



Str. Logofătul Tăutu nr. 99,
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BIOFARM S.A.

Individual financial statements for the year concluded as
at 31 December 2017 prepared in compliance with the
IFRS adopted by the European Union



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ADMINISTRATOR'S REPORT *BIOFARM SA for 2017*

Annual Report according to: R.N.S.C. Regulation no. 1/2006-Appendix 32

For the financial year: **2017**

Report date: **31.12.2017**

Commercial company name: **S.C. Biofarm S.A.**

Registered office: **Bucharest, 99 Logofătul Tăutu Street, 3rd City District**

Telephone/fax number: **021.301.06.21 / 021.301.06.24**

Unique registration code with the Trade Register Office: **RO 341563**

Order number with the Trade Register: **J40/199/1991 of 05.02.1991**

Regulated Market on which issued securities are traded: **BSE**

Subscribed and paid up share capital: **lei 98,537,535**

Main features of securities issued by the commercial company: **dematerialised nominative shares**

1. Company activity analysis

1.1. a) Description of the main activity of the commercial company; .

BIOFARM S.A. has the registered office in Bucharest, str. Logofătul Tăutu, nr. 99, 3rd City District and its main object of activity is manufacturing and marketing of drugs for human use, NACE code 2120 "Manufacture of pharmaceutical preparations". With an experience of over 95 years in the field of pharmaceutical industry of Romania, it expresses the involved agreement of all the members of the organisation for achieving performances on all plans, including of the quality performances, of performances in the field of occupational and environmental health and safety. This agreement constitutes a permanent concern of the members of the organisation and a principle that is based on the activities carried out by them.

In July 2004, Biofarm S.A. obtained the Certificate regarding the compliance with good manufacturing practice issued by the Ministry of Health - National Agency for Medicines and Medical Devices – periodically renewed - for:

- ✓ non-sterile products – soft capsules, liquids for external use, liquids for internal use, tablets, other solid dosed forms: sugar-coated tablets, film-coated tablets;
- ✓ products from plants;
- ✓ quality control tests (microbiological – without the sterility and physicochemical).

The Quality Management System from the company is certified in compliance with the requirements of the ISO 9001 standard and of the Good Manufacturing Practice Guide (GMP) for all production lines.

At the same time, since 2013, Biofarm has certified the occupational health, safety and environmental management system according to ISO 14001 and OHSAS 18001.

In 2017 the surveillance audits took place for the quality management, occupational health, safety and environmental management system, maintaining the certifications according to the ISO 9001, ISO 14001 and OHSAS 18001 standards, certified and implemented since 2013.



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The company intends the integration of the 3 management systems and the recertification according to the re-updated standards, as well as the extension of the quality management system certification, in compliance with the requirements of the ISO 13485 standard for medical devices.

The subscribed share capital of the company on 31 December 2017 is of LEI 98,537,535, the nominal value of one share being of LEI 0.1/share.

The shareholding structure on 31.12.2017 is the following:

Shareholder	Shares	Percentage
S.I.F. MUNTENIA loc. BUCHAREST jud. SECTOR 3	502,379,066	50.9835
S.I.F. BANAT-CRISANA S.A. ARAD Locality, ARAD County	228,826,055	23.2222
SIF MOLDOVA BACAU Locality, BACAU County	134,207,209	13.6199
Natural persons	100,326,464	10.1816
Legal persons	19,636,556	1.9928
TOTAL	985,375,350	100.0000

b) Specification in respect of the company date of incorporation;

BIOFARM SA was incorporated by the GD 1224 of 23.11.1990.

c) Description of any significant merger or reorganization of the commercial company, its branches or of the controlled companies during the financial year;

On 31.12.2017 the company has the following working points:

- Bucharest, Bd-ul Iancu de Hunedoara, nr. 42-44, sector 1, Tax Identification Number 14008268
- Bucharest, str. Gura Badicului, nr. 202-232, finished goods distribution warehouse, Tax Identification Number 30037915
- Cluj-Napoca, str. Traian Vuia, nr. 206, Tax Identification Number 26585871, finished goods distribution warehouse
- Craiova, Bd-ul Decebal, nr. 120, A, finished goods distribution warehouse.
- Arad, Campul Linistii, nr. 1, finished goods distribution warehouse.
- Constanta, str. Interioara, nr.1, finished goods distribution warehouse.
- Iasi, str. Aurel Vlaicu, nr. 78, corp C1, hala 1, finished goods distribution warehouse



1.1. 1. Items of general assessment:

The market share held:

BIOFARM is one of the first Romanian manufacturers of drugs and food supplements.

With a tradition of over 95 years in the Romanian pharmaceutical industry, BIOFARM has a portfolio of over 200 products covering 62 therapeutic areas, on 8 of them being a leader, and on 3 having real chances of becoming a leader.

Biofarm is continuously investing in media, commercial and marketing campaigns with a long-term impact both to increase the notoriety of the company and its products, and to help the specialists in the health field to identify the best solutions to meet the needs of patients.

During 2017, Biofarm kept its position in the first 10 Romanian manufacturers from the point of view of sales in trade units, realising a market share of approx. 3.4%¹ from the total of units sold to patients by the Romanian pharmaceutical market.

The value of incomes from net sales realised in 2017 was of lei 170,232,296 increasing by 12% as compared to 2016.

The strategies implemented by the management of Biofarm allowed the consolidation of the company's position in the pharmaceutical market from Romania, a very dynamic market which is in a constant change.

Analysed in their structure, the main operating expenditures are presented as follows:

Operating expenditures posts	For the year ended on	
	31.12.2017	31.12.2016
Raw materials and consumables	39,527,901	37,760,266
Personnel expenditures	26,173,666	23,784,746
Amortisation	7,058,665	6,437,400
Other operating expenditures	55,421,929	46,898,735
Operating expenditures	128,182,161	114,881,147

The net operating result as at 31.12.2017 is increasing by approximately 21% as compared to the similar period of last year and the net profit of the company records an increase of approximately 22%.

The profit tax in 2017 is in the amount of lei 6,650,299 as compared to lei 5,962,939 recorded in 2016.

¹ Market rapporteur (pharmacy-end consumer sales) – market in volume - units



Liquidity and money available in the account

On 31 December 2017, the overall liquidity ratio is of 3.14 points, decreasing as compared to the previous year.

Cash equivalents on 31.12.2017, according to the balance sheet, represent money deposited in current bank accounts or in deposit accounts in banks of Romania.

1.1.2. Assessment of the technical level of the commercial company

Description of main manufactured products and/or provided services by specifying:

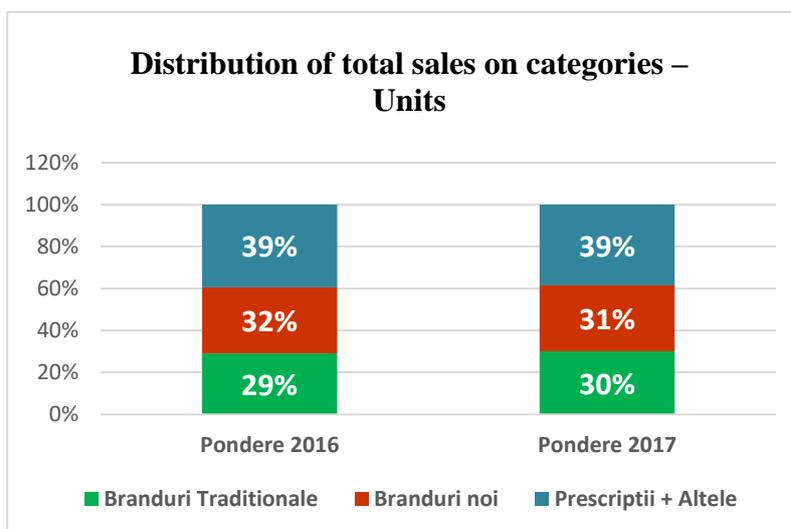
a) the main marketplaces for each product or service and distribution methods

The distribution of sales of BIOFARM products is carried out mostly in the retail segment, this segment representing 99% from the total of Biofarm sales both in terms of volume and in terms of value.

The extremely varied product portfolio owned by BIOFARM Company requires a complex approach from the viewpoint of media, promotion and distribution strategy.

Thus, Biofarm has a team of sales specialized in promoting own products in the most important pharmaceutical chains and a promotion team specialized in supporting visits to physicians by integrated marketing, media and commercial campaigns having the purpose of increasing the acknowledgement degree of Biofarm product portfolio among specialists and consumers.

In 2017 the distribution of sales on types of products is the uniform between traditional brands, stars and products with prescription.



Share 2016; share 2017

Traditional brands; new brands; prescriptions + others



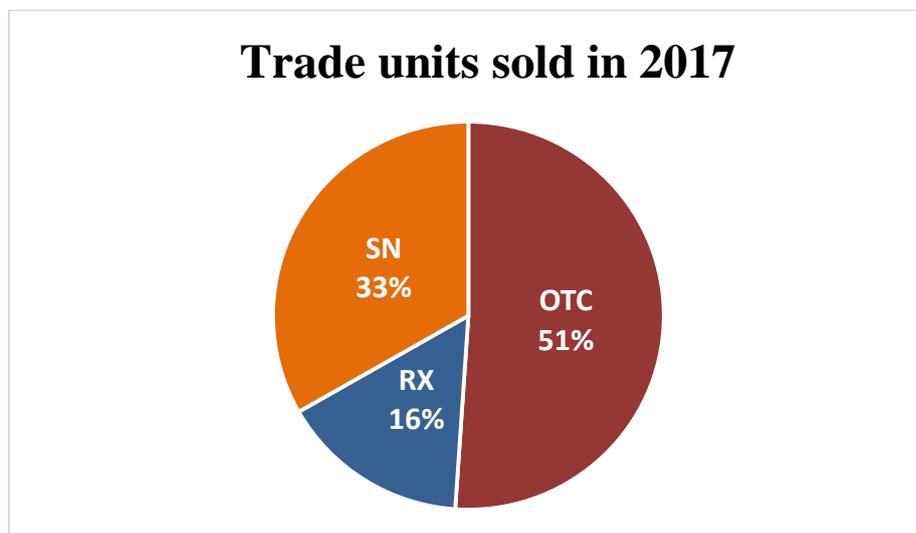
b) the share of each category of products or services in the income and in the total turnover of the commercial company for the past three years

Biofarm is one of the biggest Romanian medicine manufacturers and number 1 Romanian manufacturer of food supplements, according to the sales in trade units.

Over the years, the company BIOFARM monitored the differentiation from the market competitors, both Romanian manufacturers, as well as multinational companies, through:

- strategies of permanent improvement of the portfolio of products – consisting in re-branding, extending existing product lines,
- increasing the consumption for the pharmaceutical forms soft-gel capsules, tablets, solutions, sprays.

The share, from the perspective of sold units, of the three categories of products manufactured by BIOFARM (food supplements, drugs released without medical prescription and drugs released with a medical prescription) is the following: food supplements (SN) have a share of 33% from company's portfolio, drugs obtained without medical prescription (OTC) have a share of 51%, and the share of drugs obtained based on a medical prescription (RX) is of 16%.



According to the article entitled “Home pharmacy” published by Forbes Romania on 06.02.2018, Biofarm is present in the values TOP of the most sold 10 OTCs (drugs released without a prescription), with 2 Colebil products (2nd place), and Triferment (4th place).

c) the share of new products considered, for which a substantial volume of assets shall be used in the following financial year, as well as the development status of these products.

Considering the continuous evolution of the pharmaceutical market from Romania and not only from Romania, the incidence and the prevalence of different pathologies in general population, we are making a careful selection of the development therapeutic areas.



BIOFARM Company extends its portfolio by developing and manufacturing at high quality standards new products (drugs and food supplements), acquiring licences from other producers or manufacturing contract, having the main objective the strengthening of BIOFARM position on the pharmaceutical market from Romania and in foreign markets by developing a competitive portfolio, based on real needs of the market.

In recent years, the population's interest in preventing and maintaining health has increased, which is why the portfolio of products currently under development at BIOFARM also includes products designed to maintain the quality of life.

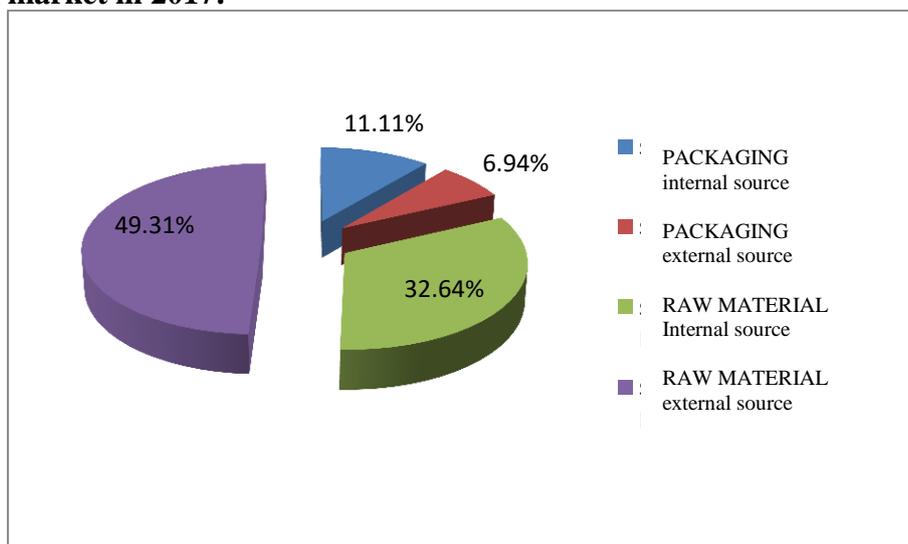
Biofarm will also try the development of sales on external markets by concluding new export contracts and the registration of new products on these markets.

1.1.3. Assessment of technical – material supply activity (indigenous sources, import sources)

The main objectives of the supply activity were the following:

- decreasing the purchase costs;
- avoiding the formation of raw material and packaging material inventory, the orders being launched taking into account the duration of supply for each item, depending on the inventory policy of the company;
- identification of new possible partners;
- costs reduction;
- complying with the necessary of raw materials, materials and packaging for production with the concern of eliminating inactive or slow-moving inventory;
- re-analysing and re-negotiating commercial contracts/conditions offered by suppliers in 2017 in order to reduce prices of some raw materials and materials;
- increasing the payment terms for internal and foreign suppliers in order to obtain longer crediting periods;
- establishing delivery terms without negatively influence the performance of the production.

The share of purchases of raw materials and packaging on the internal and external market in 2017:





Suppliers were selected based on quality, transmitted documents, lowest prices and optimal payment conditions; the payment of raw materials and packaging materials purchases is made in 90% of the cases after the delivery and receipt of the merchandise. In 2017 alternative manufacturers were identified for registration. The current stock in which it is included the safety stock, ensures the performance of the production activity for two months both for raw materials and for packaging.

1.1.4. Assessment of the sales activity

a) a) Description of sales evolution from a sequential point of view on the domestic and/or foreign market and of sales perspectives of medium and long term

The turnover performed by S.C. Biofarm S.A. in 2017 from the sale of finished products and merchandise is of lei 170,232,296. This turnover is achieved mainly from selling end products directly to pharmaceutical distributors (for the domestic market) through the point of sales from str. Gura Badicului nr. 202-232, Bucharest.

In 2017, the share of export sales represented 4% from the total net sales of Biofarm SA. The company products were exported in 12 countries, as follows: Azerbaijan, Belarus, Bulgaria, Georgia, Kazakhstan, Kyrgyzstan, Lithuania, Republic of Moldova, Russia, Ukraine, Hungary and Uzbekistan.

b) Description of the competitive situation in the activity field of the commercial companies, the market share of the products or of commercial company's services and of its main competitors;

In the last period, the Romanian pharmaceutical market was significantly impacted by a series of problems such as:

- devaluation against the euro;
- the decrease of consumers' buying power subsequent to the economic – financial crisis which affected Romania during past years;
- increase of the clawback fee, which constantly leads to the disappearance from the market of generic drugs with low prices.

Another consequence of the existence of the clawback fee is the decision of many RX companies to enter the OTC and SN markets in order to diminish their risks per their portfolios (from the point of view of portfolio shares between RX, OTC, SN), an aspect that increases the already fierce competition on these markets and imposes investments from our part in certain therapeutic classes where, even if we are class LEADERS, we must act cautiously, not leaving room for other new competitors with additional investments.

On the other hand, the SNs market is impacted by unfair competition of a significant number of food supplements (SN) of obscure origin, manufactured in places without manufacturing authorisation, due to legislative gaps for the control of these products. Thus, SNs can be bought from the market on which the manufacturing place is not



mentioned, produced by dummy companies from the European Union, the real manufacturing place being China or India in unauthorised factories.

At the same time, the segment of national and regional chains extended a lot in recent years and their negotiation power is getting bigger, so that big budgets are requested to us for keeping the priority of products both on the shelf, and in their recommendations to patients, a fact that imposes increasing investments from one year to another.

In the above context and given that in the last 2 years, the pharmaceutical market recorded and increase in the sales of trade units – 2016/2015 = +10.62%, respectively 2017 / 2016 = +6.6%, according to market rapporteurs, Biofarm aims at the following objectives:

➤ **Increasing the notoriety of brands by:**

1. Consolidation of significant brands;
2. Increase for brands under development;
3. Launch for new brands with potential;

➤ **Increasing visibility in customers**

The advertising strategy to achieve the objective above is of maximising the visibility by the selection of stations that allow achieving the objective established by Biofarm SA in the context in which the media inflation estimates for 2018 are of approx. 10-15%.

The increase in value of the market in the following years will be given by new innovating products which will enter the market, products intended for the treatment of chronic diseases (in fact, the diseases with the biggest prevalence in general population).

In what concerns the export, Biofarm SA wishes to permanently diversify export markets, in particular aiming at the development of relationships with strategic partners from Eastern Europe.

c) c) Description of any significant dependency of the commercial company towards a single client or towards a group of clients whose loss would have a negative impact on company's income

The SC Biofarm SA company has concluded annual sales contracts with large distributors on the pharmaceutical market, which have a good power of product sales in pharmacies.

Biofarm SA has contracts concluded with a number of 11 distributors, not having a significant dependency to a group of customers.

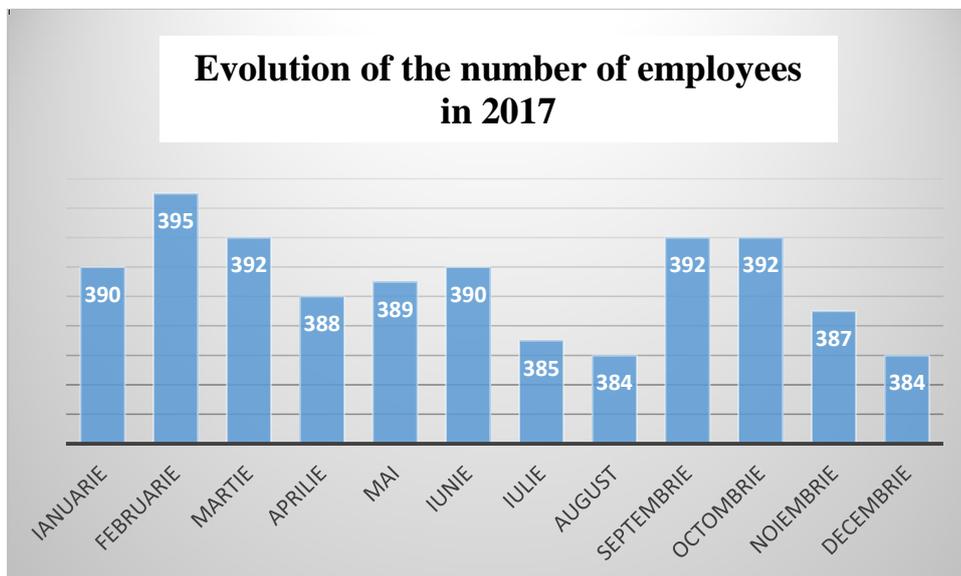


1.1.5. Evaluation of aspects concerning employees/personnel of the commercial company

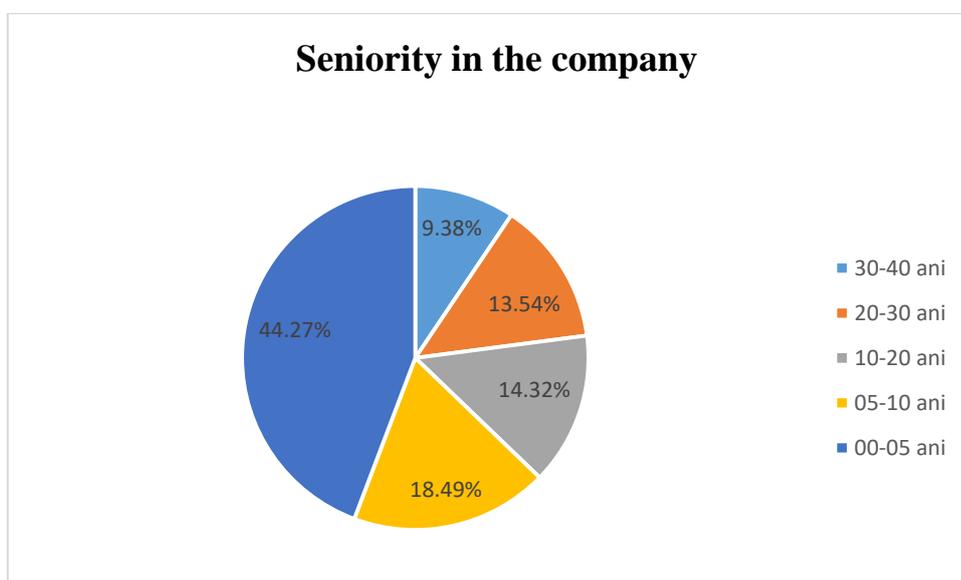
For 2017, Biofarm SA had an average number of 389 employees.

