

SUSTAINABLE DEVELOPMENT REPORT 2014



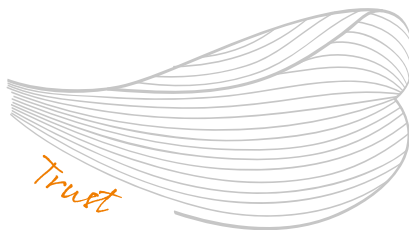
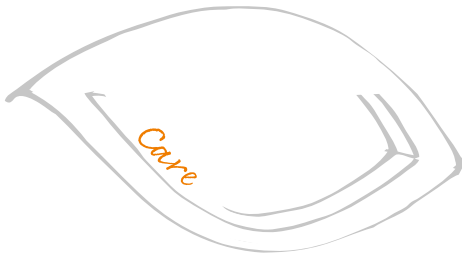
WE IMPROVE THE QUALITY OF LIFE TOGETHER

The Hemofarm Sustainability Report has been prepared for the third year in a row in accordance with Global Reporting Initiative International Guidelines (GRI). This Report has been prepared in accordance with GRI G3.1 guidelines and has been graded A+ with the presentation of 72 indicators.

The independent audit firm KPMG d.o.o. Beograd, Serbia has verified the conformity assessment for 2014 Report which has been prepared in accordance with these guidelines as well as the accuracy of the information provided in the Report.

The Hemofarm Sustainability Report is annually published, and the previous one was published for 2013.

One can address all the questions, suggestions and possible dialogue topics on the subject of sustainable development to the internet address svakodobro@hemofarm.com





CONTENTS

Foreword	4
Sustainable Development Strategic Approach and Management	6

Company Profile

- Management Structure	11
- Approach to Business and Management Principles	12
- Communication with Stakeholders	16
- Hemofarm Membership	20
- Awards in 2014	22

Operations

- The Most Significant Financial Indicators.....	26
- Research and Development.....	30
- Operational Excellence.....	34
- Purchasing	36
- The Concept of Sustainable and Socially Responsible Purchasing	38
- Production	40
- Storage and Transportation	42
- Hemofarm Quality	44
- Complaints	46
- Marketing, Sales and Advertising of Products .	48
- Continuous Optimization of the Portfolio and Improvement of Product Packaging	52
- Expert Public Opinion and Satisfaction of Product Users.....	54

Corporate Philanthropy

- Hemofarm Foundation	58
- Support to the Most Vulnerable Social Groups	59
- Healthcare System Support.....	60
- Young Talents, Education and Trainings.....	62
- Supporting Culture and Sport	64

Human Resources

- Right to Work, Structure and General data	69
- Education and Stimulation of Employees	72
- Trade Union Organization	76
- Safety and Health at Work.....	78
- Health Care of Employees	80

Environmental Protection

- Responsibility for the Future	84
- Waste Management	86
- Gas Emission	88
- Water Management	89
- Energy	92

Reporting Principles

- Reporting Principles.....	96
- GRI Index	98

Independent Auditor's Report

- Independent Auditor's Report.....	110
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FOREWORD



Sustainable development represents one of the most important topics in the world. It is not easy to find the least important forum which is not dealing with this issue. Unfortunately, this story often remains only a “modern” way to express our sympathy, both verbally and through the media, towards the consequences that we produced ourselves – from destruction of nature, via resources which are not equally available to all, to the sad truth that the planet is full of hungry people and that Thomas Piketty, no matter how much we oppose his theory, is still right when he warns us about the unsustainability rather than the sustainability of such a development.

Over the course of past years, we in Hemofarm have been investing efforts not to place the issue of the sustainable development in formal agendas of our business operations, but to make decisions and to operate in accordance with such a philosophy. As of the moment we in Hemofarm decided that the sustainable development must become a constituent part of our business operations and activity, we have been exerting efforts to make this issue not only a part of our annual report’s contents, but to deal with it truly.

For three years in a row, we have been releasing the Report on company’s sustainable development. Of course, it is not a key evidence of our care, but rather a method and the means to describe everything that we have done or that we are trying to do within this context. We have taken another important step by forming a Department for Strategy and Sustainable Development. This means that we have decided to rank the sustainable development as equally important as any other department of the company.

Without intention to sound conceitedly, I must say that Hemofarm kept its leading position in the local pharmaceutical market in the past year. We confirmed the highest share in the export of medicines from the country and we hit the record high production of 4 billion tablets and capsules, with the increase in the scope of production by 13 and complexity by 15 percent. Consistency of the quality and safety of our products and plants has been verified by more than 26 local and international inspections. State-of-the-art technological solutions that we apply have thus been confirmed.

However, it is necessary to underline that not a single tablet, and not to mention 4 billion tablets, could exist without people, without experts, without workers. Key questions to me, as the head of the company, are the questions dealing with employees – who they are, what they fear of, how motivated they are, if they are satisfied, if they perceive the company only as a place to work in or it means something more to them. In 2014 we employed more than 8 percent of new experts. In accordance with business philosophy that learning is a constant process, we have increased trainings the number of by over 18 percent. We have made working places safer, with the decrease of the number injuries at work in number by 4.3 percent.

We have brought our business operations in conformity with BSCI code of social responsibility and respect for human rights, and with 97.6% conformity, we have recorded the best result in

Serbia. Official merger of the complex in Šabac and Hemofarm was completed in early 2015. Internal procedures were simplified; employees became closer to each other in this process with favourable economic effects.

Anyone with access to the Internet can find a thesis that there is no established and generally recognised definition of the sustainable development. Also, people most typically equalise this term with the environmental protection. Hemofarm has finished the construction of a primary waste waters treatment facility worth more than a half a million euro. In this way, we are also trying to show empathy towards the community in which we operate. In my opinion, it is the course that other companies in Serbia should also take.

Having entered the third decade, Hemofarm Foundation has started a new chapter by launching a national campaign named “Wholeheartedly” in order to improve corporate philanthropy. Our efforts have been recognized through the main award VIRTUS for philanthropy at the national level and through Top Serbian Brands recognition as well.

In May, we faced the devastating floods in the Balkans. Tragedies as that one usually show the most beautiful and the ugliest face of human sympathy. We reacted as human beings, and as a human being, it makes me proud more than data expressed by figures do. Together and separately we were helping people in need and in that way we showed that we are basically a part of the society that we live and work in.

Focusing on growth, innovations and operational excellence, we develop Hemofarm as a modern and responsible organization. Following directions of the sustainable development, we continue down the untrodden and not that simple ways, but beyond any doubt we are determined to do so. It may sound as an oath, but take this only as a promise – through improvement and development of Hemofarm, we will keep on striving to contribute to the sustainable development of the entire society.

All the best,

Dr. Ronald Seeliger
Chief Executive Officer



SUSTAINABLE DEVELOPMENT STRATEGIC APPROACH AND MANAGEMENT



The Brundtland Commission with UN entitled its now already a historical Sustainable Development Report “Our Common Future” back in 1987. Hemofarm harmonizes its business philosophy precisely on this “common future” trail, making sustainable development a strategic and integral part of its own operations. In this context, Company’s decision to establish a separate division in charge of sustainable development strategy speaks in favour of the importance which this topic has for Hemofarm.

There are numerous examples in practice which confirm that sustainable development is a part of Hemofarm “lifestyle”. Production optimization and utilization of artesian well water during 2014 contributed to our reduced consumption of water from the public water supply system by 8.4%. At the same time, despite the increase in volume and complexity of production, utilization of power supply remained at the previous year level, i.e. was increased by not more than 2.9%. We increased the use of recycled cardboard for transportation boxes by around 80% in total. We significantly reduced, inter alia, reject from sterilization of infusion bottles in particular plants through operational excellence. We presented the value system of the BSCI Code also to our suppliers in 2014, in order to familiarize them with the principles of social responsibility and respect for human rights.



In parallel with the care for its own sustainable development, Hemofarm is also “aware” of the environment in which it operates. Without improvement of the local community and attentive care of the environment in which we operate, Hemofarm would not be what it stands for today.

• Daily business practice is the best evidence of Hemofarm’s determination to proactively create sustainable business models, by achieving better operating results while at the same time developing the local community in which it operates, observing the needs of the present and future generations, and, what is perhaps most important, preserving the limited natural resources. Sustainable development does not mean only savings in operation, per se. •



Improvement of business operations in accordance with the principles of sustainable development is a continuous process requiring both long-term planning and particular investments, which always pay off eventually. When you take a look back, you see that the results are multiple and imply benefit for the mankind as well as increase in the economic value of the company. That is why the sustainable development strategy brings stability and sustainability to the company in the long run.

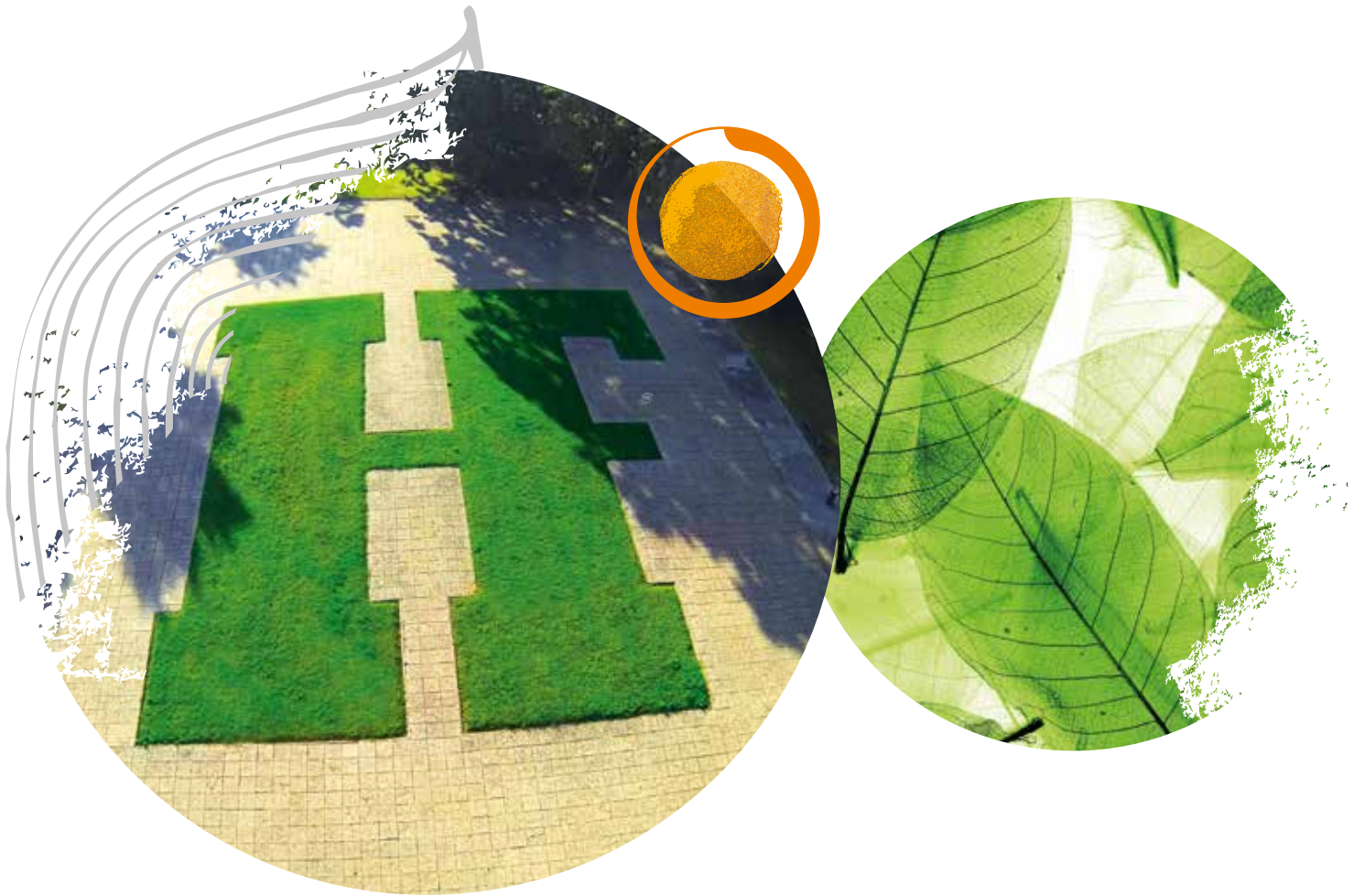
However, money and technology do not move things forward on their own. Limits are exceeded by changing the attitude that sustainable development is possible if people perceive it as an integral part of their life and work. Our previous results in applying the sustainable development principles were achieved by joint efforts of the whole company. What is ahead of us is further work on our own sustainable development. This work implies strategic planning in this area and harmonization of the present initiatives at regular operative meetings of the appointed team. Top management is actively involved in this process through regular reporting and coordination.

Hemofarm will try to improve the company through even more intensive dialogue with stakeholders in the future period. We perceive this dialogue as active exchange of ideas and opinions and even criticism on the key topics of our operation and work. We are assured that we will become even better and make our environment better this way.

Natalija Popović
Strategic and Sustainable
Development Director

A handwritten signature in blue ink, appearing to read 'N. Popović', positioned next to the printed name and title.





COMPANY PROFILE

- Top pharmaceutical company in Serbia with 34.3% market share (33.7% in 2013), which practically means that each third pack in the market is from Hemofarm's product range.
- One of top ten Serbian exporters and the biggest pharmaceutical product exporter in Serbia with 79.1% share in total export of pharmaceutical products; Hemofarm products are sold on 3 continents in 38 countries.
- 1,786 employees in Hemofarm A.D.
- The first company which has met the conditions for gaining the status of "Authorized Economic Operator (type F)" for simplified "in-house customs clearance" procedure.



Hemofarm A.D. was founded in Vršac on June 1st, 1960, and today it is the leading generic pharmaceutical company in Serbia and the region. The core activity of Hemofarm A.D. is the production of high-quality, effective, safe and affordable generic pharmaceutical products. Besides the headquarters in Vršac, Hemofarm performs its activity also through registered representative offices in Belgrade, Niš, Novi Sad and Kragujevac, as well as the subsidiary in Šabac, which has become a part of Hemofarm A.D. through the acquisition process in January 2015. Hemofarm A.D. also possesses subsidiaries abroad – in Macedonia, Bosnia and Herzegovina, Montenegro, Romania and a representative office in Algeria. Hemofarm also has a European Laboratory in Timisoara, Romania.

The leading market position of Hemofarm was confirmed also in fiscal 2014, with 17.3% of value share in the local market, i.e. 34.3% market share in terms of the number of packages.

Hemofarm A.D. in brief:

- Member of STADA Group since 2006;
- Record-breaking 4,367,955,708 product units in 2014;
- Hemofarm A.D. products are sold on 3 continents, in 38 countries with export share of 65%;
- Hemofarm A.D. sells its products in the markets of South East Europe, EU, Middle East, developed North Africa and Commonwealth of Independent States (CIS);
- Hemofarm A.D. is among top ten exporting companies in Serbia and the biggest conventional drug exporter in Serbia with 79.1% share in the total pharmaceutical product export¹;
- By adding different STADA Group products into the portfolio, exporting positions of Hemofarm A.D. have been enhanced;
- 70% of products are exported to European market;
- It is the company with more than 1,786 employees;
- Manufacturing and commercial space covers the surface area of 82,650 m².

¹ Source: Statistical Office of the Republic of Serbia; IMS database for 2014.

MANAGEMENT STRUCTURE



Dr. Ronald Seeliger
Chief Executive Officer



Saša Ostojić
Executive Officer of Marketing
and Sales



Sonja Pejović
Executive Officer of Technical
Operations



Dušan Milutinović
Chief Financial Officer

Hemofarm A.D. is a joint stock company managed by the Shareholders Assembly, as the highest management body and Chief Executive Officer elected by the Shareholders Assembly. The Chief Executive Officer, Mr Ronald Seeliger took over the competences of the Board of Directors in 2013. The business practice during 2014 confirmed the validity of this decision through continuous optimization of operations, i.e. reducing bureaucracy and greater efficiency of the decision making process.

In addition to the Chief Executive Officer, the top team comprises also Executive Officers of organizational units:

1. Saša Ostojić – Executive Officer of Marketing and Sales
2. Sonja Pejović – Executive Officer of Technical Operations
3. Dušan Milutinović – Chief Financial Officer

When selecting and appointing members of company's top management, Hemofarm A.D. cherishes the practice of providing equal opportunity both to in-house experts and external candidates on one hand, and to local and international experts, on the other hand. Accordingly, the middle and top management consists of experts from the circles of the local population with equal participation, expressed in percentage terms, as other experts.

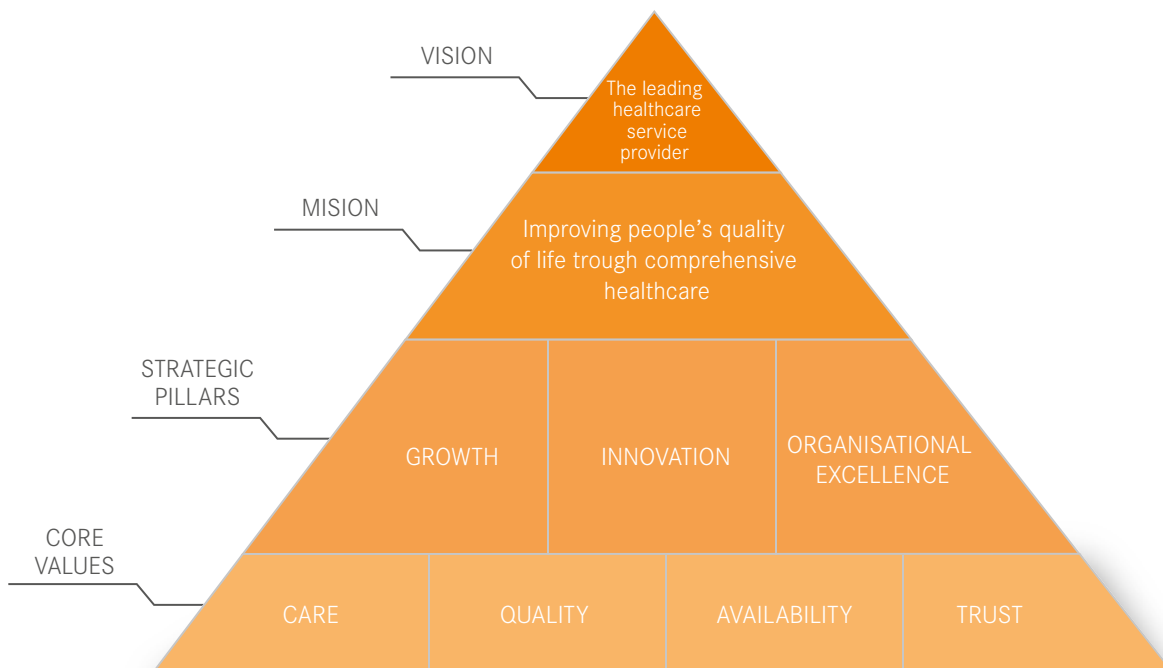
Internal legal enactments regulate and prevent conflict of interest for both the top management and at the level of all business positions. Also, the top management has its own defined goals in career development and achievement of the planned business results, which is actively monitored through the estimated key performance indicators². This goal-setting system and monitoring their levels of implementation is also cascadingly assigned throughout the entire structure of the company.

²Key Performance Indicator – KPI

APPROACH TO BUSINESS AND MANAGEMENT PRINCIPLES



Hemofarm is a company with long-term thinking policy creating a new foundation for future growth and business development, and striving to incorporate sustainable development into all aspects of its operation. In accordance with the corporate vision and mission were revised over the past year in accordance with the development strategy till 2020. According to its vision, Hemofarm A.D. is a leading company that provides services in the field of healthcare, and improves the quality of life of people through a comprehensive healthcare, in line with its mission.





Hemofarm is trying to achieve business success following three strategic directions - growth, innovative approach and organizational excellence. Growth is based on continuous marketing of state-of-the-art and affordable pharmaceutical products, as well as on winning promising markets. The innovative approach includes improvement as well as development of the company in new directions in synergy with the core activity, and for the purpose of providing more quality healthcare. Organizational excellence is comprised of a set of tools and techniques for better efficiency and effectiveness of the company, such as cost effectiveness and cost reduction, modern HR methods, continuous improvement of production processes, etc.

Company's top management is continuously and proactively reviewing its position in the local and international markets, questioning its key business success indicators and harmonizing them with short-term, medium-term and long-term business objectives at the level of STADA Group, and with new business tendencies as well. The overall approach to business in Hemofarm is based on four key values: care, quality, availability and trust, unified in the corporate slogan "All the best!"

Following the model of the Organization for Economic Co-operation and Development (OECD), Hemofarm has based its operation on 15 principles of corporate management at all levels of the company: prohibition of corruption and maintenance of financial integrity, cooperation with members of professional circles and their institutions, cooperation with relevant state bodies and institutions, observing the competition protection, prohibition of money laundering, mutual respect, tolerance and prohibition of abuse and discrimination, separation of interests, prohibition of insider trading, prohibition of political activity inside the company, maintaining the product quality level, environmental protection, health and safety protection of employees, protection of property, confidentiality undertaking, rational use of electronic means of communication, and coordinated external communication.

In 2014, we ended the process of harmonizing our own approach to business with the BSCI code of conduct (Business Social Compliance Initiative). It is the leading corporate initiative dedicated to promotion of work conditions for employees and business environment in general, by promoting socially responsible business operation and respect for human rights, which is assigned to business partners as well. During verification of compliance by the external company SGS Hemofarm A.D. accounted for 97.6% of compliance, which is the best result in Serbia. In addition to the aforementioned Code, Hemofarm A.D. also adopted the labour policy whereby it accepted and implemented the highest local and international standards in the field of protection of employees' rights.

