



CONSOLIDATED ANNUAL REPORT 2016

**Board of Administrators of
Farmaceutica REMEDIA S.A.**

Farmaceutica REMEDIA S.A.

Registered office: Deva 330160, Str. Dorobantilor 43, Hunedoara County

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Trade Register J20/700/1991, Tax Identification Number: RO2115198; Share capital: 10.608.980
RON

IBAN: R033 RZBR 0000 0600 0266 5747, RAIFFEISEN UNIRII Bucharest

CONSOLIDATED ANNUAL REPORT 2016

Board of Administrators of Farmaceutica REMEDIA S.A.

A. Name of the commercial company: **Farmaceutica REMEDIA S.A.**

Subscribed share capital: **10.608.980 Lei**
 Paid-up share capital: **10.608.980 Lei**
 Registered office: **DEVA, Str. Dorobantilor nr. 43,**
 Tel. / Fax: **0254 223 260 / 0254 226 197**
 No. and date of registration with the T.R.O.: **J20/700/25.07.1991**
 Tax Identification Number: **R02115198**

Securities: **RMAH shares (Registration certificate No. 1470/04.05.2009)**
 Type: **Dematerialised Nominative Common**
 Date of registration: **17.03.1997**
 Nominal value/share: **0.10 Lei**
 Position in the R.N.S.C. Register: **1636**
 Total number of shares: **106.089.800**
 R.N.S.C. code of shares: **16368**

	Date	Number of shares	Issue value (Lei)	Explanations
1	10.11.1999	3.370.107	337.010,70	Initial capital of the state, including land contributed in kind
2	06.09.2001	1.500.000	150.000,00	Cash contribution of V.TARUS RoAgencies
3	23.07.2003	42.402	4.240,20	Merger - capital of Ditafarm Trading – acquired company
4	05.01.2006	5.696.471	569.647,10	Merger - capital of V.TARUS RoAgencies – acquired company
5	21.12.2007	87.905.969	8.790.596,90	Capital increase – shareholders with pre-emption right
6	04.05.2009	7.574.851	757.485,10	Capital increase – AHG Simcor Industry S.R.L.
	TOTAL	106.089.800	10.608.980	

Organised market on which securities are traded:

Bucharest Stock Exchange - standard category

The total market value on 13.03.2017 is of 21.217.960 Lei

The value of a RMAH share is of 0,20 Lei. (on 13.03.2017)

1. Activity Analysis

1.1. Overview

The consolidated financial statements of 2016 comprise the results of the companies:

- Farmaceutica REMEDIA S.A. and,
- Farmaceutica REMEDIA Distribution & Logistics S.R.L. (former Sibmedica S.R.L.), a company owned 100 % by Farmaceutica REMEDIA S.A.

Farmaceutica REMEDIA S.A. was established in 25 July 1991 as a commercial company with fully state-owned capital by reorganisation of Oficiul Farmaceutic Deva. On 13.10.2000, V.TARUS RoAgencies S.R.L. has purchased from FPS the majority shares package (55.802 %). In January 2006, Farmaceutica REMEDIA S.A. merged by absorption with V.TARUS RoAgencies S.R.L.

According to the law 95/2006 republished in August 2015, commercial companies can no longer carry out at the same time wholesale and retail activities of drugs. (Art. 800 paragraph 2). Thus, Farmaceutica REMEDIA S.A. transferred to Farmaceutica REMEDIA Distribution & Logistics S.R.L., **a company owned 100%**, the wholesale distribution activities of drugs (by a network of 8 warehouses) together with related activities (logistical services, recordings, promotion and marketing of drugs, etc.), keeping the operation of the chain of 100 pharmacies and local distribution offices.

Thus, on 31.12.2016 Farmaceutica REMEDIA S.A. holds majority participations (100%) with the Farmaceutica REMEDIA Distribution & Logistics S.R.L. Company, former Sibmediaca S.R.L., a company with suspended activity since 16.12.2013 and reactivated under the new name on 19.01.2015.

Following the change of the main activity object imposed by the laws above mentioned, the company was forced to buy back from the market (in 2015) a number of 300100 shares at a price of 0,3753 lei/share, a price established by an authorised assessor.

During 2016, Farmaceutica REMEDIA S.A. or Farmaceutica REMEDIA Distribution & Logistics S.R.L did not participate in mergers.

