

Antibiotice **a+**

MANAGEMENT REPORT

January-December 2021

Annual Report according to IFRS

For the fiscal year: 2021

Report Date: 21.03.2022

Name of the trading company: ANTIBIOTICE S.A.

Head Office:

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Phone number:

0232/209000, Fax 0232/209633

Fiscal registration code:

RO 1973096

Order number in the Trade Register:

J22/285/1991

Regulated market on which the issued securities are traded:

Bucharest Stock Exchange

Subscribed and paid up capital:

67,133,804 LEI

Main characteristics of the securities issued by the company:

Nominative shares, nominal value: 0.10 LEI

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1. Antibiotice - Romanian tradition and continuity

Antibiotice S.A. started its activity in 1955, being the first manufacturer of the active substance Penicillin in Romania and South-East Europe. Since then, through perseverance and dedication, our company has become the most important Romanian manufacturer of generic medicines, a national and international reference brand.

Antibiotice S.A. has the most complex manufacturing structure in Romania, having eight distinct manufacturing flows for the following pharmaceutical dosage forms: penicillin powders for injection, penicillin capsules, non-beta-lactam capsules, cephalosporin capsules, tablets, ointments, creams, gels, suppositories, pessaries and active substances obtained by biosynthesis processes, a unique manufacturing flow in Romania.

Our medicines, the active substance Nystatin and biocides are produced in five production plants included in three divisions:

- ✓ **Oral Solid Products Division** includes the Capsules Plant and Tablets Plant;
- ✓ **Topical Products Division** includes the Ointments & Suppositories Plant;
- ✓ **Sterile products & APIs Division** includes the Parenterals Plant and Biosynthesis Plant.

Our manufacturing flows are audited and certified according to the Good Manufacturing Practice requirements by the National Agency for Medicines and Medical Devices in Romania.

Nystatin produced by Antibiotice has become a USP reference standard, being selected by the Food & Drug Administration (FDA), the US regulatory agency. The European Directorate for the Quality of Medicines (EDQM) issued the Certificate of Suitability with the European Pharmacopoeia (CEP) for this active substance.

Antibiotice S.A., through its own Research & Development Center, has been developing pharmaceutical products, active substances, food supplements and cosmetics.

The Center for Clinical Studies, established in 2006, is an integral part of the Research and Development Center. Our specialists have been conducting in this Center phase I and bioequivalence studies for products from our own portfolio and from third parties.

Antibiotice S.A. has been developing its activity according to the **Integrated Management System - Quality, Environment, Occupational Health and Safety**. This framework governs all the processes, from research, development, supply, production, control, to the distribution of medicines. Certified for the first time in 2007, the Integrated Management System - Quality, Environment, Occupational Health and Safety was recertified in October 2021, after the surveillance audit performed by the TUV Rheinland representatives confirmed that the following ISO standards were met: 9001:2015 - Quality Management, 14001:2015 - Environmental Management, 45001:2018-Occupational Health and Safety Management.

The Antibiotice's **product portfolio** includes medicines for human use, from 11 therapeutic classes [prescription medicines (Rx) and non-prescription medicines (non-Rx)], medicines for veterinary use, the active substance Nystatin and biocidal products.

During 2021, the National Committee for Biocidal Products, part of the National Institute for Public Health, issued notifications for our biocidal products.

A significant share of the prescription medicines in our company's portfolio belongs to the following therapeutic classes: antiinfectives for systemic use, cardiovasculars, dermatologicals, urinary tract medicines.

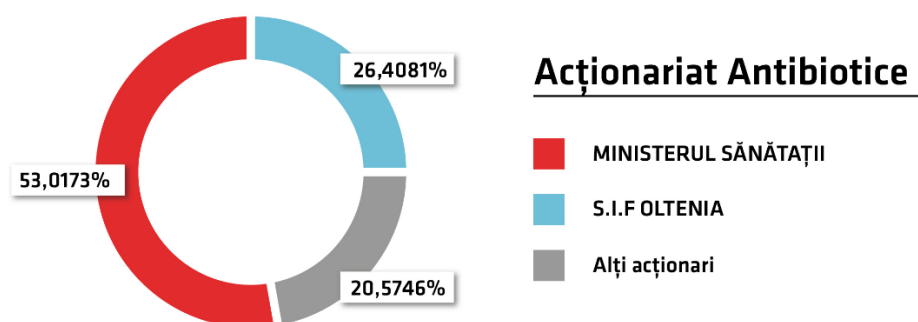
Non-Rx medicines are grouped into 6 portfolio concepts defined mainly by the target audience: Women's health, Quality Life, Family health, Cold & Flu, Nutriensa, Derm A+.

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. The securities issued by our company are traded on the Bucharest Stock Exchange, Premium category.

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

MINISTRY OF HEALTH (*)	53.0173%
S.I.F. OLTENIA (*)	26.4081%
Other shareholders (42,285 shareholders)	20.5746%

NOTE: (*) - Significant shareholders, according to Law no. 297 of 28.06.2004, Art. 2, Para. 1



Ownership breakdown:

- Legal persons - 87.3615 %
- Natural persons - 12.6385 %

1.1 Antibiotice in the capital market

Since 1997, the shares issued by Antibiotice have been listed in the PREMIUM category of the Bucharest Stock Exchange, under the ATB symbol.

The first transaction was recorded 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.

The Antibiotice (ATB) shares are included in the BET-BK index (created to be used as a benchmark by fund managers, but also by other institutional investors; the calculation methodology reflects the legal requirements and investment limits of the funds) and in the BET-Plus index (which includes the Romanian companies listed on the BVB market that meet the minimum selection criteria, except for financial investment companies).

In 2021, the minimum price of the ATB share had the value of 0.4800 LEI. The share price increased up to maximum value of 0.6080 LEI/share.

Stock market capitalization of Antibiotice on December 31, 2021 was 406,831 thousand LEI.

In 2021, Antibiotice SA Iasi concluded a market making contract with BRK Financial Group, one of the most active brokers in the segment of structured products traded on the Bucharest Stock Exchange. Our collaboration with BRK Financial Group aims to create added value for shareholders by improving liquidity and minimizing volatility.

Antibiotice shares - ATB/Regular market

	2017	2018	2019	2020	2021
Number of shares	671,338,040	671,338,040	671,338,040	671,338,040	671,338,040
Stock market capitalization (thousand LEI)*	361,180	326,942	341,040	326,270	406,831
Stock market capitalization (thousand EUR)*	77,511	70,100	71,370	66,935	82,211
Stock market capitalization (thousand \$)*	92,813	80,259	79,873	82,163	93,022
Total traded value (million LEI)	12	9	15	14	44
No. of traded shares	21,113,565	17,109,263	30,364,292	27,085,005	80,534,368
Opening price (LEI/share)	0.5200	0.5780	0.4800	0.5120	0.4940
Maximum price (LEI/share)	0.5920	0.5780	0.5260	0.5550	0.6080
Minimum price (LEI/share)	0.5200	0.4550	0.4500	0.4130	0.4800
Price at the end of the period (LEI/share)	0.5380	0.4870	0.5080	0.4860	0.6060
Average price (LEI/share)	0.5585	0.5028	0.4851	0.5079	0.5913
Earnings/share (LEI/share)***	0.0500	0.0511	0.0459	0.0418	0.0446
Gros dividend/share (LEI/share)**	0.026552598	0.009991506	0.029879738	0.00330631	0.0031980923
Dividend yield****	4.59%	2.05	6.2%	6.5%	0.65%
Dividend distribution rate*****	53%	20%	65%	8.4%	7.2%

* Calculation based on the share price in the last trading day of that year

** Proposed dividend

*** Calculation of the earnings per share is based on the net profit of each year

**** Dividend per share/price of the share in the first trading day of each year

***** Dividend distribution rate = (total number of shares x gross dividend per share/total net profit

During 2021, a number of 80,534,368 shares in value of 43.65 million LEI (8.87 million EUR, 10.51 million USD) were traded, with an average price of 0.5420 LEI/share.

In 2021, our company paid dividends for the financial years 2017, 2018, 2019 and 2020, amounting to 2,102,442.59 LEI, as follows:

Dividend history (2017 - 2018 - 2019- 2020)

Period	Net dividends							Date on which the payment of dividends ceases
	Due	Paid				Unclaimed dividends 31.12.2021		
		LEI			% (total paid)	lei	%	
		Until 31.12.2020	01.01÷31.12.2021	Total				
0	1	2	3	4	5	6	7	8
2017	17,588,680	16,160,171.48	15,528.83	16,175,700.31		1,412,979.79		13.09.2021
2018	6,612,624.05	6,069,182.87	14,293.79	6,083,476.66		529,147.39		Payment in progress
2019	19,811,039.75	18,114,220.03	60,504.82	18,174,724.85		1,636,314.90		Payment in progress
2020	2,840,868.50	-	2,012,115.15	2,012,115.15		828,753.35		Payment in progress

Payment of the dividends for the fiscal years 2017, 2017, 2018, 2019 and 2020 has been made through the Central Depository Bucharest and, implicitly, through the CEC Bank - the Paying Agent.

