

<<Translation from Romanian>>

**Biannual report on the economic-financial activity  
of S.C. BIOFARM S.A. – 1<sup>st</sup> Semester 2011**

**S.C. BIOFARM S.A.** has the registered office, no. 99 Logafatul Tautu Street, 3<sup>rd</sup> City District and has as main activity object manufacture of pharmaceutical preparations.

The tax identification number with the Trade Register Office is RO 341563 and the order number in the Trade Register J40/199/1991.

The regulated market on which transferable securities issued by S.C. BIOFARM S.A. is the Bucharest Stock Exchange, 1<sup>st</sup> category of transaction.

**1. Economic-financial situation of S.C. Biofarm S.A. as at 30.06.2011**

In 2001 the company began the application of International Accounting Standards by submitting the corresponding financial statements.

The elaboration of the report on financial results on 30.06.2011 was made in compliance with Law no 82/1991, with subsequent amendments and completions and Order no. 3055/2009.

Financial statements of S.C. Biofarm S.A. as at 30.06.2011 are not audited.

Chronological and systematic registration of patrimonial operations, storage and processing of information on the situation of heritage and achievements of the information necessary to establish heritage, income and expenditure budget execution, preparation of trial balance and annual reporting were ensured.

Financial statements are elaborated in compliance with the accrual accounting. Therefore, the effects of transactions and other events are recognised when transactions and events are produced and are registered in the accounting records and reported in the financial statements of corresponding periods.

Financial statements are elaborated starting from the presumption that the company will continue its activity also in the predictable future. The company does not intend and it does not require to liquidate or to reduce significantly its activity.

**1.1. Balance sheet concluded as at 30.06.2011**

|                             | <b>31.12.2010</b> | <b>30.06.2011</b> | <b>%</b>  |
|-----------------------------|-------------------|-------------------|-----------|
| INTANGIBLE ASSETS           | 1,164,957         | 907,292           | -22%      |
| TANGIBLE ASSETS             | 53,612,816        | 54,579,387        | 2%        |
| FINANCIAL ASSETS            | 12,735,676        | 12,735,459        | 0%        |
| <b>FIXED ASSETS - TOTAL</b> | <b>67,513,449</b> | <b>68,222,138</b> | <b>1%</b> |
| INVENTORIES                 | 13,553,634        | 13,927,323        | 3%        |
| RECEIVABLES                 | 19,780,459        | 29,761,100        | 50%       |



|  |                    |                    |             |
|--|--------------------|--------------------|-------------|
| SHORT TERM INVESTMENTS                       | 66,248,433         | 67,459,356         | 2%          |
| CASH AND BANK ACCOUNTS                       | 920,826            | 1,802,439          | 96%         |
| <b>CURRENT ASSETS - TOTAL</b>                | <b>100,503,532</b> | <b>112,950,218</b> | <b>12%</b>  |
| ACCRUED PAYMENTS                             | 215,368            | 200,059            | -7%         |
| <b>DEBTS PAYABLE IN LESS THAN ONE YEAR</b>   | <b>18,260,308</b>  | <b>27,072,761</b>  | <b>48%</b>  |
| <b>NET CURRENT ASSETS /NET CURRENT DEBTS</b> | <b>82,450,347</b>  | <b>86,077,516</b>  | <b>4%</b>   |
| <b>TOTAL ASSETS MINUS CURRENT DEBTS</b>      | <b>149,963,796</b> | <b>154,299,654</b> | <b>3%</b>   |
| <b>DEBTS PAYABLE IN MORE THAN ONE YEAR</b>   | <b>844,330</b>     | <b>679,233</b>     | <b>-20%</b> |
| PROVISIONS FOR RISKS AND EXPENSES            | 3,358,457          | 2,868,519          | -15%        |
| DEFERRED REVENUES                            | 8,065              | 0                  | -100%       |
| CAPITAL AND RESERVES                         |                    |                    |             |
| SUBSCRIBED AND PAID-UP SHARE CAPITAL         | 109,486,150        | 109,486,150        | 0%          |
| RESERVES FROM REVALUATION                    | 14,001,817         | 14,001,036         | 0%          |
| RESERVES                                     | 9,175,884          | 14,061,317         | 53%         |
| OWN SHARES                                   | -813               | -813               | 0%          |
| LOSSES IN RESPECT OF OWN CAPITAL INSTRUMENTS | -173,154           | -173,154           | 0%          |
| RETAINED EARNINGS                            | -291,917           | 2,363,951          |             |
| THE RESULT OF THE FINANCIAL YEAR             | 14,414,793         | 11,013,415         | -24%        |
| PROFIT APPROPRIATION                         | -851,751           | 0                  |             |
| <b>TOTAL OF OWN CAPITALS</b>                 | <b>145,761,009</b> | <b>150,751,902</b> | <b>3%</b>   |

