Independent Auditor's Report

to **Antibiotice shareholders**

Report on financial statements

Opinion

1. We audited the enclosed financial statements of the trading company Antibiotice S.A. (hereby referred to as the Company) comprising the financial position statement as of December 31, 2016, statement of comprehensive income, statement of changes in equity and cash flow statement for the financial year ended at the above-mentioned date and a summary of the significant accounting policies and other explanatory notes.

2. In our opinion, the financial statements give a true and fair view, in all significant aspects, of the financial position of Antibiotice on December 31, 2016 and of its financial performance and cash flows for the financial year ended on that date in accordance with the International Financial Reporting Standards adopted by the European Union.

Basis for opinion

3. We conducted our audit in accordance with the auditing standards adopted by the Chamber of Financial Auditors of Romania, which are based on International Standards on Auditing. Our responsibilities under these standards are described in detail in the section Auditor's Responsibilities in an audit of financial statements from our report. We are independent from the Company according to ethical requirements relevant to the audit of financial statements in Romania and we fulfill the other responsibilities, according to these requirements. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinion.

Key aspects of audit

4. The key audit issues are those issues that, in our professional reasoning, had the greatest importance to audit the financial statements of the current period. These issues were addressed in the context of the audit of the financial statements as a whole and in forming our opinion, and we do not offer a separate opinion on these issues.

1. Revenue recognition	***Tests conducted:***
Revenues represent a significant amount of LEI 332 million generated by a high volume of transactions. The types of identified transactions, relating to the revenue recognition, result in the following risks:	Our audit procedures included, inter alia: • evaluation of revenue recognition principles according to IAS 18 ”Revenues” and in relation to the company’s accounting policies;

• completeness and existence of recorded revenues as a result of reliance on the billing system;

• correctness of revenues recognized for the transactions relating to trade discounts granted that are outside the normal billing process and by their nature require a high level of management judgment;

Revenue recognition policy is presented in the note 2 ”Accounting policies”

• testing the existence and effectiveness of internal controls as well as the conducting of detail tests in order to check the correct recording of transactions;

• analytical procedures on the gross margin through monthly comparison for the main partners;

• examination of the accuracy of the adjustments made by the company in order to respect the exercise independence principle, taking into account the delivery terms and contractual provisions concerning commercial discounts.

2. ***Capitalization of development expenses***

Development costs include mainly the development of medicines/ manufacturing licenses.

As shown in the note 13 ”Intangible assets” the capitalized development expenses amounts to the net value of LEI 10 million on December 31, 2016, of which capitalization during the year amounting to LEI 2 million.

The Company capitalizes the development costs of eligible products in accordance with the recognition criteria described in IAS 38 „”Intangible fixed assets”

Capitalization of the development costs according to the recognition criteria described in IAS 38 requires significant estimates of the management on the achievement degree of the project to determine the eligibility of costs capitalized.

Performed tests:

Our audit procedures included, inter alia, assessment of the eligibility of development costs capitalized in intangible fixed assets, according to IAS 38 and evaluation of the assumptions and methodologies used by the company to test the impairment of these intangible assets.

We also examined the recognition procedures of the development costs, controls implemented by the management and we conducted detail tests on the capitalized development costs.

These procedures involved verifying the status of works, permits obtained, estimates on the lifetime and future cash flows.

3. ***Analysis of depreciation of tangible assets***

As shown in the Note 12 ”Tangible fixed assets”, on December 31, 2016, the company owned tangible fixed assets amounting to LEI 337 million for whom it recorded depreciation and impairment in

Tests performed:

We analyzed the process conducted by the management on identifying and evaluating the depreciation indices. This analysis, carried out with the assistance of an independent evaluator led to the conclusion that there were the value of LEI 131 million. The net book value of tangible fixed assets represents a significant percentage of total assets.

Identification made by management of some depreciation indices, such as the decline in the market value or a moral depreciation of assets may result in the need to record some depreciations (additional adjustments) on the book value of tangible fixed assets.

