



PRELIMINARY CONSOLIDATED ANNUAL REPORT 2017

Of the Board of Administrators of Farmaceutica REMEDIA SA

Farmaceutica REMEDIA S.A.

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Trade Register J20/700/1991, Tax Identification Number: RO2115198; Share capital: LEI 10,608,980

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

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Company name: **Farmaceutica REMEDIA S.A.**

Subscribed share capital: **RON 10.608.980**
Paid-in share capital: **RON 10.608.980**
Registered office: **330160, DEVA, 43, Dorobantilor Str**
Telephone/ Fax: **+40 254 223 260/ +40 254 226 197**
No. and date of registration with the Trade Registry Office: **J20/700/25.07.1991**
Single tax registration code: **RO2115198**

Securities: **RMAH shares**
(Registration certificate no. 1470/04.05.2009)
Common Nominal

Type: **17.03.1997**
Registration date: **RON 0.10**
Nominal value /share: **1636**
Entry in NSC book: **106.089.800**
Total number of shares: **16368**
National Securities Commission code of shares:

Registration	Date	Number of shares	Issue value - Lei
1	10.11.1999	3.370.107	337.010,70
2	06.09.2001	1.500.000	150.000,00
3	23.07.2003	42.402	4.240,20
4	05.01.2006	5.696.471	569.647,10
5	21.12.2007	87.905.969	8.790.596,90
6	08.04.2009	7.574.851	757.485,10
	TOTAL	106.089.800	10.608.980,00

Organized market on which the securities are traded:

Bucharest Stock Exchange - Standard category

The total value on the market at the date of 15.02.2018 is 37.131.430 Lei (~Eur 8 mil)

The value of one RMAH share is 0,35 Lei (at the date of 15.02.2018)

1. Activity Analysis

1.1. Overview

On **25 July 1991** Farmaceutica REMEDIA S.A. was established as a commercial company with fully state-owned capital by reorganisation of Oficiul Farmaceutic Deva since 1957.

On **13 October 2000**, V.TARUS RoAgencies S.R.L. has purchased from FPS the majority shares package (55.802 %).

On **01 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).

On **01 January 2016**, Farmaceutica REMEDIA S.A. finalized the transfer to Farmaceutica REMEDIA Distribution & Logistics S.R.L., company owned 100%, of 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.

Although this legal provision referring to the separation of the activities has been abolished, Farmaceutica REMEDIA SA has decided to keep the two legal entities.

On **31 December 2017** Farmaceutica REMEDIA S.A. holds majority participations (100%) with the Farmaceutica REMEDIA Distribution & Logistics S.R.L. Company and continues to work through the two companies.

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 2017, the companies Farmaceutica REMEDIA S.A. and 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.).

Also, two pharmacies were sold (in Cluj Napoca and Tg. Mures), and the pharmacy in Valea Lunga (Alba County) the oficine in Ciofliceni (Ilfov County) and the druggist's shops in Deva were close considering the efficiency conditions corelated to the operational targets.

1.2. General Assessment Elements

Preliminary consolidated results of Farmaceutica REMEDIA S.A. for the financial year 2017 indicate:

Lei 3.841.173 - net profit,
Lei 351.225.291 - net turnover.

Other operating revenues were also recorded of:

Lei 1.872.988 - mainly assets sales

Lei 364.844 - financial revenues (mainly discounts received for the payments in advance).

- Lei 348.668.393– represents the total costs, out of which:
Lei 348.423.831 - operating expenses, out of which:
Lei 306.748.087 - the net cost of goods sold (including commercial discounts received)
- Lei 244.563 - financial expenses, out of which:
Lei 33.784 - paid interests,
Lei 111.936 - exchange rate differences
Lei 98.843 - discounts received for the payments in advance

Considering the drugs and pharmaceutical products market of over EUR 3 billion (in 2017), we estimate the market share of the company Farmaceutica REMEDIA S.A. to approximately 2,5%.

Lei 10.042.684 were available on 31.12.2017 as company liquidities (in bank accounts and in cashiers). On the same date, the company had at its disposal a credit line of EUR 3.2 million, out of which used amounts (bank guarantee letters for the proper execution of contracts) amounting to EUR 2.277.385.

