



Sustainable development report 2015



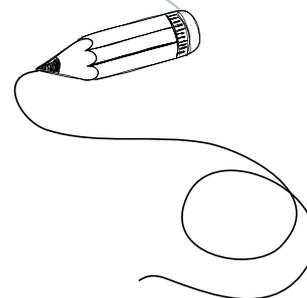
Hemofarm A.D. Sustainability Report has been prepared for the fourth year in a row, in compliance with the Global Reporting Initiative (GRI) international guidelines. This year, the report has been prepared according to the GRI G4 guidelines, presenting 85 indicators.

An independent auditing company KPMG d.o.o. Beograd has verified the conformity assessment of the 2015 report with the indicated guidelines, as well as the accuracy of the indicated information.

Hemofarm A.D. Sustainability Report is published annually, and the previous one was published for the year 2014.

Send any questions, suggestions and dialogue on the subject of sustainable development to the e-mail address svakodobro@hemofarm.com

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SUSTAINABLE DEVELOPMENT REPORT 2015

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Hemofarm 2015 at a glance

55

years of success of pharmaceutical brand¹

2,700

employees, of which 2,216 in Hemofarm A.D.

About

26.7

billion RSD sales revenue in 2015

A record

216.5

million packages produced in 2015

Market share leader:

34.7%

by the number of packages (↑)² and value 16.7% (↓)³

Export share leader:

76.4%

in export of drugs from Serbia

38

markets on 3 continents offer Hemofarm products⁴

50.5%

is the share of women in management positions

120,000m²

of manufacturing and commercial space⁵

¹ Hemofarm was founded on June 1st, 1960 in Vršac, where it still has its headquarters; since 2006 it is the member of the German STADA Group; ² Recorded growth (34.3% in 2014) due to regular therapy application (compliance) in chronic diseases; ³ Recorded decline (17.3% in 2014) mainly due to decrease in prices of drugs; ⁴ South-Eastern Europe, EU, Middle East, North Africa and CIS; ⁵ In addition to the central factory complex in Vršac, Hemofarm also owns factories in Dubovac and Sabac (Serbia), Banja Luka (Bosnia and Herzegovina) and Podgorica (Montenegro). Besides the headquarters in Vršac, Hemofarm owns registered office branches in Belgrade, Niš, Novi Sad and Kragujevac. Hemofarm owns subsidiaries in Macedonia, Bosnia and Herzegovina, Montenegro, Romania; the representative office in Algeria and laboratories in Timisoara (Romania).

GM

introductory speech

Is observing the principles of sustainable development the essence and guarantee for a safe future of a company, region, country and even the planet? Or, is that such a popular topic nowadays, only a form and attempt to justify and minimize the damage through plans and conventions often subordinated to narrow interests that we, all together, have been inflicting on nature and ourselves, as well as generations to come for decades?

I sincerely believe that starting with ourselves we can and must correct mistakes of the past! Therefore, I support the principles of sustainable development both personally and professionally, as the safest starting point which can make the world around us a better place to live! If any company makes a small step forward within its economy, ecology and human resources, even in relation to people, without necessary costs and investments, it will be the first step towards a strategic, essential, or call it as you wish, but most certainly common goal and interest. Hemofarm's business strategy, with the imperatives of commercial growth, organizational excellence and responsibility, has already been excessively relying on the principles of sustainable development, which contribute to a large extent to its achievement. Our focus is on the development of healthcare through prevention, preservation of resources and care about people!

Improving the quality of life through health care is our mission and the basis for business development. Therefore, through its wide and extensive portfolio, Hemofarm tries to help people improve their quality of life. Putting the focus on prevention, the company continuously develops its products, especially in the OTC and CHC segment.

We care about the resources we use, because it is not the point that only we here live well! We should make the presently available resources also available in the future! According to the energy performance report of the International Finance Corporation (IFC), a member of the World Bank Group, our plants already belong to a small group of 20% most efficient plants of their kind worldwide. In 2015, we set a new production record with 216 million packages by means of ever more cost-effective use of electricity, natural gas and water, with reduced harmful emissions and increased efficiency in waste management. Looking to the future ahead of us, we have additionally improved energy efficiency of the company and have taken into consideration the possibility of switching to alternative energy sources. By preserving available resources, we not only protect the natural environment and community, but also improve the business efficiency and enhance the value of Hemofarm, as well as STADA Group within which we have been operating for ten years.



All our achievements are actually the achievements of our people and our team! Global objectives of the United Nations until 2030, in the context of sustainable development, are focused on people and responsibility, the fight against poverty and inequality, along with the development of powerful and flexible inclusive economy, preservation of the ecosystem, etc. Hemofarm has already recognized the same values and complies with them in its approach to business. Therefore, improvement and development of the corporate culture of our team with 2,700 employees is one of my priorities! Over the past year, we invested more than half a million euros in education and development of employees, and we were rewarded for safety at work again, which I am particularly proud of. And this is just the starting point for care about people! Having joined the Ministry of Health campaign entitled 'Prolong Life', Hemofarm, together with Hemofarm Foundation, as a reliable partner of the local healthcare system, contributed to the development of public awareness about the importance of organ donation. 'The most important call in life' was a special segment of this campaign, which pointed out the importance of the upcoming amendments to the law on transplantation and resulted in declaring the Organ Donation and Transplantation Day in Serbia!

Recognisability and quality of our medicines are at the same level in Belgrade, Moscow and Berlin. Is our work finished with this? It hardly is, because the market is inexorable and requires persistent work on ourselves, constant creativity, courage in decision-making and a breakthrough from the already conquered borders. It is one of the reasons why we asked our key stakeholders in 2015 how they see Hemofarm business operations and how we can become better. Let me respond once again to the dilemma in the first sentence of this foreword, I see the company which I manage as a leading company in advocating the principles of sustainable development as the only meaningful way leading to the future.

All the best!

Ronald Seeliger 

CEO

Sustainable development as our purpose and objective

The future has never asked us so many questions, particularly the questions the answers to which crucially influence our further development. And never has the outcome of the future depended exactly on what we – business people, governments and citizens, are doing today! While trying to answer these questions, we should not be guided by assumptions about what we think will happen tomorrow, or what we are afraid of, but rather find the right balance of what is actually possible to achieve. In the dynamic environment determined by climate changes, growth of global population and urbanisation, we are challenged in giving our best, yet realistic vision and contribution to business and social development in general.