If such indices are identified, management must estimate the recoverable amount of the asset which is compared with the net book value.

no depreciation indices of tangible fixed assets during the period in question requiring an assessment of the recoverable amount of assets.

Our audit examined the reasonableness of the results of the identification and evaluation process conducted by management with the support of the independent evaluator. Specifically, our work included but not limited to the following procedures:

- benchmarking and analysis of the relevant assumptions, which formed the basis of the calculations for determining the recoverable value of assets;
- analysis for a sample of the production capacities of the tangible fixed assets and their usability;
- analysis for a sample of the periods of use and the cost calculation on the depreciation of tangible fixed assets;
- verification of the estimated future cost established by the investment budget.

4. Existence and evaluation of stocks

In accordance with those presented in note 14 ”Stocks”, the total stocks amount to LEI 60 million, representing a significant percent of the company’s total assets, their evaluation involving a high degree of management judgment. These stocks consist mainly of raw materials, finished products and goods.

Evaluation of stocks is made, in principle, at the lower value between the cost and net achievable value.

Cost measurement includes different components such as the production or acquisition cost, including the commercial discounts received.

As regards the finished products and goods, the net achievable value is estimated in relation to the sale price, including the trade discounts granted.

Tests performed:

Our audit procedure for testing the existence of stocks consisted mainly but not limited to our participation in the end of year inventory, including the reconciliation of the counting performed by the auditor with that one performed by the company representatives, identification of some possible physically/ morally depreciated stocks.

In order to validate the evaluation of the acquisition/production cost of stocks, we conducted detail tests regarding the evaluation based on the IAS 2 requirements ”Stocks”.

We verified the estimations regarding the net achievable value in relation to the sale price, including the trade discounts granted and we analyzed the recent invoices for the sales made in January and February to see if there were stocks sold with a negative margin.

5. *Recoverability of trade receivables*	*Tests performed:*
As shown in Note 15 ”Receivables” on December 31, 2016, the net receivables were LEI 242 million(2015: LEI 231 million). Recoverability of trade receivables and the value adjustments for the doubtful receivables are considered to be a significant risk due to global nature of these balance accounts in the financial statements as well as the importance of collecting cash with reference to the management of the company’s working capital. Policies relating to the recoverability of trade receivables are set out in Note 2 ”Accounting policies”.	Our audit procedures included, but were not limited to, inter alia: • assessing the effectiveness of controls on monitoring recoverability of receivables; • evaluation of management estimates regarding the value adjustments made in relation to the level, maturity and collectability of receivables; checking the consistency of applying the accounting policies relating to the adjustment of receivables; • evaluation of recoverability of outstanding receivables with reference to historical levels of expenditure on doubtful receivables and risk profile of the partners; • testing these balance accounts, based on sampling, for which we requested the direct confirmation on December 31, 2016; • examination of the consistency of decisions regarding the recovery of trade receivables and the revenues earned, through discussions with the management for justifying these decisions and for obtaining the necessary audit evidence to support the management decisions.

Other information

5. This report of the independent auditor is solely to the company’s shareholders. Our audit was conducted in order to be able to report to the shareholders of the company those aspects which are required to report in a financial audit, and not for other purposes. To the fullest extent permitted by law, we do not accept and we do not accept and assume responsibility except in relation to the company and its shareholders, for our audit, for our report on the financial statements and the report on conformity or for the opinion formed.

Responsibilities of management and of the persons responsible for the governance for the financial statements

6. Management of the company is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union and for the internal control the management considers necessary to enable the preparation of the set of financial statements that are free from significant distortions, whether caused by fraud or error.

7. In preparing its financial statements, the management is responsible for assessing the company's ability to continue its operation, setting out, where appropriate, the matters relating to the continuity of activity and using the accounting based on the continuity of the activity unless management either intends to liquidate the Company or cease the operations, or has no other realistic alternative.

8. The persons responsible for the governance are also responsible for monitoring the financial reporting process of the company.

