

MANAGEMENT REPORT

January - September 2017

3 rd Quarter Report according to:	IFRS
For the financial period :	30.09.2017
Report date:	15 November 2017
Name of trading company:	Antibiotice SA
Registered office:	Iasi, 1 Valea Lupului Str.
Telephone number:	0232/209000; fax: 0232/209633
Fiscal registration code:	RO1973096
Ordinal no. 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

In the first 9 months of 2017, the local pharmaceutical market reached 10.3 bn lei, an increase of approximately 8% compared to the same period of the previous year, according to the data provided by Cegedim Romania (January - September 2017 estimates).

The Hospital market showed an increase during the first 9 months of the year (+14% in terms of value, compared to the similar period of 2016), while the Retail market had a single-digit increase (+7.3%). The increase of the former was the result of both the positive evolution of the innovator drug products, the top 10 original brands accounting for approximately 60% of the market increase (in absolute value), and the increase in the generics market generated from the sales of antiretrovirals, albumin drugs, general anaesthetics, antiemetics and heparin drugs. Except for the increase in these segments, the hospital market stagnated in comparison to the same time interval in 2016.

The 7.3% increase of the Retail segment (community pharmacies) was generated by the evolution of the over-the-counter drugs (value contributed +380 mil. lei) and generics (value contributed +155 mil. lei). Originator pharmaceutical products had a similar evolution to that during the first 9 months of 2016. The decrease in the sales of drug products intended for interferon-free therapy of chronic hepatitis C in the first part of the year was partially compensated by the evolution of the oncology drugs, insulins, cardiovasculars, and anti-diabetics.

In addition, according to the data provided by Cegedim, the ranking of the pharmaceutical companies present in the local market changed in Q3. Thus, the US company ABBVIE regained their leading position in the market, followed by the French company, Sanofi and the Swiss group, Novartis. In 2016, the US company ABBVIE, became the leader of the market, following the introduction of the medication for viral chronic hepatitis, with a market share of 11%; in January - August 2017, it dropped to second place, with a market share of 3.1%. At the end of Q3, it regained first place with a market share of 7.1%.

At the end of Q3 2017, Antibiotice's sales amounted to 236 million lei, by **6.8% higher than at the end of Q3 2016** (221 million lei). Compared to the first 9 months of the previous year, both the Retail segment (177.2 million lei, accounting for 75% of the total figure), and the Hospital one (58.8 million lei, accounting for 25% of the total figure) increased.

Mn. lei

Indicator	Q3 2015	Q3 2016	Q3 2017 (estimates)	Q3 2017/2016
Pharma market	8,841.91	9,505.71	10,273.45	8.1%
Generics + OTC products market	3,789.70	3,848.88	4,415.53	14.7%
Generics + OTC products share	42.9%	40.5%	43.0%	
Antibiotice market share	2.39%	2.33%	2.30%	
Antibiotice(sales from pharmacies)	211.56	221.01	236.03	6.8%
Share of OTC products in Antibiotice's portfolio (sales from pharmacies)	13.5%	15.7%	19.8%	

After the first 9 months, Antibiotice maintained its leading position in terms of generic drugs sold to hospitals, with a market share of **17.6%**.

The company ranks 4th among the manufacturers of generic drugs, with a market share of 5.4%, and the 17th among all the pharmaceutical companies operating in Romania, with a market share of 2.3%.

The segment of Retail pharmacies grew by 7.2% compared to the first 9 months of 2016, from 165.4 million lei to 177.2 million lei in 2017.

The Hospital segment also grew by 5.4%, from 55.7 million lei in 2016 to 58.8 million lei in 2017 (Source: Cegecim).

The therapeutic areas with significant sales value were: Cardiovascular System (+10.4 million lei), Alimentary Tract (+4.8 million lei), Nervous System (1.6 million lei), Blood and Blood-forming Organs (+0.33 million lei). The increase in the sales was generated by the newly assimilated products and the positive evolution of the company's top products.

Among these, the following products contributed with more than 1 million lei: Silithor® (+4.5 million lei), Fluxiv® (+3.7 million lei), Indapamida Atb® tablets (+2.7 million lei), Equilibra® (+1.8 million lei), Rosuvastatina Atb® tablets (+2.3 million lei), Meropenem® inj gama (+1.6 million lei), Nolet® tablets (+1.3 million lei), Imipenem/Cilastatin Atb® (+1.2 million lei), AmpiPlus® inj (+1.1 million lei), Bisotens® gama tablets (+1.1 million lei), Memantina Atb® gama (+1.1 million lei), and Cutaden® Bebe (+1 million lei).

Antibiotice kept its leading position also in terms of units sold for ointments (26.7% market share), suppositories (40.2% market share) and powders for injection (74.5% market share).

The products that were assimilated into the company portfolio during the first nine months of the year are:

- **Zifex® Complex pessaries** - a new product indicated for gynecological disorders and an addition to the Zifex® range of products. The product is one of a kind in the Romanian pharma market and it contains nystatin, an active ingredient for which Antibiotice is the world leading manufacturer. Zifex® Complex adds value to the company's product portfolio and will contribute, along with Nistatina Atb® tablets, Nidoflor® and Nistatina Atb® pessaries to the vertical integration of nystatin API.
- **Clobetazol® cream** - corticosteroid for topical use indicated in short-term therapy of resistant dermatoses (psoriasis, eczema resistant to the treatment for lichen planus, chronic lupus erythematosus); the Marketing Authorization was granted in the first part of the year;
- **Betahistina Atb® tablets** - the product belongs to the therapeutic subclass of antivertigo preparations medicament and is indicated in the therapy of vertigo caused by blood flow disorders in the inner ear; the Marketing Authorization was received in the first part of 2017;
- **Caspofungina Atb® powder for concentrate for solution for infusion** - secondary systemic antifungal indicated in the treatment of invasive candidiasis and invasive aspergillosis; the Marketing Authorization was granted in the first part of the year;
- **Sprinten® tablets** - food supplement designed to maintain the health of the skeletal system, reduce rigidity and joint fatigue, and improve motion; the Marketing Notification was received in the first part of 2017;

Following the general trend of the market determined by an increasing interest in prevention and towards maintaining a good health status and the quality of life, **between January and September 2017, the sales of the company's OTC products increased by 35%, a percentage higher than that reported by the total OTC market (i.e. +20%).**

With the present portfolio, **Antibiotice ranks the 14th among the companies operating in the OTC market in Romania (213 companies in total), climbing one position on last year.**

The share of OTC products in the company's turnover grew to 20% (compared to 13.5% in 2015 and 15.7% in 2016). The products with the most significant contribution were the food supplements Fluxiv®, Silithor®, Equilibra®, Soriso®, Cutaden® Bebe and the OTCs Rompirin® E, Saliform® Forte, Clafen® gel 5% and Cicatrol®.

