

1.4. SUBSTANTIATION REPORT of the 2021 INCOME & EXPENDITURE BUDGET

Antibiotice SA is a trading company in which the majority shareholder is the Ministry of Health with 53.0173% of the subscribed and paid-up capital. Bucharest Stock Exchange (BVB) is the regulated market in which the securities issued by Antibiotice SA are traded in the PREMIUM category.

The main Antibiotice shareholders on 31.12.2020 (extracted from the Shareholders' Registry):

- Ministry of Health - 53.0173%,
- S.I.F. Oltenia - 19.0465%
- S.I.F. Transilvania - 3.2632%
- Broadhurst Investments Limited - 3.2052%
- S.I.F. Banat-Crisana S.A - 2.1104%
- S.C. PAVAL HOLDING S.R.L - 0.7637%
- Private Pension Fund ARIPI/GENERALI S.A.F.P.P. - 0.6782%
- A-Invest - 0.6607%
- Private Pension Fund Metropolitan Life - 0.4689%
- FDI BT MAXIM Adm. BT ASSET MANAGEMENT SAI S.A. - 0.3947%
- Other legal entities and individuals - 16.3912%

The 2021 Income & Expenditure Budget of Antibiotice SA was elaborated according to the legislation in force:

- State Budget Law no. 15/2021;
- Order no. 26/2013 on the strengthening of the financial discipline at the level of some economic operators where the state or the administrative-territorial units are single or majority shareholders or directly or indirectly hold a majority stake;
- Government Ordinance 64/2001 on the distribution of profits to national societies, national companies and trading companies with full or majority state capital, as well as to autonomous administrations, with subsequent amendments and completions;
- Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises;
- Order no. 3818/2019 on the approval of the format and structure of the Income & Expenditure Budget of economic operators, as well as the annexes substantiating it;
- Law no. 227/2015 on the Fiscal Code with subsequent amendments and completions.

The exchange rate considered in substantiating the Income & Expenditure Budget was 5.00 LEI/EUR.

The substantiation of the 2021 IEB determined us to rethink the company's long-term strategies, two objectives being priorities for a continuous and high-performance activity:

- to maximize the profitability of our business;
- to ensure a sustainable, consolidated growth of our business in the period 2020-2028.

Achievement of our two long-term goals is based on the following strategies:

- Managerial measures for strategic development and adaptation to the realities of the domestic and international market:
 - Pillar 1: Strategic adaptation of human resources to the realities of the stage 2021 - 2028;
 - Pillar 2: Strategic adaptation of the product portfolio;
 - Pillar 3: Continuous improvement of the Integrated Management System (Quality, Environment, Occupational Health and Safety);
 - Pillar 4: Strategic planning and performance management;
 - Pillar 5: Corporate Governance
- Investments and related activities for the strategic development of the site
 - Development of production, research, utilities, transport storage infrastructures;
 - Investments for environmental protection;
 - Development of the training and preparation infrastructure of human resources and its adaptation to the concept of strategic development
- Digitization and computerization of the company's activities and processes

These strategies are based on applying certain principles to support the company's activities:

- the strategic planning principle;
- the principle of identifying the activities by operating divisions (sterile products and active substances, oral solid products, topical products);
- principle of accountability through the performance management;
- the principle of decentralization of budgets and activities down to portfolios, product groups and products.

In the stage 2020-2028, Antibiotice will turn into a sustainable company in all its functionalities, a sustainable business with responsibility towards people and environment.

Given the above, the main indicators of the period are:

No .	Indicators	UM	2020	2021	2022	2023
1	Turnover	Mil lei	341	366.5	390	425
1.1	<i>Domestic market</i>	Mil lei	182	205	220	240
1.2	<i>Export</i>	Mil lei	158	160	170	185
1.3	Export share in turnover	%	46%	44%	44%	44%
2	Total income	Mil lei	380	395	413	444
3	Total expenses	Mil lei	352	365	381	409
4	Gross profit	Mil lei	28.3	30.3	32	35,5
5	Net profit	Mil lei	26.4	28.1	29.4	31.7
6	Equity (Net accounting assets)	Mil lei	577	604	650	707
7	Total debt	Mil lei	269	280	315	339
8	Total assets	Mil lei	863	890	972	1055
9	Level of indebtedness (Total debt / Total Assets)	%	31%	31%	32%	32%
10	Solvability (Total Assets / Total debt)		3.2	3.2	3.1	3.1
11.	Total expenses at 1,000 lei revenues	thou lei	926	923	922	920
12.1	Work productivity (Operating income / no. of employees)	Thou lei/employee	264	274	290	313
12.2	Work productivity (Turnover / no. of employees)	Thou lei/employee	241	259	279	304
13.	Average number of employees	No. of employees	1,415	1,415	1,400	1,400
14.	Taxes and fees, of which:	Mil lei	97	107	116	121
14.1	- claw back tax	Mil lei	28	27	27	28
15.	Added value	Mil lei	200	193	213	223
16.	Profitability of Gross Profit (Gross Profit /Turnover)	%	8.3%	8.3%	8.3%	8.4%
17.	EBITDA (Earnings before interest+Taxes+Depreciation+ Amortization)	Mil lei	55	58	64	70