Hemofarm is part of a big and complex global system, which can be sustainable and develop only if each part gives its best. As one of the key drivers of change within our environment, we in Hemofarm strive by our actions to set examples of those changes for a better future that we all look forward. Through the strategic approach to our operations we align with the sustainable development principles. Our objective is: to produce more from smaller resources, to create value, to progress, to improve quality of people's lives. These are for us the most important promises we take on our trip to the future in order to make the world a better place for living. And these promises are exactly what will allow us the substantial opportunity to improve ourselves and develop our business both through an optimized product range, on a human scale, and through launching of new markets and new dimensions of business development, even out of our main fields of activities.

Our previous report was evaluated with the highest possible grade A+, which was achieved by two companies in Serbia and the region only. This brings the same level of commitment to us as our leading positions on domestic pharmaceutical market and in the export of drugs from Serbia. The way things were done in Hemofarm in 2015 was characterized by a continued trend of reducing occupational injuries, which dropped significantly comparing to the previous year. Only by using recycled cardboard for packaging of our products, we achieved savings of resources equivalent to almost the entire two months consumption of electricity and water of all our factories. Also, we analysed and discussed what strategic initiatives and investments we can apply to be even better in the management of daily operations, especially energy efficiency!



“We strive to be an example of changes for a better future to which we all aspire.”

Within sustainable development management, we put special focus to the dialogue with our key stakeholders. The first round of dialogue was done in 2015 with an output of the first materiality matrix of Hemofarm. Stakeholders gave their perspective of the most important aspects of the Hemofarm business operations, while the matrix provided us the total ranking of those aspects. This process is a good chance to improve both Hemofarm and our business partners through mutual cooperation, as well as to develop, all together, a society in which we live.

As Jeffrey Sachs said, there is an urgent need to communicate between ourselves about the issues of sustainable development on our common journey to a better future, in order to verify those aspects where there is consensus, and to explain those in which there is still disagreement. That is why, we at Hemofarm, through our sustainable development reporting, wish to share our experience, good examples and motivate other companies and individuals to move in the same direction.

All the Best,

Natalija Popović 
 Director of Strategy and Sustainable Development



The most important business topics in 2015



Hemofarm believes that both sustainable development and business development in general need a continuous and active dialogue with all stakeholders, especially the key ones. Therefore, the company has been encouraging the dialogue on all levels since 2012 when it started sustainable development reporting. The transition from G3.1 to G4 standards, within GRI reporting methodology, enabled further improvements of stakeholder dialogue. During 2014, senior management has identified the potential stakeholders who would be involved in the dialogue, and all relevant topics that might be of importance for the promotion of business and the company itself, were defined through teamwork. The first round of dialogue was successfully implemented in 2015, with the help of an independent consultant, which ensured the neutrality of all parties involved in this process. The realization methodology involved the use of: workshops, online surveys and 1-on-1 interviews.

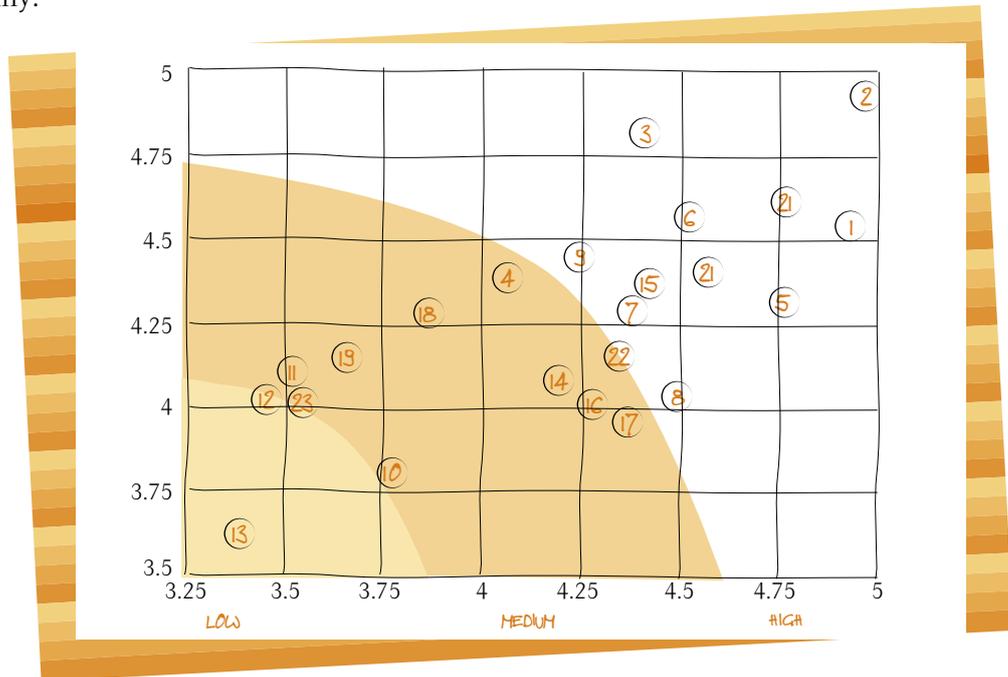
Stakeholders were invited to rank defined topics according to their personal opinion on the importance and relevance for Hemofarm's business. They were offered 23 topics within 6 key areas, such as:

1. Product integrity
2. Research and development
3. Relation to Employees
4. Environment protection
5. Managing and business ethics
6. Sustainable values

After a thorough consideration of all suggested stakeholders, it was decided that in the first round of dialogue should involve:

1. Doctors
2. Pharmacists
3. Suppliers - domestic and foreign
4. Media Representatives
5. Representatives of the Government and regulatory bodies
6. Employees

Out of 249 proposed participants, slightly more than 76% responded. Employees were selected randomly, through software, with the help and support of the HR Department. The pooled results of the ranking, which dealt with key topics for Hemofarm's business operations, were compared by senior management and all stakeholders involved, and the first materiality matrix was received. The matrix showed which subjects are recognized as the most important for the company:



- | | | |
|---|--|---|
| 1. Portfolio and product share | 9. Occupational health and safety | 17. Stakeholder management |
| 2. Product quality and safety | 10. Energy efficiency | 18. Human rights |
| 3. Raw materials | 11. Water and waste management | 19. Responsible suppliers management |
| 4. Storage and transportation | 12. Gas emission | 20. Product users satisfaction |
| 5. Development and registration of new products | 13. Climate change management | 21. Business performance (growth and development) |
| 6. Technological competences | 14. Compliance and anticorruption | 22. Organizational efficiency |
| 7. Employee relations/engagement, development, training | 15. Responsible marketing and communications | 23. CSR / investment in local community |
| 8. Corporate culture | 16. Risk and crisis management | |

On the one hand, results are not surprising, since the final rank of topics indicates the presence of specific features and sophistication of pharmaceuticals; while on the other hand, the low placement of topics such as Gas Emission and Climate Change Management is very surprising, and it testifies to the generally low level of awareness of environmental protection in Serbia. Nevertheless, Hemofarm feels social responsibility to encompass these issues in its report on sustainable development, and thus contribute to raising awareness of their importance, both for the population, and for the European integration of Serbia.