Rights of the financial instrument holders

The corporate governance framework adopted and applied:

- protects the shareholders' rights;
- ensures the fair treatment of all shareholders;
- recognizes the role of third parties with interests in the company;
- guarantees the provision of information and its transparency;
- assures the responsibility of the Management Board towards company and shareholders.

On our company's website, www.antibiotice.ro/investors/informationforshareholders, there is a section dedicated to our shareholders, where they can access and download documents related to the General Meetings of Shareholders: procedures regarding the access and participation in the meetings, notices to attend, agendas, informative materials, special representation proxies, correspondence voting forms, decision drafts, decisions, voting results, etc.

Investor Relations

The investor relations activity supports the constant communication between our company and investors, the simplest form of respect towards our shareholders and investors. This process allows the shareholders and investors to learn about our operational activity, strategy and prospects of the business, in order to wittingly make a fair evaluation of the company. Being a listed company, we make available to the public and send to the Financial Supervisory Authority (ASF) and Bucharest Stock Exchange (BVB), annual, half-year, quarter and current reports, as well as documents related to the smooth conduct of general meetings. Being oriented towards developing and increasing the transparency towards our shareholders, immediately after the periodic (half-year and annual) financial reports, we organize our own meetings and presentation events. These events are attended by interested investors and analysts who have the opportunity to convey their questions, opinions and suggestions. This way a dialogue is established with the representatives of the Romanian capital market, so that they gain a sufficient basis for making their investment decisions.

In 2021 our company organized 2 teleconferences (13.05.2021 and 30.07.2021), for presenting its financial statements, and a conference entitled "Round table with the Antibiotice management" held on 23.11.2021, to maintain a permanent dialogue among the company's management, investors and analysts. All the documents regarding the good development of the above mentioned events were published in accordance with the legislation in force - Law no. 31/1990 on trading companies, republished, with the amendments and completions up to date, the Government Emergency Ordinance no. 109/2011 on corporate governance of public enterprises, Law no. 24/2017 on the issuers of financial instruments and market operations, Regulation no. 5/2018 on the issuers of financial instruments and market operations.

Organization of the General Meetings of Shareholders, changes in the company's structure, decisions of the general meetings, as well as the actions related to guaranteeing the shareholders' rights - distribution of dividends for the financial year 2020 were made in accordance with the legal regulations.

The distinctions obtained during the year brought the recognition of the Antibiotice's active and constant communication with the investors. Thus, the maximum grade obtained in the evaluation of the VEKTOR indicator, based on 15 criteria of good practices in the relationship with investors, proved once again that Antibiotice SA is a company worth investing in.

2. Antibiotice - a sustainable business

With a long-term vision and a strong commitment to the responsible growth of the business, the foundations of the 2021 - 2030 Strategic Organization and Development Plan were laid. It includes the following objectives: doubling the turnover, a 50% export share in turnover, maintaining the position of world leader for the active substance Nystatin, adapting and motivating human resources to achieve their objectives, streamlining activities through digitization and computerization. The Strategic Organization and Development Plan is based on a sustainable development, as a comprehensive approach that links three directions: environment, social and governance. Their integration involves a compliance between environment and economic development over a long period of time.

Achieving the company's long-term goals is based on the following strategic pillars:

- Pillar 1 - Strategic adaptation of human resources;
- Pillar 2 - Strategic adaptation of the product portfolio;
- Pillar 3 - Business sustainability through a continuous improvement of the Integrated Management System (Quality, Environment, Occupational Health and Safety);
- Pillar 4 - Strategic planning and performance management;
- Pillar 5 - Improving the Corporate Governance System.

Antibiotice SA undertakes to publish the Non-Financial Report for 2021, which will be made available to the public on the company's website (www.antibiotice.ro), according to the legal requirements in force.

2021 represents the first stage included in the Strategic Organization and Development Plan, a year in which Antibiotice put a major emphasis on the continuous adaptation to the domestic and international market, for enhancing our presence in the market and increasing the business profitability.

Evolution of the main performance indicators in the period 2000-2021:

No.	Indicators	UM	2000	2005	2010	2015	2020	2021
1	Turnover	mil lei	62	163	244	330	341	368
1.1	Domestic	mil lei	50	143	190	238	182	225
1.2	Export	mil lei	12	20	54	92	158	143
1.3	Export share in turnover	%	19%	13%	22%	28%	46%	39%
2	Gross profit	mil lei	6	24	18	32	28,3	30
3	Equity	mil lei	52	144	263	395	577	605
4	Total liabilities	mil lei	27	56	129	140	269	290
5	Total assets	mil lei	84	212	439	545	863	895
6	Level of indebtedness (Total liabilities/Total assets)	%	32	27	29	26	31	32
7	Solvability (Total assets/Total liabilities)		3,08	3,77	3,4	3,9	3,2	3,08
8	Totale expenses per 1000 LEI income	mil lei	907	858	930	908	926	922
9.1	Work productivity(Operating income/no. of employees)	thous. lei/employee	32	100	172	235	264	272
9.2	Work productivity(Sales income/no. of employees)	thous. lei/employee	32	99	169	226	240	261
10	Taxes and fees, of which:	mil lei	8	28	35	73	97	89,08
10.1	- claw back tax	mil lei	0	0	0,05	26	27	28,7
11	Added value	mil lei	33	90	129	173	200	185
12	Arrears	mil lei	55	15	0	0	0	0
13	Profitability of gross profit (Gross profit / Sales revenue)	%	9	15	8	10	8	8
14	Profitability of gross profit + claw back tax (Gross profit + claw-back tax/sales revenue)	%	9	15	8	17	16	16

In 2021, Antibiotice prepared the fourth Sustainability Report, the one for the year of 2020. The results and evolution of our company, a responsible business, ranked it in the GOLD category in Romania Corporate Sustainability & Transparency Index (CST Index) for the 2020 Sustainability Report.

The Romania CST Index ranking, the most important and complex ranking in the field of sustainability in Romania, evaluates public information on sustainability and aims to identify companies with the highest level of performance and transparency from the perspective of sustainable development.

2.1 Strategic human resources adaptation

Adapting the personnel structure to the key company activities, such as sales, research and production, training the skills needed to streamline all the activities, improving the organizational climate, focusing the organizational culture towards innovation and performance, attracting qualified staff are priority objectives of our company.

Continuous professional training and employee retention are closely monitored objectives.

Our employees' training plan was put in practice, following the established major topics, but also the opportunities arising either by accessing training subsidized from non-reimbursable funds, or by registering for free webinars offered by training

providers, on specific professional topics, personal development topics and software skills.

In the reporting period, our company planned an average number of 34 training hours per employee - we reached a level of 34,35 training hours per employee.

The staff turnover rate due to voluntary departures was planned for 2021 at a maximum level of 5%. This indicator was 4.89% in the reporting period.

Modernizing the organizational culture and improving the employer brand, involves the following actions:

- ✓ to develop interpersonal collaboration in order to achieve, in the best conditions, the job tasks;
- ✓ to update the values of the company's organizational culture, adopting measures to consolidate them and promoting among employees the fundamental principles underlying the managerial guidelines;
- ✓ to develop the competencies oriented towards optimizing the organizational climate, mainly among managers, which should ensure the orientation towards the performance and satisfaction of the human resources.

The five communication pillars of organizational culture contribute to the strategic orientation of human resources towards innovation, creativity, efficiency and professionalism:

- Antibiotice, a company worth working for;

We live healthy in a healthy company, a component of the pillar “Antibiotice, a company worth working for”

- In service of life for a lifetime;
- Antibiotice, a friendly and responsible brand;
- Antibiotice, a company oriented towards knowledge and performance;
- Antibiotice, Romanian tradition and continuity.

As part of the organizational culture pillar „Antibiotice, a company worth working for”, „The Diagnostic Study on Occupational Climate and Job Satisfaction” was conducted in 2021, in order to measure the satisfaction of our employees with the positions held and to assess their perception on the organizational climate, interpersonal and interstructural collaborative relationships and also to evaluate the measures taken in the company for the protection and security of employees during the pandemic.

The employee satisfaction degree established as an objective for the reporting year was 8%, and the climate study revealed a degree of employee satisfaction of 8.3%.

Since May 2021, as part of the project “We live healthy in a healthy company”, we inaugurated **Club a+** which has been offering the employees the facilities for practicing individual and team sports, as well as the organization of courses for personal development (self-defense, nutrition) and workshops aimed at cultivating the values of organizational culture.

