PRESENTATION OF THE ACTIVITY OF THE BOARD OF DIRECTORS OF BIOFARM SA FOR THE MANDATE PERIOD 2013-2017

1. BOARD OF DIRECTORS – STRUCTURE AND ACTIVITY

The structure of the Board of Directors of Biofarm SA during the period 06.11.2013 until now was the following:

According to the decision of the Ordinary General Meeting of Shareholders No. 70 of 06.11.2013, the decision of the Board of Directors No. 167 of 10.12.2015 and the decision of the Ordinary General Meeting of Shareholders No. 75 of 29.04.2016, the structure of the Board of Directors is:

No.	Surname and first name	Position
1.	VASILE Danut	B.D. Chairman
2.	BILTEANU Dragos George	B.D. Member
3.	HREBENCIUC Andrei	B.D. Member
4.	EL LAKIS Najib	B.D. Member
5.	DRAGOI Bogdan Alexandru	B.D. Member

During the period 06.11.2013 – until now, the Board of Directors had a number of 46 meetings, as follows:

- during the period **06.11.2013 - 31.12.2013** a number of 3 B.D. meetings took place
- during the period **01.01.2014 - 31.12.2014** a number of 12 B.D. meetings took place
- during the period **01.01.2015 - 31.12.2015** a number of 13 B.D. meetings took place
- during the period **01.01.2016 - 31.12.2016** a number of 12 B.D. meetings took place
- during the period **01.01.2017 – until now** a number of 6 B.D. meetings took place

During the period 06.11.2013 – until now, a number of 45 decisions of the Board of Directors were issued, as follows:

- during the period **06.11.2013 - 31.12.2013** a number of 4 B.D. decisions were issued
- during the period **01.01.2014 - 31.12.2014** a number of 12 B.D. decisions were issued
- during the period **01.01.2015 - 31.12.2015** a number of 11 B.D. decisions were issued
- during the period **01.01.2016 - 31.12.2016** a number of 14 B.D. decisions were issued
- during the period **01.01.2017 – until now** a number of 4 B.D. decisions were issued

The structure of the Board of Directors during the period 06.11.2013 – 01.06.2014

- Danut Vasile – B.D. Chairman - General Manager
- Ciurezu Tudor – B.D. Member
- Hrebenciuc Andrei – B.D. Member
- El Lakis Najib – B.D. Member
- Bilteanu Dragos George – B.D. Member
- Mihaela Ion-Secretar C.A.

The structure of the Board of Directors during the period 02.06.2014 - 09.09.2014

- Danut Vasile – B.D. Chairman - General Manager
- Hrebenciuc Andrei – B.D. Member
- El Lakis Najib – B.D. Member
- Bilteanu Dragos George – B.D. Member
- Mihaela Ion-Secretar C.A.

The structure of the Board of Directors during the period 10.09.2014 – 01.12.2015

- Danut Vasile – B.D. Chairman - General Manager
- Gabriel Filimon- B.D. Member
- Hrebenciuc Andrei – B.D. Member
- El Lakis Najib – B.D. Member
- Bilteanu Dragos George – B.D. Member
- Mihaela Ion-Secretar C.A.

The structure of the Board of Directors during the period 02.12.2015 – 09.12.2015

- Danut Vasile – B.D. Chairman - General Manager
- Hrebenciuc Andrei – B.D. Member
- El Lakis Najib – B.D. Member
- Bilteanu Dragos George – B.D. Member
- Mihaela Ion-Secretar C.A.

The structure of the Board of Directors during the period 10.12.2015 - 06.11.2017

- Danut Vasile – B.D. Chairman - General Manager
- Bogdan Alexandru Dragoi- B.D. Member
- Hrebenciuc Andrei – B.D. Member
- El Lakis Najib – B.D. Member
- Bilteanu Dragos George – B.D. Member
- Mihaela Ion-Secretar C.A.

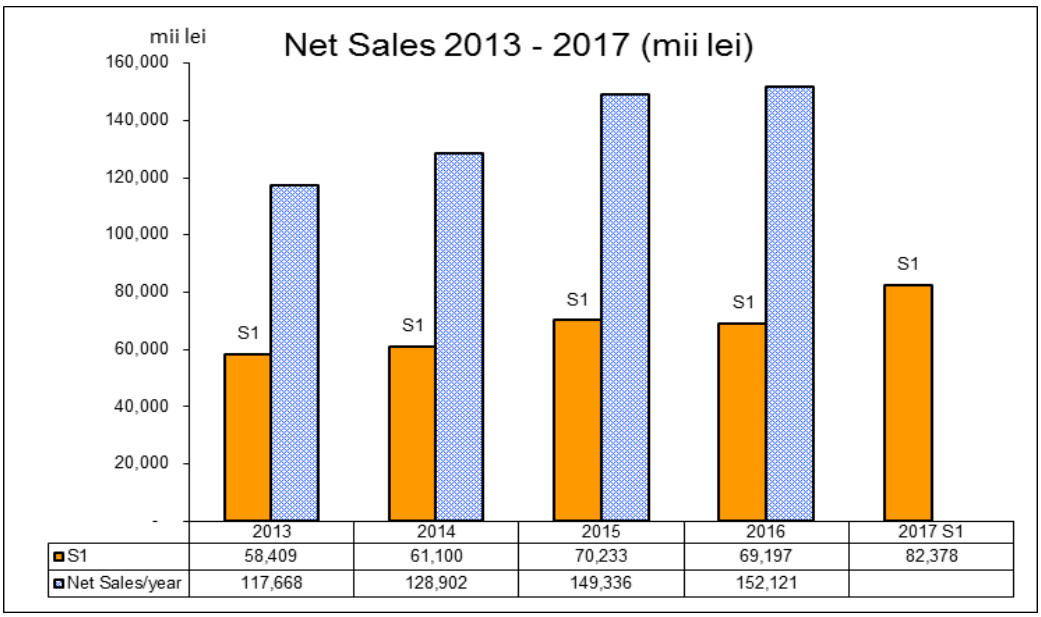
2. ANALYSIS OF THE FINANCIAL ACTIVITY AND OF THE PROFIT

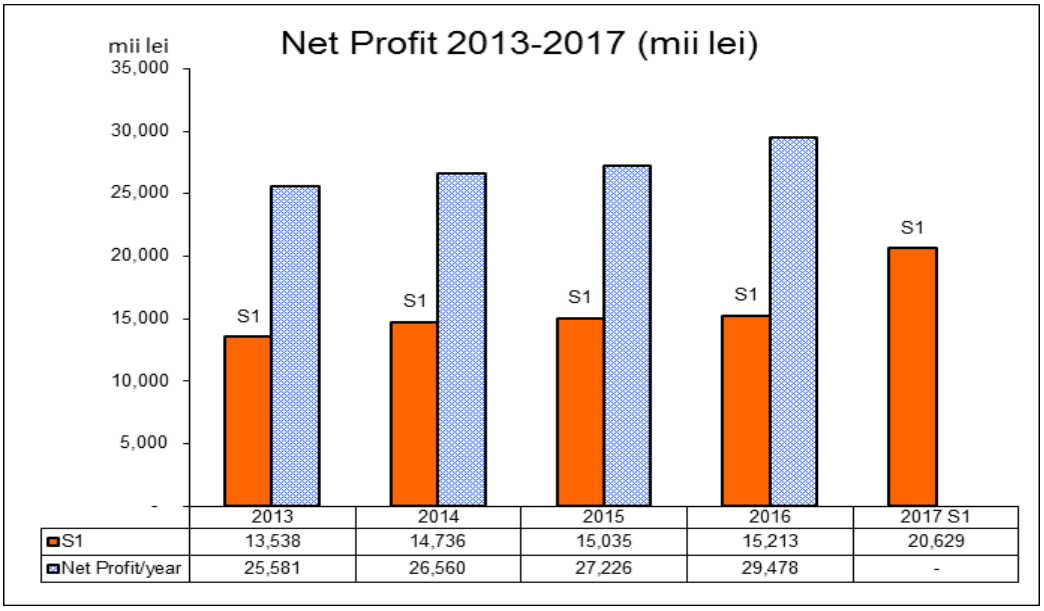
The turnover realised by Biofarm SA in 2016 was in the amount of Lei 152,121,117, increasing by 30% as compared to the turnover realised by the company in 2013 in the amount of Lei 117,667,806. This turnover is realised mainly from sales of finished products directly to pharmaceutical distributors (for the internal market).

It is estimated that the turnover evolution will record a growth rate similar to the previous one, also depending on the strategies that will be established by the company management. Profitability will be a permanently monitored parameter to reach the percentage established in the business plans according to the strategy proposed by the members of the Board of Directors.