The first round of dialogue is only the beginning of a continuous process which will enable both Hemofarm and its stakeholders to achieve better understanding of their own businesses, as well as opportunities for improvement and better compliance with the principles of sustainable development. After each round of dialogue, the company will revise its areas for improvement both within core and non-core business opportunities.



OUR

COMPANY



COMPANY PROFILE

Management structure and principles

DIALOGUE AS AN ACCESS POINT TO SUSTAINABLE DEVELOPMENT

2015 BUSINESS OVERVIEW

Pharmaceutical market and basic financial indicators

Production





Company profile



Hemofarm is the leading pharmaceutical company in Serbia and the region. The most important task of the Company is the care about people's health, which is achieved through the production and sale of high-quality, efficient, safe and affordable generic pharmaceuticals. In 2015, Hemofarm has, once again, preserved its leading market position in Serbia.

Compared to the previous reporting cycle (Hemofarm Sustainability Report 2014), the biggest change in the structure of Hemofarm A.D. is the merger with the subsidiary company in Šabac. From January 1st, 2015 Hemofarm Šabac d.o.o. was merged into the parent company and operates within Hemofarm A.D. Integration of employees and all other resources was successfully implemented, without compromising business law and respect for employees, which will be further discussed in this report.

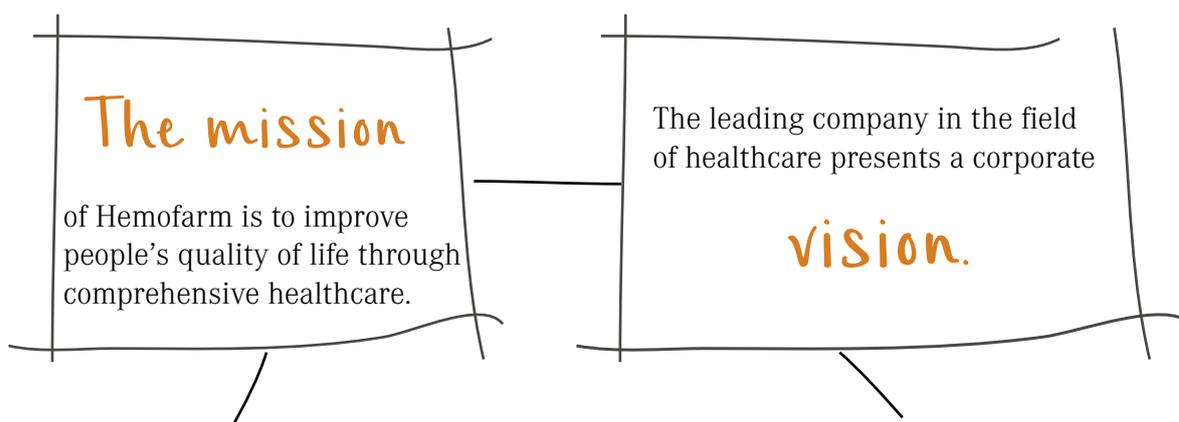
Management structure and principles

Market and regulations dictate the increasingly complex requirements on the one hand, while on the other, the development of modern society and living environment set up challenges for a better life. Hemofarm's management constantly searches for opportunities for the company's development in all dimensions - from strategic directions through portfolio optimization, organizational excellence and modern corporate culture. Improving production processes leads to better and more accessible products, where continuous scientific research and innovation performed by R&D Sector provide the opportunity for new therapeutic application of generic pharmaceutical products. In these and many other ways, Hemofarm tries, through continued development of its resources, to offer greater opportunities for improving human health.

As per its legal form, Hemofarm is a closed joint stock company, managed by the Assembly of Shareholders, which is the highest managing body in Hemofarm, and General Manager who is elected by the Assembly of Shareholders.

Besides the General Manager, Dr Ronald Seeliger, directors of the organizational sectors are the key members of senior management:

1. Saša Ostojić - Marketing and Sales Director
2. Sonja Pejović - Technical Operations Director
3. Dušan Milutinović - Financial Director



The overall approach to business at Hemofarm is based on its four core values:

care, quality, availability and trust.

integrated in the corporate slogan 'Svako dobro!' ('All the best'). In the future, corporate core values will be developed and changed in accordance with changes in corporate culture.

Hemofarm's business strategy is aligned with the principles of sustainable development and is based on three main aspects - commercial growth, organizational excellence and responsibility. Respect for the principles of sustainable development in all business segments enable these strategic aspects to be sustainable themselves and harmonized with economic, environmental and social factors of comprehensive development. Pharmaceutical product of significant quality, developed in Hemofarm, is one of the most important comparative advantages of the company. In accordance with its mission and vision, Hemofarm shifts the focus from treatment to prevention, trying to improve the quality of life and health. Therefore, the company based its operations on a rich and modern portfolio, which is a stable support to the health system, as the most adequate way to satisfy the needs of patients and users of pharmaceutical product.

Following the principles of the Organization for Economic Cooperation and Development, Hemofarm bases its business on 15 principles of corporate governance at all levels of the company: The prohibition of corruption, money laundering, abuse and discrimination, political and insider activity; Maintenance of financial integrity; Cooperation with the members of professional circles and amenable state bodies and institutions, Respect for the protection of competition; Mutual respect, tolerance, separation of interests; Maintaining the quality of products; Environmental protection; Health and safety, etc.⁶ Also, the company has, at the most, aligned its performance with the BSCI Code (Business Social Compliance Initiative)⁷ - a leading corporate initiative for improving working conditions of employees and the business environment as a whole, by promoting corporate social responsibility and respect for human rights, with delegation to the business partners, as well.

Hemofarm is a responsible company that respects local communities in which it operates. That responsibility is displayed also by active participation in the work of institutions and organizations focused on economic and social progress. Memberships in the most important business and professional associations (Serbian Chamber of Commerce, AHK - German-Serbian Chamber of Commerce, NALED, FIC, AmCham, United Association of Serbia for Quality (JUSK), European QP Association, American Society for Quality, Serbian Pharmaceutical Society and many others), enable Hemofarm to continuously keep up with and adopt the latest global trends in business operation. Also, it has an opportunity to directly participate in projects which essentially contribute to the development of the Serbian economy, healthcare system and society in general. CEO of Hemofarm, Dr Seeliger, as a president of AHK and a member of the Managing Board of the Serbian Chamber of Commerce, as well as senior management of the company, which participates in the work of these specialized associations in leading expert positions, give their best to share positive business experiences from Hemofarm, while improving international economic cooperation and the pharmaceutical industry in Serbia.