### Fixed assets

At 30.06.2011 the company has in its property:

- the land placed in the no. 40-42 Iancu de Hunedoara Street;
- the land from Gura Badicului Street and it did not obtain title to the land that is currently used in street no 99 Logofat Tautu;

The land in use from no. 99 Logofatul Tautu Street 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 requests the obtaining of the attesting certificate regarding the property title for the land, for the land 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.



In the first semester of 2011 investments worth 3,351,992 Ron were made

| <b>ASSETS</b>                        | <b>Acquisitions<br/>semester I<br/>2011</b> |
|--------------------------------------|---|
| Intangible assets                    | 4,828                                       |
| Constructions                        | 77,225                                      |
| Technical installations and machines | 696,036                                     |
| Furniture and office equipment       | 33,187                                      |
| Tangible assets advances             | 2,540,716                                   |
| <b>Total</b>                         | <b>3,351,992</b>                            |

The vast majority of investments were made for building the company's deposit from Gura Badicului Street, which is expected to be put into service until the end of the current year.

### Inventories

At 30.06.2011, the inventories of raw materials and materials registered an increase of 3% in comparison with the inventories evidenced at 31.12.2010 and this in terms of increased turnover by 19% over the same period of 2010.

| <b>Inventories</b>                   | <b>31.12.2010</b> | <b>30.06.2011</b> | <b>%</b>  |
|--------------------------------------|-------------------|-------------------|-----------|
| Raw materials and consumables        | 7,296,631         | 6,996,860         | -4%       |
| Production in course                 | 436,422           | 603,251           | 38%       |
| Finished products and goods          | 5,764,879         | 6,266,983         | 9%        |
| Advances for purchase of inventories | 55,702            | 60,229            | 8%        |
| <b>Total</b>                         | <b>13,553,634</b> | <b>13,927,323</b> | <b>3%</b> |

### Receivables

The structure of trade receivables of SC Biofarm SA decreased from the same period of the last year. The decrease of receivables is due to the fact that the term of cashing the existent clients' receivables and of collecting some outstanding amounts from clients is maintained to 31.12.2010.

Customers balance at 30.06.2011 in the balance sheet of SC Biofarm SA is decreased with the amount of 21,595,164 lei, representing promissory notes received by the company. These amounts are shown in the balance sheet under "short term investments".

### Liabilities on short and long term

Short term debt increased with 48% from the end of 2010.

Liabilities for the state budget and local budgets, that is tax, special funds and taxes were paid on their due date.





### 1.3. Cash flows

#### Cash flows first semester 2011:

|   |                  |
|---|------------------|
| Net cash from operating activities                                  | 17,172,033       |
| Net cash from investment activities                                 | (15,530,428)     |
| Net cash from financial activities                                  | (759,994)        |
| <b>Net increase in cash and cash equivalents</b>                    | <b>881,612</b>   |
| <b>Cash and cash equivalents at the beginning of financial year</b> | <b>920,826</b>   |
| <b>Cash and cash equivalents at the end of financial year</b>       | <b>1,802,438</b> |

### 1.4. Indicators

| <b>PROFITABILITY AND CAPITAL RETURN</b>       | <b>30.06.2011</b> |
|---|-------------------|
| <b>Efficiency of available capital</b>        |                   |
| Profit before interest and tax (A)            | 13,634,828        |
| Available capital (B)                         | 151,431,135       |
| <b>A/B</b>                                    | <b>9.0%</b>       |
| <b>Efficiency of own capital</b>              |                   |
| Net profit (A)                                | 11,013,415        |
| Share capital                                 | 150,751,902       |
| <b>A/B</b>                                    | <b>7,31%</b>      |
| <b>Rate of operational profit</b>             |                   |
| Profit before interest and tax (A)            | 13,634,828        |
| Operating income (B)                          | 50,373,615        |
| <b>A/B</b>                                    | <b>27.07%</b>     |
| <b>Net profit rate</b>                        |                   |
| Net profit (A)                                | 11,013,415        |
| Total revenues (B)                            | 52,509,489        |
| <b>A/B</b>                                    | <b>20.97%</b>     |
| <b>Rate of total assets</b>                   |                   |
| Profit before interest and tax (A)            | 13,634,828        |
| Total assets (B)                              | 181,372,415       |
| <b>A/B</b>                                    | <b>7.52%</b>      |
| <b>Solvency</b>                               |                   |
| <b>Rate of liability</b>                      |                   |
| Total liabilities (A)                         | 27,751,994        |
| Total assets (B)                              | 181,372,415       |
| <b>A/B</b>                                    | <b>15.30%</b>     |
| <b>Rate financial autonomy</b>                |                   |
| Share capital                                 | 150,751,902       |
| Total assets less net current liabilities (B) | 154,299,654       |
| <b>A/B</b>                                    | <b>97.70%</b>     |