During the same period, the two companies have not alienated assets of significant value (buildings, lands, shares etc.).

1.2. General Assessment Elements

Consolidated financial results of Farmaceutica REMEDIA S.A. for the financial year 2016 indicate a net profit of 1.268.025 Lei, at a net turnover of 254.953.838 Lei. Other operating revenues were also recorded (812.901 Lei), mainly

assets sales and penalties, as well as financial revenues in the amount of 569.425 Lei (mainly rate differences).

Total costs amounted to 254.752.113 Lei, of which:

- Operating expenses – 254.135.424 Lei, of which:
 - 219.171.643 Lei represent the net cost of goods sold (including commercial discounts received)
- Financial expenses – 616.690 Lei, of which:
 - 30.512 Lei – paid interests,
 - 586.178 Lei – rate differences

Considering the drugs and pharmaceutical products market of approximately EUR 3 billion (in 2016), we estimate the market share of the company Farmaceutica REMEDIA S.A. below 2%.

The financial results of Farmaceutica REMEDIA S.A. were negatively influenced during 2016 by the following aspects:

- Results below expectations of newly acquired pharmacies in Bucharest, all these pharmacies generating losses. We believe that these pharmacies need 2-3 years to be able to generate profit. Opening a pharmacy is strictly regulated by law and can be done over a period of 30-90 days from licence acquisition. An operating space must be searched for, the lease contract of this space must be negotiated, which must be furnished and sanitised. Opening a pharmacy can be done only following the inspection from the Ministry of Health, College of Pharmacists and CASMB (*Bucharest Health Insurance House*).
- The process of separating the wholesale activities from retail activities to comply with the legislation in force. In fact, many of the economic processes specific to each of the companies had to be built from zero (departments, information systems, information flows, procedures etc.).
- The size of the claw back fee paid by manufacturers obliged them to significantly reduce the discounts granted to distributors, with a significant negative impact on their margin.

On 31.12.2016, the liquidities of companies (available in bank accounts and cashiers) amounted to 18.815.551 Lei. On the same date, the company had available a multi-currency credit line of 3,2 million euros, of which used amounts (bank guarantee letters for the proper execution of contracts) with a value of 944.212 euros.

1.3. Assessment of Company Revenues

Revenues from the sales of goods reached the value of Lei 253,394,546 (98.56 % of the gross turnover) with the following allocation by distribution channels:

- | | |
|------------------------------|--|
| - REMEDIA Pharmacies | 85.919.400 Lei (33,91 % from the total sales of goods) |
| - Distribution to pharmacies | 41.880.945 Lei (16,53 %) |
| - Distribution to hospitals | 69.196.340 Lei (27,31 %) |
| - Distribution to warehouses | 49.360.166 Lei (19,48 %) |

- Other distribution channels 7.037.695 Lei (2,77 %)

From the value-added activities (invoiced to third parties) and rents, operating revenues were recorded in the amount of 3.712.807 Lei, of which:

- logistical and warehousing services 818.352 Lei (0,32% from turnover)
- rents collected 563.008 Lei (0,22 %)
- marketing on-shelf 246.025 Lei (0,1%)
- Regulatory Affairs (RA) 196.392 Lei
- marketing 1.736.123 Lei (0,68%)

1.4. Assessment of Goods Procurement

The two companies have consolidated the centralised procurement process, including in collaboration with other partners, for the purpose of obtaining the best trading conditions in the market (discounts and payment deadlines) and of extending the portfolio of direct manufacturers.

In 2016, pharmaceutical and para-pharmaceutical products of a number of approximately 200 manufacturers were purchased, out of which 134 external manufacturers (18 exclusively), the share of direct contracts with manufacturers representing 83%.

The purchases planning mechanism considered the following requirements:

- Providing the continuity in stock of products in the order of their strategic importance
- Assessing storage times and the stock level for portfolio products
- Establishing maximum quantitative stock levels for each product, with influence on the cash-flow.

The selection of suppliers was carried out so that to satisfy both the diversified request of all distribution channels and the internal profitability requirements.