The economic - social engagement of Hemofarm was recognized and awarded not only by competent institutions, but also by the citizens of Serbia in 2015. Hemofarm was awarded several recognitions by official organizations (VIRTUS for Corporate Philanthropy by the Balkan Fund for Local Initiatives, '28th of April' Award for occupational safety and health and spreading the culture of prevention by the Ministry of Labour, Employment, Veteran and Social Issues, the 'Best of Serbia' award by the Serbian Chamber of Commerce), as well as by product customers, including the 'TOP SERBIAN BRANDS' for the best pharmaceutical corporate brand according to the choice of the citizens of Serbia, and the 'Best Buy Award' according to the votes of consumers for Vitamin B and tranquilizers as symbols of the best price-quality ratio in the local market.

⁶ <http://www.hemofarm.com/Binary/30216/Principles-of-conduct-Hemofarm.pdf>

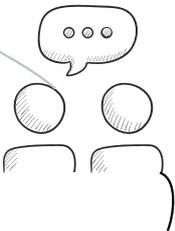
⁷ Achieved compliance is 97.6%, which was confirmed by the certification company SGS.



Hemofarm strives to be a transparent company, always ready to communicate with stakeholders. Internal communications are active on a daily basis, through a corporate mailing list, Intranet, bulletin boards, as well as through a quarterly newsletter for employees - 'Među nama' ('Among Us'). Our managers are always there for the employees, and all the colleagues are ready for dialogue. External communication, although conditioned by legal restrictions concerning communicating information on pharmaceutical drugs, are active on daily basis with business partners, representatives of the professional community, government sector, local communities, the media, etc. In 2015, Hemofarm continued to strengthen the relationship with its admirers through online social networks. In addition, the new website was launched, and its main objective is further development of transparency and better two-way communication. The concept and aesthetics of the new website are in line with modern online trends and technologies.⁸ All interested parties are able to contact Hemofarm through contact channels posted on the website or by svakodobro@hemofarm.com mail; the company strives to answer every inquiry with high quality and fast feedback information.

For Hemofarm, the security and stability in the performance of its daily activities is of highest importance. Therefore, the company, with equal attention, takes care of all of its production sites and commercial buildings, regardless of where they are. In addition to compliance with the legal framework and administrative requirements, the company accepts and applies demanding international standards, which is confirmed by the number of certificates relating to the pharmaceutical branch. One of the most important preventive and corrective corporate resources is - a centralized risk management system at the level of entire STADA Group. This system, which covers all the aspects of the company, is based on a software solution within which all the potential direct and indirect risks are classified. The software is regularly updated by quarterly review of all identified risks, and by their analyses and implementations of appropriate preventive measures.

⁸ <http://www.hemofarm.com>



Dialogue as an access point to sustainable development

According to law, Hemofarm has limited contact with the end customers of its products, mostly within Rx portfolio, but it performs its activities through a range of business partners, where some of the most important actors are suppliers, wholesalers and professional public (doctors and pharmacists). In order to better the performance of its activities, Hemofarm endeavours to regularly check the satisfaction of its business partners, their satisfaction about the business and about the products themselves, as this indirectly leads to the notions of satisfaction of end users. During 2015 Hemofarm continued with checking the satisfaction of its wholesale and contract manufacturing business partners. In addition to the dialogue with stakeholders with ranking of key topics, the company also organized a cooperation assessment with suppliers, doctors and pharmacists as well as representatives of Government, regulatory authorities and media. The goal was to identify the best areas for improvement of both Hemofarm and its partnerships.

Partners for whom, according to the contracts, Hemofarm manufactures pharmaceutical products, evaluated the production, packaging, quality control, completeness of technical documentation, stability studies, validation and transport. Partners from Macedonia, Croatia and Serbia gave a higher grade to prices of services than in the previous year, although the competition in the market is very high. The completeness of technical documentation, which last year was rated with one of the lowest scores, in 2015 was rated with the highest score. The contractual partners positively assessed the availability of certificates given by Hemofarm drives, while the average score in the assessment is 4 (out of a maximum 5), which is a great success.

The supply chain of the pharmaceutical market is one of the most important aspects of stability in the traffic of drugs. Therefore, each year, Hemofarm invites its wholesale partners to evaluate annual cooperation. Wholesalers have largely assessed that Hemofarm has more than sufficient breadth of assortment and a rich portfolio, cooperation was evaluated as stable and Hemofarm represents a stable business partner. Deliveries of Hemofarm's ordered products were assessed as excellent. When it comes to the process of introducing and presenting new products during the year, all survey participants responded that it is fast and efficient. Cooperation with Hemofarm's professional associates, their readiness for finding an efficient solution for all practical problems and possible complaints in the distribution chain, as well as providing technical support in joint marketing campaigns, were estimated very affirmative. All wholesalers have given the highest rating of social responsibility for Hemofarm's operations.

In December 2015, a survey for physicians and pharmacists was carried out in order to assess previous cooperation with Hemofarm, as part of the dialogue with stakeholders.

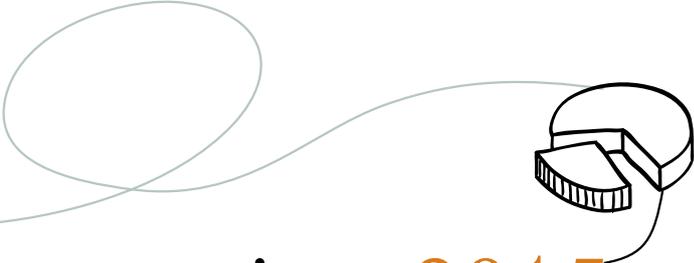


The survey was conducted on 50 general practitioners and on the same number of pharmacists from Hemofarm's Regional Centres: Belgrade, Novi Sad, Kragujevac and Niš. Some of the findings and recommendations of the survey, which followed the polls, workshops and exchange of experiences are: the taste of children's syrups could be further improved and portfolio could be further expanded; Hemofarm should consider re-branding packaging of the Rx segment, so the boxes of the products could be distinguished from each other, which would allow pharmacists easier identification and faster issuing of the drugs to the patient; experts pointed out the need for more intensive exchange of information about the latest scientific achievements in medicine and pharmacy; as well as more practical guides and pieces of advice for patients and users of OTC products and food supplements, in accordance with legal restrictions. Hemofarm would also consider options to improve bottles of ophthalmic drops by switching from glass bottles to plastic ones, as well as to develop a special scoop for easy dosing of syrups.