Project "Green" was initiated in 2013 in order to improve, modernize and make administrative corporate processes cost-effective. In addition to financial savings, following the Finance Function reorganization, the project brought a number of benefits at the level of Hemofarm in 2014:

- Finance Function employees were centralized and divisions reduced to 4 instead of the previous 7 divisions. The reorganization contributed to enhanced quality of communication between employees, higher operativeness, as well as greater responsibility of directors;
- New procedures for adoption of legal enactments were established. The number of Rule Books was reduced from 95 to 47. Participants in business processes were at the same time owners of Rule Books, contributing to much better control of their implementation.
- The sales and supporting function processes were promoted; documentation posting and archiving were centralized and linking of working processes contributed to easier monitoring of receivables.
- By implementing the segregation of duties, internal control was advanced in all operative transactions.

The "open space" concept of workspace resulted in further promotion of working conditions and communication, and the project "Green" follow-up at the level of STADA Group will put emphasis on the SAP system in order to improve reporting and consolidation.

Legal Affairs Division actively participated in implementation of all business processes in the company, particularly in terms of anti-corruption activity. The top management of the company (attended by more than 55%) had a two-hour training on fight against corruption with global practice analysis within a two-day workshop organized by Legal Affairs Division and Marketing and Sales management at the end of 2013. Educational material from the workshop was distributed in 2014, and this important topic was pyramidally delegated in the company. In 2014 there was not a single process instituted against the company for monopolistic behaviour.

Hemofarm A.D. did not provide any type of material or financial donations to politically active parties or political institutions during 2014, as well as in the previous two reporting cycles.





COMMUNICATION WITH STAKEHOLDERS



Communications represent the area to which Hemofarm A.D. pays great attention, taking into account that the needs of patients, product consumers and population are crucial for the company. That is why two-way communication with these groups, as one of the priorities, has been continuously improved including also other stakeholders, professional public, media, regulatory authorities, the Government of Serbia but above all, company's employees.

The Centre for Corporate Affairs and Communications is constantly challenged to harmonize the interests of all stakeholders, to the highest possible extent, observing good partnership relations. The Centre is responsible for corporate communication with internal and external public, while Marketing and Sales Division is in charge of communication with the professional public, i.e. doctors and pharmacists.

For all interested parties, there are special addresses provided for receiving suggestions and complaints: corporate internet presentation at www.hemofarm.com, telephone number (+381) 013/803100, and email address svakodobro@hemofarm.com.

INTERNAL COMMUNICATIONS

Communication with the internal public is primarily focused on the dialogue with Hemofarm's employees. In 2014, we continued to promote the key corporate values through the "Availability" campaign. The aim was that all employees, regardless of their business position, get the opportunity to be directly involved in the promotion of business operation and corporate culture with their own proposals and suggestions, as well as to actively participate in the selection of Hemofarm Foundation projects. The central activity of the campaign was the "Open Door" activity held on Thursdays from 12 to 14h, during which all employees could make an appointment with middle and top management, and thus express their ideas or request certain business information in an immediate and direct way. The greatest interest in this activity was in Vršac, where employees were mainly informed about the plans for opening of new job posts. This activity continued spontaneously after the conclusion of the campaign, which was a real confirmation of availability of colleagues for each other. During 2014, the visits of the Chief Executive Officer to workers in production plants were intensified so that all employees could have the opportunity to directly present ideas and suggestions.

The corporate web portal INtranet represents the most significant internal communication channel. News, video footages, and photos of Hemofarm A.D. and Hemofarm Foundation activities are regularly updated on this web portal. Apart from providing timely information to employees, this INtranet also enables access to necessary corporate documents, Rule Books, etc. The in-house e-newsletter "Among us" ("Medju nama"), which is published on quarterly basis, presents all corporate news of significance for the internal public. It is distributed by internal



e-mail list as well as on bulletin boards to all employees who have no e-mail. The most important corporate information is published also in StadaWorld, the bulletin of STADA Group.

In 2014, the Centre for Corporate Affairs and Communications created a new in-house communications strategy for the purpose of even more transparent and quality communication among employees. The activity “Bottle Cap for Handicap”³ should be pointed out of the numerous activities within the strategy which started in 2015 stimulating the employees to join the Hemofarm Foundation activities. The goal of this action is to collect money from recycled PET packaging plastic caps in order to purchase wheelchairs for people who cannot afford them.

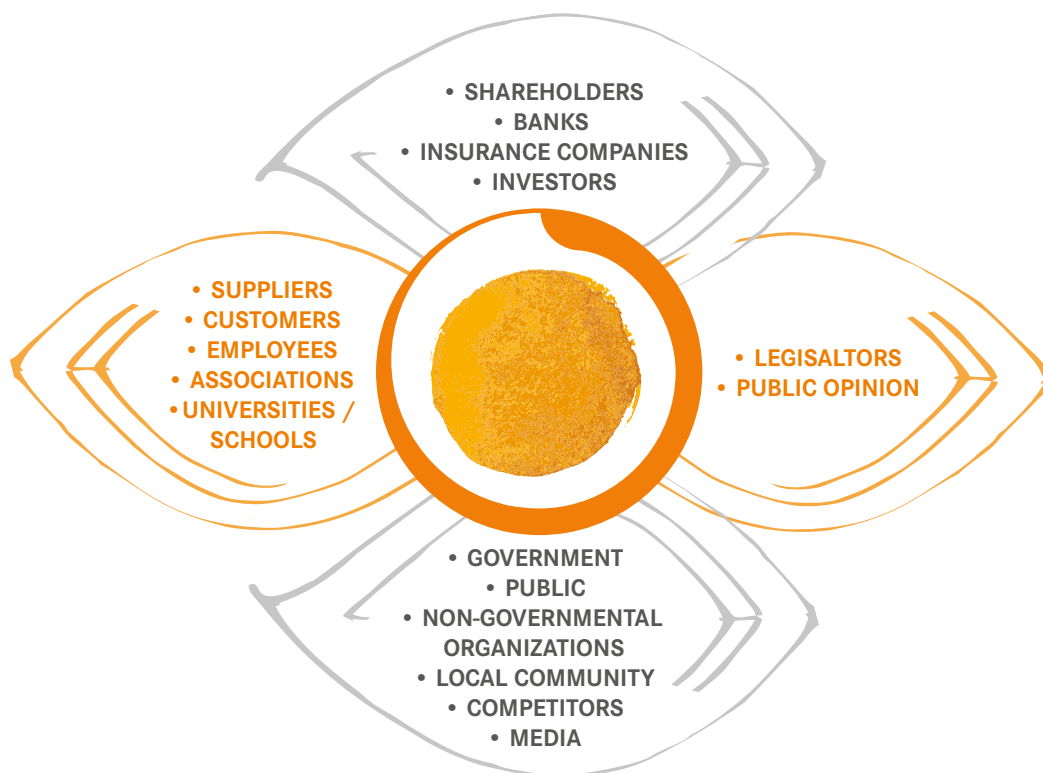
EXTERNAL COMMUNICATIONS

Constant and timely communication is imperative in Hemofarm. Therefore, we constantly invest efforts in order to promote already built confidence of all stakeholders. The Centre for Corporate Affairs and Communications has a very important role in supporting Quality Control, which is reflected in preparation of timely and comprehensive responses to all complaints addressed to Hemofarm A.D. In this way, quality two-way communication with patients and users of Hemofarm products is achieved.

Among its employees, Hemofarm also has experienced professionals with highest educational qualifications in different professional fields. Together with state and social institutions, they make their expertise available both at strategic and operational level, especially during reviews and public hearings regarding the drafting or amendment of regulations, strategies plans and other legislation. Hemofarm A.D. contributes to the economic development of local communities and creating the best possible business and social environment by regular contacts and cooperation with representatives of local self-governments in the territory in which it operates.

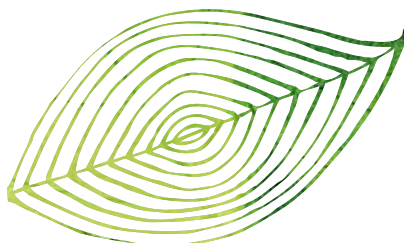
Every year, on June 1st - Company's birthday, we traditionally open the door of manufacturing facilities in Vršac, enabling all interested citizens to visit Hemofarm A.D. Through a direct contact with employees, they get introduced with complex business activity, production processes and procedures of the company. Moreover, they get an impression of Hemofarm's importance for their town through personal visit to the factory and its employees.

³ In 2012, the Paraplegic Association of South Banat started the campaign called “Bottle Cap for Handicap”. Hemofarm and Hemofarm Foundation have joined the action by placing branded boxes at the busiest spots in the company, and employees have collected about 40kg of bottle caps in less than a month.



The Centre for Corporate Affairs and Communications is open to all media and citizens' questions, continually improving relations with them and proactively informing the public about the most important information regarding the company, portfolio and operations.

After successfully implemented corporate "All the best" campaign (2013), Hemofarm has continued to proactively spread optimism through social networks sharing helpful tips for better lifestyle, nutrition and health - Facebook (contents: infographic, motivational posters, proverbs and wise thoughts, the most important corporate information, tips for better health and quality of life, good examples from everyday life which should be followed), YouTube (YouTube, video contents such as TV commercials for Hemofarm products, corporate videos, etc.), Twitter (Twitter, brief affirmative contents and tips, as well as corporate service information in accordance with the communication aesthetics of this social network), Instagram (photos and motivational posters) etc. Also, during the catastrophic floods, the solicitude of the company was confirmed through useful infographics on Facebook and Twitter, which illustrated what and in what sequence should be done at the destroyed facilities to ensure the highest level of security for people and goods, and alleviate the consequences after the floods in order to reduce the damage to minimum. Modern channels of communication allow us to obtain and hear all feedback from stakeholders, but also to start an active dialogue with them. For that reason Hemofarm A.D. pays more attention to online communication with different target groups, and it daily responds to all questions that arrive via social networks, no matter whether it is providing information about the portfolio product or tips about more quality lifestyle and better health.





HEMOFARM MEMBERSHIP



1. Chamber of Commerce and Industry of Serbia (CCIS) – Pharmaceutical Manufacturers Association, Food Supplement Manufacturers Association and Board of Environmental Protection and Sustainable Development – independent non-governmental, business and expert, and interest association of legal and physical entities which perform registered business activity.

2. German-Serbian Business Association in Belgrade (DSW) – Established in 2003 by the German Chamber of Commerce in Belgrade (DIHK) and numerous German companies in Serbia, as the biggest business association that represents a network of legal entities active in bilateral business relations between Germany and Serbia.

3. Delegation of German Industry and Commerce in Serbia (AHK) – Organization which supports German companies when they enter the Serbian market; it explores the market needs and establishes business contacts.

4. Foreign Investors Council (FIC) – Business association whose mission is to entirely help Serbia accept and foster market economy and introduce the system of European values and standards.

5. American Chamber of Commerce in Serbia (Am Cham) – Non-profitable organization whose primary goal is to establish mutual cooperation and friendship between Serbia and the USA in the field of trade, investment and economic development.

6. National Alliance for Local Economic Development (NALED) – The only business association that gathers representatives of all three sectors of the society (companies, municipalities and NGOs), so they could jointly contribute to improvement of conditions for local economic development and operations in Serbia.

7. GS1 – The leading global organization dedicated to creation and implementation of global standards and solutions that improve efficiency and visibility as well as requirements in the supply chain at the global level, in all sectors.

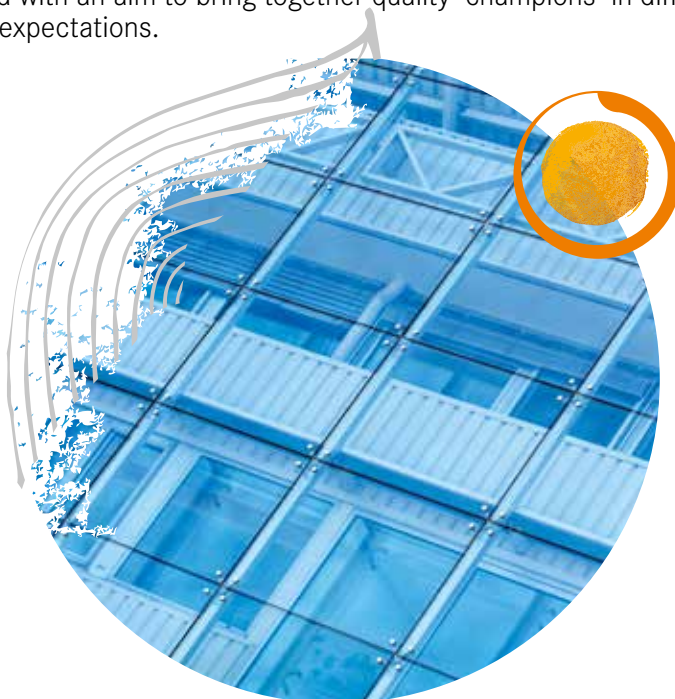
8. United Association of Serbia for Quality (UASQ) – is a professional, non-political and non-profitable organization whose main goal is to promote and propagate quality, standards and reliability. UASQ has based its operations on the professional work of the Committees, which are interdisciplinary professional bodies specified for certain fields and they gather professionals and experts from different fields or from one specific field.

9. Pharmaceutical Society of Serbia – is a professional association of pharmacists, with the primary objective of professional development, improvement of knowledge and preservation of ethical rules of the pharmaceutical profession.

10. Serbian Chemical Society – is a voluntary, scientific-professional organization of chemists, chemical technologists and experts whose field of expertise is connected with chemistry for the purpose of science development.

11. European QP Association – is the association of pharmaceutical manufacturing licence holders, which creates a platform allowing them to exchange their experience on the latest regulatory requirements. It supports the harmonized European approach to pharmaceutical manufacturing, and continuously provides information to the members on topical issues in the area of GMP and regulatory compliance.

12. American Society for Quality (ASQ) – is a global international organization dedicated to quality through cooperation with individuals and organizations around the world. It has been established with an aim to bring together quality ‘champions’ in different areas in order to meet community expectations.



AWARDS IN 2014



“Captain Miša Anastasijević” Award

Hemofarm is the winner of the prestigious “Captain Miša Anastasijević” Award, as the most socially responsible company in the region of South Banat in 2014. The award, named after a prominent entrepreneur, benefactor and endower from the 19th century, is presented in order to show that in times of transition and omnipresent crisis, there are individuals, companies and institutions which keep pace with Europe and the world, giving an example and encouragement to others.

VIRTUS Award for Corporate Contribution at the National Level in 2014

Hemofarm A.D. is the winner of “VIRTUS” Main Award for corporate contribution at the national level, which is awarded to a company that supports activities and projects of general social interest in a systematic and thoughtful manner. The objective of this prestigious award is to promote corporate social responsibility of companies whose philanthropic approach can be used as a positive and inspiring model of strategic investment in community, and such an approach is embodied in the most important projects that the company supported during the year. The award was established in 2007 as the first and most significant award for corporate philanthropy in Serbia and it promotes socially responsible operation as an integral part of sustainable development of companies.

The Award for “Svako Dobro - Hemofarm” Facebook Page

Facebook Page “Svako dobro – Hemofarm” won two awards at the UEPS competition (The Association for Market Communications): the 2014 Gold Award for presence in social networks and quality of Facebook “Svako dobro – Hemofarm” Page, where useful tips for better lifestyle and health improvement are presented as well as the 2014 Bronze Award for integrated promotional campaign “Let’s Run as a Family” in the category of social and humanitarian campaigns.





Special “April 28th” Award for Occupational Safety and Health and Spreading the Culture of Prevention

The occupational safety and health administration with the Ministry of Labour, Employment, Veteran and Social Issues of the Government of the Republic of Serbia traditionally presents awards to legal entities, entrepreneurs and individuals on April 28th, the World Occupational Safety and Health Day. Hemofarm is the winner of the first award, i.e. special recognition “April 28th” in 2014, which is the second time it has won this award.





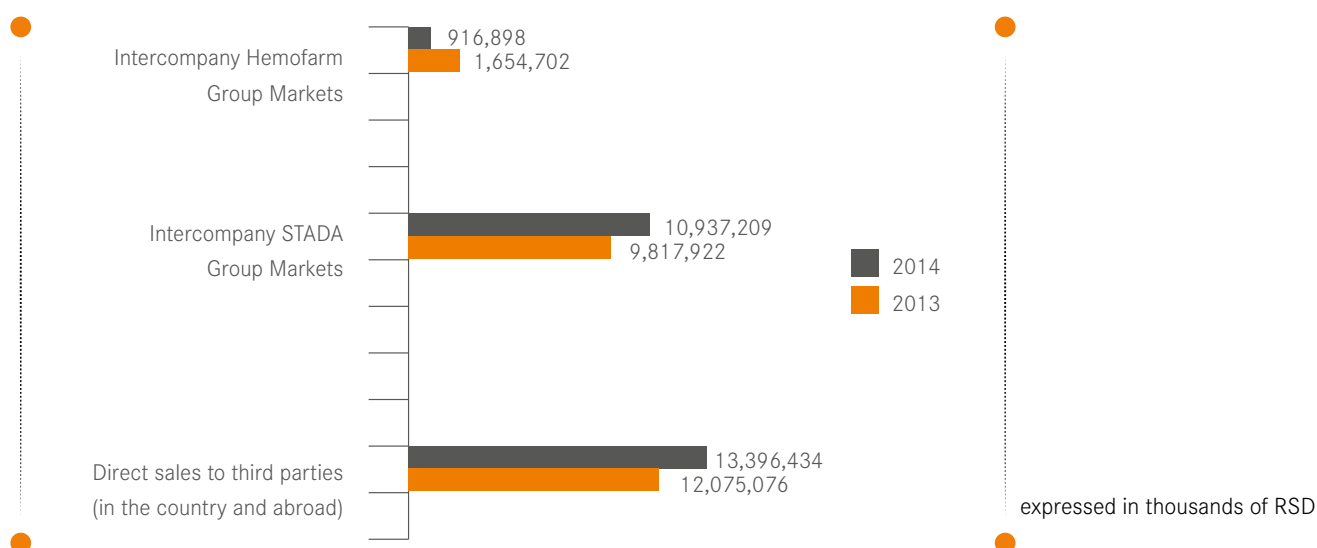
OPERATIONS

-  Production volume increased by 13%; a record was achieved in production which amounted to more than 4 billion product units, i.e. more than 202 million of packages manufactured in 2014.
-  Following the market trends, the portfolio was enriched with new Bronhoklir and Lekovito carstvo syrup lines.
-  Non-recycled cardboard was successfully replaced by recycled cardboard used for cartons of solid dosage forms, more specifically approximately 80% of total annual consumption.
-  Reject in sterilization of infusion bottles, planned and unplanned downtime on packaging equipment were mainly reduced by optimization through operational excellence.

THE MOST SIGNIFICANT FINANCIAL INDICATORS

Despite the continuous presence of crisis as well as turbulences in foreign and domestic pharmaceutical markets, Hemofarm A.D. has succeeded in retaining stability in its operations, which is clearly demonstrated through the key economic indicators.

During 2014, despite the impact of negative external business factors, Hemofarm A.D. recorded a growth of total sales revenues by 7.23%. In comparison with 2013, growth was recorded in the intercompany STADA Group markets as well as sales to third parties, while intercompany Hemofarm Group markets recorded a decline in revenue.





On one hand, income from dividends is missing, and on the other hand, the impact of negative exchange rate differences is significant. The growth rate of euro in 2014 led to foreign exchange losses, primarily on the basis of loans, while the fall of the rouble also negatively affected the financial result, since significant amounts of intercompany receivables of STADA Group are denominated in roubles.

Due to the improvement of business processes, operating profit increased by 28.4% compared to 2013. However, despite the growth of generated income and operating profit, net profit decreased by 19.8% at the end of 2014 compared to previous year.

Directly generated value is lower by 1.4 % compared to 2013 despite a significant increase in sales revenues due to the reduction in financial income not generated this year.

In 2014, Hemofarm A.D. started to implement the use of ten-year tax incentives, which will result in significant savings for the Company in the upcoming period. In addition to these types of benefits, the company did not have any financial support from the state in 2014.

Two main requirements (Investment in fixed assets in the amount not less than EUR 8.8 million and maintaining the number of permanent employees) were met. As a result of this process, we expect that the total savings will amount to EUR 5.7 million in the upcoming period of 5 years, of which approximately EUR 600,000 was recorded in 2014.

