

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

ANNUAL REPORT
of the Audit Committee on the activity carried out in 2019

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 2019, the Audit Committee met in the following analysis and approval sessions:

- 1. Session held on 21.02.2019**, with the following agenda:
 - Assessment of the Internal Audit Office's activity in Q IV 2018.
- 2. Session held on 22.02.2019**, with the following agenda:
 - Annual assessment of the effectiveness of internal audit and internal control reports and of the risk management system in 2018. Approval of the Activity Plan of the Audit Committee for 2019.
- 3. Session held on 26.02.2019**, with the following agenda:
 - Approval of the Questionnaire addressed to the Audit Committees of the public interest entities, sent by the Council for Supervision of Public Statutory Audit Activity.
 - Assessment of the Internal Audit Office's activity in Q I 2018.
- 4. Session held on 26.03.2019**, with the following agenda:
 - Approval of the Report on the results of the Statutory Audit for 2018.
- 5. Session held on 12.06.2019**, with the following agenda:
 - Evaluation of the activity of the Internal Audit Office in the first quarter of 2019.

6. **Session held on 14.06.2019**, with the following agenda:

- Approval of the Annual Report of the Audit Committee regarding the results of the Statutory Audit for 2018.

7. **Session held on 11.11.2019**, with the following agenda:

- Evaluation of the activity of the Internal Audit Office in the Q2 and Q3 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 analysis and verifications, the Audit Committee ascertained the following:

INTERNAL AUDIT OFFICE

The specialized internal control provided by the legislation in force is carried out through: its own internal audit activity completed by the financial inventory control and inventory control. The procedure of setting and achieving the objectives of the internal audit, findings and recommendations resulting from all the internal control actions are presented quarterly to the Audit Committee of the Management Board for the evaluation of the activity and internal control exercised in the company.

10 internal audit missions were conducted in 2019, having general objectives adapted to auditable areas, 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 targeted the following auditable organizational structures or areas:

1. Evaluation of activity of the Technical & Production Unit;
2. Evaluation of activity of the Engineering & Investment Unit;
3. Evaluation of activity of the Commercial & Logistics Unit;

4. Evaluation of activity of the Marketing & Domestic Sales Unit,
5. Evaluation of activity of the Import Department;
6. Evaluation of the corruption prevention system;
7. Evaluation of the decision-making system;
8. Evaluation of the company's management and control system;
9. Evaluation of activity of the Human Resources Management;
10. Evaluation of activity of the Quality Control.

The missions were carried out in compliance with the audit procedures and resulted in Internal Audit Reports approved by the General Director. The conclusions and recommendations were appropriated by the audited structures.

The recommendations formulated during the internal audit missions were followed in order to be implemented. So, of the 50 recommendations, 35 of them had implementation deadlines until 31.12.2019. 18 recommendations were implemented. The extension of the implementation term was requested for 17 recommendations as a result of the reorganizations during the year in question.

In 2019, a number of 21 inventory actions were carried out, which included the following departments:

- our company's central raw material and consumable warehouses;
- places of consumption of raw materials and consumables where stock inventories were organized.
- departments in which the inventory operator was changed.

The inventory activity met 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 inventory operators, provision of guarantees and responsibility in relation to the asset management;
- O.M.F. 2861 / 09.10.2009 for the approval of the Norms regarding 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 were met; there was a concordance between the actual and recorded stocks as a result of periodical checkings performed during the year between the quantitative inventory records and quantitative-value inventory records.

The financial inventory 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 2018;
- verifying the compliance with the legal provisions in substantiating the draft income and expenditure budget of the company for 2019;
- verifying the compliance with the legal provisions and internal regulations regarding the manner of performing the annual inventory of assets, liabilities and equity for 2018;
- 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 were presented.

RISK MANAGEMENT

Within Antibiotice S.A., 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 2019:

- The risk management procedure was updated according to OSGG no. 600/2018 regarding the approval of the internal management control of the public entities, the date of entry into force: 01.03.2019;
- 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 “Tolerance” area;

- Risks that affect the company's image – in the "Tolerance" area;
- Human Resource risks – in the "Average tolerance" area;
- In 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 risks identified in each structure were analyzed and the necessary measures to cope with them were established;
- Each risk responsible person filled out the Risk Register, a register which was approved by the manager of the unit and sent to the Risk Management Department.

Risk Management Department:

- analyzed the risk registers from each department and elaborated the General Risk Register;
- elaborated the Control Measures Implementation Plan based on the General Risk Register, risk profiles and risk alert forms;
- 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 persisted, 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 department approved it and then the Risk Register was forwarded to the Risk Analysis Department and the General Risk Register was updated.

Following this process, 269 risks were identified of which 32 were included in the General Risk Register. These were risks with high exposure affecting the company's general objectives.

Prior to applying the control measures, 49.81% risks were in the "Tolerance" area, 37.92% in the "Average tolerance" area and 12.27% of them in the "Intolerable" area.