Auditor's responsibilities in an audit of financial statements

9. Our goals are to obtain reasonable assurance regarding the extent to which the financial statements, taken as a whole, are free of significant distortion, caused either by fraud, or by error, as well as to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but there is no guarantee that an audit conducted in accordance with the auditing standards adopted by the Chamber of Financial Auditors of Romania, which are based on International Standards on Auditing, will always detect a material misstatement, if any. The material misstatements can be caused either by fraud or by error and are considered significant if it can be reasonably expected that, individually or in aggregate, they will influence the economic decisions of users taken on the basis of these financial statements.

10. As part of an audit in accordance with the auditing standards adopted by the Chamber of Financial Auditors of Romania, which are based on International Audit Standards, we exercise the professional judgment and maintain the professional skepticism throughout the audit. Also:

- We identify and assess the risks of the financial statements caused either by fraud or by error, and design and execute audit procedures in response to such risks and obtain sufficient appropriate audit evidence to provide a basis for our opinion. The risk of non-detecting a material misstatement due to fraud is higher than the risk of non-detecting of a material misstatement due to error because fraud may involve collusion, forgery, deliberate omissions, misrepresentations and avoiding internal control;

- We consider the internal control relevant to the audit, in order to design audit procedures appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Company;

- We assess the adequacy of the accounting policies used and the reasonableness of accounting estimates and related presentations made by management;

- We formulate a conclusion regarding the suitability of the accounting used by the management based on the business continuity and we determine, based on the audit evidence obtained, if there is a significant uncertainty relating to events or conditions that could generate significant doubts regarding the company's ability to continue its activity. If we conclude that there is significant uncertainty, we must draw the attention in the auditor's report on the presentations related to the financial statements or, if these presentations are inadequate, we must change our opinion. Our conclusions are based on the audit evidence obtained until the date of the auditor's report. However, future events or circumstances may cause the company to no longer operate on the basis of the principle of the continuity of the business;

- We evaluate the overall presentation, structure and content of the financial statements, including disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate to the persons responsible for governance, among other things, the planned scope and timing of the audit, as well as the main audit findings, including any internal control weaknesses that we identified during the audit.

We are also required to provide the persons responsible for governance, with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all the relationships and other matters that may reasonably be thought to bear our independence, and where applicable, the related safeguards.

From the matters communicated with the persons responsible for governance, we are required to determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We are required to describe these matters in our auditor's report unless law or regulation preclude public disclosure about the matter and when, in extremely rare circumstances , we determine that a matter that has not otherwise been publicly disclose should not be communicated in our report in view of the significance of the adverse consequences that can reasonably be expected to arise as a result of such communication.

Report on conformity of the management report with the financial statements

11. The administrators are responsible for the preparation and presentation of the management report in accordance with the requirements of OMFP nr. 2844/2016 for approving the Accounting Regulations in accordance with International Financial Reporting Standards, Annex 1, Chapter 3, paragraphs 15-19. The Management Report must not contain any significant distortions. The administrators are also responsible for that internal control that the management considers it necessary to enable the preparation of the management report which must not contain significant distortions due to fraud or error.

The Management Report is presented from the page 1 to 51 and is not part of the financial statements.

Our opinion on the individual financial statements does not cover the management report.

In connection with our audit of the individual financial statements, we read the management report attached to the individual financial statements and presented to the pages 1 - 51 and we report that:

a) we did not identify information in the management report that is not consistent in all significant aspects, with the information presented in the attached individual financial statements;

b) the above-mentioned management report includes, in all significant aspects, the information required by OPFM no. 2844/2016 for approving the Accounting Regulations in accordance with the International Financial Reporting Standards, Annex 1, Section 3, paragraphs 15-19;

c) based on our understanding and knowledge acquired during the audit of the individual financial statements for the financial year ended at December 31, 2016 with respect to the company and its environment, we did not identify the significantly flawed information included in the management report.

In the name of,

BDO AUDIT SRL
Registered at the Chamber of financial Auditors of România
With the no. 18/02.08.2001

Signatory's name: Silviu Manolescu
Registered at the Chamber of financial Auditors of România
With the no. 1481/14.11.2002

Bucharesi, Romania
[15] [03] [2017]