The average profitability obtained in the last four years was of 19%.

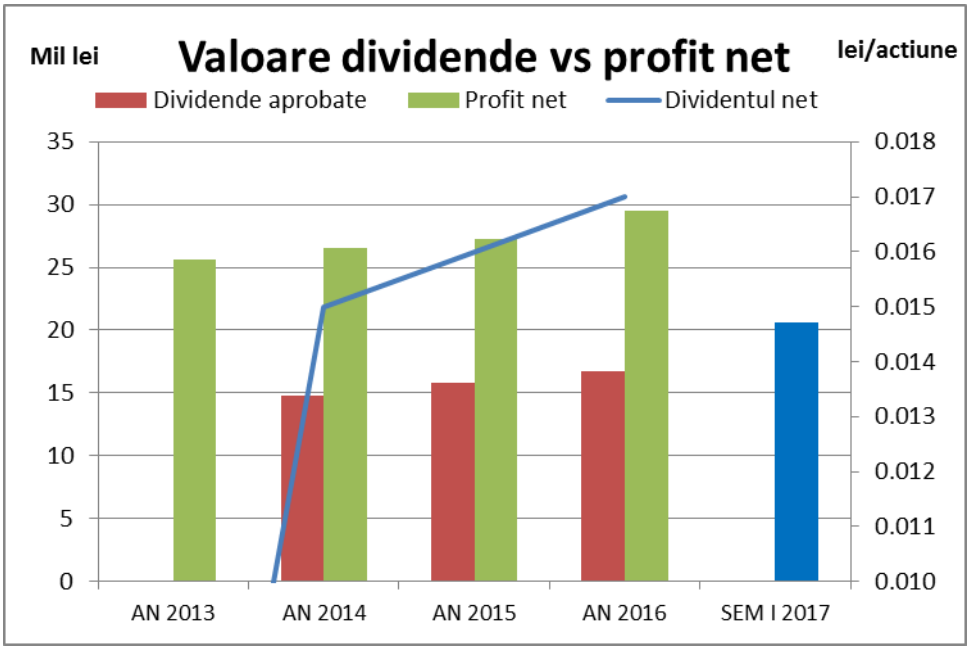
The evolution of turnover and of the net profit during the period 2013 – 2017 S1 are presented in the graphs below:





mii lei – thousand lei

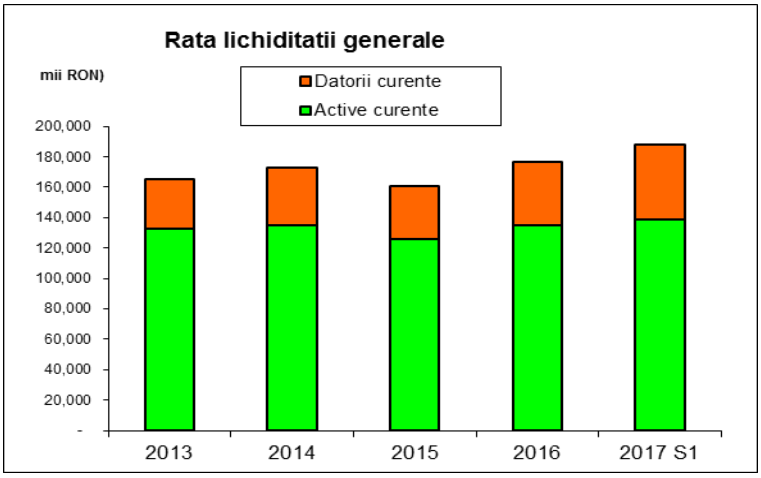
During this period, the dividends approved by the General Meetings of Shareholders to be distributed to shareholders had the following evolution:



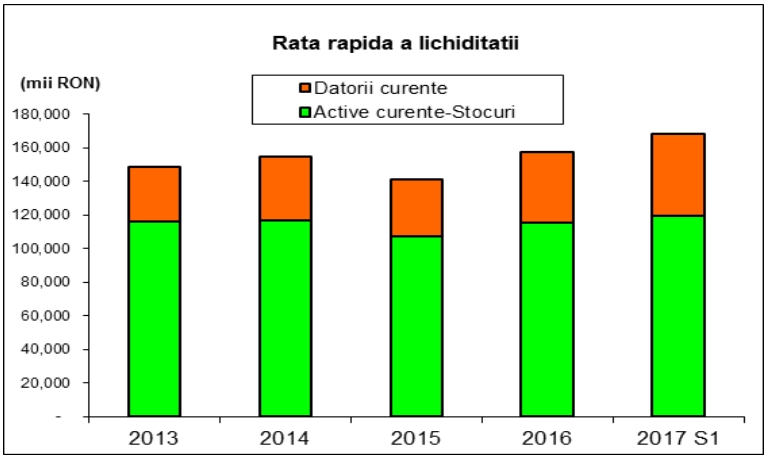
Valoare dividende vs profit net – value of dividends vs. net profit
Lei/actiune – lei/share

MAIN ECONOMIC-FINANCIAL INDICATORS

A. Liquidity rate



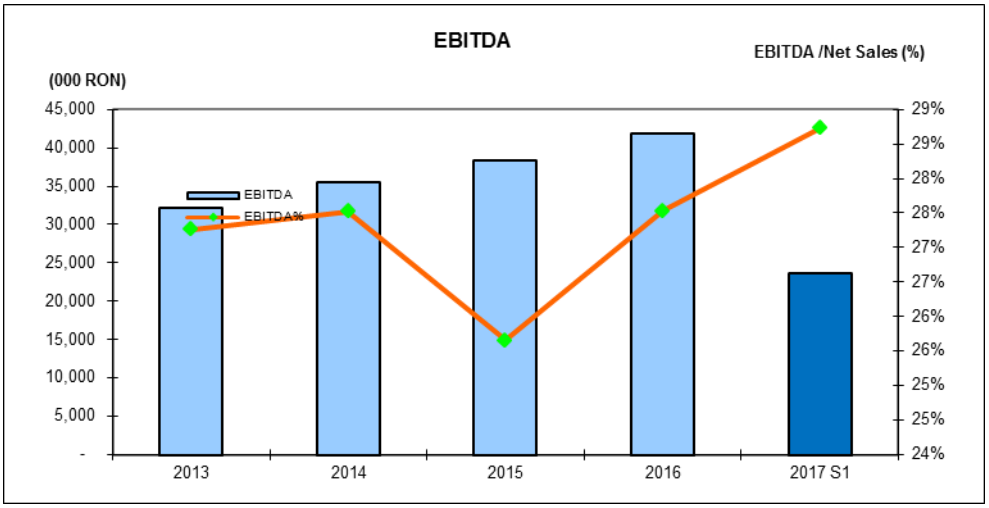
Rata lichidității generale – general liquidity rate
Datorii curente – current debts
Active curente – current assets



Rata rapidă a lichidității – fast liquidity rate

B. *Profitability rate*

1. EBITDA/ Turnover:



3. Analysis of the activity of Biofarm SA on risk management

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

-Credit risk

-Exchange risk

-Liquidity risk

-Operational risk

The general objective of the Board of Directors is to establish policies that try to reduce the risk as much as possible without unjustifiably affecting the competitiveness and flexibility of the Company. Further details on these policies are provided below:

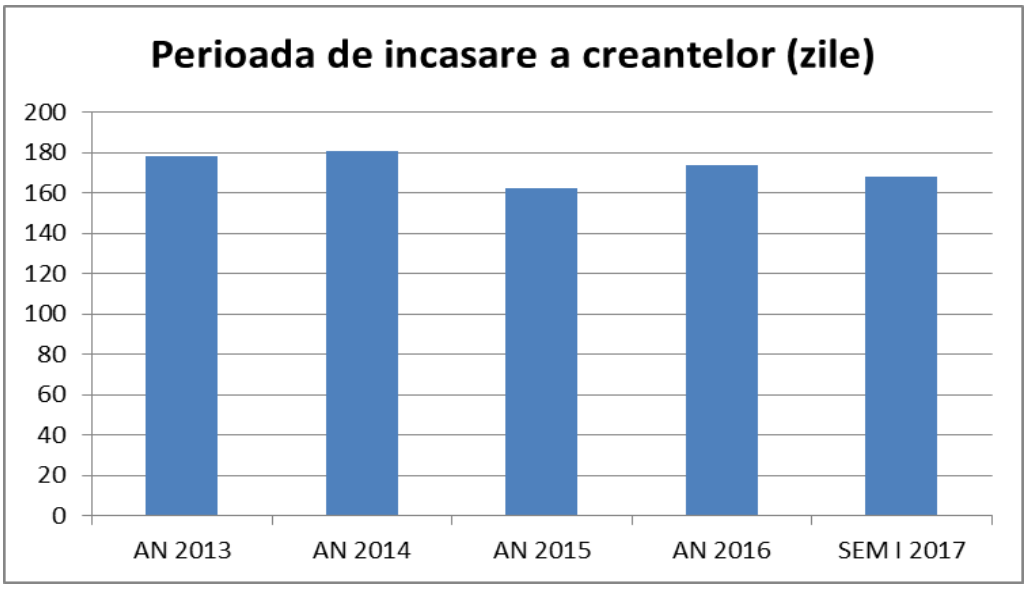
3.1 Credit risk

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 the company 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 only works 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 this is possible, the sale with advance payment is contracted.