General information:

Demographic indicators:



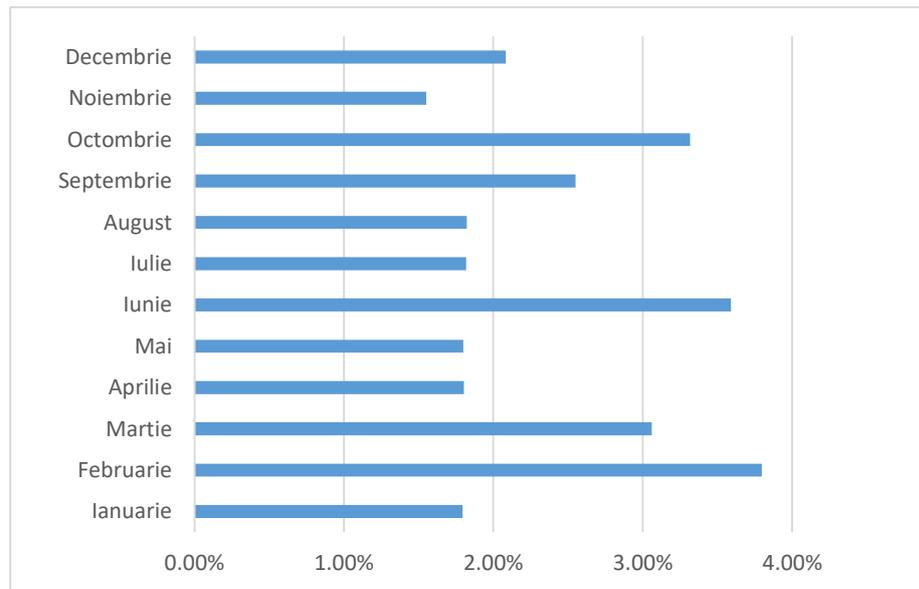
Ianuarie – January; Februarie – February; Martie – March; Aprilie – April; Mai – May; Iunie – June; Iulie – July; August – August; Septembrie – September; Octombrie – October; Noiembrie – November; December - December



Ani – Years;



Fluctuation rate:



Ianuarie – January; Februarie – February; Martie – March; Aprilie – April; Mai – May; Iunie – June; Iulie – July; August – August; Septembrie – September; Octombrie – October; Noiembrie – November; December - December

Major activity directions:

1. Recruitment and Selection

Recruitment and selection of personnel represents a difficult process, as the Biofarm company is often faced **with the lack of qualified personnel (crisis of qualified and unqualified personnel declared in Romania)**, with the emergence of new posts due to organizational dynamics.

And for 2017, the recruitment and selection process continued to be a priority activity for the Human Resources Department. Most recruitment projects were oriented both towards the sales area (Promotion and Sales Team) and in the Marketing and Manufacture area.

An important part in the recruitment and selection process was represented by the references of employees, the data base with candidates who applied on other jobs and were not suited for the job, but who were suited for positions subsequently opened, the recruitment announces through recruitment sites and media promotion (newspapers).

2. Training and development

2017 was oriented towards the development of abilities and accumulation of new knowledge. The members of the Promotion Team thus had the opportunity to accumulate knowledge, to re-evaluate their approach in what concerns the architecture of a group presentation. The professional development plans traced for key persons will indicate more and more specific orientations, focused on enhancing those personal and professional dimensions that have the capacity to bring plus-value to the organisational performance. The Biofarm SA company formed a group of key employees from each



department, for the purpose of ensuring the replacement for key positions as well as management. For this purpose, the satisfaction degree is monitored manifested by key persons versus salary package, work conditions, development opportunities, for building their loyalty.

Planning trainings is established at each beginning of the year for each department, in order for the training program to be as well developed as possible, depending on the professional necessity of each department. The development of abilities regarding the management of diversity is one of the objectives of the Human Resources Department on a medium term. Forecasts for the coming years show that the workforce will be more and more diversified from the perspective of the experience, abilities, age etc. this due to a large number of factors related to demographic aging, increasing the age to which a person will be active on the labour market, diversification of the fields of activity and professions.

3. Future directions for action

Through the recruitment and selection process, we want to attract inside the company the valuable human capital, because it is the main competitive advantage that we can have in a long-term future. As an internal principle, in the recruitment process, we focus on colleagues who perform and produce results within the company, and then to the external environment. Thus, we offer the chance to all our employees to develop professionally by applying to open positions, for which competences the previously demonstrated competencies recommend them. For 2017, recruitment does not take place in a passive manner anymore, but on the contrary, in a context in which candidates need to know as much as possible about the employers they are targeting. In the competitive environment in which the recruitment activity is carried out, Biofarm SA must have a differentiating element and which to attract candidates it needs, and the social environment offers us a good framework for all that the Employer brand represents. We wish to be as visible as the Employer brand and we address both pupils, students, fresh graduates, as well as experienced candidates.

4. ISO 18001 OHSAS Certification

In 2017, the surveillance audit for 18001 – Organisational Health and Safety certification emphasized the fulfilment of system's essential requirements, the involvement of Top Management in specific issues, the lack of work accidents and of occupational diseases, the lack of legal sanctions. The recommendations made by the surveillance audit include improvement measures of organisational nature. No nonconformities were reported. The organisational health and safety management activities carried out allowed the continuous monitoring of performances of the occupational health and safety system and the performance of necessary corrections. The OHSAS specific steps included:

- preventive briefings;
- determinations of inter-factory pollutants;
- periodical analyses for the monitoring of employees' health status;
- specialty monitoring for the mentions in the skills assessment reports;
- assimilation of technology that meets the requirements of CE certification;
- strict control and reducing the use of hazardous substances;



- reassessment of risks correlated with the development of activities;
- the activity of the Occupational Health and Safety Committee was ensured, including for the accomplishment of the elements planned by OHSAS.

The Integrated Management System for the management of environmental protection and occupational health and safety of employees meets the requirements of standards SR EN ISO 14001:2005 and SR OHSAS 18001:2008 and is appropriate adequate and effective. The management declared its decision to ensure continuous improvement of the system integrated for the management of environmental protection and occupational health and safety to continue the compliance with the legislative/regulatory requirements.

1.1.6. Assessment of aspects related to the impact of the basic activity of the issuer on the environment

In 2017, the interest and continuous concern of the organisation were maintained for the environmental protection activities, for minimising the impact on environmental factors, to implement the concept of sustainable development which allows the management to identify and control the impact on the environment of all the activities, products or provided services.

Within the development of the new manufacturing capacities, only those measures integrated by responsible development with strict control of the impact of the activity on environmental factors were promoted.

The TUV Profi Cert certification was mentioned for the environmental management system according to DIN EN ISO 14001, valid both for the headquarters in Bucharest and for the working points with the destination of a warehouse, from Bucharest and Cluj-Napoca.

The conditions established in the Water Management Authorization No. 44B/04.03.2015, respectively of the Water Management Authorization No. 447/05.10.2017, valid until 31.10.2019, as well as from the Water Management Authorization No. 213/29.05.2015, valid until 29.05.2020 were maintained.

The steps for the control of the impact on environmental factors also continued by assuming the impact by paying to the Environmental Fund Administration (constituted according to the European principles “the polluter pays” and “the responsibility of the manufacturer”, in order to implement the legislation on environmental protection, harmonised with the provisions of the community acquis), of legal obligations with regard to emissions, packaging placed on the market, management of dangerous substances.

There were no environmental factors accidental pollutions.

There were no internal/external claims/intimations related to the impact on environmental factors.



A. Renewing, updating and keeping related documents:

The company also functions based on the following documents:

- ✓ The Water Management Authorisation No. 447/05.10.2017, valid until 31.10.2019, for the headquarters and business places: both quantitative and qualitative requirements imposed by this authorisation were complied with entirely;
- ✓ The Collection Agreement no. 883 of 22.11.2010, on the conditions and obligations regarding the quality of water discharged into public sewerage, issued by S.C. APA NOVA Bucuresti S.A.: valid until the modification date from the issuing date, the requirements provided herein being constantly complied with, in this respect there being permanent monitoring with a monthly frequency and permanent monitoring for discharges of technological water through the sewage treatment unit;
- ✓ The accidental pollution prevention plan: was drafted for accidental situations, for those emergency situations in which intense substances/materials discharges may occur and its provisions imply measures that would limit the possible harmful effects on the environment;
- ✓ The contract of responsibility transfer was kept for the recovery of packaging from the market (packaging waste) in order to minimise the environmental impact by the recovery from the market of packaging waste, according to the requirements of the laws in force;
- ✓ Monthly statements were drafted and submitted to the Environmental Fund Administration.

B. Fulfilling the imposed monitoring:

The requirements regarding the monitoring of the environmental impact for all environmental factors (emissions: air, water, soil, noise), the results obtained complying with the classification of the level of all pollutants below the maximum admissible limits; Control monitoring of the environmental impact was performed only through laboratories certified by RENAR.

C. Measures, facilities and settlements for environmental protection:

- ✓ Evacuation of powders is made only by installation intended for their retention, so that the maximum admitted concentrations provided by the regulations in force would not be exceeded.
- ✓ Evacuation of waste gas is only made by chimneys, seeking that the waste gas content would not exceed the admissible limit values provided by the regulations in force.
- ✓ Evacuation of wastewater is made in a controlled manner, through two pre-treatment installations, so that their content would be classified within the limits imposed (compliance with both GD 352 /2005 and GD 351/2005).
- ✓ Works of preventive maintenance and control were performed for all installations which have a role in attenuating emissions of air and water polluting agents



(elements of dry and wet filtering, wastewater treatment plant that services the production lines from Logofatul Tautu and the pre-treatment equipment that services the deposits from Gura Badicului). Following some technical problems, the separator for grease with bio-fragmentation afferent to the chewable tablets manufacturing line was relocated and improved.

- ✓ Organisational and technological measures continued for a good functioning, reducing energy and water consumptions (control verifications and preventive maintenance at the chiller installation, treatment with conditioning solutions for the water introduced in steam boilers and in cooling installations).
- ✓ The interest was maintained to reduce the use of hazardous chemical substances in the specific processes and to promote and to develop the use of raw materials, materials, preparations from renewable (biological), or biodegradable resources.

In 2017, the implementation of the selective waste collection system was continued at the level of the entire company. In the inner courtyard of the company there are containers for the selective collection of paper, plastic, glass and household rubbish, on dedicated colours (blue-paper, yellow-plastic, green-glass), and each production flow and auxiliary, respectively administrative activity were endowed with the appropriate recipients for collection. Also, within the inner courtyard, there is a bounded and concreted area where the ferrous waste is collected. Hazardous and non-hazardous waste were collected at the level of the organisation and labelled according to the internal legislation and procedure for waste management. They were temporarily stored in a storage room with separate spaces for recyclable, hazardous, non-hazardous and toxic waste and prepared for handing over for removal. Waste were handed over by contract for final removal to authorised economic operators. Recyclable waste, paper, carton, plastic materials, glass, ferrous metals and DEEE were collected both on the platform in special containers, and within the warehouse, in the recyclable waste area and were handed over by contract, to capitalise authorised economic operators.

Due to the continuation of the principle of selective collection of the main types of recyclable waste, in 2017 a decrease in the quantity of household waste was found, generated both from the headquarters and from the working points.

In order to comply with the requirements on the management of packaging waste corresponding to the quantity of finished products introduced on the pharmaceutical market, the contract was maintained with an authorised economic operator, which collected and capitalised on behalf of Biofarm SA the packaging waste.

The storage and management of raw materials, of solvents and fuels was carried out so that to avoid any danger of environmental pollution, according to tax provisions with security data.

The investments for the development of new manufacturing capacities also continued in 2017, including the equipment that minimises losses, with a high level of energy efficiency and in compliance with GMP and CE requirements.

The management and maintenance of the car park were carried out according to the legal requirements (reviews and service by authorised units), consumptions were reduced, and renewal of the car park continued with cars that have reduced emissions. It was promoted by periodical trainings, a manner of preventive conduct when driving on public roads, capable of reducing the fuel consumption and implicitly the emissions level.

The vegetation executed on the area with green space destination was maintained and developed, both at the headquarters from str. Logofatul Tautu nr. 99, and at the one from



the platform of Gura Badicului nr. 202-232. Pre-treatment installations contributed with a significant water flow to the necessary for watering the spaces from Gura Badicului nr. 202-232.

The domestic traffic side was maintained.

Works for the maintenance of the sewerage network, of connections by their sanitation according to the Maintenance and Operation Regulation regarding sewage networks were carried out.

The steps to realise the new depollution installations continued for the manufacturing activity designed at the platform from str. Gura Badicului nr. 202-232.

All procedures, organisational and technological measures performed have led to the preservation of authorisations and afferent documents, to the avoidance of penalties, surcharges, fines throughout 2017, to the absence of any environmental accidents, to the preservation of a good vicinity.

1.1.7. Assessment of the research and development activity

The BIOFARM portfolio comprises products from the categories: drugs, food supplements, cosmetics, medical devices and biocides.

During 2017, the registration/re-registration activity of products from the portfolio comprised:

- ✓ Mas renewals in Romania: 5 drugs;
- ✓ 2 food supplements – new formulas.

The Research-Development Department began the development of 19 food supplements and 2 drugs and provided the technical assistance for the manufacture of industrial series for 7 products.

In what concerns the **export** activity, the following were obtained:

- ✓ 9 MAs for 9 drugs: Moldova (2), Ukraine (5), Lithuania (2);
- ✓ 7 renewals of chemical-pharmaceutical drugs files: Moldova (6), Armenia (1);
- ✓ 8 registration certificates for food supplements: Bulgaria (4) and Moldova (4).

At the end of 2017, Biofarm company had submitted for the authorisation and/or renewal of the marketing authorisation with the National Agency of Medicines and Medical Devices a number of 33 drug files.

By the research-development activity, the Biofarm SA company aims at the consolidation of the position in the pharmaceutical products market both from a qualitative and from a quantity point of view.

The Biofarm SA company represents one of the companies with an active presence at the alignment requested by the dynamics of the legislative framework modifications, in the pharmaceutical market.



1.1.8. Assessment of the commercial company activity regarding risk management

The company is exposed through its operations to the following financial risks:

- Credit risk
- Exchange risk
- Liquidity risk

The general objective of the management is to establish policies trying to reduce the risk as much as possible, without affecting in an unjustified manner the competitiveness and the flexibility of the Company. Additional details regarding these policies are established below:

Credit risk

Credit risk is the risk of financial loss for the Company that appears if a client or counterparty to a financial instrument does not fulfil the contractual obligations. The Company is exposed mainly to the credit risk appeared from sales towards clients.

At company's level there is a Commercial Policy, approved by the Board of Directors. Within this policy, commercial sales conditions are clearly presented and there are also conditions imposed in terms of clients' selection.

Biofarm SA works only with distributors with national coverage in the pharmaceutical market and in the direct sale to pharmacies, payment is carried out upon delivery. At the sale to export, in all situations where possible, the sale with advance payment is contracted.

The period for the collection of receivables is in average at 170 days and is below the current level of the pharmaceutical market. Biofarm SA managed to permanently ensure the necessary of liquidities and solvency at high levels and will try to continue to maintain the positive trend of receivables collection periods, in a very difficult market in which the average for the collection of receivables is currently placed at over 210 days.

In 2017, in order to mitigate credit risk, the Board of Directors of Biofarm SA decided to ensure the receivables of the company by the conclusion of an insurance policy of the receivables with Coface Romania.

Exchange risk

The exchange risk occurs when the Company closes transactions expressed in a currency which is other than their operating currency.

The company is mainly exposed to currency risk on purchases from suppliers of raw materials, packaging materials and other materials from abroad. The suppliers from which the Company purchases these articles necessary for drugs productions must have quality documents, provided in the European regulations regarding the registration of drugs and thus, it cannot limit the purchases from third countries very much.

Monitoring the payment terms and ensuring cash availabilities for payment, as to minimize the effect of exchange risks, enters under the responsibility of the Financial – Accounting Department.



Liquidity risk

Liquidity risk appears from Biofarm management of circulating assets and from financing expenditures and repayments of the principal amount of its credit instruments.

The policy of Biofarm is to ensure that it will always dispose of sufficient cash as to allow it to fulfil its obligations when they become overdue. In order to meet this objective, it seeks to maintain cash balances for satisfying the needs of payments.

At the end of the financial year, the Company has sufficient cash resources for fulfilling its obligations in all reasonable forecasted circumstances.

1.1.9. Elements of perspective regarding the commercial company activity

- a) Presentation and analysis of tendencies, elements, events or incertitude factors that affect or might affect the liquidity of the commercial company in comparison with the same period of the previous year.**

Economic and financial indicators on 31 December 2017:

PROFITABILITY AND RETURN OF THE CAPITAL	31 December 2017	31 December 2016
Efficiency of available capital		
Profit before interests and tax (A)	42,678,023	35,440,686
Available capital (B)	216,834,768	197,565,653
A/B	19.68%	17.94%
Efficiency of equity		
Net profit (A)	36,027,723	29,477,747
Equity (B)	216,422,841	197,146,499
A/B	16.65%	14.95%
Operating profit margin		
Profit before interests and tax (A)	42,678,023	35,440,686
Operating income (B)	170,669,041	149,920,094
A/B	25.01%	23.64%
Net profit ratio		
Net profit (A)	36,027,723	29,477,747
Total income (B)	170,860,184	150,321,832
A/B	21.09%	19.61%
Total assets ratio		
Profit before interests and tax (A)	42,678,023	35,440,686
Total assets (B)	262,380,642	239,260,545
A/B	16.27%	14.81%



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<i>SOLVABILITY</i>	31 December 2017	31 December 2016
Debt ratio		
Total liabilities (A)	45,957,801	42,114,046
Total assets (B)	262,380,642	239,260,545
A/B	17.52%	17.60%
Financial autonomy ratio		
Equity (A)	216,422,841	197,146,499
Total assets less net current liabilities (B)	216,834,768	197,565,653
A/B	99.81%	99.79%
 <i>LIQUIDITY AND WORKING CAPITAL</i>		
	31 December 2017	31 December 2016
General liquidity ratio		
Current assets	143,070,908	134,656,039
Current liabilities	45,545,874	41,694,892
(A/B)	3.14	3.23
Rapid liquidity ratio		
Current assets	143,070,908	134,656,039
Inventories	19,273,802	19,004,793
Current liabilities	45,545,874	41,694,892
(A-B)/C	2.72	2.77
Customers collection period		
Trade receivables (A)	80,127,353	72,337,469
Net turnover (B)	170,232,296	152,121,117
(A/B)*365- days	172	174
Period of inventory immobilisation		
Inventories (A)	19,273,802	19,004,793
Net turnover (B)	170,232,296	152,121,117
(A/B)*365- days	41	46
Period for the payment of suppliers		
Suppliers (A)	34,560,035	33,576,999
Material and third-party expenses (B)	112,990,298	101,590,801
(A/B)*365 days	112	121

The Company does not have unpaid obligations at due date to the state budget.



BIOFARM

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b) Presentation of the effects of current or anticipated capital expenditures on the financial situation of the commercial company in comparison with the same period of the previous year

On 31.12.2017 the situation of fixed assets owned by Biofarm S.A. is presented in the following manner:

TANGIBLE ASSETS	31-Dec-17	31-Dec-16
Lands and buildings	16,323,756	17,585,411
Plant and machinery	16,808,837	18,478,453
Other systems, equipment and furniture	512,389	335,801
Tangible assets under execution	70,530,457	55,997,737
TOTAL	104,175,439	92,397,401

In 2017, the value of acquired tangible assets was of lei 19,351,295.

2. Tangible assets of the commercial company

2.1. Mentioning the emplacement and the characteristics of main production capacities in the property of the commercial company. Description and analysis of the wear degree of the commercial company's properties.

On 31.12.2015, the lands from the company's patrimony were re-evaluated by Iprochim S.A., associated member of the National Agency of Romanian Evaluators (ANEVAR), having the certificate no. 183/1992.

The revaluation report of the lands was capitalised in accountancy on 31 December 2015. The result of lands revaluation is presented in the table below:

Description	Input value	Reassessed value on 31.12.2010	Reassessed value on 31.12.2012	Reassessed value on 31.12.2015	Appreciati on Depreciati on 2015
Land str. Drumul Gura Badicului, nr., 202-226, Bucharest	3,263,722	3,323,569	3,282,513	3,977,429	694,916
Land Iancu de Hunedoara nr. 40-42, Bucharest	433,150	11,106,909	11,045,807	10,447,013	(598,794)
Total	3,696,872	14,430,478	14,328,320	14,424,442	96,122



Buildings being under the property of Biofarm SA were reassessed on 31.12.2015, as follows:

Explanations	Value
Remained value on 31.12.2015	14,331,801
Reassessed value on 31.12.2015	14,565,337
Total appreciation/depreciation on 31.12.2015	233,536

On 31.12.2017, Biofarm SA re-evaluated by Iprochim SA the land from str. Iancu de Hunedoara nr. 40-42. According to the re-evaluation report, the land was re-evaluated at the value of Ron 10,586,636, thus being recorded an appreciation in the amount of Ron 51,834 as compared to the re-evaluation of 31.12.2016 at a value of 10,534,802.

For the other lands and buildings, the company considered that they are presented at their fair value in accounting and their re-evaluation is no longer necessary on 31.12.2017.

Company's production activity continued to be performed on the GMP certificated manufacturing flows, structured according to the pharmaceutical formulations produced and namely:

- solid forms flows – tablets and covered tablets;
- soft-gel capsules flows;
- liquid flow;
- food supplements flows.