Owing to the product promotion and commercial strategies applied in the first part of the year, the food supplements succeeded to perform very well in the relevant markets: **Fluxiv®** - in the second selling year, ranked 3rd of 26 products in terms of consumption, with a market share of 6.7%; **Equilibra®** - ranked 3rd of 38 products in the market in terms of consumption, with a market share of 13%; **Silithor®** - ranked 7th in terms of consumption, of 55 similar products, with a market share of 4.8%; **Soriso®** - ranked 1st in terms of consumption, with a market share of 37.7%, in its second selling year.

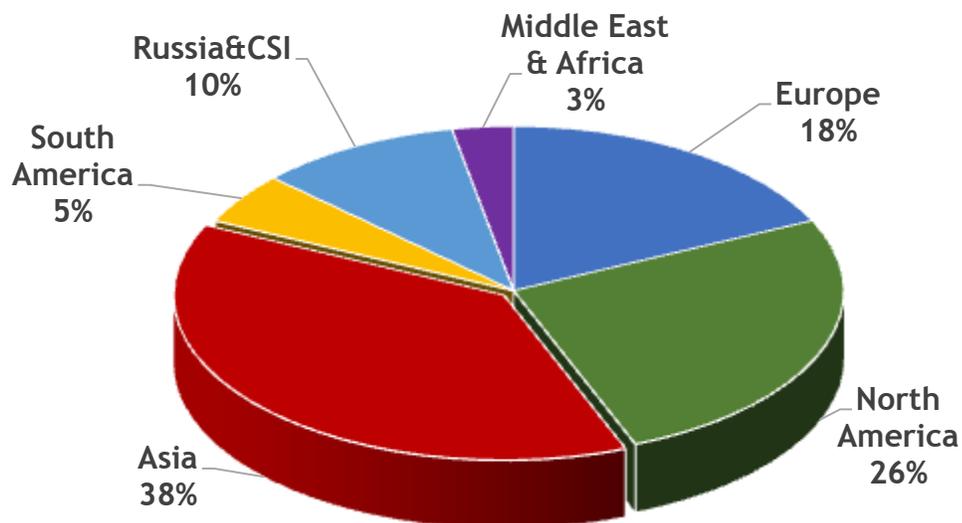
(source Cegedim - Q3 estimates)

Developing strategic international partnerships

Business internationalization requires complex adaptation of the approaching strategies to the specificity of each target market.

In the first 9 months of 2017, Antibiotice continued its policies for development in strategic markets started in the previous years, complying with the relevant legal requirements and adapting to the consumer habits and trends characteristic to each market. Taking into consideration all such aspects, Antibiotice implemented commercial policies and tailored the product portfolio to the target markets to the purpose of maximizing the advantages and opportunities offered by such markets.

Thus, in the first 9 months 2017, the exports reached 91.7 mil lei, by 26% up compared to the similar time interval of 2016. The main destinations of the products manufactured by Antibiotice (both finished dosage forms and Nystatin API) were Asia (38%), North America (26%) and Europe (18%), the sales in these areas accounting for approximately 80% of the total sales.



In **Southeast Asia**, the exports were 16% higher than in the same period in 2016. The increase was the result of the higher sales of finished products in Vietnam, particularly of anti-infectives. In 2017, the company received two new marketing authorizations for two products from this therapeutic class, namely Ampplus 1.5 gr and Oxacillin 1 gr powders for injection. Moreover, the marketing authorization for Cefalexin 500 mg capsules was renewed. The estimated sales of this product in 2018 amount to 1 mil USD.

The representative office established by Antibiotice in Vietnam, which started to operate in 2017, also helped boost the sales in this area, giving rise to new opportunities for development by new product registration. Negotiations have been carried out with the distributors to start selling the 12 already registered products in the retail market and to evaluate a group of additional 20 products with the intention of registering them by the end of 2020.

In the following years, Antibiotice aims at registering and selling the Vietnam product portfolio in other markets in Southeast Asia, such as the Philippines, Hong Kong, Taiwan, where negotiations with the business partners in the area are conducted.

In the first 9 months of 2017, the sales on the **US market** increased by 45% compared to the same time interval of last year. The increase was due to the higher sales of both finished dosage forms for injection and Nystatin API, and was the result of the strategies the company used to promote its products in the market, the profitable commercial conditions and potential of the market.

In what concerns **Europe**, all actions were directed towards consolidating the present business, both for finished products and Nystatin API. The main target markets are Germany, The Netherlands, Denmark and Serbia. For Serbia, the company concluded and has in place a representation agreement intended to generate long-term sustainable growth for the business projects of the company by registration of products selected to suit the particularities of the market, product promotion by marketing teams, and approach of all distribution channels to increase sales. In 2017, three cardiovascular products were granted marketing authorization, which will have a positive impact on the evolution of the sales in the future years. Moreover, the registration dossiers of other five products from the same therapeutic class are currently under preparation to supplement the eight cardiovascular products already registered in Serbia.

The exports to **Russia & CIS** went up by 70% following the increase in the shipments of cardiovascular products (Bisotens 5 mg, Bisotens 10 mg) and suppositories (Glycerin for adults, Glycerin for children) to the Russian Federation, and of injectable anti-infectives to Ukraine (territory in which two new marketing authorizations were obtained). Ukraine has been considered for the opening of a new representative office of the company, taking into consideration the market potential and the consumer habits, which suit the product portfolio of the company.

One of the events intended to promote the company and its cardiovascular products internationally was the Congress of the Euro-Asian Bridge Society for Cardiovascular Surgery (EABM) held in Iasi between September 21 and 24, 2017, to which Antibiotice was the main partner. The Congress had an important impact on the company's image among the 600 specialists from over 40 countries attending the event.

