692,228
Outputs	-	51,666	5,262,337	75,784	-	5,389,787
June 30, 2018	-	29,071,691	114,160,311	5,142,542	-	148,374,544
<b>PROVISION</b>						
December 31, 2016	-	59,200	244,652	-	-	303,852
Outputs 2016	-	2,200	-	-	-	2,200
December 31, 2017	-	57,000	244,652	-	-	301,652
Outputs 2018	-	-	-	-	-	-
June 30, 2018	-	57,000	244,652	-	-	301,652
<b>NET VALUES</b>						
June 30, 2018	108,306,000	54,145,808	46,859,226	1,072,608	19,177,429	229,561,070
December 31, 2017	108,306,000	58,806,925	35,852,045	1,088,339	19,189,581	223,242,890
December 31, 2016	108,306,000	65,756,308	25,300,561	1,016,931	6,322,549	206,702,347

### **Depreciation of fixed assets**

Accounting depreciation is calculated using the straight line method. For the fixed assets, new entries in 2018 such as installations, machines and measuring and control devices, the useful lives 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;
- moral wear and tear determined by possible changes in the production process according to the structure of the product portfolio provided by the company.

The inventory value of tangible assets held as collateral or guarantees is 46,674,266 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 aquisition cost and amortization related to the intangible assets are presented in the following table:

	<b>June 30,2018</b>	<b>Dec. 31, 17</b>
Initial balance	21,718,103	17,317,531
Inputs	2,575,479	11,330,798
Outputs	1008,982	6,930,226
Final balance	23,284,598	21,718,103
<b>Amortization</b>		
Initial balance	8,610,480	7,178,073
Cost of the period	1,261,858	1,432,407
Final balance	9,872,338	8,610,480
<b>Net value</b>	<b>13,412,260</b>	<b>13,107,622</b>

### **14. STOCKS**

<b>Description</b>	<b>June 30,2018</b>	<b>Dec. 31, 17</b>
Raw materials and consumables	19,509,424	21,618,301
Production in progress	1,571,981	2,430,978
Semi-finished and finished products	61,794,095	35,603,581
Goods	20,759,291	7,611,686
<b>Total</b>	<b>103,634,791</b>	<b>67,264,546</b>

The value of inventories held as collateral is 34,823,504 LEI.

### **15. TRADE AND OTHER RECEIVABLES**

**ANTIBIOTICE S.A.**  
**EXPLANATORY NOTES TO FINANCIAL STATEMENTS**  
on June 30, 2018  
(all amounts expressed in LEI, if not mentioned otherwise)

Description	30-lun-18	31-Dec-17
Trade receivables	316,776,794	299,570,239
Ajustments for trade receivables	(46,848,774)	(43,879,851)
Various debtors and other receivables	4,322,692	8,477,982
Adjustments for various debtors	(3,493,194)	(7,578,190)
<b>Total financial assets, other than cash, classified as loans and receivables</b>	<b>270,757,518</b>	<b>256,590,180</b>
Receivables related to employees	4,894	106
Other receivables from the State Budget	4,587,298	1,983,468
Advance payments	19,365,578	5,638,989
<b>Total</b>	<b><u>294,715,288</u></b>	<b><u>264,212,743</u></b>

On June 30, the company has recorded adjustments for trade receivables representing customer balance that are unlikely to be collected by the company. The receivables of the company were analyzed and evaluated according to criteria established according to the risks per customer.

Analysis of seniority	June 30,2018	Dec 31, 2017
Receivables - customers	316,776,794	299,570,239
up to 3 months	107,792,037	110,759,313
between 3 and 6 months	50,371,019	78,790,458
between 6 and 12 months	113,202,840	61,437,090
over 12 months	45,410,898	48,583,380
value adjustments related to receivables- customers	(46,848,774)	(43,879,851)

The fluctuations in the Company's provisions for the impairment of trade receivables are presented in the following table:

Adjustments of receivables	June 30, 2018	Dec 31, 2017
<b>At the beginning of the period</b>	51,458,041	59,507,495
Established during the year	9,348,452	13,293,189
Cancelling the adjustments	(10,464,524)	(21,342,643)
<b>At the end of the period</b>	<b><u>50,341,969</u></b>	<b><u>51,458,041</u></b>

Value of receivables established as guaranties is 263,277,535 LEI.