After applying the control measures, 77.70% residual risks were in the "Tolerance" area, 21.93% in the "Average tolerance" area and 0.37% in the "Intolerable" area.

Risks by each Unit:

Marketing & Domestic Sales Unit

25 risks were identified, out of which 24% were in the "Tolerance" area, 44% in the "Average Tolerance" area and 32% in the "Intolerable" area.

After applying the control measures, 56% of the residual risks were in the "Tolerance" area, 40% in the "Average tolerance" area and 4% in the "Intolerable" area.

Technical & Production Unit

38 risks were identified in the 6 departments, of which 71.06% were in the "Tolerance" area, 23.68% in the "Average tolerance" area and 5.26% in the "Intolerable" area.

After applying the control measures, 89.47% of the residual risks were in the "Tolerance" area and 10.53% in the "Average tolerance" area.

Engineering & Service Unit

48 risks were identified in the 6 departments, of which 77.08% were in the "Tolerance" area and 22.92% in the "Average tolerance" area.

After applying the control measures, 91.67% of the residual risks were in the "Tolerance" area and 8.33% in the "Average tolerance" area.

Medical Unit

13 risks were identified, out of which 61.54% were in the "Tolerance" area, 30.76% in the "Average tolerance" area and 7.70% in the "Intolerable" area.

After applying the control measures, 84.62% of the residual risks were in the "Tolerance" area and 15.38% in the "Average tolerance" area.

Research-Development Unit

13 risks were identified, out of which 46.16% were in the "Tolerance" area and 53.84% in the "Average tolerance" area.

After applying the control measures, all the residual risks were in the "Tolerance" area.

Human Resources Management Unit

21 risks were identified, out of which 28.58% were in the "Tolerance" area, 47.62% in the "Average tolerance" area and 23.80% in the "Intolerable" area.

After applying the control measures, 61.90% of the residual risks were in the "Tolerance" area and 38.10% in the "Average tolerance" area, all the risks being within the approved tolerance area.

Financial Unit

17 risks were identified, out of which 64.71% were in the "Tolerance" area, 25.53% in the "Average tolerance" area and 11.76% in the "Intolerable" area.

After applying the control measures, 94.12% of the residual risks were in the "Tolerance" area and 5.88% in the "Average tolerance" area.

Logistics & Supply Unit

23 risks were identified, out of which 43.48% in the “Tolerance” area, 56.52% in the “Average tolerance” area.

After applying the control measures, 91.30% of the residual risks were in the “Tolerance” area and 8.70% in the “Average tolerance” area.

Marketing & International Sales Unit

19 risks were identified, out of which 5.27% in the “Tolerance” area, 57.89% in the “Average tolerance” area and 36.84% in the “Intolerable” area.

After applying the control measures, 26.32% of the residual risks were in the “Tolerance” area and 73.68% in the “Average tolerance” area.

General Unit

15 risks were identified, out of which 53.33% in the “Tolerance” area and 46.67 % in the “Average tolerance” area.

After applying the control measures, 93.33% were in the “Tolerance” area and 6.67% in the “Average tolerance” area.

Quality Unit

19 risks were identified, out of which 21.05% in the “Tolerance” area, 57.90% in the “Average tolerance” area and 21.05% in the “Intolerable” area.

After applying the control measures, 63.16% were in the “Tolerance” area and 36.84% in the “Average tolerance” area.

Import Office

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

After applying the control measures, 1 risk was in the “Tolerance” area and 3 risks in the “Average tolerance” area.

Legal Unit

After applying the control measures, 8 risks were in the “Tolerance” area and 4 risks were in the “Average tolerance” area.

The company has implemented the National Anti-Corruption Integrity Plan, as a tool for leadership and adherence to national and international transparency standards, as well as for combating corruption and fraud. This is the main tool of managing the integrity incidents. In 2019, no corruption issues were reported.

Strategic Planning & Performance Management Unit

4 risks in the “Tolerance” area were identified.

Antibiotice SA has been continuously evaluating its existing risk portfolio, adding value by adopting and applying the best and most effective risk strategies.

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 (31.12.2018);
- quarterly financial statements (Q I and Q III 2019);
- half-yearly financial statements (30.06. 2019).

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 forms and included 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 for informing the investors was done both in Romanian and 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, prepared by the Accounting, Expertise & Accounting Consultancy Company SOCECC Ltd.

Following the analysis, the Audit Committee found the following:

1 - Individual financial statements of Antibiotice S.A. Iasi comprised 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 were 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 was that there were no significant errors to be reported.

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 on 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. confirmed that the administrators, key partner auditor and audit team that performed the statutory audit were independent of Antibiotice S.A. Iasi.

- The key partner responsible for signing the audit report was 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 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 were identified that could create significant uncertainties related 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 current report will be submitted to the Management Board of Antibiotice S.A. for information.

Audit Committee,

NICOLAE STOIAN *illegible signature*

ELENA CALITOIU *illegible signature*

CRISTIAN GRASU *illegible signature*