Biofarm SA managed, during the period 2013 -2017, to maintain and even to improve the deadline for the collection of customers' receivables:



Perioada de încasare a creanțelor (zile) – Period for the collection of receivables (days)

The collection period is currently below the pharmaceutical market level.

Biofarm SA managed to permanently secure its liquidity needs and solvency at high levels 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 to over 210 days.

During this period, as a result of the insolvency of the client A & G Med Traiding SRL in 2015, even though the company recorded an adjustment of receivables in the amount of Lei 10,293,918, the profit recorded an increase as compared to the previous period.

In 2017, in order to reduce the credit risk, the Board of Directors of Biofarm SA decided to secure the receivables of the company by concluding a receivables insurance policy with Coface Romania.

3.2 Exchange rate risk

The exchange risk occurs when the Company closes transactions expressed in a currency that is different from the national 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 in this case, purchases from third countries cannot be limited very much.

On 31 December 2016, Company's net exposure to the exchange rate risk was as follows:

Receivables and cash/ Net debts	**31-Dec-16**
LEI	79,678,522
EUR	(4,293,754)
USD	1,266,685
OTHER CURRENCIES	20,548
At the end of the period	**76,672,001**

Considering the relatively reduced exposure to exchange rate fluctuations, it is not to be expected that reasonable exchange rate fluctuations will produce significant future effects in the company's financial results.

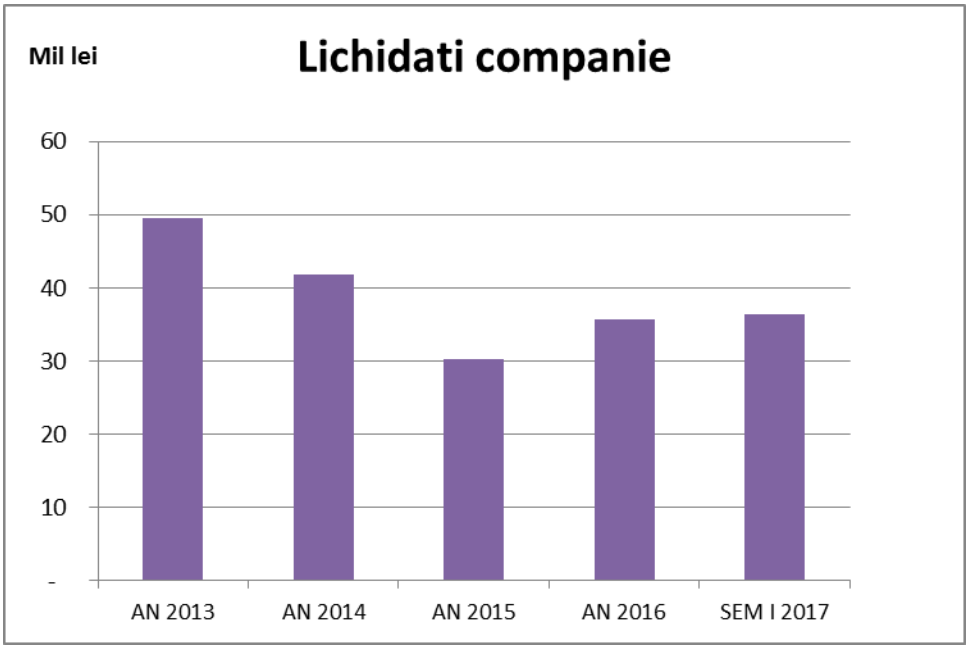
3.3 Liquidity risk

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.

Depending on the evolution of the deadline for the collection of receivables in the pharmaceutical market, we will try to keep the customers collection deadlines without granting additional discounts on sale, for the purpose of increasing company's liquidities. During the period 2013 – 2017, company's liquidities had a decrease from 49 million lei to 36 million lei, considering that the dividends in the amount of Lei 47.3 million, the repurchase from the market of 10% from own shares in the amount of lei 33 million were paid and considering the increase of investments in the new factory.

The evolution of liquidities during the period 2013-2017 is the following:



Lichidități companie – company liquidities

Currently, the Company has sufficient cash resources to meet its obligations in all reasonable forecasted circumstances.

3.4 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.

In order to reduce the operational risk, the company has concluded insurance policies.

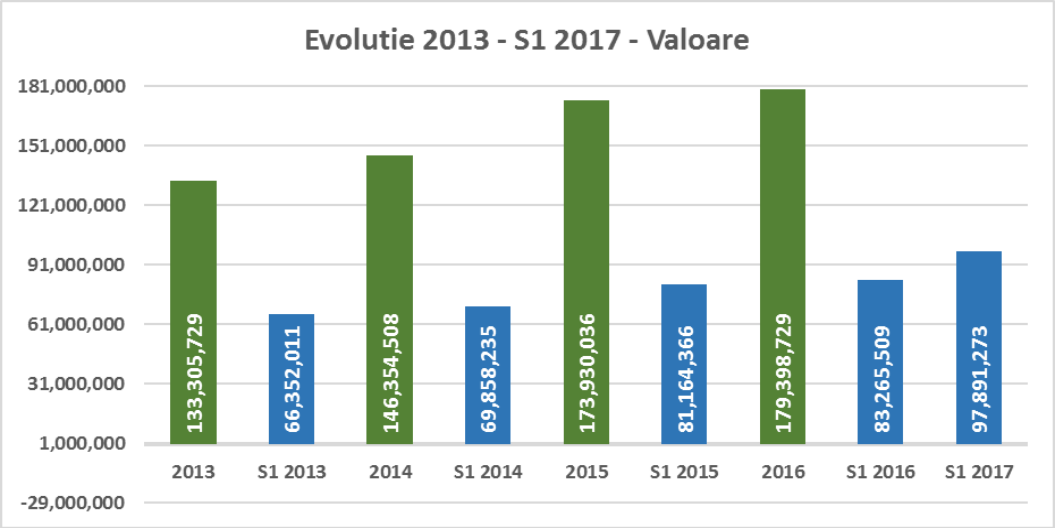
4. ANALYSIS OF THE COMPANY'S ACTIVITY

4.1 Commercial activity

During the period 2013 – S1 2017, the Romanian pharmaceutical market was significantly affected by a series of situations such as:

- devaluation of the national currency in relation to euro,
- new list of compensated drugs,
- frequent changes to the legislative framework
- evolution of the clawback fee,
- decrease of the consumers' purchasing power following the economic and financial crisis that affected Romania in recent years.
- exit from the market of cheap products that could not be sustained by manufacturers following the reduction of price below the production / profit level

Sales in value of the company evolved during the period 2013 – S1 2017 as follows:



Evolutie – Valoare – evolution - value

Under the current conditions of the pharmaceutical market in Romania, Biofarm SA recorded in S1 2017 as compared to S1 2016 an increase by 18% of the sales in value.

The market growth in value in the coming years will be given by innovative products that will enter the market, products intended for the treatment of chronic diseases (in fact, the diseases with the highest prevalence in the general population).

Our key contribution is to develop quality generic drugs and nutritional supplements and to make them accessible to all patients in Romania and patients from other countries.

Biofarm SA wishes to permanently diversify its export markets, especially aiming at the development of relations with strategic partners.

In recent years, on the Romanian market there are increasingly more nutritional supplements (NS) of obscure origin, manufactured in places without manufacturing authorization, due to legislative gaps for the control of these markets. Thus, NS on which the manufacturing place is not specified can be bought from the market, manufactured by dummy companies from the European Union, the manufacturing place being China or India in unauthorised factories. This is the unfair competition that affects the NS market in Romania.

4.1.1 *Promotion team evolution*

Biofarm SA has a powerful team of medical and commercial representatives that implement the company development policy, providing the presence of products in pharmacies and achieving the sales target.

The sales team emerged as a necessity, but also as an opportunity: the need to provide through own resources the promotion of products throughout the country and the opportunity to explore new possibilities meant to ensure sales growth and business development.