As regards the pillar “Antibiotice, a company oriented towards knowledge and performance”, in 2021 we continued the **Bookster** project through which over 260 employees were able to borrow books.

In order to cultivate the values as collegiality and gratitude, on the occasion of our company' anniversary on December 11, we organized the third edition of the project “One Employee next to other Employee” on December 11. On this occasion, 160

employees were involved in an action of public recognition of those who show collegiality, positive spirit and desire for help.

To ensure the future workforce, in 2001 the Human Resources Unit carried out 4 projects:

- ✓ Perfoma+ project, the 6th edition - 22 students and master students from the final years of the Faculties of Chemistry, Pharmacy, Chemical Engineering and Environmental Protection benefited from theoretical and practical training in which our employees were lecturers.
- ✓ Dual education - is a form of vocational and technical education, with a 3-year duration, which is based on a partnership contract between our company and two pre-university education institutions from the City of Iași, which provide practical training and scholarships for 25 pupils, 15 pupils being trained for the profession of chemical operator for medicines and cosmetics and 10 pupils for the profession of electrician - low voltage networks.
- ✓ Participation as a partner of the “Gheorghe Asachi” Technical University in the project with European funds for the insertion of the graduates through training courses. In this project one of our research employees was a mentor for the students of the Faculty of Chemical Engineering and Environmental Protection, facilitating their professional orientation and transition from school to professional life. This project offered us perspectives in knowing and attracting graduates for future employment in our company.
- ✓ Partner of the Faculty of Chemical Engineering and Environmental Protection in the ROSE_StepUP project, “Reacts Chemically with the Environment which involved conducting online meetings with 12th grade students from high schools in Iasi in order to promote the partnership between academia and economics. The purpose of this project was to present the possibilities of a professional career as a chemical engineer in the field of drug production and to attract high school graduates for enrollment in the Faculty of Chemical Engineering and environmental protection.
- ✓ In 2021, our company had an average number of 1,410 employees.

2.1.1 Antibiotice a friendly and responsible brand

Supporting the development of the local community

In our company, community involvement is done through corporate social responsibility (CSR) programs that are based on four strategic pillars: health, education, environment and social.

Health

Antibiotice developed programs including education and information campaigns to improve the health of its employees and people in the communities in which it operates.

Vaccination center a+

In order to support their own employees and the local community, Antibiotice S.A. organized a Vaccination Center, in accordance with the Strategy for vaccination against COVID-19 in Romania, in which a number of 24,000 persons were vaccinated.

Vaccination caravan a+

In addition to the local Covid-19 Vaccination Center, Antibiotice supported the national immunization efforts, organizing, in collaboration with the Public Health Directorate (DSP) Iasi and the Institution of the Prefect of Iasi County, mobile caravans in localities of the Iasi County. Since May 16, 2021, every Sunday, for six weeks, the

Vaccination Caravan a+ visited seven rural localities with a low immunization rate. This way, Antibiotice lasi facilitated access to vaccination for 420 people.

„Donate blood! Put your soul to life!”, the 20th edition

Over 70 Antibiotice employees donated about 35 liters of blood, as part of the blood donation campaign organized on October 14, 2021 by the „Antibiotice - Science and Soul” Foundation, in partnership with the lasi Regional Blood Transfusion Center. The development of this edition was possible because the mobile vaccination caravan from the lasi Regional Blood Transfusion Center started again its activity, due to the acute lack of blood in the lasi hospitals.

Education

Antibiotice invests with science and soul in the education of young people, recognizes and supports the role of the local community in forming and developing the company's main source of value, the well-trained people.

„Science and Soul” Scholarships , the 20th edition

Antibiotice, through the „Antibiotice - Science and Soul” Foundation supports the „Pro Ruralis” Association, supporting every year (for 20 years in a row) five scholarships for students from rural areas. This way, Antibiotice contributes to the education of children with special skills but without material possibilities, supporting them to continue their studies in middle school and high school and thus giving them the chance for professional achievement and personal development.

Environment

Antibiotice aims at a sustainable partnership between with the community, by carrying out activities designed to protect the environment, being constantly concerned with improving its performance.

Planting oxygen in the community, the 2nd edition

Carried out as part of the environmental protection program “Be Pro-Nature! Put your Soul! ”, “ Planting Oxygen in the Community ” is a tree planting project for Antibiotice employees which involved the greening of a plot of land located on the company's territory. So, on the 22nd of April 2021, on the occasion of Earth Day, 50 employees voluntarily participated in the planting of 175 maples.

Social matters

Antibiotice, through the „Antibiotice - Science and Soul” Foundation, gets involved in community life by supporting disadvantaged groups through social programs. Some of these programs have become traditional for our company.

„Power of deed”, Easter charity program

Around the Easter holidays, the „Antibiotice - Science and Soul” Foundation made a humanitarian gesture for 23 needy families with 121 children from distant localities of lasi county. Each family received a package with basic food, traditional products, cleaning products and supplies for children.

„Be generous! Be Santa Claus!”, the 9th edition

The joy of a Christmas with fulfilled wishes was lived by 80 children from needy families, from the lasi County. On the 14th and 15th of December 2021, the „Antibiotice - Science and Soul” Foundation distributed gifts for little ones with ages between 1 and 15 years old, from families with limited material possibilities living in rural areas. The letters sent to Santa by the children reached the hearty “elves” working in Antibiotice who fulfilled with great generosity every dream laid out on paper, with hope, by the children.

2.2 Strategic adaptation of the product portfolio

The product portfolio of the **Sterile Products & API's Division** comprises the active substance Nystatin, products for injection and biocides.

The injectables portfolio has 36 medicinal products for human use, of which:

- 34 prescription products belonging to the therapeutic class - Antiinfectives for systemic (19 B-lactam penicillins, 10 cephalosporins, 4 carbapenems, 1 polymixin);
- 2 over-the counter products (OTCs).
- 9 unique products¹.

Topical Products Division has a portfolio comprising 50 products traded in 2021, of which 48 products are for human use and the other 2 are for veterinary use.

As regards the prescription type, half of the products for human use are prescription medicines and the other half are OTCs. The two veterinary products are prescription medicines.

In terms of pharmaceutical form, the **Topical Products Division'** s portfolio is structured as follows:

- 36 products under the form of ointments, creams and gels (of which 13 unique products under the form of ointment), covering 5 therapeutic classes:
 - ✓ Dermatological preparations - 21 products;
 - ✓ Musculoskeletal system - 9 products;
 - ✓ Cardiovascular system - 3 products;
 - ✓ Sensitive organs - 2 products;
 - ✓ Genito-urinary tract - 1 product;
 - ✓ Disinfectants - 1 product (in 6 forms of presentation).
- 9 products under the form of suppositories from 4 therapeutic classes:
 - ✓ Musculoskeletal system - 3 products;
 - ✓ Digestive tract - 2 products;
 - ✓ Central nervous system - 3 products;
 - ✓ Cardiovascular system - 1 product.
- 3 products under the form of pessaries, from the genitourinary system class.

Sanygel, hand sanitizer is sold both in the medical and non-medical field, with all the necessary approvals.

Oral Solid Products Division has a portfolio comprising 65 products for human use manufactured in two production plants: Tablets Plant and Capsules Plant. 16 of them are unique products.

As regards the type of prescription, of the 65 products, 14 are products that are released without a prescription, and 51 of products are issued on prescription.

The Tablets Portfolio has 41 products manufactured by 3 methods : direct compression, dry granulation and wet granulation.

¹ Unique medicinal product - the only (drug)/medicine covering (a certain)/this INN, concentration and pharmaceutical form with an approved price in Canamed according to the Order of the Minister of Health no.368/2017 approving the Norms regarding the calculation method and the procedure for approving the maximum prices of medicines for human use

The Capsules Portfolio includes 24 products manufactured on three distinct flows: penicillins, cephalosporins and non-penicillins.

In terms of therapeutic classes, **Oral Solid Products Division** has a portfolio comprising:

- ✓ Digestive tract - 5 products;
- ✓ Blood and hematopoietic organs (antithrombotics) - 1 product;
- ✓ Cardiovascular system - 15 products;
- ✓ Antiinfectives for systemic use - 26 products, of which: 6 of them are β -lactam penicillins, 5 cephalosporins, 2 tetracyclines, 4 - quinolones and macrolides and 9 antituberculous drugs;
- ✓ Systemic hormonal preparations -iodotherapy - 1 product;
- ✓ Musculoskeletal system - 1 product;
- ✓ Central nervous system - 7 products;
- ✓ Respiratory system - 1 product.

The portfolio of this Division comprises also 8 food supplements promoted under the **Nutriensa** brand.

