

S.C. ANTIBIOTICE S.A. IASI
MANAGEMENT BOARD
AUDIT COMMITTEE

ANNUAL REPORT
of the Audit Committee on the activity carried out in 2018

Based on the provisions of the capital market legislation, the Audit Committee established within the Management Board of Antibiotice S.A. Iasi elaborated the report on the annual assessment of the effectiveness of internal audit and internal control reports and of the risk management system.

In 2018, the Audit Committee met in the following sessions for analysis and approval:

- 1. Session held on 31.01.2018**, with the following agenda:
 - Assessment of the Internal Audit Office's activity in Q IV 2017.

- 2. Session held on 14.05.2018**, with the following agenda:
 - Annual assessment of the effectiveness of internal audit and internal control reports and of the risk management system in 2017.

- 3. Session held on 12.06.2018**, with the following agenda:
 - Assessment of the Internal Audit Office's activity in Q I 2018.

- 4. Session held on 22.10.2018**, with the following agenda:
 - Assessment of the Internal Audit Office's activity in Q II and QIII 2018.

- 5. Session held on 10.12.2018**, with the following agenda:
 - Approval of the Audit Plan for 2019.

The Audit Committee conducted its activity in compliance with the provisions of the legislation and regulations of the capital market, the following aspects being analyzed:

- a) monitoring the effectiveness of internal audit and risk management systems;
- b) monitoring the statutory audit, verifying and monitoring the independence of the external financial auditor;
- c) monitoring the financial reporting process;

Following the carried out analysis and verifications, the Audit Committee ascertained the following:

INTERNAL AUDIT OFFICE

The Internal Audit Office conducted its activity in compliance with:

- the multi-annual strategic internal audit plan approved by decision of the Management Board;
- the annual internal audit plan for 2018 validated by the Audit Committee and approved by the Management Board;
- Law 672/2002 republished, on internal public audit;
- G.D. no. 1086/11.12.2013 for the approval of the General Norms on the exercise of the public internal audit activity;
- Its own methodological norms approved by the Management Board of Antibiotice SA Iasi.

In 2018, 9 internal audit missions were conducted, in accordance with the Annual Plan for 2018 approved by the Management Board. These missions had the following general objectives, adapted to domains, according to the specifics of the audited organizational structures:

- examination of compliance with all the principles, specific procedural and methodological rules, internal notes and decisions;
- examining how the activity was organized;
- evaluation of the management and control system of the activity;
- other activity-specific objectives.

The internal audit missions were as follows:

1. Evaluation of activity of the Biosynthesis Plant from the Technical Production Unit;
2. Evaluation of activity of the Investment Office from the Engineering & Investment Unit;
3. Evaluation of activity of the Automation Service from the Engineering & Investment Unit;
4. Evaluation of activity of the General Services from the Commercial & Logistics Unit;
5. Evaluation of activity of the Internal Sales & Marketing Promotion from the Marketing & Internal Domestic Sales Unit,
6. Evaluation of activity of the Legal Counseling;
7. Evaluation of activity of the Business Development Unit;
8. Evaluation of activity of the Communication Unit;
9. Evaluation of activity of the Internal Prevention and Protection Service.

The missions were carried out in compliance with the audit procedures, by going through all stages of an internal audit mission and resulted in Internal Audit Reports approved by the General Director. The conclusions and recommendations in the audit reports for each audit mission were appropriated by the audited structures.

The way of monitoring the implementation of the recommendations formulated within the internal audit missions is provided in the operational procedure, the code: AI-021 "Follow-up of recommendations". After the implementation deadline is exceeded, the audited structures have to communicate in writing the implementation status of the recommendations. So, of the 48 recommendations in the audit reports elaborated during 2018, 30 recommendations had implementation deadlines until 31.12.2018 and it was found they were implemented.

The Internal Audit Office conducted also activities involving inventory management and control with personnel with attributions in this respect. During the year, a number of 15 inventory actions were carried out, which included the following entity's departments:

- our company's central raw material and consumable warehouses ;
- places of consumption of raw materials and consumables where stock inventories are organized.