Manufacturer	mUnits 2013	mUnits 2014	MS in Units 2014%	Growth in Units 13/12	m EUR 2013	m EUR 2014	MS in EUR 2014%	Growth in Units 13/12
1. Hemofarm	74.2	72.4	34.36%	-2.46%	112	103.7	17,28%	-7.41%
2. PharmaSwiss	13.7	11.9	5.67%	-12.85%	56	44.1	7.35%	-21.12%
3. Actavis	17.4	15.7	7.47%	-9.92%	39.3	34.3	5.72%	-12.75%
4. Galenika	24.0	19.3	9.17%	-19.62%	41.5	31.7	5.29%	-23.49%
5. Novo Nordisk	0.8	0.8	0.38%	-0.94%	29.1	29.8	4.96%	2.32%
6. Roche	0.7	0.7	0.34%	-0.67%	30.6	27.8	4.64%	-8.92%
7. Pfizer	5.4	4.8	2.26%	-11.91%	28.8	24.9	4.14%	-13.70%
8. Sanofi	5.3	5.4	2.57%	2.54%	22.6	21.1	3.51%	-6.68%
9. Alkaloid	14.2	13.5	6.38%	-5.12%	20.6	20.4	3.39%	-1.01%
10. GlaxoSmithKline	5.6	4.6	2.18%	-17.12%	22.8	20.3	3.38%	-11.14%
11. Bayer	5.3	5.2	2.49%	-0.61%	19.5	19.6	3.27%	0.52%
12. Merck Sharp Dohme	2.2	2.2	1.02%	-3.94%	19.5	19.0	3.16%	-2.60%
13. Boehringer	2.6	2.8	1.31%	6.52%	15.3	15.3	2.54%	-0.39%
14. Krka	4.8	5.1	2.43%	5.61%	13.4	13.6	2.27%	2.07%
15. Berlin-Chemie	3.0	3.0	1.43%	-0.87%	11.6	11.4	1.90%	-1.24%
16. Astra Zeneca	1.1	1.2	0.55%	5.31%	10.1	11.1	1.84%	10.10%
17. Merck Serono	3.9	3.4	1.59%	-15.00%	10.6	9.9	1.65%	-6.69%
18. Novartis	0.7	0.7	0.32%	-9.19%	9.8	9.5	1.58%	-3.54%
19. Sandoz	4.1	4.1	1.96%	0.84	10.3	9.4	1.57%	-7.96%
20. Janssen	0.4	0.3	0.16%	-10.48%	8.9	9.0	1.50%	1.09%
OTHERS	31.4	33.6		7.02%	111.1	114.4	19.05%	2.94%
GRAND TOTAL	221.1	210.7			643.3	600.4		

Hemofarm is the leader in the Serbian pharmaceutical market, with 34.3 % share in terms of the number of packs, i.e. 17.3 % in value terms⁹, and Hemofarm's portfolio was created both in accordance with patients' needs and the needs of domestic and foreign healthcare systems:

- Hemofarm sells products in 11 out of 14 pharmacotherapeutic groups classified according to ATC system;
- Its portfolio consists of 192 products classified by INN system, with 391 forms and doses;
- The portfolio is focused on the most significant pharmacotherapeutic groups, such as cardiovascular drugs, antibiotics, neuro-psychiatric drugs, which corresponds to epidemiological structure of therapeutic indications;
- OTC products occupy the leading position in the Serbian pharmaceutical market, with 16.8 % share¹⁰;
- Constant improvement of portfolio with new-generation medicines represents a business imperative;
- Developing new segments, especially oncology segment is in the focus of further company development;
- Business within STADA Group opens additional possibilities for product sales in very demanding EU markets.

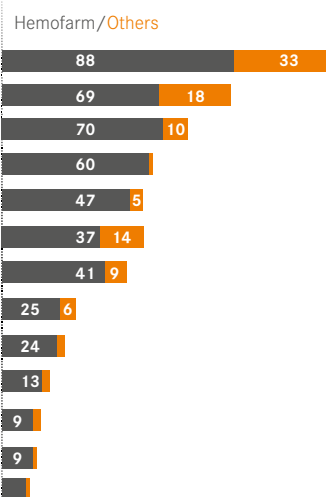
The prescription (Rx) pharmaceutical market is conditioned by the pricing policy stipulated by the Ministry of Health and Ministry of Trade. In view of that, the prices of medicines are also conditioned by the officially approved prices determined by the two competent ministries.

⁹ Source: ALIMIS

¹⁰ Source: IMS database for 2014

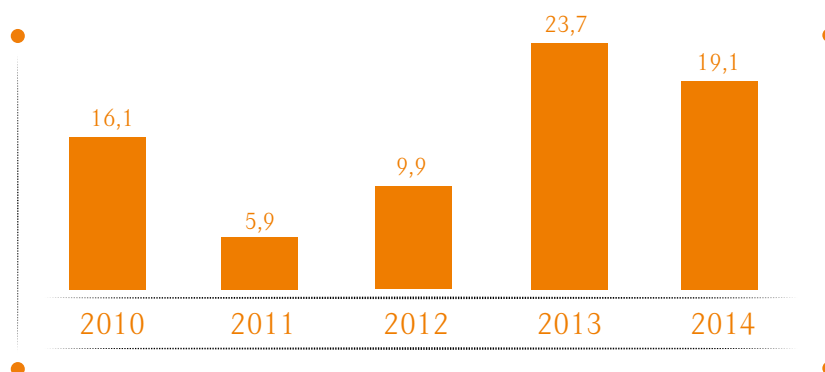
RX+OTC
in m EUR

ATC	TPM	Hemofarm	MS in %
C - cardiovascular system	121,398,923	33,257,338	27%
N - nervous system	86,637,427	17,836,419	21%
A - alimentary tract & metabolism	79,988,373	10,025,728	13%
L - antineoplastic & immunomod ag	60,038,014	43,913	0%
R - respiratory system	51,948,411	5,203,460	10%
J - anti-infectives for syst use	51,702,055	14,439,257	28%
B - blood & blood forming organs	50,211,370	9,142,313	18%
M - musculo-skeletal system	30,604,589	5,780,154	19%
G - g/urinary syst & sex hormone	26,179,546	2,270,263	9%
H - syst horm prep excl sex horm	15,394,398	2,473,172	16%
D - dermatologicals	10,992,411	1,675,134	15%
S - sensory organs	10,275,850	1,583,507	15%
V - various	4,517,452	46	0%
P A - parasitic prod insect & repel	463,573		0%
GRAND TOTAL	600,352,392	103,730,704	0%



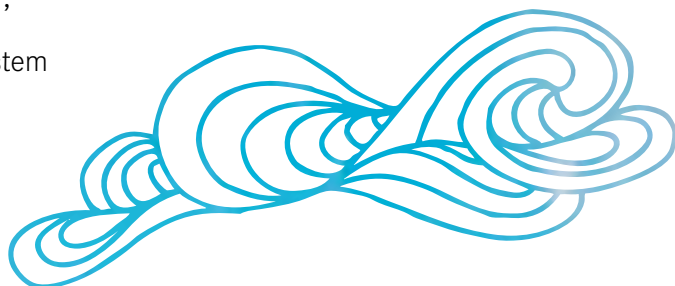
Hemofarm is the largest exporter of medicines also in 2014, and among the top ten export companies with exported products in the amount of RSD 14,264,804,000.

High investments as support for company's growth and development
(*in millions of EUR):



Intensive investments in:

- Modernization of production plants,
- Capacity expansion and STADA products transfer,
- Laboratories (R&D; microbiological control, etc.),
- Implementation and development of the SAP System at Hemofarm level



RESEARCH AND DEVELOPMENT



Generic drugs are more affordable because initial clinical trials are not required for them, whereby investments are reduced. The therapeutic efficacy of generic drugs is equivalent to that of the originators, and bioequivalence studies must demonstrate it. The moment when the patent rights of a certain originator drug expire, and when an adequate generic product appears, then it is rational to use generic medicines because an identical product both in therapeutic and safety terms is obtained for less money. Administration of generic drugs reduces the costs of each healthcare system and released funds are used for other originator drugs.

After expiration of the patent validity period, the originator product exclusive sales rights are lost, which in the field of the pharmaceutical industry represents the beginning of a fierce battle for assuming the leading position in the generic pharmaceutical market. The aim of Hemofarm's Research and Development is to complete the development, registration and transfer of a new product before the expiry of patent protection.

● In 2014, we obtained 125 new Marketing Authorizations for products in 10 markets, and most Marketing Authorizations were granted in Bosnia and Herzegovina, Montenegro, Serbia and Macedonia.

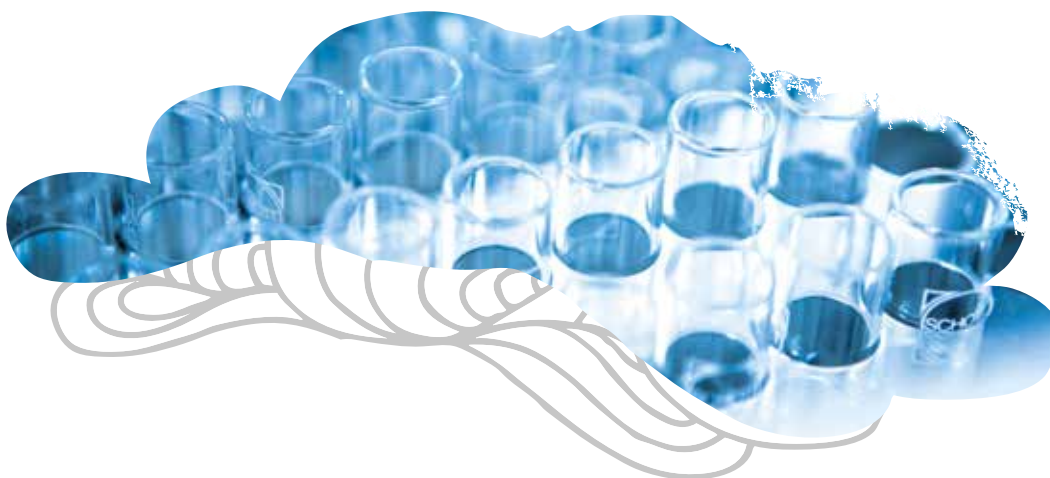
● In addition, the applications for Marketing Authorizations of 105 new products are pending, which is by 6% more than in 2013. ●

By monitoring and analysing the development of the local and international pharmaceutical markets, Hemofarm continuously reviews its potentials and possibilities for expanding the market performance with a tendency of improving those market segments which are not sufficiently developed either by type of product or dosage and form, and from the perspective of meeting patients' needs for high-quality, affordable and timely treatment. Cardiology, CNS, anti-infective, as well as OTC products and medical devices (MD) are in the focus of development and registration activities, and one of the set goals is work on developing innovative generic drugs,

i.e. value added medicines. Therefore, Hemofarm continuously improves the work on launching own development products, the increase of which testifies year-in-year-out that the company has appropriate “know-how” and potential to develop, register and sell generic products in new markets and fully manage its supply chain.

In 2014, we applied for Marketing Authorizations of five new own development products in several different doses in EU, compared to 3 products submitted for registration in the EU markets last year, which were successfully launched in the market in 2014:

Applied for Marketing Authorization in 2014 (launching 2015/16)		Launched in 2014 (EU)	
Product	Dosage	Product	Dosage
aripiprazole tablets	5,10,15,30 mg	moxifloxacin film-coated tablets	400 mg
aripiprazole orodispersable tablets	10, 15 mg	moxifloxacin infusion solution	400 mg/250 ml
duloxetine modified-release capsules	30, 60 mg	esomeprazole lyo injections	40 mg
duloxetine modified-release capsules	20, 40 mg	Launched in 2014 (SEE)	
linezolid solution for infusion	2 mg/ml	Midol gastroresistent film-coated tablets	100 mg
		olopatadine 0.1 % eye drops	5 ml
		moxifloxacin film-coated tablets	400 mg
		moxifloxacin solution for infusion	400 mg/250 ml



Hemofarm is constantly improving “know-how” by working on its own projects within development and technical operations, through introduction of new technologies and improvement of production plants. One such project is duloxetine for which development and transfer procedures were successfully completed in 2014, and the new generic product in the form of capsules filled with modified-release pellets was submitted for registration. Duloxetine and aripiprazole innovative versions were among the best selling products in EU during the previous year, so there are high expectations for sales of these generic products in 2015/2016. When it comes to the earlier developed and patented “one-fits-all” pharmaceutical form, this unique solution has been just applied on own development projects: aripiprazole tablets and orodispersible tablets. Duloxetine and aripiprazole are one of most administered psychiatric medications and the new formulations provide more comfortable administration of therapy to patients. Development of modified-release pellet capsules allowed for administration of duloxetine in two different indications. Doses of 20 mg and 40 mg are used for treatment of incontinence, primarily in women, while doses of 30 mg and 60 mg are used as antidepressants. Aripiprazole orodispersible tablets allow patients to rapidly dissolve the tablet in the mouth, and thus administer the daily treatment more easily.

Registered products like moxifloxacin were successfully launched in the EU market in 2014. Their importance for the healthcare system and society as a whole is reflected in expansion of the antibiotics product range, taking into account the problem of a large number of microorganisms which are resistant to existing antibiotics.

The focus in 2014 was also on maintaining the Marketing Authorizations for 41 products at a global level, for the whole STADA Group, and on 153 products that were subjected to Marketing Authorization renewal. Practical significance of new Marketing Authorizations and maintaining the existing ones lies in the increase of the existing market potential for the company, through sales of a large number of products – own developed eye drops, sterile forms and solid dosage forms, as well as licensed products in the countries of the region. It contributes to a more stable pharmaceutical market, especially in terms of meeting patient and customer needs for products, providing adequate therapy, as well as timely prophylaxis.

Research and Development	2013	2014
The number of new Marketing Authorizations	158	125
The number of prepared and filed dossiers for renewal of MA	153	153
The number of prepared and filed dossiers for new MA	99	105

In addition, transfers¹² of 36 products were carried out of which 56% of activities were on transferring R&D products to production, and 44% were “site-to-site” transfers and transfers from third parties to production plants of Hemofarm within STADA Group. The increase in the number of transfers is also one of the company value growth indicators both in the case of transfers from development to production and in the case of licensed products and contract manufacturing whereby the company gains new technologies, production processes and methods and enriches the “know-how”.

Despite the small number of decisions issued by the Serbian Medicines and Medical Devices Agency (ALIMS), the number of submitted dossiers is higher. Accordingly, the number of new Marketing Authorizations is expected to increase in 2015.

¹² Transfer represents a new product release from R&D to production; transfer can also mean transfer of production of a product from one plant to another within Hemofarm Group or at the level of STADA Group. The transfer importance is in the switch from theoretical to practical part of product development through specific production. Likewise, production transfers from one to another factory or plant enable optimal utilization of available capacities with multiple positive effects and optimization of production.



OPERATIONAL EXCELLENCE

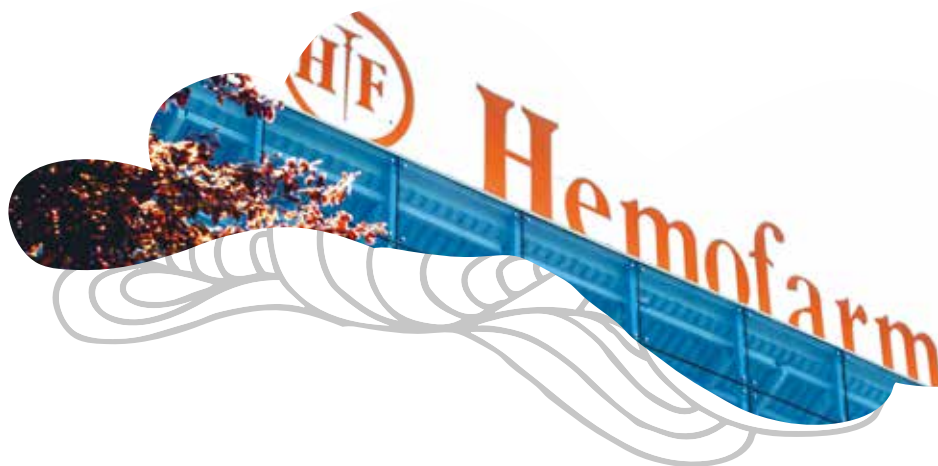


Hemofarm A.D. continued the development of continuous improvement programmes in 2014, not only within production but also in other divisions within Technical Operations such as: Quality, Research and Development, Purchasing and Demand Planning, as well as in other production sites outside Vršac.

There were 18 continuous improvement initiatives mostly focused on increasing efficiency and reducing downtime, as well as reducing various types of losses, including also consumption of energy sources and costs of production, storage and transportation implemented only in the field of production in 2014. Some of the most significant results of the implementation of initiatives and improvement projects in the field of Hemofarm production in Vršac during 2014 include as follows:

- 1. Optimization of transportation packaging** was achieved by increasing the utilization of pallets in Solid Dosage Forms Plant, and switching to uniform transportation box (larger dimension boxes) for all products intended for the EU market: nearly 35,000 transportation boxes or around 750 pallets per year, which corresponds to the annual cost cutting in finished product warehouse by approximately 0.6% and reduced emission of harmful gases into the atmosphere by almost 1%.¹³; Achieved financial effects amount to more than EUR 50,000 annually, calculated on the basis of savings in material, warehouse space and transportation;
- 2. Reduction of planned downtime by 15% on average** on CAM packaging equipment in Solid Dosage Forms Plant through optimal adjustments of the line for packing the most frequent products;
- 3. Reduction of unplanned downtime by 30%** on IMA packaging line in Solid Dosage Forms Plant by improvement of specification for foil printing ink.
- 4. Sterile Products Plant – reduction of reject by 80% in production of infusion solutions** due to bottle deformities in DeLama autoclave; **reduction in automatic**

¹³ Minimum 25 trucks per year, and 30 pallets is the average capacity of one truck compared to the total transportation only from the warehouse locations in Vršac.



cleaning cycle and sterilization of lyophilizers (CIP/SIP) by 50% and significant savings in consumption of water for injections by approximately 3% of the total annual consumption in Hemofarm.

5. The second phase of implementing the adjustable “mobile racking” system in packaging material warehouse. The capacity of this warehouse was additionally increased by approximately 65%. Thus, the need for renting additional storage capacities in the period from March to December 2014 was eliminated, which corresponded to savings in energy of around 25,000 kWh or 90,000 MJ in the given period.

Improvements in the area of operational excellence were implemented also at the level of the entire Hemofarm Group in the course of the previous year. Reduction of technical days on equipment as well as tableting time on all machines and optimization of the tablet coating suspension preparation process were achieved in Solid Dosage Forms Plant in Šabac, while optimization of energy consumption for HVAC, introduction of SAP in central weighing process and packaging optimization in the part of product labelling were achieved in Banja Luka.

In 2014, there were 23 new initiatives defined in the field of production for 2015 and 2016. Many were designed as support to sustainable development and complex multidisciplinary projects focused on improvement of quality and processes within supply chain, in general.

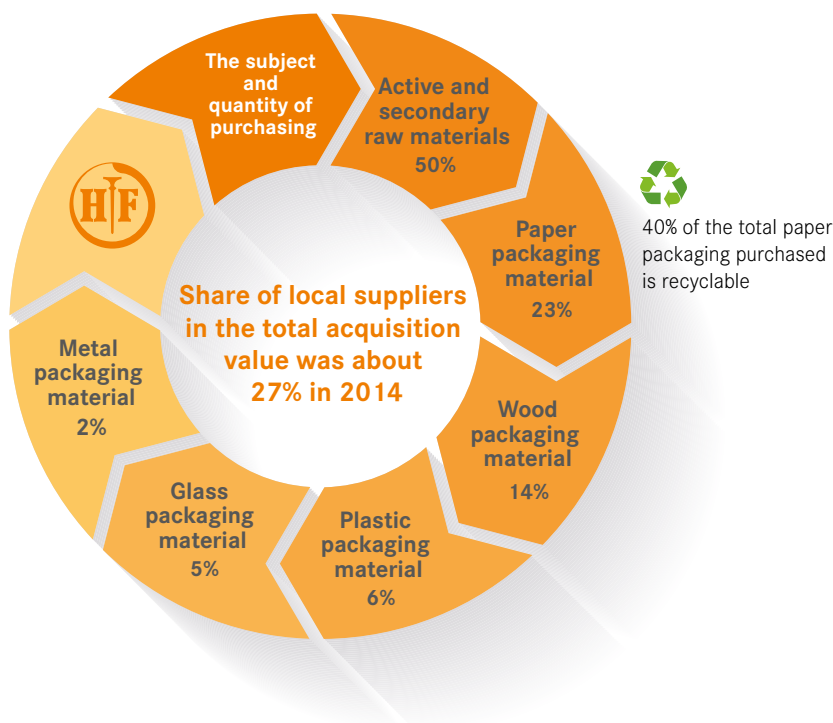


PURCHASING



The purchasing process represents a significant segment in providing conditions for developing a quality pharmaceutical product. Pharmaceutical raw materials are often hardly available, especially when there are no local suppliers. Despite all the challenges, Hemofarm continuously improves the work of its Purchasing Division, optimizing the costs, without affecting quality, making its purchasing more efficient and transparent.

Raw materials accounted for the largest share (around 55%) in the total value of purchasing in 2014, while packaging material accounted for nearly 17% share, "in bulk" and finished products accounted for 12% while the remainder referred to investments, services and other.



Local suppliers imply suppliers from Serbia. When purchasing is compared to 2013, when it accounted for 20% in the local market, the increased share of local suppliers is evident due to purchasing process centralization. Local suppliers mainly account for the purchase of packaging material such as paper packaging, wood packaging, plastic packaging material, etc., while their share in raw material purchasing is less in terms of percentage, regarding the specific activity of the company and insufficient presence of the local pharmaceutical raw material manufacturers.

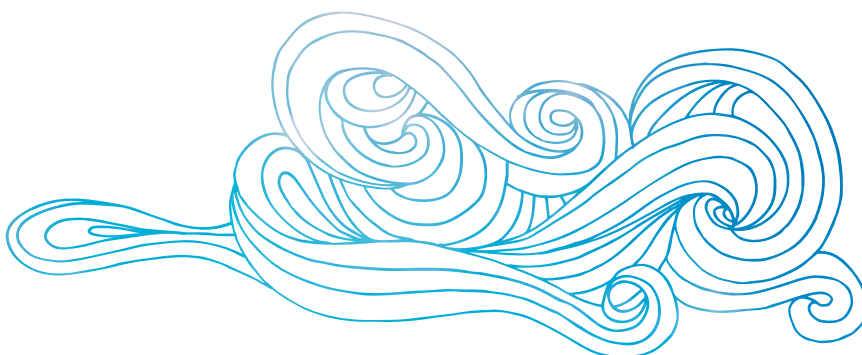
The advantage of the local market is in the lower transportation and goods insurance costs, shorter deadlines for delivery of smaller quantities which directly leads to reduction of storage and thereby of inventory costs, faster resolving of emergency purchase orders, lower purchasing function costs due to the proximity of business partners, higher reliability of purchasing due to small transportation risks, easier communication and “just-in-time” deliveries.