## 16. CASH AND CASH EQUIVALENTS

**ANTIBIOTICE S.A.**  
**EXPLANATORY NOTES TO FINANCIAL STATEMENTS**

on June 30, 2018

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

Description	June 30, 2018	Dec. 31, 2017
Available at the bank	1,738,731	5,096,113
Cash and cash equivalents	29,160	11,630
<b>Total</b>	<b><u>1,767,891</u></b>	<b><u>5,107,743</u></b>

**17. TRADE AND OTHER PAYABLES**

Description	June 30, 2018	December 31,2017
Trade payables	44,176,425	34,385,826
Suppliers of fixed assets	7,825,982	5,287,438
Employee-related liabilities	1,723,406	1,676,678
Wage provisions	2,900,000	4,586,271
Other debts	134,093	166,176
Outstanding interest	286,000	173,806
<b>Total debt less loans, classified as measured at depreciated cost</b>	<b>57,045,906</b>	<b>46,276,195</b>
Taxes and social contributions	2,659,333	2,872,453
Dividends	12,706,827	5,670,739
Advance money from customers	521,200	716,587
<b>Total</b>	<b><u>72,933,266</u></b>	<b><u>55,535,974</u></b>

**18. AMOUNTS OWED TO CREDIT INSTITUTIONS**

**Amounts owed to the credit institutions at 30.06.2018**

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	16.08.2018
<b>Balance on June 30, 2018</b>	<b>46,623,059 LEI</b>
Warranties	Mortgage contract for buildings, land/ Receivable assignment contract

Long-term investment 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



**ANTIBIOTICE S.A.**  
**EXPLANATORY NOTES TO FINANCIAL STATEMENTS**

on June 30, 2018

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

Maturity	02.05.2028
<b>Balance on June 30, 2018</b>	1,540,974.33 EUR ( 7,182,635.45 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	25.06.2019
<b>Balance on June 30, 2018</b>	29,339,449.08 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	22.05.2019
<b>Balance on June 30, 2018</b>	14,513,695.84 LEI 5,064,375.49 EUR ( 23,605,560.60 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

**ANTIBIOTICE S.A.**  
**EXPLANATORY NOTES TO FINANCIAL STATEMENTS**

on June 30, 2018

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

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

Objective	Credit line-working capital
Amount	30,000,000 LEI
Maturity	26.06.2018
<b>Balance on December 31, 2017</b>	<b>25,905,001.42 LEI</b>
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>	<b>8,739,544.83 LEI</b> <b>1,355,830.54 EUR ( 6,317,763.57 LEI )</b>
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 favor of a third party.

## 19. SUBVENTIONS FOR INVESTMENTS

The subventions for investments have the following structure:

<b>Subventions for investments</b>	<b>30-Jun-18</b>	<b>31-Dec-17</b>
Waste water treatment plant	2,501,998	2,639,349
Research project-UMF Iasi	38,799	16,786
Other amounts received in the form of subsidies	481,501	169,000
<b>Total</b>	<b><u>3,022,298</u></b>	<b><u>2,825,135</u></b>

The amounts reflected in the account subventions for investments represent values received by the company in the form of subsidies 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.

**ANTIBIOTICE S.A.**  
**EXPLANATORY NOTES TO FINANCIAL STATEMENTS**  
on June 30, 2018  
(all amounts expressed in LEI, if not mentioned otherwise)

**20. DEFERRED INCOME TAX**

The variation of debts on the deferred income tax is presented in the following table:

Description	June 30, 2018	December 31, 2017
Initial balance	18,172,398	18,758,368
Cost / (income) deferred tax	(247,936)	(585,970)
<b>Final balance</b>	<b>17,924,462</b>	<b>18,172,398</b>

The main components of the deferred income tax are: deferred tax related to the revaluation of fixed assets during the period 2004-2009 and deferred tax related to revaluations in the years 2012 and 2015.

**21. SHARE CAPITAL**

Subscribed share capital of the company on June 30, 2018 is 67,133,804 lei, the nominal value of an share being of 0,1000 lei/share. Our company has 671,338,040 shares which confer equal rights to the company's shareholders. SC Antibiotice SA has not issued preference shares.