The inventory activity aimed at observing the legal framework established by the following

normative acts:

- Accounting Law no. 82 / 1991 , republished and updated;
- Law no. 22 / 1969 on the employment of treasurers, provision of guarantees and liability in relation to asset management;
- O.M.F. 2861 / 09.10.2009 for the approval of the Norms regarding the organization and performance of the inventory of assets, debts and equity;
- Operating Procedures, Internal Notes, Internal Decisions of the company's Management.

As a result of the inventory control actions, the following were observed: the legal regulations and internal decisions regarding the stock management are respected; there is a concordance between the actual and recorded stocks as a result of periodical checkings performed during the year between the quantitative evidence held at the level of the audited structures and quantitative-valuation evidence within the Accounting Office.

The financial management control was carried out in accordance with the provisions of G.D. no. 1151/2012, with the following objectives:

- verifying the compliance with the legal provisions regarding the accounting of the economic and financial operations ;
- verifying the compliance with the legal provisions regarding the execution of the income and expenditure budget for 2017;
- verifying the compliance with the legal provisions in substantiating the draft income and expenditure budget of the company for 2018;
- verifying the compliance with the legal provisions and internal regulations regarding the manner of performing the annual inventory of assets, liabilities and equity for 2017;
- verifying the compliance with the legal provisions and internal regulations with respect to receipts and payments in lei and foreign currency of any kind, in cash or by transfer;
- verifying the compliance with the legal provisions and internal regulations with respect to drafting, circulation, preservation and archiving of primary, accounting and technical-operative documents.

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

RISK MANAGEMENT

Risk management is the process of identifying the significant risks that may affect the company as a whole or only a component structure, their evaluation, ranking and prioritization as well as establishing measures for mitigating the exposure in line with the risk tolerance limits to provide reasonable assurance on the achievement of the established objectives and activities.

In the risk management process, the following actions were carried out in 2018:

- The “Tolerance limits” used in the risk analysis were approved. Thus, after applying the control measures, the residual risks must fall within the following limits:
 - Risks that lower the income and turnover/ increase the expenses – in the “Toleration”area;
 - Risks that affect the company’s image – in the “Toleration”area;
 - Human Resource risks – in the “Average tolerance”area;
- Within each structure, the risk responsible person identified and evaluated the significant risks related to their own objectives and activities, formulated the risk response strategy and filled out the risk alert form;

- Based on the risk alert forms, the Risk Management Team analyzed the risks identified in each structure and established the necessary measures to manage them;
- Each risk responsible person filled out the Risk Register, a register which was approved by the manager of the unit and sent it to the Risk Analysis Office.
- Based on the received Risk Registers, the General Risk Register was elaborated.
- After assessing the risks and establishing the risk response strategy, the implementation of the risk management measures for each structure was monitored;
- The process went on with the risk review, the stage in which the responsible persons analyzed whether: the risks persist, new risks arose, the impact and probability underwent changes, in which case the exposure to risk was reviewed; new measures and new terms were necessary for their implementation; the treated risks could be closed;
- The entire process was completed by filling out the residual risk in the Risk Register, the Manager of the Unit approved it and then the Risk Register was forwarded to the Risk Analysis Activity and the General Risk Register was updated.

Following this process, 14 general risks were identified (risks that affect the company's general objectives)

1. *Financial risks:*
 - Liquidity risk
 - Currency risk
 - Commercial risk (default risk)
2. *Economic risks:*
 - Loss of source of raw materials / finished product
 - Troubles in achieving the export turnover
 - Decrease in turnover in the domestic market
 - Drop in profit
3. *Technological risks:*
 - Exceeding the planned technical & economic indicators - specific consumption, yields
4. *Image risks:*
 - The company's image is affected by the negative information in written and on-line press
5. *Human resource risks:*
 - The labor market lacks of performers in the specific areas of pharmaceutical market (pharmacy, medicine, chemistry, quality assurance)
 - Voluntary departures of the employees
6. *Legislative risks:*
 - Identification of critical deficiencies during audits conducted by the national and European authorities as well as by Antibiotice SA to the beneficiaries of contracts
 - Involvement of employees in activities that affect the legal and efficient functioning of the company.

Unauthorized access to data or unauthorized disclosure of personal data

Prior to applying the control measures, nine inherent risks were in the "Average tolerance" area and five of them in the "Intolerable" area.