REMEDIA S.A. Pharmacies were supplied in a major manner until September 2016 from Farmaceutica REMEDIA Distribution & Logistics S.R.L (FRDL) warehouses, when the computer interface with other national distributors was completed. Starting with October 2016, the supply of pharmacies from other major distributors began, so that the share of procurement from FRDL warehouses decreased by approximately 80% from the total of goods supplied in December 2016 reaching in March 2017 at approximately 55%. In the case of the pharmacies chain (FR), the decision to supply a certain manufacturer from a distributor or another is strictly made on competitive bases. Thus, a call to tender is launched for periods of 3-6 months, for each manufacturer, to 2-3 distributors, the purchase decision being made strictly on economic bases (prices, offered discounts, payment deadlines, and the capacity of delivering deficient products are analysed).

On 31.12.2016, stocks of goods of the two companies, from which a share of 99,9% is represented by goods, amounted to 36.923.931 Lei.

1.5. Assessment of the aspects related with the company personnel

Together, Farmaceutica REMEDIA S.A. and Farmaceutica REMEDIA Distribution & Logistics S.R.L had on 31.12.2016 a number of 538 employees. Their distribution on departments was the following:

- Remedia Pharmacies – 303 persons
- Pharmacies distribution – 44 persons (sales agents and sales representatives by telephone)
- Hospitals distribution – 6
- Warehouse logistics – 61
- Transport logistics – 33
- Acquisitions - 8
- Support and Management Departments (Accounting, IT, Administrative, HR, Control etc.) – 83

From the 538 employees, 47% have a university degree (Pharmacy – 157, Medicine – 2, Economic - 29, Technical – 22, Legal – 6, other specialisations - 37)

In Farmaceutica REMEDIA S.A. or Farmaceutica REMEDIA Distribution & Logistics S.R.L., there is no workers' committee. They have 4, respectively 3 representatives of employees participating in the negotiation of the collective labour agreement and who represent the employees in relations with companies.

1.6. Assessment of Aspects related with the Impact of the Basic Activity of the Company on the Environment.

Farmaceutica REMEDIA S.A. complies with the relevant environmental protection legislation. There are no disputes with regard to the violation of the environmental protection legislation.

1.7. Assessment of the Sale Activity

2016, together with the separation of wholesale activity from the retail activity, meant a more specific progress of activities, which led to the doubling of sales and of the number of customers on the « Distributie Farmacii » (*Pharmacies Distribution*) channel (other than the REMEDIA pharmacies). The sales increase through this distribution channel was performed under financial safety conditions, by ensuring balances against the risk of non-collection.

The logistical objective proposed for 2016 – delivery in the same day in cities (2 deliveries in Bucharest) and delivery in 24 hours from the order in the rural area was realised by implementing a modern system for monitoring deliveries, which provides the verification at any time of the status of a customer package (prepared for delivery, under delivery or delivered).

At consolidated level, there is no significant dependency of the companies towards a single client. The share of position 1 is of 6,09% (Hunedoara County Health House), the first 20 customers realising together a share of 39,16 % from the total sales of goods.

1.8. Assessment of the Development Activity

During 2016, Farmaceutica REMEDIA S.A purchased a number of 5 pharmacy licences in Bucharest, these being added to the 12 pharmacy licences purchased in 2015 and to the three pharmacy licences purchased prior to 2015. On 31.12.2016, in Bucharest, 21 Remedia pharmacies were operational, one of them functioning based on a licence borrowed on a free basis on a period of two years.

Due to the unsatisfactory results, two pharmacies were sold (from Lupeni and Uricani) and the pharmacies of Carasova (Caras Severin County) and Arpasu de Sus (Sibiu County) were closed, as well as the offices from Magura (Dambovita County), Valea Macrisului (Ialomita County), Lopadea (Alba County) and Lapugiu (Hunedoara County).

All the spaces necessary for opening pharmacies were arranged in compliance with the standards of REMEDIA Pharmacies.

On line purchases have a strong upward trend in urban population and for this reason Farmaceutica REMEDIA S.A. developed the on-line sales platform to prepare all the mechanisms necessary for carrying out this type of sales for the time in which the legislation will allow the marketing of drugs on the internet.

The customers of the two companies have access to safe products from certified suppliers, providing the highest quality standard for drugs. Strict compliance with the "Good Distribution Rules" and offering safe drugs for patients represents the standard behaviour of our companies. Strict compliance with the quality assurance mechanism by Farmaceutica REMEDIA S.A. and Farmaceutica REMEDIA Distribution & Logistics S.R.L. led to the reporting of zero incidents with counterfeit products during 2016.