All suppliers and service providers are equally treated in the purchasing procedure, regardless of the geographical location. When selecting a supplier, we take into account that it provides products with the established quality, offers a product at an acceptable price, meets the deadlines, provides actual support and service as well as information useful for the purchasing and ordering party, takes responsibility for possible problems, and transparently informs the purchaser about ordering and delivery problems, as well as that it enjoys a stable financial status. In addition, it is essentially important for Hemofarm A.D., as the socially responsible company, that the possible and existing suppliers meet the rights of their employees and that they are socially responsible themselves.

The company has defined procedures for approval of new and monitoring of current suppliers, and it controls each delivered batch of raw materials, packaging material and other products and services, which are the subject of purchasing as well as the supporting documentation on the occasion of receipt. Multi-member committees decide on the outcome of a tender, which additionally reduces the possibility of abuse. Transparency of business relationships with suppliers is secured by centralization of purchasing processes. Such an approach enables also larger optimization of purchasing processes themselves, and Purchasing Division is in charge of taking care about tenders and purchases. General business terms and conditions are posted on the official corporate website, and therefore are available to all stakeholders. There were no objections on those grounds in 2014.

Purchasing Division employees sign a statement indicating that they are not in the conflict of interest while performing their tasks and are not connected to a supplier, which guarantees absence of impact on their objectivity in line with the corporate management principles and preventive anti-corruption measures. In addition, the statement form on absence of conflict of interest is also applied during specific types of purchases, in intercompany tender committees and when there is a need for persons who are not employed with Purchasing Division to give such a statement.

Few years ago, the Municipality of Vršac and Hemofarm started a joint initiative to form a Technology Park¹⁴ which offers stimulating opportunities for all interested companies to produce their goods not only for Hemofarm but also for the surrounding companies, encouraging local suppliers to develop their services and products.



¹⁴ http://www.vrsac.com/active/sr-latin/home/aktuelno/privreda/tehnoloski_park.html

THE CONCEPT OF SUSTAINABLE AND SOCIALLY RESPONSIBLE PURCHASING

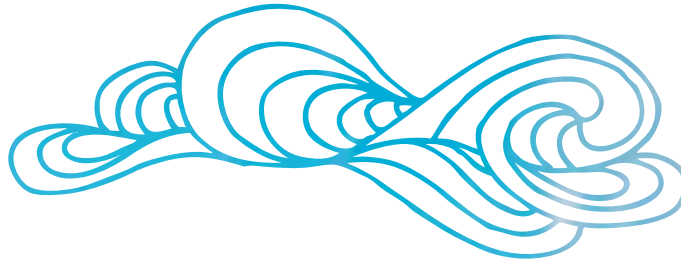


The concept of sustainable and socially responsible purchasing tries to maximize the cost-benefit ratio by actively promoting positive performances of socially responsible operations, environmental protection, economic and social aspects.

During the year, we gradually replaced the plain cardboard (GC2) with recycled cardboard (GD2) and we successfully introduced about 80% of recycled cardboard until October 2014. Otherwise, around 97% of non-recycled cardboard was used for production of packs in Hemofarm by 2013.

It is one of the best examples reflecting the awareness of the company and importance of sustainability in each segment of operation. Packs made of recycled cardboard have identical performances as packs made of non-recycled cardboard (produced from the pulp), and showed no negative effects on production process performances, and quality of finished product. Around 1.1 tonne of packs made of recycled cardboard, as well as 300 tonnes of packs made of non-recycled cardboard were purchased for Hemofarm A.D. needs in the course of the year. The purchase of 1 tonne of packs made of recycled cardboard generates savings of 4,200kW of electricity, 32,000 litres of water; air pollution is less by 74% and saves 17 trees per tonne. The cost savings amount to about 10%.

The implementation of the project of introducing new CRS caps was continued in 2014. Full implementation of the project should lead to reduced consumption of polypropylene per cap by approximately 25% of the entire weight of a cap, which accounts for reduced consumption of polypropylene by around 5 tonnes at an annual level.



In accordance with the implementation of the BSCI code of social responsibility and respect for human rights, BSCI project team was formed in which Purchasing Division took part. Business partners were informed with the BSCI code principles, and its system of values was incorporated in the overall supply chain. Existing as well as possible suppliers were given a task to prove that they undertake all necessary actions in order to provide their own compliance with the BSCI Code of conduct. The criterion for selection of suppliers was to send a survey to all biggest local suppliers, in accordance with the share in the total turnover. BSCI surveys were sent to 20 significant suppliers (accounting for 10% of total turnover in 2014) in the course of the year, of which 75% responded to the surveys. To the mutual satisfaction, a high level of awareness and respect for BSCI value system was shown within the Hemofarm A.D. supply chain. We will continue to revise the list of suppliers in accordance with BSCI code in 2015 as well, in order to ensure that Hemofarm cooperates only with the suppliers who operate in accordance with the full respect for human rights, and the rights of the employees.



PRODUCTION



Some of the most important business advantages of Hemofarm are: professional staff oriented towards achieving top results, technological completeness and application of modern pharmaceutical standards, complete and modern portfolio, certified quality management, as well as cutting-edge research and development.

Hemofarm Group has factories in:

- **Vršac** (central production complex with four production facilities and a high-bay warehouse, production of solid dosage forms, sterile products, infusion solutions and injectables)
- **Podgorica** (production of infusion solutions, ophthalmic preparations and cephalosporin antibiotics)
- **Šabac** (production of solid, liquid and semi-solid products)
- **Banja Luka** (production of solid dosage forms)
- **Dubovac** (antibiotic production).

With more than 4.4 billion of product units manufactured in 2014, Hemofarm recorded production growth of 13% compared to the previous year. Out of the total number of produced units in 2014, 3.9 billion or approximately 90% were solid dosage forms – tablets, film-coated tablets and capsules. All production plants of Hemofarm Group contributed to this result. Hemofarm's production plants are increasingly producing for the demanding European Union markets, and at the STADA Group level, they represent the largest producer and the backbone of further development.

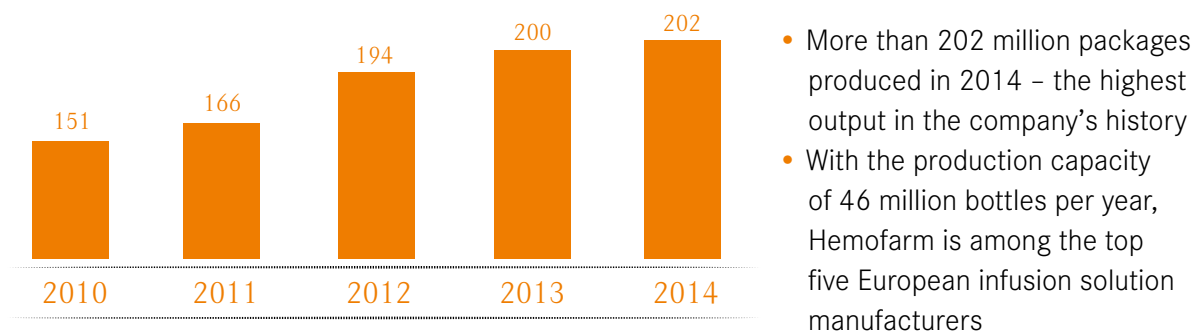




In 2014, in addition to the increase in production volume, Hemofarm also recorded further increase in complexity - the portfolio included 1,974 different products, which is more by 15% compared to 2013. It was the highest production complexity recorded in the history of the company.

Hemofarm A.D. constantly improves its portfolio by launching new products every year in order to satisfy the needs of its customers and patients. In that way, Hemofarm A.D. gives its contribution to the improvement of life quality and health of the entire population, and it also contributes to better stability and supply of the local pharmaceutical market. Production is focused on Rx and OTC products within the most-significant pharmacotherapeutic groups, including products for cardiovascular diseases, antibiotics, and neuro-psychiatric medications.

Production 2010-2014 (*in millions of packages):



- The production of a considerable number of STADA Group products, which are intended for sales in the EU countries, represents a confirmation of Hemofarm's contemporary concept, state-of-the-art technological equipment and staff competencies.

STORAGE AND TRANSPORTATION



As a result of constant increase in production and quantity of stored materials, Hemofarm A.D. continuously works on increasing the efficiency and better utilization of storage space, which is best illustrated by the implemented projects, such as Introduction of the mobile racking systems, Drive - in and Drive - through storage racks, which doubled the storage capacity in the bulk materials warehouse.

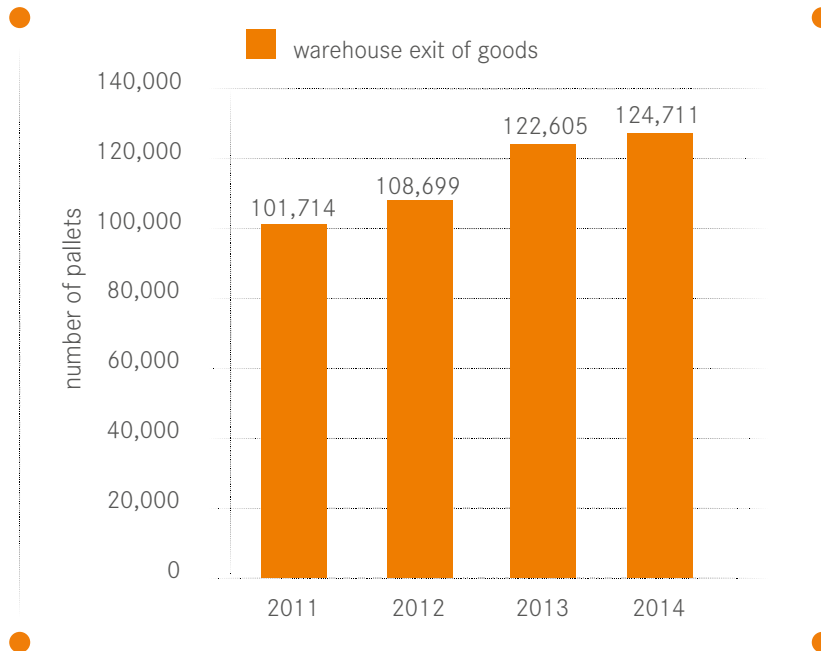
Complete reconstruction of the packaging material warehouse in the past year enabled reduction in renting of external warehouses, which, in addition to lower costs, affected reduced consumption of electricity and other sources of energy and reduced transportation costs, with indirect reduction of CO₂ emissions, as well.

In addition to storage of production materials, the company provides for adequate placement and storage of all other supporting stock necessary for current operations (spare parts, consumables, advertising materials, etc.).

In accordance with the highest-level security system and limited availability, not a single case of unauthorized disposal with any type of material, especially narcotics, was recorded in 2014. There were neither incidents in the warehouses of flammable materials nor cases of spills of hazardous materials.

In order to enhance quality and efficiency within warehouse operations, the car fleet of in-house transportation was significantly renewed. Almost overall in-house transportation is based on automated rack lifts and electrically driven forklifts, Security aspects and reduction of harmful gas emissions are important and decisive factors for the selection and purchase of the specified vehicles and machinery.

In order to provide a high-quality delivery of products to the network of wholesalers, observing GDP¹⁵ requirements, Hemofarm improved its network of transporters at the end of 2014, and the total number of delivered pallets with finished products from Finished Products Warehouse constantly increased in the previous years as well as during 2014:



Taking into account that Hemofarm exports much of its portfolio products, additional benefits for fast and efficient transportation represent the simplified customs procedures.

Hemofarm is the only company in Serbia with the status of the Authorized Economic Operator type F. The privileged status granted by the Customs Administration provides faster and easier customs clearance procedures which speed up sales of products, increase product competitiveness and make operations more efficient.

This also means that Hemofarm represents a long-term and stable partner in foreign trade activities in Serbia. Practically, the company was granted a “tax-free position” from the perspective of both Customs Administration in Serbia and International Customs Organization. The reasons for the introduction of simplified customs procedures include more efficient operations, reduced costs, faster flow of capital, establishment of better internal control, harmonization of local legislation and practice with the European Union.

¹⁵ GDP: Good Distribution Practice is the key quality assurance component; a requirement for the company to establish a system of quality in a way that products are consistently processed and stored in accordance with the highest regulatory requirements, and thus provide storage, transport and distribution quality.

HEMOFARM QUALITY

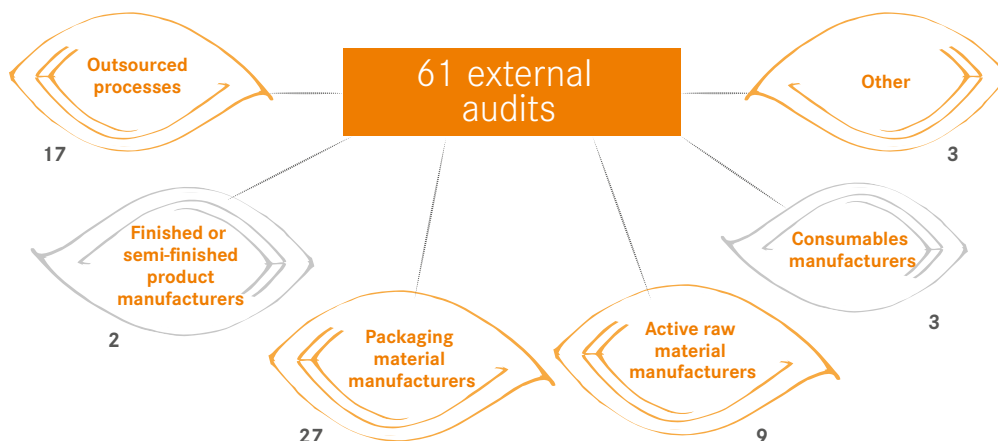


Hemofarm Quality is an organizational unit established at the end of 2014 by consolidation of Quality Control Division (QC) and Quality Assurance Division (QA).

These changes are expected to result in improvement of organizational efficiency and more precise assignment of responsibilities, and the construction of a new Quality building covering the total surface area of 7,000 m² was approved in 2014 (greenfield project).

Efforts of Hemofarm employees to meet the customer needs and expectations are included in the Quality Policy which is available at the official corporate internet website: http://www.hemofarm.com/docs/Politika_kvaliteta.pdf. With this in regard, all legal requirements of the Republic of Serbia as well as international regulations, standards and guidelines that regulate the area of development, regulatory affairs, production and sales of medicines and medical devices, as well as requests and provisions of all contracts with local and foreign partners are observed and implemented.

Competent state and international authorities and institutions of the countries in which the company exports its products conduct inspections in Hemofarm. Proactive approach is assumed, and suppliers are regularly monitored through the activities of Quality Division, in order to confirm compliance of operations with the global and European regulatory requirements and to prevent possible problems. External quality audits of suppliers are performed regularly, according to the annual plan established at the level of STADA Group, as well as on extraordinary basis, as needed, in order to maximally protect quality of products. There were 61 external audits carried out in 2014:



The production and sales of effective, safe and affordable medications make the basis of Hemofarm operations, and Quality Control activities are closely connected with the activities of other organizational units, such as Quality Assurance, Production, Research and Development, and Purchasing. All quality assurance and control system procedures are in conformity with the Good Manufacturing Practice (EU GMP¹⁶) requirements, compendial regulations, and other relevant international standards. Laboratories (chemical, microbiological and packaging material quality control laboratory) are equipped with state-of-the-art equipment for testing raw materials, packaging material and finished products (sterile and non-sterile) according to the standards of ICH¹⁷ regulation and Good Manufacturing Practice.

Qualification, development of expert knowledge, improvement of practical skills and work on own development of all Hemofarm employees are experienced as important success factors. We review and check the quality system with constant improvement of quality management system efficiency, and elimination of all possible causes that may endanger the efficacy, safety and quality of products.

There was an increased scope of activities recorded in release of raw materials and packaging material needed for production, release of finished products in Vršac, and first batches of products for the Serbian market, testing of stability samples, introduction/verification/ validation of chemical methods, testing of laboratory samples, initiating change requests in the part of raw material manufacturer's documentation, sending samples for retesting in EU.

There were 31 first batches of products¹⁸ released in the Serbian market and 41 first batches released to the market of Bosnia and Hercegovina in 2014.

The environmental monitoring process was upgraded (monitoring environmental quality in production) in all aseptic production plants by additional software (New EM mobile Module) and additional equipment enabling duly data uploading and increase in efficiency by using bar code readers in 2014. Preparation for implementation of the project of introducing the Electronic Document Management System (EDMS) Programme, which will replace the use of paper documentation to a large extent, was started in 2014. Hemofarm will be the first company at the level of STADA Group that will introduce this system. In addition, activities on harmonization of relevant computer systems with the applicable regulatory requirements for pharmaceutical industry were also started at the end of 2014. A project team was formed coordinated by Quality Assurance representative. The project will include remediation of existing systems and appropriate trainings for further independent work on maintaining its compliance with the regulations.

**Compliance with Good Manufacturing Practice and ISO¹⁹
9001:2008, ISO 14001:2004 and OHSAS 18001:2007 standards
was confirmed by Inspection findings in 2014.**

The list of certificates granted to Hemofarm was supplemented compared to 2013:

- German Inspectorate for Medicinal Products of Darmstadt Region – Production of Solid Dosage Forms in Podgorica
- State Administration of Ukraine for Medicinal Products – production of liquid dosage forms in Podgorica, liquid dosage forms and solutions for injections in Vrsac, solid dosage forms in Šabac
- Agency for Medicines and Medical Devices of Montenegro (CALIMS) - production of liquid dosage forms in Podgorica

¹⁶ Good Manufacturing Practice – production and testing conducted in the manner to ensure appropriate product quality.

¹⁷ International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use – International organization for harmonization of technical requirements for registration of medicines for human use.

¹⁸ The first batches are the ones that were produced for the first time and released during the launch of the product in the market (the ones from the development work, when the registration process has been completed and marketing authorization for a product granted in certain market). ¹⁹ ISO – International Organization for Standardization.

COMPLAINTS

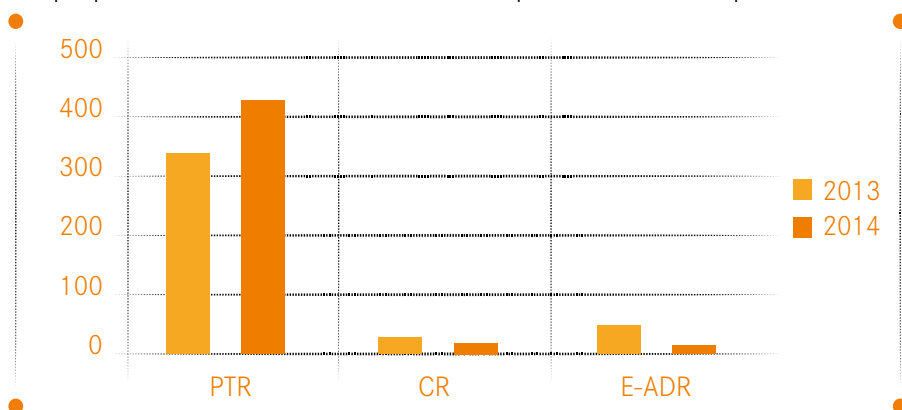


A complaint is an expression of customer's dissatisfaction with products or services. Complaints and objections are usually a result of inadequate access to meeting the needs of product users which suspect that there is a deviation in the supplied quality compared to the expected one.

In 2014, Hemofarm A.D. received a total of 457²⁰ complaints for its products in comparison with 2013 when the number of complaints was 382²¹. The increased number of complaints was largely conditioned by increased production and they were mainly related to packaging and labelling, and not to the quality itself and functionality of the product.

The structure of the complaints in the previous year was as follows: 443 production-technical complaints (PTR)²², 8 commercial complaints (CR)²³ and 6 complaints with elements of side effects of a medicine (R-ADR)²⁴.

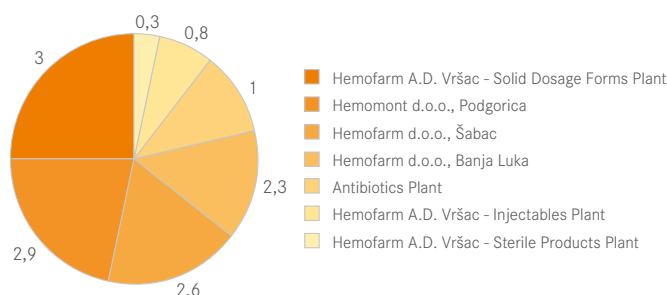
The largest number of complaints was recorded for products from Solid Dosage Forms Plant in Vršac, which is proportional to the size and volume of production in this plant.



Complaints usually arrive directly - by phone or e-mail (mail zanasekupce@hemofarm.com stated in official internet presentation of Hemofarm), by means of Marketing and Sales Division, pharmacies and doctors. There are detailed procedures, established in Hemofarm which provide product complaints management. It is an important aspect of pharmaceutical industry business operations, which is essential for continuous improvement of production and quality control processes as well as for opinion poll process on the level of customer satisfaction.

²⁰ Of the total produced 202,379,405 packages. ²¹ Of the total produced 200,200,901 packages. ²² Complaints about packaging and labelling, product damages, product irregularities, lack of some packaging elements, etc. It doesn't mean that the product has been improperly packed, but rather different markets require different type of presented information which can result in improper packaging. ²³ Complaints about delay in delivery to the user, delivery of inadequate product quantity, inadequate communication of deliverer with the buyer or contractual partner, etc. ²⁴ Complaints which contain elements of drug side effects, suspicion of side effects, elements about: drug interactions, exposure to drugs during pregnancy and breastfeeding, absence of drug's therapeutic effect, suspicion in drug's quality, overdose, medical error, abuse of medicine, off-label administration, side effects caused by exposure to drug at work place, information on placebo and suspicion of transmission of infectious agent by a drug, etc.

The number of complaints per million of produced packages



Quality Control prepares an official answer for every received complaint. Every complaint is recorded under a special number and contains information like product name and lot, name of the person who filed the complaint, description of complaint, and report on investigation.