2.2.1 Evaluation of the Research & Development activity

The activities performed by the Research & Development Unit are based on a research plan adapted to the company's development strategies, in order to sustainably consolidate the future product portfolio for each of the three divisions: Oral Solid Products Division, Topical Products Division and Sterile Products & APIs Division. In 2021, the activity conducted by the Research & Development Unit focused on:

- ✓ researching and developing new products;
- ✓ participating in upgrading the current product portfolio for turning into a more international one;
- ✓ supporting the company's territorial expansion plan by registering products of interest in different countries (obtaining and maintaining the marketing authorizations (APPs)).

For supporting internationalization, in 2021, our company obtained 40 new Marketing Authorizations (14 injectable products, 25 oral solid products and 1 topical product) in the EU countries, South Africa, Ukraine, Serbia and 35 new authorization procedures were initiated (27 injectable products, 8 solid oral products) in the EU countries, Vietnam, Serbia.

- ✓ conducting bioequivalence and clinical studies;
- ✓ increasing the competitiveness of the developed products by intensifying the reserach-development- innovation work.

Research & development projects conducted between January -December 2021 for each of the three divisions:

Topical Products Division

- ✓ ongoing projects: 13 (2 prescription medicines, 4 OTCs, 6 medical devices and 1 biocidal product - hand gel);
- ✓ upgrading projects for turning the products into international ones: 8 (5 prescription medicines and 3 OTCs).

Oral Solid Products Division

- ✓ ongoing projects: 13 (11 prescription medicines and 2 OTCs)

Injectable Sterile Products & APIs Division

- ✓ ongoing projects: 4 (2 prescription medicines: 1 injectable product and 1 oral suspension, 2 disinfectant solutions);

- ✓ upgrading projects for turning the products into international ones: 4 (4 prescription medicines: 4 injectable products);
- ✓ nitrosamine risk assessment project for the products from our portfolio;
- ✓ projects for the active substance: 6 projects (2 projects for Nystatin-the microbiological and analytical components, revitalization of existing synthesis technologies, biotechnologies, biocides, API synthesis).

2.2.2 Evaluation of the business development activity

The portfolio development strategy is also supported by purchasing in-licensing projects. In 2021, our company concluded contracts for 15 products from the following therapeutic classes: gastrointestinal tract and metabolism (3 products), antiinfectives for injection (2 products), cardiovasculars (5 products), dermatologicals (3 products), antidiabetics (2 products).

The first sales for these products are planned starting with the first quarter of 2022. Looking ahead towards 2028-2030, we estimate sales amounting to about 40 million lei.

2.2.3 Strategies for promoting the products from the Antibiotice portfolio

Promoting the products in Antibiotice's portfolio is a priority in our company's long-term development strategy, achieved through:

- ✓ strengthening partnerships with health professionals through promotion actions;
- ✓ identifying new consumers for the products from our portfolio through screening programs;
- ✓ identifying prescribing habits and treatment behaviors of physicians through testing programs;
- ✓ partnerships with the pharmacy chains for promoting the non-RX portfolio in their catalogs;
- ✓ accessing alternative promotion channels: online, TV; e-commerce - partner pharmacies for the non-Rx products.

2.3 Continuous improvement of the Integrated Management System (Quality, Environment, Occupational Health and Safety)

The Integrated Management System (Quality, Environment, Occupational Health and Safety) designed, documented and implemented in Antibiotice S.A. integrates all the components of the business in a coherent structure, which allows the achievement of its objectives and mission. Our company has been continuously maintaining, improving and streamlining the integrated management system in accordance with the requirements of the reference standards, as well as with the strategy and objectives of the organization.

Involvement in environmental protection, respect for the health and safety of its own employees, empathy with society, local and international community, which support the development of the Antibiotice business, remain important goals that must be put into practice through a rigorous plan of measures and activities. Ensuring product quality, reducing quality incidents, incidents of any kind with repercussions on human health and environment represent the main ethical, moral and professional concerns of all the persons involved in our company's activity.

Occupational health and safety

Maintaining and developing an effective occupational health and safety management system within our company is the guarantee for managing and eliminating the work-related risks, as well as for improving the environment and relations between employees.

In order to support their own employees and the local community, Antibiotice S.A. organized a Vaccination Center, in accordance with the Vaccination Strategy against COVID-19 in Romania, in which approximately 24,000 people were vaccinated.

Environmental responsibility

At the end of September 2021, Antibiotice SA obtained the Integrated Environmental Authorization issued by the Environmental Protection Agency Iasi.

In 2021 a study was carried out to evaluate the impact of our company's activity on the population's health, according to the regulations in the field, based on the documentation submitted by the beneficiary. It consisted of a combination of procedures, methods and tools based on which it can be established if a plan / project could have potential effects on the health status of the population in the targeted area.

The evaluation showed that the investment made for building the new Topical Products Plant determines long-term positive effects from a socio-economic and administrative point of view, while keeping under control the possible negative effects related to the construction period.

In March 2021, we obtained also the Water Management Authorization, which regulates the use of water in the company.

Quality of environmental factors (water, air, soil, groundwater)

In order to monitor the quality of environmental factors, our own laboratory and laboratories of the third parties made analyses on emissions / imissions of air pollutants, as well as determinations on the quality of water entering the pre-treatment plant and discharged into the municipal sewerage system, of conventionally clean water discharged into the natural emissary, as well as of the the quality of groundwater.

No exceedances of the maximum allowed concentrations established by the Integrated Environmental Authorization and Water Management Authorization were recorded.

Antibiotice is a company responsible for environmental protection while proactively ensuring the compliance with product safety requirements. So, in the period January-September 2021, the Center for Clinical Studies performed determinations by advanced testing methods, for traces of penicillins from groundwater samples, taken from observation boreholes located in the perimeter of the company.

No traces of penicillins were identified, which shows the coordination of manufacturing processes, without possible negative influences on the soil and groundwater in the area around the company.

Waste management

Antibiotice S.A. implemented a selective waste collection system, each production plant and ancillary activity being equipped with adequate containers for collection.

The recyclable waste was sold to the authorized economic operators. The non-recoverable waste was incinerated in our own installation, disposed of at the municipal waste landfill, or taken over by authorized operators.

Efficient solutions for recycling printer consumables

The project implemented in Antibiotice involves recycling printer supplies used in our company's departments through specialized recycling programs, in accordance with environmental legislation.

2.4 Strategic planning and performance management

Our company's general objectives are to consolidate our sales in the internal market, internationalize the business, manage the costs, efficiently manage the processes and make investments in maintaining the activities and their development for doubling our business.

2.4.1 Consolidating the business in the domestic market

Evolution of pharmaceutical market in Romania²

In 2021, the value of medicines released to the patients in Romania amounted to 21.15 billion LEI (distribution price), by 17.1% higher compared to 2020. Consumption as a number of boxes was relatively constant, i.e. 658.6 million boxes.

The Romanian pharmaceutical market is dominated by prescription drugs (Rx). These represent 73.9% of total value sales and 61.7% of total medicine consumption (reported as number of boxes).

In 2021, prescription medicines (Rx) recorded a 16.4% increase in value, from 13.4 billion LEI in 2020 to 15,6 billion LEI in 2021.

Over-the-counter products recorded a 19,5% increase in value during the analyzed period, from 4.6 billion LEI in 2020 to 5,5 billion LEI in 2021.

The first 5 therapeutic classes in the Romanian pharmaceutical market by value sales share in 2021 were: Digestive Tract, Antineoplastics, Cardiovascular System, Central Nervous System, Blood and Organs. These represent 72.2% of total sales in the market.

Evolution of the pharmaceutical market relevant for Antibiotice SA

The relevant market of the products from the Antibiotice portfolio recorded in the analyzed period a 20.8% increase (from 2.4 to 2.9 billion LEI). Consumption grew by 5.2%, a number of 168.8 million boxes being released by pharmacies in 2021, compared to 160.5 million boxes in 2020.

In 2021, prescription medicines (Rx) represented 48.3% of the total value sales and 54.7% of the total consumption of medicines (no. of boxes). They recorded in the analyzed period a 14.0 % increase in value, from 1.21 billion LEI in 2020 to 1.38 billion LEI in 2021 and a quantitative increase of 4.8%, from 88.1 to 92.3 million of boxes.

As regards the non-prescription medicines (OTCs), they represented in 2021, 51.7% of the total value sales and 45.3% of total drug consumption (reported as number of boxes). The OTCs recorded a 24.3% value increase (from 1.19 billion LEI in 2020 to 1.48 billion LEI in 2021) and a 5.6% increase in consumption (from 72.4 in 2020 to 76.5 million of boxes in 2021).