1.3. Assessment of Company Revenues

- Lei 351.353.671– represents the revenues from the sales of goods (99,26 % of the gross turnover) as follows:
- Lei 88.497.426 - REMEDIA Pharmacies (25,19 % out of the total sales of goods)
 - Lei 174.901.646 - Distribution (49,78 %)
 - Lei 87.954.599 - Hospital Distribution (25,03 %)
- Lei 2.613.767 - operating revenues recorded from the value-added activities (invoiced to third parties) and rents, out of which:
- Lei 1.125.694 - logistical and warehousing services (0,32% out of the gross t.o)
 - Lei 511.437 - rents (0,14%)
 - Lei 508.663 - shelf marketing (0,14%)
 - Lei 232.793 - RA activities, clinical studies monitoring(0,07%)

1.4. Assessment of Goods Procurement

The two companies have consolidated the procurement processes, the strategy for 2017 focusing on:

- Improving performance during the contracts validity, optimizing contract effectiveness; monitoring the execution of contracts within the agreed parameters, in order to maximize the commercial benefits, reaching the target volume targets.
- Maintaining a positive working capital in the relationship with the suppliers.
- Expanding the product portfolio and order planning in relation to the existing monthly product forecast.
- Implementation of the Supplier Selection Procedure, which ensures the identification of deviations from the performance standards established within the organization and the establishment, implementation and monitoring of appropriate corrective actions.
- Planning and carrying out of the supply activity for the optimization of the gross commercial margin, accessing the higher discount volumes;

- Efficiency of stock rotation; (implementation and monitoring of KPI stock: stock rotation duration, stock life and working capital at supplier level, critical validity term)
- Value stock reduction of the products with critical shelf life; (implementation of a Procedure and restriction to acquisition of products with shelf life less than 1 year)

The suppliers classification based on the turnover in FRDL:



The strategy and the development of the procurement activity for REMEDIA Pharmacies took into consideration the following aspects:

- Implementation and optimization of the supplier selection process, having as main criteria both economic evaluation (maximizing commercial conditions) as well as the operational one (order accomplishing, computer interface, delivery capacity at work point, time delivery, etc.).
- Extend the product portfolio to meet the most demanding market expectations for all product categories in line with new business opportunities.
- Continuous inventory monitoring and optimization (optimisations based on the product category, stock validity, shelf life, etc.).
- Ensuring the continuity of products in stock, minimizing the loss caused by their lack.
- Reducing losses caused by short-term products through commercial strategies as well as by implementing and applying a specific procedure.
- 49.050.811 Lei were the stocks recorded on 31.12.201, out of which 99.9% is represented by the goods.

1.5. Assessment of the Sale Activity

The company's distribution policy had as its main focus in 2017 a successful sales team setting in order to ensure the expected growth to reach the company's target and the efficiency of the logistics expenses. This led to a **39% increase in sales of goods**, a trend that is in line with the company's medium-term strategy. A more important result is the doubling of the number of invoiced customers and the consolidation of the distributor **Farmaceutica REMEDIA Distribution & Logistics (FRDL)** on the independent pharma market. Although the pharmacy market faces a constant polarization, towards the formation of large pharmacies, the trend which will probably increase with the entry of international players on the local market, it still allows the development of an adequate distribution structure.

Farmaceutica REMEDIA Distribution & Logistics aims to be the distributor to cover the most efficient rural and small urban areas, thus providing access to an important population structure to medication. At the same time, REMEDIA offers personalized services to pharma producers in line with current legislation. The 8 (eight) current logistics centers cover the whole territory, and the 2017 results are positive in each of the 8 locations. Enhancing logistics costs by seeking and finding the best delivery options together with TMS ("Transport Management System") were the main logistics goals of 2017.

The development of logistics services is another important component, and for the future we also take into account obtaining GMP authorization for re-labeling / re-packaging, and implementing European Directive no. 2011/62 / EU on counterfeit medicines by establishing a Community code for medicinal products for human use.

The retail activities were strengthened during 2017, especially for **REMEDIA Pharmacies** located on the logistic routes of the company. Particular attention was paid to the pharmacies in Bucharest (acquired in the IV quarter 2015 and the first quarter of 2016), in order to make them more profitable, especially by relocating in areas with adequate commercial venues.

