

MANAGEMENT REPORT

January - March 2019

Q1 Report as per: IFRS
For the period : 1.01 - 31.03.2019
Report date: 15.05.2019
Name of trading company: Antibiotice SA
Head office: Iasi, 1 Valea Lupului St.
Phone number: 0232/209000; fax: 0232/209633
Fiscal registration code: RO1973096
Order number in the Trade Register: J22/285/1991
Regulated market in which the issued securities are traded: Bucharest Stock Exchange (BVB)
Subscribed and paid-up share capital: 67,133,804 LEI
The main characteristics of securities issued by the company: nominative shares, nominal value: 0. 10 lei

In the first quarter of this year, Antibiotice SA achieved sales revenue of 65.07 million LEI, higher by 10% compared to the same period of 2018.

COMPREHENSIVE INCOME STATEMENT

Comprehensive income statement (LEI)	31.03.2018	31.03.2019	2019/2018
1	2	3	4=3/2
Sales income	59,220,466	65,066,014	1.10
Other operating income	10,234,373	8,952,087	0.87
Income related to product stock costs	14,149,596	16,661,315	1.18
Income from the work performed by entity and capitalized	765,128	1,035,011	1.35
Expenditure on raw materials and consumables	31,624,850	33,120,317	1.05
Staff costs	20,535,077	23,718,951	1.16
Amortization and depreciation expense	4,847,956	5,159,090	1.06
Other operating expense	23,530,703	24,549,531	1.04
Operating profit	3,830,977	5,166,539	1.35
Financing costs	-571,013	-1,032,744	1.81
Pre-tax profit	3,259,964	4,133,795	1.27
Expenses on current and deferred income tax	0	864,384	
Profit	3,259,964	3,269,411	1.00

The 10% increase in sales revenue in 1Q 2019 compared to the same period of 2018 was determined by the 19.11% increase in the sales revenue in the domestic market.

Domestic market

Sales revenue in the domestic market rose from 29.3 million LEI in Q1 2018 to 34.9 million LEI in Q1 2019. Structurally, the positive evolution was influenced by:

- Our company's top products with traditional high sales during this period (injectables for hospitals : amoxicillin with clavulanic acid, colistin, meropenem, imipenem with cilastatin; products for oral use: cefixime, amoxicillin, glycerin range)
- Performance of some relatively recently introduced products in our portfolio (memantine range, range of food supplements - Silithor (hepatoprotective product), Fluxiv (venous circulation)).

(million LEI)

Name of indicator*	31.03.2018	31.03.2019	Δ 01 - 03 2019/2018
Net sales (domestic market)	29.28	34.90	19.2%
Sell IN distribution	76.36	82.43	8.0%
Sell OUT distribution (Pharmacies+Hospitals)	82.90	85.44	3.1%

*forecast (data sources: Cegedim Romania)

Our marketing & sales policy in the domestic market has been oriented towards a profitable sales structure, towards optimizing the potential of the products in the relevant market (the market of the molecules existent in our portfolio) as well as towards optimizing the stock level from the partners in the market - distributors and pharmacies.

International market

Antibiotice reached its planned sales target for Q I 2019 in the international market worth about 30 million LEI. The main targeted markets are in Asia, North America and Europe, our sales in these areas representing approximately 70% of export sales revenue in Q1 2019.

Our strategy for expanding the Antibiotice brand internationally aims the vertical development in the territories in which the company has its own representative offices (Vietnam, Ukraine, Republic of Moldova) through the registration of new products as well as the approach of new markets, especially in Europe and South-East Asia, through partnerships with local distributors, out-licensing, contract manufacturing or co-marketing partnerships.

In 2019, Antibiotice aims at consolidating its position as a world leader for the active substance Nystatin in the traditional markets in the USA, Germany, Netherlands, Brazil, China, India and Vietnam, along with developing new projects in South America and North America.

For the finished products manufactured on production flows certified by the authorities in Europe and the US, our company forecasted for 2019 a 20% increase compared to the previous year, in the context of a multi-annual territorial expansion plan.

Structurally, our company recorded the following expenditures:

➤ **Expenditure on raw materials and consumables**, in value of 33.12 million LEI, by 5% higher than the value recorded in the same period of 2018. The increase in expenditure on raw materials and consumables was determined by the need to increase the production made by the Ointment & Suppository Plant for ensuring the necessary finished product stock during production downtime for passing from the old to the new manufacturing flow.

➤ **Staff costs**, amounting to 23.72 million LEI, by 16% higher compared to the value recorded in the Q1 2018. These expenditures increased due to implementing a unitary and

modern payroll system with the aim of aligning the benefit package to the level of performance of each employee.