In this stage, 2020-2023, the substantiation of the company's budget estimates a consolidated growth rate of 25%, both in terms of turnover and profit.

Increase of the total income in the stage 2020-2023 is estimated at around 16.85% from 380,393 thousand LEI in 2020 to 444,498 thousand LEI in 2023, the target for 2021 being 395,148 thousand LEI (higher by 3.9% compared to 2020).

In the above-mentioned period, turnover is estimated to increase by 25%, from 341,048 thousand LEI in 2020 to 425,000 thousand LEI in 2023, the target for 2021 being 366.500 thousand LEI (higher by 7,5% over 2020).

In close connection with these, total expenses are expected to follow the same trend, increasing by 17%, from 352,064 thousand LEI in 2020 to 408,998 thousand LEI in 2023, the target for 2021 being 364,888 thousand LEI (an increase of 3.6% over 2020).

Gross profit are expected to increase by 25% from 28,329 thousand LE in 2020 to 35,500 thousand LEI in 2023, the target for 2021 being 30,260 thousand LEI (an increase of 6.8% over 2020).

Total expenses at 1,000 LEI revenues are expected to vary from 926 LEI in 2020 to 920 LEI in 2023, the target value for 2021 being 923 LEI.

Of the total expenditure, the protocol expenses estimated for 2021 amount to 600 thousand LEI, within the deductibility limit provided by art. 25 para. 3) of Law no. 227/2015, respectively 2% of the accounting profit to which the protocol expenses are added (30,860 thousand LEI x 2% = 617 thousand LEI). Non-tax deductible sponsorship expenses according to art. 25, paragraph 4) of the Fiscal Code, are in the amount of 945 thousand LEI and include sponsorships in the medical and health fields amounting to 400 thousand LEI, education, training, social matters and sports in value of 355 thousand LEI and for other actions and activities in value of 190 thousand LEI.

Our company remains consistent with the objective of not recording overdue payments within the entire budget period. Antibiotice will also reduce the outstanding receivables by 14.3%, from 21,742 thousand LEI in 2020 to 18,640 thousand LEI in 2023, the target for 2021 being 20,655 thousand LEI (lower by 5% compared to 2020).

These objectives will be supported by performance indicators for each pillar, according to the development strategies established by the 2021-2028 Strategic Organization and Development Plan (P.O.D.S.).

Managerial measures for strategic development and adaptation to the realities of the domestic and international market

Pillar 1: Strategic adaptation of human resources to the realities of the stage 2021 - 2023;

Performance indicators	Planned 2021	Planned 2022	Planned 2023
Average number of hours of continuous professional training / employee	34	36	38
Average number of employees	1,415	1,400	1,400
Average monthly earnings per employee * (LEI)	6,178	6,363	6,503
Labor productivity ** (thousand LEI)	274	290	313
Government social policies ***	100%	100%	100%

** determined on the basis of the company's salary expenses*

*** determined as operating income / average number of employees*

****ensuring diversity in the organizational climate - equal opportunities, gender equality, assessing the health of employees*

Strategy 1. Reorganizing the Human Resources Unit and adapting its activity to the reality of the period 2021-2028 (digitization, computerization, refurbishment, teleworking, norming of all the activities by specific modern methods);

Strategy 2. Reorganizing each executive and support unit (defining also the internal processes and redesigning the job descriptions, hierarchy of positions, monitoring and evaluation plan and of the team's performance in each unit);

Strategy 3. Optimizing the organizational climate and redefining the organizational culture and its orientation towards innovation and performance, a defining element for increasing the the employees' retention and satisfaction;

Strategy 4. Optimizing the employee motivation system (including the salary), a defining element for increasing the employee retention rate;

Strategy 5. Professional career management;

Strategy 6. Implementing social responsibility projects, projects involving the staff in redefining the organizational culture on the basis of the communication pillars.

