

## SUBSTANTIATION REPORT of the 2022 INCOME & EXPENDITURE BUDGET

Antibiotice S.A. has come a long way since it manufactured its first product in 1955, becoming nowadays:

- ✓ the main Romanian producer of generic medicines;
- ✓ leader in the segment of topical products (creams, ointments, gels) in Romania;
- ✓ leader in beta-lactam production in Romania;
- ✓ its active substance Nystatin is an international reference standard.

Our company's shares are listed and traded on the Bucharest Stock Exchange, Premium category.

The main Antibiotice shareholders on 31.12.2021 (extracted from the Shareholders' Registry) are:

- Ministry of Health - 53.0173%,
- S.I.F. Oltenia - 26.4081%,
- Other legal entities and individuals - 20.5746%.

The indicators from the 2022 Income & Expenditure Budget were estimated starting from the achievement degree of the 2021 indicators and in accordance with our company's development strategy set in 2020 for a 10-year period, included in the Strategic Organization and Development Plan.

Aiming at a responsible business growth, this plan based on five pillars has the following main strategic directions:

- **increase in turnover;**
- **increase in profitability;**
- **increase in the added value;**
- **sustainable development of the company.**

The national and international context marked by the SARS-CoV 2 pandemic was also taken into account, which determined the allocation of resources for the protection of our employees' health and for the support of the public health system through the availability to provide medicines, continuation of the vaccination center's activity.

The responsibility for the protection of natural resources determines us to streamline production processes, always investing in state-of-the-art equipment and technologies (green energy), to apply solutions to reduce energy consumption.

The 2020 Income & Expenditure Budget was drawn up in compliance with the legislation in force:

- ✓ Law no. 317/2021 of the 2022 state budget;
- ✓ 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, with subsequent amendments;
- ✓ 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.

For 2022 we estimate total income of 448,605 thousand LEI, total expenses amounting to 416,105 thousand LEI and a gross profit of 32,500 thousand LEI.

By their nature, the estimated value of **income and expenses** is as follows:

- operating income in the amount of 444,492 thousand LEI;
- operating expenses amounting to 408,300 thousand LEI;
- financial income, amounting to 4,113 thousand LEI;
- financial expenses amounting to 7,805 thousand LEI.

For the indicator of total expenses at 1,000 lei total income a value of 928 LEI is estimated.

In the category of operating income, the significant share is held by the income from the sold production, respectively the value of the production manufactured on the eight GMP manufacturing flows and sold in the domestic and international market. The estimated value of this income is 321,020 thousand LEI, 25% higher compared to the value recorded in 2021.

As regards the main elements of operating expenses, the situation is as follows:

- the expenses with the raw materials and the consumable materials are in the amount of 113,062 thousand LEI, 30% higher than the preliminary value for 2021. This growth is influenced by the production structure, quantity manufactured and the price of raw materials and materials;
- the energy and water costs are worth 23,250 thousand LEI, 65% higher compared to the preliminary value of 2021;
- staff costs are calculated according to the State Budget Law for 2022, no. 317/2021, art. 48, para. 1, letter a (by applying the Consumer Price Index (CPI) of 6.5% to the value of staff costs planned for 2021, in value of 112,862 thousand LEI the result was 120,034 thousand LEI, the level planned for 2022);
- the protocol expenses for the organization of symposia, conferences, product presentations estimated for the year 2022 are in the amount of 500 thousand LEI, which falls within the deductibility limit of 676 thousand LEI, calculated according to art.25 para. 3), letter a of the Law no. 227/2015 on the Fiscal Code: "The following expenses have limited deductibility: protocol expenses within a quota of 2% applied

to the accounting profit plus profit tax expenses and protocol expenses”  $((32500 + 500 + 800) \times 2\% = 676$  thousand LEI).

- The value of sponsorships in 2022, of 461 thousand LEI, considered non-tax deductible according to art. 25, paragraph 4) of Law no. 227/2015 on the Fiscal Code, is deducted from the profit tax due, according to Law no. 227/2015 regarding the Fiscal Code, art. 25, para. 4, letter i, at the minimum value of the following: i) the value calculated by applying 0.75% of the turnover; ii) the value representing 20% from the due profit tax.

The substantiation of the administrators' remunerations was carried out in accordance with the provisions of GEO no.109/2011:

- art. 37 para. (2) The remuneration of the non-executive members of the Management Board consists of a fixed monthly allowance and a variable component. The fixed allowance may not exceed twice the average for the last 12 months of the average gross monthly earnings for the activity carried out according to the main object of activity registered by the company, at class level according to the classification of activities in the national economy, communicated by the National Institute of Statistics. The variable component is established on the basis of financial and non-financial performance indicators negotiated and approved by the general meeting of shareholders, different from those approved for the executive directors, determined in compliance with the methodology provided in art. 31 para. (5) and which aim at including the long-term sustainability of the company and ensuring compliance with the principles of good governance. The amount of the variable component of non-executive members may not exceed a maximum of 12 fixed monthly allowances.
- art.37 para. (3) The remuneration of the executive members of the Management Board consists of a fixed monthly allowance that cannot exceed 6 times the average for the last 12 months of the average gross monthly salary for the activity carried out according to the main object of activity registered by the company, at the class level according to the classification of activities in the national economy, communicated by the National Institute of Statistics prior to appointment, and from a variable component. The variable component will be based on the financial and non-financial performance indicators, negotiated and approved by the General Meeting of Shareholders, different from those approved for non-executive directors, determined in compliance with the methodology provided in art.31 para. (5).
- art. 37 para. (4) The variable component of the remuneration of the members of the management board is reviewed annually, depending on the level of achievement of the objectives included in the management plan and the degree of fulfillment of the financial and non-financial performance indicators approved by the general meeting of shareholders, an annex to the mandate contract.
- art 38 (1) The remuneration of the directors is established by the Management Board and may not exceed the level of remuneration established for the executive members of the management board. It is the only form of remuneration for directors who also fulfill the quality of administrators.
- art. 38 (2) The remuneration consists of a fixed monthly allowance established within the limits provided in art. 37 para. (3) and of a variable component consisting of a share in the company's net profit, the granting of shares, stock-options or an

equivalent scheme, a pension scheme or another form of remuneration based on performance indicators.