An important segment was given to suppliers in the study on customer satisfaction and business cooperation with Hemofarm. The survey covered business partners from Serbia who have, during workshops in the framework of the dialogue on sustainable development, filled in their answers, and each of them shared past experiences in an interview with the independent auditor. The survey also covered foreign partners as well, who were evaluating cooperation via an online questionnaire. In total, about thirty major suppliers were included, they positively assessed the cooperation with Hemofarm, and they positively assessed the expertise of Hemofarm's representatives whom they are in contact with. Respondents have also described very favourably Hemofarm's commitment to approach business with full respect for the principles of sustainable development. Some areas for improvement in Hemofarm were also identified within this process such as switching focus from short and mid to long term planning, with more efficient use of administrative and operational software systems and tools.

All business partners gave very positive assessment of the fact that they had a chance to evaluate the cooperation with Hemofarm and its representatives. After the assessment, all sectors were given the task to analyse the answers and scores, to look at all aspects of their work, as well as to propose strategic and tactical activities and initiatives, which will enhance their business domain. Senior management has, after reviewing all the aspects of potential improvements, initiated providing feedback information to the stakeholders and proposed concrete actions that would improve the company and joint cooperation.

Business overview 2015



Pharmaceutical market and basic financial indicators

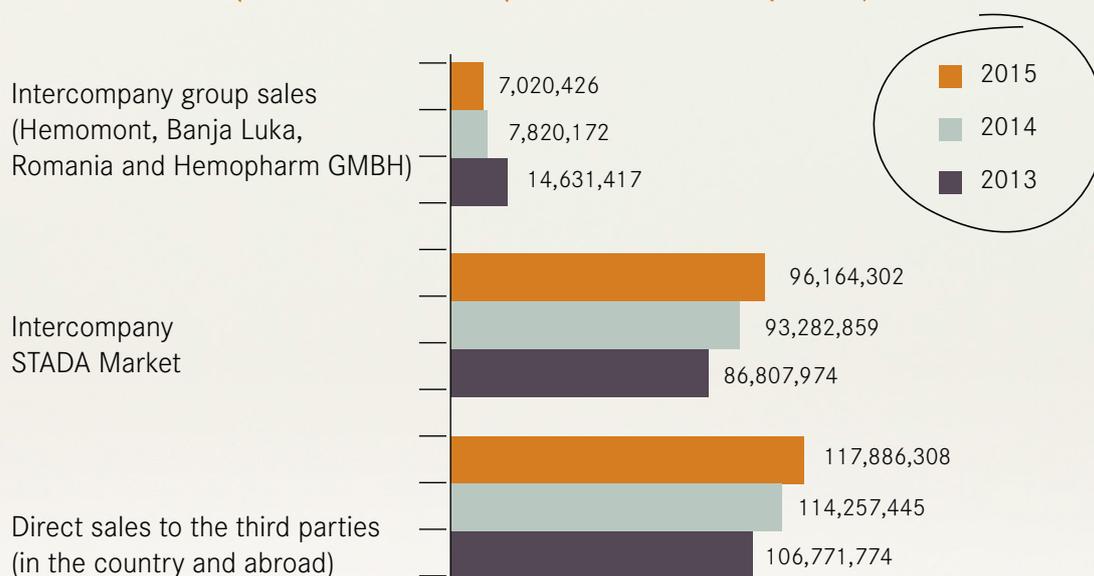
The participants in the pharmaceutical market of Serbia are: Ministry of Health, the Agency for Medicines and Medical Devices of Serbia (ALIMS), National Health Insurance Fund (NHIF), drug manufacturers, wholesalers, hospitals and health care institutions, drugs retailers, pharmacies and others. Comparing to other industries, the pharmaceutical sector in Serbia is relatively well developed. However, in recent years, the crisis has not spared even the pharmaceutical industry. Domestic manufacturers, such as Hemofarm, operating within the foreign parent company, represent one of the key factors of stability on the domestic market. At the same time, the stability of business operations of such companies is influenced by the opportunity to market part of their production portfolio on foreign markets, as part of business operations of the parent company.

During 2015, the negative impact of external factors on Hemofarm's business operations has continued, inherent to the current situation in the domestic pharmaceuticals market. However, despite all the challenges, the company recorded sales growth in 2015 of 5.71% for the amounts denominated in RSD compared to 2014.

in EUR	31 st , 2013	31 st , 2014	31 st , 2015
sales revenues	208,211,165	215,360,476	221,071,036

Compared to 2014, growth was recorded in the framework of intercompany sales at the level of STADA Group, as well as in the framework of sales to third parties in the country and abroad, while the markets of intercompany Hemofarm Group, for the third year in a row, experience a decline in revenues. This decline in the reported incomes is the result of the centralization of sales on the market of Montenegro since 2013, when sales started to be performed directly to third parties, and not through a subsidiary Hemomont d.o.o. Podgorica. Since 2014, the Romanian market has become the responsibility of the legal entity associated with the STADA Group in Russia, which has also contributed to the reduction of sales in the market of the intercompany Hemofarm Group.

BREAKDOWN OF SALES 2013-2015 (in EUR)



Directly generated value increased by 7.72% for the amounts denominated in RSD compared to 2014, due to growth in sales revenues and incomes from dividends. Distributed economic value has also increased comparing to 2014. Changes in both indicators are conditioned by status changes - in January 2015 Hemofarm d.o.o. Šabac merged with Hemofarm A.D. Vršac.

Figures from audited reports as at December 31st, 2015

in 000 eur	2014	2015
Directly generated value	215,600	225,511
Distributed economic value	184,185	192,686
Operating costs	141,372	144,497
Employees' salaries and other compensation	36,307	41,715
Interests on borrowings	1,862	1,897
Taxes	3,972	3,667
Investments in the community	672	910
Increase of the economic value of the company	31,415	32,825

Since the percentage of revenue growth is higher than the percentage increase in expenses, Hemofarm has achieved in 2015 an increase of economic value by 7.6% for the amounts denominated in RSD.

In 2014, Hemofarm has started the implementation of the ten-year use of tax incentives, which will result in significant savings for the company in the future. In 2014, this implementation made savings of 600 thousand euros, while in 2015 it will amount to 980 thousand euros. The total planned savings for the period 2014-2017 year will amount to 5.7 million euros.