Pillar 2: Strategic adaptation of the product portfolio

Principles for defining the future portfolio:

- decentralization to divisions in order to increase turnover and profitability per each division;
- compliance with the selection criteria (medical, economic and market);
- ability to reproduce the footprint of the markets in which the company operates (the ATB territories);
- identification with the main therapeutic classes, with the main innovative prescription or non-prescription products, with the main

pharmaceutical forms in order to offer flexibility and diversity in terms of administration;

- ensuring the balance of supply for all the categories of public with a strategic consumption in the target markets;
- defining the products with major brand perspectives (e.g. products for the treatment of rare diseases included in the WHO portfolio);
- establishing the optimal share for the products intended for the hospital and retail segments, share of RX and non-RX products, so as to shorten the waiting times for the authorization and increase the profitability;
- maximizing the turnover and profitability;
- promoting the products (also through scientific communication projects);
- compatibility with our business partners (active substance manufacturers, distributors, pharmacy chains and mini-chains and independent pharmacies).

Current portfolio

Strategy 1. Annual definition of a “strategic core” of products from the current portfolio of each Division with the greatest potential for sale in the domestic market (from medical viewpoint);

Strategy 2. Internationalization of the products from the current portfolio of each Division in the ATB territories;

Strategy 3. Consolidation of the innovative product Nystatin - active substance

Future portfolio

The strategic development directions of the portfolio taking into account the WHO list of essential medicines:

Strategy 4. Developing the anti-infectives portfolio for maintaining the leading position in this segment;

Strategy 5. Developing the topicals portfolio for maintaining the leading position in the Romanian market;

Strategy 6. Developing the portfolio of products for chronic diseases, to support the needs of the Romanian health system;

Strategy 7. Developing the Quality of life portfolio;

Strategy 8. Developing the vertical integration project of Nystatin;

Strategy 9. Developing the sterile solutions/ pre-filled syringes portfolio;

Strategy 10. Developing the biocides portfolio.

Research-Development

Strategy 11. Developing through our own research the products established according to the portfolio adjustment directions in correlation with their value contribution and the first year of sale;

Strategy 12. Stimulating innovation in research.

Business Development

Strategy 13. Assimilating through in-licensing the products established according to the portfolio adjustment directions in correlation with their value contribution and the first year of sale;

Strategy 14. Out-licensing business development in the non-ATB territories through the products established according to the portfolio adjustment directions in correlation with their value contribution and the first year of sale.

Pillar 3: Continuous improvement of the Integrated Management System (Quality, Environment, Occupational Health and Safety);

Strategy 1. Customer orientation (patients, partners, health professionals, employees, authorities) from the perspective of quality, environment, labour health and safety policies;

Strategy 2. Continuous improvement of the Integrated Management System (quality, environment, health) - ensuring the reproducibility of product quality, reducing quality incidents, incidents with repercussions for human health and environment;

Strategy 3. Business development by obtaining new certifications and authorizations;

Strategy 4. Cost management through streamlining the processes from the Integrated Management System

Pillar 4: Strategic planning and performance management

Performance indicators	Planned 2021	Planned 2022	Planned 2023
Turnover (mil. LEI)	366.5	390	425
Gross Profit (mil. LEI)	30.3	32	35.5
Total expenses at 1,000 LEI revenues (LEI)	923	922	920
Arrears (thousand LEI)	0	0	0
Capacity utilization not less than 60%	>60%	>60%	>60%
A 80% minimum degree of customer satisfaction in the domestic market	>80%	>80%	>80%

Strategy 1. Consolidation of the share price in the capital market:

- Maintaining the ATB shares in the PREMIUM category on the Bucharest Stock Exchange;
- Improving communication with the company's stakeholders

Strategy 2. Meeting the business consolidation principles:

- to ensure the financial balance, stabilize the business after the pandemic crisis and relaunch it, the basis of long-term economic growth;
- to ensure the production-sales balance for obtaining a saleable stock;
- to ensure the balance of receipts - payments for optimizing cash flow and investment resources;
- to develop strategic partnerships - a strong point for a consolidated business;
- to increase the company's patrimonial value.