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 GD 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 share capital 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 share capital - the first application of the IFRS	197.701.352

**21. RESERVES**

Reserves include the following components:

**ANTIBIOTICE S.A.**  
**EXPLANATORY NOTES TO FINANCIAL STATEMENTS**  
on June 30, 2018  
(all amounts expressed in LEI, if not mentioned otherwise)

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<b>Description</b>	<b>30-lun-18</b>	<b>31-Dec-17</b>
Reserves from revaluation of fixed assets	16,349,638	17,524,457
Legal reserves	13,426,761	13,426,761
Deferred tax recognized on equity	(2,780,345)	(2,968,316)
Other reserves	166,884,712	162,134,513
<b>TOTAL</b>	<b><u>193,880,766</u></b>	<b><u>190,117,415</u></b>

The following describes the nature and purpose of each reserve within the equity:

<b>Reserve</b>	<b>Description and purpose</b>
Reserves from revaluation of fixed assets	If the carrying value of a tangible asset is increased as a result of the revaluation, then the increase should be recognized in other items of global result and cumulated in equity, as a revaluation surplus. Revaluation reserves can not be distributed and can not 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 not be distributed with implications on the recalculation of the profit tax. The difference represents reserves made up of profits.

## 22. REPORTED RESULT

Reported result includes the following:

<b>Description</b>	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Reported result - surplus from revaluation reserves	12,689,169	11,702,322
Result reported from error correction	(272,574)	-
Retained earnings arising from the use of fair value as deemed cost at the date of transition to IFRSs	125,348,331	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><u>(59,936,426)</u></b>	<b><u>(60,650,699)</u></b>

The result from the correction of errors is the result of the documentary verification of the deduction of expenses in the annual income tax return D101 for the year 2016 and the rectification of the fiscal statement.

#### **24. CONTINGENT LIABILITIES**

SC Antibiotice SA has no contingent debts on June 30, 2018.

#### **25. EVENTS AFTER THE REPORTING PERIOD**

There are no significant subsequent events that are not disclosed in these financial statements.

#### **26. INFORMATION ABOUT THE AUDIT OF FINANCIAL STATEMENTS**

The financial audit for the first semester 2018 was carried out by SOCECC SRL. The auditor provided only financial audit services.

**Accounting, Expertise & Accounting Consultancy Company  
SOCECC Ltd.**

**INDEPENDENT AUDITOR'S REPORT**

**on**

**INTERIM FINANCIAL STATEMENTS**

**drawn up by**

**ANTIBIOTICE S.A.**

**for the H1 2018**

- IAȘI -  
- 2018 -

**INDEPENDENT AUDITOR'S REPORT**  
**to the SHAREHOLDERS of ANTIBIOTICE S.A.**

**Review report on interim financial information**

We have reviewed the interim financial statements of ANTIBIOTICE S.A. ("The Company") comprising the statement of financial position as of June 30, 2018, statement of comprehensive income, statement of changes in equity and cash flow statement for the six - month period ending on June 30, 2018, as well as a summary of the significant accounting policies and other explanatory notes.

Management is responsible for the preparation and fair presentation of these interim financial statements in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

**Scope of review**

We have made the review in accordance with the International Standard on Review Engagements 2410 *"Review of Interim Financial Statements performed by an Independent Auditor of the Entity"*. A review of interim financial information consists of interviewing people, in particular those responsible for financial and accounting matters and of applying analytical procedures and other review procedures. The scope of a review is substantially lower than that of an audit conducted in accordance with the International Standards on Auditing and we are not allowed to obtain assurance that we have been aware of all material matters that might have been identified in an audit. Therefore, we do not express an audit opinion.

**Conclusion**

Based on our review, we have not identified any evidence that would make us believe that the interim financial statements drawn up by ANTIBIOTICE S.A. on June 30, 2018 are not prepared, in all material respects, in accordance with IFRS.

Iași, August 3, 2018

Accounting, Expertise & Accounting Consultancy Company SOCECC Ltd.  
represented by Zegrea Laurențiu, CAFR certification no. 2666