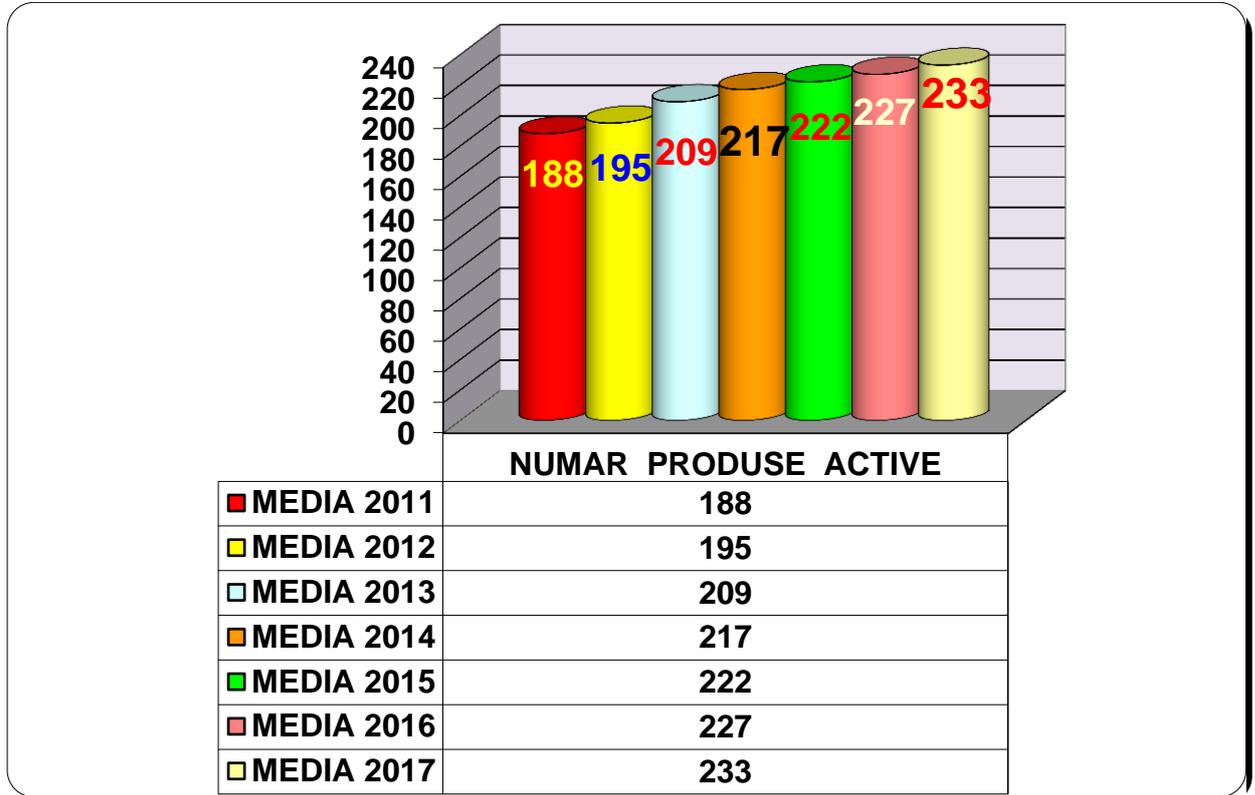
The quality of products is provided by manufacturing in accordance with the Good Manufacturing Practice requirements for all the drugs manufactured by the company.

The quantifiable objectives of production, oriented towards making the activity more efficient and towards optimizing the costs by:

- ✓ Performing the production plan;
- ✓ Complying with the allocated budget;
- ✓ Complying with specific utility consumption per unit for each manufacturing flow.



The number of products manufactured in 2017 increased in comparison with previous years as follows:



Număr de produse active - number of active products; media - average

In order to carry out the production, specific consumption of raw materials and primary and secondary packaging materials were established, and they were monitored for each manufactured flow and each series of manufactured product. Reducing consumption is performed by works in campaigns and by using manufacturing equipment on full capacity.

Also, the utilities consumption (electric energy, drinking water, methane gas) is monitored by rationalising the consumption in report with worked hours, by supervising the works of repair and of utility piping insulation.

Investment in the New Factory

In compliance with the general objectives of the company, in 2017, a series of investments necessary for the company development were realised, according to the approved investment budget.

In 2017, the construction of the new factory was continued, the contracts for the purchase of equipment and materials necessary for partitioning at the ground floor of the new production unit and the mounting of clean rooms was started.



In 2017, the production equipment was installed: granulator, fluidised bed dryer, homogeniser, tablets coating machine and packaging line in blisters for the new flow of tablets and coated tablets; the equipment was commissioned, and technological trials were started. In order to have a complete line for the manufacture of tablets and coated tablets, a tableting machine was purchased and mounted.

In 2018, we are going to obtain the GMP authorisation at the new manufacturing lines.

Also in 2017, contracts were signed for complex production equipment, necessary for the manufacturing flows that will improve the quality of safety conditions for products and operators, following to be commissioned in 2018. One of these types of equipment is a manufacturing line: processing- forming- packaging soft capsules that also brings other improvements of the production method, increasing the quality of manufactured products. Also in 2018, production equipment will also be ordered to complete all the manufacturing flows.

Within the strategic plan for developing new products and for extending production capacities, an important place is occupied by the investment process in more efficient cars which allow realising mixed products or other more attractive presentation forms of packages.

2.2. Mentioning possible problems concerning the ownership on tangible assets of the commercial company.

On 31 December 2017, the company does not have property title on the land in use from str. Logofat Tautu nr. 99.

The land in use from str. Logofătul Tăutu, nr. 99 is not included in the financial statements of Biofarm S.A., due to the fact that the documents attesting the property were not yet obtained, there being notifications on Law no. 10/2001.

In compliance with provisions of the GD 834/1991 art. 1, the company requested the obtaining of the attesting certificate regarding the property title for the land, for the lands necessary to carry out the activity according to the activity object.

The value of the land for which the attesting certificate regarding the property title for the land will be obtained, shall be established based on legal provisions. Together with the value of the lands, the share capital of the company shall increase as well and the shares will enter into the property of the state. The dilution effect shall be considered while calculating the result per diluted share.

3. Market of securities issued by the commercial company

3.1. Mentioning the markets from Romania and from other countries on which the securities issued by the commercial company are negotiated.

Securities issued by S.C. BIOFARM S.A. are traded on the Bucharest Stock Market, on category I, BIO symbol.



3.2. Description of the commercial company's policy regarding dividends. Mentioning the payable/paid/ accrued dividends in the past 2 years, and, if necessary, the reasons for the possible decrease of dividends during last 2 years

Profit distribution for 2015

On 31.12.2015, Biofarm SA recorded a net profit in the amount of lei 27.226.492, which was approved for distribution as follows:

Net profit 2015	27.226.492
Legal reserve to be established in 2015	1.587.472
Tax facility reserve 2015	126.235
Dividends (985,375,350 shares *0.016 lei/share)	15.766.006
Other reserves	9.746.780

Profit distribution for 2016

On 31.12.2016 Biofarm SA recorded a net profit in the amount of lei 29,477,747, which was approved for distribution as follows:

Net profit 2016	29.477.747
Legal reserve 2016	1.772.034
Tax facilities reserve in 2016	277.529
Dividends (985,375,350 shares* lei 0.017/share)	16.751.381
Other reserves	10.676.803

3.3. Description of any purchasing activity of the commercial company of its own shares.

Following the increase of share capital by incorporating the profit corresponding to 2006, a number of 8,126 shares remained, which could not be redistributed according to the allocation rate. These shares were allocated to the company by the Central Depository. Therefore, on 31 December, S.C. Biofarm S.A. held 8,126 own shares.

3.4. In the case in which the commercial company has branches, the number and the nominal value of the shares issued by parent company and owned by the branches shall be mentioned.

The company does not have branches in the country or abroad.



3.5. In the case in which the commercial company issued bonds and/or other debt securities, the manner in which the commercial company pays its liabilities towards holders of such securities shall be presented.

Biofarm S.A. did not issue in 2017 bonds or any other debt securities.

4. Management of the commercial company

4.1. The structure of the Board of Directors was the following:

- The Board of Directors of BIOFARM S.A. during the period 01.01.2017 – 06.11.2017 was composed of:
 - Dănuț VASILE – B.D. Chairman
 - Andrei HREBENCIUC – B.D. Member
 - Dragoș George BÎLTEANU – B.D. Member
 - Najib EL LAKIS – B.D. Member
 - Bogdan Alexandru DRĂGOI– B.D. Member

- The Board of Directors of S.C. BIOFARM S.A. during the period 07.11.2017 – 31.12.2017 was composed of:
 - Dănuț VASILE – B.D. Chairman
 - Andrei HREBENCIUC – B.D. Member
 - Dragoș George BÎLTEANU – B.D. Member
 - Najib EL LAKIS – B.D. Member
 - Bogdan Alexandru DRĂGOI– B.D. Member



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Surname/First name	DĂNUȚ VASILE
Date of birth	01.08.1956
Professional qualification	Politehnica University of Bucharest, “Faculty of Technology of Machine Construction”
	1981 – Master’s Degree in Engineering – The Polytechnic Institute of Bucharest
	2005-2008 - formation courses: “Quality management for the personnel from leading management – Course in the field of Quality Management, “Managing Business Today” – Course of Organisational Management, “Role of building and strengthening the performance teams in the context of communication and organisational coordination” – Management Course
	2002-2004 – formation courses organised by Sicomed – Improvement of the Acquisition – Delivery Chain, GMP methods for production and control in the pharmaceutical industry
	1990-2002 – Authorised course of formation organised by the Coca-Cola company in the domains Finance for non-financiers, Project Management and Sales Development, Systems of Distribution and Logistics, Quality Systems
Professional experience	1983 -1986 - Design Engineer ICSITMUA Bucharest
	1986 - 1990 - Chief Engineer ICSITMUA Bucharest
	1990 - 1993 - Project Manager Coca-Cola Romania
	1993 - 1994 - Director of operations Eastern Zone - Coca-Cola Nigerian Bottling Company
	1994 - 1996 - Corporative Project Manager - Coca-Cola Nigerian Bottling Company
	1996 - 1999 - Director of operations - Coca-Cola Ukraine
	1999 - 2002 - Director of operations - Coca-Cola Rusia
	2002 - 2005 - Deputy General Manager - Sicomed Romania
2005 - Present - General Manager - Biofarm SA Romania	

Surname/First Name	ANDREI HREBENCIUC
Date of birth	27.06.1984
Professional qualification	2003-2007- Bucharest Academy of Economic Studies, “Faculty of General Economics”
	2007- 2011 - Doctor of Economy, Bucharest Academy of Economic Studies
	2009 - Oversight Training Program - CNVM & US Securities and Exchange Commission
Professional experience	2008- 2011 - Graduate Assistant - Bucharest Academy of Economic Studies
	2012- 2013 - Assistant Professor - Bucharest Academy of Economic Studies
	2009 - present - Managing Partner - Private Future Consulting S.R.L.
	March 2013 - present University Lecturer - Bucharest Academy of Economic Studies
	2010 - 2 books published - The Reward of the Romania General Association of Economists for the book "Illusion, Hero and Antierou in Economic Crises"
	16 scientific articles in international databases as author and co-author
	2012 - guest professor at Stanford University - Hoover Institute



Surname/First Name	DRAGOȘ GEORGE BÎLTEANU
Date of birth	02.08.1977
Professional qualification	1995-1997- Bucharest Academy of Economic Studies, “Faculty of International Economic Relations”
	2004 - 2005 - Executive MBA – ASEBUSS, Bucharest, Romania, in partnership with Kennesaw State University, Atlanta, USA
	Expert Accountant, CECCAR member – the Body of Licensed and Expert Accountants of Romania.
	Financial Auditor, member of the Chamber of Financial Auditors of Romania.
	Tax Advisor, member of the Chamber of Tax Consultants of Romania.
	Liquidator, member of the National Union of Insolvency Practitioners In Romania.
Professional experience	1997- 2004 - Coordinator Associate – BG CONTA S.R.L.
	2004-2006 - Significant shareholder and representative of the majority package - ENERGOREPARATII SERV S.A.
	2005- 2007 - Majority shareholder and sole administrator - IEMI S.A.
	2005- present - Sole Director - BG MANAGEMENT CONSULTANTS S.R.L.
	2008- present – Romenergo Group of Companies - Member of the Board of Directors, General Manager at Romenergo S.A., (2008 – October 2012)
	March 2012-present - Member of the Board of Directors - VRANCART S.A.
	January 2010 – December 2014 - Member of the Board of Directors-SIF Banat-Crisana S.A., B.D. Vice-President since June 2012, B.D. Chairman and General Manager since December 2012 until December 2014.

Surname/Give name	NAJIB EL LAKIS
Date of birth	01.08.1963
Professional qualification	1984-1988- University of Liberia “The College of Business and Public Administration”
Professional experience	1991- 1998 - Associate – CALYPSO TRADING S.R.L
	2004-2006 - Significant shareholder - ENERGOREPARATII SERV S.A.
	2004- present-Associate and Sole Director - ARIS CONSULT INVEST S.R.L.
	2005- 2007 - Shareholder - IEMI S.A.
	2006- present- Shareholder’s representative - ROBINSON S.A.
	2012- 2013- Counsellor - SIF BANAT- CRISANA S.A.
	2008- present- ROMENERGO Group of companies – B.D. Chairman at Romenergo S.A., Sole Director of Romenergo Mecanic S.A.



Surname/Give name	BOGDAN ALEXANDRU DRĂGOI
Date of birth	27.05.1980
Professional qualification	Tufts University, Fletcher, Boston, Massachusetts Specialisation in International Relations – graduated Magna cum Laude Specialisation in Economics – graduated Magna cum Laude
	Member of Golden Key Honour Society
Distinctions	National Order of the Star of Romania – Knight grade
	Sovereign Military Order of Malta – Order pro Merito Melitensi
Professional experience	2002 – 2003 - Business Analyst – Inquam Limited UK
	2003 – 2004 - Associate – Inquam Limited UK
	2004 – 2006 - Vice President/Shareholder – FocusSat SA România
	April – September 2006 - Counsellor of the Minister – Ministry of European Integration
	2006 – 2007 - State Secretary – Ministry of Public Finance
	2007 – 2008 - General Manager, Economic Department – Bucharest City Hall
	2009 – 2012 - State Secretary – Ministry of Public Finance
	February 2012 – May 2012 - Minister – Ministry of Public Finance
	2012 – 2014 - Presidential Counsellor – Presidential Administration
	March 2015 – present – Chairman of the Board of Directors of SIF Banat-Crişana, General Manager

** the data from the presented CVs are in compliance with the latest information made available to the company by the members of the Board of Directors*

Any family agreement, understanding or relation between the respective director and another person due to whom the respective person was appointed a director:

This is not the case.

The contribution of directors and executive management to the commercial company's capital:

Dănuț Vasile – B.D. Chairman	2,206,531
Andrei Hrebenciuc – B.D. Member	5,000
Daniela Traiana COMȘA – Executive Manager	66,166
Zoia Mihaela ION – Head of Legal Office	10

No related parties affiliated to the company were identified with whom would have performed any activity during 2017.



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5. Financial – accounting statement

a) Assets, liabilities and equity statement (LEI):

Description	31-Dec-17	31-Dec-16
Fixed assets	119,309,734	104,604,506
Current assets	143,070,908	134,656,039
TOTAL ASSETS	262,380,642	239,260,545
Current liabilities	45,545,874	41,694,892
Long-term liabilities	411,927	419,154
TOTAL LIABILITIES	45,957,801	42,114,046
NET ASSETS	216,422,841	197,146,499

Share capital and reserves	31-Dec-17	31-Dec-16
Share capital	98,537,535	98,537,535
Own shares	(813)	(813)
Premiums related to the issue / redemption of own share	(173,154)	(173,154)
Revaluation reserves	1,379,344	1,379,344
Reserves	66,537,026	53,131,107
Retained earnings	16,844,295	16,844,295
Current result	36,027,723	29,477,747
Profit distribution	(2,729,115)	(2,049,562)
TOTAL CAPITALS	216,422,841	197,146,499

b) Incomes and expenses statement (LEI):

Description	For the year ended as at	
	31-Dec-17	31-Dec-16
Revenues from sales	170,232,296	152,121,117
Other operating income	487,491	258,155
Changes in inventories	(50,747)	(2,459,177)
<i>Total operating expenses</i>	<i>128,182,161</i>	<i>114,881,147</i>
Operating Profit / (Loss)	42,486,879	35,038,948
Net financial revenues/ (costs)	191,143	401,738
Profit before tax	42,678,022	35,440,686
Expenses with taxes	6,650,299	5,962,939
Profit	36,027,723	29,477,747



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c) Cash flow (Lei):

Description	For the year ended as at	
	31-Dec-17	31-Dec-16
Initial balance	35,643,669	30,331,720
Cash in the core business	36,714,842	39,805,135
Cash in the investment business	(19,027,168)	(19,495,055)
Cash in the financing activity	(15,941,616)	(14,998,131)
Final balance	37,389,727	35,643,669



ANNUAL REPORT ON CORPORATE GOVERNANCE

The chapter of Corporate Governance from the Administrator's Report was drafted considering the applicable legislation such as the Regulation No. 1/2006 on issuers and securities operations, Regulation No. 6/2009 on the cast of certain rights of shareholders within the general meetings of commercial companies, Law No. 297/2004 on the capital market, Law No. 24/2017 on issuers of financial instruments and market operations, Law No. 31/1990 on companies, republished, as further amended and supplemented etc.

The company drafted a Corporate Governance Regulation which is posted on the company's website www.biofarm.ro in Investors/Corporate Governance section. The purpose of adopting the Corporate Governance Regulation is to ensure transparency, the rights of shareholders and third parties, as well as company's credibility.

The company reported in compliance with the provisions of art. 87¹ para. (1) and (2) from the Bucharest Stock Exchange Code Book I - Title II Issuers and Financial Instruments, the stage of compliance with the Corporate Governance Code of the Bucharest Stock Exchange, the declaration of conformity constitutes an annex to this report.

Biofarm S.A. will permanently improve the activity of Corporate Governance and will seek to fulfil all applicable legal provisions in the future as well.

STRUCTURES OF CORPORATE GOVERNANCE

GENERAL MEETINGS OF SHAREHOLDERS

The General Meeting of Shareholders is the supreme decision-making body of the Company. General Meetings are ordinary and extraordinary.

According to the Decision of the General Meeting of Shareholders no. 68/24.04.2012, the procedure for carrying out the General Meetings of Shareholders was approved. The procedure for carrying out the G.M.S. shall be amended or supplemented, if the case may be, with the legislative provisions in force on the date of each General Meeting of Shareholders. In case there are differences between the provisions of the procedure and the applicable legislation, the legislation in force shall be applied.

CONVOCAATION OF THE GENERAL MEETINGS OF SHAREHOLDERS

The General Meeting of Shareholders can be convened by the Board of Directors, as well as upon request of shareholders individually or jointly who own at least 5% from the share capital.

The convening of the General Meeting of Shareholders shall be carried out by the Board of Directors within maximum 30 days and shall meet no later than 60 days from the date of receiving the request.

The convening shall be submitted with the Autonomous Public Service Undertaking "Official Gazette" for publication, within maximum 5 days from the date of adoption by the Board of Directors of the decision of General Meeting gathering.



The meeting deadline cannot be less than 30 days from the publication of the convening in the Official Gazette of Romania, Part 4.

ORGANISATION OF GENERAL MEETINGS

In compliance with the provisions of Law 31/1990 on companies, republished, Law 297/2004 on the capital market, Regulation 1/2006 on issuers and securities operations and Regulation 6/2009 on the cast of certain rights of shareholders within the general meetings of commercial companies, the following rules of procedure were drafted and approved regarding the cast of voting rights within the General Meetings of Shareholders of BIOFARM S.A.

The shareholders of BIOFARM S.A. are obliged to be present on the day, time, and location announced in the notice to attend at the General Meeting of Shareholders, in time to be identified and to have the possibility to cast the vote in all items on the agenda.

Within the General Meeting of Shareholders, each shareholder is free to express his/her point of view with regard to the materials afferent to the agenda and to ask for explanations where he/she has ambiguities. Also, any shareholder may request the recording of discussions in the protocol of the General Meeting of Shareholders.

Vote by mail

Vote by mail shall be used by any shareholder, natural person or legal person, registered on the reference date in the shareholders' register issued by the Depozitarul Central S.A., who is unable or unwilling to attend in person, or by a representative/representatives at the works of the General Meetings of Shareholders of BIOFARM S.A..

In order for all interested shareholders to have the possibility to express in relation with the problems proposed on the agenda of the General Meetings of Shareholders, the Board of Directors shall draft and post on the company's website the forms of ballots by mail to be used at each General Meeting of Shareholders. Shareholders shall be sent the forms of ballots by mail free of charge, following a request submitted to the company registry.

The forms shall be made available both in Romanian and in English language, depending on the shareholder's request.

The voting form by mail shall be submitted at the office of S.C. BIOFARM S.A. from Bucharest, Str. Logofatul Tautu, nr. 99, 3rd District, zip code 031212, in a sealed envelope, with the mention in print and in capital letters: «for the General Meeting of Shareholders of» until the date and time mentioned in the notice to attend or transmitted with extended electronic signature to the e-mail address specified in the notice to attend.

i. In the case of vote by mail of natural person shareholders, the forms of vote by mail must be accompanied by the copies of the identity documents of shareholders, which must allow their identification in the company's shareholders' register, kept with the Depozitarul Central S.A., and, if appropriate, copies of the identity documents of the legal representatives (in the case of natural persons lacking in legal competence or with restrained legal competence), together with the proof of the quality of legal representative;



ii. In the case of vote by mail of legal person shareholders or of entities without legal personality, the quality of legal representative is found based on the list of shareholders from the reference date received from the Depozitarul Central SA. If the shareholders' register does not contain data regarding the quality of legal representative or they are not updated, this quality is proved with a confirmation of company details in original or in a certified true copy, issued by the Trade Register or any other document, in original or in a certified true copy, issued by a competent authority from the state in which the shareholder is legally registered, with a length of maximum 3 months in relation to the date of publication of the notice to attend of the General Meeting of Shareholders that allows the identification of the legal representative.

In all situations, the documents transmitted to certify the quality of legal representative drafted in a foreign language other than English language shall be accompanied by a translation performed by a sworn translator in Romanian or in English language, their legalisation or applying an apostille not being required.