The main objectives that were established at the time of formation of a professional team of medical, commercial representatives, key accounts for pharmacies chains and regional managers were:

- identifying as correct as possible the needs and opportunities from each area of the country
- making more efficient the sales process, developing the customers network, as well as improving the relationship with strategic customers
- increasing the coverage degree in pharmacies
- increasing the reputation of the company and of its products
- ensuring system operability and efficient coordination in the territory.

The team, who reached at approximately 100 representatives, currently ensure both the promotion of products and the image of our company at the level of the entire country, and the increase of our company's brands notoriety.

Each new member of the team was included, since his/her employment, in personalised training and coaching programs, aiming at improving his/her abilities in: sales, communication, promotion, presentation and organisation of own territories. Also, all the members of the promotion team have attended internal courses that had as objective the complex presentation of the products portfolio.

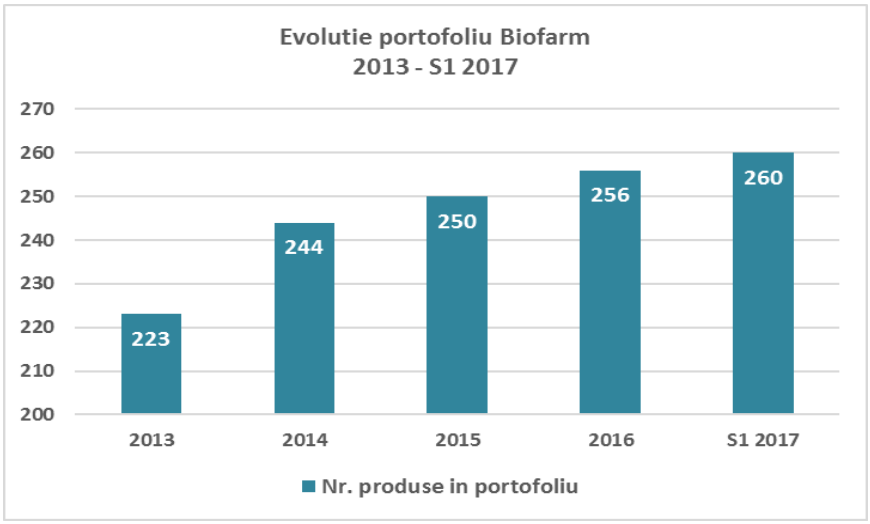
We are honoured that we are in the TOP of the drugs manufacturers of Romania and, at the same time, we believe that we also have a great responsibility; a responsibility which we can successfully accomplish if we are permanently concerned about finding out what the customer needs really are and honouring them at the excellence level.

4.1.2 *Portfolio evolution*

Biofarm SA permanently improves and diversifies its products portfolio to better meet the market needs and the needs of its customers.

Depending on the consumers' needs, traditional products are improved, line extensions are performed for the most important products, new products are developed according to EU quality standards and products that are no longer sought are waived at.

The evolution during the period 2013 – S1 2017 of the products portfolio of Biofarm SA marketed on the Romanian market is described in the graph below:

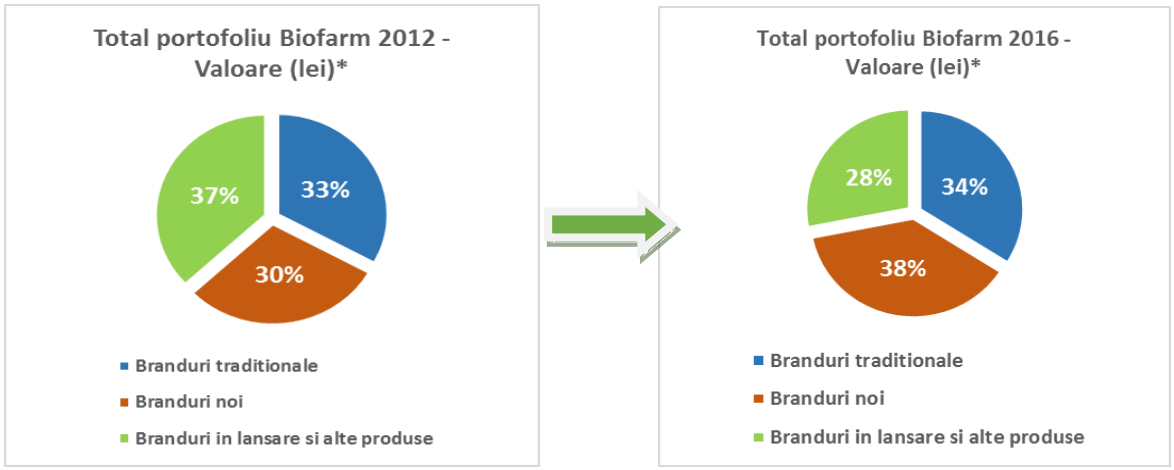


Evoluție portofoliu – Portfolio evolution

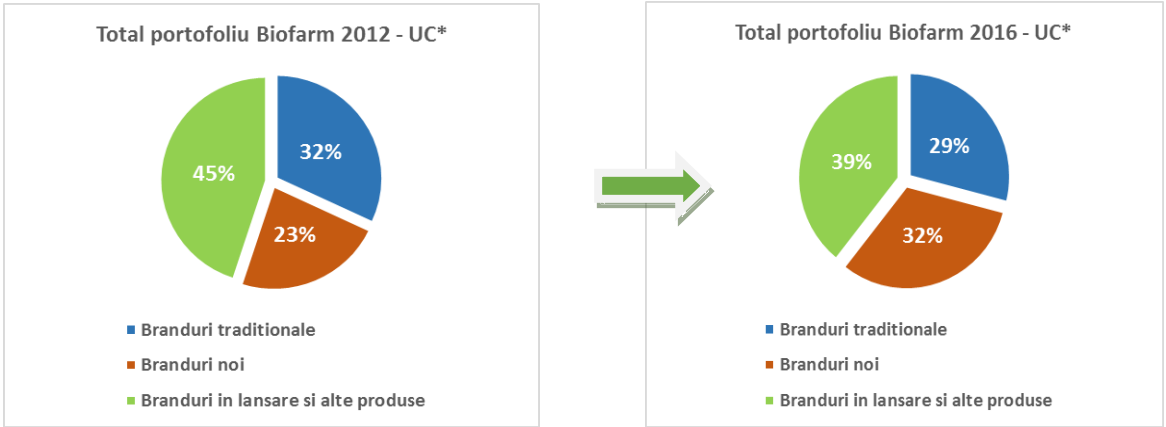
Nr. produse în portofoliu – No. of products in the portfolio

In terms of the sales value (lei) recorded, according to market reporters*, in 2016, the current Biofarm SA portfolio is structured according to the 3 major categories (also presented in the graph below):

- 34% traditional brands
- 38% new brands
- 28% brands under release and other products



The same 3 major categories mentioned above show from the point of view of sales in units, as follows:



* *Data source CEGEDIM Romania (pharmacy-final consumer sales) – market in value–lei, market in volume – units*

4.1.3 *Market leaders*

The tradition, the reputation of Biofarm SA brands and the outstanding quality of our products has made them market leaders in some of the most important pharmaceutical market sectors over time.

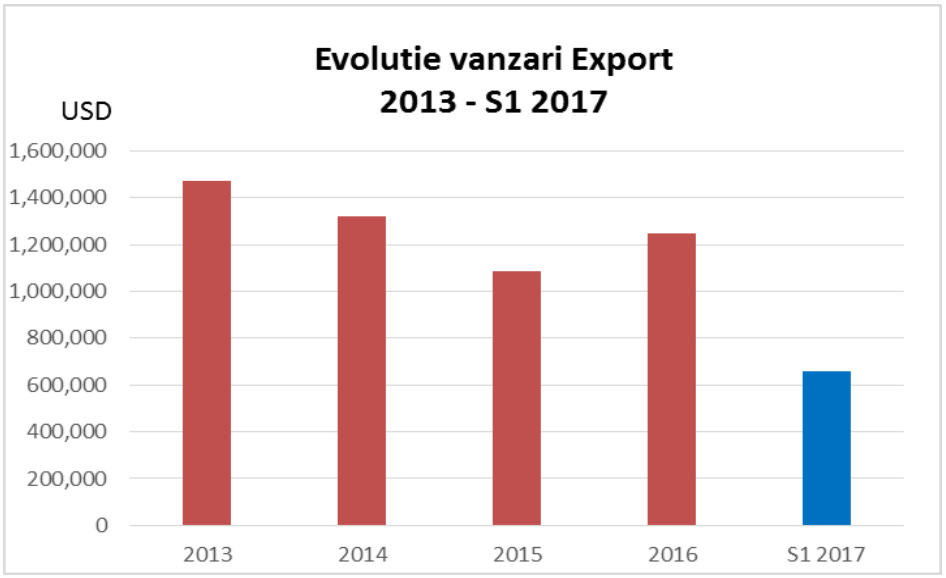
Currently, the company products cover more than 60 therapeutic areas from 436 therapeutic areas in total on the market, representing 15% of them. In 10 therapeutic areas Biofarm SA is a leader, and in other 8 it holds significant market shares with real chances to become a leader.