The two companies also continued in 2016 the modernisation process both in logistical centres and in own pharmacies. It consisted both in endowments with new equipment (furniture, automobile means, computers, illuminated signs) and in continuous improvement of used software systems.

1.9. Assessment of the Risk Management Activity

The main risk categories identified in 2016 were:

- Risk of non-collecting receivables
- Cashflow risk
- Currency risk

Perhaps paradoxically, reducing the deadline for the settlement of arrears from the health system (to approximately 70 days in 2016), put many small chains and independent pharmacies in difficulty, being obliged, in turn, to pay more rapidly the drugs purchased from distributors. A significant multiplication of cases of insolvency declaration among independent pharmacies was noticed, especially after the episode of prices reduction in drugs from the summer of 2015.

Together with the obligation of large international manufacturers to sell drugs in lei (in the spring of 2009) the currency risk was significantly diminished.

To counter the risk of non-collecting receivables and the cash flow risk, the management of Farmaceutica REMEDIA S.A. and Farmaceutica REMEDIA Distribution & Logistics S.R.L. companies took a series of measures such as:

- Periodic reanalysis (6 months) of credit limits of all customers, together with the provision of balances for the non-collection risk from a top company in the field.
- Analysis with an increased frequency of debits and of financial statements of customers
- Employment of additional personnel within control departments with increased duties in what concerns the establishment and control of credit limits, stocks management, initiating and tracking court proceedings against debtors as well as the recovery of debts.
- Strict cost control with positive impact on the cash-flow.

1.10. Elements of Perspective on the Company's Activity

There is a high probability that during 2017, financial difficulties of independent pharmacies to be accentuated, also considering here a new possible reduction in the price of drugs. In this context, the difficulties encountered especially by independent pharmacies, create market opportunities for finding new forms of collaboration, acquisitions and mergers.

On the other hand, capital expenses will be performed strictly based on the investment budget and within the available funds, without affecting the operational activity.

2. Fixed assets of companies

Fixed assets (at the remained value) are in the amount of **39.735.926 Lei**, having the following structure:

30.758.757 Lei – Tangible assets (*lands, buildings, equipment, means of transportation, commercial furniture etc.*)

8.222.526 Lei – Intangible assets (*pharmacies licences and software licences*)

754.642 Lei – Financial assets (*set up deposit accounts, paid guarantees, bank guarantee letters from the company funds*).

Within the tangible assets, a share of 90 % is represented by the buildings and lands. In December 2011, buildings and lands were reassessed at the market level, resulting a surplus value of approximately 2,2 million Euros, an amount that is found in the balance sheet in sections « Lands and Buildings », respectively, « Revaluation Reserves ». The assessment at the end of 2016 emphasized a slight appreciation (approximately 200.000 lei) of these assets. (lands + 91.918 lei, buildings +116.238 lei, buildings – 6.500 lei).

Starting with 2012, for the tangible assets class “Lands and Buildings”, the Company passed from the cost-based accounting model to the revaluation model with a significant impact on annual profit.

3. Shares and shareholding

The market on which securities were negotiated in 2016 issued by Farmaceutica REMEDIA S.A. was the Bucharest Stock Exchange, Standard category.

Farmaceutica REMEDIA S.A. shares are registered shares in the amount of 0,1 lei/ share, with a number of **106.089.800** shares with the following ownership synthetic structure on 11.04.2016, (information provided by the Depozitarul Central):

Shareholders	No. of shares	Share from the share capital (%)
TARUS Valentin-Norbert	70.555.514	66,5055
AHG VERMOGENSVERWALTUNGS GESMBH COTTBUS DEU	17.486.191	16,4824
NATURAL PERSONS	8.327.066	7,8491
LEGAL PERSONS	9.721.029	9,1630
Total	106.089.800	100,0000

On 31.12.2016, the company owned 300.100 own shares.

The company does not own branches and did not issue bonds or other debt securities.

4. Dividends

Considering the net profit amount obtained in 2016 (242.313 lei), the Board of Administrators proposed the distribution to the legal reserve of the amount of 14.700 Lei (6,07% from the net profit), the rest of 227.613 lei (93.93%) being allocated to dividends. Also, the amount of 473.314 lei remained undistributed from the profit of 2015 will be allocated to dividends as well. Thus, the total amount proposed to be distributed to shareholders as dividends will be of 700.927 lei.