Based on the estimates and income & expenditures budgets, the following economic-financial indicators result in the period 2021-2024:

No.	Indicators	UM	2019	2020	Estimated 2021 <sup>1</sup>	Planned 2022	Planned 2023	Planned 2024
1	Net turnover	mil lei	391	341	368	432	500	570
	- domestic market turnover	mil lei	238	183	224	270	324	368
	- foreign market turnover	mil lei	153	158	144	162	176	202
2	Operating income	mil lei	402	374	383	444	505	575
3	Operating expenses	mil lei	360	337	349	408	461	519
4	Operating profit	mil lei	42	37	34	36	43	56
5	Total income	mil lei	408	380	388	449	511	581
6	Total expenses, of which:	mil lei	373	352	358	416	471	532
6.1	Claw-back tax	mil lei	42	28	27	28	31	32
7	Total expenses at 1,000 Lei total income	lei	914	925	923	928	922	916
8	Gross Profit	mil lei	35	28	30	32	40	49
9	Gross Profit + claw-back tax expenses	mil lei	77	56	57	60	71	81
10	Net profit	mil lei	31	26	30	32	38	47
11	Added value	mil lei	211	200	184	209	229	245
12	Gross profitability (Gross profit / Turnover)	%	9%	8%	8%	8%	8%	9%
13	Profitability gross profit + expenses with claw-back tax	%	20%	16%	16%	14%	14%	14%
14	Average staff number		1,415	1,415	1,410	1,350	1,260	1,170
15	Labor productivity (Operating income / no. of employees)	mil lei/employee	284	264	272	329	401	491
16	Fixed assets	mil lei	380	487,59	513	560	609	638
17	Current assets	mil lei	414	375,4	368	350	366	371
18	Total assets	mil lei	794	863	881	910	975	1009
19	Equity (Net accounting assets)	mil lei	502	577,27	603	643	714	798
20	Total debts	mil lei	292	286	278	267	261	211
21	Degree of indebtedness (Total debts / Total liabilities * 100)	%	36,78%	33,11%	31,56%	29,34%	26,77%	20,92%
22	Solvency (Total Assets / Total Liabilities)	No. of times	2,72	3,02	3,17	3,41	3,74	4,78
23	General liquidity (Current assets / Current liabilities)	No. of times	1,93	2,01	2,09	2,12	2,12	2,79
24	Return on assets (ROA)	%	4%	3%	3%	3%	4%	5%
25	Return on equity (ROE)	%	6%	5%	5%	5%	5%	6%

<sup>1</sup> The values of the preliminary indicators for 2021 were not subject to external financial audit

The development strategy for the period 2020-2030 stipulates:

- the development of the professional competencies of the employees and of the potential employees in the Academy a+, a concept that involves the Technical College for secondary training and the Business School a+ for higher education, with a favorable impact upon the average number of employees with multiple qualifications;
- consolidating the business in the domestic market, by increasing the revenues from the sale of non-Rx products (OTCs, medical devices, food supplements) and consolidating the product portfolios and sales in the international market;
- the continuous improvement of the Integrated Management System (quality, environment, occupational health and safety);
- the improvement of the financial balance which consists in the continuous monitoring of the inputs of financial flows (receipts) and the outputs of financial flows (payments) for their efficiency having as goal the diminution of the operational bank credits;
- ensuring and maintaining an efficient system for evaluating professional performance;
- perfecting the risk management process in order to protect the company's patrimony.

The investments planned for 2022 are worth 53,107 thousand LEI, to which 11,000 thousand LEI the value of the repayment rates related to the long-term loan in progress is added. The investment plan is structured in two important categories:

**Investments for the strategic business development:**

- for the development of the product portfolio through the company's own research and license acquisitions;
- the completion of the investment in the topical products site;
- the modernization of the research and development laboratory with the equipment to support the products originating in company's own research projects.

**Investments to strengthen the platform:**

- investments in information technology, telecommunications and process digitization;
- investments for the adaptation to the development trends of the industrial platform of the utilities supply and distribution infrastructures, green energy, storage of raw materials and finished products, transport and connection to the national road system;
- investments in the Integrated Management System (quality, environment, occupational health and safety).
- investments in the modernization of the existing manufacturing sites.

For the year 2023 a level of investments of 57,570 thousand LEI is estimated. The estimated value of investments for 2024 is 59,860 thousand LEI.

The company remains consistent with the objective of not recording outstanding payments for the entire budget period. At the same time, the strategy to reduce the term of collection of receivables will materialize in their reduction by 14.4%, from 20,241 thousand LEI in 2021 to 17,328 thousand LEI in 2024; for the year 2022 the target is set at 19,200 thousand LEI (decreasing by 5% compared to 2021).

This substantiation note is an integral part of the Income and Expenditure Budget in Annex no.1 to Annex no. 5.

The Income and Expenditure Budget for 2022 was submitted to the financial management control, according to the GD no. 1151/2012 for the approval of the Methodological Norms regarding the organization and exercise of the financial management control.

**GENERAL DIRECTOR  
EC. IOAN NANI**

**FINANCIAL DIRECTOR  
EC. PAULA COMAN**