Also, according to the market reporters * the products of Biofarm SA are present in 14 from the first 30 therapeutic areas of the pharma market, areas that represent approximately 50% from the first 30 therapeutic areas mentioned above.

4.1.4 *Promotion on the international market*

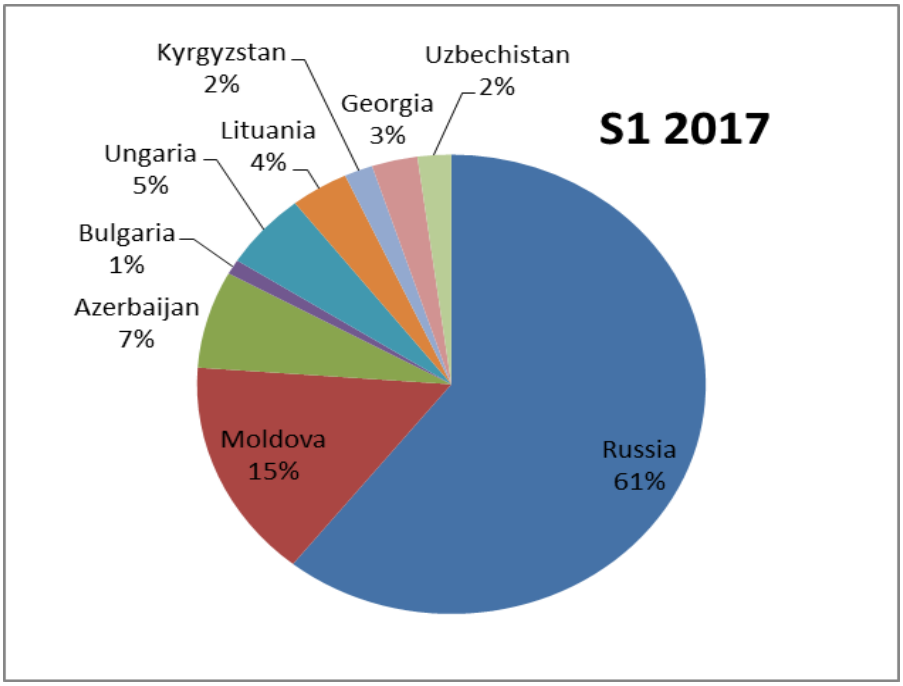
A constant concern of Biofarm SA is increasing the export sales and extending the markets in which the company products are exported. Currently, Biofarm SA exports in countries such as Azerbaijan, Belarus, Bulgaria, Russian Federation, Georgia, Kyrgyzstan, Lithuania, Republic of Moldova, Hungary, Ukraine and Uzbekistan. The market of Kazakhstan is under process of commercial negotiation, with objective of signing the distribution contracts of company products, until the end of 2017.
Due to the inflationary context in Russia and Ukraine existing during the period 2015-2016, export to these countries was affected, but we expect that until the end of 2017, according to the negotiations concluded with external partners, the export will exceed the results of previous periods.
Currently, the export represents approximately 3.4 % from the company's total sales.

The evolution of export during the period 2013-30 June 2017 is presented in the graph below:



Evoluție vânzări export – evolution of export sales

The structure of the export realised on the first 6 months of 2017 per countries is presented as follows:



4.2 Production activity and quality of Biofarm SA products

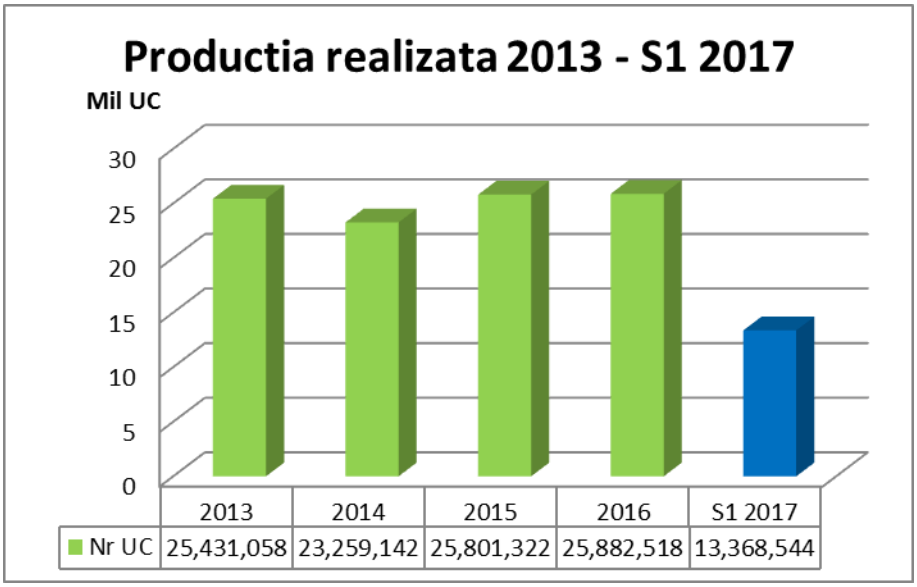
4.2.1 Production activity

The company's production activity is realised on the GMP certified manufacturing flows, structured according to the pharmaceutical forms produced and namely:

- solid forms flow – tablets and coated tablets
- soft capsules flow
- liquids flow – solutions and syrups
- flow of food supplements – chewable tablets

As compared to 2013, when approx. 25,431,058 TU were manufactured, in 2016 approx. 25,882,518 TU were manufactured, with a larger mix of products, the largest share being of products on the solid forms-tablets and coated tablets flow.

The evolution of the number of trade units manufactured can be also seen in the graph below:



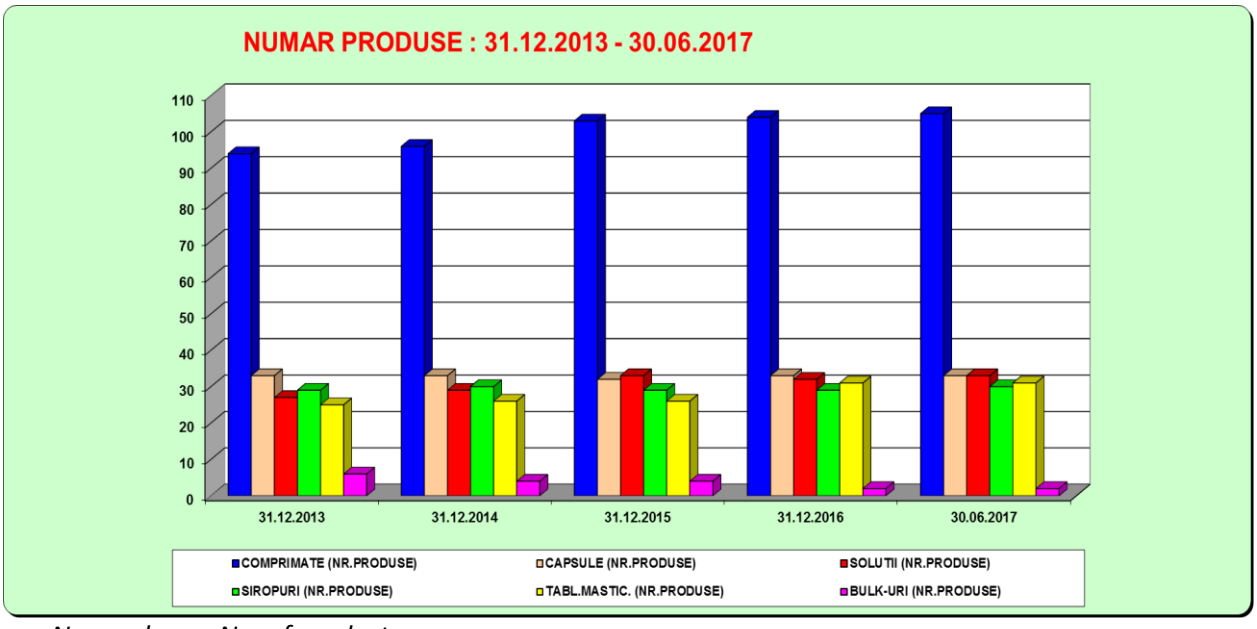
Producția realizată – realised production

The increase in the number of manufactured trade units is due to the use of new packaging forms and to the development of new products:

- double-layer tablets
- tablets and chewable tablets in leaflets with a new commercial appearance
- hard capsules

The portfolio of products manufactured both for the internal market, and for the export has diversified, reaching from 215 products manufactured in 2013 to over 250 currently products manufactured.