On the medium term, the company intends to keep the distribution policy to dividends of at least 50 % from the net profit.

The amount of dividends due (distributed from profit), paid and accrued (remained unpaid) is presented as follows:

	2013	2014	2015	2016	2017**
Initial balance	1.941.411	1.941.229	2.114.415	217.459	205.414
Distributed gross dividends	2.121.796*	1.591.347*	1.591.347*	0	700.927***
Tax on	128.289	96.232	96.217	0	

dividends paid					
Paid dividends	1.993.689	1.321.929	3.392.086	12.045	
Dividends to be paid	1.941.229	2.114.415	217.459	205.414	

*From the profit of the previous year

**Proposal

***From the profit of years 2016 and the previous

In case of Farmaceutica REMEDIA Distribution & Logistics S.R.L., the Board of Administrators proposes the profit distribution (1.127.683 Lei) to the following destinations:

- 500.000 Lei – dividends to be paid to Farmaceutica REMEDIA S.A.
- 400.000 Lei – undistributed profit
- 227.683 Lei – other reserves – own financing sources created from profit

5. Farmaceutica REMEDIA S.A. Management

During 2016, Farmaceutica REMEDIA S.A. was led by a Board of Administrations composed of 3 non-executive members, of which one is also an independent member, in the following componse:

1. **“TARUS” - Valentin Norbert TARUS e.U.** – President of the Board of Administrators represented by Valentin Norbert TARUS.

He graduated the Polytechnic Institute, and post-university specialisations in foreign trade and management, as well as various courses and business management seminars. Mr TARUS has an experience of over 30 years in executive and management positions in productive units, foreign trade and own business management. On 12.03.2007, he was appointed president of the Board of Administrators of Farmaceutica REMEDIA S.A. The mandate expiry date is 30.04.2017.

In the last 5 years, he occupied the position of director at the commercial company: TARUS & Partner KG Austria, Leopold Moses G. 4/2/46.

He was not associated with the bankruptcy, seizure, or liquidation procedure in the quality given by the position of member of an administrative, management or supervisory body or general partner. He was not convicted for fraud in the past 5 years, nor an official public sanction was pronounced against him. He was never prevented by a court from acting as the member of an administrative, management or supervisory body of an issuer or from intervening in the management or conduct of business of an issuer in the past 5 years.

He owned on 31.12.2016, 66,5055 % of the shares of Farmaceutica REMEDIA S.A.

2. **FLEISCHER Paula** – member of the Board of Administrators

She graduated in 2005 the Faculty of Marketing – Management within the “Lucian Blaga” University of Sibiu, and in 2010 the “Vasile Goldiș” University of Medicine and Pharmacy of Arad – Pharmacy Department. During the period 1993-1999 she held the position of sales representative at Dita Prompt Farm Deva, and later she held the position of administrator within the same company until 2004. During the period 2005-2007, she served as Remedia Pharmacies Director within Farmaceutica REMEDIA S.A. Between 12.03.2007 and 12.03.2011, she was appointed member in the Board of Administrators of Farmaceutica REMEDIA S.A.

Currently, she also holds the position of administrator at S.C. Gerofarm Exim S.R.L.

The current administrator mandate is valid on the period 01.05.2015 - 30.04.2017, Mrs Fleischer replacing Mr Banciu.

She was not associated with the bankruptcy, seizure, or liquidation procedure in the quality given by the position of member of an administrative, management or supervisory body or general partner. She was not convicted for fraud in the past 5 years, nor an official public sanction was pronounced against her. She was never prevented by a court from acting as the member of an administrative, management or supervisory body of an issuer or from intervening in the management or conduct of business of an issuer in the past 5 years.

On 31.12.2016 she owned 76.143 shares at Farmaceutica REMEDIA S.A.

3. **CHIRITA Zoe** – member of the Board of Administrators

She graduated in 1977 the Faculty of International Economic Relations, Bucharest University of Economic Studies, and in 1982, she graduated the Faculty of Law of the University of Bucharest.

During the period **1990-1991**, she was Business Development within Imkometal. Until 1993, she held the position of Manager of the General Administration Department at Rominko AG. During the period 1993-1994, she held the position of General Director at Cyroco Company, and until 2006, she held the same position at the V.TARUS RoAgencies SRL company. On 12.03.2007, she was appointed member in the Board of Administrators of Farmaceutica REMEDIA S.A. The mandate of administrator was renewed on 01.05.2015 with the validity date 30.04.2017.