| <b>LIQUIDITY AND WORKING CAPITAL</b>    |  | <b>30.06.2011</b> |
|---|--|-------------------|
| <b>General liquidity rate</b>           |  |                   |
| Current assets                          |  | 112,950,218       |
| Current liabilities                     |  | 27,072,761        |
| <b>(A/B)</b>                            |  | <b>4.17</b>       |
| <b>Rapid rate of liquidity</b>          |  |                   |
| Current assets                          |  | 112,950,218       |
| Inventories                             |  | 13,927,323        |
| Current liabilities                     |  | 27,072,761        |
| <b>(A-B)/C</b>                          |  | <b>3.66</b>       |
| <b>Period of cashing from customers</b> |  |                   |

## 2. Analysis of the activity of the trading company

Biofarm - S.A. Company is producing medicines and dietary supplements for human use. In this capacity, the company is subject to the special laws on the authorisation of units operation for manufacturing medicines and food supplements. The company is also certificated in accordance with the requirements of EN ISO 9001:2000 and of the Guide of Good Manufacturing Practice (GMP) for all production lines.

S.C. BIOFARM S.A. products are presented in the following therapeutic areas:

- products for the digestive system:
  - antacids
  - antiflatulents
  - choleric and colecistochinetic
  - gastroprochinetice
  - hepatoprotective
  - contact laxatives
  - digestive enzyme supplements
- products for the musculoskeletal system:
  - trophic articulation
  - calcium supplements
- vitamins, multivitamins and tonics
- antiseptics and disinfectants:
  - tegumentary
  - buccal
  - for external use
- products for respiratory tract:
  - nasal decongestants
  - antitussive
  - expectorants
- other



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Due to new strategies adopted and implemented by the management of the company in order to consolidate its position in the pharmaceutical market over this period of crisis, SC Biofarm SA registered in the first semester of 2011 an increase of 22%\* in sales in units compared to the same period of 2010.

Regarding the financial results of S.C. BIOFARM S.A., in the first quarter of 2011, a turnover of 49,483,150 RON was recorded, with increase tendency with 19% in comparison with the similar period of the last year.

On 30.06.2011, the company recorded a net profit of 11,013,415 RON, with increase tendency compared to the similar period of 2010, maintaining a rate of return of about 14% and an EBITDA margin of approximately 33%.

Good results were obtained in terms of export sales where S.C. BIOFARM S.A. recorded in the period January-June 2011 an increase of over 25%\* of sales in units and an increase of over 37%\* of sales in value. The improvement of export activity is one of the company's strategic objectives on the medium and long term. Currently, SC BIOFARM S.A. exports to 7 countries, it filed for registration products in other 4 countries, it opened a representative office in the Republic of Moldova and the expansion continues.

An important role in obtaining the results recorded by SC BIOFARM S.A. in the first 6 months of 2011 versus first semester of 2010 was played by media and advertising campaigns addressed to the final users in order to familiarize them with the BIOFARM products, products recognized for their therapeutic effects, for their quality and for the affordable prices. Although sales and marketing expenses increased in this period in comparison with the same period of the last year, the advertising, media and marketing campaigns which generated them have attracted new customers and strengthened the position of SC Biofarm S. A. on the market.

Also, to better respond client needs, S.C. BIOFARM S.A. constantly evaluates and improves its product portfolio by launching regularly new products on the market, very competitive and with modern and efficient therapeutic properties.