The evolution of the number of manufactured items, under different pharmaceutical forms, can be also seen in the graph below:



Nr. produse – No. of products
Comprimate – tablets
Siropuri -syrups
Tabl. mastic. – chewable tablets
Soluții – solutions
Capsule - capsules

4.2.2 *Quality assurance and development research*

Quality Assurance Activity

Biofarm SA carries out the drugs manufacturing activity on several manufacturing flows, under GMP conditions, in 5 pharmaceutical forms.

Manufacturing flow	Certification of the manufacturing flow
Non-sterile products • soft-gel capsules	GMP Certificate released by ANMDM *(National Agency of Medicines and Medical Devices)* of 2004 Recertification in 2007, 2010, 2013 Last recertification in 2016
Non-sterile products • external use liquids	
Non-sterile products • internal use liquids	
Non-sterile products • other solid dosage forms: sugar-coated tablets, film-coated tablets	
Non-sterile products • tablets	

Storage of raw materials, packaging materials and of finished products is carried out in the warehouse from Drumul Gura Badicului.

Central warehouse	Certification
Storage of raw materials, of packaging materials and of finished products	Certification by ANMDM in 2012 Recertification in 2013 Last recertification in 2016

Starting with *2008,* Biofarm SA obtained and maintained the Quality Management System Certificate in compliance with the EN ISO 9001:2000 standard issued by the Certification Body TÜV-CERT of TÜV Technische Überwachtung Hessen GmbH. In 2013, respectively 2016, recertification audits were conducted, for the registration of the integrated Management System.

In 2013, Biofarm SA obtained and maintained the Environmental Management System Certificate in compliance with the SR EN ISO 14001:2005 standard and the Occupational Health and Safety Management System Certificate in compliance with the SR OHSAS 18001:2007 standard. Recertification audits were conducted in 2016.

In order to ensure the compliance with the GMP requirements of suppliers of raw materials, Biofarm SA conducted audits at the manufacturers of active substances, packaging materials and finished products, in agreement with the annual plans of external audit.

Pharmacovigilance activity

The pharmacovigilance activity consists of continuous monitoring of the safety of drugs from the portfolio by identifying, collecting and reporting any suspected adverse effect occurred following the administration of drugs from the portfolio.

Biofarm SA disposes of a permanent system of collecting adverse reactions 24 hours a day, 7 days a week.

According to the new regulations regarding the pharmacovigilance activity, a more transparent policy was imposed. Biofarm SA has carried out the recordings afferent to the portfolio or in international databases.

The activity imposes the realisation of specific documents: safety periodic reports, risk management plans for each drug, continuous updating of the pharmacovigilance system and permanent updating of the safety information database, reporting of adverse reactions to the EudraVigilance database, monitoring local medical literature and local media, training the company's staff on how to receive / manage adverse events reports on products from any source that takes place in the territory.

Within the pharmacovigilance system, Biofarm SA permanently and continuously has at its disposal a person appropriately qualified, in charge with pharmacovigilance and disposes of a standard file of the pharmacovigilance system.

Research and registration activity

From a legislative point of view, the period 2013-2016 was marked by significant modifications with an impact on the activity of registration and development of new products.

Type of product	**Legislative modifications**
Drugs, Food supplements, Cosmetics, Medical devices	• Implementing the legislation regarding the performance of consultations with target patient groups to elaborate the leaflet • Implementing new leaflet models, summary of product characteristics for authorised drugs through the national procedure according to the European models • Obligation of monthly reporting of the marketing in Romania, respectively of the sales of drugs by manufacturers /distributors/authorised importers • The entry into force on 2 July 2013 of the DIRECTIVE 2011/62/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 8 June 2011 amending Directive 2001/83/EC on the Community code relating to medicinal products for human use, as regards the prevention of the entry into the legal supply chain of falsified medicinal products. • Entry into force on 01 June 2013 of the COMMISSION REGULATION (EU) NO. 1129/2011 of 11 November 2011 amending Annex II to Regulation (EC) No. 1333/2008 of the European Parliament and of the Council by establishing a Union list of food additives • Entry into force of Order No. 1964/2014 approving the procedure for the notification of medicinal products, aromatic herbs and hives which are notified and are classified as food supplements, products for internal or external use

	• Entry into force on 11 July 2013 of the REGULATION (EC) NO. 1223/2009 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 30 November 2009 on cosmetic products, as further amended and supplemented. • In Law 95/2006 the following are introduced: Title XX Medical Devices • Entry into force of the Order of the MH No. 1008/2016 on the methodological norms for the application of title XX of Law 95/2006 on the approval of medical device activities.

4.3 Environmental protection activity

Within the activity, the organization's continued interest and concern for environmental protection activities has been maintained, thus being constituted in an instrument that allows the management to identify and control the impact on the environment of activities, products or services provided. The impact of the activity on environmental factors was within the limits imposed by the Environmental Authorisation No. 213/29.05.2015.

The environmental performance during the period under review can be presented with the following realisations:

a. No accidental pollutions were recorded of environmental factors. No penalty in inspections of environmental authorities (GNM, DSP, ROMANIAN WATERS NA);
b. Full compliance with environmental objectives on capitalising and recycling packaging waste placed on the market;
c. TUV Profi Cert certification was maintained for the environment management system according to DIN EN ISO 14011, valid both for the headquarters of Bucharest and for the work points with the destination of warehouse from Bucharest and Cluj-Napoca.
d. The steps to minimize the impact on environmental factors, to implement the concept of sustainable development within the current activities from the organisation have continued.
e. The development of new manufacturing capacities, integrated in the concept of responsible development with strict control of the impact of the activity on environmental factors, a context in which the necessary steps were taken to purchase new technologies capable of minimising losses and also of reducing the impact on environmental factors.

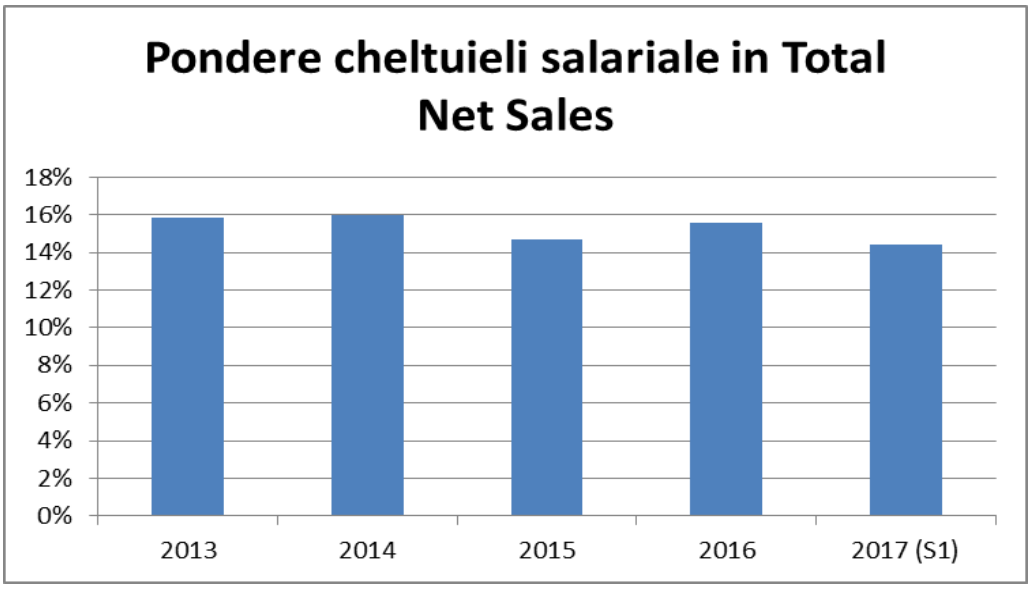
The conditions established in the following were maintained:

a. Environmental Authorisation No. 213/29.05.2015, valid until 29.05.2020.
b. Evacuation acceptance No. 837/07.11.2007 for the discharge of waste water, n the public sewerage network, with unlimited validity.