All shareholders' identification data will be found on the ballot, respectively the surname and given name /name(s) of the legal person, if necessary, domicile/registered office, personal identification number of the natural person, registration number in the special records of legal persons (order number with the Trade Register or the registration number from the legal persons' register), tax identification number for legal persons as well as the number of shares held and their afferent voting rights, in relation with the total number of shares with voting rights of the company.

In case of legal person shareholders, the ballot by mail shall be signed and stamped in person by the legal representative of the legal person according to the Articles of Incorporation and /or the decisions of statutory bodies, the signatory assuming full and exclusive responsibility for quality and signature authenticity. Natural person shareholders shall personally sign the ballot, the signatories assuming full and exclusive responsibility for the quality of shareholder and signature authenticity.

** In compliance with Art. V from the Government Ordinance no. 17/2015, individuals, private legal persons, as well as entities without legal personality are not obliged to apply the stamp on documents or on any other deeds issued in the relationship between them, the compulsoriness being only under the responsibility of state institutions.*

Shareholders who do not have legal competence as well as legal persons, can be represented by their legal representatives, who in turn can issue a power of attorney to other persons, the latter assuming both the quality they possess and signature authenticity.

Vote by mail can be expressed by a representative only if he/she received from the shareholder he/she represents a special/general power of attorney which is presented to the issuer in accordance with art. 92 para. 14 of Law No. 24/2017.

The ballot shall have specified all the proposals to be voted according to the published agenda, with the precise mention that each shareholder shall vote either for, or against or shall abstain, for each subject proposed on the agenda. In the situation in which the shareholder who cast his/her vote by mail attends in person or by a representative at the General Meeting, the vote by mail cast for that General Meeting shall be cancelled. In this case, only the vote cast in person or by a representative shall be considered.

If the person that represents the shareholder by participation in person at the general meeting is another person than the one who cast the vote by mail, then for the validity of



his/her vote, he/she shall present at the meeting a written revocation of the vote by mail signed by the shareholder or by the representative who cast the vote by mail. This is not necessary if the shareholder or his/her legal representative is present at the general meeting.

Shareholders voting by mail shall correctly cast their right to vote, so that for each subject on the agenda and in the ballot to expressly and clearly result his/her vote option. In case in one or more subjects from those recorded on the ballot there will be several options, they are illegible, or conditionally cast or other ballots forms were used, the votes afferent to those items shall be considered void, for the reason of vitiated expression of the consent.

Shareholders, individuals or legal persons who are holders of electronic signature according to Law 455/18.07.2001, can use this method of voting. For this reason, the form of the ballot shall be filled in, shall be signed using the extended electronic signature and shall be sent to the e-mail address previously specified in the notice to attend.

In order to process the ballots, the Board of Directors shall issue a decision to designate the nominal composition of the committee members responsible for centralising and keeping a record of votes cast by mail, respectively sent by mail or submitted at the offices mentioned in the notice to attend and shall specify its responsibilities so as to ensure the accuracy and confidentiality of votes sent and processed by the time of submitting to vote each subject recorded on the agenda.

Voting forms which are not received at the office of S.C. BIOFARM S.A. until the dates and times abovementioned shall not be considered when determining the quorum and the majority in the Ordinary General Meeting of Shareholders / Extraordinary General Meeting of Shareholders.

Shareholders can personally attend or can be represented within the General Meeting of Shareholders by their legal representatives or by other persons who were granted a power of attorney, as follows:

Direct vote within the General Meeting of Shareholders

The access of shareholders entitled to attend the General Meeting of Shareholders is allowed by simply proving their identity, made in case of natural person shareholders with the identity document. In case of represented legal persons and natural person shareholders with empowerment given to the natural person representing them – except for the legal representative (who is also going to present the identity document), in compliance with the applicable legal provisions.

In case of legal person shareholders or entities with no legal personality, the quality of legal representative is found based on the shareholders' list from the reference date, received from the Depozitarul Central. In case the shareholders' register at the reference date does not contain the data regarding the quality of legal representative or they are not updated, this quality is proved with a confirmation of company details issued by the Trade Register, presented in original or in a certified true copy, or any other document, in original or in a certified true copy, issued by a competent authority from the state in which the shareholder is legally registered, certifying the quality of legal representative.



The documents certifying the quality of legal representative of the legal person shareholder shall be issued no more than 3 months before the date of publication of the notice to attend of the General Meeting of Shareholders. The documents certifying the quality of legal representative drafted in a foreign language, other than English language, shall be accompanied by a translation performed by a sworn translator in Romanian or in English language. Shareholders who do not have legal competence as well as legal persons can be represented by their legal representatives, who in turn may issue a power of attorney to other persons.

Shareholders who do not have legal competence, as well as legal persons, can be represented by their legal representatives, which, in turn, may issue an empowerment to other persons.

Representation based on special power of attorney or general power of attorney (empowerment) within the G.M.S.

Shareholders can be represented at the General Meeting of Shareholders by other persons, based on a special power of attorney or on a general power of attorney.

For this type of vote, the forms of special power of attorney shall be used (in Romanian or English language) in compliance with the provisions of the applicable legislation, which will be made available by the Board of Directors of the company or a general power of attorney, drafted in compliance with the provisions of Art. 15¹ of Regulation 6/2009 on the exercise of certain rights of shareholders within the General Meeting of commercial companies.

Legal person shareholders or entities with no legal personality attending the G.M.S. through another person than the legal representative shall necessarily use a special or general power of attorney, under the conditions previously specified.

Representation based on a special power of attorney

The forms of special power of attorney can be obtained from the company's office, or from its website. Forms shall be made available both in Romanian and in English language. In case a shareholder appoints by special power of attorney as an intermediary another person, the form of special power of attorney for natural or legal persons shall be used.

Shareholders shall fill in and sign the special power of attorney in three original counterparts: one for the shareholder, one for the representative and one for the company. The copy for the company, filled in and signed, shall be personally submitted or shall be transmitted at the office of S.C. BIOFARM S.A. from Bucharest, Str. Logofatul Tautu, nr. 99, 3rd District, until the date and time specified in the notice to attend, in a sealed envelope, with the mention in print and in capital letters: «for the General Meeting of Shareholders of» or shall be sent with extended electronic signature attached to the e-mail address specified in the notice to attend.

In the case of natural person shareholders, special powers of attorney will be accompanied by the copies of the identity documents of shareholders, which must allow their identification in the company's shareholders' register, kept by Depozitarul Central S.A..

In the case of special powers of attorney sent by legal persons, they will be signed in original by the legal representative. The quality of legal representative of the



person who signed the power of attorney is found based on the list of shareholders from the reference date received from the Depozitarul Central S.A.. If the shareholders' register does not contain data regarding the quality of legal representative or they are not updated, this quality is proved with a confirmation of company details in original or in a certified true copy, issued by the Trade Register or any other document, in original or in a certified true copy, issued by a competent authority from the state in which the shareholder is legally registered, with a length of maximum 3 months in relation to the date of publication of the notice to attend of the general meetings that allows the identification of the legal representative.

In all situations, the documents transmitted to certify the quality of legal representative drafted in a foreign language other than English language shall be accompanied by a translation performed by a sworn translator in Romanian or in English language, their legalisation or applying an apostille not being required.

A shareholder is forbidden to cast different votes based on the shares held by him/her at the same company.

A shareholder gives within the form of special power of attorney specific vote instructions to the person representing him/her for each point recorded on the agenda of the General Meeting of Shareholders.

If by empowerment, several alternate representatives are appointed, the order in which they will exercise their mandate will be also established.

A person acting as the representative may represent several shareholders, the number of shareholders thus represented not being limited. If a representative holds different empowerments conferred by several shareholders, he/she is entitled to vote for a shareholder differently as compared to the vote for another shareholder. The person representing several shareholders based on empowerments expresses the votes of the represented persons by summing up the number of votes «for», «against» and «abstention» without compensating them (for example, in point x from the agenda I represent «a» votes «for», «b» votes «against» and «c» «abstentions»). In the case of special powers of attorney, votes thus cast are validated based on counterpart 3 of the special power of attorney.

Special powers of attorney will be updated if proposals to complete the agenda by shareholders will be made.

In all cases, natural persons empowered by the special power of attorney will be identified with the identity document at the G.M.S..

Representation based on a general power of attorney (empowerment)

Shareholders may grant a general power of attorney (empowerment) valid for a period of time that will not exceed 3 (three) years, allowing the appointed representative to vote in all the aspects being within the debate of the General Meetings of Shareholders of the Company, provided that the general power of attorney (empowerment) is granted by the shareholder, as the customer, to a definite intermediary according to art. 2 para. (1) point 20 of Law No. 24/2017, or to an attorney.

Shareholders cannot be represented at the General Meeting of Shareholders based on a general power of attorney (empowerment) by a person that is in a situation of conflict of interests, in compliance with the provisions of art. 92 para. 15 of Law No. 24/2017.



The general empowerment must contain at least the following information:

- a. the shareholder's name;
- b. the representative's name (the person whom the power of attorney is granted to);
- c. the date of the empowerment, as well as its validity period, complying with the legal provisions; empowerments bearing a later date have the effect of revoking the powers of attorney previously dated;
- d. specifying that the shareholder authorizes the representative to attend and vote on his/her behalf by the general empowerment at the General Meeting of Shareholders for the entire holding of the shareholder on the reference date, with express specification of the company/companies for which the respective general empowerment is used.

The general empowerment shall terminate by:

- (i) a revocation written by its principal shareholder, sent to the issuer no later than the deadline for submitting the empowerments, applicable to an extraordinary or ordinary general meeting, held within the mandate, drafted in Romanian language or in English language; or
- (ii) losing the quality of shareholder of the principal on the reference date applicable to an extraordinary or an ordinary general meeting of shareholders, organised within the mandate; or
- (iii) losing the quality of intermediary or of attorney-at-law of the representative.

The general empowerment shall be signed by the shareholder and accompanied by a statutory declaration given by the legal representative of the intermediary or by the attorney-at-law who received the power of representation by the general empowerment, showing that:

- (i) the empowerment is granted by the respective shareholder, as the client, to the intermediary or, where appropriate, to the attorney-at-law;
- (ii) the general empowerment is signed by the shareholder, including by attaching an extended electronic signature, where appropriate.

The declaration provided above must be submitted to Biofarm in original, signed and, where appropriate, stamped, without fulfilling other formalities in relation to its form. The declaration shall be submitted with the general empowerment.

The general powers of attorney (empowerments), before their first use, are submitted with the company 48 hours before the General Meeting, in copy, containing the mention of true copy under the representative's signature. Certified copies of the general power of attorney (empowerments) are retained by the company, a mention being made in this regard in the protocol of the General Meeting.

If the person authorised by a general power of attorney (empowerment) is a legal person, it may exercise its received mandate through any person that is part of the administration and management bodies, or through any of its employees, presenting documents that attest their quality, in original or in a certified true copy.

In the case of general empowerments, the person that acts as the representative must not present at the General Meeting of Shareholders any proof on the vote of the represented persons.

In all cases, individuals empowered by a general power of attorney (empowerment) shall be identified with their ID at the O.G.M.S./E.G.M.S..



Introduction of new items on the agenda and presenting draft decisions for the items included or proposed to be included on the agenda

According to the provisions of art. 1171 para. (1) of Law No. 31/1990 republished and of art. 7 para. (1) from Regulation No. 6/2009, one or several shareholders representing individually or together at least 5% from the share capital of the Company, may request the Board of Directors of the company to introduce additional items on the agenda of the General Meeting of Shareholders and/or to present draft decisions for the items included or proposed to be included on the agenda of the General Meeting of Shareholders, in compliance with the following conditions:

(i). In the case of natural person shareholders, the requests must be accompanied by the copies of the identity documents of shareholders, which must allow their identification in the company's shareholders' register, kept by the Depozitarul Central SA;

(ii). The quality of shareholder, as well as, in the case of legal person shareholders or of entities without legal personality, the quality of legal representative is found based on art. 11¹ para. (1) from Regulation 6/2009, based on the following documents presented to the issuer by the shareholder:

a) the statement of account from which the quality of shareholder and the number of shares held result;

b) documents attesting the recording of the information regarding the legal representative at the central depository/the respective participants.

The documents attesting the quality of legal representative drafted in a foreign language, other than English language, shall be accompanied by a translation performed by a sworn translator in Romanian or in English language.

(iii). To be accompanied by a justification and/or by a draft decision proposed for adoption;

(iv). To be sent and recorded within the deadline and in the location mentioned in the notice to attend, by any form of courier, with acknowledgment of receipt, in original, signed and, as appropriate, stamped* by shareholders or their legal representatives.

** In compliance with Art. V from the Government Ordinance no. 17/2015, individuals, private legal persons, as well as entities without legal personality are not obliged to apply the stamp on documents or on any other deeds issued in the relationship between them, the compulsoriness being only under the responsibility of state institutions.*

Asking questions, in compliance with art. 13 from Regulation No. 6/2009, on the items on the agenda

The same identification requirements will be also applicable for shareholders/the legal representative of shareholders asking questions on the items on the agenda of the General Meeting of Shareholders.

Shareholders may address questions to the company by a document that will be sent and recorded within the deadline and at the location mentioned in the notice to attend, by any form of courier, with acknowledgment of receipt, in original, signed and, as appropriate, stamped by shareholders or by their legal representatives.



The company may formulate a general answer for the questions with the same content that will be available on the company's website in section *Frequently asked questions*, in in question-answer format.

On the day and time shown in the convening, the Assembly meeting shall be opened by the Chairman of the Board of Directors or by the one replacing him/her. The General Meeting shall choose between the present shareholders one to three secretaries, the Chairman being able to also appoint from the company's employees, one or more technical secretaries.

The commission appointed for the processing of ballots shall centralise all ballots came by mail, the special and general powers of attorney (empowerments) and at the beginning of the works of the General Meeting, it shall submit to the secretariat the situation of votes by mail that will be considered n establishing the total quorum afferent to the works of the General Meeting (shareholders present /represented in works, to which the number of shareholders who voted by mail is added).

The commission shall deliver the centralised situation of votes cast to the secretariat chosen by the General Meeting of Shareholders in compliance with Art. 129 of Law 31/1990 republished, as voted for each point from the notice to attend/ballot, to establish the general result of the votes cast (votes given by the shareholders that were present or by power of attorney, to which the votes by mail are added).

Upon establishing the legal and/or statutory quorum necessary for carrying out the works of each General Meeting of Shareholders, only the ballots by mail, special and general powers of attorney shall be considered, if the case may be, which were cast in compliance with the procedure established by these regulations and which were transmitted at the company's office within the terms established by the notice to attend.

The General Meeting shall be able to decide for the operations provided above to be supervised or performed by a notary public, at the company's expense.

The Ordinary General Meeting of Shareholders is considered validly constituted and can take decisions if at the first convening shareholders who own at least 40% from the total number of voting rights are present.

Decisions can be taken validly by simple majority of the votes cast.

If at the first convening the legal conditions of quorum are not met, a second Ordinary General Meeting can be convened that shall be legally constituted under the conditions of gathering any part of the share capital represented in the meeting. Decisions shall be validly taken with majority of votes cast.

The Extraordinary General Meeting of Shareholders is considered validly constituted and can make decisions if at the first convening shareholders representing 40% from the total number of voting rights are present.

If at the first convening the legal conditions of quorum are not met, a second Extraordinary General Meeting can be convened that shall be legally constituted provided that shareholders holding 20% from the total number of voting rights are present.

Decisions are made by majority of votes owned by present or represented shareholders. The decision to modify the main activity object of the company, to reduce or increase the share capital, to change the legal form, to merge, to divide or to dissolve the company shall be taken by a majority of at least two thirds of the voting rights held by the present or represented shareholders.



Decisions made in compliance with the conditions of the quorum and of the majority, requested by the Articles of Incorporation are compulsory both for absent shareholders, but legally convened, and for shareholders who voted against or abstained from voting.

Within 15 days from the date of the General Meeting, the decisions of the General Meeting of Shareholders shall be submitted to the Trade Register Office and shall be published in the Official Gazette of Romania, Part 4.

The decisions of the General Meetings taken in breach of the legal provisions or of the Articles of Incorporation can be challenged in court, within 15 days from the date of their publication in the Official Gazette, by any of the shareholders who did not take part in the Meeting or who voted against and requested this to be recorded in the protocol.

BOARD OF DIRECTORS

The company is managed by a Board of Directors consisting of 5 members. From among the B.D. members, the B.D. Chairman is chosen. Administrators shall be chosen by the Ordinary General Meeting of Shareholders for a period of 4 years and their mandate can be renewed for a period decided by the Ordinary General Meeting of Shareholders.

Administrators can be revoked anytime by the decision of the Ordinary General Meeting of Shareholders.

The majority of members of the Board of Directors shall be formed of nonexecutive administrators.

The Board of Directors has the following duties:

- a) to establish the main directions of activity and company's development;
- b) to establish the accounting and financial control system and to approve the financial planning;
- c) to appoint and revoke directors and to establish their remuneration and any other advantages; to establish the additional remuneration of the members of the Board of Directors charged with specific functions established by the General Meeting of Shareholders
- d) to prepare the annual report, to organise the general meeting of shareholders and to implement its decisions;
- e) to introduce the request for opening the company's insolvency procedure, according to Law no. 85/2014 on the procedures for preventing insolvency and the procedures of insolvency;
- f) to relocate the company's office;
- g) to change the company activity object, except for the field and the main object of the company;
- h) to establish or dissolve secondary offices: branches, agencies, offices or other such units with no legal personality;
- i) to increase the share capital and establishing the procedure to be followed in compliance with the laws in force, under the limits established by the extraordinary general meeting of shareholders;
- j) documents for acquisition, transfer, exchange or constitution in guarantee of assets from the category of fixed assets of the company, the value of which exceeds,



individually or together, during a financial year, 20% from the total of fixed assets, less receivables, shall be concluded by the administrators or directors of the company only after prior approval by the extraordinary general meeting of shareholders;

k) to choose the Chairman of the Board of Directors

l) to organise its control on the company

m) to approve the contracting of banking loans with a value higher than EUR 750,000, but less than or equal to 20% from the total of fixed assets less receivables

The members of the Board of Directors of BIOFARM S.A. are:

- during the period 01.01.2017 – 06.11.2017:
 - Dănuț VASILE – B.D. Chairman, executive, non-independent
 - Andrei HREBENCIUC – B.D. Member, non-executive, non-independent
 - Dragoș George BÎLTEANU – B.D. Member, non-executive, non-independent
 - Najib EL LAKIS – Member, non-executive, non-independent
 - Bogdan Alexandru DRĂGOI – Membru C.A., neexecutiv, neindependent
- during the period 07.11.2017 – 31.12.2017:
 - Dănuț VASILE – B.D. Chairman, executive, non-independent
 - Andrei HREBENCIUC – Membru C.A., neexecutiv, neindependent
 - Dragoș George BÎLTEANU – B.D. Member, non-executive, non-independent
 - Najib EL LAKIS – B.D. Member, non-executive, non-independent
 - Bogdan Alexandru DRĂGOI – B.D. Member, non-executive, non-independent

The Board of Directors was formed of 5 members, of which 4 non-executive members and 1 executive member:

Dănuț VASILE – elected for the first time in 2005 (by the GMS Decision no. 45/03.11.2005), reelected for consecutive mandates of 4 years, in 2009, 2013 and 2017;

Andrei HREBENCIUC – elected for the first time in 2013 (by the GMS Decision no. 70/06.11.2013), reelected for a consecutive mandate of 4 years in 2017;

Dragoș George BÎLTEANU – elected for the first time in 2013 (by the G.M.S. decision No. 70/06.11.2013), reelected for a consecutive mandate of 4 years in 2017;

Najib EL LAKIS – elected for the first time in 2013 (by the G.M.S. decision No. 70/06.11.2013), reelected for a consecutive mandate of 4 years in 2017;

Bogdan Alexandru DRĂGOI – n temporarily appointed by the Board of Directors in 2015 (by the B.D. Decision No. 167/10.12.2015) and confirmed in the position in 2016 (by the G.M.S. decision No. 75/29.04.2016), reelected for a consecutive mandate of 4 years in 2017;

During the financial year 2017, the Chairman of the Board of Directors convened 12 times the members of the Board of Directors. The members of the Board of Directors attended the meetings in person, by telephone or by e-mail, in compliance with the provisions of the Articles of Incorporation.



Director	Number of meetings attended	Number of meetings being absent	Total number of meetings*
Dănuț Vasile	12	-	12
Andrei Hrebenciuc	12	-	12
Dragoș George Bîlteanu	12	-	12
Najib El Lakis	12	-	12
Bogdan Alexandru Drăgoi	12	-	12

* meetings to which they were convened during their mandate, in 2017

Financial statements, the annual trade policy, the dividends distribution procedure, investment opportunities, and other important problems which were submitted to the attention of the Board of Directors were presented, discussed and approved as appropriate, the decisions necessary for carrying out the company activity being made.

On 31.12.2017, there is no Committee (Audit, Nomination, Remuneration) is constituted at the level of the Board of Directors of BIOFARM S.A.

Following the meetings of the Board of Directors, a number of 6 decisions were issued, communicated to the departments which would bring them to fulfilment.

The Chairman of the Board of Directors has the following duties:

- a) to convene the General Meeting of Shareholders upon proposal of the Board of Directors or upon request of shareholders owning individually or together at least 5% from the share capital;
- b) to lead the meetings of the Board of Directors and to lead the general meetings;
- c) to coordinate the activity of the board and to report about this at the General Meeting of Shareholders;
- d) to supervise the proper functioning of company's bodies.

The General Manager has the following duties:

- a) to represent the Company in relation with shareholders, third parties, the union and in court under the law and of this Articles of Incorporation;
- b) to employ and dismiss the personnel of the company;
- c) to establish the job descriptions and the salaries of all employees of the company;
- d) to propose the organisational chart of the company;
- e) to approve sanctions for the company personnel;
- f) to approve the allocation of premiums for the personnel of the company;
- g) he has the right of signature at the bank, he shall appoint or revoke the persons having this right, as well as the limits of this right;
- h) in the absence of a decision of the General Meeting of Shareholders, the General Manager may represent the company within the limit of an amount that represents maximum the equivalent in LEI of EUR 750,000, but no more than



20% from the total of fixed assets, less receivables for financial operations taken individually or cumulatively during a financial year;

i) fulfils any other duties delegated by the Board of Directors;

j) has the right to delegate the competence of representing the company in relations with third persons, with the union etc., the Executive Director, the Deputy General Manager and other persons from the company management, by decision.