- **Amortization and depreciation expense** in value of 5.16 million LEI, by 6% higher than the value recorded in the same period of the previous year. This growth was due to:
 - increasing the value of buildings by the revaluation made in 2018, in accordance with the legal requirements;
 - serialization of pharmaceuticals traded in the European and other regulated markets, a requirement which came into force on 09.02.2019 (in 2018 we invested in the equipment and software needed for implementing the serialization).
- **Other operating expense** amounted to 24.55 million LEI, by 4% higher compared to the value recorded in the same period of 2018, the increase being mainly due to the estimation of a higher claw-back tax.

Since, at the date of the current report, the claw-back tax is at the estimated value, the final calculations have not yet been communicated by the National House of Social Health Insurance. The value of the profit in the Q1 2019 will be influenced by the actual level of the clawback tax.

- As a result of registered revenues and expenditures, in Q1 2019, the **gross profit** amounted to 4.13 million LEI, higher by 27% compared to the value recorded in the same period of 2018.

- **Net profit** amounted to 3.27 million LEI, to the level of the value recorded in the first quarter of 2018.

Statement of financial position

On 31.03.2019, our company's assets recorded the value of 717.39 million LEI, higher by 2% compared to the value recorded on 01.01.2019.

	01.01.2019	31.03.2019	31.03.2019/ 01.01.2019
AASETS			
FIXED ASSETS			
Tangible fixed assets	310.640.665	311.128.093	1,00
Intangible fixed assets	15.028.716	15.343.193	1,02
TOTAL FIXED ASSETS	325.669.381	326.471.286	1,00
CURRENT ASSETS			
Stocks	64.964.661	90.545.148	1,39
Trade and other receivables	313.094.458	293.740.560	0,94
Cash and cash equivalents	2.376.682	6.629.907	2,79
TOTAL CURRENT ASSETS	380.435.801	390.915.615	1,03
TOTAL ASSETS	706.105.182	717.386.901	1,02
LIABILITIES			
CURRENT LIABILITIES			
Commercial and similar liabilities	67.171.084	68.554.572	1,02
Amounts owed to credit institutions	100.729.229	103.288.593	1,03
Tax and current tax liabilities	10.421.393	11.045.342	1,06
Investment subsidies	637.008	665.292	1,04

TOTAL CURRENT LIABILITIES	178.958.714	183.553.799	1,03
LONG-TERM LIABILITIES			
Investment subsidies	2.489.791	2.635.443	1,06
Deferred tax	25.266.930	26.131.314	1,03
Amounts owed to credit institutions	26.662.433	29.069.619	1,09
TOTAL LONG-TERM LIABILITIES	54.419.154	57.836.376	1,06
TOTAL LIABILITIES	233.377.868	241.390.175	1,03
Share capital and reserves			
Share capital	264.835.156	264.835.156	1,00
Revaluation reserves	53.459.597	52.762.906	0,99
Legal reserves	13.426.761	13.426.761	1,00
Other reserves	190.422.002	190.422.002	1,00
Reported result	-60.182.699	-48.719.510	0,81
Distribution of profit	-23.537.290	0	0,00
Current result	34.303.788	3.269.411	0,10
TOTAL EQUITY	472.727.315	475.996.726	1,00
TOTAL ASSETS AND LIABILITIES	706.105.183	717.386.901	1,02

On 31.03.2019 the current assets recorded a 3% increase compared to the value from the beginning of 2019, due to the increase in stocks of raw materials and finished products. Acquisitions of raw materials are required to produce additional production in the Ointment & Suppository Plant to ensure continuity of sales for the period of transition from the old to the new production flow.

On 31.03.2019, compared to the beginning of the year, the value of trade receivables decreased by 6%, an effect of the continuous measures implemented for optimizing the business relationships with our customers.

Current liabilities recorded a value of 183.55 million LEI, higher by 3.0% compared to early 2019 due to the increase of the short-term loans and debt to suppliers as well as the increase in tax and current tax liabilities.

The amounts collected in the Q1 2019, for the project "Improvement of energy efficiency in industrial operators", co-financed by European funds, with the objective of reducing the specific energy consumption, led to a 6% increase in the investment subsidies.

Our company contracted a long-term bank credit in 2018, for financing the investments in the new Ointment & Suppository Plant and acquisitions of the equipment needed for the compliance with the serialization requirements. This credit led to a 6% increase in long-term debt compared to the date of 31.12.2018.

On 31.03.2019 there were no outstanding obligations to the state budget.