She was not associated with the bankruptcy, seizure, or liquidation procedure in the quality given by the position of member of an administrative, management or supervisory body or general partner. She was not convicted for fraud in the past 5 years, nor an official public sanction was pronounced against her. She was never prevented by a court from acting as the member of an administrative, management or supervisory body of an issuer or from intervening in the management or conduct of business of an issuer in the past 5 years.

She owned on 31.12.2016 – 496.143 shares at Farmaceutica REMEDIA S.A.

The executive management was provided by a general director who has under its subordination departmental directors and managers. In the financial year 2016, the executive management was provided by:

1. **PELOIU Robert- Mihail**

- mandate of General Director until 30.04.2017
- mandate Financial Director on unlimited period

He graduated the Bucharest University of Economic Studies – Finance, Banking and Accounting, in 1994.

During the period June 1994 – September 1997, he worked as Economist and afterwards as General Accounting Director within the TAROM S.A. company. Until May 1998, he was an Investment Officer at MONYNVEST S.A. (a brokerage company), and afterwards, he held the position of Financial Director within the same company until May 1999. During the period May 1999 – May 2000, he held the position of Branch Accountant Coordinator at the TELEMobil S.A. Company. From June 2000 and until September 2001, he was a Financial Director at COMPANIA DE DISTRIBUȚIE NAȚIONAL S.A. (Interbrew Romania). He also held the same position in the ONT CARPATI S.A. and TRANSILVANIA TRAVEL S.A. companies. Since May 2005 and until the merger with Farmaceutica REMEDIA S.A., he was a Financial Director at V.TARUS RoAgencies, and after the merger, he holds the same position at Farmaceutica REMEDIA S.A. He held the position of Administrator of the commercial company SIBMEDICA S.R.L. (Farmaceutica REMEDIA Distribution & Logistics S.R.L.) until 01.02.2016.

He was not associated with the bankruptcy, seizure, or liquidation procedure in the quality given by the position of member of an administrative, management or supervisory body or general partner. He was not convicted for fraud in the past 5 years, nor an official public sanction was pronounced against him. He was never prevented by a court from acting as the member of an administrative, management or supervisory body of an issuer or from intervening in the management or conduct of business of an issuer in the past 5 years.

On 31.12.2016 he owned 405.270 shares of Farmaceutica REMEDIA S.A.

Management of Farmaceutica REMEDIA Distribution & Logistics S.R.L.

According to Art. 8 (Decisions, administration, representation and control) of the Articles of Incorporation of Farmaceutica REMEDIA Distribution & Logistics S.R.L, the company management is provided by the Sole Shareholder (Farmaceutica REMEDIA S.A.), in its own behalf or through the 2 appointed administrators.

The Company administrators presented above will work together, by joint signature, any of their decision are to be made only unanimously. In case of divergence between them, the decision will be made by the Sole Shareholder or, as appropriate, by the shareholders who represent the absolute majority of the share capital, the two administrators being obliged to fulfil it precisely. In the exceptional case where one of the company's administrators finds it impossible, even momentarily, to take part in the deliberations, which refer to one or several urgent matters, and failure to fulfil them would cause significant damage to the company, the decision will be made by the only administrator able to actually take part in the

administration, with prior notification of the Sole Shareholder, its unique signature being valid and opposable.

6. Affiliated Persons of the Commercial Society Farmaceutica REMEDIA S.A.

On the report date, the list of persons affiliated to the company Farmaceutica REMEDIA S.A. is composed of:

- Valentin-Norbert TARUS – an Austrian citizen
- “TARUS” - Valentin Norbert TARUS e.U. – an Austrian individual enterprise
- Farmaceutica REMEDIA D&L S.R.L. (former SIBMEDICA S.R.L.)
- TARUS MEDIA S.R.L.
- GEROFARM S.R.L.
- SOCIETATEA FARMACEUTICA MAGHERU S.R.L.
- RALF FARMACIE S.R.L.
- IMOBILIARA MAGHERU S.R.L.
- EVITA MEDICAL S.R.L.

7. Corporate Governance

In 2016, the Corporate Governance structures operated normally, Company's administration and representation being of the competence and under the responsibility of the members of the Board of Administrators (BA) and of the general director.