All answers to complaints are carefully analysed and based on investigation results relating to process of production, packaging, testing or handling of products, particular process improvement measures are proposed. In order to prevent complaints, adequate improvements are stipulated in Hemofarm A.D., with continuous work also on increasing the efficiency of the investigation implementation process. Safety is an important aspect of all business processes in Hemofarm, including protection of data on persons who filed the complaints. In this regard, there was not a single case of complaints regarding breaches of customer privacy or loss of personal customer data recorded in recent years.

In order to reduce the number of complaints during complaint investigation in 2014, the following corrective-preventive measures (CAPA) were initiated and implemented:

- Common trainings for production employees in Packaging Department of Solid Dosage Forms Plant;
- Revisions and promotion of Work Instructions in production;
- Introducing new suppliers for canisters and bottles for Povidone Iodine solution packaging;
- Tilidin film-coated tablet packaging was transferred to modern packaging line;
- Introducing enhanced control of the aluminium foil for moisture sensitive products.

All side effects to the drug, as well as production-technical complaints are reported to ALIMS and can be seen on their official website.



MARKETING, SALES AND ADVERTISING OF PRODUCTS



Hemofarm's portfolio consists of prescription drugs (Rx) as well as CHC products ("consumers healthcare" products), drugs which are purchased without a prescription (OTC "Over the Counter" or Br) and dietary supplements.

Hemofarm supplies the market with its products through a network of wholesalers, state and private pharmacies, while regular and uninterrupted supply of the market is one of the priorities of Marketing and Sales Division.

Non-infective diseases, heart and blood vessels diseases, stroke, malignant tumours, diabetes, obstructive lung diseases and injuries have dominated the Serbian national pathology already for decades. The official statistics²⁵ indicate that the leading causes of death in Serbia are almost identical to those in the developed parts of the world, and that the non-infective diseases in Serbia are the leading cause of morbidity, disability and premature death before 65 years of age. In Serbia, the annual all-cause death is about 100,000 people. Almost every second citizen in Serbia dies of heart or blood vessels disease, one in five dies of stroke or malignant tumours, and those diseases comprise about three-quarters of death cases in Serbia.



²⁵ The "Batut" Institute for Public Health

Hemofarm's share in key therapeutic groups²⁶



¹ CV – Heart and blood vessel diseases are the leading cause of death in Serbia. One of the main health problems is acute coronary syndrome which includes myocardial infarction and unstable angina pectoris.

² CNS – The number of persons suffering from depression is increasing in Serbia. Doctors predict that depression will be the second most common disease in Serbia.

³ Infectious diseases – Development of antibiotics represents one of the greatest achievements of the 20th century which has extended life-expectancy.

⁴ Metabolism – In Serbia, 8.6% of people suffer from diabetes, taking into account that there is one person with diabetes type 1 in 10 people with diabetes type 2.

⁵ Musculoskeletal system – Rheumatic disease has 150 subtypes but most people suffer from rheumatoid arthritis and osteoarthritis.

⁶ Respiratory system – Each third man and each fourth woman are smokers in Serbia, as well as each third pregnant woman and each seventh adolescent.

⁷ Global burden of diseases, injuries, and risk factors study 2010, Institute for Health Metrics and Evaluation, www.healthmetricsandevaluation.org S.Jankovic et al, The burden of disease and injury in Serbia, Eur J Public

⁸ Approximation according to available statistics

Estimates are that cardiovascular diseases will become the leading cause of morbidity and mortality in the world, including underdeveloped countries by 2020. Therefore, it is important to continuously indicate the significance of health prevention and point out that smoking, improper diet and physical inactivity are main “triggers” for the development of heart diseases.

Following the risk factors, the most common causes of mortality, as well as the trend in Serbia, Hemofarm A.D. is constantly striving to answer the needs of the population in the most appropriate preventive and/or therapeutic manner by preventing the development of health problems or relieving the symptoms of impaired health. Accordingly, Hemofarm constantly optimizes its product portfolio, covering the following pharmacotherapeutic groups:

- Alimentary tract and metabolism
- Blood and blood forming organs
- Cardiovascular system
- Dermatology
- Genito-urinary system
- Systemic hormonal preparations, excluding sex hormones
- Anti-infectives for systemic use
- Musculoskeletal system
- Nervous system
- Respiratory system
- Sensory organs

The leading Hemofarm prescription drugs in the Serbian market (Rx, in accordance with INN)²⁷ include:

- bromazepam
- physiological solution
- enalapril
- lorazepam
- metoprolol tartrate
- bisoprolol
- metformin
- propafenone
- isosorbide mononitrate
- valproic acid

Hemofarm’s OTC remedies occupy the leading position in the Serbian pharmaceutical market, with the share of 16.8%²⁸. The leading OTC products in the Serbian market are:

- Pressing
- Nafazol
- Ranitidin 75 mg
- Hepathrombin
- Panlax





Hemofarm A.D. Marketing and Sales Division activities are regulated by in-house corporate rules at the level of STADA Group, as well as local and international legal and ethical rules that regulate sales and advertising of pharmaceutical products, with high level of awareness that responsible marketing has to rest on principles of sustainability, especially due to risk of the industry in which we operate, where irregular and uncontrolled use of pharmaceutical products can be life-threatening. Precisely because of that, production and marketing are the areas approached with special care, with strict adherence to all relevant laws when advertising Hemofarm products. Strict guidelines define and Legal Affairs Division has consultative role in preparation/distribution of marketing material, distribution of samples and collaboration with healthcare professionals and their associations. Transparency in all aspects of cooperation is the fundamental imperative, and this area is defined by a specific in-house Rule Book on Advertising, which is in compliance with the highest moral and ethical standards.

The leading market position of Hemofarm, which is always in the service of patients' health, can be observed through constant communication and interaction with all market participants, wholesalers, pharmacies, professional public, general public, and patients. The focus of Marketing and Sales Division lies on the exchange of professional information about the products with the representatives of the professional public, i.e. doctors and pharmacists, as well as on product marketing, in accordance with the legal possibilities, aimed at the general public, i.e. product users. In order to educationally present all aspects of modern epidemiology and therapy, and show the benefits of using its products, Hemofarm A.D. organizes lectures for doctors and pharmacists, according to in-house rules of the company, and STADA Group, as well as provisions of positive regulations. The objective of these actions is that a decision to prescribe drug therapy should be influenced only by the concern for the welfare of the patient. On the other hand, Hemofarm A.D. regularly informs the general public on the advantages of using its pharmaceutical products, and advertises them in line with the relevant regulations.

During 2014, Hemofarm operated in accordance with all relevant regulations and was not fined for non-compliance with the rules related to advertising and use of products and services.

CONTINUOUS OPTIMIZATION OF THE PORTFOLIO AND IMPROVEMENT OF PRODUCT PACKAGING



By permanent monitoring of customers' needs and forecasting market trends, Marketing gives the initial input for optimization of Hemofarm product range in order to offer to the end users latest generation products with better performance, and in accordance with the latest global therapeutic protocols.

Hemofarm launched products in two pharmacological groups - gastroenterological and ophthalmic, in line with the market potentials in the course of the previous year. Thus, it significantly strengthened its previous positions in these segments, as well as in the overall pharmaceutical market.

Launched gastrointestinal products include:

- pantoprazole - best-selling proton pump inhibitor,
- omeprazole - the first proton pump inhibitor which set therapeutic standards

Launched products in the ophthalmic segment are:

- olopatadine - modern antihistamine, by which Hemofarm A.D. significantly extended its product range for topical administration,
- latanoprost - the need for introduction of new products appeared with the increase in the number of patients with glaucoma.

On the other hand, Hemofarm A.D. optimized its product range also by leaving certain segments, i.e. by cancellation of products. The reason thereof is mainly the decreasing market potential, as well as shifting the focus to other pharmacotherapeutic groups. Such products are: Lamotrigine, Megestrol and Repaglinide.

The exclusive five-year-agreement for contract manufacturing of 11 syrups within these brands was implemented at the same time, and all marketing rights were transferred to Hemofarm A.D.

In an attempt to strengthen and expand positions in the country and abroad, Hemofarm enhanced OTC portfolio for treatment and prevention of respiratory diseases by taking over the brands Lekovito carstvo and Bronhoklir in 2014.

Bronhoklir product line includes 5 products for adults: Bronhoklir® syrups Primrose and Thyme, Bronhoklir® syrup Marshmallow, Bronhoklir® syrup for smokers, Bronhoklir® syrup Ivy and Bronhoklir® syrup Ivy power. All of these syrups are herbal syrups on the basis of standardized high efficacy herbal extracts which relieve symptoms of cough and bronchitis of different origins.

Lekovito carstvo product line is intended for the population of children with respiratory problems and it consists of 6 syrups: Baby and Baby C (help in dry and irritating cough, and relieve irritating cough), Žak and Žak C (help in acute and chronic inflammation of upper respiratory tract in combination with productive cough), Risko (for all types of cough) and herbal remedy Bocko (ivy syrup). Hemofarm and STADA will continue investing in the development of Lekovito Carstvo and Bronhoklir brands, for it is a long-term interest of both partner companies, to the satisfaction of patients and users of these products from these two popular product lines.

Each product must contain adequate information approved by the competent state institutions, on the composition, safe use, proper disposal, etc. which is all contained in the patient information leaflet in each product pack²⁹. Accordingly, there were no penalties or any other sanctions, due to the inadequate labelling of products launched by Hemofarm A.D. in the previous years. Adequate disposal of pharmaceutical products after use or expiration of shelf life, according to legal procedures, helps preserving the environment.

Respecting the rights of the blind and visually impaired, the local pharmaceutical manufacturers are bound by legislation to label their packages of medicines in Braille. Hemofarm A.D. has applied it on its Rx and OTC packages since 2004, and it went a step further in order to provide all patients with an equal level of availability of pharmaceutical information, so it labelled dietary supplements (such as vitamin C 900 mg, Polivit B and other products) the same way.

By keeping up with market needs, global trends and strategy of STADA Group, Hemofarm Marketing and Sales Division continued redesigning the packaging of OTC products also in 2014, so it created uniquely designed separate OTC brands of Hemofarm from the uniform design of almost identical packaging. Apart from satisfied pharmacists, who manage easier with the selection of products on the shelves, patients also confirmed the higher level of safety in use, because now they are no longer able to mix products due to similar packaging.

One of the growing risks in the pharmaceutical industry are counterfeit medicines which are a great danger to consumers and users of untested products. Hemofarm A.D. has obligatory control stamps on the packaging of its products, whose technological solutions, such as holograms, reduce the possibility of forgery. During 2014, Hemofarm A.D. did not record any case of counterfeit medicines in its portfolio.



²⁹ In Serbia, the rules for medicinal product packaging, labelling and advertising are stipulated by ALIMIS – Agency for Medicines and Medical Devices, which issues approvals for each separate mock-up, patient information leaflet or package design

EXPERT PUBLIC OPINION AND SATISFACTION OF PRODUCT USERS



By market analysis and examination of customer needs, the company reacts and regularly supplies its products. It continuously conducts research of professional community - specialist doctors, general practitioners and pharmacists - in order to gain full insight into patients' needs and responses to the products. Commercial associates in the field, in direct conversation with doctors and pharmacists are working on improvement of partnerships and communication with stakeholders, with an objective to detect and achieve common goals of all participants in the healthcare system. Such access is an important source of information in the process of eliminating possible deficiencies and increasing efficacy of products.

A survey on the topic of cooperation with pharmaceutical companies was conducted with the expert public in 2014 considering that pharmaceutical industry in Serbia has become more and more competitive. Manufacturers' activities are more intensive and dynamic while the restrictiveness of the pharmaceutical industry limits the methods and means of communication with "key decision makers" - doctors and pharmacists.

The objective of this survey was to establish the possible ways of promoting communication with expert public as well as to investigate the perception of expert public regarding appropriate business gifts. Information was collected in the period May - June 2014, according to the "face to face" model of research with doctors and pharmacists, on a sample of 250 persons, located in three different regions. The following key findings are singled out according to the following criteria: role of the pharmaceutical industry, reputation and image of pharmaceutical companies, performances of expert associates.

- It is expected that pharmaceutical companies, in addition to their primary role, provide help to doctors and pharmacists as well as to patients;
- Cooperation with pharmaceutical companies is generally important for doctors and pharmacists;
- **Hemofarm is best known pharmaceutical company to expert public and it has the best reputation: 95% of expert public representatives know Hemofarm well, 91% of expert public is in fond of Hemofarm,**



92% have trust in Hemofarm, 74% of experts would give positive reference for Hemofarm;

- Hemofarm was identified as a company that has affordable prices and for which emotional aspects are attached: it is friendly, caring, and honest. The aspects which are least attributed to Hemofarm are: exclusively profit-oriented as well as modernity³⁰;
- Hemofarm has the most adequate frequency of visits paid by commercial associates which are also featured as reliable.

Hemofarm participates in continuous medical and pharmaceutical education on contemporary epidemiological-therapeutic trends as well as novelties in medical specialities every year, with an objective to improve prevention and therapy of patients. Traditionally largest gatherings in the country in which Hemofarm also participates include internal medicine congress, congress of general practitioners and paediatric school.





Wholesalers are also one of the most important stations on the way of the product from factory to patients. Therefore, satisfaction surveys are carried out annually to review wholesalers' satisfaction with cooperation with Hemofarm. The top 9 wholesalers took part in this survey last year. The survey consisted of 7 questions in total which were drafted to show the level of satisfaction with regard to the scope of product range sales, delivery, payment terms, etc. including the support of Hemofarm expert associates in achievement of joint marketing activities. 92.5% of wholesalers confirmed that Hemofarm offers more than satisfactory scope of product range and that in cooperation with Hemofarm, they are able to purchase products from all important pharmacological groups.

Through the continuous use of CRM (Customer relationship management) system, Hemofarm improves the two-way communication with doctors and pharmacists. in the form of monitoring analyzing the set of business operations, such as marketing activities, frequency of visits of medical representatives to doctors and pharmacist, etc. This practical business tool enables cost management and feedback communication regarding sales of medicines, and is based on information from wholesalers.

³⁰ Due to very strict laws which regulate the pharmaceutical industry, and legal limitations in the advertising and promotion of pharmaceutical products, this industry is often considered old-fashioned and inflexible, although in practice it is not essentially the case



CORPORATE PHILANTHROPY

-  The total amount of RSD 62 million was donated in development of healthcare system, education and young talents, culture as well as support to the most vulnerable population in 2014.
-  Hemofarm was among the first companies, which on its own initiative and urgently donated medicinal products, financial and material aid in the amount of approximately EUR 400,000 to the most vulnerable population during the devastating floods last May.
-  In cooperation with Unicef, Hemofarm together with its Foundation initiated the campaign “Let’s Run as a Family” at the Belgrade Marathon, in the affirmation of family values and positive parental practice.
-  The national “SVIM SRCEM” (“WHOLEHEARTEDLY”) campaign was initiated with the emphasis on improvement of healthcare system through support of prevention and care of people’s health.

HEMOFARM FOUNDATION



Through the activities of Hemofarm Foundation, a non-profit organization, founded in Vršac in 1993, Hemofarm has been trying to improve local and wider community and promote preservation of the cultural heritage of Serbia for more than 20 years. It continuously develops healthcare system and education, and significantly influences environmental protection.

The Foundation operation included support to important cultural, educational, healthcare institutions as well as to socially vulnerable groups in 2014.

The Hemofarm Foundation donated over RSD 62 million in implementation of numerous projects all over Serbia, and a new national “WHOLEHEARTEDLY” campaign was launched. The emphasis of this campaign is placed on improvement of healthcare system by supporting the prevention and care about people’s health.

Scholarships for best students, high school students and children of Hemofarm workers as well as support to young talents continued with the ‘WHOLEHEARTEDLY FOR YOUTH’ campaign.



SUPPORT TO THE MOST VULNERABLE SOCIAL GROUPS

Hemofarm Foundation donated more than RSD 16.1 million within more than 30 humanitarian activities through active work on improvement of the living conditions of the most vulnerable social groups in Serbia in the course of the previous year.

Support programmes for shelter homes and other institutions for children without parental care were continued. The Foundation also supported the activity of associations which work on improvement of the social status of citizens with severe illnesses or disabilities, and some of them include:

- UNICEF / UN Children's Fund – the project supported by RSD 9,209,388 with the aim of promoting positive parenthood as a part of the project “Prevention of violence against children – may the home become a safe and stimulating environment for all children”;
- Support of colleagues to the families of employees affected by the floods in Obrenovac, in the amount of about RSD 3 million;
- Gerontology Centre Obrenovac – follow-up on continuous support for the local population which was affected by floods, with the donation of RSD 1,228,590, i.e. 40 hospital beds for immobile and semi-mobile patients of the Centre;
- Activities of the municipality of Vršac – aid to the local population which was affected by floods – donation of RSD 1,000,000; Hemofarm Foundation helped in repairing damages caused by the floods in the area of Vršac and surrounding villages;

We also rendered help to the Humanitarian organization “Child's Heart” from Belgrade by supporting the project of social entrepreneurship for persons with development disabilities; as well as many other institutions, schools and homes that help social development and take care for vulnerable social groups.



HEALTHCARE SYSTEM SUPPORT



According to the needs of the population, the following associations were supported in 2014: association for fight against cancer, diabetes, multiple sclerosis, muscular dystrophy, association of cardiologists of Serbia, and many others. We donated RSD 13 million through 17 activities, with the aim of strategic promotion of healthcare system in the region, such as:

- **Clinical Centre of Serbia (KCS) – Paediatric Ophthalmology Department, Belgrade** – donation of RSD 3,511,045 was used for reparation and reconstruction of this Department, more specifically for placing concrete slab above the Department;
- **Clinical Centre of Serbia, Emergency Department, Belgrade** – video colonoscope and carts for manual disinfection were donated in the amount of RSD 2,430,954. The goal of this donation was to ensure quality diagnostics for patients and to enhance prevention of colon cancer as well as to determine other more serious diagnosis in this area;
- **Third Age Movement of Serbia, Belgrade** – support in fight against glaucoma, by donation of nine ophthalmological tonometers (equipment for non-stationary measuring of ocular pressure) in the amount of RSD 1,364,688.00 for early detection of glaucoma in elderly population;
- **University of Belgrade, Faculty of Medicine** – the donation of ultrasound machine in the amount of RSD 1,029,416.66 supported the work of post-graduate students and research in the development of diagnostic methods and effective medicinal products for the treatment of cardiovascular diseases.

Clinical Hospital Centre (KBC) “Bežanijska Kosa”, Belgrade – two infusion pumps in the amount of RSD 509,520.00 were donated in order to ensure more quality treatment and healthcare to the patients in the Department of Anaesthesiology and Intensive Care;

- **University Paediatric Clinic “Tiršova”, Belgrade**– during the charity dinner we donated RSD 544,312 for expansion and renovation of the haematology outpatient clinic;

- **Clinical Centre of Serbia – Urology Department** – The donation of RSD 411,400.00 enabled construction works on this department and replacement of the windows in order to make the staying conditions for the patients as well as for the medical staff in this Department better;

The consequences of the floods in the General Hospital in Vršac were amended, and the Foundation supported the work of the association of women suffering from cancer “Get Together” from Belgrade, aiming at prevention and timely examination of the female population were supported by the Foundation.

Aside from the systematic support rendered by Hemofarm Foundation, Hemofarm Marketing and Sales Division is also trying to improve local healthcare system with strategic donations earmarked for public healthcare institutions for improvement of citizens’ health mostly through donations in medicines, as well as medical equipment, medical supplies, etc. The criteria for donation are determined by in-house rules and legislation in order to enable making decisions in a transparent and objective way.

In 2014, Hemofarm A.D. earmarked twice as much money in the total amount of RSD 14,474,764.00 million for support of the local healthcare system through donations in medicines (70%), funds for healthcare facilities adaptation (21%) and procurement of medical equipment (9%). A large part of donations was earmarked for urgent care of the population severely affected by catastrophic floods, i.e. for procurement of the most needed medicines.



YOUNG TALENTS, EDUCATION AND TRAININGS



Hemofarm Foundation actively supports the best young talents with the aim to keep them in the country, and to enable the highest quality education to those who are the future of the society. Education and improvement of science and education are important items in the activities of Hemofarm Foundation.

In 2014, Hemofarm Foundation invested more than RSD 15 million in 144 scholarships for high school students from Vrsac and students of faculties and universities founded by the Republic of Serbia. The annual scholarship competition, in accordance with clearly defined and transparent requirements, after publication in print and electronic media, provides an equal opportunity for everyone who showed outstanding results in education but is of poor financial standing.

The most valuable recognitions to the Foundation for supporting young talents are the numerous letters received from previous and present scholarship holders, as follows:

Senka Anđelković, Kruševac (Faculty of Political Sciences, Belgrade): *“Hemofarm Foundation scholarship meant so much to me during my studies, and I am not sure that I would be able to graduate without it. I am truly honoured to be your scholarship holder.”*

Aleksandra Petrović, Vlasotince (Faculty of Medicine, Niš): *“I want to point out that your scholarship significantly contributed to improvement in quality of my studies. That is why I owe you a credit for all the exams that I passed this year.”*

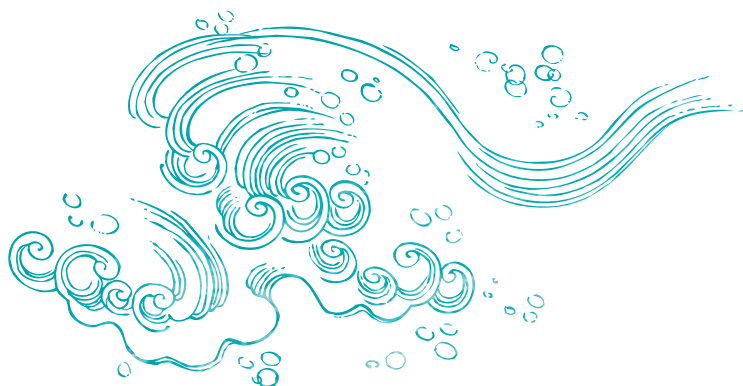
Neser Maslar, Dragaš, B.Sc. ecc.: *“In addition to financial stimulus, the scholarship was a profound moral stimulus for me also due to the fact that quality, work and success are still appreciated...”*



In addition to scholarships, approximately RSD 4 million was earmarked for better operation of educational institutions, their equipment and renovation, different trainings and cultural education as well as participation of best students and pupils in international seminars, trainings and educational programmes in the country and abroad in 2014. Some of the implemented projects in this area in 2014 include:

- With the donation of RSD 1,300,000, the Foundation supported shooting of the educational series of programs about Dositej Obradovic “Dositej for all times”, as well as “How are you, what are you doing?” about improving the lives of Roma population and their socialization in the local environment;
- With the donation of RSD 1,100,000.00 we supported the activity of Vršac “Lotos Theatre -Youth for Youth”, responsible for the project of prevention against addictions (drugs, alcohol, gambling). This national educational-preventive project for primary school pupils included by quizzes at regional and state competitions organized by the Ministry of Education, Science and Technological Development, attended by 55 schools and 3,707 pupils of the final grade.