The General Manager of the Company reports to the Board of Directors.

The General Manager is responsible for exceeding its powers.

The General Manager can also be the Chairman of the Board of Directors.

The General Manager is responsible for meeting the decisions of the Board of Directors and the business plan.

On 31.12.2017, the management team of the company was provided by the following persons:

Daniela Traiana Comşa - Executive Director

Daniela Traiana Comşa occupies the position of Executive Director within Biofarm S.A. She attended the classes of the University of Bucharest at the Faculty of Chemistry - Physics. She is an Executive Director since 2013, has occupied the position of Deputy General Manager during the period 2007 - 2013 and has worked within the Sales and Marketing Department since 2002, also having the position of Sales Manager.

Mihaela Ion - Head of the Shareholding Legal Office

Mihaela Ion coordinates the Legal Office of Biofarm S.A. since 1996. She attended the classes of the Faculty of Law within the University of Bucharest and is a member of the Professional Association of Judicial Counsellors College of Bucharest.

Matei Monica Claudia – Chief Accountant

Matei Claudia occupies the position of Chief Accountant within the Financial Department.

She is a graduate of the Bucharest University of Economic Studies holds the CECCAR degree with a high degree of specialisation.

Liviu Visan - Administrative Manager

Liviu Visan was appointed to lead the Administrative Department in 2010 and the IT & C field since 2013. He is a graduate of the Faculty of Engineering within the Polytechnic University of Bucharest.

Petruta Stoicescu – Manufacturing Manager

Petruta Stoicescu began her career in Biofarm in 1990. Since 2008, she is the Head of the Production Department, and since 2012 she also deals with the coordination of the Purchasing Department. Petruta Stoicescu attended the classes of the Faculty of Chemical Technology within the Bucharest University, section Technology of Macromolecular Compounds.



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FAX: +4 021 301 06 05

MAIL: office@biofarm.ro
WEB: www.biofarm.ro

Gherla Oana Andreea – Human Resources Manager

Oana Gherla joined the Biofarm team in 2016 and is coordinating the Human Resources department. Oana Gherla is specialised in the Human Resources Management.

The members of the executive management have skills and responsibilities according to the job description.

All persons who are part of the company's executive management are employed with continuous contracts of employment, except for the General Manager Dănuț Vasile who has concluded a contract of mandate, the Human Resources Manager and the Chief Accountant who have concluded management contracts.

There are no agreements, understandings or family ties between the persons from the executive management of the company and another person due to whom the person from the executive management was appointed a member of the executive management.

The number of shares held by the members of the executive management and of the Board of Directors of S.C. Biofarm S.A. on 31.12.2017 is presented in the following table:

Dănuț Vasile – B.D. Chairman	2,206.531
Andrei Hrebenciuc – B.D. Member	5,000
Daniela Traiana COMȘA – Executive Manager	66,166
Zoia Mihaela ION – Head of Legal Office	10

The persons being part of the executive management or the Board of Directors of the company were not involved in disputes or administrative procedures in relation with their activity within the issuer.

RIGHTS OF SHAREHOLDERS

Shareholders will participate in the profits and losses of the Company depending on the participation to the share capital. The shareholder has the right to dividends, proportionally with the shares held and calculated based on the net profit achieved.

The distribution of dividends and any other decisions on the allocation of the net profit shall be decided by the Ordinary General Meeting of Shareholders.

Shares are indivisible in relation with the Company which only recognises one owner for each share.

Shareholders are entitled to participate to the increase of the share capital. The share capital of the Company can be increased by the decision of the General Meeting of Shareholders or of the Board of Directors of the Company within the limits established by the General Meeting of Shareholders.

Increasing the share capital with contribution in cash is realised by the issuance of new shares that are offered for subscription:

a) the owners of the preference right, belonging to the existent shareholders on the registration date who did not alienate them during their trading period, if necessary or



which were acquired during their trading period. In order to cast the preference right, a period of 30 days from the publication of the decision to increase the share capital in the Official Gazette shall be granted.

b) the investing public, given that the new shares were not fully subscribed during the period of exercising the preference right, if the issuer does not decide in the Extraordinary General Meeting of Shareholders their cancellation.

The Extraordinary General Meeting of Shareholders may decide the trading of preference rights under the law and the F.S.A. (former R.N.S.C.) regulations.

The increase of the share capital can be also done by other means provided by the law in compliance with the shareholders' rights.

Shareholders can request the following documents for information and for exercising control:

- a) published periodical and annual financial results;
- b) income and expenditure budget;
- c) current reports made by B.S.E./ F.S.A. (former R.N.S.C.);
- d) decisions of the Ordinary and Extraordinary General Meetings

For the information of shareholders on the company website there is information posted in Corporative Governance section regarding:

- General information
- Financial calendar
- Communiqués
- Current reports
- Financial statements
- General Meetings of Shareholders (convocations, GMS materials, GMS decisions, forms of special powers of attorney, forms of vote by mail, results of votes cast, draft resolutions etc.)
- Dividends distribution procedure
- Frequently asked questions
- Corporative Governance Regulation and Conformity statement
- Updated Articles of Incorporation
- Members of the Board of Directors, as well as the executive management
- Contact person for the relation with shareholders and his/her contact information

Starting with 2011, the entire continuous information is available in English language as well.

B.D. Chairman
Dănuț Vasile



Str. Logofătul Tăutu nr. 99,
Sector 5, Bucuresti, Romania

TEL: +4 021 301 06 00
FAX: +4 021 301 06 05

MAIL: office@biofarm.ro
WEB: www.biofarm.ro

Conformity statement

Provisions of the Corporate Governance Code	Compliant	Not compliant or partially compliant	Reason for nonconformity
A.1 All companies must have an internal regulation of the Board that includes the reference terms and the responsibilities of the Board and the key management functions of the company, and which apply, among others, the general principles from Section A.	YES		
A.2 The provisions for the management of the conflicts of interest must be included in the regulation of the Board. In any case, the members of the Board must notify the Board with regard to any conflicts of interests that occurred or may occur and to refrain from participating in discussions (including by failure to be present, except for the case in which the failure to be present would prevent quorum formation) and from the vote for the adoption of a decision regarding the matter giving rise to the respective conflict of interests.	YES		
A.3 The Board of Directors must be composed of at least five members.	YES		
A.4 Most of the members of the Board of Directors must not have an executive position. In the case of companies from the Premium Category, not less than two non-executive members of the Board of Directors must be independent. Each independent member of the Board of Directors must submit a statement at the time of his/her nomination for the election or re-election, as well as when any change of status occurs or, indicating the elements based on which he/she is considered to be independent from the point of view of his/her character and judgment.		PARTIALLY COMPLIANT	Most of the members of the Board of Directors are non-executive directors. Currently, there are no independent directors. Directors were appointed in the position by the General Meeting of Shareholders.
A.5 Other engagements and professional obligations relatively permanent of a member of the Board, including executive and non-executive positions within the Board of companies and non-profit institutions, must be disclosed to shareholders and potential investors before nomination and during his/her mandate.	YES		
A.6 Any member of the Board must submit to the Board information regarding any report with a shareholder that directly or indirectly holds shares representing over 5% from all voting rights. This obligation refers to any type of report that may affect the position of the member with regard to matters decided by the Board.	YES		
A.7 The company must appoint a secretary of the Board responsible for supporting the Board's activity.	YES		
A.8 The statement regarding corporate governance will inform whether an evaluation of the Board took place under the management of the Chairman or of the nomination committee and, if yes, it will summarize the key measures and the resulting changes. The company must have a policy/guide on the evaluation of the Board comprising the purpose, the criteria and the frequency of the evaluation process.		NO	The company is going to draft a policy/guide on the evaluation of the Board comprising the purpose, criteria and frequency of the evaluation process.



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A.9 The statement regarding the corporate governance must contain information regarding the number of meetings of the Board and the committees during the last year, the participation of directors (in person and in absence) and a report of the Board and of the committees with regard to their activities.	YES		
A.10 The statement regarding the corporate governance must comprise information regarding the exact number of independent members from the Board of Directors or from the Supervisory Board.	YES		
A.11 The Board of companies from the Premium Category must establish a nomination committee composed of non-executive members, which will lead the procedure of nominations by new members in the Board and will make recommendations to the Board. Most of the members of the nomination board must be independent.		NO	Currently, there is no Nomination committee established. To the extent of meeting the conditions and the occurrence of the existence necessity, it will be constituted.
B.1 The Board must establish an audit committee in which at least one member must be an independent non-executive director. Most members, including the Chairman, must have proven to have appropriate qualification, relevant for the functions and responsibilities of the committee. At least one member of the audit committee must have proven and appropriate audit or accounting experience. In the case of companies from the Premium Category, the audit committee must be composed of at least three members and most of the audit committee members must be independent.		NO	Currently, there is no Audit committee constituted. To the extent of meeting the conditions and the occurrence of the existence necessity, it will be constituted.
B.2 The chairman of the audit committee must be an independent non-executive member.		NO	See the explanation in point B.1
B.3 Within his/her responsibilities, the audit committee must carry out an annual evaluation of the internal control system.		NO	
B.4 The evaluation must take into account the effectiveness and the scope of the internal audit function, the adequacy of the risk management and internal control reports submitted to the Board audit committee, the promptness and effectiveness with which executive management addresses the deficiencies or weaknesses identified as a result of internal control and the submission of relevant reports to the Board's attention.		NO	
B.5 The audit committee must evaluate the conflicts of interests in relation to the transactions of the company and its subsidiaries with affiliated parties.		NO	
B.6 The audit committee must evaluate the effectiveness of the internal control system and of the risk management system.		NO	See the explanation in point B.1
B.7 The audit committee must monitor the application of generally accepted legal standards and internal audit standards. The audit committee must receive and evaluate the reports of the internal audit team.		NO	
B.8 Whenever the Code mentions reports, or analyses initiated by the Audit Committee, they are followed by periodical reports (at least annually) or ad-hoc that must be subsequently submitted to the Board.		NO	
B.9 No shareholder may be granted preferential treatment as compared to other shareholders in relation with transactions or agreements concluded by the company with shareholders or their affiliates.		PARTIALLY COMPLIANT	Biofarm S.A. does not have a policy regarding transactions with affiliated parties. However, the recommendation of the Corporate Governance Code of BSE is complied with.

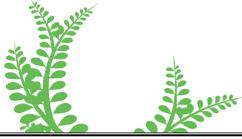


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B.10 The Board must adopt a policy by which to ensure that any transaction of the company with any of the companies with which it has tight relations whose value is equal to or greater than 5% from the net assets of the company (according to the latest financial report) is approved by the Board following a mandatory opinion of the audit committee of the Board and correctly disclosed to shareholders and potential investors, to the extent that these transactions fall within the category of events that are the object of reporting requirements.		NO	The policy is about to be completed.
B.11 Internal audits must be carried out by a structurally separated division (internal audit department) within the company or by employing an independent third entity.	YES		
B.12 For the purpose of ensuring the fulfilment of the main functions of the internal audit department, it must report from the functional point of view to the Board through the audit committee. For administrative purposes and within the obligations of the management to monitor and reduce risks, it must report directly to the general manager.		PARTIALLY COMPLIANT	The internal auditor reports directly to the Board of Directors and to the General Manager, as no Audit Committee is constituted.
C.1 The company must publish on its website the remuneration policy and include in the annual report a statement regarding the implementation of the remuneration policy during the annual period that is the object of the analysis.		PARTIALLY COMPLIANT	The company drafted a remuneration policy.
D.1 The company must organise an Investors Relations service – being indicated to the general public the person or the persons responsible or the organisational unit. Apart from the information imposed by the legal provisions, the company must include on its website a section dedicated to Investors Relations, in Romanian and English languages, with the entire relevant interest information for investors, including:	YES		
D.1.1 The main corporative regulations: articles of incorporation, procedures regarding the general meetings of shareholders;	YES		
D.1.2 The professional CVs of the members of the management bodies of the company, other professional commitments of Board members, including executive and non-executive positions in boards of directors from companies or non-profit institutions;	YES		
D.1.3 Current reports and periodical reports (quarterly, half-yearly and annual) – at least those provided in point D.8 – including current reports with detailed information regarding the nonconformity with the Code;	YES		
D.1.4 Information regarding the general meetings of shareholders: agenda and informative materials; procedure for the election of Board members; arguments supporting the proposals of candidates for election in the Board, together with their professional CVs; the questions of shareholders with regard to the items on the agenda and answers of the company, including the adopted decisions;	YES		
D.1.5 The information regarding corporative events, such as the payment of dividends and other distributions to shareholders, or other events that lead to the acquiring or limitation of the rights of a shareholder, including the deadlines and the principles applied to these operations. The respective information will be published within a deadline that allows the investors to adopt investment decisions;	YES		

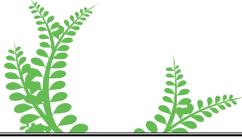


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D.1.6 The contact name and data of a person that will be able to provide, upon request, relevant information;	YES		
D.1.7 Company's presentations (e.g., presentations for investors, presentations regarding quarterly results etc.), financial statements (quarterly, half-yearly, annual), audit reports and annual reports.	YES		
D.2 The company will have a policy regarding the annual distribution of dividends or other benefits to shareholders, proposed by the General Manager or by the Directorship and adopted by the Board, under the form of a set of guidelines which the company intends to follow with regard to the distribution of the net profit. The principles of the annual distribution policy towards shareholders will be published on the company's website.	YES		
D.3 The company will adopt a policy in relation with the forecasts, whether they are made public or not. Forecasts refer to quantified conclusions of studies aiming at establishing the global impact of a number of factors regarding a future period (so-called hypotheses); by its nature, this projection has a high level of uncertainty, the effective results being able to differ significantly from the forecasts initially presented. The policy regarding the forecasts will establish the frequency, the period considered and the content of forecasts. If published, the forecasts can be included only in annual, half-yearly or quarterly reports. The policy regarding the forecasts will be published on the website of the company,	YES		
D.4 The rules of the general meetings of shareholders must not limit the participation of shareholders to general meetings and the exercise of their rights. The modifications of rules will enter into force, at the earliest, starting with the next meeting of shareholders.	YES		
D.5 External auditors will be present at the general meeting of shareholders when their reports are presented within these meetings.	YES		
D.6 The Board will present to the annual general meeting of shareholders a brief appreciation on the internal control and significant risk management systems, as well as opinions on matters submitted to the decision general meeting.	YES		
D.7 Any specialist, consultant, expert or financial analyst may attend the meeting of shareholders based on a prior invitation from the Board. Accredited journalists can also attend the general meeting of shareholders, except for the case in which the Chairman of the Board decides otherwise.	YES		
D.8 Quarterly and half-yearly financial reports will include information both in Romanian and in English language regarding the key factors that influence modifications at the level of sales, of operational profit, net profit and other relevant financial indicators, both from a quarter to another, and from one year to another.		PARTIALLY COMPLIANT	The information is presented in the half-yearly and annual financial reports.
D.9 A company will organise at least two meetings/teleconferences with analysts and investors each year. The information presented on these occasions will be published in the investors relations section of the company's website on the date of meetings/teleconferences.		NO	The possibility of organising such corporate events will be evaluated in relation with the requests coming from investors.



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D.10 If a company supports different forms of artistic and cultural expression, sports activities, educational or scientific activities and considers that their impact on the company's innovative and competitive nature are part of its development mission and strategy, it will publish the policy with regard to its activity in this field.		NO	Such a policy is not imposed at this moment. To the extent that it will be considered that these activities have an impact on the company's innovative and competitive nature, part of its development mission and strategy, the policy will be elaborated.

B.D. CHAIRMAN
VASILE DĂNUȚ

BIOFARM S.A.
STATEMENT OF COMPREHENSIVE INCOME
for the year ended as at 31 December 2017
(all amounts are expressed in LEI, unless otherwise specified)

		<i>For the period ended as at</i>	
	NOTE	31-Dec-17	31-Dec-16
Sales income	4	170.232.296	152.121.117
Other operating income		487.491	258.155
Change in inventories		(50.747)	(2.459.177)
Raw materials and consumables	5	39.527.901	37.760.266
Personnel expenses	6	26.173.666	23.784.746
Amortisation		7.058.665	6.437.400
Other operating expenses	7	55.421.929	46.898.735
Operating profit / (loss)		42.486.879	35.038.948
Net financial income/(costs)	8	191.143	401.738
Profit/(loss) before tax		42.678.022	35.440.686
Income tax expenses	9	6.650.299	5.962.939
Profit / (Loss)		36.027.723	29.477.747
Other elements of the global result			
Other elements		-	-
Total comprehensive income		36.027.723	29.477.747
Total comprehensive income per share is			
attributed to ordinary shareholders:			
Basic	10	0.0366	0.0299
Diluted		0.0343	0.0281

Explanatory notes numbered from 1 to 29 are an integral part of the financial statements

Approved by the Board of Directors on 13 March 2018

Drafted by:

and signed in his name:

Dănuț Vasile
Chairman

Claudia Matei
Chief Accountant

BIOFARM S.A.
STATEMENT OF FINANCIAL POSITION
for the year ended as at 31 December 2017
(all amounts are expressed in LEI, unless otherwise specified)

Assets	NOTE	31 Dec-17	31-Dec-16
Tangible assets	11	104.175.439	92.397.401
Real estate assets	12	10.586.636	10.534.802
Intangible assets	13	1.146.027	226.206
Other fixed assets		8.077	8.077
Deferred tax	19	3.393.555	1.438.020
Fixed assets		119.309.734	104.604.506
Inventories	14	19.273.802	19.004.793
Trade and similar receivables	15	86.407.380	80.007.577
Cash and cash equivalent	16	37.389.727	35.643.669
Current assets		143.070.908	134.656.039
TOTAL ASSETS		262.380.642	239.260.545
Debts			
Trade and similar debts	17	42.848.254	38.979.245
Debts regarding tax profit		555.786	751.909
Provisions	20	2.141.834	1.963.738
Current debts		45.545.874	41.694.892
Provisions	20	411.927	419.154
Long-term liability		411.927	419.154
TOTAL DEBTS		45.957.801	42.114.046
NET ASSETS		216.422.841	197.146.499

Explanatory notes numbered from 1 to 29 are an integral part of the financial statements

Approved by the Board of Directors on 13 March 2018
Drafted by:
and signed in his name:

Dănuț Vasile
Chairman

Claudia Matei
Chief Accountant

BIOFARM S.A.
STATEMENT OF THE FINANCIAL POSITION (continuation)
as at 31 December 2017
(all expressed are expressed in LEI, unless otherwise specified)

<i>Share capital and reserves</i>	NOTA	31-Dec-17	31-Dec-16
Share capital	21	98.537.535	98.537.535
Own shares	22	(813)	(813)
Premiums related to the issuance/redemption of own shares		(173.154)	(173.154)
Revaluation reserves	23	1.379.344	1.379.344
Reserves	23	66.537.026	53.131.107
Retained earnings	24	16.844.295	16.844.295
Current result		36.027.723	29.477.747
Profit distribution	25	(2.729.115)	(2.049.562)
<i>TOTAL CAPITALS</i>		216.422.841	197.146.499

Explanatory notes numbered from 1 to 29 are an integral part of the financial statements

Approved by the Board of Directors on 13 March 2018

Drafted by:

and signed in his name:

Dănuț Vasile
Chairman

Claudia Matei
Chief Accountant

BIOFARM S.A.
CASH FLOWS STATEMENT

for the year ended as at 31 December 2017
(all amounts are expressed in LEI, unless otherwise specified)

	For the year ended as at	
	31-Dec-17	31-Dec-16
<i>Flows from operating activities</i>		
Profit before tax	42.678.022	35.440.685
<i>Adjustments for:</i>		
Receivable adjustment	4.490.265	2.389.868
Adjustment of inventories	668.643	532.361
Amortisations and provisions	7.058.665	6.437.400
Modification of the real estate investments value	(51.834)	(87.791)
Loss / (profit) from the disposal of assets	(103.618)	5.985
Decrease / (increase) in other provisions	170.869	832.692
Other financial income	(191.148)	(402.274)
Financial costs	5	536
Profit before modifying the working capital	54.719.869	45.149.462
Decrease / (increase) of receivables	(11.317.015)	(5.844.443)
Decrease / (increase) of inventories	(937.654)	(407.767)
Increase / (decrease) of debts	3.051.604	7.247.876
Cash from operating activities	45.516.804	46.145.128
Paid financial costs	(5)	(536)
Paid profit tax	(8.801.957)	(6.339.457)
Net cash from operating activities	36.714.842	39.805.135
<i>Flows from investments activities</i>		
Acquisitions of tangible assets	(19.351.295)	(19.984.483)
Collections from the sale of fixed assets	103.618	-
Collected interest	220.509	489.428
Net flows from investment activities	(19.027.168)	(19.495.055)
<i>Flows from financing activities</i>		
Paid dividends	(15.941.616)	(14.998.131)
Net flows from financing activities	(15.941.616)	(14.998.131)
<i>Net increase / (decrease) in cash</i>	1.746.058	5.311.949
Cash and cash equivalents at the beginning of the period	35.643.669	30.331.720
Cash and cash equivalents at the end of the period	37.389.727	35.643.669

Explanatory notes numbered from 1 to 29 are an integral part of the financial statements

Approved by the Board of Directors on 13 March 2018

Drafted by:

and signed in his name:

Dănuț Vasile
Chairman

Claudia Matei
Chief Accountant

BIOFARM S.A.
STATEMENT OF CHANGES IN EQUITIES

for the year ended as at 31 December 2017

(all amounts are expressed in LEI, unless otherwise specified)

	Subscribed capital	Own shares	Losses of share issue	Reserves	Retained and current earnings	TOTAL
31-Dec-15	98.537.535	(813)	(173.154)	41.409.970	42.357.080	182.130.617
Global and current global result	-	-	-	-	29.477.747	29.477.747
Legal reserve allocation	-	-	-	1.772.034	(1.772.034)	-
Allocations of other reserves	-	-	-	10.024.310	(10.024.310)	-
Prescribed dividends	-	-	-	1.304.140	-	1.304.140
Distributed dividends	-	-	-	-	(15.766.005)	(15.766.005)
31-Dec-16	98.537.535	(813)	(173.154)	54.510.453	44.272.478	197.146.499
Global and current global result	-	-	-	-	36.027.723	36.027.723
Legal reserve allocation	-	-	-	2.133.901	(2.133.901)	-
Allocations of other reserves	-	-	-	11.272.018	(11.272.018)	-
Distributed dividends	-	-	-	-	(16.751.381)	(16.751.381)
31-Dec-17	98.537.535	(813)	(173.154)	67.916.370	50.142.903	216.422.841

Explanatory notes numbered from 1 to 29 are an integral part of the financial statements

Approved by the Board of Directors on 13 March 2018
and signed in his name:

Danut Vasile
Chairman

Drafted by:

Claudia Matei
Chief Accountant

BIOFARM S.A.
EXPLANATORY NOTES TO FINANCIAL STATEMENTS

for the year ended as at 31 December 2017
(all amounts are expressed in LEI, unless otherwise specified)

EXPLANATORY NOTES TO FINANCIAL STATEMENTS:

1. GENERAL INFORMATION

1.1 Presentation of the company

BIOFARM S.A. has the registered office in Bucharest, str. Logofatul Tautu, nr. 99, 3rd City District and has as the main object of activity the production and marketing of medicinal products for human use, CAEN code 2120 “Manufacture of pharmaceutical preparations”.