By synthesizing the financial statements, we present the effects of our activities through the following indicators:

Name of indicator	Calculation formula	31.03.2018	31.03.2019
Current liquidity	Current assets/Current liabilities	2.22	2.14
Level of indebtedness	Borrowed Capital / Equity x 100	20.03%	27.81%
Turnover speed for client debit items	Average Customer Balance / Sales Income x Time	370 days	371 days
Turnover speed of fixed assets	Sales Income / Fixed Assets	0.25	0.20

The values of the economic & financial indicators on 31.03.2019 highlight a balanced financial situation.

Level of indebtedness increased by 38.88% compared to the same period of the previous year, as a result of supporting our investment projects.

As regards the *Turnover speed for client debit items*, in relation to the same period of 2018, the collection period has a similar value, but compared with the beginning of the year there was a decrease in the value of receivables.

Cash flow

On 01.01.2019, cash and cash equivalents were -98,35 million LEI lei, representing credit lines worth 100.73 million LEI, out of which 2.38 million LEI have remained unused in bank accounts from the same credit lines. Cash receipts from operating activities were 95.49 million LEI. The amount of cash payments to suppliers of goods and services was 47.17 million LEI and the payments to and on behalf of employees were 22.06 million LEI.

Payments made in the first quarter of 2019 representing taxes and bank interest amounted to 11.74 million LEI .

Payments made in the first quarter of 2019 for the investment activity amounted to 14.37 million LEI.

On 31.03.2019, cash and cash equivalents amounted to -99,06 million LEI, representing credit lines in value of 105.69 million LEI (out of which a short-term credit line in value of 103.29 million LEI and a long-term credit line in value of 2.4 million LEI), from which 6.63 million LEI have remained unused in the bank accounts from the same credit lines.

The financial statements for the first quarter were not audited by the financial auditor, This operation is to be carried out for the first semester of 2019.

Our growth engine is based on new projects

In Q1 2019 our company conducted 21 new research projects: 12 solid oral products (out of which 5 dietary supplements), 5 topicals and 4 injectables. These projects cover the therapeutic classes that define the Antibiotice portfolio: oral antiinfectives, injectable antiinfectives, dermatologicals, non-steroidal anti-inflammatory medicines, cardiovasculars, medicines for the digestive system and medicines for women's health.

We have been maintaining our current medicine portfolio by updating the authorization documentation both for the domestic and external markets (5 national re-authorization procedures were completed and 5 products were re-authorized in the international markets).

The portofolio for the external markets was enriched in the Q1 2019 with one product (in 2 concentrations) from the beta-lactam antibiotic class - penicillins, by completing the decentralized authorization procedure in 2 European Union member states. Also, the food supplement portfolio has been enriched with a new digestive tract and metabolism product.

The main objectives of the Research & Development Department for 2019 are: developing new products, optimizing the ones already included in our company portfolio and extending our scientific collaboration with research and university centers.

Relevant events

Antibiotice company, in the current pharmaceutical market context in Romania*:

- leader in the relevant market by volume of sales (8 million boxes, 12.2% of the relevant market);
- ranked second in the relevant market by value of sales (85.4 million LEI, 8.84% of the relevant market);
- ranked second in the relevant market, with a value market share of 8.84% (from a number of 153 competitors);
- ranked third in the relevant market, by number of indivisible units sold (112.6 million l. U., 7.4% of the relevant market);
- leader in the market, by number of ointments sold (25% of the total market, 34.3% of the relevant market);
- leader in the market, by number of suppositories sold (42.3% of the total market, 46% of the relevant market);
- leader in the market, by number of sold vials with injectable powders (68.5% of the total market, 90% of the relevant market).

* data source - pharma market research firm, Cegedim Romania

Conclusions:

- **Sales income higher by 10% compared to 2018;**
- **6% drop in the value of trade receivables, an effect of measures taken for optimizing the commercial relations with our customers.**

**President of the Management Board
Ioan NANI**

**Financial Director
Paula Coman**

Statement of Comprehensive Income

03/31/2019

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President of Management Board,
General Manager,
Ioan NANI

Financial Director,
Paula Luminita COMAN

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Notice of availability for the Annual Report on 31 March 2019

Antibiotice Iași informs the investors that the *report on 31.03.2019* is available through the *Bucharest Stock Exchange* and *Financial Surveillance Authority* as well as on our website: www.antibiotice.ro (Investors/Financial Information/Financial Reports - 2019, 3 months).

We mention that the above-mentioned report can also be obtained at our company's headquarters (Investor Relations, phone no. 0232 209570, fax 0372 065633, e-mail: relatiicuinvestitorii@antibiotice.ro).

General Director,
ec. Ioan NANI

Financial Director,
ec. Paula-Luminița COMAN