A new sales monitoring system of the sales orients the pharmacies to focus with priority to effectiveness of the activities. In the same time, based on the marketing strategies implemented during 2017 the relationship with the patient has been consolidated through the efficient counseling, associated recommendations and health advises in partnership with health information and guidance medical centers, for the patient health benefit.

At consolidated level, there is no significant dependency of the companies towards a single client. The share of position 1 is of 4.64% - Fundeni Clinical Institute – followed closely by Hunedoara County Health House with a quota of 4,28%. The first 20 customers realise together a share of 35,69 % out of the total sales of goods.

2. Financial-Accounting Situation

Farmaceutica Remedia			
Income Statement	dec.-15	dec.-16	dec.-17
(RON)	consolidat	consolidat	consolidat
Sales of goods	242.835.464	253.394.546	351.353.671
Discounts given	-5.761.012	-2.153.515	-2.742.148
Net Sales	237.074.452	251.241.031	348.611.523
COGS	213.208.313	224.141.318	314.538.321
Discounts Received	-7.546.112	-4.969.675	-7.790.234
Net COGS	205.662.201	219.171.643	306.748.087
Gross Margin	31.412.251	32.069.388	41.863.436
Gross Margin (%)	13,25%	12,76%	12,01%
Other Operating Revenues	3.419.815	4.525.708	4.486.755
Personnel	-19.224.203	-20.744.028	-25.346.354
Other Operating Expenses	-13.703.867	-13.531.480	-15.385.072
Total Operating Expenses	-32.928.070	-34.275.508	-40.731.426
EBITDA	1.903.996	2.319.588	5.618.765
EBITDA Margin	0,80%	0,92%	1,61%
Depreciation	-971.005	-702.805	-752.782
Provisions - net	4.462.117	221.716	507.830
Bad debts lost	-4.473.125	-207.183	-699.364
EBIT	921.983	1.631.316	4.674.449
EBIT Margin	0,39%	0,65%	1,34%
Financial Revenues	2.806.036	569.425	364.844
Financial Expenses	-2.917.502	-616.690	-244.563
Financial income	-111.466	-47.265	120.281
EBT	810.517	1.584.051	4.794.730
EBT Margin	0,34%	0,63%	1,38%
Tax on Profit	-19.515	-316.026	-953.557
Net Profit	791.002	1.268.025	3.841.173
Net Profit Margin	0,33%	0,50%	1,10%

Farmaceutica Remedia

Balance Sheet(RON)	dec.-15	dec.-16	dec.-17
	consolidat	consolidat	consolidat
Total Assets	139.884.308	165.837.428	203.053.352
	20.048.844	18.815.551	10.042.684
Cash	55.299.880	69.284.808	104.236.602
A/R	24.754.163	36.923.931	49.050.811
Inventory	112.345	80.725	208.513
Expenses in advance	1.379.269	996.487	976.861
Other Current Assets	101.594.501	126.101.502	164.515.471
Total Current Assets	30.672.230	30.758.758	30.465.667
Tangible Assets	6.902.806	8.222.526	7.355.141
Intangible Assets	714.771	754.642	717.073
Financial Investments	38.289.807	39.735.926	38.537.881
Total Long-Term Assets	95.256.774	120.533.620	152.840.873
A/P	3.411.257	2.752.868	4.561.274
Other ST payables	217.459	205.414	214.756
Payables to shareholders	60.002	64.342	19.336
ST Loans*	98.945.492	123.556.244	157.636.239
Current Liabilities	258.033	175.389	91.209
LT Loans*	1.209.566	1.273.137	1.273.137
Other LT liabilities	1.467.599	1.448.526	1.364.346
LT Liabilities	116.595	0	0
Provisions	10.608.980	10.608.980	10.608.980
Share capital	27.954.640	28.955.653	29.602.614
Reserves	791.002	1.268.025	3.841.173
Reserves	39.354.622	40.832.658	44.052.767
Profit	139.884.308	165.837.428	203.053.352
Equity	0	0	0

* including financial leasing

Large amounts to be collected from customers (A/R) and to be paid to suppliers (A/P) are a characteristic of drug distribution, given that normally, during 2017, the collection of amounts due for the deliveries of goods was carried out within a deadline of cca. 3 months (as an annual average)

Bucharest, 15 February 2018

Chairman of the Board of Administrators
 "TARUS" – Valentin Norbert TARUS e.U