As a partner in the Congress of the Euro-Asian Bridge Society for Cardiovascular Surgery, Antibiotice integrated into the scientific communication platform, thus providing physicians from different territories in which the company operates (e.g Vietnam, Serbia, Ukraine, Moldova, Russia, USA, Azerbaijan) with the opportunity to both discuss with Romanian specialists in similar fields, who have used Antibiotice's products for many years now, and to visit the production facilities.

Certified quality

Increased confidence in the quality, effectiveness and safety of our products is built on a daily basis, maintaining the Integrated Management System under control and constantly improving it. Quality is certified by the results obtained following the inspections /audits conducted in January - September 2017.

1. Inspections conducted by authorities and certification bodies

1.1. **Inspection by the US FDA**, to verify the conformity of the Quality Management System with the specific cGMP requirements for the production lines of the Products for Injection Plant (aseptic filling of injectable products) and Biosynthesis Plant (Nystatin API manufacturing). Upon completion, the US FDA sent the *Establishment Inspection Report* stating that the inspection was “closed”, which indicate that the CAPA Plan was accepted and the inspected manufacturing lines were GMP-compliant.

1.2. **Inspection by the National Agency for Medicines and Medical Devices (NAMMD)**, to renew the **GMP certificates** of the manufacturing lines for capsules, tablets, semisolids and suppositories, including investigational medicinal products. The appropriate CAPA Plans were sent in response to the List of Deficiencies issued by NAMMD. The Final Inspection Report is pending. NAMMD granted the Manufacturing Authorization for the above-indicated products and the Import Authorization and issued the GMP Certificate no. 040/2017/RO for the manufacturing lines and the GMP no. 041/2017/RO for the manufacturing of investigational medicinal products for clinical trials of semisolids, suppositories, tablets, film-coated tablets, capsules.

1.3. The national authority conducted also a GLP routine recertification inspection to the Bioanalytical Laboratory and Clinical Unit from the Medical Division. The Inspectors sent their Inspection Report to the company on May 24, 2017; a Corrective Action Plan was sent to NAMMD in response to their Report on June 8, 2017.

1.4. SRAC’s ISO 9001 inspection for certificate renewal for the aluminum tubes, polyethylene screw caps and metal caps manufactured in the Micro-production Plant, conducted between June 28 and 30, 2017. The certification was maintained.

2. **Two audits conducted by clients** to the Nystatin API manufacturing plant. No critical nonconformities were identified and Antibiotice was proposed for requalification as a supplier of Nystatin API.

3. **Audits conducted to 17 suppliers of raw materials / primary packaging materials / finished products**

No critical nonconformities were identified during the audits; as a result, the supply from these sources was allowed to continue.

Employee Development - A Guarantee for Good Results

Antibiotice promotes diversity and equality of opportunity in all the employee recruitment, selection and integration processes. All employees are ensured their legal rights and offered fair and equitable conditions for work and professional development.

As of September 30, 2017, the average number of employees was 1,420.

The structure of personnel in terms of the level education is as follows:

Higher education, out of which:	43.34%
- 31 employees with completed doctoral studies (5%)	
Secondary education	56.65%
	100%

The **recruitment and selection** of personnel is conducted by a **Recruitment Committee** that defines the framework for recruiting people needed to complete different teams so that an optimal personnel structure is ensured and the balance among the indicators assumed and approved by Income and Expenditure Budget is maintained.

Thus, in the first nine months of the year, a number of **95 new employees** were attracted and integrated in the company to work in research and pharmaceutical development, promotion and internal market sales, quality control and quality assurance, production, engineering, as follows:

- 38 people with higher education, 18 out of which joining the research, portfolio management, production and engineering teams, and 20 to fill in positions left open by people who left the company.
- 57 people with secondary education, 8 out of which to develop the production and engineering teams, and 49 to replace the employees who left the company.

In addition to the traditional recruitment and selection methods, the company has been cooperating with higher education and secondary education institutions from Iasi in several important projects as follows:

Summer School a+

In 2017, this project involving the academic community in Iasi reached its 8th edition. A number of 30 final-year students were trained by company specialists in different areas, such as quality assurance in a pharmaceutical company, pharmacovigilance, regulatory affairs, specific laboratory techniques used in quality control, pharmaceutical research and formulation, technology and equipment used in the pharmaceutical industry.

Project Perform a+

The project was initiated in 2016 with the purpose of creating a platform for long-term communication and cooperation with “Gr. T. Popa” University of Medicine and Pharmacy, “Al I.

Cuza” University, and “Gh. Asachi” Technical University of Iasi for training and attracting qualified personnel for the industry.

This year, ten 5th-year students from the Faculty of Pharmacy of Iasi did an internship at the end of which, were asked to develop a project based on the acquired knowledge in pharmaceutical product formulation. Upon graduation from the university, three of these students will join different teams within the Medical Unit of the company.

120 students specialized in pharmacy, medical bioengineering, chemical engineering, and biology did internships and study visits as part of the cooperation projects carried out with "Al. I. Cuza" University, the "Gr.T.Popa" University of Medicine and Pharmacy and the „Gh. Asachi” Technical University of Iasi.

Moreover, as part of the partnerships created with the „Petru Poni” Technical Highschool of Iasi and the Technical Highschool - Mechatronics and Automation Iasi, during the academic year 2016-2017, a total of 60 highschool students in 9th and 12th grades did their traineeships in our company, in the following areas of specialization: chemical laboratory technician/chemist operator for the pharmaceutical and cosmetics industry, and mechatronics/electromechanics technician.

Within the program "Learning is fun week", Antibiotice opened the doors to more than 450 secondary school students from Iasi in order to make them familiar with the history and work performed in one of the best-known industrial landmarks in Iasi.

The company invests in the education of both the young people and its own employees aiming at determining them pursue successful careers and become role models, examples of responsible behavior. We acknowledge and support the role of the local community in forming and developing the main valuable resource of a society: well-trained people.

Employee training and skill development programs

The professional training programs for the employees are performed either in the country or abroad. Such programs represent an on-going effort that help the company maintain its leading position in a such a competitive environment.

In the first nine months of the year, a number of 437 employees took part in training sessions covering topics related to regulatory requirements in the pharmaceutical industry, good laboratory practices, and legislation in different areas.