The Foundation traditionally marks the start of school year for the first grade pupils from the territory of the Municipality of Vršac. Support was provided also to the Palilula Red Cross, Incest Trauma Centre, “Naisus” Youth Philharmonic, Association of Inventors of Vojvodina, as well as other relevant institutions. The Foundation provides free of charge the use of its premises to the music school “Josif Marinkovic” in Vršac, which are used for training and practical part of the teaching.



SUPPORTING CULTURE AND SPORT



Hemofarm Foundation continued to support the development of culture and sport in 2014 by investing more than RSD 13.6 million in over 50 activities, thus increasing the quality and richness of the cultural life across various regions of Serbia.

One of the most important cultural institutions for children and youth – “Boško Buha” Theatre, Belgrade, which has existed since 1950, was donated RSD 3,610,965.00 for renovation. The main objective was to ensure the right to culture and happy childhood to the future generations.

The action “Let’s Run as a Family” was organized for the first time at the Hemofarm Foundation initiative, within the traditional “Race of Pleasure” at the 27th Belgrade Marathon in April 2014. The inspiration for this “racing” campaign stemmed from the results of the UNICEF research “Happiness and Families with Children in Serbia”, which indicated that as many as 67.7% of families are completely happy. Hemofarm invited all interested parties to gather together friends, partners, and families with children and pets, to run or walk together like a big, orange family on the race day because families whose members do something together – stay together. Several hundreds of gathered runners indicated the significance of the time which parents and children spend together in a quality manner, and promoted positive parenthood and healthcare. The total donation to the Belgrade Marathon amounted to RSD 3,591,000.00.

Hemofarm Foundation awarded the most prestigious “Vasko Popa” literary award to Zoran Bognar for his collection of poems “Insomnia, White Nights” (“Insomnija, bele noći”) in 2014. The donation amounted to RSD 619,812. The winner of the award was elected by the reputable jury (Milovan Vitezović – President of the jury, Dragan Jovanović Danilov and Duško Novaković), and his collection of poems was voted the best collection of poems in the Serbian language.

Continuing the cooperation of Serbia with friends from Japan, led by the prominent humanist Prof. Itsuko Teruoka, the operation of “Always with children” Association from Belgrade was supported by organizing the visit of 14 Japanese children from Fukushima to Serbia. During the stay here in Serbia, together with the Serbian peers, our Japanese guests held several concerts all around Serbia and all proceeds were earmarked for procurement of music instruments for music schools in Serbian towns. The comics exhibition entitled “My, Your, Our Tomorrow”, as part of a homonymous intercultural project, was supported with an aim to strengthen understanding, respect and tolerance among young people and different cultures, and respect diversity. Hemofarm Foundation also supported the Belgrade Dance Festival, “Zmaj Children Games”, the exhibition “Hidden Treasure of Jevrem Grujić’s House”, folklore festival “The Wreath of Vršac”, Vršac Theatre Autumn, Athletic League of Kosovo and Metohija, etc.





HUMAN RESOURCES

- Development of employees is a strategic focus of the company and in line therewith, the number of trainings amounting to 4,099 was increased in 2014 (3,449 in 2013) and investments in education of employees increased by 16% compared to 2013.
- Number of employees increased by approximately 8.3% compared to 2013 as well as the share of women in management increased to 60.9%.
- Safety and health at work and environmental protection standards were integrated, and number of educated in-house auditors according to ISO 9001 (QMS), ISO 14001 (EMS), OHSAS 18001 and SA8000 standards increased.
- The trend of reduction of occupational injuries continued, more precisely by 4.3% compared to the previous year.

One of the most important resources and priorities for Hemofarm A.D. are employees and, therefore staff training and development represent long-term goals in all activities of Human Resources Division. Thus, Hemofarm A.D. is developing into a modern and dynamic company, creating and cherishing highly qualified and quality staff, thus becoming one of the most desirable employers in Serbia. In addition to the professional development of employees, the strategic approach to human resource management includes also promotion of core values through strengthening of corporate culture and improving the system of rewarding those whose work results inspire other colleagues. One of the priorities is to establish a balance between professional and private lives of employees.



Evaluation of all work positions in the company with the main aim of providing internal equality in accordance with international Mercer methodology was completed in 2014. Approximately 600 work positions were evaluated in total, and the process continues in accordance with the systematization amendments and/or new positions in 2014. In addition, introduction of new types of education was planned in accordance with the needs for development of certain business positions, both for employees and management of the company.

The project of defining Hemofarm competences divided into three groups was completed as follows:

1. Key competences - required for all employees of the Company,
2. Managerial competences - mandatory for employees who are at managing positions, and
3. Business competences - from which specific competencies are chosen for each position.

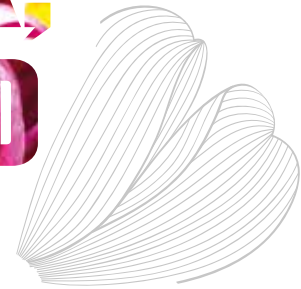
This project represented the basis for improving performance management of employees, and was started in the second quarter of 2014. The forms for annual evaluation were clearly defined, and the difference was made in the forms of evaluation between employees who have set goals, employees in positions of expert associates and administration, and employees in production and laboratory.

In cooperation with Infostud Company and an independent agency, in order to ensure continuous development, Hemofarm conducted a satisfaction survey among employees in 2013. The survey results and specific measures for improvement were announced in 2014. The results were evaluated in accordance with questions divided in 7 categories:

7 categories	Hemofarm A.D. (mark 0-4)
Employees' loyalty	3.6
Satisfaction with provided work conditions	3.1
Satisfaction with own work position	3.0
Quality of interpersonal relationships	2.9
Work organization method	2.9
Satisfaction with development possibilities	2.7
Corporate communication	2.7

The survey results initiated the design and introduction of measures for monitoring and improving certain areas, especially in the part of work organization, developmental opportunities and corporate communication, areas that were pointed out to be in need of the biggest improvements, while the managers were given the possibility to organize thematic trainings in order to improve the working environment. In addition, Human Resources Division set the key performance indicators for specific areas, on which reports are provided on monthly basis, alongside the harmonization of activities in accordance with achieved results. One of the major implemented measures was the introduction of internal communication strategy in 2015 and implementation of the development programme established in 2014. Improvement tracking is expected to ensue by the end of 2015 through the implementation of a new survey in the last quarter of 2015.

RIGHT TO WORK, STRUCTURE AND GENERAL DATA



Hemofarm A.D. is a company that takes care of its employees. On December 31st, 2014, the company had 1,786 employees³¹. From the total headcount, 85 employees were engaged under fixed-term contracts of employment, while 1 person was a part-time worker.

Contract	male	female	total
fixed-term	769	932	1,701
part-time	27	58	85
Total	796	990	1,786

Contract	male	female	total
management	39	43	82
others	757	947	1,704
Total	796	990	1,786

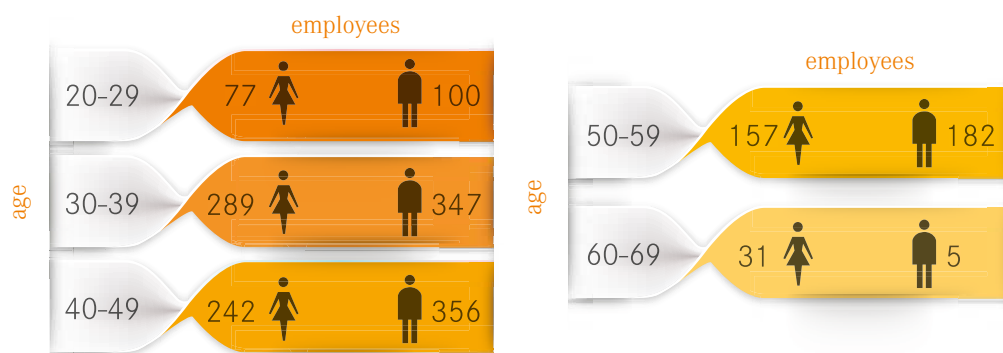
There were no cases of hiring minors as employees in the company, and the care for employees was best supported by the fact that the minimal gross salary in Hemofarm is above the minimal personal income in Serbia. The company provides uniformed salaries for the same work positions, regardless of the employee's gender.

Minimal gross salary ³² (in RSD, December 2014)	
Republic of Serbia	Hemofarm A.D.
28,582.00	41,522.39 ³³

When it comes to rights and obligations of employees, Hemofarm does not make a difference between employees engaged under fixed-term contracts of employment and employees engaged under a contract for an indefinite period. Out of the total number of employees, 55.4% were women, and their share in managing positions increased in comparison with 2013 and it amounted to 60.9%.

³¹ There were 1648 employees in 2013. ³² Employment Contract – the minimum mandatory salary in the company and the minimal gross salary in Serbia. ³³ The contracted salary for 22 working days.

Age / sex structure of employees



During the year, 47 employees left the company mainly due to retirement, which accounts for approximately 3% (2.6%) of the total headcount.

age	<30		30-50		>50		total	
	hired	left the company	hired	left the company	hired	left the company	hired	left the company
male	60	3	38	4	1	11	99	18
female	72	4	21	10	2	15	95	29
total	132	7	59	14	3	26	194	47

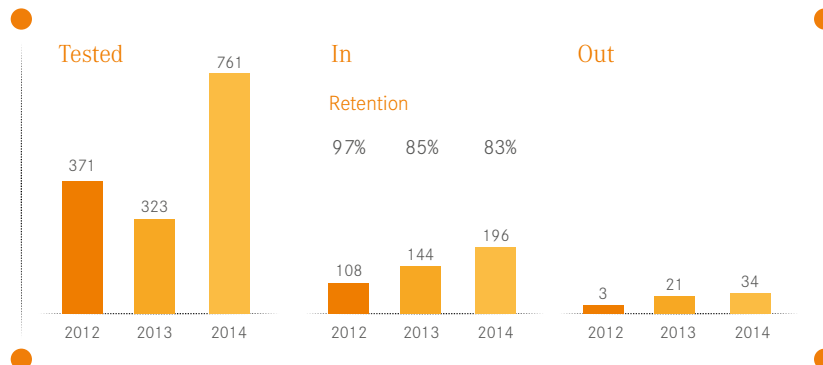
Absence from work due to maintenance of pregnancy or maternity leave does not represent an obstacle for employees to return to their work positions. During 2013, 63 employees were on maternity leave. Only 2 women who gave birth did not return to work after maternity leave in 2014, due to the consensual termination of employment.

Hemofarm is a company in which the attitude that the right to work represents the universal right is proudly assumed. That is why there is only one criterion for employment – professional competence. A zero tolerance policy for any type of discrimination, sex and gender, national, religious or any other type of discrimination, is applied in Hemofarms' working environment.

Employees who are entitled to leave for child care 2014		Employees who exercised their right to leave		The number of employees expected to return from the absence		Employees who returned to work after absence		Employees who returned to work after absence and were still employed 12 months later	
m	f	m	f	m	f	m	f	m	f
/	63	/	63	/	61	/	26	/	pending



In order to promote recruitment and selection, Hemofarm adopted a new Operating Procedure in 2014, which additionally enhanced company's clear direction in terms of: policy of forbidden discrimination towards employees and candidates, forbidden child labour, establishing internal vacancy announcement rules, selection and recruitment duration, as well as linking the employment process with monitoring the adaptation of new employees. In 2014, approximately 760 candidates passed the process of selection and recruitment, which is twice as many in comparison with 2013, in line with observing the principle of equality of all candidates pursuant to the new Operating Procedure.



There were no gender, national, religious or any other discrimination proceedings initiated against the company in 2014.

One mobbing case was recorded in 2014 but it was rejected as unfounded in the internal procedure. Only two cases of instituted proceedings based on violation of the law on prevention of harassment at workplace were recorded in company's history, one of which was rejected in court as unfounded, and the other is still in court procedure. When it comes to mobbing, the company offers full legal protection and support to its employees.

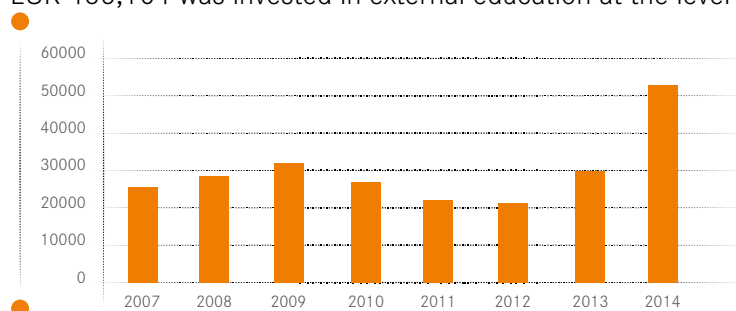
The in-house Rule Book based on which 13 new mediators passed the training that allowed them to be introduced and informed about legislation, in-house documents and procedures in the case of reported mobbing, was updated in 2014.

EDUCATION AND STIMULATION OF EMPLOYEES



Employees underwent 4,099³⁴ external and internal trainings during 2014, which is much more in comparison with 2013, when employees underwent 3,449 trainings. The total number of hours spent on training sessions by all employees amounted to 6148.5 h. In other words, there were 2.3 trainings organized per employee or 3.4 hours per employee. There were mainly in-house trainings for newly employed workers during the year, as well as different trainings for new operating procedures. Employees also attended numerous external expert trainings, as well as “soft skills” trainings.

EUR 485,164 was invested in external education at the level of Hemofarm Group in 2014, which is



by 27% more compared to 2013 (EUR 350,000 in 2013), while at the level of Hemofarm A.D it amounted to more than EUR 388,107 which was 16% more compared to 2013.

All new employees, 194 of them in total, underwent training in

accordance with the procedure of introduction to new work position in duration of minimum two months, which included also education on the topic of respect for human rights, with monitoring and evaluation of their adaptation in 2014. Also, in the course of 2014, 74 managers passed the development programme consisting of five trainings: personal and staff development, manager as a mentor, change management, feedback giving and receiving, and appointment and empowerment of employees. This development programme is expected to continue in 2015.

All Hemofarm employees receive a formal feedback on their work: for newly employed it is achieved through evaluation of adaptation and for full-time employees it is performed on monthly or quarterly basis.

³⁴ Unit of measure is a training per employee; the same employees underwent several trainings in accordance with the demands of their work position



One of the most important achievements of the Performance Management Project lies in the fact that 197 employees underwent training for annual interviewing, 75 underwent trainings for the use of the annual evaluation applications, and the satisfaction with the training was assessed 4.6 on the scale of 1-5. The results of the initiated employee performance management process, application of the Training Plan that derived from this process, as well as improvement of the process itself based on feedback from the users of process results are expected in Q1 in 2015.

In 2014, Hemofarm continued to invest in development of identified talents in accordance with the project initiated in 2012. The company enabled further development of talents through creation of individual development plans and four workshops held with the emphasis on communication, team work, efficiency, providing feedback and performance management.

Hemofarm especially cherishes the culture of awarding its employees who contribute to efficient and effective development of the company through their outstanding efforts at the work place.

● The purpose of the employee awarding system is to keep the most talented and hard-working employees in the company, for they represent the key factor in positioning of the company as a desirable employer. ●

Based on the Rule Book on Defining the Frame for Determining Salaries and Fringe Benefits, employees who show extraordinary results during regular monthly evaluations have a right to a one-off increase of their personal income in the amount of 10% of their basic monthly salary.

Employees in key positions prepare their Career Plans, which include setting and accomplishment of goals. Also, an individual development plan was prepared in order to strengthen the management competence and set further plans for development of active leadership, as a result of the 360-degree evaluation of managers was organized in 2013 for the first time. Team building for managers was organized in 2014 in order to promote communication and strengthen the organizational culture.

Hemofarm encourages its employees to use the advantages of additional pension insurance. According to the general contract on voluntary pension insurance of employees, the company will deposit RSD 2,000 a month to employees who decide to deposit minimum RSD 1,000 from their own income, and who have been engaged on permanent basis for more than three years or are temporarily engaged from the first working day in the company. Our goal is to enable good living conditions for our employees during their years of service, but also after their retirement. Another goal of this benefit is to incite loyalty to the company.

• The company also provides one-off payment for each new-born child, as well as financial help and school supplies for the children of single parents. •

Hemofarm continues to take care about its employees even after embarking on a well-deserved retirement. Our pensioners are provided with assistance in the procurement of medicines and conducting laboratory tests in the amount of 25% of average gross salary in the territory of the Republic of Serbia through company's Solidarity Fund. Aid is also provided in case of retiree's death, in the amount of up to 50% of non-taxable amount. The work of the Association of Hemofarm Pensioners it also supported through monthly donations. Hemofarm organizes reception of its retired employees on the Company Day every year, thus providing the present employees with any opportunity to learn more about how Hemofarm used to be in the past, and to compare it with its present status.





TRADE UNION ORGANIZATION



Hemofarm cherishes the right of its employees to self-organization. Two trade union organizations operate within the company. The information that membership in the major independent trade union has increased from 1,290 members in 2012, to 1,315 members, which accounts for 73.6% of the total headcount, speaks about how interested employees are in taking an active part in protection and improvement of their rights.

Negotiations for execution of a new Collective Bargaining Agreement harmonized with the amendments to the Labour Law of the Republic of Serbia were initiated in 2014. The New Collective Bargaining Agreement was executed on October 30th, 2014 for the period of three years, and is effective as of January 1st, 2015. In addition to the obligations of the employees during their employment with the company, the Collective Bargaining Agreement defines all employees' rights which they exercise by employment with the employer. Pursuant to the Labour Law of the Republic of Serbia, the Collective Bargaining Agreement is applied to all employees of the company. In case of a need for changing the work position, employees will receive an offer for execution of an Annex to the Agreement, of which they have to express their opinion within eight days.

The Collective Bargaining Agreement, provides vacation allowance to all employees, a present for Women's Day to all female colleagues, and a New Year celebration with Christmas presents for children of our employees.

Jubilee awards (2014)

Years of service in HF	Amount (RSD)	Years of service in HF	Amount (RSD)
10	43,249.20	30	115,331.20
15	57,665.60	35	144,164.00
20	86,498.40	40	158,580.40
25	100,914.80		

Pursuant to the Collective Bargaining Agreement, jubilee awards are presented as a form of award for continuous work of employees in Hemofarm. These awards are not only a token of gratitude to employees for their loyalty and contribution to development of Hemofarm, but also an incentive,

that they contribute even more to achievement of better business results of the company with their talent and skills.

In case of retirement, gross average salary at the company level or the amount of average salary of employee in the past three months is taken as the basis for calculation and payment of severance fee, depending on which option is more favourable to the employee.

In addition to care about protection of the rights of all employees, as well as achievement of various benefits (distribution of free of charge trade union packages with household chemicals and foodstuffs to all members), the trade union organization constantly strives to develop good collegial spirit and healthy interpersonal values. In this regard, sports activities and competitions are often organized, and one of the examples is participation in the 6th DSW football tournament, organized in SC Kovilovo in June 2014. On that occasion, employees of companies, which are members of the German-Serbian Business Association, met accounting for a total of 24 teams, 288 players and 68 played matches. The well-deserved trophy was awarded to the team of Hemofarm, which participated for the first time in this football tournament, and immediately demonstrated good coordination and team spirit.



SAFETY AND HEALTH AT WORK



Hemofarm A.D. has been incorporating care for safe and healthy working environment into business processes for all of its employees, subcontractors, suppliers and visitors already for many years. Safety and health of employees represents a priority of operation, so the level of safety and health protection of workers is improved every day, by prevention of injuries at work and occupational illnesses and thereby decrease in the number of lost working days due to sick leave.

There were no cases of occupational illnesses in 2014. Health and safety at work are defined not only within the national legislation but also within the procedures for integrated environmental protection management system (ISO 14001) and occupational health and safety management system (OHSAS 18001). The OHSAS 18001 certificate was successfully extended in 2014.

A number of activities were undertaken in 2014 so that workers would feel safe at their workplace. One of the important segments in this area are internal and external trainings.

Internal training of all employees is important for recognizing potential dangers, and applying actions for protection from such dangers. Therefore, special attention is paid to education in Hemofarm. All employees underwent retraining and assessment of the acquired knowledge by doing tests in the area of occupational safety and health (general part of health and safety at work, technical protection and first aid) and fire protection during the year. All employees also took part in the exercise, i.e. simulation of evacuation in case of emergency. The newly employed staff training for health and safety at work, environmental protection and fire protection was successfully completed by 305 employees. Training was carried out for 50 employees in accordance with annual plans pursuant to the Operating Procedure and Work Instruction of the integrated system ISO 14001 and OHSAS 18001.