Strategy 3. Pricing - a strategic approach:

- Identifying the opportunities to increase prices in the non-RX segment

Strategy 4. Improving the system of planning, correlation and operational follow-up of the work plans specific to the company's activities on each division: sales plan for the domestic market (ATB exits, Sell-in, Sell-out), sales plan for the external market, business development plan (in-licensing and out-licensing projects), promotion plan, research plan, production plan, investment plan, repair plan and procurement plan (from the domestic and external market), human resources plan, financing plan, cost management plan, communication plan.

Strategy 5. Internationalization of our business in the ATB territories and other territories:

- Consolidation of the product Nystatin and maintaining the position of world leader in the production of this active substance;
- Territorial expansion plan for the finished products (ATB territories, other potential markets).

Strategy 6. Consolidating the business in the domestic market;

Strategy 7. Developing and implementing a performance objective system according to the principles of synergy, interdependence, business balance and development; monitoring and evaluation through managerial performance indicators specific to each activity.

Pilon 5: Corporate Governance

Strategy 1. Ensuring the corporate regulation framework;

Strategy 2. Monitoring the selection and appointment of management bodies and ensuring the activities for which the company is responsible.

Strategy 3. Monitoring the operation and effectiveness of professional performance evaluation systems; proposing appropriate corrective measures.

Strategy 4. Ensuring the transparency in communication with the investors, equal treatment, including for the minority shareholders.

All these pillars represent our company's development directions in the period 2020 - 2028 and will be implemented year by year, by taking measures and actions to meet the objectives and performance criteria. They are supported by the multiannual investment programs.

These objectives will be met through investments and assimilated activities for the strategic development of the manufacturing site, as follows:

- investments for developing the production, research, utilities, transport storage infrastructures;
- investments in digitization and computerization of the site;
- Investments for environmental protection;
- Investments for developing the training and preparation infrastructure of human resources and its adaptation to the concept of strategic development.

Antibiotice substantiates projects proposed for European funding and / or for funding under the National Recovery and Resilience Program, which are in the evaluation phase at various authorities.

The 2021-2023 investment program is presented as follows:

The investments included in the 2021 Program are worth 93,521 thousand LEI. The program is funded from the company's own sources.

The estimated values for the 2022-2023 investments:

- 2022: 105,000 thousand LEI;

- 2023: 111,625 thousand LEI.

Of the total value of 93,521 thousand LEI estimated for 2021, 55,311 thousand LEI represent new investments while 38,210 thousand LEI are ongoing investments.

1. Research - Development investments

- **Laboratory equipment**

Equipping laboratories with high-performance equipment will contribute to the development of the product portfolio through our own research.

- **Licenses for new products and projects in the development phase**

The new product development program considers the following objectives:

- to update the product portfolio;

- to provide the external market with competitive pharmaceutical products

2. Investments in the production sites

- **Design of the pilot research, technology transfer and small-scale production for the manufacture of sterile injectable solutions in vials**

The project aims an investment in a research pilot for injectable generics in the form of solutions filled into vials.

- **Completion of the Ointment & Suppository Plant** (ongoing investment started in 2014 with completion in 2021).

The new facility will manufacture pharmaceutical semisolid products filled in tubes, suppositories and pessaries, consolidating strategically our company's sales in the ATB territories.

An amount of 24,964 thousand LEI has been scheduled to be invested this year.

3. Investments for modernizing the existing manufacturing sites

- **Modernization of some manufacturing flows and equipment**

In the period 2021-2023 our company has been intending to purchase equipment, installations in order to refurbish the manufacturing flows. These endowments must be with high efficiency, low energy consumption, safe in operation, able to ensure the implementation of environmental protection measures.

- **Investments for modernizing the manufacturing flow of the active substance Nystatin, extending the assortment range of Nystatin and developing the production of biocides**
- 4. **Adaptating the infrastructures of service, utility provision and distribution, transport and connection to the national road system, storage of raw materials and finished products to the development trend of the industrial site**
- 5. **Investments in the Integrated Management System (quality, environment, occupational health and security)**
- 6. **Investments in information technology, telecommunications and process digitization**

Modernization of the IT system (ERP), in all the company structures, in compliance with the Digitization and Computerization Plan will be the main investment.

- 7. **Investments in human resources - training, skills development and mentoring platform, investments in social responsibility projects covering four areas: health, education, environment and social matters.**

This Substantiation Report is an integral part of the Income & Expenditure Budget **to** Annex 1 **to** Annex 5.

The Income & Expenditure Budget for 2021 was submitted to the financial management control, according to GD no. 1151/2012 for the approval of the Methodological Norms regarding the organization and exercise of the financial management control.

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