Employees from the Research and Development Dept. attended training courses held by foreign lecturers; the courses approached topics such as pharmacovigilance or manufacturing of food supplements and evolution of the food supplement market.

Employees working in the analytical laboratories of the Research and Quality Control Units received training in genotoxic impurities, mass spectrophotometry, microbial contamination monitoring.

People working in promotion, marketing and sales developed their skills in market research, leadership and negotiation, their competencies in successful team management, conflict management, their creativity by workshops and teambuilding programs.

The employees working in production and engineering & maintenance took part in training sessions focused on improvement of bioprocesses, automated applications in manufacturing processes, modern systems for integrity testing of antimicrobial filters.

Other topics of interest approached in the training sessions were the management of commercial conflicts arising from pharmaceutical research, handling disputes related to international trade in the pharmaceutical industry, labor law, tax legislation, non-financial reports in conformity with the requirements of the Global Reporting Initiative and the European Union directives.

The internal component of the Summer School a+ (designed for the employees) provided also this year, at its 8th edition, to a new group of junior managers, the opportunity to attend an extended training module entitled “Initial Training of Managers”. The module was designed for the young colleagues who did not receive any form of management training during their academic education, focusing on the main notions of team organization and coordination.

A number of 244 employees took part in workshops in which they acquired or consolidated their information on talent management, role played by the employer brand, new requirements in validation of manufacturing processes and equipment requalification, conflict management.

The involvement of employees in achieving strategic objectives

The Management by Objectives (MBO) System

Based on the approved indicators in the Income and Expenditure Budget for 2017 and starting from the company’s Business Plan for 2017 - 2020, the annual overall objectives as well as the activity-specific objectives for a number of 321 employees included in the MBO system were defined.

The individual objectives were formulated in consistency with the mission and vision of the company, its strategic orientation and with the intent to harness business opportunities to the full extent, to control and reduce the negative impact of the risks and limitations specific to the dynamic pharmaceutical market.

Performance evaluation

The annual performance evaluation for the personnel not included in the MBO system is made based on criteria set forth in the company’s Rules of Procedure for both the operational staff and the management one.

The employees with management positions are evaluated not only by their superiors for the planning and management of the personnel they supervise, the manner in which they make, implement, and assume responsibility for decisions, the way they identify and prioritize activities, fairness of task allocation, the training, involvement, and evaluation of their subordinates, creation of a pleasant working environment, efficient use of available resources, effort to keep expenses within the budget, activity supervising, identification and correction of deficiencies, compliance with procedures and regulations, concern for improving the activity and performance of the managed structure, but also by their subordinates.

The operating personnel is evaluated based on quantitative and qualitative criteria such as: the extent to which the allocated tasks are achieved and the quality of execution, compliance with the consumption targets and budget requirements, deadline meeting, results of the professional training evaluations, observance of discipline and internal procedures, team spirit, suggestions for activity improvement, and involvement in applying the improvement solutions.

Social responsibility

Antibiotice: a responsible company involved in community

Antibiotice believes in supporting projects of social responsibility and, by all the activities performed, is constantly concerned to contribute to environmental protection, improve people's lives and health status, and create a confidence climate in relation to the stakeholders.

Antibiotice continued in 2017 the events focused on the raising people's awareness towards the correct use of antibiotics. Thus, the company organized the awards ceremony for the project contest entitled "**Antibiotics - use them carefully! Everybody is responsible**" intended for the students of the "Gr. T. Popa" University of Medicine and Pharmacy Iasi in the Senate Hall of the same university, on March 21. The contest was initiated on November 18, 2016.

The students who took part in the contest used their creativity and developed an integrated communication campaign with a message promoting the rational use of antibiotics.

Moreover, Antibiotice supported the information campaigns conducted by the TB Unit from the Pneumology Hospital of Iasi, in collaboration with the Public Health Department of Iasi, "Grigore T. Popa" University of Medicine and Pharmacy of Iasi on occasion of the **World Tuberculosis Day**. Thus, on March 24, a flash mob was organized on the esplanade in front of the "Grigore T. Popa" University of Medicine and Pharmacy of Iasi with the intention of drawing attention to the fact that tuberculosis is a public health priority and that all partners involved in the fight against this disease should join forces to have this treatable disease eradicated.

This year, the company took part again in the major environmental awareness campaign - **Earth Hour**, which raises awareness on the effects of global warming. On March 25, 2017, for an hour, Antibiotice turned off the lights symbolically in all the areas where this was possible.

The „School Orchard” project took roots in three schools in Miroslava

Antibiotice gets involved in community by developing, with the help of its employees, a project of social responsibility aimed at protecting the environment entitled "The School Orchard".

The company's employees set themselves to plant 400 fruit trees in two stages at schools in the neighboring towns.

The first stage of the project took place on April 1, 2017. A number of 70 volunteers from the company offered a source for good health to the pupils living in the countryside by planting 300 fruit trees at their schools.

The „School Orchard" is a project in which Antibiotice's employees get involved voluntarily and by means of which try to inspire the young generation to respect and protect the environment, to maintain a healthy life style, and nurture the civic spirit.

„Be Pro Nature! Put Soul!"

The concern for the environment is an important part of the company's social responsibility strategy.

On May 29, sixty pupils from Valea Lupului Secondary School visited Antibiotice to mark the **World Environment Day**. The event aimed at drawing awareness on the responsibility for the environment, inspiring the young generation to protect and preserve the environment for sustainable development.

During the activity, specialists from the company presented the way Antibiotice protects the environment, organized visits to the wastewater treatment plant and industrial waste incinerator. At the end of the visit, the students participated in a creative contest entitled “**Be Pro Nature! Put Soul!**” with the topic of environmental protection.

The pupils’ creations were sold in a charity auction entitled “We support education in community” organized for the employees. The money raised was donated to support 52 children coming from underprivileged families who faced the risk of becoming school dropouts, included in the program „In community - at home: after-school at Valea Lupului Secondary School”.

Urged by the slogan “**Donate blood! Put soul for life!**“, 51 employees of the company responded to the blood donation campaign held on April 10, by the Antibiotice - Science and Soul Foundation in partnership with the Regional Center for blood transfusion (CRTS) Iasi. Thus, on the World Health Day, the employees donated 25 l of blood, contributing to the rescue of 131 lives.