After applying the control measures, ten residual risks were in the "Toleration" area and four of them in the "Average tolerance" area.

Risks left unsolved after the application of control measures were to a large extent the risks generated by external factors.

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

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

During 2018 there were periods with higher volatility, with depreciation rates of the LEU currency. Since the beginning of the year, the national currency depreciated by 0.61% against EUR and by 9.32% against USD.

At the end of 2018 the exchange rate earnings amounted to 7,373,362 LEI, the expenses to 7,109,232 LEI, resulting in a net gain from the exchange rate difference of 264,130 LEI.

In order to mitigate this risk, our company tried to synchronize export and import activities by correlating the payment and collection deadlines and correlating the weight of the currencies so that the time for payment be as close as possible to or even simultaneously with that of the export receipts.

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

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

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

Type and number of risks by each Unit:

Marketing & Domestic Sales Unit

47 risks were identified, out of which 25.53% were in the “Toleration” area, 46.81% in the “Average toleration” area and 27.66% in the “Intolerable” area.

After applying the control measures, 44.68% of the residual risks were in the “Toleration” area, 38.30% in the “Average tolerance” area and 17.02% in the “Intolerable” area.

Technical & Production Unit / Engineering & Service

69 risks were identified in the 11 departments, of which 62.32% were in the “Toleration” area and 37.68% in the “Average tolerance” area.

After applying the control measures, 82.61% of the residual risks were in the “Toleration” area and 17.39% in the “Average tolerance” area.

Medical Unit

26 risks were identified, out of which 57.69% were in the “Toleration” area, 38.47% in the “Average tolerance” area and 3.84% in the “Intolerable” area.

After applying the control measures, 96.15% of the residual risks were in the “Toleration” area and 3.85% in the “Intolerable” area.

Human Resources Management Unit

6 risks were identified, out of which 16.67% are in the “Toleration” area, 66.67% in the “Average tolerance” area and 16.67% in the “Intolerable” area.

After applying the control measures, 16.67% of the residual risks were in the “Toleration” area and 83.33% in the “Average tolerance” area.

Financial Unit

21 risks were identified, out of which 57.15% were in the “Toleration” area, 33.33% in the “Average tolerance” area and 9.52% in the “Intolerable” area.

After applying the control measures, 76.19% of the residual risks were in the “Toleration” area and 23.81% in the “Average tolerance” area.

Logistics & Supply Unit

19 risks were identified, out of which 31.58% in the “Toleration” area, 68.42% in the “Average tolerance” area. During the risk reassessment process, another 5 new risks were identified resulting in a number of 24 risks.

After applying the control measures, 83.33% of the residual risks were in the “Toleration” area and 16.67% in the “Average tolerance” area.

International Business Unit

21 risks were identified, out of which 33.33% in the “Toleration” area, 52.38% in the “Average tolerance” area and 14.29% in the “Intolerable”area.

After applying the control measures, 66.67% of the residual risks were in the “Toleration” area and 33.33% in the “Average tolerance” area.

General Unit

36 risks were identified, out of which 36.12% in the “Toleration” area , 47.22% in the “Average tolerance” area and 16.66% in the “Intolerable”area.

After applying the control measures, 63.89% were in the “Toleration” area, 30.56% in the “Average tolerance” area and 5.55% in the “Intolerable”area.

Quality Assurance and Quality Control

18 risks were identified, out of which 27.78% in the “Toleration” area, 61.11% in the “Average tolerance” area and 11.11% in the “Intolerable”area.

After applying the control measures, 61.11% were in the “Toleration” area and 38.89% in the “Average tolerance” area.

Import Office

4 were identified, out of which 1 risk in the “Average tolerance” area and 3 in the “Intolerable”area.

After applying the control measures, 2 risks were in the “Average tolerance” area and 2 risks in the “Intolerable”area.

Legal Service

After applying the control measures, 4 risks were closed, 4 residual risks were in the “Toleration” area and 1 risk in the “Average tolerance” area.