4.4 RU activity

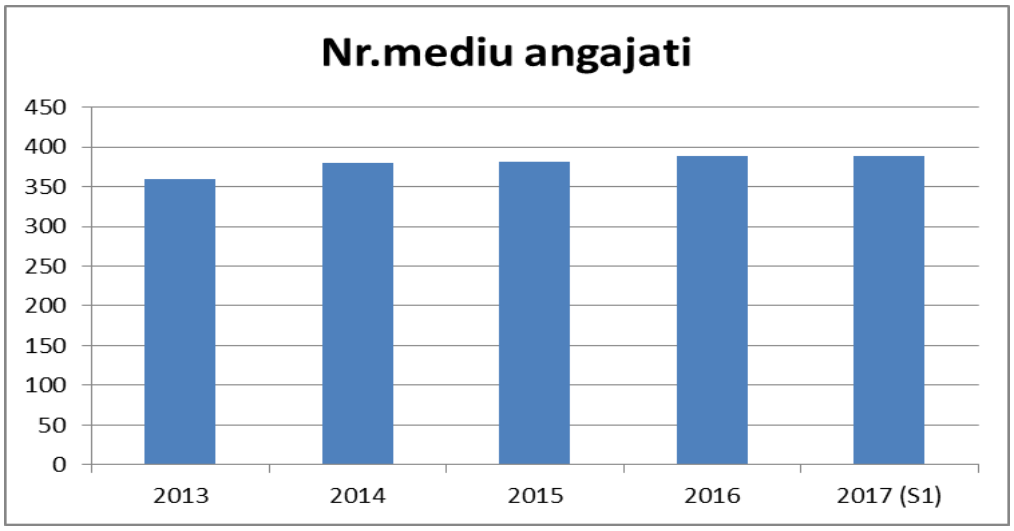
General information:

Share of salary expenses in total Net Sales



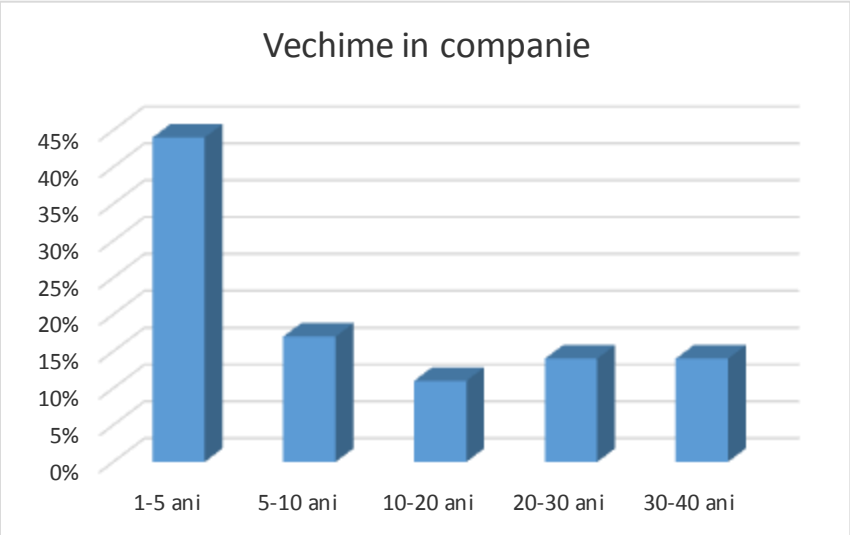
Demographic indicators:

Evolution of the number of employees during the period 2013-2017



Nr. mediu de angajați – Average No. of employees

Length of service**:**



Major activity directions:

- *Implementing the management by objectives*

The management by objectives represents an important part of the performances evaluation strategy.
The most important realisations related with the evaluation of performances are found in the implemented objectives system, a system that offers a faithful image of the performance level for categories of key employees from this company.
The process of cascading departmental objectives to individual level in the case of people with higher education was continued. The steps subsequent to the cascading of objectives to the individual level are monitoring and performance evaluation, actions that take place quarterly within the company and which are monitored by the departments managers and the Human Resources Compartment. Following the steps described above, it is possible to reward employees performance.

- *Recruitment and Selection*

During the period 2013-2017, the recruitment and selection process continued to be a priority activity for the human resources compartment. In the recruitment processes, new stages and filters were introduced, in order for the system to become more and more refined and thus, to allow attracting high-performing candidates and with great potential for development and training within the company. An important aspect of 2016 in what concerns recruitment, also consisted in focusing attention on internal recruitment, so that we can offer employees the opportunity to accede to positions in which they can value their abilities and knowledge. For 2017, recruitment does not happen in a passive way, but on the contrary, in a context in which candidates need to know as many as possible about the employers they are aiming at. In the competitive environment in which recruitment is carried out, Biofarm SA must have a differentiating element and attract the candidates it needs, and the social environment provides us with a good framework for everything that represents the image of the employer.
he recruitment activity carried out by the human resources department provided the necessary personnel to carry out the company's activity under optimal conditions.

- *Development and training*

2013-2017 were oriented towards the development of skills and accumulation of new knowledge. The members of the Promotion Team had thus the opportunity to accumulate knowledge and reassess their approach in what concerns the architecture of a group presentation. Together with the implementation

of these training programs, new work instruments were also developed meant to monitor the performance in this area of activity. Professional development plans outlined over the years for key persons will indicate certainly indicate more and more specific guidelines, focused on enhancing those personal and professional dimensions which have the ability to bring added value to global organizational performance. Trainings planning is established at every beginning of the year for each department individually, in order for the training program to be as developed as possible, depending on the professional need of each department. Training and development programs have constituted a major item on the agenda of the Human Resources Compartment, a direction that will be developed and consolidated in the future as well. We will accelerate professional development plans, especially for key persons that will be focused on enhancing those personal and professional dimensions that have the capacity to bring added value to global organisational performance.
An important point on the list of the Human Resources Compartment was constituted by the initiation and implementation of an induction-supported program, especially addressed to the sales team, a program that managed to facilitate the integration of the new members and has greatly contributed to increasing the quality of the sales / promotion act. The Human Resources Compartment will continue to improve and develop new induction methods of the newly employed personnel, in order to facilitate their accommodation in their departments and to be able to rapidly adapt to the organisational culture, to the company requirements and to the responsibilities they will have.

- *OHSAS Certification (Health and Occupational Safety)*

Surveillance audit for OHSAS certification - Health and Organizational Security has highlighted the fulfilment of system requirements, the involvement of top management in specific problems, the lack of work accidents and professional illnesses, as well as of legal sanctions. No nonconformities were signalled. The specific OHSAS approaches included: preventive training, determinations of intra-factory noxae, periodical analyses for establishing the state of health of employees.

5 STRATEGIC OBJECTIVES

5.1 Increasing the market share and increasing the value of the company

The company business strategy will focus on increasing sales in agreement with increasing the pharmaceutical market and profitability. One of the main development lines is the opportunity of export in markets with high potential by collaborations with external distributors, based on the business development principles for files and manufacture, the conclusion by Biofarm SA of manufacturing contracts for external companies and the purchase of new files of products.

Biofarm SA has permanently improved and diversified its products range in the context of an extremely dynamic and competitive pharmaceutical market. If in 2013 the portfolio of Biofarm SA comprised 215 products, drugs and food supplements, now it comprises over 250 products.

During the period 2013 – until now, the pharmaceutical files of 5 new products were submitted with the National Medicines Agency for obtaining the marketing authorisation. Out of these, 2 products were developed at internal level, and 3 products represent files acquisitions.

In the authorisation procedure, there are still 23 new products, out of which 21 products developed at internal level and 2 products represent file acquisition.

Also, the marketing authorisations for 12 products from the current manufacture were renewed, and 38 files are in the renewal procedure.

Biofarm SA managed to maintain the upward trend of profitability, gaining market shares in new therapeutic areas, although in the existing market conditions, launching a new product involves significant investments. Currently, the company products cover over 60 therapeutic areas, on 10 of these

Biofarm SA being a leader, and on another 8 holding significant market shares, with real chances of becoming a leader.

Biofarm SA realised lines extensions for its most important brands in response to market demands and patient needs.

Also, Biofarm SA has over 630 word marks, design marks and own slogans registered with OSIM *(State Office for Inventions and Trademarks)*, many of them being present on the Romanian pharmaceutical market for over 50 years.

The products of Biofarm SA have national coverage due to the specialized marketing and sales team and the distribution and promotion strategies.

In order to increase the awareness degree of its products among consumers, Biofarm SA is promoting its products both in the most important pharmaceutical chains and in independent pharmacies and is cooperating with the most powerful 10 distribution companies on the Romanian pharmaceutical market. Also, it constantly organizes marketing, commercial and media campaigns for the purpose of improving the reputation and the recognition degree of the products of Biofarm SA.

Biofarm SA is in TOP 10 manufacturers of drugs in volume, and this certifies that it is recognised as being the manufacturer of very high-quality drugs and food supplements at prices adapted to the purchasing power of patients.

Biofarm SA will continue the process of identifying and implementing the best development, sales, marketing and costs optimisation strategies enabling it to further meet the needs of its consumers.

5.2 Fixed assets investments

During the period 2013 – S1 2017 Biofarm SA realised investments for the purchase of production equipment, construction of warehouses spaces and fit-out of production spaces and offices, vehicles for equipping the team of medical and sales representatives, IT equipment and systems.