At Easter time, on April 12, the Antibiotice “**Science and Soul**” Foundation came to the help of 25 underprivileged families and elderly people living alone from Petresti village (town Golaesti), county of Iasi. The help consisted in basic foodstuffs for the traditional Easter holidays. Petresti is a village from the county of Iasi located on the side of the Prut river, at the border with the Republic of Moldova, one of the poorest areas in the country.

Investment Policy

The investments planned for 2017 amounted to 72.094 ths lei. Until September 30, 45.44% of the planned value was achieved (i.e. 32,760 ths lei).

	INVESTMENT OBJECTIVES	Estimated for 2017 (thousand lei)	Achieved until 30.09.2017 (thousand lei)
	EXPENDITURE ON INVESTMENTS, of which:	72.094	32.760
1	Investments in progress, out of which:	10.041	5.691
	Equipment for Capsule and Parenteral Products Plant	9.040	4.711
	Rehabilitation of supporting and distributing system for utility networks	591	590
	Raw material warehouse for Nystatin	410	390
2	New investments, of which:	62.053	27.069
	Building a production facility for ointments and suppositories	23.433	8.490
	Investments at the Tablets Plant	3.906	1.291
	Investments at the Biosynthesis Plant	1.101	1.770
	Investments at the Parenteral Products Plant	4.255	961
	Investments at the Capsules Plant	2.526	74
	Investments at the Ointments and Suppositories Plant	1.080	471
	Medical Unit - License acquisitions for new products and research projects	3.185	2.765

Laboratory techniques for the Medical Unit	3.542	2.729
Laboratory techniques for the Quality Unit	4.274	1.122
Marketing Unit - Acquisition of cars and computer equipment	2.921	1.751
Financial Unit - Acquisition of computer equipment	91	30
Commercial Unit - Acquisition of equipment and installations, refurbishment, rehabilitation	3.094	995
Engineering and Investments Unit - Acquisition of equipment and installations, refurbishment, rehabilitation	8.645	4.620

ANTIBIOTICE S.A. manufactures valuable drug products, affordable and accessible for patients, physicians and pharmacists.

There is a permanent concern for business and product modernization.

A valuable medicine is not necessarily an expensive one but one that people can afford to buy, returns a reasonable benefit, which allows the support of manufacturing and high performance achievement, investing continuously in people, high technology and exigently selected partnerships for strengthening our position in the current markets and for penetrating new markets with potential.

In order to attain this goal, it is always necessary to have well-planned investments that will contribute effectively to the balanced development of all the structures of the company, i.e. production, research, quality control, utilities and logistics.

The investment objectives included in the program pursue:

- a new and effective manufacturing capacity equipped with modern production facilities for the manufacture of ointments and suppositories, GMP and FDA - compliant;
- modernization and refurbishment of the existing production lines to increase the production capacity, the product quality and reduce production costs;
- modernization of installations that provide utilities for the entire company;
- achievement of objectives that are in line with the strategy for pollution reduction and environmental protection;
- the consolidation of the integrated management system, the creation of new production facilities in order to reduce costs, utility consumption and increase work productivity, the continuous compliance with the increasing requirements of the Good Manufacturing Practice and the work and environment protection.
- increase of the storage capacity for raw materials corresponding to the increase of the production capacity.

I. ONGOING INVESTMENTS

1. Equipment for the production plant, quality and research laboratories

In 2016, laboratory equipment and apparatus were purchased for refurbishing the production lines, quality control laboratories and research laboratories, the payment of which will be made in 2017. The planned value for 2017 was 10.041 ths lei. The value of 4.711 ths lei account for the payments made during the first 9 months from the agreements concluded in 2016. Both the manufacturing and laboratory equipment are state-of-the-art, have high productivity and low energy consumption and high degree of operational safety. The manufacturing equipment is

intended to replace the older generation equipment with significant physical wear that generates high maintenance costs and low productivity. The acquisition of modern laboratory equipment is required by the continuous revision of pharmacopoeia monographs and increase of the precision of analytical methods in the pharma industry laboratories.

2. Rehabilitation of the support and distribution system for utility transport networks

The rehabilitation of the support and distribution system of utility transport networks represents the continuation of the actions take to modernize the transport and distribution system of utilities (steam, compressed air, thermal water, demineralized water, methane gas, electricity) on the entire platform of the company, started in the previous years.

The main objective of this investment is to dimension and adapt the utility routes to the current consumption of the production lines in order to achieve energy savings by reducing consumption and eliminating losses. This investment objective has been completed, the value settled amounted to 590 ths lei in 2017. The planned value for 2017 was 591 ths lei.

3. Warehouse for raw materials used in biosynthesis

Following analysis, the building of a warehouse for raw materials used in biosynthesis near the manufacturing plant was decided. The main advantage was the positioning, i.e. in close proximity to the production line, thus reducing the consumption of fuel for the transport of goods from the warehouse to the manufacturing plant and increasing labor productivity. The former warehouse did not meet all the GMP requirements and lacked the necessary storage room. This investment objective has been completed. The value settled in 2017 amounted to 390 ths lei. The planned value for 2017 was 410 ths lei.

II. NEW INVESTMENTS

1. Building a new Ointment and Suppositories manufacturing facility

Purpose of the project: building a new facility for the manufacturing of semisolid pharmaceutical products filled in tubes and suppositories in order to increase the turnover and capacity of Antibiotice to register, manufacture and market quality Romanian medicines by investing in a new, GMP-compliant plant for all the regulated pharmaceutical markets (Europe, USA and Canada).

Justification

The building of a modern plant for the manufacture of semisolid drugs filled into tubes (ointments, creams, gels) and suppositories is for Antibiotice S.A. the guarantee for the long-term business development.

The company's development strategy focuses on maintaining and expanding the portfolio of semisolid products divided into tubes and suppositories.

The strategy is based upon the development of the portfolio intended for the domestic market, but also upon the diversification and penetration of new foreign markets in Europe, North America, Asia and Africa.

In order to ensure the main characteristics of the medicines (quality, efficiency, safety), their manufacture must be carried out in facilities equipped with performance equipment and critical utilities that comply with the requirements of the Good Manufacturing Practice (GMP).