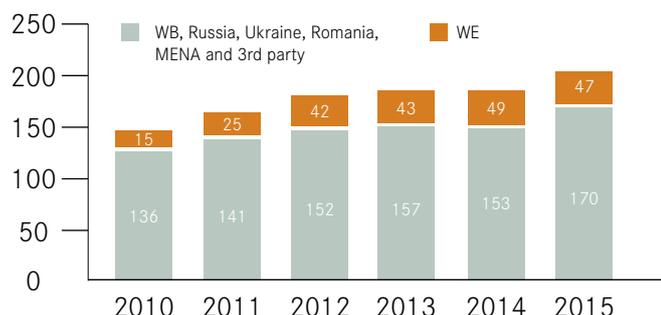
Production

During 2015, in all Hemofarm's factories, a total of 4.31 billion units of products have been produced. Of the total number of units produced, 3.93 billion, or about 90%, are solid forms - tablets, film-coated tablets and capsules (Vršac, Banja Luka and Šabac).

During 2015, Hemofarm has packed 216.5 million packages of finished products in various pharmaceutical forms, which is a new record in Hemofarm's history (7% more than in the previous year, which was also a record year). Also, the production facilities: Banja Luka, Dubovac and Vršac (Sterile products drive) achieved a record production since their establishment. At the same time, the number of complaints decreased by almost 15% compared to 2014. According to the production structure forms in 2015, the dominate form were the tablets (96.45%), followed by ampoules (1.95%), infusions (0.86%), suppositories (0.26%), lyophilizates (0.24%), syrups and solutions (0.13%) and ointments and gels (0.11%).

During 2015, Hemofarm production facilities were subjected to 31 external inspection (Ministry of Health of the Republic of Serbia, European national agencies and most important FDA inspections). Solid Dosage Forms Plant in Vršac has delivered 70% of the total units produced to the EU market. Total savings on projects implemented in 2015 amounted to 425,000 euro.

Realization in packages (in millions of packages):



Realization in the units - TPU (in millions of units):

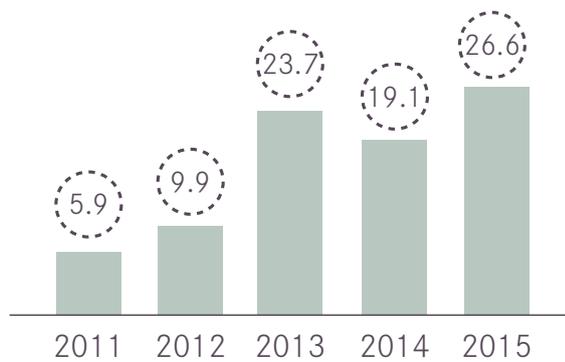


In 2015, there has been further growth of complexity - portfolio comprises of 2,042 different products, which is by 3% more than in the previous year. This is the largest complexity in the half - century long history of Hemofarm.

In September 2015, after successful qualifications, the Department of ampoules at Sterile products plant was put into operation. During the year, World Bank experts carried out an analysis of the energy efficiency of resource use in Vršac and Šabac drives. The analysis showed that Hemofarm is in the top 20% of the world's pharmaceutical companies in reference to this aspect. Although Hemofarm has been recognized as an energy efficient company, it continues to address all the recommendations that will further improve energy (and any other) efficiency, with the continuing trend of reducing harmful emissions, which are already below the statutory minimum.

Achievement of record production would not be possible without major investments and strategic investments.

Investments (in mln EUR)

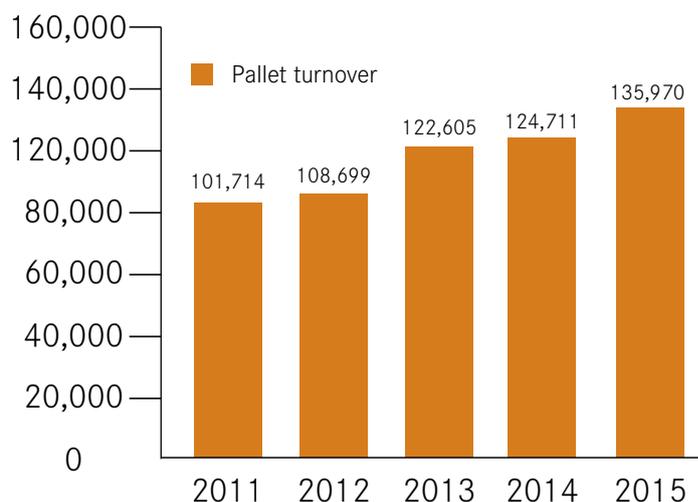


Since the 2006 acquisition of Hemofarm, STADA has invested over 200 million EUR in the development of the company, and 2015 investments were focused on:

- Modernization of drives (Vršac, Šabac, Banja Luka, Dubovac),
- Expansion of capacity and the transfer of STADA products,
- Laboratories (R&D, new laboratory in Timisoara, microbiological control),
- Implementation and development of the SAP system at Hemofarm level.

Hemofarm complies with all legal and GMP⁹ regulations, pursuant to which it utilizes the most modern storage equipment depending on the conditions, capacity and types of materials stored, and applies maximum protection at work, including environmental protection. Due to the constant increase in production and the quantity of stored material, the company is constantly increasing the efficiency and utilization of storage space, which is best evidenced by implemented projects such as the construction of a new mobile racking storage of packaging material in the warehouse in Dubovac, installing additional shelves, safety cage, as well as the installation of a new cooling chamber in Dubovac and Šabac.

In order to achieve quality delivery of products to a network of wholesalers, while respecting the demands of GDP during 2015, Hemofarm continues cooperation with its carrier network. The total number of delivered pallets of finished products is constantly increasing in recent years:



During 2015, in accordance with the highest level of safety and limited availability, there were no cases of unauthorized disposal of any type of material, especially narcotics. Almost the entire internal transportation system is based on automated rack cranes and electric forklifts; the fleet has been significantly renovated in 2015; security aspects and reduced greenhouse gas emissions are important decisive factors for the

selection and procurement of vehicles and machinery, mentioned above.

Since Hemofarm exports much of its production portfolio, simplified customs procedures, so called “Home Customs Clearance”, represent additional relief for fast and efficient transport and distribution of products. Hemofarm is the first company in Serbia that has the status of authorized economic operator type F. This most prestigious authorized status is assigned by the Customs Administration of Republic of Serbia which provides easier and faster customs clearance procedures. It accelerates the marketing of products, while increasing product competitiveness and efficiency of operations. This is the best confirmation that Hemofarm is a stable and reliable partner in foreign trade activity of Serbia.