Farmaceutica REMEDIA S.A. complies with the rights of shareholders, providing them a fair treatment and submitting for approval any modification of the conferred rights, in the general meetings, in compliance with the Internal procedure updated on 22.07.2016, as well as with the legal regulations.

Company website - www.remedia.ro, in an updated version, which provides information and access conditions in Romanian and English languages to the GMS documents, financial statements, current reports on BSE, dividends, implemented policies in compliance with the provisions of the Corporate Governance Code of 4.01.2016, for shareholders and potential investors, contains in the section dedicated to relations with investors the following documents updated in 2016:

- Reports of the Board of Administrators
- Quarterly, biannual and annual financial statements for 2016
- GMS decisions and BSE current reports from 2016
- Shareholders' rights
- Corporate Governance including the following chapters:

a) Articles of Incorporation (approved by the EGMS Decision 58/09.12.2014 and updated according to the BA Decision 223/5.12.2016)

b) Council and Committees

c) Policies and Regulations, as follows:

- Internal regulation of the Board of Administrators
- Remuneration policy
- Dividends distribution policy
- Policy of transactions with the companies with whom Farmaceutica REMEDIA SA has close relations, whose value is equal with or higher than 5% from net assets
- The policy on supporting various forms of artistic and cultural expression, sports, educational or scientific activities

- The stage of compliance with the provisions of the new Corporate Governance Code of BSE, reported at BSE on 7.01.2016, by which Farmaceutica REMEDIA S.A. declares and makes continuous efforts to fully comply with the new Code - <http://www.remedia.ro/wp-content/uploads/2016/01/tabel.pdf> and http://www.bvb.ro/infocont/infocont16/RMAH_070116_ro.pdf.

Part of the reported nonconformities were solved during 2016, such as appointing a secretary of the Council. The rest of the measures foreseen for compliance are started and are to be completed during 2017, such as for example choosing the Board of Administrators composed of 5 members, Policy on the forecasts within the limits of legal regulations.

During the financial year 2016, the President of the Board of Administrators convened 11 (eleven) meetings, statutory met, of the Board of Administrators. The members of the Board of Administrators attended in person, by phone or by e-mail, according to the Articles of Incorporation and to the Internal Regulation of the Board of Administrators, in these meetings in which the following were presented, discussed and approved, as appropriate:

- financial reports, annual commercial policy;
- GMS convocations;
- the Audit Committee assessed the internal control system, analysing the effectiveness and coverage of the internal audit function, the adequacy of risk management reports and internal control reports presented by the Audit Committee of the Board and promptness and effectiveness with which the executive management settles the problems or deficiencies identified following the internal control and the reports submitted to the Board; the Remuneration Committee report describes the essential afferent elements of the remuneration policy and the modifications occurred in 2016 following the implementation of the separation of wholesale activities from retail activities;
- meetings with investors and analysts: "Business at home" on 20.04.2016, an occasion where the financial results related to the previous financial year 2015 and a TC with the investors and analysts on 16.11.2016 were presented, in which the financial results on 9 months for 2016 were analysed;

- consolidation of the transfer of wholesale distribution activities and of ancillary services from Farmaceutica REMEDIA SA to Farmaceutica REMEDIA Distribution & Logistics SRL, according to Law 96/2006, art. 800 (2) republished in 2015;
- opening a new pharmacy and closing the non-profitable working points;
- Code of Conduct and Business Ethics version 2 updated for Farmaceutica REMEDIA SA

Following the meetings of the Board of Administrators, a number of 27 decisions were issued, communicated to the resort departments for implementation and fulfilment.

8. Financial-Accounting Situation (Consolidated Statements)

Farmaceutica REMEDIA

Income Statement

(RON)

	dec.-15	dec.-16
Sales of goods	242.835.464	253,394,546
Discounts given	-5.761.012	-2,153,515
Net Sales	237.074.452	251,241,031
COGS	213.208.313	224,141,318
Discounts Received	-7.546.112	-4,969,675
Net COGS	205.662.201	219,171,643
Gross Margin	31.412.251	32,069,388
Gross Margin (%)	13,25%	12.76%
Other Operating Revenues	3.419.815	4,525,708
Personnel	-19.224.203	-20,744,028
Other Operating Expenses	-13.703.867	-13,531,480
Total Operating Expenses	-32.928.070	-34,275,508