On 31.12.2017, the company has the following working points:

- Bucharest, Bd-ul Iancu de Hunedoara, nr. 42-44, sector 1, Tax Identification Number 14008268
- Bucharest, str. Gura Badicului, nr. 202-232, finished goods distribution warehouse, Tax Identification Number 30037915
- Cluj-Napoca, str. Traian Vuia, nr.206, Tax Identification Number 26585871, finished goods distribution warehouse
- Craiova, Bd-ul Decebal, nr.120, A, finished goods distribution warehouse.
- Arad, Campul Linistii, nr.1, finished goods distribution warehouse.
- Constanta, str.Interioara, nr.1, finished goods distribution warehouse.
- Iasi, str. Aurel Vlaicu, nr. 78, corp C1, hala 1, finished goods distribution warehouse.

The shareholding structure as at 31.12.2017 was the following:

Shareholder	Shares	Percentage
S.I.F. MUNTENIA, BUCHAREST Locality, SECTOR 3	502.379.066	50.9835
S.I.F. BANAT-CRISANA S.A., ARAD Locality, ARAD County	228.826.055	23.2222
SIF MOLDOVA, BACAU Locality, BACAU County	134.207.209	13.6199
Natural persons	100.326.464	10.1816
Legal persons	19.636.556	1.9928
TOTAL	985.375.350	100.0000

BIOFARM S.A.
EXPLANATORY NOTES TO FINANCIAL STATEMENTS

for the year ended as at 31 December 2017
(all amounts are expressed in LEI, unless otherwise specified)

1.2 Corporate Governance Structures

The Company elaborated a Corporate Governance Regulation which is posted on the company website www.biofarm.ro at the Investors / Corporate Governance section. The purpose of adopting Corporate Governance Regulation is to ensure transparency, the rights of shareholders and of third parties as well as company's credibility.

In this report, made available to shareholders, the corporate governance structures (General Meeting of Shareholders and Board of Directors) are further described.

The members of the Board of Directors of Biofarm S.A. were:

- during the period 01.01.2017 – 06.11.2017:
 - Dănuț VASILE – B.D. Chairman
 - Andrei HREBENCIUC – B.D. Member
 - Dragoș George BÎLTEANU – B.D. Member
 - Najib EL LAKIS – B.D. Member
 - Bogdan Alexandru DRĂGOI – B.D. Member

- during the period 07.11.2017 – 31.12.2017:
 - Dănuț VASILE – B.D. Chairman
 - Andrei HREBENCIUC – B.D. Member
 - Dragoș George BÎLTEANU – B.D. Member
 - Najib EL LAKIS – B.D. Member
 - Bogdan Alexandru DRĂGOI – B.D. Member

As at 31.12.2017, the company management team was ensured by the following persons:

- Daniela Traiana Comsa - Executive Manager
- Mihaela Ion - Head of Legal Office Shareholding
- Claudia Matei - Chief Accountant
- Liviu Visan – Administrative Manager
- Petruta Stoicescu – Manufacturing Manager
- Oana Andreea Gherla – Human Resources Manager

Executive members have competences and responsibilities according to the job description.

All persons who are part of the company's executive management are employed with contracts for an indefinite period, except for the General Manager Danut Vasile who has a term of office contract concluded, the Human Resources Manager and the Chief Accountant who have concluded management contracts.

There are no agreements, understandings or family connections between the persons from the executive management of the company and another person due to whom the person from the executive management was appointed as a member of the executive management.

People who are part of the executive management or of the Board of Directors of the company were not involved in litigation or administrative proceedings in relation to their activity within the issuer.

BIOFARM S.A.
EXPLANATORY NOTES TO FINANCIAL STATEMENTS

for the year ended as at 31 December 2017
(all amounts are expressed in LEI, unless otherwise specified)

2. ACCOUNTING POLICIES

These financial statements were elaborated in conformity with the International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively referred to as “IFRS”) issued by the International Accounting Standards Board (“IASB”) as adopted by the European Union (“adopted IFRS”).

The separate financial statements were elaborated in conformity with International Financial Reporting Standards adopted by the European Union („IFRS”). The company elaborated these separate financial statements in order to fulfil the requirements of Order no. 881/2012 regarding the application by the commercial companies whose securities are allowed for trading on a regulated market of the International Financial Reporting Standards.

The separate financial statements have been approved by the Board of Directors during the meeting of 13 March 2018.

The main accounting policies applied upon the elaboration of financial statements are established below. The policies were applied consistently to all presented years, unless otherwise stated.

Elaborating the financial statements according to the adopted IFRS require the use of certain critical accounting estimates. It is also necessary for the Company management to take decisions related to the application of accounting policies. The fields in which decisions and significant estimates were made for elaborating the financial statements and their effect are shown in what follows.

2.1 Bases of assessment

Separate financial statements are elaborated based on the convention of historical cost / amortized cost except for the tangible assets presented at reassessed cost by using the fair value as deemed cost and of elements presented at their fair value, respectively the financial assets and debts at their fair value through the profit and loss account and the financial assets available for sale, except for those for which the fair value cannot be realistically established.

2.2 Functional and presentation currency

Company management considers that the functional currency, as defined by IAS 21 “Effects of exchange rate variation”, is the Romanian Leu (LEI). Separate financial statements are presented in LEI.

The transactions performed by the Company in a currency other than the functional currency are recorded at the rates in force on the date on which transactions took place. Assets and monetary debts in foreign currency are converted at the rates in force at the reporting date.

BIOFARM S.A.
EXPLANATORY NOTES TO FINANCIAL STATEMENTS

for the year ended as at 31 December 2017
(all amounts are expressed in LEI, unless otherwise specified)

2.3 Critical accounting judgments and estimates

As a result of the uncertainties corresponding to business activities, many elements from the financial statements cannot be accurately assessed, but they can only be estimated. Estimation implies judgments based on the latest available, reliable information.

Using reasonable estimates is an essential part of the elaboration of financial statements and does not undermine their reliability.

An estimate may require a revision if changes take place regarding the circumstances on which this estimate was based or following some new information or subsequent experiences. By its nature, the revision of an estimate is not related to prior periods and does not represent the correction of an error during the current period. If there is, the effect on future periods is recognised as income or expense in those future periods.

The company performs certain estimates and hypotheses with regard to the future. Estimates and judgments are continually assessed based on the historical experience and on other factors, including the forecasting of future events that are considered to be reasonable in the existing situations. In the future, actual experience may differ from these estimates and hypotheses.

Further on, assessment, estimation and presumptions examples applied within the company are presented:

(a) Assessment of investment in lands and buildings owned

The company obtains assessments conducted by external evaluators in order to determine the fair value of real estate investments and of buildings owned. These assessments are based on hypotheses that include future income from rentals, anticipated maintenance costs, future development costs and the appropriate discount rate. Evaluators also refer to the information on the market related to transaction prices with similar properties.

(b) Adjustments for depreciation of receivables

The assessment for doubtful debts is performed individually and is based on the best estimation of management on the present value of cash flows that is expected to be received. For the estimation of these cash flows, management makes certain estimations with regard to the financial statement of partners. Each depreciated asset is individually analysed. The precision of adjustments depends on the estimation of future cash flows.

(c) Legal proceedings

The company reviews the outstanding legal cases following the assessments within the legal proceedings and the existent situation at each reporting date, in order to assess the provisions and the presentations from its financial statements. Among the factors taken into consideration in the moment of taking the decisions related to provisions are the nature of the litigation or of claims and the potential level of damages in the jurisdiction in which the litigation is disputed, case progress (including the progress after the date of financial statements, but before the respective statements are issued), the views or opinions of legal advisers, the experience in similar cases and any decision of Company management related to the manner in which it will answer to the litigation, claim or assessment.

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(d) Expenditure accounting estimates

There are objective situations in which until the closing date of fiscal periods or until the closing date of a financial year, the exact values of expenditures employed by the company are not known (for ex.: marketing campaigns – products promotion sales and stimulation of sales). For this category of expenditures preliminary expenses shall be done, which will be corrected within the following periods when cash outflows will also be produced. Expenditure estimates, on each category of expense, shall be performed by people with experience in the type of activity generating that expense.

(e) Taxation

The taxation system in Romania is in a phase of consolidation and harmonization with the European legislation. However, there are still different interpretations of the fiscal legislation. In certain situations, fiscal authorities may treat differently certain aspects, proceeding to the calculation of additional taxes and fees and of afferent delay penalties. The Company Management considers that tax liabilities included in the financial statements are appropriate.

2.4 Presentation of separate financial statements

The Company adopted a presentation based on liquidity within the statement of the financial position and a presentation of income and expenses depending on their nature within the comprehensive income statement, considering that these presentation methods offer information that are credible and more relevant than those that would have been presented based on other methods allowed by IAS 1 “Presentation of Financial Statements”.

2.5 Acquired intangible assets

The evidence of intangible assets is performed according to IAS 38 “Intangible assets” and IAS 36 “Impairment of Assets”. Externally acquired intangible assets are initially recognized at cost and subsequently amortised linearly during their useful economic duration.

Expenses related to the acquisition of patents, copyrights, licenses, trademarks or factory marks and other intangible assets recognized for accounting purposes, except for the formation expenses, the goodwill, the intangible assets with indefinite useful life, thus classified according to the accounting regulations, are recovered through straight-line amortisation deduction during the contract period or the duration of use, if appropriate. Expenses related to the purchase or production of computer programs are recovered through straight-line amortisation deductions on a period of 3 years.

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Intangible assets generated internally (development costs)

No intangible asset coming from research (or from the research phase of an internal project) is recognized. Research expenses (or those from the research phase of an internal project) are recognized as expense when incurred.

Development expenditures are not significant; they are recognized in the comprehensive income statement as they are employed. To the extent that, projects with significant development costs may occur, they shall be capitalized as intangible assets.

2.6 Tangible assets

Tangible assets are tangible elements that:

- a) Are held for use in the production or supply of goods or services, in order to be rented to the third parties or to be used for administrative purposes; and
- b) Are expected to be used during more than one period.

Recognition:

The cost of an item of tangible assets must be recognised as an asset only if:

- a) Generation of future economic benefits afferent to the asset is probable for an entity; and
- b) The cost of the asset can be reliably assessed.

Assessment after recognition

After recognition as an asset, an item of tangible assets is accounted for its cost minus any accumulated depreciation and any losses accumulated from depreciation.

After recognition as an asset, an item of tangible assets the fair value of which can reliably be assessed is accounted for a reassessed amount, this being its fair value at the date of reassessment minus any subsequently accumulated depreciation and any losses accumulated from the depreciation.

Reassessments are performed with sufficient regularity in order to make sure that the book value does not significantly differ from what would have been determined by using the fair value at the end of the reporting period.

The fair value of lands and buildings is generally determined based on the evidence on the market, through an assessment normally performed by qualified professional assessors. The fair value of tangible assets items is generally their value on the market determined by assessment.

When an item of tangible assets is reassessed, any accumulated amortisation at the reassessment date is eliminated from the gross book value of the asset, and the net value is recalculated at the asset's reassessed amount.

If an item of tangible assets is reassessed, then the entire class of tangible assets from which that element is part is reassessed.

If the book value of an intangible asset is increased as a result of a reassessment, then the increase is recognized in other comprehensive income elements and accumulated in equity

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as a reassessment surplus. However, the increase shall be recognized in profit or loss to the extent that it compensates with a decrease from the reassessment of the same asset previously recognized in profit or loss.

If book value of an asset is decreased as a result of a reassessment, this decrease shall be recognized in profit or loss. However, the reduction should be recognized in other comprehensive income elements to the extent that the reassessment surplus presents a credit balance for that asset. The reduction recognized in other comprehensive income elements reduces the amount accumulated in equity as a reassessment surplus.

The reassessment surplus included in equities afferent to an item of tangible assets is directly transferred in the result reported when the asset is derecognised. Transfers from reassessment surplus in the comprehensive income are not performed through profit or loss.

If there are any, the effects of taxes on the comprehensive income from the reassessment of tangible assets are recognized and presented in accordance with IAS 12 Tax income.

Amortisation

The depreciable value of an asset is systematically allocated on its useful life duration. Amortisation of an asset begins when it is available for use, that is, when it is in the location and condition necessary, in order to operate in the manner intended by the management.

The depreciation method used reflects the expected pattern of consumption of future economic benefits of the asset by the entity.

The land owned is not amortized.

For depreciable fixed assets the company uses, in terms of accounting, straight line depreciation method. Payback periods are determined by a specialty internal commission according to the company's internal procedures. You will find below a short presentation of useful lives of fixed assets on important categories of assets:

Category	Life duration
Buildings and constructions	24-40 years
Equipment and facilities	7-24 years
Means of transportation	4-6 years
Computer technology	2-15 years
Furniture and office equipment	3-15 years

Depreciation

In order to determine whether an element of tangible assets is depreciated, an entity applies IAS 36 Impairment of assets. At the end of each reporting period, the entity estimates whether there is evidence of depreciation of assets. In case such evidence is identified, the entity estimates the recoverable amount of the asset.

Only in the case in which the recoverable amount of an asset is smaller than its carrying amount, the carrying amount of the asset shall be reduced in order to be equal to the recoverable amount. Such reduction represents a depreciation loss. An impairment loss is recognised immediately in the profit or loss of the period, except for the situations in which the asset is considered to the reassessed amount, in accordance with the provisions of another Standard (for example, in accordance with the reassessment model from the IAS 16

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Tangible assets). Any impairment loss in the case of a reassessed asset is considered as being a decrease generated by reassessment.

2.7 Financial assets - IAS 39 Financial instruments: recognition and assessment

Initial assessment of financial assets and of financial debts

When a financial asset or a financial debt is initially recognized, an entity evaluates it to its fair value and moreover, in case of a financial asset or a financial debt that is not at its fair value through profit or loss, the costs of the transaction that can be attributed directly to the acquisition or to the issuance of the financial asset or of the financial debt.

Subsequent assessment of financial assets

From the point of view of the assessment of a financial asset after initial recognition, the Company classifies its financial assets in the following categories:

I. A financial asset or a financial debt assessed at its fair value through profit or loss is a financial asset or a financial debt that which meets any of the following conditions:

(a) is classified as held for trading. A financial asset or a financial debt is classified as held for trading if:

- (i) it is acquired or incurred mainly for the purpose of sale or repurchase at the closest term;
- (ii) at the initial recognition it is part of a portfolio of identified financial instruments managed together and for which there is evidence of a recent actual pattern for monitoring the profit on a short term; or
- (iii) a derivative instrument (except of a derivative instrument that is a financial guarantee contract or a designated and effective instrument for risk coverage).

The evaluation of their fair value is carried out in relation with market quotations (IFRS 13 – Level 1).

Loans and receivables are non-derivative financial assets with fixed or determinable payments and which are not quoted on an active market, others than:

- a) Those which the entity intends to sell immediately or in a short time, which must be classified as held for trading, and those which the entity, upon initial recognition, designates them at their fair value through profit or loss;
- b) Those which the entity, at the initial recognition, designates as available for sale; or
- c) Those for which the holder might not substantially recover the entire initial investment, for any reason other than because of credit deterioration, which must be classified as available for sale.

In this category, trade receivables and receivables of other nature are included. Their value approximates the fair value (IFRS 13 – Level 3).

Available financial assets for sale are those non-derivative financial assets that are designated as available for sale or that are not classified as loans and receivables, investments maintained until the due date or financial assets at their fair value through profit or loss.

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Gains and losses

A gain or a loss from a financial asset available for sale is recognized at other comprehensive income elements, except for impairment losses. Dividends for equity instruments available for sale are recognized in profit or loss when the right of the entity to receive payment is established.

When a decrease of the fair value of a financial asset available for sale was recognized in other comprehensive income elements and there is objective evidence that the asset is depreciated, the cumulated loss that was recognized in other comprehensive income elements must be reclassified from equities in profit or loss as an adjustment from reclassification, even though the financial asset was not derecognised.

The cumulated loss value that is removed from equities and is recognized in the profit or loss must be the difference between the acquisition cost (net of any payment of the main and of amortisation) and current fair value, minus any impairment loss for that financial asset previously recognized in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and that increase can be objectively connected to an event that occurs after the impairment loss was recognized in the profit or loss, the impairment loss is resumed, and the amount of resuming is recognized in the profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash, sight deposits of banks, other short-term highly liquid investments with original maturities of three months or less than three months, and – for the purpose of the cash flow statement - overdraft.

***2.8 Property using the leasing system – complies with the provisions of IAS 17
Leasing contracts***

When all risks and benefits incidental to the property on a property for lease were transferred to the Company (“financial leasing”), the asset is treated as if it were directly purchased. The initially recognised amount as an asset is the smallest value between the fair value of the leased property and the current value of minimum leasing throughout the leasing period.

The corresponding leasing commitment is presented as a liability. Leasing payments are analysed between capital and interest. The interest element is registered in the statement of comprehensive income throughout the leasing period and is calculated so that to represent a constant proportion of the lease debt.

When all risks and benefits incidental to the property were not transferred to the Company (“operational leasing”), the total of payable rents according to the leasing contract are registered in the statement of comprehensive income in the linear throughout the leasing period. The total of leasing stimulants benefits is recognised as a reduction of expenses with the rent linearly throughout the leasing period.

On 31.12.2017, SC Biofarm SA has no ongoing financial leasing contracts.

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2.9 Real estate investment – IAS 40

A real estate investment is recognised as an asset only if:

- a) There is the possibility for future economic benefits associated to the real estate investment to flow to the entity;
- b) The cost of real estate investment can be reliably assessed.

The company classifies as real estate investments the lands owned for a future use yet undetermined.

A real estate investment must be initially assessed in terms of cost. Trading costs shall be included in the initial assessment.

The cost of a bought real estate investment includes its purchasing price and any directly attributable expenditure. Directly attributable expenditure includes for example, professional fees for legal services, property transfer taxes and other trading costs.

Real estate investments are subsequently presented in the balance sheet at their fair value, estimated depending on the trading values of comparable assets (IFRS 13 – Level 2).

After initial recognition, an entity that chooses the model of the fair value must assess all its real estate investments at their fair value, except for the cases in which it cannot be determined in a credible way.

A gain or a loss generated by a modification of the fair value of the real estate investment is recognized in the profit or loss in which it occurs.

An entity determines the fair value without deducing the trading costs it can bear within the sale or of another type of assignment.

The fair value of a real estate investment must reflect the market conditions at the end of the reporting period.

The fixed assets from the real estate investment category, owned by the company are presented in Note 12 to the financial statements.

2.10 Inventories

According to the provisions of IAS 2, the inventories are assets:

- a) owned for sale during the normal course of the activity;
- b) in the process of production for such sale; or
- c) in the form of materials and other consumables to be used in the production process or for the supply of services.

Assessment of inventories:

Inventories are assessed at the smallest value between the cost and the net realisable value.

Cost of inventories

The cost of inventories contains all acquisition costs, conversion costs, as well as other costs borne in order to bring the inventories in the state and place where they are currently found.

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Raw materials and materials inventories are emphasized at the acquisition value. The inventory outflow is done by using the FIFO method.

Inventories of products under execution are emphasized at the value of raw materials and of materials embedded in them.

The inventory of end products is recorded at the production cost in the moment of completing the manufacturing process.

Adjustments for depreciation of inventories

The assessment for depreciation of inventories is performed individually and is based on the best estimation of management on the present value of cash flows that are expected to be received. For the estimation of these flows, the management makes certain estimations with regard to the utility value of the inventory, taking into account the expiry date, the possibility of use in the company's current activity and of other factors specific for each inventory category. Each depreciated asset is individually analysed. The accuracy of adjustments depends on future cash flows estimations.

2.11 Receivables

Receivables occur mainly in the provision of goods and services to clients (for ex. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognized at the fair value plus the trading costs that are directly attributed to the acquisition or their issuance, and are subsequently carried at amortized cost using the method of effective interest rate, minus adjustments for depreciation.

Receivables are presented in the balance sheet at the historical value less adjustments constituted for depreciation in cases in which it was found that the realisable value is lower than the historical value.

Adjustments for depreciation are recognised when there is objective proof (such as significant financial difficulties from the partners or the failure to fulfil payment obligations or significant delay of payment) that the Company will not be able to cash all amounts due according to the terms of receivables, the amount of the respective adjustment being the difference between the net book value and the current value of future cash flows expected associated with the depreciated receivable.