⁹ Good Manufacturing Practice - ‘good manufacturing practice’, operation of the production and opinions in a way that makes it possible to provide adequate quality of products. Good Distribution Practice - ‘Good Distribution Practice’ - a system that guarantees quality during storage, transport and distribution.





OUR COMMITMENT TO HEALTHCARE

MAKING HEALTHCARE ACCESSIBLE

QUALITY WITHOUT COMPROMISE

From high-quality raw materials to high-quality products

Quality control and assurance

RESEARCH TOWARDS CONTINUOUS DEVELOPMENT

Research and development (R&D)

Operational excellence and project management

SAFE PRODUCTS ONLY

Side effects and reclamations



Health is
most important!
Let us all together make
it more available!

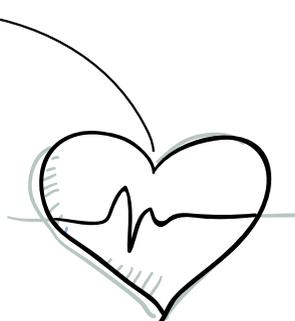
Hemofarm actively monitors the clinical picture of Serbia and the situation in the pharmaceutical market in order to realize the right needs of patients and users of pharmaceutical products. Therefore, it continuously optimizes its rich portfolio which includes medicines that are dispensed on prescription (Rx), drugs that can be purchased without a prescription (BR or OTC - Over-the-counter) and dietary supplements, which are becoming more and more popular. In this way Hemofarm gives its best to provide both doctors and patients quality treatment for chronic and acute diseases.

Realizing the interaction between the modern lifestyle and various risk factors, more intensively than ever Hemofarm is shifting its focus from treatment to promotion of health, thus encouraging the development of healthy lifestyles. This approach, combined with development of personal responsibility, could reduce health risks, while the health system could become sustainable. Prevention saves resources, making them available for treatment when they are most needed. Hemofarm therefore provides practical advice for improving health, the immune system and life quality through a handful of useful tips in the 'Health Corner', a sort of counselling for patients, and on websites dedicated to individual products, as well as through social networks.¹⁰ In 2015 Hemofarm launched new websites for particular products: syrups pallets Bronhoklir (www.bronhoklirsyrups.rs), aimed at resolving cough symptoms, and children's 'Lekovito carstvo' (Medicinal empire - www.lekovitocarstvo.rs) as well as vitamin B complex - Polivit B (www.polivitb.rs).

Human health is a basic human right for Hemofarm and the company offers the following ways for fulfilling that right:

- Pharmaceutical products of distinctive quality, that are safe, effective and accessible,
- Reliable, proven and scientifically validated information about the adequate implementation of pharmaceutical products through responsible marketing,
- Continuous education of doctors and pharmacists, as well as advising users of the products.¹¹

In addition to a rich portfolio of pharmaceutical products covering the widest range of preventive and therapeutic indications, Hemofarm is trying to make its products closer to doctors, pharmacists, patients and customers - 'at their fingertips', thus making healthcare 'accessible'.



¹⁰ <https://www.facebook.com/SvakodobroHemofarm/>

¹¹ According to Law.

Making healthcare accessible



According to official data¹² chronic non-communicable diseases are still predominant in the national pathology - diseases of the heart and blood vessels, cancer, diabetes, chronic obstructive pulmonary disease, injuries and poisoning, mental illnesses, etc. In the past year more than half of all death cases occurred from cardiovascular diseases, and almost every fifth person died from a malignant tumour. Official statistics confirm that the leading causes of death in Serbia are almost identical to those in the developed parts of the world. Predictions for the development of the pharmaceutical market in Serbia until 2020 are potentially heading in the following directions: anticipated growth in the segment covering the respiratory system (mostly due to the increased exposure to risk factors), as well as in the segments covering the alimentary tract and metabolism (leading therapies for diabetes), stagnation is anticipated in the areas of the muscle skeletal system and systemic anti-infective drugs, as well as decline is anticipated in the segment covering cardiovascular system (stagnation in the quantities / boxes of drugs in therapy).¹³

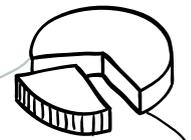
Despite the reduction in drug prices, which led to a slight decrease in the value of sales transactions (in relation to 2014), Hemofarm has kept its leading position in the Serbian pharmaceuticals market in 2015 as well (according to IMS database without CHC markets):

Top 10 manufacturers in Serbia (units) 2015

manufacturer	2014	2015	growth	ms%
Hemofarm	71.8	78.0	8.6%	34.7%
Galenika	18.6	21.9	17.5%	9.7%
Alkaloid	13.5	14.9	10.7%	6.6%
Actavis	15.7	14.3	-8.9%	6.3%
Pharmaswiss	10.5	11.1	5.4%	4.9%
Sanofi	6.0	8.1	35.8%	3.6%
Krka	5.1	7.2	41.0%	3.2%
Glaxosmithkline	4.6	4.6	0.0%	2.0%
Bayer	5.2	4.5	-13.3%	2.0%
Mylan	3.6	4.2	17.7%	1.9%
TOTAL	209.9	222.0	7.2%	100%

¹² Health-Statistical Yearbook of the Republic of Serbia 2014, 'Batut' Institute for Public Health.

¹³ According to internal IMS study initiated by Hemofarm.



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Taking into account the clinical picture of Serbia, Hemofarm covers the following pharmacotherapeutic group (of 14 groups) with its products:

- **A** - Alimentary tract and Metabolism
- **B** - Blood and Blood forming organs
- **C** - Cardiovascular system
- **D** - Dermatology
- **G** - Genito-urinary system and Sex hormones
- **H** - Systemic hormonal preparations, excluding sex hormones and insulins
- **J** - Anti-infectives for systemic use
- **M** - Musculo-skeletal system
- **N** - Nervous system
- **R** - Respiratory system
- **S** - Sensory organs