The value settled in the first 9 months of 2017 was 8.490 ths lei, representing the residual value from the agreement concluded with the company Grup Constructii Est S.A. for the completion of stage I - Building the envelope of the manufacturing area (excluding the clean rooms) and of the administrative-technical building and payment for the Sarong equipment for

suppository filling and packaging. The difference to 23.433 ths lei (the value planned for 2017) is the estimate for the down payment to be paid to the supplier of technical equipment and the down payment to be paid to the supplier of clean rooms and adjacent installations.

2. Investments in the manufacturing lines

For 2017, we planned the acquisition of equipment, installations, various endowments and laboratory equipment in order to refurbish the production lines. The manufacturing equipment and the installations to be purchased are of the latest generation, with high productivity, low energy consumption, and high operational safety. The manufacturing equipment is intended to replace equipment with significant physical wear, which generates high maintenance costs and low productivity. It is also necessary to purchase equipment and endowments to ensure environmental protection, reduce energy consumption and increase work safety. For the manufacturing plants, the following items were or are to be purchased: manufacturing equipment (machine for powder filling into capsules, tablet blistering machine, etc.), serialization systems, air-conditioning plant for the clean rooms, machines for polishing punches, various fittings, different devices etc. The value settled in the first 9 months of was 4.567 ths lei, out of which: for the Tablet Manufacturing Plant 1.291 ths lei, for the Biosynthesis Plant 1.770 ths lei, for the Parenteral Products Plant 961 ths lei, for the Capsule Manufacturing Plant 74 ths lei, for the Ointments and Suppositories Plant 471 ths lei. The planned value for 2017 amounted to 12.868 ths lei, out of which: Tablet Manufacturing Plant 3.906 ths lei, for the Biosynthesis Plant 1.101 ths lei, for the Parenteral Products Plant 4.255 ths lei, for the Capsule Manufacturing Plant 2.526 ths lei, for the Ointments and Suppositories Plant 1.080 ths lei.

3. Acquisition of licenses for new products and research projects

The new product development program has the following objectives:

- to modernize the company's product portfolio in order to ensure the internal market with latest generation generic drugs, therapeutically effective and safe in administration;
- to provide pharmaceutical products competitive in the foreign market and which ensure, in the long run, the growth of Antibiotice's turnover and competitiveness;
- to reduce the NHH (National Health Insurance House) expenditures for the purchase of imported expensive drugs or drugs involving a risk of discontinuity.

The planned value for 2017 amounted to 3.185 ths lei. The settled value for this investment objective in the first 9 months was 2.765 ths lei. The total value is made of values for internal research projects and acquisitions of licenses for new products and other licenses (e.g. license for the Finished product serialization system).

4. Investments in Research - Medical Unit

Research is one of the most dynamic activities in the company, undergoing permanent changes and has an ascending evolution. In the company, research acts as a dynamic element for the entire system, generating new products that drive growth in production. Intelligence and creativity are valuable assets, which contribute to the product portfolio development.

Given the importance of the information generated in the Center for Drug Evaluation, the investment program includes a range of equipment, endowments and software to support and improve the research activities in order to obtain new, quality, valuable and competitive products in the market.

The planned value for 2017 amounted to 3.542 ths lei. The settled value in the first 9 months was 2.729 ths lei. The total value includes the invoiced values for laboratory apparatus purchased in conformity with the investments program approved for 2017 (mass spectrophotometers, equipment for ultra-pure water, viscosimeters, climatic chambers, centrifuges, analytical balances etc.).

5. Investments in Quality

Given the ongoing revision of the pharmacopoeial monographs and the increased accuracy of the analytical methods in the pharmaceutical industry laboratories, it has become imperative to acquire the latest generation equipment to make it possible to verify the quality of the products manufactured by Antibiotice at international standards. The Quality Control laboratories have a decisive role in demonstrating the quality and conformity of the products manufactured in our company, and therefore, they must be permanently equipped with the most modern and performing laboratory equipment.

The planned value for 2017 amounted to 4.274 ths lei. The settled value in the first 9 months for this objective was 1.122 ths lei. The total value includes invoiced values for the laboratory devices acquired in conformity with the investment program approved for 2017 (autoclave, chemical niches, viscosimeters, dissolution tester, density tester, analytical balances etc.).

6. Investments for logistics

The investments are mainly directed towards the renewal of the car fleet. There is a need to acquire modern means of transport to ensure safety in operation, equipped according to the current transport legislation, for the transportation of raw materials and finished products and for the partial replacement of the outworn car fleet.

The planned value for 2017 amounted to 6.015 ths lei, out of which 2.921 ths lei for the Marketing Unit and 3.094 ths lei for the Commercial Unit. The settled value in the first 9 months was 2.746 ths lei, out of which 1.751 ths lei for the Marketing Unit and 995 ths lei for the Commercial Unit. For the Marketing Unit, the acquisitions included cars, to replace the cars with high physical wear used by the Marketing-Promotion team and computer systems. The following acquisitions were made for the Commercial Unit: a bus for people transportation, to replace an existing one with excessive physical wear, facilities for the raw material storage area, endowments.

6. Investments for the production and transport of utilities

The investments were mainly focused on modernizing and upgrading the systems, equipment and installations for producing utilities (steam, compressed air, water, demineralized water, methane gas, electricity, drinking water, sewage, etc.) on the entire territory of the company, in order to dimension and adapt the utility routes to the current consumption of the production lines, so as to save energy by reducing consumption and eliminating losses.

These investments will lead to the following benefits:

- safety in operation;
- increased labor productivity;
- reduced intervention times by implementing a powerful diagnosis system based upon error messages that diminish maintenance and repair work;
- economy of energy and resources and implicitly a better environmental protection;
- ease in the operation of the equipment by the human operator

The planned value for 2017 was 8.645 ths lei. The settled value in the first nine months amounted to 4.620 ths lei. The value is made of several values for investment objectives approved for 2017, such as: modernization of the heating station, modernization of the drinking water system, rehabilitation of the system for utility transport and distribution, modernization of the power supply and transformation system, various acquisitions (devices for the Automation and Electrical departments).

Economic and financial results in Q3 2017

The sales revenues in the Q3 2017 were by 4% higher than the values estimated in the Income and Expenditure Budget and by 3% higher than the values reported in 2016.

The gross profit in the first 9 months of the year was 21.06 million lei, by 14% higher than the estimates in the Income and Expenditure Budget (IEB) and by 3% higher than the gross profit reported for the same time interval in 2016.