EBITDA	1.903.996	2,319,588
EBITDA Margin	0,80%	0.92%
Depreciation	-971.005	-702,805
Bad debts lost	-4.473.125	221,716
Provisions - net	4.462.117	-207,183
EBIT	921.983	1,631,316
EBIT Margin	0,39%	0.65%
Financial Revenues	2.806.036	569,425
Financial Expenses	-2.917.502	-616,690
Financial income	-111.466	-47.265
EBT	810.517	1,584,051
EBT Margin	0.34%	0.63%
Tax on Profit	-19.515	-316,026
Net Profit	791.002	1,268,025
Net Profit Margin	0.33%	0.50%

Balance Sheet(RON)	dec.-15	dec.-16
Total Assets	139.884.308	165,837,428
Cash	20.048.844	18,815,551
A/R	55.299.880	69,284,808
Inventory	24.754.163	36,923,931
Expenses in advance	112.345	80,725
Other Current Assets	1.379.269	996,487
Total Current Assets	101.594.501	126,101,502
Tangible Assets	30.672.230	30,758,758
Intangible Assets	6.902.806	8,222,526
Financial Investments	714.771	754,642
Total Long-Term Assets	38.289.807	39,735,926
A/P	95.256.774	120,533,620
Other ST payables	3.411.257	2,752,868

Payables to shareholders	217.459	205,414
ST Loans*	60.002	64,342
Current Liabilities	98.945.492	123,556,244
LT Loans*	258.033	175,389
Other LT liabilities	1.209.566	1,273,137
LT Liabilities	1.467.599	1,448,526
Provisions	116.596	0
Share capital	10.608.980	10,608,980
Reserves	27.954.640	28,955,653
Profit	791.002	1,268,025
Equity	39.354.622	40,832,658
Total Liabilities & Equity	139.884.308	165,837,428

*Including financial leasing

The financial consolidated statements were audited by the financial independent auditor.

9. Economic-Financial Indicators 2016

*Thousand Lei

LIQUIDITY AND WORKING CPAITAL	FR	FRDL
current liquidity (Current assets / Current debts)	1,07	1,00
Current assets *	34.608	113.688
Current debts *	32.487	113.120
indebtedness degree (Borrowed capital / Equity x 100)	0 %	21,2%
Borrowed capital * (including leasing)	0	240
Equity *	39.784	1.132
turnover speed for client debit items (average customers balance/turnover*365)	50 zile	91 zile
Average customers balance *	12.100	57.917
Net turnover *	87.999	232.356
Debts turnover speed (average suppliers balance/cogs*365)	205 zile	135 zile
Average suppliers balance *	38.130	81.002

Cost of goods sold *	68.010	218.478
Stock turnover speed (average stocks balance/cogs * 365)	55 zile	34 zile
Average stocks balance	10.205	20.229
Cost of goods sold	68.010	218.478
fixed assets turnover speed (turnover/fixed assets)	2,26	289
net turnover *	87.999	232.356
Fixed assets *	38.935	804
Gross profit margin (%) (gross profit/net sales)	0,33%	0,6%
Gross profit *	294	1.392
Net turnover *	87.999	232.356

Notes:

1) **Current liquidity** – indicator level reflects a good payment capacity, therefore a reduced risk, certifying that the companies are capable of covering their short-term debts based on receivables and available cash

2) **The indebtedness degree** expresses effectiveness of credit risk management, indicating potential financing, liquidity, problems, with influences in the honour of assumed commitments.

3) **Turnover speed for client debit items** expresses the effectiveness of the company in collecting its receivables, respectively the number of days until the date on which debtors pay their debts to the company.

4) **Debts turnover speed** represents the average period in which suppliers are paid.

5) The value of the indicator **Days on hand** (55 respectively 34 days) can be considered that it fits in the activity specific and slightly exceeds the limit imposed by the company's internal procedures (45 days).

6) **Fixed assets turnover speed** expresses the effectiveness of the fixed assets management, by examining the turnover generated by a certain quantity of fixed assets.

The financial statements and indicators presented above indicate a good balance of the company, providing the premises of a profitable development during 2017.

Bucharest, 15 March 2017

Board of Administrators,
President
"TARUS" - Valentin Norbert TARUS e.U.

General Director,
Robert – Mihail PELOIU