² According to the data source CEGEDIM Sell Out Romania, December 2021

Antibiotice in the Romanian pharmaceutical market³

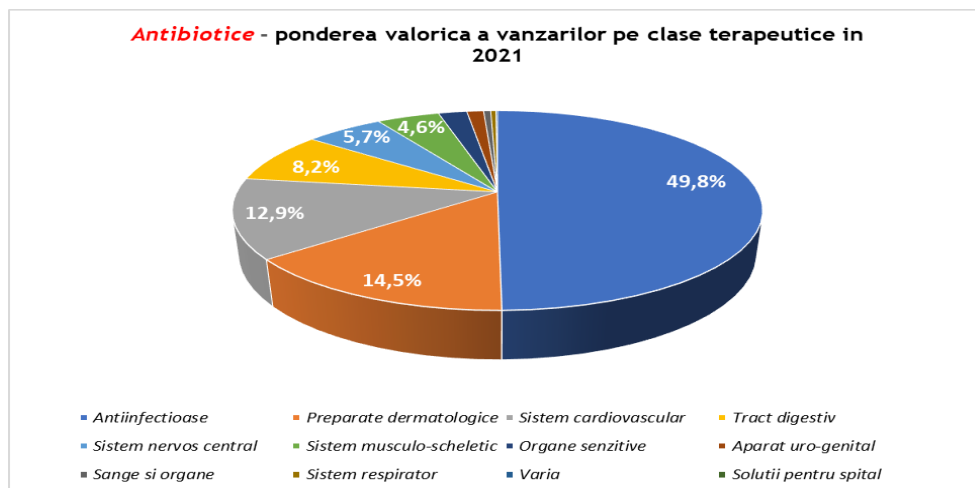
In 2021, in the domestic market, Antibiotice SA:

- ✓ ranked first in the relevant market, with a 13.6% value market share;
- ✓ was the quantitative leader on the following pharmaceutical dosage forms: ointments (20.4%), suppositories and pessaries (32.9%) and powders for injection (63.0%);
- ✓ ranked 4th in the segment of prescription generic medicines and OTCs (a 4.0 % market share);
- ✓ was the leader in the segment of prescription generic medicines and OTCs sold in hospitals, with a 14.5% market share.

Antibiotice has consolidated its core business component - antiinfectives for systemic use - developing also the therapeutic classes where it holds important positions in the domestic market: dermatologicals and cardiovasculars.

Antibiotice - value share of 2021 sales by therapeutic classes

- *Antiinfectives*
- *Central nervous system*
- *Blood and organs*
- *Dermatological preparations*
- *Musculoskeletal system*
- *Respiratory system*
- *Cardiovascular system*
- *Sensitive organs*
- *Varia*
- *Digestive tract*
- *Urogenital tract*
- *Hospital solutions*



Antibiotice S.A. kept a constant connection with the distributors, for preventing syncopes in the supply of medicines to hospitals and pharmacies and for creating optimal stocks in order to make all the deliveries in the shortest time.

³ According to the data source CEGEDIM Sell Out Romania, December 2021

Our company has adapted itself to the market demand, fully covering the need of injectable antibiotics such as carbapenems, cephalosporins and penicillins.

In 2021, in the Romanian market, Antibiotice S.A.:

- leader in the segment of generic antiinfectives with a 29.3% market share;
- leader in terms of quantity for the following pharmaceutical dosage forms: ointments (20.4% market share), suppositories and pessaries (32.9% market share) and powders for injection (63% market share);
- leader in the segment of generics and OTCs traded in hospitals, with a 14.8% market share;
- ranked first 1 in the relevant market of prescription and non-prescription medicines (OTCs, food supplements, medical devices), with a 13.6% market share.

2.4.2 Development of the international component of the business

In 2021, the international trade strategy benefited from the two strategic positions for which Antibiotice is recognized worldwide: Nystatin and antiinfectives under the form of sterile powders for injection.

Strengthening the position of the product Nystatin in the world market

The activity carried out in 2021 was in line with the trend of the last 3 years of consolidating the position of Nystatin in the world market, this active substance being sold in over 55 countries in the North America, Europe, South America, Asia and Africa.

Internationalization of the finished products business

The performance of finished product business in the international market is characterized by significant increases in sales of sterile injectable beta-lactam antibiotics and also by increased sales in the regulated markets from Europe and the United States. Antibiotice Iasi has become an important player, competitive in the world segment of simple and combined penicillins, a long-term partner of health systems in the United Kingdom, the United States, Hungary and the Baltic countries.

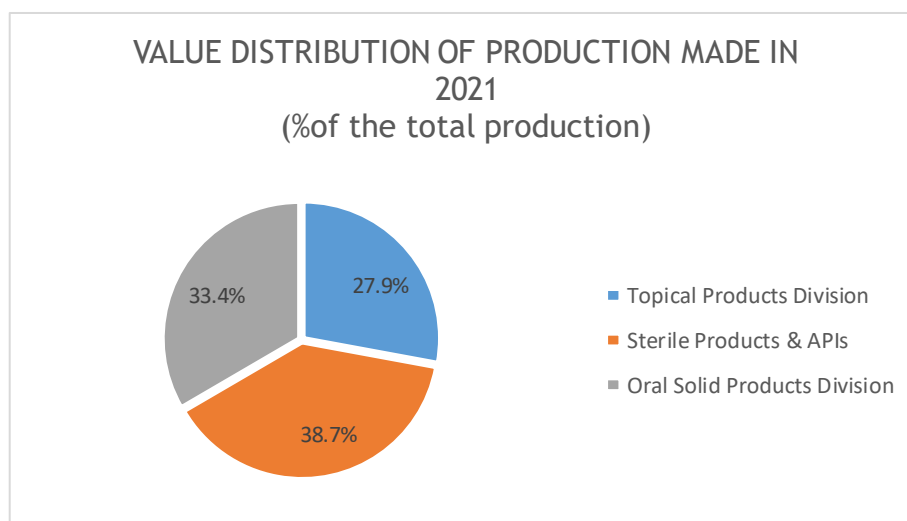
In parallel, marketing projects were developed in collaboration with the local distributors and market promotion teams in order to increase the awareness of the corporate brand and product brands. These projects were addressed to health specialists (for prescription drugs) as well as to patients (in the case of medical devices and OTC products), in compliance with the legislation in the field (development of the product concept and promotional messages with the approval of the Medical Unit, campaigns approved by the national authorities, participation of promotion teams in specialized symposia - AIC, dermatology).

2.4.3 Complex manufacturing structure adapted to international quality standards

The production activity developed in 2021 materialized in 371.88 million of pharmaceutical units under the form of tablets, capsules, parenterals, topicals (ointments, creams, gels), suppositories, pessaries. In terms of value, the production was 381.26 million lei, by 5.68 % higher compared to the previous year.

In the reporting year, the hand sanitizer Sanygel was introduced for the first time into manufacturing. This products has six forms of packaging.

The total value of the production made in 2021, on the three production divisions:



2.4.4 Analysis of the financial situation

The results of all activities carried out in 2021 are summarized in the financial statements prepared in accordance with the requirements of the O.M.F.P. no. 2844/2016 for the approval of the Accounting Regulations compliant with the International Financial Reporting Standards, which faithfully presents the image of the company's patrimony and the financial results.

The Financial Statements were audited.

Statement of Income and Expenses

The results obtained in 2021 are supported by the fulfillment of the planned objectives regarding the increase of sales revenues and the decrease of the stored production. Through a balanced management of costs, the planned net profit was achieved even if the prices of utilities and raw materials increased significantly.

Name of indicator (lei)	31.12.2020	BVC 31.12.2021	31.12.2021	Δ 31.12.2021/3 1.12.2020 (%)	Δ 31.12.2021/ BVC 31.12.2021 (%)
1	2	3	4	5=4/2	6=4/3
Sales revenue	340,424,276	366,066,000	366,209,065	8%	0%
Other operating revenues	36,062,333	31,536,000	37,378,976	4%	19%
Stock variation	23,676,949	10,204,000	711,939	-97%	-93%
Income from the production of fixed assets	6,351,872	8,179,000	10,547,830	66%	29%
Expenditures on raw materials and consumables	131,864,599	141,861,000	147,681,728	12%	4%
Staff costs	111,822,960	116,361,764	114,906,311	3%	-1%
Depreciation and amortization expenses	21,794,224	23,739,000	24,124,432	11%	2%
Other operating expenses	107,332,654	99,961,236	94,100,711	-12%	-6%
Operating Profit	33,700,993	34,002,000	34,034,628	1%	0%
Net financial income	-5,371,536	-3,742,000	-3,732,012	-31%	0%
Profit before tax	28,329,456	30,260,000	30,302,616	7%	0%
Income tax and other expenses	1,941,407	2,200,000	363,212	-81%	-83%
Net Profit	26,388,049	28,060,000	29,939,404	13%	7%

From the activity carried out during 2021, the total revenues were worth 388,93 million lei, the total expenses incurred amounted to 358,62 million lei, which led to a gross profit of 30,3 million lei, which corroborated with the clawback tax of 28.7 million lei determined a business yield of 59 million lei.