Communication Office

After applying the control measures, 2 residual risks are in the “Toleration” area

FINANCIAL REPORTING

The Audit Committee analyzed the way of complying with the legal provisions and regulations of ASF and BSE *on how to prepare, report and inform the public about:*

- individual financial statements (31.12.2017),
- quarterly financial statements (Q I and Q III 2018),
- half-yearly financial statements (30.06. 2018)

The Audit Committee found that the annual, half-yearly and quarterly reporting activity was carried out in accordance with the capital market legislation, with the established methodology and formulas and includes all the documents stipulated in the A.S.F regulations. and B.V.B. Code.

Financial reports were sent to A.S.F. and B.V.B. and were made available to the public in due time. The transmission of documents to ASF and BVB and to inform investors was done both in Romanian and in English.

STATUTORY AUDIT

The Audit Committee analyzed the reports drafted by the Accounting, Expertise & Accounting Consultancy Company SOCECC Ltd. on the audit of the individual financial statements prepared by Antibiotice S.A. Iasi for the financial year ended on 31.12.2018, namely:

- Report on the Audit of Individual Financial Statements drawn up by Antibiotice S.A. Iasi, for the financial year ended on 31.12.2018;
- Additional Report submitted to the Audit Committee, drafted by the Accounting, Expertise & Accounting Consultancy Company SOCECC Ltd.

Following the analysis, the Audit Committee noted the following:

1 - Individual financial statements of Antibiotice S.A. Iasi comprise the financial position statement, statement of comprehensive income, statement of changes in equity and cash flow statement and the notes related to the financial statements as well as a summary of the significant accounting policies.

The individual financial statements as of December 31, 2018 are identified as such:

- | | |
|-----------------------------|-----------------|
| - Net assets/ total equity: | 472,727,315 LEI |
| - Net profit | 34,303,788 LEI |

In the auditor's opinion, the attached individual financial statements give a true and fair view, in all significant aspects, on the financial position of Antibiotice company on December 31, 2018, as well as on the financial performance and cash flows in accordance with the Order of the Minister of Public Finance no. 2844/2016 (OMPF no. 2844/2016) for approving the accounting regulations compliant with the International Financial Reporting Standards adopted by the European Union ("IFRS-UE").

The Independent Auditor's conclusion on the individual financial statements is that there are no significant errors to report.

In the Management Report, the auditor did not find any information inconsistent, in all material respects, with the information presented in the individual financial statements as at December 31, 2018.

The Management Report was drawn up, in all material respects, in accordance with the Order of the Minister of Public Finance no. 2844/2016 (OMFP no. 2844/2016).

No significant errors were identified in the Management Report.

The Accounting, Expertise & Accounting Consultancy Company SOCECC Ltd. did not provide non-audit services for the company that are prohibited according to the article 5, para. (1) from the UE Regulation no. 537/2014.

2. In accordance with the article 11 of the EU Regulation no. 537/2014 and art. 29 of Law no. 162/2017, the Independent Auditor prepared the Additional Report on the individual financial statements of Antibiotice S.A. Iasi, resulting in the following important issues:

- The Accounting, Expertise & Accounting Consultancy Company SOCECC Ltd. confirms that the administrators, key partner auditor and audit team that performed the statutory audit are independent of Antibiotice S.A. Iasi.

- The key partner responsible for signing the audit report is Zegrea Laurentiu, member of CAFR.

- On 19.02.2019 the results of the planning stage were communicated and the main identified audit risks were identified. Participation as observers in the asset and stock inventory

process as well as the audit activity data were also reported.

- The audit mission for the fiscal year 2018 took place starting with July 2018 on the occasion of the review mission using the same procedures that were used in the annual mission.

- On November 22, 2018 the procedures for checking the inventory process there were started. These procedures were completed in January 2019.

- Starting with February 13, 2019 the audit procedures were carried out and on March 11, 2019 the audit mission was completed and the additional Report was drafted and submitted to the Audit Committee.

- No events or conditions have been identified that can create significant uncertainties as to the ability of the company to continue its business.

- No significant deficiencies were identified in the audited financial statements or in the control or accounting system of Antibiotice S.A. Iasi.

- By the date of the audit, Antibiotice S.A. provided all the information and documents requested by the independent auditor.

The Annual Report of the Audit Committee will be submitted for approval to the Management Board of Antibiotice S.A. and will be published on the company's own website within the period provided by the regulations in force.

AUDIT COMMITTEE,

Nicolae STOIAN

Elena CALITOIU

Cristian GRASU