The net profit amounted to 20.24 million lei, by 37% higher than the values indicated in the budget and by 14% higher than in the first nine months of 2016.

a) Statement of comprehensive income

Statement of comprehensive income (LEI)	LEI				
	30.09.2016	IEB Q3 2017	30.09.2017	2017/2016	2017/IEB
1	2	3	4	5=4/2	6=4/3
Sales revenues	227.345.120	225.054.000	234.210.689	1,03	1,04
Other operating revenues	13.103.263	15.983.000	18.857.951	1,44	1,18
Income associated with product stock costs	6.745.658	4.954.000	-160.508	-0,02	-0,03
Revenues from capitalized activity of the entity	1.734.360	2.017.000	1.269.892	0,73	0,63
Expenditure on raw materials and consumables	90.745.386	90.151.000	84.127.323	0,93	0,93
Expenditure on staff	52.967.744	60.515.000	60.150.288	1,14	0,99
Expenditure on depreciation and amortization	13.247.276	14.632.000	13.104.815	0,99	0,90
Other operating expenses	67.695.008	61.730.000	74.391.993	1,10	1,21
Operating profit	24.272.987	20.980.000	22.403.604	0,92	1,07
Financing costs	-3.839.671	-2.441.000	-1.345.469	0,35	0,55
Pre-tax profit	20.433.316	18.539.000	21.058.135	1,03	1,14
Profit tax expenses	2.629.446	3.766.240	813.166	0,31	0,22
Profit	17.803.870	14.772.760	20.244.968	1,14	1,37

The main expenditures evolved as follows:

- reduction in the expenditure on raw materials and materials by 7% both compared to the Income and Expenditure Budget (IEB) and the similar period of 2016, determined by the manufacturing structure and the sales during this period;
- staff costs decreased by 1 % compared to the values estimated in the IEB and increased by 10% compared to 2016 due to wage increases in May according to the IEB approved in the General Meeting of Shareholders;
- other operating expenses recorded a value of 74.4 million lei, by 21% higher compared to budgeted values, due mainly to the increase in the claw back tax value by 2.24 million lei, in the expenses with audio and online media communication campaigns by 3.5 million lei and the exchange rate differences, higher by 3.5 million lei.

- The performance indicators achieved after the first 9 months of 2017 are indicated in the table below, against the estimates included in the IEB:

Nr. crt	INDICATORI DE PERFORMANTA	9 MONTHS IEB	9 MONTHS 2017	2017/ IEB
1	SALES REVENUES	225.054.000	234.210.689	1,04
2	GROSS PROFIT	18.539.000	21.058.135	1,14
3	ARREARS	0	0	1,00
4	TOTAL EXPENSES 1000 LEI INCOME	921	913	1,01

b) Statement of financial position

The value of the assets in the first 9 months of the year amounted to 557.7 million lei, by 5% higher than the value reported on January 1, 2017.

➤ stocks increased by 31% compared to the beginning of the year to be able to start manufacturing following the annual general overhaul;

➤ receivables went up by 1% compared to the beginning of the year, amounting to 244.8 million lei;

➤ shareholders' equity decreased by 1% compared to the value reported on January 1, 2017;

	1/01/2017	9/30/2017	LEI
ASSETS			
FIXED ASSETS			
Tangible assets	206,702,347	216,176,780	1.05
Intangible assets	10,139,458	11,858,004	1.17
TOTAL FIXED ASSETS	216,841,805	228,034,784	1.05
CURRENT ASSETS			
Stocks	60,195,101	78,609,727	1.31
Trade and similar receivables	242,456,065	244,777,662	1.01
Financial assets held for sale	0	0	
Cash and cash equivalents	13,902,686	6,319,568	0.45
TOTAL CURRENT ASSETS	316,553,852	329,706,957	1.04
TOTAL ASSETS	533,395,657	557,741,741	1.05
LIABILITIES			
CURRENT LIABILITIES			
Trade and similar payables	49,045,370	57,547,918	1.17
Amounts owed to credit institutions	40,705,967	68,599,541	1.69
Liabilities from current taxes	11,486,302	6,957,912	0.61
Short-term provisions	1,418,895	0	0.00
Subsidies for investments	275,047	310,483	1.13
TOTAL CURRENT LIABILITIES	102,931,581	133,415,855	1.30
LONG-TERM LIABILITIES			
Subsidies for investments	2,639,349	2,458,012	0.93
Deferred tax	18,758,368	18,303,420	0.98
Long-term provisions	0	0	
TOTAL LONG-TERM LIABILITIES	21,397,717	20,761,432	0.97
TOTAL LIABILITIES	124,329,298	154,177,287	1.24

Share capital and reserves			
Share capital	264,835,156	264,835,156	1.00
Reevaluation reserves	16,925,870	15,067,351	0.89
Legal reserves	13,426,761	13,426,761	1.00
Other reserves	146,528,189	151,152,127	1.03
Reported result	-63,020,428	-61,161,909	0.97
Current result	30,370,811	20,244,968	0.67
TOTAL EQUITY	409,066,359	403,564,454	0.99
TOTAL EQUITY AND LIABILITIES	533,395,657	557,741,741	1.05

Current liabilities amounted to 133.4 million lei, by 30% higher than at the beginning of the year, due to the need to ensure the appropriate quantity of finished products during the two months of general overhaul. They were funded by increasing the accounts payable and the bank debts (lines of credit).

The company's main diagnostic indicators highlight the financial balance and continued concern for business efficiency, for continuing the current activity. Current liquidity diminished from 2.76 in Q3 2016 to 2.47 in Q3 2017 due to the use by 69% more of the credit lines compared to the previous year and indebtedness increased from 23.6% to 27.65% in the first nine months of the current year, the growth remaining at the company's all-time high.

Indicator	Calculation method	30.09.2016	30.09.2017
1. Current liquidity	Current assets/Current liabilities	=314,196,502/113,804,071=2.76	=329,706,957/ 133,415,855=2.47
2. Indebtedness	(Total liabilities/Total Assets)	=(136,107,654/532,607,064)*100=25.6%	=(154,177,287/557,741,741)*100=27.65%
3. Accounts receivable turnover ratio	(Average accounts receivables/Sales Revenues)*270	=(253,411,612/227,345,120)*270=301 days	(255,342,844/234,210,689)*273 days = 298 days
4. Fixed assets turnover ratio	Sales revenues/Fixed Assets	=227,345,120/218,410,562=1.04	234,210,689/228,034,784=1.03

c) Cash-flow

Cash and cash equivalents at the beginning of the period were -26.8 million lei, representing credit lines amounting to 40.7 million lei from which 13.9 million lei remained unused and available in bank accounts from the same credit lines.