The main indicators from the Comprehensive Income Statement were as follows:

- **revenues from the sale of products in the domestic and international market** were by 8% higher compared to the value recorded in the previous year. The total value of these revenues were 366.2 million LEI, of which;
 - ✓ revenues from the sale of products on the domestic market: 224.6 million lei, obtained by exploiting both the prescription and non-prescription (OTC) portfolios. The prescription medicinal products have a significant share in domestic sales (about 77%). These products have the price regulated, at a maximum level, by the Order of the Ministry of Health no. 368/2017 approving the Norms regarding the calculation method and the procedure for approving the maximum prices of medicinal products for human use, with the subsequent modifications and completions. This price of generic products is updated, depending on the evolution of the leu / euro exchange rate.
 - ✓ revenues from the sale of products in the international market: 141.6 million lei.
- **other operating revenue**, represented by the equivalent value of the dividends distributed to the shareholders and not collected until the end of the prescription term, the value of the provisions and adjustments for depreciation canceled according to the legal requirements, amounted to 37.4 million LEI, by 4 % higher than the value achieved on 31.12.2020 and by 19% higher than the value planned in the Income & Expenditure Budget;
- **income from the production of fixed assets**

Expenditures related to projects for developing new pharmaceutical products, updating our products in the portfolio for internationalization made by the Research and Development Unit (staff salaries, value of taxes paid, materials used) were recognized, according to IAS 38 Intangible Fixed Assets as Income.

- **expenditures on raw materials and consumables** recorded the value of 147.7 million LEI, by 12% higher than the value recorded in the similar period of 2020. In their structure, expenses with goods were by 41% higher, being correlated with the achieved income.

Expenditures on raw materials were correlated with the value of manufactured goods, their share in the manufactured production was 20.3% in 2020 and 19.45% in 2021. In the context of the SARS-CoV-2 virus pandemic, in 2021 we continued to apply measures to protect our employees: provision of special protective equipment, supplementation of means of transport and modification of working hours, work at home, preventive testing of employees to limit possible contamination in the company.

- **staff costs** on 31.12.2021 were by 3% higher compared to the value recorded in the previous year, as a result of the continuation of the project initiated in 2019 for implementing a modern ranking and salary system;
- **depreciation and amortization expenses** increased by 11% compared to 2020, due to the investments made in research of new products, equipment for quality assurance, modernization of manufacturing technologies and digitization of activities. In 2021, the value of the tangible fixed assets put into operation (for which the fiscal facility provided in art. 22 Tax exemption of reinvested profit from Law no. 227/2015 on the Fiscal Code was applied) amounted to 25.3 million lei.
- **other operating expenses** (including utilities, maintenance and repairs, insurance, advertising, travel, transportation of goods, postage and telecommunications,

services performed by third parties, taxes and fees) were by 6% lower compared to the value estimated in the 2021 Income & Expenditure Budget as a result of a rigorous operating cost management. Utility expenses were higher by 27% compared to the value recorded in the previous year.

- negative **net financial income** were at the budgeted level and lower compared to the value recorded in 2020, result of a better balance of receipts and payments in foreign currency. The main target of the financial management was to reduce the credit for financing the working capital. In 2021, part of this loan was repaid, having as a favorable impact the decrease of bank interest rates. Operating loan for financing working capital on 31.12.2021 amounted to 76.4 million LEI, lower by 12.7% compared to the value of 87.5 million lei recorded on 31.12.2020.

Statement of financial position

The value of **assets** on 31.12.2021 recorded a 4% increase compared to the value recorded on 31.12.2020.

In their structure, **the tangible assets** were worth 480.5 million lei, by 3% higher compared to the value recorded on 31.12.2020 (467.8 million lei), as a result of the value of fixed assets recorded in 2021, a value higher than the depreciation registered in the same period.

The most important investments made in 2021:

- ✓ in the new site for manufacturing topicals, in value of 6.5 million lei;
- ✓ for modernizing the existing manufacturing sites: purchase of equipment, installations, laboratory equipment, worth 9.7 million lei;
- ✓ for the infrastructure and logistics of transport and storage, for the infrastructure of maintenance, production and distribution of utilities, rehabilitation of some buildings and auxiliary constructions, worth 15.6 million lei;
- ✓ in equipment for maintaining the quality standards of manufactured products and for complying with the legal requirements for the protection of the environment and employees, in the amount of 0.62 million lei;
- ✓ investments in social responsibility projects, worth 0.88 million lei.

The value of **intangible assets** includes significant investments in research and development projects for new pharmaceuticals as well as the acquisition of software for streamlining the human resources, quality, research activities and for securing data and information in our company.

Current assets outstanding on 31.12.2021 were in value of 385 million lei, by 3% higher compared to the value recorded on the same date of the previous year. In their structure, the stocks represented about 28%, a balanced level for the units with production and sales activity, the difference being represented by the value of the commercial receivables, cash availabilities and the bank accounts in lei and foreign currency.

The stocks amounting to 106 million lei, diminished by 2%, compared to the value recorded on 31.12.2020. The stocks were adapted to the need for manufacturing and sales, taking into account the fact that supply times increased internationally from 90 days to 180 days.

The stocks of raw materials and consumables were valid, covering the necessary amount for about three-month's production. Finished products and goods in stock on 31.12.2021 were in line with the estimated sales plan for the first part of 2022.

The value of inventories as guarantees was 40,534,622 lei.

Name of indicator (lei)	31.12.2020	31.12.2021	Δ (%)
1	2	3	4=3/2
ASSETS			
FIXED ASSETS			
Tangible fixed assets	467,880,779	480,544,567	3%
Intangible fixed assets	19,709,606	29,839,764	51%
TOTAL FIXED ASSETS	487,590,385	510,384,331	5%
CURRENT ASSETS			
Stocks	108,691,209	106,017,774	-2%
Trade and other receivables	260,388,767	276,876,198	6%
Cash and cash equivalents	6,329,458	2,111,377	-67%
TOTAL CURRENT ASSETS	375,409,434	385,005,349	3%
TOTAL ASSETS	862,999,818	895,389,680	4%
LIABILITIES			
CURRENT LIABILITIES			
Trade and similar debts	66,103,990	98,202,288	49%
Amounts owed to credit institutions	95,568,514	87,163,549	-9%
Debts from current taxes and fees	11,189,134	9,611,682	-14%
Short-term provisions	13,528,900	3,853,530	-72%
Investment grants	306,289	306,289	0%
TOTAL CURRENT LIABILITIES	186,696,827	199,137,339	7%
LONG-TERM LIABILITIES			
Investment grants	2,466,591	2,160,302	-12%
Deferred tax	31,119,874	31,483,086	1%
Amounts owed to credit institutions	65,444,478	57,617,153	-12%
TOTAL LONG-TERM LIABILITIES	99,030,943	91,260,541	-8%
TOTAL LIABILITIES	285,727,770	290,397,880	2%
Share capital and reserves			
Share capital	264,835,156	264,835,156	0%
Revaluation reserves	116,636,526	114,150,766	-2%
Legal reserves	13,426,761	13,426,761	0%
Other reserves	231,136,239	259,154,126	12%
Retained earnings	-60,698,493	-51,212,323	-16%
Distribution of profit	-14,452,190	-25,302,090	75%
Current result	26,388,049	29,939,404	13%
TOTAL EQUITY	577,272,048	604,991,800	5%
TOTAL EQUITY AND LIABILITIES	862,999,818	895,389,680	4%

Trade and similar receivables were worth 276.9 million lei, by 6% higher than the value recorded on 31.12.2020. Receivables from the balance at 31.12.2021 were due. An improved level of 240 days of the turnover speed for client debit items was recorded on 31.12.2021, compared to 273 days recorded on 31.12.2020.

Correlated with the value of the assets, the **total liabilities**, i.e. all the obligations, as of 31.12.2021 were higher by 4% compared to the value recorded on 31.12.2020.

On 31.12.2021, **current liabilities** recorded a value of 199.1 million lei, by 7% higher compared to the value recorded on 31.12.2020. In their structure:

- **debts to banking institutions amounted to 87.1 million lei, by 9% lower compared to the value recorded on 31.12.2020, of which:**
 - 76.4 million lei, the value of the operational credit for financing the working capital;

- 10.7 million LEI represented the rates related to the loan for financing the investments with maturity in a period of up to 12 months, reflected according to the requirements of IAS 1 - Presentation of the financial statements, at current debts;
- **trade and similar debts**, which included debts to trading partners, salary rights for December 2021 paid in January 2022, taxes and contributions related to December 2021 salaries due in January, were higher with 49%;
- **debts representing current taxes and fees**, which were represented by the VAT payable (0.95 million lei) and claw back tax for the fourth quarter of 2021 (8.65 million lei) were lower by 14%. On 31.12.2020, the debts from current taxes and fees in value of 11.1 million LEI included: current income tax (3.5 million lei), VAT payable (0.9 million lei), claw back tax for the Q IV 2020 (6.7 million lei).