Equally important is the fact that S.C. Biofarm S.A. has annual contracts signed for sale with the strongest pharmaceutical market retailers, who have a good sale power of products in pharmacies. Thus, during January-June 2011 the distribution was conducted mostly with the top 10 retailers, according to the classification of the pharmaceutical market, from a total of approximately 150. In this period there were no incidents in the partnership with these retailers, not in terms of the sale or cashing sales.

Regarding the Romanian pharmaceutical market, this was affected in the first 6 months of 2011, both by the effects of the global crisis materialized mainly through devaluation of national currency compared to the euro and by the administrative measures adopted during recent years, such as the new way of calculating prices for generic medicines, deferring payment for compensated/free medicines or the introduction of clawback system. All these problems the pharmaceutical market has encountered lately eventually led to the creation of a liquidity crisis, a blockage at level of pharmacies and retailers and to a lower purchasing power.

However, S.C. BIOFARM S.A. remains one of the top 10 medicines manufacturers in terms of volume, and this certifies that S.C. BIOFARM S. A. is recognized as the producer of medicines and food supplements of high quality at affordable prices.

\* Biofarm sales to retailers



S.C. BIOFARM S.A. will continue the process of identifying and implementing the best development, sales, marketing and cost optimisation strategies that will allow it to further respond to the needs of its consumers.

### 3. Own capitals

In 2011 there were no variations in share capital, its value being of 109,486,150 lei with a nominal value per share of 0.1 RON.

The structure of shareholding at 30.04.2011 was the following:

| Shareholder                                 | Shares        | Percentage |
|---|---------------|------------|
| other shareholders / others                 | 496,223,980   | 45,3230%   |
| S.I.F. OLTENIA CRAIOVA DOLJ                 | 271,400,671   | 24,7886%   |
| S.I.F. BANAT-CRISANA S.A. ARAD ARAD         | 182,053,951   | 16,6280%   |
| SIF MOLDOVA BACAU BACAU                     | 133,734,144   | 12,2147%   |
| A.V.A.S. BUCHAREST 1 <sup>ST</sup> DISTRICT | 11,448,753    | 1,0457%    |
| Total                                       | 1,094,861,499 | 100%       |

SC Biofarm SA holds a participation of 3,500 euros, representing 50% of the share capital of a company from Ukraine. The company of Ukraine has not developed economic-financial activity until 30.06.2011.

On 08.02.2010 a Biofarm SA representative office was registered in the Republic of Moldova.

The representative will perform the following activities:

- Marketing studies;
- Collection and distribution of information on the Moldavian market;
- Placing advertisement and promoting Company's products;
- Participation to exhibitions, seminars, symposia, workshops and other similar reunions from the Republic of Moldova;
- Other such activities approved by the General Meeting of Shareholders or by the Board of Directors, which are necessary or favourable for the purposes of promoting the activity of the Republic of Moldova;
- Closing any commercial contracts, transactions and/or agreements for or in the name of the Company in order to market the products of the Company in Moldova, undertaking the responsibilities occurred or that limit in other way the Company against any third parties from Moldova.

During the first semester of 2011, expenses were made with the representative office from Moldova amounting approximately 75,000 lei, expenses that are comprised in the financial statements of S.C. Biofarm S.A.





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On 30.06.2011 the company has the following working points:

- Bucharest, no. 60 Ion Minulescu Street, tax identification number 18619329 – rented space in which the storage activity for raw materials/materials/finished products is performed.
- Bucharest, no. 42-44 Bd. Iancu de Hunedoara, 1<sup>st</sup> City District, tax identification number 14008268.
- Cluj Napoca, no. 206 Traian Vuia Street, tax identification number 26585871 – storage for finished products distribution.

#### **4. Changes that affect the capital and the management of the trading company**

**4.1.** Description of cases in which the trading company was in impossibility to comply with the financial obligations during the respective period.

**It is not the case.**

**4.2.** Description of any modification concerning the rights of transferable securities issued by the trading company.

**It is not the case.**

#### **5. Significant transactions**

In the case of shares issuers, information regarding major transactions closed by the issuer with persons with who they act in a concerted manner or in which these persons were involved during the relevant period of time.

**It is not the case.**

**Chairman of the Board of Directors,**  
Dănuț Vasile

*(Illegible signature)*

*Round stamp with the following text:*  
*Biofarm S.A. Bucharest 3*

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*I, undersigned, Alina Cumpănășoiu, a sworn translator, authorized by the Ministry of Justice of Romania, do hereby certify that this is a true, full and correct translation of the text that was seen by me.*

*Sworn translator No. 26730,*