The assessment for depreciation of receivables is performed individually and is based on the best estimation of management on the present value of cash flows that are expected to be received. For the estimation of these flows, the management makes certain estimations with regard to the financial statement of the partners. Each depreciated asset is individually analysed.

2.12 Financial debts

Financial debts mainly include trade debts and other short-term financial debts, which are initially recognised at the fair value and subsequently carried at amortised cost using the effective interest method.

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2.13 Recognition of income and expenses

2.13.1. Recognition of income

Incomes represent, according to IAS 18 “Income”, gross inflow of economic benefits throughout the period, generated within the development of normal activities of an entity, when these entries have as a result increases in equity, others than the increases related to the contributions of participants to the equity.

Incomes constitute increases of economic benefits recorded throughout the accounting period, as inputs or increases in assets or reductions of debts that are concretised in increases of equities, others than those resulted from contributions of shareholders.

The fair value is the value to which an asset can be traded or a debt settled, between stakeholders and knowingly, within a transaction performed in objective conditions.

Assessment of Income

Income is assessed at the fair value of the counterparty received or to be received, after the reduction of rebates or discounts.

Incomes from the sale of goods are recognised in the moment in which all the following conditions have been fulfilled:

- (a) the entity that transferred to the buyer the significant risks and benefits afferent to the ownership of goods;
- (b) the entity does not manage the goods sold at the level they would have normally done in the case of their ownership and neither does it have actual control over them;
- (c) the value of income can be reliably assessed;
- (d) it is possible that the economic benefits associated to the transaction to be generated for the entity; and
- (e) the costs borne or that are going to be borne in relation to the respective transaction can be reliably assessed.

The income from the sale of goods is recognized when the Company has transferred the significant risks and benefits afferent to the property right of the buyer and it is possible for the Company to receive those previously agreed following the payment. The transfer of risks and benefits afferent to the ownership is considered feasible together with the transfer of the legal title or with the passing of goods in the possession of the buyer. If the entity maintains significant risks afferent to the property, the transaction does not represent a sale and the incomes are not recognised.

Special cases: In the situation in which it is found that incomes associated to a period of the current year are encumbered by fundamental errors, their correction will be implemented, in the period in which the error is discovered. If the error is discovered in the coming years, its correction will lead to the restatement of previous financial statements.

From the total of incomes from sales of finished products and goods of 2017, 67% were realised by four large distributors from the pharmaceutical market as follows: the first 22%, the second 18%, the third 15% and the fourth 12%.

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2.13.2. Recognition of expenses

The expenses constitute decreases in economic benefits recorded during the accounting period as outputs or decreases in the value of assets or increases of debts that are concretised in reductions of equities, others than those resulted from their distribution to the shareholders.

2.14 Impairment of non-financial assets (excluding inventories, real estate investments and the assets on deferred tax) – IAS 36 “Impairment of assets”

The assets owned by the company, as specified in the IAS 36 “*Impairment of assets*”, are subject to depreciation tests whenever events or changes in circumstances indicate that it is possible for their carrying amount to not be recovered completely. When the book value of an asset exceeds the recoverable amount (that is the highest amount between the value of use and the fair value minus sales costs), the asset is properly adjusted.

When it is not possible for the recoverable amount of an individual asset to be estimated, the depreciation test is realised on the smallest group of assets to which it belongs and for which there are separately identifiable cash flows; its cash-generating units (“CGU”).

The expenses with depreciation are included in the profit or loss account, except for the case in which reduction of previously recognised gains in other comprehensive income elements.

2.15 Provisions – IAS37 “Provisions, contingent liabilities and contingent assets”

The provision is assessed at the best estimation of necessary expenditures for settling the obligation at the reporting date, updated at a pre-taxation rate reflecting the current market assessments of money value over time and the risks specific to the debt.

According to IAS 37 “Provisions, contingent debts and contingent assets”, a provision must be recognised in the case in which:

- a) The Company has a current obligation (legal or constructive) generated by a past event;
- b) It is possible that for obligation settlement to be necessary an outflow of resources incorporating economic benefits; and
- c) A credible estimation of obligation value can be performed.

If these conditions are not fulfilled, a provision must not be recognised.

Provisions are recorded in accounting with the help of accounts from group 15 "Provisions" and is constituted based on expenditures, except for those afferent to decommissioning of tangible assets and of other similar actions related to them, for which the provisions of IFRIC 1 shall be considered.

Recognition, assessment and update of provisions are performed by complying with the provisions of IAS 37 “Provisions, contingent liabilities and contingent assets”.

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Provisions are grouped in accounting on categories and are constituted for:

- a) litigation;
- b) guarantees granted to customers;
- c) decommissioning of tangible assets and other similar actions related to them;
- d) reorganisation;
- e) employees' benefits;
- f) other provisions.

Provisions previously constituted are periodically analysed and updated.

2.16 Employees benefits – IAS 19 Employees benefits

Current benefits granted to employees

Short-term benefits granted to employees include indemnities, salaries and social security contributions. These benefits are recognized as expenses together with service delivery.

Benefits after conclusion of employment contract

Both the Company and its employees have the legal obligation to contribute to social security contributions constituted at the National Pension Fund administered by the National House of Pensions (contributions plan founded based on the principle “paying along the way”).

For this reason, the Company does not have any legal or implicit obligation of paying future contributions. Its obligation is only to pay contributions when they become due. If the Company ceases to hire persons who are contributing to the financing plan of the National House of Pensions, it shall not have any obligation for the payment of benefits earned by its own employees in previous years. The contributions of the Company to the contributions plan are presented as expenditures in the year to which they refer.

Pensions and other benefits subsequent to retirement

The Company has provided in the Collective bargaining agreement at company level a wage benefit for employees who retire (age limit, early retirement, disability pension). They receive an indemnity equal to two main salaries had in the retirement month. The Company shall attribute a part from the cost of benefits in favour of the employee, during the work period of the employee in the enterprise.

The Company uses a statistical-actuarial calculation that is realized with sufficient regularity and has as its purpose the recognition of expenses with benefits during the period in which the incomes were performed for the work of the employee.

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2.17 Deferred tax-IAS 12

In the calculation of the deferred tax, the company shall take into account the provisions of IAS 12.

The assets and debts on the deferred tax are recognized when the book value of an asset or debt from the statement of financial position differs from the fiscal base, except for the differences that occur in:

- initial recognition of the goodwill;
- initial recognition of an asset or liability within a transaction that is not a combination of enterprises and at the transaction date it affects neither the accounting profit nor the taxable one; and
- investments in subsidiaries and jointly controlled entities when the Company can control the moment of difference inversion and it is possible for the difference to not be inverted in the predictable future.

The recognition of assets on deferred tax is limited to those moments in which it is possible for the taxable profit of the following period to be available. The active deferred tax corresponding to the depreciation at fair value of listed securities was not recognised.

The amount of the asset or liability is determined by using tax rates that were adopted or widely adopted until the reporting date and is expected to be applied when debts /(assets) on deferred tax are settled / (recovered).

The Company compensates receivables and debts regarding the deferred tax only if:

- a) it has the legal right to compensate receivables regarding the current tax; and
- b) receivables and debts on the deferred tax are afferent to profit taxes charged by the same tax authority.

2.18 Dividends

The profit share that is paid, according to the law to each shareholder, constitutes a dividend. The dividends distributed to shareholders, proposed or declared after the reporting period, as well as the other similar distributions performed from the profit determined based on the IFRS and contained in the annual financial statements, are not recognised as a debt at the end of the reporting period.

Upon the accounting of dividends, the provisions of IAS 10 are considered.

2.19 Capital and reserves

Capital and reserves (equities) represent the right of shareholders on the assets of an entity, after the deduction of all debts. The equities contain: capital contributions, capital bonuses, reserves, retained earnings, result of the financial year.

The entity was established according to Law no. 31/1990 on commercial companies.

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In the first set of financial statements elaborated according to the IFRS, the company applied the IAS 29 – “Financial reporting in hyperinflationary economies” for the contributions to shareholders obtained before January 01, 2004, and namely, they were adjusted with the appropriate inflation index.

2.20 Financing costs

An entity must capitalise the loan costs that are attributable directly to the acquisition, construction or production of an asset with a long production cycle as part of the cost for the respective asset. An entity must recognise other loan costs as expenses in the period in which it bears them.

The Company did not finance the construction of long-term assets from loans.

2.21 Earnings per share

The Company presents the basic earnings per share and diluted for common shares. The result per basic share are determined by dividing the profit or loss attributable to ordinary shareholders of the Company at the weighted average number of ordinary shares afferent to the reporting period. The diluted earnings per share are determined by adjusting the profit or loss attributable to ordinary shareholders and to the weighted average number of ordinary shares with dilution effects generated by potential ordinary shares.

2.22 Reporting on segments

A segment is a distinctive component of the Company that supplies certain products or services (activity segment) or provides products or services in a certain geographical environment (geographical segment) and which is subject to risks and benefits different from those of the other segments. From the point of view of the activity segments, the Company does not identify distinctive components.

2.23 Related Parties

A person or a close member of the family of the respective person is considered a related party of the Company if that person:

- (i) Has control or common control over the Company;
- (ii) Has a significant influence on the Company; or
- (iii) Is a member of the management key-personnel

The management key-personnel represents those people who have the authority and responsibility to plan, manage and control the activities of the Company directly or indirectly, including any director (executive or not) of the entity. Transactions with key

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personnel include exclusively the salary benefits granted to them such as presented in Note 6. Personnel expenses.

An entity is affiliated to the Company if it meets any of the following conditions:

- (i) The Entity and the Company are members of the same group (which means that each parent company, subsidiary and subsidiary of the same group is linked to the others).
- (ii) An entity is an associated entity or a joint venture of the other entity (or entity or a joint venture of a member of the group of which the other entity is part).
- (iii) Both entities are joint ventures of the same third party.
- (iv) An entity is a joint venture of a third party, and the other is an associated entity of the third party.
- (v) The Entity is a plan of post-employment benefits in the benefit of employees of the reporting entity or of an affiliated entity of the reporting entity. In the case in which the reporting entity represents itself such a plan, sponsor employers are also affiliated of the reporting entity.
- (vi) The Entity is controlled or jointly controlled by an affiliated person
- (vii) An affiliated person that has the control significantly influences the entity or is a member of the key personnel from the entity management (or of the parent company of the entity).

The Company does not carry transactions with entities described in letters (i) – (vii) above.

2.24 Modifications brought to the accounting policies – not updated

a) New standards, interpretations and modifications in force on 1 January 2017

None of the standards, interpretations and new modifications in force for the first time on 1 January 2017 has any significant effects on the financial statements.

b) New standards, interpretations and modifications that are not still in force

The following new norms and interpretations did not enter yet into force for the annual financial reporting period concluded as at 31 December 2017 and were not applied at the drafting of these financial statements: [IAS 8.30 (a)]:

2018	2019	2021
Standards		
IFRS 9 (2014) Financial Instruments	IFRS 16 Leasing Contracts	IFRS 17 Insurance Contracts
IFRS 15 Income from Contracts with Customers		
Amendments		
IFRS 2 Payments based on shares (Amendment – Classification and Evaluation of Transactions with Payments based on Shares)	IFRS 9 (2014) Financial Instruments (Amendment – Advance Payments with Negative Compensation)	

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IFRS 4 Insurance Contracts (Amendment – Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts)	IAS 28 – Investments Accounting in Associated Enterprises (Amendment – Long-term Interests in Associated Enterprises)
IAS 40 Real Estate Investments (Amendment – Real Estate Investments Transfer)	Annual updated at the IFRS Cycle 2015 – 2017 (IFRS 3 Combinations of Enterprises and IFRS 11 Common Commitments, IAS 12 Profit Tax, and IAS 23 Costs of Indebtedness)
IFRS 15 Income from Contracts with Customers (Amendment – Clarifications to IFRS 15 Income from Contracts with Customers)	
Annual updates at the IFRS Cycle 2014 – 2016 (IFRS 1 Application for the first time of IFRS, IFRS 12 Presenting the existing interests in other entities and IAS 28 Accounting of investments in associated enterprises))	
Interpretations	
IFRIC Interpretation 22 Foreign currency transactions and Preliminary analysis	IFRIC Interpretation 23 Uncertainty about income tax treatments

Norm/Interpretation [IAS 8.31 (a), 8.31(c)]	Nature of imminent change in the accounting policy [IAS 8.31 (b)]	Possible impact on financial statements [IAS 8.31 (e)]
IFRS 15 Income from Contracts with Customers <i>(in force for annual periods starting with or after the date of 1 January 2018)</i>	IFRS 15 establishes a general framework that will be applied for the recognition of incomes coming from a contract concluded with a customer (with limited exceptions), regardless of the type of transaction or of the industry; The standard establishes five steps to follow for the recognition of income: identification of the contract (contracts) with a customer, identification of execution contracts from a contract, determination of the transaction price,	According to the analyses, the application for the first time of this standard will not affect the financial performance of the company.

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	<p>allocation of the transaction price for the execution obligations and recognition of income when (or as) the entity meets an execution obligation;</p> <p>Also, the requirements of the standard will be applied for the recognition and evaluation of winnings and losses from the sale of certain non-monetary assets that are not the result of the entity's usual activity (e.g. sale of tangible and intangible assets);</p> <p>The extended presentation of information will be provided, including disaggregation of total income, information about the execution obligations, modifications of contractual balances of accounts of assets and debts between periods, reasoning and key estimates;</p>	
<p>IFRS 9 Financial instruments – classification and evaluation <i>(in force for annual periods starting with or after the date of 1 January 2018)</i></p>	<p>IFRS 9 is the standard that replaces IAS 39 Financial instruments: Recognition and evaluation;</p> <p>The standard introduces new requirements regarding the classification, evaluation, depreciation and hedge accounting;</p>	<p>The impact of the application for the first time of this standard is under evaluation; a significant effect is not estimated.</p>

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed by its operations to the following financial risks:

- Credit risk
- Foreign exchange risk
- Liquidity risk

Such as all the other activities, the Company is exposed to risks that occur from the use of financial instruments. This note describes the objectives, policies and processes of the Company for the management of these risks and methods used in order to assess them. Additional quantitative information in relation to these risks is presented in these financial statements.

There were no major modifications in the exposure of the Company to risks regarding financial instruments, objectives, policies and its processes for the management of these risks or the methods used in order to assess them compared with the previous periods except for the case in which it is otherwise stated in this note.

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Main Financial Instruments

The main financial instruments used by the Company, from which the risk on financial instruments occurs, are as follows:

- Trade receivables and other receivables
- Cash and cash equivalents
- Trade payables and other payables

A summary of financial instruments owned by categories is supplied below:

	Loans and receivables	
ASSETS	31-Dec-17	31-Dec-16
Trade and other receivables	81,419,602	74,562,519
Cash and cash equivalents	37,389,727	35,643,669
TOTAL	118,809,329	110,206,188
	At amortised cost	
DEBTS	31-Dec-17	31-Dec-16
Trade and similar debts	38,236,365	35,373,184
TOTAL	38,236,365	35,373,184

The general objective of the management is that of establishing policies that try to reduce the risk as much as possible without unduly affecting Company's competitiveness and flexibility.

The additional details on these policies are established below:

Credit risk

The credit risk is the financial loss risk for the Company that occurs if a client or counterparty at a financial instrument does not fulfil its contractual obligations. The Company is mainly exposed to the credit risk occurred from sales to clients.

At the level of the Company there is a Trade Policy approved by the Board of Directors. In this trade policy, the sales trade conditions are clearly presented and there are conditions imposed in the selection of clients.

Biofarm works only with distributors with national coverage in the pharmaceutical market and in direct sale to pharmacies, the payment is made upon delivery. In export sales, in all situations possible, the sale is contracted with pre-payment

The period for the collection of receivables is in average at 170 days and is below the current level of the pharmaceutical market. Biofarm SA managed to permanently ensure the necessary of liquidities and high solvency and will try to continue to maintain the positive trend of the periods for the collection of receivables in a very difficult market in which the receivables collection average is currently located at over 210 days.

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In 2017, to mitigate credit risk, the Board of Directors of Biofarm SA decided to ensure the company's receivables by the conclusion of a receivables insurance policy with Coface Romania.

Foreign exchange risk

The Company is mainly exposed to currency risk at the acquisitions performed from the suppliers of raw materials, packages and other materials outside Romania. The suppliers from the company who purchase these articles necessary for the production of medicines must have quality documents, provided in the European rules of registration of medicines. The Company cannot thus limit the acquisitions very much from third countries. Following the payment terms and ensuring the available funds for payment, so that the effect of foreign exchange risk to be reduced to minimum, are in the responsibility of the Financial-Accounting Department.

On 31 December 2017, the net exposure of the Company to the foreign exchange risk was as follows:

Assets / (Net liabilities)	31-Dec-17	31-Dec-16
LEI	86,164,106	79,678,522
EUR	(6,381,192)	(4,293,754)
USD	1,145,500	1,266,685
OTHER CURRENCIES	20,439	20,548
At the end of the period	80,948,854	76,672,001

Considering the relatively reduced exposure to currency fluctuations, it is not expected for the reasonable fluctuations of exchange rates to produce significant effects in the future financial statements.

Liquidity risk

Liquidity risk occurs from the management by the Company of working capital and of financing expenditures and of repayments of principal amount for its credit instruments.

The policy of Biofarm SA is to ensure that it will always dispose of sufficient cash so that to allow it to fulfil its obligations when they become due. In order to reach this objective, it seeks to maintain cash balances (or facilities agreed) in order to satisfy the needs of payments.

At the end of the financial year, the Company has sufficient liquid resources in order to honour its obligations in all foreseen reasonable circumstances.

Bank liquidities

A significant amount from Company's cash availabilities is kept in banks as term bank deposits. The banks to which the company has bank accounts and term deposits are periodically analysed by the company management.

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Operational risk

The operational risk is the risk of producing direct or indirect losses coming from a range of causes associated to processes, personnel, technology and infrastructure of the Company, as well as from external factors, others than the credit, market and liquidity risk, such as those coming from legal and regulatory requirements and from the general standards accepted regarding the organizational behaviour. Operational risks come from all Company's operations.

The main responsibility of the development of controls related to the operational risk belongs to the unit management. The responsibility is supported by the development of Company's general standards of operational risk management on the following areas:

- Separation requirements of responsibilities, including the independent authorisation of transactions
- Transactions reconciliation and monitoring requirements
- Harmonisation to the regulation and legal requirements
- Documentation of controls and procedures
- Requirements for periodical analysis of the operational risk to which the Company is exposed and the adequacy of controls and procedures in order to prevent the identified risks
- Requirements for operational losses reporting and proposals for remediation of the causes that generated them
- Elaboration of plans of operational continuity
- Professional development and training
- Establishing ethical standards
- Prevention of litigation risk, including insurance, where necessary
- Minimising risks, including the efficient use of insurance, where necessary

Capital adequacy

The management policy with regard to capital adequacy is focused on maintaining a solid capital base, for the purpose of supporting continuous development of the Company and reaching the investment objectives.

4. REVENUES FROM SALES

Revenues from sales include the following:

	For the year ended as at	
Revenues from sales	31-Dec-17	31-Dec-16
Sales from finished products	204,161,410	180,145,556
Sales of goods	1,941,375	3,470,103
Income from waste sale	13,553	12,049
Trade discounts	(35,884,042)	(31,506,591)
TOTAL	170,232,296	152,121,117

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The turnover is realised mainly from the sale of finished products directly to pharmaceutical distributors (for the internal market) by the sale point from strada Gura Badicului nr. 202-232, Bucharest.

Export sales in 2017 were in the amount of lei 6,995,062 (2016: lei 5,137,723).

5. RAW MATERIALS AND CONSUMABLES

Expenses with raw materials and consumables have the following structure:

Raw materials and consumables	For the year ended as at	
	31-Dec-17	31-Dec-16
Raw materials	24,658,767	23,227,579
Auxiliary materials	12,940,887	11,782,692
Goods	1,607,389	2,279,179
Inventory items	162,310	372,823
Other consumables	158,548	97,993
TOTAL	39,527,901	37,760,266

6. PERSONNEL EXPENSES

Personnel expenses have the following structure:

Personnel expenses	For the year ended as at	
	31-Dec-17	31-Dec-16
Wages	18,495,277	15,862,606
Civil contracts	2,532,844	2,743,186
Fees and social contributions	4,974,676	4,346,262
Other benefits	170,869	832,692
TOTAL	26,173,666	23,784,746

The Company is managed in unitary system, according to Law no. 31/1990 regarding the Commercial Companies, company management being ensured by the Board of Directors of SC Biofarm S.A. The structure of the Board of Directors and of the Executive Management is presented in Note 1. General information.