On 31.12.2021, our company did not register outstanding obligations to the state budgets.

Long-term debt amounted to 91.26 million lei, recording a 8% decrease, in their structure:

- the value of investment subsidies was by 12% lower, as the fixed assets acquired from the funds received from financing projects were depreciated;
- debts representing deferred tax, recognized as a result of the application of IAS 12 - Income tax were higher by 1% compared to the value recorded on 31.12.2020;
- debts to banking institutions were lower by 12%, starting with April 2021 as a result of the repayment of the installments due from the long-term loan, contracted for financing the investments in the new Ointments & Suppositories Plant and for the acquisition of equipment for serialization.

Cash flow

The operations of receipts and payments from the **operational activity** generated a surplus of 44.4 million LEI. Cash inflows from operating activities were worth 373.3 million LEI, payments made for the operating activity were worth 328.8 million LEI, of which:

- payments to suppliers of goods and services in the amount of 181 million LEI;
- payments in connection with staff worth 106.6 million LEI;
- taxes, fees and assimilated payments in the amount of 37.7 million LEI;
- bank interest in the amount of 3.5 million LEI.

Payments of 29.05 million LEI were recorded from the **investment activity** developed in 2021 .

As regards the **financing activity**, long-term bank loan repayments and dividend payments amounting to 2.1 million LEI were recorded.

From the point of view of cash flow, our company's objective is to reduce year-on-year the credits for financing the operational activity. So that on January 1, 2021, their value was 87.5 million lei, on 31.12.2021, their value was 76.4 million lei and, in the future, the strategy will continue.

2.5. Improving the Corporate Governance System

Antibiotice S.A. is organized on the principles of corporate governance, which regulates the selection and appointment procedure of administrators and directors, as well as the functioning of the management system, seeking to strengthen the independence, accountability and professionalism of management structures,

transparency and quality of publicly presented information and protection of shareholders, including the minority ones.

Management of the company is organized to meet the expectations of shareholders in terms of competitiveness, profitability and long-term value generation. A well-defined, traceable decision-making system is ensured and the delegations of attributions and competences are made in proportion to the prerogatives granted and the existing control system.

Principles of good corporate governance practices applied in strict compliance with the recommendations of the Corporate Governance Code of the Bucharest Stock Exchange (CGC-BVB), ensures transparency and efficiency of the company's activities and processes, thus providing the framework for maximizing in the long run the value of Antibiotice shares, protecting the interests of stakeholders and increasing trust in Antibiotice SA.

Our company's management considers that the Corporate Governance Code is an important tool for obtaining a sustainable performance, ensuring the accuracy and transparency of the company's decision-making process, through equal access of all shareholders to relevant information about the company.

The basic pillars of the corporate governance system of Antibiotice SA can be found on the company's website at <https://www.antibiotice.ro/investitori-php/corporate-governance/>. These are the following:

- Corporate Governance Code
- Code of Ethics
- General Meeting of Shareholders
- Management Board
- Advisory Committees
- Executive Management
- Internal audit, Inventory Financial Control and Risk Management

Advisory Committees

The specialized advisory committees in 2021:

- Audit Committee: Mr. Ionel Damian, Mr. Mihai Trifu and Mr. Catalin Codrut Popescu;
- Nomination and Remuneration Committee: Mr. Lucian Timofticiuc, Mr. Ionel Damian and Mr. Mihai Trifu;
- Trade Policy Committee: Mr. Lucian Timofticiuc, Mr. Ionel Damian and Mr. Catalin Codrut Popescu.

The **Audit Committee** consists of three independent non-executive administrators and has the following responsibilities:

- ✓ performs an annual evaluation of the internal control system. The evaluation must consider the effectiveness and comprehension of the internal audit function, adequacy of the risk management and internal control reports submitted to the Audit Committee, promptness and effectiveness with which the executive management solves the deficiencies or weaknesses identified following the internal control and submission of relevant reports to the Management Board.
- ✓ manages the conflicts of interest in connection with the company's transactions.
- ✓ monitors the compliance with the legal standards and generally accepted internal audit standards;
- ✓ receives and evaluates the reports prepared by the Internal Audit team.

In exercising its main attributions and responsibilities, the Audit Committee performs the following activities:

- ✓ examines and verifies the correctness of the company's annual and interim financial statements and any other financial reports, before their submission to the Board for approval;
- ✓ analyzes the appointment, reappointment or revocation of external auditors;
- ✓ periodically evaluates the efficiency, independence and objectivity of the external auditor and monitors the relationship with this auditor.

The **Nomination and Remuneration Committee** consists of three independent non-executive administrators. Its attributions and responsibilities are mainly the following:

- ✓ formulates proposals for the positions of administrator, manages on behalf of the Board the selection procedure for the candidates proposed by the public guardianship authority, when the Board is expressly mandated by the General Meeting of Shareholders, elaborates and proposes to the Management Board the selection procedure of the candidates for the positions of director, recommends to the Management Board the candidates for the listed position.
- ✓ formulates proposals regarding the remuneration of the administrators and directors.
- ✓ ensures the fulfillment of the obligation regarding the elaboration of the annual reports and other reports, in accordance with the law.
- ✓ evaluates, at least once a year, the independence of the members of the Management Board.
- ✓ monitors the number of administrator mandates held by the members of the Management Board in other companies.
- ✓ performs other tasks in connection with the appointment or revocation of the Management Board members, on the Board's instruction.
- ✓ makes sure that the persons applying for the position of administrator have the necessary training and experience to fulfill their obligations. The Committee may propose the rejection of candidates who do not meet the Board membership criteria.
- ✓ draws up an annual report on the remuneration of the administrators and directors appointed by the Board, as well as the incentives granted to them, a report that will be presented to the General Meeting of Shareholders.

The **Trade Policy Committee** supports the Management Board in implementing the Management Plan by transposing it into appropriate trade policies.

The guiding principles that coordinate the work of the Trade Policy Committee are:

- ✓ the principle of legality, which implies the observance by the company of all the applicable legal provisions in the relations with the partners and authorities, as well as of the internal norms and procedures approved by the administrator;
- ✓ the principle of optimizing the commercial policies, which implies the establishment of those marketing and promotion actions meant to stimulate the company's businesses and to ensure their sustainability in the medium and long run;
- ✓ the principle of territorial business expansion, which involves the establishment of those trade policies meant to identify new business opportunities in international trade.

2.5.1 Internal control

The specialized internal control provided in the legislation in force, is exercised in Antibiotice S.A by the following departments: Preventive Financial Control, Financial Management Control, Inventory Control which are periodically evaluated by the Internal Audit Office. The findings and recommendations resulting from the internal control actions, including the internal audit are submitted to the Audit Committee, in order to evaluate the efficiency of the internal control.

Internal audit

In 2021 our specialized department conducted 11 internal evaluation audit missions, which had the following auditable objectives adapted to the specifics of the audited field:

- to examine if the audited activity applies all the principles, specific procedural and methodological rules, internal notes and decisions;
- to examine the way in which the audited activity is organized;
- to evaluate the management and control system of the audited activity;
- other objectives specific to the activity.

Audited areas, missions, audited structures and findings of the audit missions:

1. Evaluation of the activity of purchasing goods and services: 3 missions were conducted to: Technical Department (procurement of equipment), Investments Department (procurement of construction works), Domestic Procurement Department and Import Department (procurement of goods and services). The audit missions verified the way of contracting the goods and services and the way of carrying out the concluded contracts. The conformity of the acquisition activities with the approved internal legislative and procedural framework was ascertained.
2. Evaluation of the patrimony administration - sale, pledge, concession of goods - a mission conducted by the Patrimony Management Department. The evaluators found that the activity was carried out in accordance with the legal and procedural provisions.
3. Evaluation of the income generation activity - two evaluation missions were conducted to the Marketing & Sales Unit for evaluating the sales income and one mission conducted to the Research Unit and Technical-Production Unit for evaluating the income from intangible assets, respectively the production obtained. The evaluators found that the activities generating income are carried out according to the procedural framework and there is control over the activity.
4. Evaluation of the expense budgeting activity - the activity of monitoring the company's budget was analyzed. The evaluators found that the activity is efficient, ensuring compliance with the approved Income & Expenditure Budget and the achievement of financial performance indicators.
5. Evaluation of the corruption prevention system. The evaluators concluded that the preventive measures regarding the conflict of interests and incompatibilities, provided in Annex no. 3 the H.G. no. 583/2016 are implemented.
6. Evaluation of the decisional system and of the internal control system carried out by the Financial Management Control Department, Preventive Financial Control Office, Risk Management Department. The auditors found that they were organized and functional in accordance with the internal legislative and procedural framework.
7. Evaluation of the human resources management activity. The auditors found the conformity of the specific activities: personnel selection and recruitment, training, disciplinary research, human resources management with the legal and procedural provisions, compliance with the approved salary budget and compliance with the maximum limits on the number of employees.
8. Evaluation of the Information Technology Department. The auditors found that there is control over information and communication resources (ICR), that the internal procedural framework on the use, confidentiality, monitoring, security, access to ICR is created and measures are taken to improve the information and communication system.