In addition to internal trainings, Hemofarm engages authorized institutions for performing specific trainings of its employees. Such specific trainings in safe operation with fork-lifts were successfully attended by 24 employees. Special trainings with first aid tests were carried out for 4 employees. A number of trainings were performed for employees dealing with safety and protection. Trainings for internal auditors according to ISO 9001 (QMS), ISO 14001 (EMS), OHSAS 18001 and SA 8000 were carried out for 15 employees. Training for preparation of sustainable development report was performed in accordance with G4 standards for 16 employees.

Safe work place is a category that has no alternative in Hemofarm A.D. In order for every work place to be safe and sound, inspections and testing of work equipment, personal protection equipment, electrical installations, working environment conditions and monitoring of processes such as measuring the pollutant emissions from the boiler plants, measuring emission of organic solvents and testing the quality of technological and atmospheric waste water were carried out in 2014.

Safe management of chemicals is regulated by the integrated system procedures and legislation. There is a database of chemicals with instructions for their safe handling on the Intranet. This database is available to all users of chemicals.

As a socially responsible company, when selecting subcontractors or suppliers, Hemofarm A.D. takes into account whether they are solvent, whether they meet legal requirements, whether they take care about security measures. Furthermore, it requests tax payment confirmation from competent authorities, statements on respect for human rights and the rights of employees, evidence that the workers are legally registered and that BSCI questionnaires are filled in. Each contractor goes through the procedure of qualification in terms of safety and health at work before signing the Contract. Qualification questionnaire requests contractors to provide the following valid evidence:

- Labour contracts for employees, as evidence of full respect for their labour rights,
- Trainings for safe and healthy work, medical certificates and insurance policies,
- Expert findings, studies, procedures, rule books...

Only when a contractor has been qualified, Annex on Health and Safety at Work, Environmental Protection and Fire Protection is signed, which stipulates the possibility of fines due to failure to observe the rules and regulations in these areas.

Process performance indicator	Values for 2013	Values for 2014
Number of employees	1 648	1 786
Number of injuries at work	24	23
Average number of days of absence from work	22	22.6
Number of lost working hours due to accidents per million working hours	1 227.5/1,000,000	1 117.7/1,000,000
Registered number of unsafe events	0	0
Number of trainings /courses organized by Occupational Safety and Protection Service	433	2 746

Every employee achieved 2,088 working hours, which totals to 3,729,168 working hours. 521 working days were lost in total (4,168 working hours).

The number of hours lost due to accidents per million working hours decreased by 9.8% compared to 2013. The percentage of lost working hours in relation to the total working hours was 0.1% for 2014. Decrease in the number of injuries by 4.3% was recorded compared to 2013. There were 2 serious injuries, which was the same number as in 2013.

The security aspect is in particular focus in the central complex in Vršac due to the sensitivity of pharmaceutical industry. The security service is internally engaged, and all employees in this Division are trained to respect human rights as a part of the basic business training for employment, in accordance with corporate policy and management principles.

HEALTH CARE OF EMPLOYEES



Hemofarm A.D. takes care of the health of employees in the first place, not only in accordance with company's type of activity, but also in the context of modern lifestyle more and more filled with stress. Hemofarm A.D. has available expert associates for providing psychosocial support to employees and their families, in order to balance their careers and family life in the most quality manner, and achieve their maximum potentials in both fields. In recognition of the acknowledged good practice, Hemofarm A.D. was invited by the Ministry of Labour, Employment, Veteran and Social Affairs, in cooperation with the Agency for Safety and Health at Work EU, Bilbao, to give a presentation on the topic of "Managing stress at work" in Belgrade on October 23rd, 2014.

Hemofarm continuously takes care about the health of its employees through:

1. Direct investments of employer's funds in:

- Periodic medical examinations for employees who work at the higher risk work positions and work positions with reduced years of service for retirement;
- Regular semi-annual sanitary examinations of employees;
- Regular ophthalmological examinations of employees;
- Cooperation with occupational medicine specialists (through medical examinations, inspections of the working space, risk estimates, professional aid, etc.);
- Staff training in first aid;
- Inspection of working conditions, inspections and testing of equipment for work, as well as inspections and testing of personal protection means and equipment;
- Purchase of working clothes and equipment for personal protection;
- Placing of marks for safe and healthy work, and placing horizontal and vertical traffic signalization.

2. Indirect investment of employer's is funds through Solidarity Fund:

Covering the costs of medicines, specialist examinations, treatments, surgeries, orthopaedic supplies; rehabilitation of employees, preventive recreational recovery of healthy workers; financing sports sections and continuous recreation of employees; assistance to employees in



case of sickness and sick leave longer than 6 months, assistance to employees for child birth and adoption; assistance to single parents, etc.

3. Funds of the Representative Trade Union – Independent Trade Union for prevention and protection of healthcare earmarked for organizing recreation of employees, sports sections, sports meetings of employees organized by the Trade Union

The Fund for prevention of occupational disability and recreation of employees tries to make up for the employees' rights to prevention and treatment which they had gradually lost due to the state health system reforms or which cannot be achieved for various reasons through the Republic Health Insurance Fund. The number of users of various forms of aid provided by the Solidarity Fund is growing year-in year-out. There were 750 employees who addressed the Fund in 2013, whereas the number dropped to 900 in 2014. Also, there were 100 pensioners who requested aid from the Fund in order to purchase medicines and perform laboratory analyses in 2014.

Voluntary blood donors organized as a section of voluntary blood donors within the Solidarity Fund traditionally help local health care system, regularly donating much-needed blood to healthcare institutions in Vojvodina and Belgrade.

In order to promote a healthy and quality life, Hemofarm A.D. provides rental of premises and purchase of equipment in order to allow employees to play different sports (footsal, volleyball, basketball, archery and others). The best employees represent the company in the organized annual sports games, or individual events that encourage teamwork and competitive spirit. Hemofarm A.D. participated in the 13th Meeting of Independent Trade Union of Chemistry and Non-Metals "HEMINS 2014" in Brzeće in June 2014. There was also a friendly match between the representatives of Šabac and Vršac held in Banja Koviljača in October 2014.



ENVIRONMENTAL PROTECTION

- Investment in environmental protection amounting to EUR 200,000 in total was implemented through the final phase of construction of the waste water treatment plant.
- The use of water from the public water supply system was reduced by 8.4% due to optimization of production and utilization of water from the artesian well.
- Hemofarm gained the status of waste disposal operator and almost overall quantity of generated pharmaceutical waste was disposed.
- Despite the increase in production volume (13%) and complexity (15%), the use of electrical energy was increased by as much as 2.9% compared to the previous year.

RESPONSIBILITY FOR THE FUTURE



Despite the fact that climate changes are not sufficiently represented in Serbia as an important issue, Hemofarm is trying to proactively approach this issue, not only to prepare itself for possible future challenges brought by nature, but also to decrease negative impacts to local climate conditions by its activity as well as development of public awareness in this regard.

Although insurance companies at a global level consider climate changes as one of the most important risk factors in the approach to modern business in the widest set of activities, Serbia still does not officially recognize climate changes as a risk factor.

Winters are milder, air temperature grows. Global warming is one of the greatest dangers of our time and the activities of each individual have an irreplaceable role. Transitional seasons become less pronounced leaving the impression that we have only summer and winter.

The Balkans Peninsula has been affected by season floods for several years now, at the beginning and during the spring. Last year floods were especially devastating and intensive – they were the biggest floods recorded in the Serbian history. In addition to civilian casualties, there was huge material damage, estimated to amount to more than one billion euros, which included, inter alia, residential and infrastructure facilities. Furthermore, the additional estimated damage, due to consequential reduced export of fruit and similar products amounted to more than EUR 300 million. The electric power system incurred damage in the amount of EUR 200 million. It was necessary to import electricity additionally in order to prevent restrictions during the greater part of last year as well as in 2015.

Hemofarm donated more than EUR 400 thousand in medicines, equipment and money in order to support and help the most vulnerable population remediate the consequences of the floods. However, it is not and must not be our sole activity, i.e. reaction when natural disasters occur.

It is necessary to think about the risks that climate changes bring actively and in due time. Therefore, adequate preventive measures such as building our own artesian well and waste water treatment plant, insulation of buildings and other measures for increase of energy efficiency, raising awareness about the importance of sustainable development in the company, etc. are undertaken in Hemofarm. Additionally, monitoring and pointing out the risks of climate changes within the centralized Risk Management System at STADA Group level is very important.

Risk reports are submitted to the central reporting cockpit, according to the division in which the risk is dominantly present, followed by analysis of risk extent carried out by the global risk management, paying a visit to the local production site and undertaking further preventive-corrective actions in order to diminish or annul the risks, as well as raising alarm about newly occurred risks. In light of that, a good example is the last year defence from the floods in Šabac plant – the risk was reported in accordance with described procedure, followed by full support of the global risk management to the local team in the fight against floods through the strategy of digging channels and building the embankment inside the factory circle and around the threatened plant. After the primary defence from the floods, the work on corrective – preventive actions with emphasis on preserving this plant also in the future was continued. The entrance of spilled, polluted river water would have fatal consequences for the entire plant and it would have been very difficult and unlikely to restore microbiologically sterile conditions suitable for continuation of manufacturing pharmaceutical products even with huge expenditures.

Hemofarm A.D. has no activities with negative impact on the local community from the aspect of environmental protection, and proactively reacts through prevention and education which include not only employees but also all stakeholders within the local community. Company's responsibility for the environment exceeds the obligation of observing the standards and applicable legislation with an aim to point out the significance of this field, through our own example, and contribute to its permanent maintenance and protection for the future generation. All possibly negative impacts, as well as actions for their prevention, management and repair are described in details in the document entitled Accident Prevention Policy, which is kept in the archives of the Occupational Safety and Protection Division.

●
Total investments in environmental protection amounted to more than EUR 200,000 in Hemofarm A.D. in the course of 2014, and they were mostly earmarked for the construction of the primary waste water treatment plant in the final phase.
In this way, the project worth more than half a million euros was implemented in full.
●

Technical approval of the facility by the municipal committee, as well as putting the waste water treatment plant in operation are planned in 2015. The construction of the primary waste water treatment plant is of great importance for the overall activity on improving the environmental protection as well as maintaining a high level of trust in Hemofarm A.D. operation by the local community. Companies, which have investments such as this one, actually show the seriousness and intention of sharing their future and destiny with the local community.

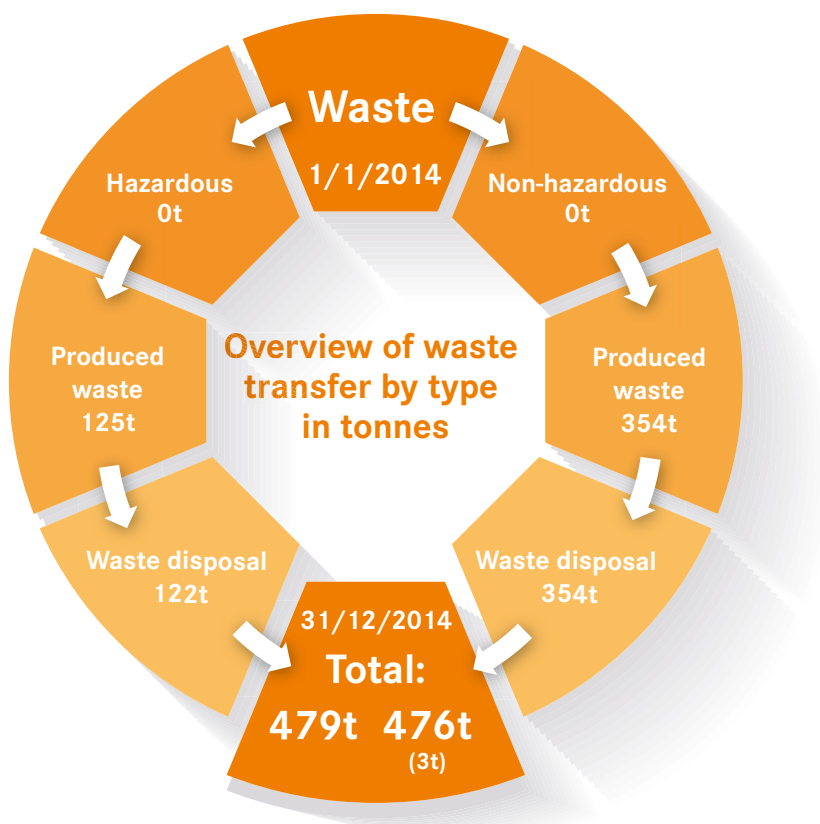
In addition, it is important to point out that Hemofarm A.D. does not possess facilities in the territories which represent Protected Natural Areas in Serbia, and therefore, the activities of the company do not have impact on such designated areas by the Institute for Nature Conservation of Serbia.

WASTE MANAGEMENT



There are certain products in Hemofarm's portfolio whose packaging and transportation packaging material are produced from materials which can be recycled. Hemofarm A.D. is a part of the national packaging material and packaging material waste management system, i.e. national strategy of the Plan for packaging material waste reduction. In cooperation with the authorized operator, the company met its obligations for 2014.

In addition, each pharmaceutical product contains instruction indicating the proper disposal after expiration of the shelf life in order not to damage the environment and reuse the recyclable materials. In accordance with the nature of its activity, Hemofarm A.D. is not in direct contact with the end users of the products, and is not able to collect the products with ended life cycle from its product range. Likewise, there is no legislation which would regulate the method of product collection from the market for their final disposal.





Therefore, Hemofarm A.D. pays a fee to authorized operators within the defined national programme, which take over paper waste, plastic, wood, glass and reprocess them.

Total amount of waste generated in Hemofarm A.D. during 2014 was 479 tonnes, out of which 354 tonnes of non-hazardous waste and 125 tonnes of hazardous waste.

The shown amount of non-hazardous waste applies only to industrial waste which has use value and is handed over to authorized operators who take over the generated recyclable waste from the factory circle. Non-hazardous waste includes also daily generated municipal waste³⁵, which is collected by the local utility company. The generated municipal waste amounted to nearly 1500m³ in 2014³⁶. Increased quantity of secondary raw materials in relation to 2013 is a result of increased production volume and better primary selection of waste at source (the recyclable materials are not disposed in the municipal waste).

Hemofarm A.D. continues exporting hazardous waste abroad. Out of the total amount of generated hazardous waste in 2014, 122 tonnes were exported, while the remaining 3 tonnes were planned to be exported in 2015. Hazardous waste was partly exported for destruction by incineration to a specialized plant in Austria, Vienna through the authorized operator, while the other part was exported by Hemofarm A.D. itself to the authorized plant for destruction in Germany (Brunsbutel), after it had gained a license for export of hazardous waste. The decision on waste disposal was made in accordance with local legislation and on the basis of the best available techniques which Hemofarm A.D. can harmonize with the regulations, stakeholders' requirements and own capacities.

³⁵ Municipal waste generated in Hemofarm A.D. is not measured in kilograms, but rather it is estimated in cubic meters of waste, based on the number of presented containers; payment is effected to the utility company for waste disposal per square meter of the business circle of Hemofarm A.D. with the address at Beogradski Put bb Vrsac. ³⁶ There are 30 1m³ volume containers in Hemofarm A.D.; 4-5 containers are taken away from the company at a daily level which accounts for 125 containers at a monthly level and 1500 containers at an annual level.

GAS EMISSIONS



In accordance with the existing business practice within environmental protection, Hemofarm A.D. has based its production on procurement of gases for cooling systems (freons) with “ozone-friendly” designation. There is no precise definition of the term “ozone friendly” in the European regulations, but the designations on the freon purchased by Hemofarm are in accordance with the Montreal Protocol and Clean Air Act Document which regulate harmful ozone-depleting substances and the programme for their reduced use. The designations on freons purchased by Hemofarm represent evidence that such freons are in accordance with the programme of reducing “ozone-depleting” substances. All three purchased types are “CFC Free” freons (no chlorofluorocarbons).

The amount of delivered “ozone-friendly” freons was 792.9 kg in 2014, as presented in the table:

The amount of purchased “ozone friendly” freons in 2014

FREON R 404 A	54.5 kg
FREON R 134 A	557.6 kg
FREON R 507	180.8 kg

Natural gas consumption at an annual level amounted to 4,833,904 m³ in Hemofarm A.D. in 2014. Based on this data, with the assistance of the calculator at the official EPA site, it was calculated that the amount of natural gas in combustion produces an equivalent of 28.2 tonnes of carbon-dioxide (CO₂)³⁷.

Mass index of nitrogen-dioxide (NO₂) emission at an annual level is 4,2 tonnes which was confirmed by both Hemofarm reports sent to the National Register of Pollutants and Laboratory Reports on Measurement of Waste Gas Emissions based on which the mass index is calculated³⁸.

³⁷ The site address is: <http://www.epa.gov/cleanenergy/energy-resources/calculator.html>

³⁸ The site address is: <http://www.epa.gov/cleanenergy/energy-resources/calculator.html>

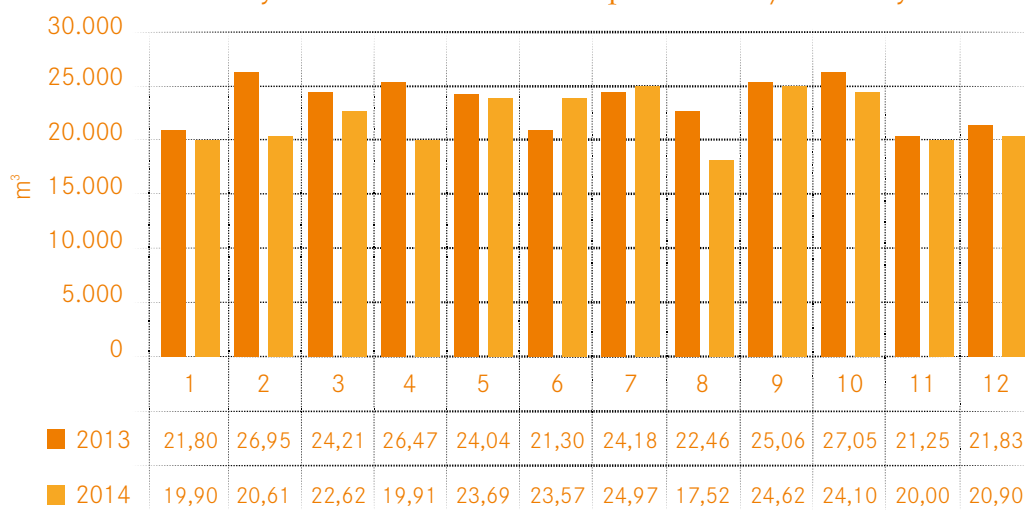
WATER MANAGEMENT



Significant amounts of water are needed for the production processes in Hemofarm. Tap water is spent in technological procedures and for production of purified water (PW), water for injections (WFI), and clean steam. In addition, water is used also for production of technical steam and hot water as well as for the operation of cooling system and sanitary needs. Water supply of all parts of Hemofarm has been secured by using water from public water pipeline and company artesian wells which are autonomous so that they do not affect the local population needs for this resource. The capacity of the town water spring in Pavliš amounts to 250-300 litres per second, and it meets the needs of residents of Vršac, Pavliš and Jablanka, so the use of water from that spring does not affect local infrastructure. The significant decrease in amount of water utilized from the public water supply system ensued after the beginning of the construction of artesian wells in 2012.

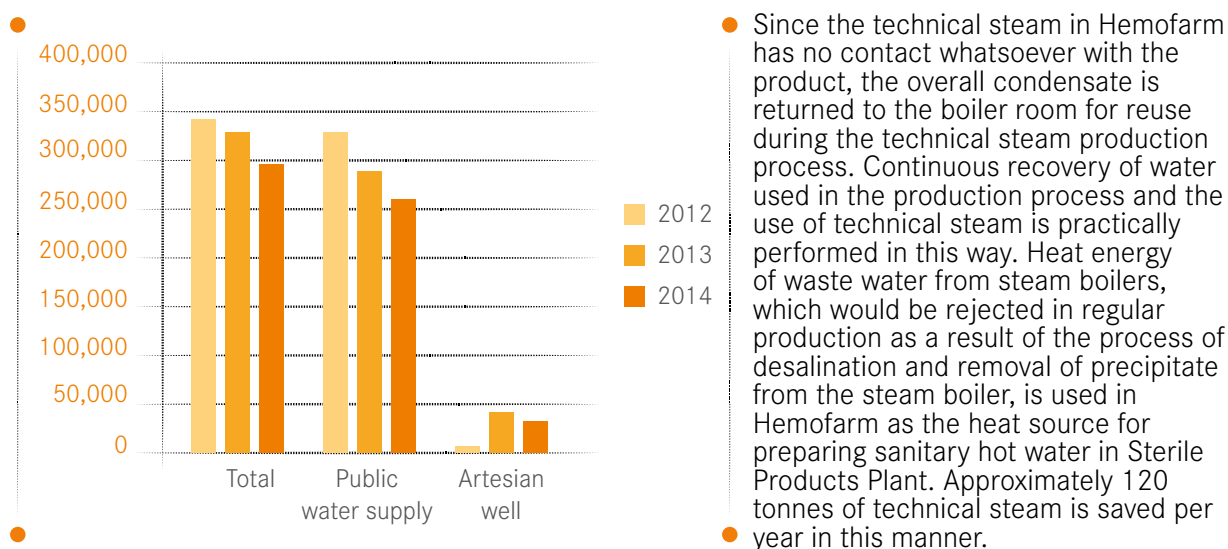
The total amount of used water from public water supply system was decreased from 286,654 m³ in 2013 to 262,481 m³ in 2014, which represented a decrease of 8.4%. A total amount of water used from the artesian well was reduced from 43,185 m³ in 2013 to 33,218 m³ in 2014.

Monthly town's water consumption 2013/2014 by months



Based on the analysis of consumption at individual water meters, the significant decrease was recorded in Water Treatment Department of Injectables Plant, i.e. approximately 70% of total difference compared to the previous year, i.e. 24,173 m³ of town's water.