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The remuneration granted to the Board of Directors and to the Executive Management (according to IAS 24 - key personnel) is presented in the following table:

Description	For the year ended as at	
	31-Dec-17	31-Dec-16
Wages/contracts	2,217,434	2,282,030
Fees and social contributions	493,849	494,915
Other benefits (meal tickets)	3,390	2,328
TOTAL	2,714,673	2,779,273

7. OTHER OPERATING EXPENSES

Other operating expenses include the following:

Other operating expenses	For the year ended as at	
	31-Dec-17	31-Dec-16
Utilities	2,741,719	2,684,602
Repairs	846,773	958,774
Rent	227,000	136,993
Insurance	1,261,624	1,003,143
Bank fees	58,521	64,174
Advertising and promotion of products	31,944,576	27,899,503
Travel and transport	928,538	564,126
Post and telecommunications	384,317	353,878
Other services provided by third parties	6,618,954	6,551,619
Other taxes and duties	2,112,753	1,508,320
Protocol	888,120	1,131,731
Expenses from disposal of assets	-	5,985
Losses and adjustments for doubtful receivables	4,490,265	2,389,868
Inventory adjustments	668,643	532,365
Donations and grants	432,559	338,106
Exchange rate differences	532,188	-
Other taxes and duties	1,285,379	775,548
TOTAL	55,421,929	46,898,735

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8. NET FINANCIAL INCOME

The net financial income has the following structure:

Net financial revenues/ (costs)	For the year ended as at	
	31-Dec-17	31-Dec-16
Interest income	191,148	400,603
Interest costs	(5)	(536)
Other financial income	-	1,671
TOTAL	191,143	401,738

9. PROFIT TAX EXPENSES

Tax expenses	For the year ended as at	
	31-Dec-17	31-Dec-16
Current profit tax expense	8,605,834	6,354,437
Deferred tax expense / (income)	(1,955,535)	(391,498)
TOTAL	6,650,299	5,962,939

The profit tax to be paid was calculated considering the influences of non-deductible expenses, respectively of taxable income, of tax incentives as well as of provisions effects for profit tax. Reconciliation between the accounting profit and the tax profit that was at the basis of profit tax calculation is presented in the following table:

Name of indicators	For the year ended as at	
	31-Dec-17	31-Dec-16
Incomes and items similar to incomes	178,054,735	159,699,764
Total expenses (without profit tax)	(133,421,177)	(128,319,061)
Accounting result	44,633,558	31,380,704
Deductions	(7,297,999)	(9,128,271)
Non-deductible expenses	18,780,941	18,397,162
Tax result	56,116,500	40,649,595
Profit tax (fiscal result x 16%)	8,978,640	6,503,936
Profit tax reductions calculated acc. to the legislation in force	(372,806)	(149,499)
Total profit tax	8,605,834	6,354,437

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10. EARNINGS PER SHARE

	For the year ended as at	
	31-Dec-17	31-Dec-16
Net profit (A)	36,027,723	29,477,747
Number of ordinary shares (B)	985,375,350	985,375,350
Own shares held (C)	8,126	8,126
Result per share (A/(B-C))	0.0366	0.0299

On 31 December 2017, the company does not have property title on the land in use from str. Logofat Tautu nr. 99.

The land in use from str. Logofățul Tăutu, nr. 99 is not included in the financial statements of S.C. Biofarm S.A., due to the fact that the documents attesting the property were not yet obtained, there being notifications on Law no. 10/2001.

In compliance with provisions of the GD 834/1991 art. 1, the company requested the obtaining of the attesting certificate regarding the property title for the land, for the lands necessary to carry out the activity according to the activity object.

The value of the land for which the attesting certificate regarding the property title for the land will be obtained, shall be established based on legal provisions. Together with the value of the lands, the share capital of the company shall increase as well and the shares will enter into the property of the state. The dilution effect shall be considered while calculating the result per diluted share.

	For the year ended as at	
	31-Dec-17	31-Dec-16
Net profit (A)	36,027,723	29,477,747
Number of ordinary shares (B)	985,375,350	985,375,350
Own shares held (C)	8,126	8,126
Number of shares obtained AVAS by in-kind contribution for the Logofatul Tautu land (D)	64,216,594	63,367,470
Result per diluted share [A/(B+C)]	0.0343	0.0281

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11. TANGIBLE ASSETS

<i>COST</i>	Lands	Buildings	Technical installations and machinery	Other installations, tools and furniture	Tangible assets under progress	Total
31 December 2015	3,977,429	14,565,316	66,128,594	1,416,557	37,756,858	123,844,754
Acquisitions	-	12,000	1,087,744	16,111	18,240,879	19,356,734
Disposals/ transfers	-	-	133,561	10,364	-	143,925
Revaluations	389,485	-	-	-	-	389,485
31 December 2016	4,366,914	14,577,316	67,082,777	1,422,304	55,997,737	143,447,048
Acquisitions	-	6	2,931,800	383,805	19,102,893	22,418,504
Disposals/ Transfers	-	-	985,036	31,680	3,734,190	4,750,906
Revaluations	-	-	-	-	-	-
31 December 2017	4,366,914	14,577,322	69,029,541	1,774,429	71,366,440	161,114,646
AMORTISATION AND VALUE ADJUSTMENTS						
31 December 2015	-	-	43,930,521	945,949	-	44,876,470
Cost for the period	-	1,358,820	4,675,744	141,726	-	6,176,290
Disposals	-	-	1,940	1,173	-	3,113
Revaluations	-	-	-	-	-	-
31 December 2016	-	1,358,820	48,604,325	1,086,502	-	51,049,647
Cost for the period	-	1,261,660	4,601,416	207,218	835,983	6,906,276
Disposals	-	-	985,036	31,680	-	1,016,716
Revaluations	-	-	-	-	-	-
31 December 2017	-	2,620,480	52,220,705	1,262,040	835,983	56,939,208
NET VALUES						
31 December 2015	3,977,429	14,565,316	22,198,074	470,608	37,756,858	78,968,285
31 December 2016	4,366,914	13,218,496	18,478,452	335,802	55,997,737	92,397,401
31 December 2017	4,366,914	11,956,842	16,808,837	512,389	70,530,457	104,175,439

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Revaluation of Fixed Assets

On 31.12.2015, the lands being in the patrimony owned by the company were revalued by SC Iprochim SA, an associate member of the National Association of Romanian Valuers (ANEVAR), with certificate no. 183/1992.

The land appraisal report was capitalised in accounting on 31.12.2015. The result of lands appraisal is presented in the table below:

Description	Input value	Revalued value 31.12.2010	Revalued value 31.12.2012	Revalued value 31.12.2015	Depreciati on 2015
Land on str. Drumul Gura Badicului.nr.202-226, Bucharest	3,263,722	3,323,569	3,282,513	3,977,429	694,916
Land on Iancu de Hunedoara nr. 40-42 Bucharest*	433,150	11,106,909	11,045,807	10,447,013	(598,794)
Total	3,696,872	14,430,478	14,328,320	14,424,443	96,122

*) Presented at Note 12. Real estate investments

The constructions owned by S.C. Biofarm S.A. were reassessed on 31.12.2015 as follows:

Explanations	Value
Remained value as at 31.12.2015	14,331,801
Reassessed value as at 31.12.2015	14,565,337
Total appreciation / depreciation 31.12.2015	233,536

The reference method is the net replacement cost (IFRS 13 – Level 3).

On 31.12.2017, Biofarm SA re-evaluated by Iprochim SA the land from str. Iancu de Hunedoara nr. 40- 42, for the other lands and buildings, the company considered that they are presented at their fair value in the accounting and their re-evaluation is no longer necessary on 31.12.2017.

Amortisation of Fixed Assets

Accounting amortisation is calculated by using the linear method. For the new fixed assets, entered in 2017, such as installations, cars and measurement and control devices, the useful life durations were established considering:

- The estimated level of use based on the use of asset capacity;
- Repair and maintenance program practiced by Biofarm SA on plants and machinery;
- Obsolescence caused by possible changes in the production process depending on the structure of products portfolio supplied by the company.

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Decommissioning of fixed assets and constituted provisions

In 2017 fixed assets were proposed for decommissioning with an unamortized value on 31.12.2017 in the amount of lei 92.

Litigations and property rights for fixed assets

On 31 December 2016, the company did not hold a property title on the land in use from str. Logofățul Tăutu, nr. 99.

The land in use from str. Logofățul Tăutu, nr. 99 is not included in the financial statements of S.C. Biofarm S.A., due to the fact that the documents attesting the property were not yet obtained, there being notifications on Law no. 10/2001.

Financial leasing

In 2017, the company purchased fixed assets by contracts classified by financial leasing and does not have ongoing financial leasing contracts as at 31.12.2017.

12. REAL ESTATE INVESTMENTS

The land owned by S.C. Biofarm S.A. on Iancu de Hunedoara Street, Bucharest is considered as Investment Property, not being used by the company for performing the activity of operation and not having a set destination.

	31-Dec-17	31-Dec-16
At the beginning of the period	10,534,802	10,447,011
Fair value modification	51,834	87,791
	10,586,636	10,534,802

13. INTANGIBLE ASSETS

Modifications in the acquisition cost and the amortisation afferent to intangible assets are presented in the following table:

	31-Dec-17	31-Dec-16
Cost		
Initial balance	2,053,480	2,017,275
Additions	1,078,480	36,205
Disposals	200,627	-
Final balance	2,931,333	2,053,480
Amortisation/depreciation adjustments		
Initial balance	(1,827,274)	(1,696,304)
Cost for the period	(157,085)	(130,970)
Disposals	199,053	
Final balance	(1,785,306)	(1,827,274)
Net value	1,146,027	226,206

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14. INVENTORIES

Inventories	31-Dec-17	31-Dec-16
Raw materials and consumables	14,089,680	12,709,130
Adjustments	(1,156,344)	(866,425)
Production in progress and semi-products	1,714,608	1,573,899
Finished products	3,903,265	3,802,881
Goods	1,949,847	2,633,839
Adjustments	(1,227,254)	(848,531)
TOTAL	19,273,802	19,004,793

15. TRADE AND OTHER RECEIVABLES

Description	31-Dec-17	31-Dec-16
Trade receivables	100,027,554	87,747,356
Adjustments for trade receivables	(19,900,201)	(15,409,887)
Employees	14,144	41,450
Sundry debtors and other receivables	451,805	357,923
Adjustments for other receivables	(81,757)	(81,757)
Total financial assets others than cash, classified as loans and receivables	80,511,545	72,655,085
Interest receivable	74,832	104,195
Other receivables from the State Budget	4,987,778	5,445,057
Advances	349,369	924,075
Profit tax	483,856	879,165
TOTAL	86,407,380	80,007,577

Fair values of trade receivables and of other nature classified as being credits and receivables do not significantly differ from their accounting values.

The Company has not pledged or anticipated commercial receivables.

On 31 December 2017 promissory notes were received from clients amounting lei 33,248,645 (31-Dec-2016: 23,838,995; 31-Dec-2015: 38,946,746).

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Seniority analysis	31-Dec-17	31-Dec-16
Receivables not yet due	62,010,138	44,700,254
Adjusted outstanding receivables:		
up to 3 months	8,558,631	24,829,909
between 3 and 6 months	3,980,277	1,963,406
between 6 and 12 months	4,263,660	412,255
over 12 months	1,698,839	749,261
TOTAL	80,511,545	72,655,085

On 31 December 2017, the Company has adjustments recorded for trade receivables representing customers' balance which is unlikely to be received by the company anymore in the amount of lei 19,900,201.

Client adjustments and other receivables	31-Dec-17	31-Dec-16
At the beginning of the period	15,491,645	13,101,777
Constituted during the year	4,856,122	2,389,868
Adjustments cancellation	365,809	-
At the end of the period	19,981,958	15,491,645

The company constituted a depreciation adjustment in the amount of lei 701,672, representing the balances of customers which are unlikely to be collected by the company anymore, and a depreciation in the amount of lei 4,154,445, calculated for customers who could not be ensured through Coface.

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents	31-Dec-17	31-Dec-16
Cash in bank	1,215,720	2,674,621
Cash and cash equivalents	10,371	6,243
Deposits	36,163,636	32,919,975
Miscellaneous	-	42,830
TOTAL	37,389,727	35,643,669

Deposits have maturities of up to 6 months from the balance sheet date.

In 2017, there were no significant non-cash transactions with third natural or legal persons.

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- Lessor SC GHIURAL DISTRIBUTION, for leasing the space of Constanta, str. Interioara 3 nr. 19, with a duration until 31.12.2018 (acc. to addendum No. 1/2017), with a monthly rate of EUR 405 + VAT. The cost recorded during 2017 is of lei 22,168.
- Lessor SC FLUX SRL, for leasing the space of Iasi, str. Aurel Vlaicu nr.78, with a duration until 01.07.2018, with a monthly rate of EUR 735 + VAT. The cost recorded during 2017 is of lei 40,281.

19. DEFERRED PROFIT TAX

The variation of debts on deferred profit tax is presented in the following table:

Description	31-Dec-17	31-Dec-16
Initial balance	(1,438,021)	(1,046,523)
Deferred tax costs / (income)	(1,955,534)	(391,498)
Final balance	(3,393,555)	(1,438,021)

20. PROVISIONS

The variation of provisions is presented in the following table:

Salaries provisions	Obligations for leaves not taken and other amounts related to the salary	Provisions for pensions (actuarial calculation)	Total
31 December 2015	1,139,984	410,236	1,550,220
Constitutions during the period	1,963,756	8,918	1,963,756
Uses during the period	(1,139,984)	-	(1,131,066)
31 December 2016	1,963,756	419,154	2,382,910
Constitutions during the period	2,141,852	-	2,141,852
Uses during the period	(1,963,774)	(7,227)	(1,971,001)
31 December 2017	2,141,834	411,927	2,553,761

The amount constituted as a salary provision at the end of 2017 represents the equivalent value of the days of annual leave afferent to 2017 not taken by the company's employees until 31.12.2017, as well as salary bonuses that shall be paid to the company's employees, to the sales marketing team, as well as to the management team, executive management of Biofarm SA for the activity performed in 2017.

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21. SHARE CAPITAL

The subscribed share capital of the company on 31 December 2017 is of lei 98,537,535, nominal value of a share being of lei 0.1 /share. The company has a number of 985,375,350 shares that offer equal rights to company's shareholders. SC Biofarm SA did not issue shares to offer shareholders preferential rights.

22. INFORMATION ON THE REPURCHASE OF OWN SHARES

Following the increase of share capital by incorporating the profit corresponding to 2006, a number of 8,126 shares remained, which could not be redistributed according to the allocation rate. These shares were allocated to the company by the Depozitarul Central. On 31.12.2017, Biofarm SA holds 8,126 own shares.

23. RESERVES

Reserves include the following components:

Reserves	31-Dec-17	31-Dec-16
Fixed assets revaluation reserves	1,379,344	1,379,344
Legal reserves	15,902,860	13,768,960
Other reserves	50,634,166	39,362,147
TOTAL	67,916,370	54,510,451

In the following, the nature and purpose of each reserve within the equity is described:

Reserve	Description and purpose
Fixed assets revaluation reserves	If the accounting value of a tangible asset is increased as a result of revaluation, then the increase must be recognised in other comprehensive income elements and cumulated in equity, with title of reassessment surplus. Reassessment reserves cannot be distributed and cannot be used at the share capital increase.
Legal reserves	According to Law 31/1990, each year at least 5% is taken from the profit for the formation of the reserve fund, until it reaches minimum the fifth part of the share capital. On 31 Dec 2017, reserves were constituted representing tax facilities in the amount of lei 2,133,901 that cannot be distributed, having implications on the recalculation of the profit tax.
Other reserves	Other reserves include on 31 Dec 2017 reserves constituted from profits.

BIOFARM S.A.
EXPLANATORY NOTES TO FINANCIAL STATEMENTS

for the year ended as at 31 December 2017

(all amounts are expressed in LEI, unless otherwise specified)

24. RETAINED EARNINGS

Retained earnings include the following components:

Description	31-Dec-17	31-Dec-16
Retained earnings coming from the adoption for the first time of IAS, less IAS 29	2,363,952	2,363,952
Retained earnings coming from the transition to the IFRS application, less IAS 29	443,006	443,006
Retained earnings coming from the use, at the date of transition to the application of IFRS, of the fair value as deemed cost	14,037,337	14,037,337
	<hr/>	
TOTAL	16,844,295	16,844,295
	<hr/> <hr/>	

25. CURRENT PROFIT DISTRIBUTION FOR 2017

On 31.12.2017, Biofarm company has a number of 985,375,350 issued shares. The net profit distribution in the amount of lei 36,027,723 recorded on 31.12.2017 by Biofarm SA will be approved by the ordinary general meeting of shareholders.

26. CONTINGENT LIABILITIES

There are no significant contingent liabilities at the balance sheet date.

27. COMMITMENTS

The company has no debts to the credit institutions.

S.C. Biofarm S.A. did not submit guarantees and did not pledge, respectively did not mortgage its own assets for guaranteeing obligations in favour of a third party. The Company benefits from only one credit line attached as credit card.

28. INFORMATION ON THE AUDIT OF FINANCIAL STATEMENTS

Financial audit for the financial year 2017 was performed by BDO Audit SRL. The auditor has exclusively provided financial audit services.

BIOFARM S.A.
EXPLANATORY NOTES TO FINANCIAL STATEMENTS

for the year ended as at 31 December 2017
(all amounts are expressed in LEI, unless otherwise specified)

29. SUBSEQUENT EVENTS

Based on the information we own until now, the ownership structure did not significantly modify until the date of issuing these financial statements and neither did other significant events subsequent to the conclusion of the financial year occurred.

Drafted by:

and signed on behalf of the Board of Directors by:

Dănuț Vasile
Chairman

Claudia Matei
Chief Accountant

STATEMENT

in compliance with the provisions of art. 30 from the Accounting Law no. 82/1991 on the financial statements elaborated on 31.12.2017

The financial statements were elaborated on 31.12.2017 for:

Legal entity: **S.C. BIOFARM S.A**

County: 40—BUCHAREST MUNICIPALITY

Address: BUCHAREST locality, no. 99 LOGOFATUL TAUTU Street, tel. 0213010621

Number with the Trade Register: J40/199/1991

Type of ownership: 34-Joint-stock companies

Main activity (code and name of NACE class): 2120-Manufacture of pharmaceutical preparations

Tax Identification Number: **RO341563**

The Chairman of the Board of Directors of S.C. BIOFARM S.A., Mr DANUT VASILE, assumes responsibility for the elaboration of annual financial statements on 31.12.2017 and confirms that:

- a) The accounting policies used for the elaboration of annual financial statements are in conformity with the applicable legal regulations and with the applicable International Financial Reporting Standards;
- b) Annual financial statements offer an accurate image of the financial position, of the financial performance and of the other information regarding the activity performed;
- c) The legal entity performs its activity in continuity conditions.

**GENERAL MANAGER,
DANUT VASILE**

**CHIEF ACCOUNTANT
CLAUDIA MATEI**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of BIOFARM S.A.

Opinion

We have audited the financial statements of BIOFARM S.A. (the Company), which comprise the statement of financial position as at December 31, 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016 for the approval of the accounting regulations compliant with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), UE Regulation no. 537/2014 of the European Parliament and of the Council („The Regulation”) and Law no. 162/2017 („The Law”). Our responsibilities under those standards and regulations are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Romania. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition Please see Note 4: Sales. Revenue recognition policy is described in Note 2.13.1 "Accounting Policies - Revenue Recognition".</p> <p>In accordance with International Standards on Auditing, there is an implicit risk on revenue recognition due to the pressure on management in obtaining the planned results.</p> <p>The company's main activity is products wholesale to distributors, net price being determined by the contractual terms concluded with them.</p> <p>The initial revenue recognition takes place when the products are distributed and involve an estimate of granted discounts and rebates. The estimation takes into account the contractual terms, budgeted sales and marketing campaigns. Accurate determination can have several months' delay.</p>	<p>Our audit procedures included, among other:</p> <ul style="list-style-type: none"> - We performed substantive tests on a sample of sales transactions recorded during the year. - We obtained an understanding of the Company's system of estimating and recording discounts and rebates, including the assessment and recognition in the period to which they relate. - We obtained the management's computation for the estimation on discounts and rebates recorded at the end of the year and we recalculated for a sample, considering the contractual terms and marketing campaigns. - Testing a sample of receivables by sending direct confirmation letter.

Other information - Administrators' Report

Other information relates to the Administrators' Report. The administrators are responsible for the preparation and presentation of the Administrators' report in accordance with the OMPF no. 2844/2016, points 15-19 of the accounting regulations compliant with the International Financial Reporting Standards, and for such internal control as Administrators determine is necessary in order to enable the preparation of the administrators' report without material misstatements, caused by fraud or error.

The Administrators' Report is not part of the financial statements.

Our opinion on the financial statements does not cover the Administrators' Report.

In connection with our audit of the financial statements for the financial year ended December 31, 2017, our responsibility is to read the Administrators' Report and, in doing so, to consider whether significant inconsistencies exist between the Administrators' Report and the Financial statements, if the Report includes, in all material respects the information required by OMPF 2844/2016, paragraphs 15-19, of the accounting regulations compliant with the International Financial Reporting Standards, and whether, based on our knowledge and understanding concerning the Company and its environment obtained during the audit of the Financial statements, the information included in the Administrators' Report are significantly misstated. We are required to report on this matters. We report as follows:

- a) In the Administrators' Report we have not identified information which is not consistent, in all material respects, with the information presented in the attached financial statements;
- b) The administrators' Report includes, in all material respects, the information required by OMFP no. 2844/2016, points 15-19 of the accounting regulations compliant with the International of Financial Reporting Standards.

Also, based on our knowledge and understanding concerning the entity and its environment gained during the audit of the financial statements for the financial year ended December 31, 2017, we have not identified financial information included in the Administrators Report that is materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Order of the Minister of Public Finance no. 2844/2016 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

We were appointed by the General Shareholders' Meeting on 26 April 2017 to audit the financial statements of the Company for the years ended 31 December 2017 and 31 December 2018. Our total uninterrupted period of engagement is 18 years, covering periods ending 31 December 2000 to 31 December 2017.

We confirm that:

- Our audit opinion is consistent with the additional report presented to the Board of Directors of the Company, which is issued with the same date as the current report. We also remain independent of the audited entity in conducting the audit.
- We have not provided to the Company the prohibited non-audit services referred to in article 5 (1) of EU Regulation no 537/2014.

Other aspects

This report of the Independent Auditor is addressed exclusively to the Company's shareholders, as a body. Our audit was undertaken in order to report to the Company's shareholders all those aspects that we are required to state to them in a financial audit report and for no other purposes whatsoever. To the extent permitted by law, we do not accept or take responsibility to anyone other than the Company and its shareholders, as a body, for our audit work, for the report on the financial statements and the report on the Administrators' Report, or for the opinion we have formed.

For and behalf of BDO Audit SRL

Registered at the Chamber of the Financial Auditors of Romania with
no. 018 / 2001

Vasile Bulata

Registered at the Chamber of the Financial Auditors of Romania with
no. 1480 / 2002

Bucharest, Romania

13 March 2018

Note: This is the English translation of the Romanian version of the auditor's report. In case of any discrepancies the Romanian version will prevail.