The missions were carried out in compliance with the audit procedural rules, by going through the stages of an internal audit mission. Subsequently, Internal Audit Reports were submitted to the General Director for approval. The conclusions and

recommendations of the audit reports, for each audit mission, were implemented by the audited structures.

The established recommendations were followed until implementation. Until 31.12.2021, out of the 37 recommendations, 23 recommendations were implemented, 3 were partially implemented and 11 recommendations were within the implementation deadline.

The **Financial Management Control** conducted in 2021 had specific objectives, according to the provisions of the GD 1152/2012:

- ✓ to verify the compliance with the legal provisions in substantiating the 2021 draft Income and Expenditures Budget;
- ✓ to verify the compliance with the legal provisions and internal regulations when performing the annual inventory of the assets, liabilities and equity for 2020;
- ✓ to verify the compliance with the legal provisions and internal regulations regarding the receipts and payments in lei and foreign currency, of any nature, in cash or by bank transfer;
- ✓ to verify the compliance with the legal provisions regarding the execution of the 2020 Income & Expenditure Budget;
- ✓ to verify the compliance with the legal provisions regarding the preparation, circulation, storage and archiving of primary accounting and technical operative documents;
- ✓ to verify the implementation of the company's liquidity improvement plan;
- ✓ to verify the compliance with the legal provisions and the approved Accounting Policy Manual regarding the registration in the accounting records of the financial-accounting operations;
- ✓ to verify the compliance with the legal provisions regarding the existence, integrity, preservation and use of the means, resources, on any account.

The inventory financial control actions were finalized by drawing up control reports, in which the findings and the measures for improving the verified activities were presented.

The control reports were approved by the Director General who ordered the application of the recommended measures. All the measures were implemented.

The **inventory control** materialized in carrying out 25 inventory actions, at the central warehouses of raw materials, materials and finished products and places of consumption of raw materials and materials with stock management in place and in the inventory locations where the manager was changed .

In the inventory activity, our company complied with the legal and regulatory framework established by:

- Accounting Law no. 82/1991, republished and updated;
- Law no. 22/1969 on hiring managers, establishment of guarantees and liability in connection with the management of assets;
- O.M.F.P no. 2861 / 09.10.2009 for the approval of the Norms regarding the organization and performance of the inventory of the assets, liabilities and equity;
- Operating procedures, Internal notes, Internal decisions issued by the company's management.

Following the inventory, the factual existence of the written stocks in the financial-accounting records was found and no deficiencies or damages were identified.

The minutes were submitted to the Accounting Office so that the results of the inventory could be used in the annual inventory of the patrimony.

The internal control exercised by the specialized structures and the hierarchical control exercised by the executive, speciality directors and managers ensure the use of

the company's resources in conditions of economy, efficiency and effectiveness while achieving the set objectives.

2.5.2. Risk management

Our company complies with the applicable legal and regulatory requirements for identifying, assessing, managing and reporting the risks.

The main purpose of risk management is to help people understand and identify the risks to which the organization is exposed so that they can anticipate and manage these risks without compromising the organization's effectiveness.

Antibiotice objectives on risk management:

- to understand the risks to which our company is exposed as well as their general and specific causes;
- to improve the risk profile of our company by managing the process of identifying, evaluating and managing risks and by implementing the control measures needed to maintain exposure to risk within the tolerable area.

The responsibilities related to risk management are performed / fulfilled by the Risk Management Department together with the risk officers and Antibiotice employees.

Specific risks were identified in each organizational structure within Antibiotice S.A. The Risk Management Department annually analyzes and prioritizes the significant risks, which may affect the achievement of the general objectives, by establishing the risk profile and tolerance limit, approved by the company's management. This department prepares also the "Plan for implementing the measures to control the significant risks in the company".

The cyclical review of the main risks involves an assessment of their likelihood of occurrence and their potential consequences in order to confirm the level of exposure and evaluate the strategies for managing them.

The Internal Audit Office carries out an annual risk management assessment, making recommendations for improvement, where necessary, and the findings are presented to the Audit Committee.

In 2021, the General Risk Register was prepared and approved, with the aim of minimizing the significant risks with an impact on the objectives, to which the company is exposed. Relevant risks were synthesized according to their magnitude using impact and probability.

As regards the financial risk management, the risks to which the company is exposed are:

- ✓ commercial (non-payment) risk is the risk that a business partner may not be able to meet its contractual obligations, resulting in financial losses for our company. Antibiotice is mainly exposed to the commercial (non-payment) risk arising from sales to customers.

In order to mitigate this risk, our company takes a series of measures such as: a permanent evaluation of the clients' financial performance and their payment history, requesting guarantees, securing receivables.

- ✓ **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: lack of cash-flow generated by the gap between receipts and payments, long receivables collection terms, fluctuations in interest rates and currency rates, volume of investments, level of taxation, price of raw materials and utilities.

Prudent liquidity risk management involves a number of measures such as: to keep sufficient liquid resources to meet the payment obligations as they reach maturity, to correlate the payment terms with the collection ones and obtain necessary financing through credit lines.

✓ **Currency risk**, a component of the financial risk, occurs frequently in the current market economy where monetary rates fluctuate under the supply and demand rule.

Exchange rate fluctuations are reflected both in the costs of imported raw materials, as well as in the prices of finished goods for export. In order to reduce the exposure to the currency risk, our company took a series of measures such as: synchronization of import and export activities by correlating payment and collection terms, as well as correlating the weight of currencies so that the payment for the imported goods be made as close to or even simultaneous with the collection of money for the exported products.

✓ **Legislative risk**

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. Our effort for complying with these provisions is reflected in additional costs related to updating the documentation, and complying with the latest quality standards.

Our 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, continuous monitoring of international legislative changes, constantly adapting our policies, rules and procedures to the all these changes.

✓ **Human Resources risks** - the lack on the labor market of candidates properly trained in the pharmaceutical field.

Circumstances of risk occurrence: loss of specialists due to retirements but also due to voluntary departures, establishment of new companies in the pharmaceutical field, development of new industrial sites near the company.

✓ **Reputational risk** is defined as the current or future risk of negatively affecting the company's profits and equity determined by the unfavorable perception on the company's image. Our company's strategy is to limit the reputational risk through procedures, rules and flows specifically created for this purpose and through sustained, transparent and efficient proactive communication.

✓ **Operational risk** is the risk of loss that results either from the use of some inadequate processes, persons or internal systems that did not perform their function properly, or from external events. Operational risks can materialize in equipment failures, human errors, faulty operational processes which can lead to unplanned shutdowns. Our company constantly monitors the operational risks in order to take measures to maintain them at an acceptable level that does not threaten its financial stability, interests of creditors, shareholders, employees, partners.

✓ **Environmental risks**

Non-compliance with legislation and obligations that could have a negative impact on the environment and the company's reputation. In order to monitor the risk, a series of measures were taken such as: maintaining and improving the environmental management system according to ISO 14001 and carrying out internal audits to verify compliance with the requirements of the standard; compliance with operating procedures; staff training; compliance with the maintenance program; following the

legislative changes and harmonizing them with the existing ones; emergency preparedness and response.

✓ **Risk of natural disasters (earthquakes, floods, fires).**

Our company will reduce these physical risks by applying the measures included in: Emergency Evacuation Plan; Natural Disaster Response Plan; Fire Response Plan; Accident Prevention Policy involving dangerous substances (acetone, methanol).

All these plans aim to protect our employees, property and the environment.

The current Management Report was prepared on the basis of financial data that were subject to external financial audit according to the legal requirements.

3. Conclusions

In 2021 Antibiotice SA:

- recorded a 13% increase in net profit compared to 2020;
- recorded a 8 % increase in revenues from the sale of products in the domestic and international market compared to the previous year;
- won the tender in value of 11 million EUR, organized by the authorities from the United Kingdom of Great Britain for 5 antiinfectives for injection (for hospitals);
- obtained the maximum grade in the VEKTOR ranking, made up of the Romanian Investor Relations Association (ARIR), which evaluates the communication with investors of the companies listed on the Romanian Regulated Market (for the third consecutive year);
- ranked in the GOLD category in the Romania Corporate Sustainability & Transparency Index (CST Index) 2021 with the 2020 Sustainability Report.

General Director,
Ioan Nani, Economist

Financial Director,
Paula Coman, Economist