Cash receipts from operating activities were 228 million lei. Cash payments to suppliers of goods and services were 132 million lei and those to and on behalf of employees were 56.6 million lei.

At the same time, our company paid 8 million lei, representing corporate tax, VAT, local taxes and bank interest, and 30.73 million lei for the purchase of fixed assets. The company paid contributions to the Ministry of Health (clawback tax) worth 21.7 million lei.

As regards the financing activity, Antibiotice paid dividends amounting to 13.65 million lei.

Cash and cash equivalents, at the end of the period, amounted to -62.3 million lei, representing credit lines for the current activity (68.6 million lei) from which 6.3 million lei remained unused in bank accounts from the same credit lines.

Management of the trading company

During the first 9 months of 2017, our Management Board convoked three **Ordinary General Meetings** (on **April 6, June 29, and September 20**) and one **Extraordinary General Meeting** of Shareholders on **April 6, 2017**.

All necessary documents related to the smooth running of the General Meetings were published in due time and according to the legislation in force.

The Ordinary General Meeting dated **April 6, 2017** approved the company's financial statements for 2016 based on the Management Report and Auditor's Report. The statements were prepared in conformity with the Order of the Minister of Public Finance No. 881/25.06.2012, the Order of the Minister of Public Finance No. 1286/2012 for the approval of accounting regulations in accordance with international financial reporting standards applicable to companies whose securities are admitted to trading on a regulated market, the Order of the Minister of Public Finance No. 1690/2012 on the amending and supplementing of certain accounting regulations, the Order of the Minister of Public Finance No. 123/2016 concerning the main aspects of preparing and submitting annual financial statements and annual accounting reports of economic operators to the territorial units of the Ministry of Public Finance.

At the same meeting, the following decisions were made:

- approval of the distribution of the net profit for 2016 amounting to 30,370,811 lei, setting the gross dividend to 0.03835158 lei per share and establishing the payment of dividends beginning with 15.09.2017.
- approval of the registration as revenues unsolicited and uncollected dividends for 2012;
- approving the discharge of liability of the administrators, for the activity carried out during the financial year 2016 based on the reports submitted;
- approval of the Income & Expenditure Budget for 2017;
- approval of the extent of achievement by the Management Board members of the objectives and their performance criteria for 2017;
- approval of the objectives included in the management plan for the members of the Management Board;

The **Extraordinary General Meeting** dated **April 6, 2017**, took the following decisions:

- to extend by 12 months the validity period of the multicurrency multiproduct ceiling amounting to 30 million lei borrowed by Antibiotice from the Export-Import Bank of Romania-Eximbank.
- to maintain the guarantees relative to the multicurrency multiproduct ceiling amounting to 30 million lei throughout the entire term of validity resulted from extension;
- to issue a decision-commitment of Antibiotice not to divide itself, not to merge and not to decide the anticipated dissolution throughout the entire validity period of the multicurrency multi-product ceiling without prior consent of Eximbank SA.;
- to empower the General Director, Mr. Ioan NANI and Financial Director, Ms. Paula COMAN to sign on behalf of the company all documents related to the credit facility extension, under items 1 and 2 of the Agenda, as well as documents related to obligations assumed by the company in accordance with item 3 on the Agenda;
- to amend, update, and renumber several articles from the Articles of Incorporation.
- to establish the company's representative office in Vietnam, in the Sannam building located on Duy Tan St. 78, Dich Vong Hau Ward, sector Cau Giay, Hanoi;

The **Ordinary General Meeting** dated **June 28, 2017**, took the following decisions:

- to approve the financial audit contract with SOCECC S.R.L. Bucharest, an accounting, expertise and accounting consultancy firm for a 3-year period;
- to approve the remuneration of the members of the Management Board in accordance with the provisions of Government Emergency Ordinance no.109/2011 on the corporate governance of public enterprises.
- to approve the Antibiotice's membership to the Romanian Association of OTCs, Food Supplements and Medical Devices Manufacturers -RASCI;
- to approve the participation of Antibiotice as a founding member in the establishment of the PATRONAGE OF INDUSTRIAL MEDICINES PRODUCERS IN ROMANIA -PRIMER ;

The **Ordinary General Meeting** dated **September 20, 2017**, approved the financial statements of the company for the first semester of 2017, based on the Management's Report and the Financial Auditor's Report.

The financial statements for June-September 2017 have not been audited yet.

Conclusions

Antibiotice in Q3 2017:

- Increase of exports by 26% compared to Q3 2016;
- Sales revenues by 3% higher than in 2016;
- Gross profit by 3% higher compared to 2016.

Vice-President of Management Board
Ec. Ioan NANI

Financial Director
Ec. Paula COMAN

CURRENT REPORT

According to:

- Law no. 297/2004 amended and supplemented by the provisions of the Law 10/2015 and GEO 90/2014 and CNVM regulations issued for applying this law,
- Financial Surveillance Authority Regulation no. 6/2014 for amending and supplementing the National Securities Commission Regulation no. 1/2006 on issuers and securities transactions, as well as for supplementing the National Securities Commission Regulation no. 6/2009 on the exercise of certain rights of shareholders in the general meetings of the trading companiei.

Notice of availability of the Report issued on September 30, 2017

Antibiotice Iasi informs the investors that the **Quarterly Report at September 30, 2017** will be available through the **Bucharest Stock Exchange, Financial Surveillance Authority** as well as through its website: www.antibiotice.ro (Investors- Financial Information- Financial Reports - 2017, 9 months).

We mention the fact that the above-mentioned report can also be obtained from our company's headquarters (Investor Relations, no. 0232.209.570, 0232. 209.583, fax no. 0372. 065.633, e-mail: relatiicuinvestitorii@antibiotice.ro).

General Director
Ec. Ioan Nani

(illegible signature and round stamp of the company)

Financial Director
Ec. Paula-Luminița Coman

(illegible signature)