A situation of the investments realised during this period for tangible assets is presented below:

Ron

	2013	**2014**	**2015**	**2016**	**S1 2017**
Total tangible assets investments	8,808,585	17,733,743	22,200,809	20,072,274	8,440,065

Part of the investments was realised in IT equipment and systems for:

- Endowing the sales team with mobile work equipment (state-of-the-art tablets and smartphones);
- Installing new servers to facilitate and secure communications, for applications (ERP, BI, CRM) ;
- Developing the system for centralized granting of access rights Active Directory;
- Implementing a DLP software security solution (Data Loss Prevention) and a print management software (Printing Management);
- Updating the computer system used by the company (BAAN 4) by implementing the last version of the latest generation (ERP) of this system (BAAN ERP 6.1).

Most of the investment program was focused towards the extension of production facilities in the location from Drumul Gura Badicului, nr. 202-232, sector 3, Bucharest, the main activities being:

- The completion of the structural frame and the closures for the industrial hall intended for manufacture, with a built surface of 2,500 sq. m.;
- The completion of internal partitions and technological, electrical and sanitary installations for the upper floor of the industrial hall intended for manufacture;

- The completion of the structural frame and the closures for the industrial hall with multiple destinations (technical spaces, lockers, offices, laboratories);
- The completion of internal partitions and technological, electrical and sanitary installations for the ground floor of the industrial hall with multiple destinations;
- The completion of the structural frame and closures for the industrial hall intended for the treatment of wastewater and starting the works for endowment with technological installations;
- The completion of external networks works inside the premises (sanitary, electrical, retention basins, hydrocarbons separator);
- Completing the extension of the existing natural gas connection;
- Starting the extension of the existing energy connection;
- Fit-out of internal platforms;
- Starting the execution of access road modernisation.

Due to the insolvency of the contractor of pharmaceutical special utilities as well as due to the complex situation of resumption, the project recorded a delay of approximately 6 months.
However, in August, the manufacturing tests began for solid oral forms successfully completed.

Part of the realised investments are intended to maintain the requirements of the Good Manufacturing Practice Guide and to update the technologies at national quality and environmental standards.

During the period 2013 – S1 2017 the investments through the acquisition of equipment afferent to the production continued as follows:

- ✓ New Equipment for the Flow of Medicinal Charcoal;
- ✓ Granulation line-drying of granules;
- ✓ Tablet coating equipment;
- ✓ Homogenization equipment;
- ✓ Double-layer tabletting machine;
- ✓ Tabletting machine for different forms;
- ✓ Line for blistering tablets and coated-tablets;
- ✓ Complete line for the manufacture of soft-gel capsules.

During this period, investments were also made in equipment for the analytical control laboratory..

The investment in new technology, corresponding to the newest GMP manufacturing requirements was and will be a priority for the company In this respect, contacts have been maintained with international suppliers of solutions for pharmaceutical equipment and processes. Also, specialists from the company participated and will participate in trade fairs and profile international exhibitions.

Considering the need to maintain a high quality of the products, we will dimension the investment needs on each pharmaceutical form, in order to be able to be competitive so that we can be competitive in the local pharmaceutical market and in the export.

Statement of fixed assets according to the latest Annual Financial Statements:

On 31.12.2016, according to the latest audited Financial Statements of the company and drafted in compliance with the International Financial Reporting Standards, the statement of fixed assets held by Biofarm SA is presented as follows:

Assets	**31 Dec-16**	**31-Dec-15**
Tangible assets	92,397,401	78,968,285
Real estate assets	10,534,802	10,447,011
Intangible assets	226,206	320,971
Other fixed assets	8,077	8,077
Deferred tax	1,438,020	1,046,523
Fixed assets	**104,604,506**	**90,790,867**

On 31.12.2015, lands and buildings being in the patrimony of the company were reassessed by S.C. Iprochim S.A., associate member of the National Association of Evaluators in Romania (ANEVAR), having the certificate No.183/1992.

Buildings owned by Biofarm SA were reassessed on 31.12.2015, as follows:

Explanations	**Value**
Value remained on 31.12.2015	14,331,801
Value reassessed on 31.12.2015	14,565,337
Total appreciation/depreciation on 31.12.2015	233,536

On 31.12.2016, Biofarm SA reassessed by Iprochim SA the land from str. Iancu de Hunedoara nr. 40- 42. According to the reassessment report, the land was reassessed at the value of Ron 10,534,802, so that it recorded an appreciation in the amount of Ron 87,791.
For the other lands and buildings, the company considered that they are presented at their fair value in the accounting and their reassessment on 31.12.2016 is no longer necessary.

On 31 December 2016, the company did not own a title deed on the land in use from str. Logofat Tautu nr. 99. In Iancu de Hunedoara nr. 40-42, the title deed on the land was obtained in 2007.

The land in use from str. Logofat Tautu nr. 99, is not included in the financial statements of Biofarm SA, due to the fact that the documents certifying the ownership have not been obtained yet, there being notifications on Law No. 10/2001.

In compliance with the provisions of the GD 834/1991 art. 1, the company requested to obtain the land ownership attestation certificate for the lands necessary to carry out the activity according to the object of activity.

The value of the land for which the land ownership attestation certificate will be obtained will be established under the legal provisions. Together with the lands value, the share capital of the Company will increase and the shares will be owned by the state. The dilution effect will be taken in the calculation of the diluted result per share.

6 EVOLUTION OF THE SHAREHOLDING STRUCTURE

The total share capital of Biofarm SA on 31.12.2013 was of Ron 109,486,149.90, divided in 1,094,861,499 dematerialized nominative shares with a nominal value of Ron 0.10.

The structure of the share capital and of the shareholding on **31.12.2013** was the following:

Shareholder's Name/Designation	No. of shares owned	Percentage
S.I.F. MUNTENIA BUCHAREST Locality SECTOR 3	361,099,130	32.9813
S.I.F. BANAT-CRISANA S.A. ARAD Locality ARAD County	233,195,897	21.2991
SIF MOLDOVA BACAU Locality BACAU County	151,303,144	13.8194
A.V.A.S. BUCHAREST Locality SECTOR 1	11,448,753	1.0457
Natural persons	181,107,560	16.5416
Legal persons	156,707,015	14.3130
Total issued shares	**1,094,861,499**	**100.0000**

In the EGMS of April 2014, the repurchase by Biofarm SA of a maximum number of own shares 109,486,149 was approved, whose nominal value of Ron 0.10 represents maximum 10% from the share capital. The shares were acquired by the public purchasing offer, and were cancelled in 2015, the share capital being reduced to Ron 98,537,535.

The shareholding structure on **30.06.2017** was the following:

Shareholder's Name/Designation	No. of shares held	Percentage
S.I.F. MUNTENIA BUCHAREST Locality SECTOR 4	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	98,832,440	10.0299
Legal persons	21,130,580	2.1444
Total issued shares	**985,375,350**	**100.0000**

From the evolution of the shareholding structure, it can be noticed that Biofarm SA, through its performed activity during this period, managed to substantiate the trust of significant shareholders that increased their portfolio of shares held in the company.

The Board of Directors of Biofarm SA ensured during the period 2013-2017 the convening of General Meetings of Shareholders and their deployment in full legality. No decision made by the General Meeting of Shareholders was challenged in court during this period.

has sought to ensure that the company meets in a timely manner its transparency and reporting requirements imposed through the Corporate Governance Code of B.S.B. and the applicable legislation. No sanction was received from the Financial Supervisory Authority – Financial Instruments and Investments Sector, the company complying with all the legal requirements applicable to commercial companies traded on the capital market in Romania.

The company responded through the Investors Relations Department to all requests from its shareholders and made available all the levers necessary to comply with the shareholders' rights.

The company website comprises the Corporate Governance/Investors section where the following are posted both in Romanian and in English language: general information about the company, financial calendar, communiques and current reports, financial statements, materials afferent to the General Meetings of Shareholders, the "frequently asked questions" subsection, updated Articles of Incorporation, Corporate Governance Regulation, Apply and Explain statement, CVs of the members of the Board of Directors and presentation of executive management members, subsection regarding the transactions carried out by the persons involved.
Following the assessment, Biofarm SA was rated with a total score of 9.75 / 10 in the Whitepaper of communication of listed companies (May 2017) drafted by the Bucharest Stock Exchange, a project that aims at assessing the quality and accuracy of the information provided to investors by the issuers listed on the BSB main market.

The Board of Directors ensured the distribution under good conditions of dividends afferent to financial years 2014, 2015, 2016, meeting the decisions of the General Meetings of Shareholders without incidents regarding the performance of this activity.

B.D. CHAIRMAN,
Danut Vasile