Overview of amount of used water (m³), by water source:



The released waste water amounted to 295,699m³ in total in 2014 (according to the calculation of the competent utility company). The quality of released waste water is monitored at a monthly level for technology/sanitary waste water, and at a quarterly level for atmospheric waste water, by an independently accredited laboratory of Institute for Safety and Preventive Engineering in Novi Sad. Reports thereof are kept in the archives of Safety and Protection Service. Waste water that is released in town's sewage does not undergo primary treatment in Hemofarm. The entire waste water from town's sewage network is treated in the town waste water treatment plant in the ownership of "2. Oktobar" utility company from Vršac.

There was no unplanned release of waste water into any recipient in 2014. Additionally, Hemofarm A.D. did not have any fines or other penalties or sanctions by the relevant authorities either in 2014 or in general.





ENERGY



The rational use of energy is one of the imperatives today, not only because of the high financial and other costs, but also because of the constant aspiration to improve the environmental protection and preserve the non-renewable sources of energy. Cost-effective production and consumption of energy is the basic postulate of the contemporary global economy and energetics. If cost-effectiveness implies a behaviour which enables the most effective implementation of the set objectives, then safety supplies of a sufficient amount of quality and cheapest energy, i.e. rational consumption of available energy resources have to be provided from the point of energetics. Economic and energetic criteria are the basic methods of measurement of rational energy consumption. We equally respect both of these two criteria in Hemofarm A.D. without any possibility for reducing the quality of working/production processes, performances and safety of finished products.

Natural gas and electrical energy are used as energy sources in Hemofarm A.D.. Electrical energy is used in production processes, for operation of air compressors, chillers and HVAC. The biggest consumers are air compressors and chillers – production of compressed air and water for cooling accounted for 33% of total consumption of electrical energy in the production site Vršac in 2014.

Overview of electrical energy consumption:

Year	Electrical energy (kWh)	Electrical energy GJ
2012	33,655,147	121,158
2013	33,388,114	120,197
2014	34,367,508	123,719

Gas consumption in Hemofarm A.D. was almost 8% lower in 2014 compared to the previous year.

Most of the natural gas is used in Chemical Water Treatment Departments – nearly 35% of the produced technical steam is needed for production of purified water, WFI and pure steam in Vršac. Other larger segments of natural gas consumption are heating and other technological processes.

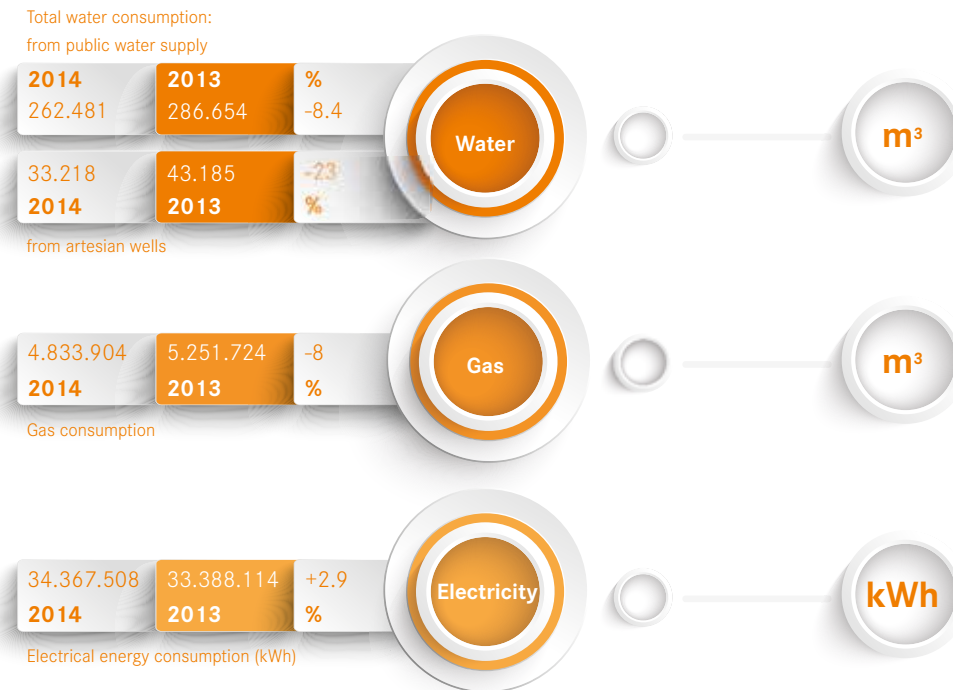
Overview of natural gas consumption:

Year	Gas, m ³	Gas GJ
2012	5,515,130	183,930
2013	5,251,724	175,145
2014	4,833,904	161,211

The main reason for decreased gas consumption in 2014 included favourable weather conditions, i.e. significantly higher temperatures during winter months compared to 2013. In addition, the transfer of Fresenius Medical Care to the newly built plant of their own within Technology Park Vršac, contributed to the reduction of gas consumption.

In order to increase energetic efficiency in general, Vršac high-bay warehouse insulation project was approved in 2014, and works on the modernization of lighting – installation of LED lamps as replacement for classic fluorescent glass pipes were performed.

Environmental protection



Although the complexity of production was increased by as much as 15% during 2014, electricity consumption increased by only 2.9%. Cost-effective consumption of electricity and other energy sources was achieved through a systematic approach to company sustainable development management, various projects and initiatives to improve energy efficiency, as well as development and implementation of new solutions and implementation of various operational excellence projects.



REPORTING PRINCIPLES



Methodological rules and principles of Global GRI standards (G3.1) were used as the basis for the preparation and the creation of this annual Sustainability Report on sustainable development of Hemofarm A.D. Company, which covers the period from January 1st to December 31st, 2014. The previous published Annual Sustainability Report refers to year 2013. With that report the company met the requirements of the A+ level.

Global Reporting Initiative (GRI) is a non-profitable organization which is putting efforts in establishing sustainable global economy by proposing guidelines for composing the Sustainability Report. These guidelines are recognized worldwide and accepted by all leading companies. Implementation of GRI guidelines allows a company to report transparently about the effects in four key areas of sustainable operations – economic, environmental, social and managing. In addition to a company profile and a number of indicators as well, the foundation of our Report is based on following principles:

Materiality

The report encompasses all those topics which are relevant to stakeholders. All economic, environmental, social and managing topics and activities which influenced the company, namely the activities which could possibly affect the opinion of our stakeholders, by using various quantitative and qualitative factors are included in the Report. The process of specifying priority topics in the Report for year 2014 included the synchronization of demands and interests of all stakeholders with strategic priorities of the company.

Inclusivity

One of the goals of Hemofarm Company is to create conditions for efficient dialogue with all stakeholders and therefore to improve mutual relations and improve general satisfaction with company operations. Our primary aim was to start the dialogue, and the Report represents only one of the possible ways for starting it. Our internal research on employees' attitudes, annual research of expert public opinion (physicians and pharmacists, drug wholesalers and private pharmacies), and market research through which we try to understand the ways our operations affect the environment are important component of these activities.

For that reason we are looking forward to receiving feedback that readers of this Report will have about its quality and contents.

Hemofarm is ready to take into consideration all feedback so it could enhance the quality of future reports.

E-mail address to which all feedback can be sent is svakodobro@hemofarm.com.

Sustainability

The principle of operations' sustainability presents a method by which a company can observe its long-term effects on the environment and present its activities at a national, regional and global level.

Completeness

The Report provides obtained information and data closing with December 31st, 2014. Comparative data with the previous year were shown where possible. Financial and economic indicators are taken from consolidated financial report for Hemofarm A.D. for year 2014 and they refer to the company activities in Serbia, excluding related legal entities in Montenegro, Bosnia and Herzegovina and Romania, and Hemofarm Šabac d.o.o. as well.

Balance

Balance requires the presentation of both positive and negative aspects and influence of the company on sustainability, thus providing impartial and objective presentation of its results. Objective presentation of the company results in 2014, when it comes to economic, environmental and social dimension, is based on answers to 72 indicators of GRI methodology, which present all relevant information, regardless of their characteristics.

Comparability

Comparability means presenting data in a consistent and reliable way in order to provide for comparison with GRI standards and other companies. Since this is the second Sustainability Report composed by Hemofarm A.D. it is possible to compare it to the Report from the last year.

Accuracy

Accuracy implies providing adequate qualitative and quantitative information and continuous improvement of the system for data collection and analysis. Where it was not possible to collect original data, the calculation was performed with explanations regarding calculation methodology.

Timeliness

Timeliness implies persistency in reporting frequency and in the length of the reporting period in order to secure availability of information on regular basis and the ability to make adequate and timely decisions regarding the company and its operations.

Clarity

Clarity stands for presenting information in a clear, simple and transparent way, thus providing availability to information. The availability and clarity to all stakeholders was the goal we were aiming at when creating the Report for 2014.

Reliability

Reliability implies collecting, recording, composing, analysing and publishing information in a way which can be subjected to audit and which can substantiate quality and materiality of information. Relying on standards and requirements of globally recognized GRI methodology, this Report was verified by the audit firm KPMG d.o.o., Belgrade.

GRI INDEX



GRI Index	Page
1. STRATEGY AND ANALYSIS	
1.1 Foreword by CEO	4-5
1.2 Description of major impacts and possibilities	12-14
2. COMPANY PROFILE	
2.1 Name of the Company	10
2.2 Main brands, products and/or services	48-50
2.3 Operative structure of the organization including the main organizational parts/divisions	11
2.4 Company's headquarters	10
2.5 Number of countries in which the company operates	10
2.6 Legal ownership structure and form	10
2.7 Markets in which the company operates	10
2.8 Company size	10
2.9 Significant changes in the period of reporting	4-5
2.10 Awards received in the period of reporting	22

GRI Index	Page
3. REPORT PARAMETERS	
3.1 Reporting period	96
3.2 Date of the last Report	96
3.3 Reporting cycle	96
3.4 Contact information for questions regarding Report or the contents of Report	96
3.5 Report methodology, Materiality and procedure for determining the contents of Report	96
3.6 Report range	97
3.7 Report scope or range limitations	There are no special limitations of the reporting scope and range
3.8 Basis for reporting on joint companies	Report refers to Hemofarm A.D. excluding subsidiaries, and its operations in Serbia
3.9 Data measurement techniques and the bases on which the estimates were based	96
3.10 Explain the possible corrections of data from previous Report	There were neither data corrections nor changes compared to the previous year
3.11 Significant changes compared to the previous report	
3.12 GRI index	98-107
3.13 Auditor's Report	110-111

GRI Index	Page
4. MANAGEMENT, OBLIGATIONS AND INVOLVEMENT OF STAKEHOLDERS	
4.1 Management structure of the organization	11
4.2 Does the Chairman of the highest management body also have an executive function	11
4.3 Specify the number and gender structure of the members of the top management for the companies with unique corporate management structure	11
4.4 Mechanism whereby stakeholders and employees provide recommendations or guidelines to the top management body	16-18
4.5 Interconnectedness between remunerations for members of top management body/highest level managers and operating result of the company	11
4.6 Procedures for preventing conflict of interest	11
4.7 Procedures for appointing members in management bodies	11
4.8 Mission, values and vision of the company	12
4.9 Procedures of the top management body for monitoring the economic, environmental and social performances of the company	6
4.10 Methods for assessment of own results by the top management body with emphasis on economic, environmental and social results	11

	OBLIGATIONS TO STAKEHOLDERS	
4.11	Risk management	84-85
4.12	Externally prepared economic, environmental and social declarations, principles or other initiatives which the company undertakes or adheres by	21-22
4.13	Membership in Associations	21-22
	STAKEHOLDER INVOLVEMENT	
4.14	List of involved stakeholders	18
4.15	Basis for identification and selection of stakeholders	16
4.16	Attitude towards engagement of stakeholders	16-18
4.17	Key topics initiated by stakeholders during their involvement	16-18

GRI Index	Page
FIELDS AND INDICATORS	
EC ECONOMY	
EC 1 Directly generated and distributed economic value	27
EC 2 Financial implications and other risks due to climate change related actions and activities of the company	84
EC 3 Pension plan defined liabilities of the company	77
EC 4 Significant financial aid from the government	27
EC 5 The ratio of the minimum salary in the company and statutory minimum salary in significant locations	69
EC 6 Policy, practice and share of consumption on local suppliers at important operating sites	36
EC 7 Local population employment procedures and share of senior management engaged by the local community in important operating sites	11
EC 8 Development and influence of infrastructure investments and services rendered in due time for public benefit	58-64
EN ENVIRONMENT	
EN 1 Used material in weight or volume	36
EN 2 Share of materials used as recycled primary raw materials	38
EN 3 Direct consumption of energy from primary energy sources	92
EN 4 Indirect consumption of energy from primary energy sources	92
EN 5 Savings in energy consumption due to conservation and improvement in business operations	35,42,92
EN 8 Total water consumption	89

EN 9	Water sources significantly affected by water consumption	90
EN 10	Total recycled water quantity	90
EN 11	Location and size of the land which is owned, leased or under the administration of the protected areas or in their immediate vicinity as well as in the areas of high value with regard to biodiversity outside the protected areas.	85
EN 12	Significant impact of activities, products and services on biodiversity in the protected areas and areas with high level of biodiversity outside the protected areas	85
EN 16	Total direct and indirect emission of greenhouse gases according to severity	88
EN 17	Other relevant indirect emission of greenhouse gases according to severity	88
EN 19	Categorization according to severity of emission of ozone depleting substances	88
EN 20	NOx, SOx, and other significant emissions in the air according to the type	88
EN 21	Total water drain	90
EN 22	Total quantity of waste	86
EN 23	Total amount and quantity of significant spills	42
EN 24	Weight of transported, imported, exported and treated waste which is considered to be hazardous on the basis of Basel Convention Annex I, II, III	87
EN 25	Name, size, status of protection and level of biodiversity of water surfaces directly affected by the company	89
EN 26	Initiatives for mitigating the impact of products and services on the environment and extent of the impact mitigation	85
EN 27	Percentage of sold products and their packaging materials which are returned by categorization	86
EN 28	Amount of all fines and non-monetary penalties imposed for non-compliance with the Environmental Protection Law	90
EN 30	Total environmental protection expenditures and investments by type	85

GRI Index		Page
LA	LABOUR RIGHTS	
LA 1	Total workforce per type of employment, gender structure	69
LA 2	Total number and employment rate of new employees as well as employment termination rate by age, gender and region	70
LA 3	Benefits provided to full-time employees	73, 76
LA 4	Percentage of employees involved in collective bargaining and subjected to the collective bargaining agreement rules	76
LA 5	Minimal notice period(s) connected with significant work changes, including the information whether it was defined in the Collective Bargaining Agreement	76
LA 7	The rate of occupational injuries, professional diseases, lost work days and absence from work	79
LA 8	Education, trainings, counselling as prevention of incidence of employees or employees' families from serious illness	78-79
LA 10	Average hours of trainings, annually by employee, gender and category of employees	72
LA 12	Percentage of employees whose work performance and professional development are regularly assessed	72
LA 13	Structure of management bodies and employees by category, gender, age structure, minority, etc.	69
LA 14	Ratio of basic salary of women and men by employee category	69
LA 15	Return and staying of pregnant women in the workplace after maternity leave	70

GRI Index		Page
HR	HUMAN RIGHTS	
HR 1	Percentage and total number of significant investment agreements and contracts which include clauses on human rights or which have undergone screening on human rights	79
HR 2	Percentage of significant suppliers, contractors and other business partners who have undergone screening on human rights and undertaken actions	39
HR 3	Total training hours of employees on the subject of politics and procedures regarding the aspect of human rights relevant for business operation, including the percentage of employees who are trained	72
HR 4	Total number of discrimination incidents and undertaken corrective actions	76
HR 5	Identified activities and major suppliers with whom there may exist violations of the freedom of association and collective bargaining	71
HR 6	Activities and major suppliers with established high risk for incidents of child labour and actions undertaken for elimination of child labour	69
HR 7	Business activities and/or significant suppliers who represent a possible risk for forced labour as well as all actions undertaken for eliminating the employment of underage persons	79
HR 8	Percentage of employees in the security who have undergone the training about complying with human rights in accordance with company's policy	72
HR 9	Total number of cases of violation of rights of the local population and undertaken actions	There were no cases of violation of the rights of indigenous people
HR 10	Percentage and total number of activities which are the subject of review of human rights and/or assessment of impact	79
HR 11	Number of complaints relating to human rights initiated, sent and resolved by official mechanism of complaints	71

GRI Index		Page
SO	SOCIETY AND LOCAL COMMUNITY	
SO 1	Percentage of activities with engagement of local communities with assessment of impact or development programmes	59-64
SO 2	Percentage and total number of business units in which analysis of risk from corruption was carried out	14
SO 3	Percentage of employees trained for company's anti-corruption policies and procedures	14
SO 4	Actions undertaken as a response to cases of corruption	14
SO 5	Public policy positions, participation in development of public policy and lobbying	17
SO 6	Total value of financial contributions and donations in kind to political parties, politicians and responsible institutions	14
SO 7	Total number of instituted legal proceedings for anticompetitive practice, monopolistic behaviour	There were no instituted proceedings against the company for monopolistic behaviour
SO 8	Amount of money for higher financial sanctions and total amount of non-monetary sanctions imposed for non-compliance with the law and regulations	There was neither penalty nor sanction imposed on the company for failure to observe the law and regulations
SO 9	Activities with large potential for creation of negative impact or actual negative impact on the local community	85
SO 10	Preventive and corrective measures applied in the activities with large possible impact or actual negative impact on local communities	85

GRI Index		Page
PR	PRODUCT RESPONSIBILITY	
PR 1	Initiatives for improving the product/service effects on customer health and safety in different product/service lifecycle phases	45
PR 3	Type of information on the product and /or service defined by company's rules and procedures and percentage of significant products and services subjected to such informative requirements	53
PR 4	Non-compliance with regulations and voluntary codes regarding the product data and labelling services	53
PR 5	Practices related to customer satisfaction including customer satisfaction survey results	54-55
PR 6	Programmes which are developed in order to prevent lawsuits for non-compliance with legal regulations and voluntary codes regarding marketing communication	51
PR 7	Non-compliance with legal regulations and voluntary codes regarding marketing communication, including advertising, promotion and sponsorship	51
PR 8	Total number of founded complaints regarding breaches of customer privacy or loss of personal information about the customer	There were no complaints relating to breach of customer privacy or loss of personal information
PR 9	Total number of founded complaints regarding breaches of customer privacy or loss of personal information about the customer	There were no complaints relating to breach of customer privacy or loss of personal information



INDEPENDENT AUDITOR'S REPORT



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TRANSLATION

Limited assurance report on the Hemofarm Sustainability Report 2014

TO THE OWNERS

HEMOFARM A.D., VRŠAC

Scope and Responsibility

We have reviewed the Hemofarm Sustainability Report 2014 ("the Report") of Hemofarm a.d., Beograd (the "Company"). Management is responsible for the preparation of the Report in accordance with the G3.1 Global Reporting Initiative Guidelines (GRI), as set out in the "Reporting Principles" section. Management is also responsible for determining the Company's objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues, and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived. Our responsibility is to issue this report based on our review.

Procedures performed

We carried out our work in accordance with the criteria established for review engagements by "International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000)", issued by the International Auditing and Assurance Standards Board (IAASB). That Standard requires that we comply with applicable ethical requirements (the Code of Ethics for Professional Accountants issued by the International Federation of Accountants, IFAC), including independence requirements, and that we plan and perform the engagement to obtain limited assurance about whether the report is free from material misstatement. A limited assurance engagement on a sustainability report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the sustainability report, and applying analytical and other evidence gathering procedures, as appropriate.

These procedures included:

- comparison of information and data presented in the "Key Financial Indicators" section of the Report to the corresponding information and data included in the Company's standalone financial statements as at and for the year ended 31 December 2014, on which auditor issued report dated 18 June 2015 in accordance with the Law on Accounting and other relevant Laws in Republic of Serbia;
- analysis of key processes for generating, recording and managing quantitative data presented in the Report. In particular we performed the following procedures:
 - interviews and discussions with management of the Company to gather information on the IT, accounting and reporting systems used in preparing the Report, and on the processes and internal control procedures used to gather, combine, process and transmit data and information to the office that prepares the Report;

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KPMG d.o.o. Beograd je jedinstveno društvo.



Hemofarm a.d, Vršac
Limited assurance report on the
"Hemofarm Sustainability Report 2014"
 31 December 2014
TRANSLATION

- sample based analysis of related documents used in preparing the Report serves the purpose of confirming process effectiveness, their adequacy with respect to described goals, as well as that the internal control system is properly managing data and information included in the Report;
- analysis of reconciliation of qualitative information included in the Report, with guidelines noted under Scope and Responsibility, as well as general consistency, especially in the sense of strategy and policy of sustainable development and assignment of material issues for each category of interested parties;
- analysis of the process of involvement of interested parties in terms of methods used and completeness of participants, based on review of minutes from meetings or through all other available information on identified key factors;
- receipt of representation letter from the Company's legal representative on compliance with guidelines set out under Scope and Responsibility, as well as reliability and completeness of information and data presented therein.

The extent of evidence gathering procedures performed in a limited assurance engagement is compliant with ISAE 3000 and provides a lower level of assurance in that we would potentially have identified significant issues and events in an audit.

Opinion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Report of the Company is not prepared, in all material respects, in accordance with the G3.1 GRI - Global Reporting Initiative Guidelines, as set out in the "Reporting Principles" section.

As indicated by the management in the "Reporting Principles" section of the Report, the Company intends to continue to extend the reporting scope of the Report through further standardisation of the existing information and data gathering procedures.

Belgrade, 23 June 2015

KPMG d.o.o. Beograd

(L.S.)


James Thornley
 Partner

*This is a translation of the original Limited assurance Report issued in the Serbian language.
 All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.*

Belgrade, 23 June 2015



KPMG d.o.o. Beograd


 James Thornley
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