ATC - TPM i Hemofarm

ATC 1	TOTAL			HEMOFARM		
	growth 15/14	MS 2014	MS 2015	growth 15/14	MS 2014	MS 2015
C Cardiovascular system	12.8%	26.2%	27.6%	1.3%	38.3%	34.4%
N Nervous system	4.7%	21.1%	20.6%	10.5%	35.4%	37.4%
A Alimentary tract i metabolism	8.3%	11.8%	12.0%	11.4%	31.1%	32.0%
B Blood and blood forming organs	-0.5%	12.2%	11.3%	23.1%	47.0%	58.1%
M Musculo-skeletal system	3.3%	7.8%	7.6%	-0.1%	31.3%	30.3%
R Respiratory system	5.9%	6.8%	6.7%	6.9%	19.7%	19.9%
J Antiinfectives for syst. use	12.0%	6.0%	6.2%	15.8%	36.9%	38.2%
G G/urinary syst. and sex hormone	10.3%	2.3%	2.4%	-13.5%	13.3%	10.4%
D Dermatologicals	-0.4%	2.3%	2.1%	-12.5%	15.9%	13.9%
S Sensory organs	8.2%	1.8%	1.8%	-10.0%	27.2%	22.6%
H Syst. horm. prep. excl. sex. horm	13.4%	0.9%	0.9%	-10.6%	15.3%	12.0%
L Antineoplastic and immunomod ag	4.2%	0.6%	0.6%	7.3%	0.046%	0.048%
P A/parasitic prod. insect. and repel	17.0%	0.1%	0.1%			
V Various	-15.8%	0.1%	0.1%	-100%	0.007%	0.000%
GRAND TOTAL	7.2%	100%	100%	8.6%	34.2%	34.7%



During 2015, top three drug groups in Hemofarm's sales (Rx, excluding infusion hospital portfolio of B segment¹⁴) were cardiovascular system (C), nervous system (N) and anti-infectives for systemic use (J), financially, as follows:

ATC 1	ATC 2	Increase in number of boxes 2015 vs 2014	Increase in EUR 2015 vs 2014
C	/	1.3%	-10.7%
	C07 beta blocking agents	16.6%	-2.10%
	C10 lipid modifying agents	30.7%	-11.5%
N	/	10.5%	0.9%
	N02 analgesics	27.2%	27.1%
	N06 psychoanaleptics	84.9%	16.9%
J	/	15.8%	-9.1%
	J02 antymycotics for systemic use	97.1%	25%
	J01 antibacterials for systemic use	15.2%	-9.4%

¹⁴ B segment includes mostly infusion solutions and Midol 100 which is OTC, so B segment is not taken as an example.



Hemofarm's share in key therapeutic groups



Solutions for infusion

electrolytes; amino acid solutions

OTC

Febricet, Polivit B, Magnetrans, Pressing, Panlax, Midol, Hepathrombin, Lekovito carstvo, Bronhoklir, Gripostad, Caffebol, Rinasek, Kamistad baby

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 infraction 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

Although early detection largely prevents cardiovascular diseases, they remain the leading global cause of death. In accordance with the World Health Organization guidelines, the most reliable answer to this fact lies in the correction of habits and behaviour for patients with increased risk factors (quitting smoking, increased physical activity, reducing obesity). By realizing the importance of improving health and reducing the risks of developing disease, Hemofarm offers medicines obtained without a prescription and dietary supplements and continuously contributes to the education of doctors and patients.

Leading Hemofarm drugs on the Serbian market which are issued on a doctor's prescription (according to INN)¹⁵ are:

According to the number of boxes / packages		According to sales, EUR	
• bromazepam	• glucose	• bromazepam	• enalapril
• saline	• izosorbidmononitrat	• saline	• azitromicin
• metformin	• enalapril	• metformin	• metilprednizolon
• lorazepam	• bisoprolol	• lorazepam	• propafenon
• metoprololtartarat	• Ringer's solution	• metoprololtartarat	• bisoprolol

Hemofarm preparations obtained without a prescription (OTC) continue to hold a leading position in the Serbian pharmaceuticals market, with a share of 25.5% in packages / boxes, which represents an increase of 17% comparing to 2014, or 19.4% share in sales (an increase of 15% compared to last year).



¹⁵ IMS data base for 2015

Most used preparations from Hemofarm's OTC portfolio in Serbia are:

According to the number of boxes/ packages		According to sales, EUR	
• Midol 100	• Panlax	• Midol 100	• Ranitidin 75mg
• Febricet	• Rinasek	• Pressing	• Magnetrans
• Nafazol	• Ranitidin 75mg	• Nafazol	• Rinasek
• Pressing	• Midol 300	• Febricet	• Hepathrombin cream
• Caffebol	• Ibuprofen 400mg	• Panlax	• Caffebol

The modern way of life leaves less time for people to pay attention to themselves and their own health, while risk factors are increasingly prevalent. Therefore, by offering OTC products and nutritional supplements Hemofarm endeavours to facilitate people in taking care of themselves and improving their own health.

Vitamins from the B group are necessary for the normal maintenance of physiological and metabolic processes in the human body and have a positive effect on the function of the skin, the mucous membranes, of the nervous, cardiovascular and immune systems. Hemofarm's Polivit B meets daily needs for vitamins B, compensates for their lack in nutrition and contributes to the maintenance of normal physiological and mental function, alleviating fatigue and exhaustion, reducing the risk of nerve damage and increasing the efficiency of energy metabolism.

Hemofarm's medicine 'Febricet' (paracetamol) is used for: the treatment of mild to moderate pain such as headaches, migraine, neuralgia, to relieve pain in teething children, toothache, sore throat, lowering fever that often accompanies cold, influenza and paediatric infectious diseases (chicken pox, whooping cough, measles and mumps), to relieve menstrual pain, symptomatic relief from strains, sprains and rheumatic pain. Under the Febricet brand, which belongs to the OTC portfolio, several different forms customized for therapeutic needs in children and infants, and adults (syrup, tablets, effervescent tablets, suppositories) are present in the market.

Prolonged standing, improper posture, and primarily poor circulation are the most common causes of swollen and tired legs. Brisk walking and moderate physical activity can help to remove the swelling, as well as regular use of Hepathrombin, one of Hemofarm's best known products, which contributes to the establishment of good circulation, increases the strength of venous walls, mitigates pain and swelling, reduces the feeling of heaviness in the legs.

Hepathrombin helps to regenerate tissue, it is used in the prevention and treatment of the 'varicose veins' condition and superficial thrombophlebitis, and for the relief of symptoms in superficial bruises and hematoma.

Regular use of Hemofarm's Midol 100 has impact on reducing the risk of the first myocardial infarction in people with risk factors for development of cardiovascular disease, such as diabetes, hyperlipidaemia, hypertension, obesity, smoking, old age, etc. It also contributes to reduction of mortality risk in patients with cardiovascular disease.

Magnesium is a mineral essential for a balanced exchange of electrolytes, as well as for the normal function of nerves, muscles, it helps the heart, blood vessels and enhances the effects of vitamin C. Magnesium plays an important role in stabilizing blood sugar levels and its transformation into energy, and is therefore especially recommended in larger quantities for athletes. In order to improve health, Hemofarm has developed Magnetrans in its portfolio, a product that provides a daily dose of magnesium and is characterized by ease of consumption, as well as Vitamin C (900 mg and 1000 mg).

Artificial lighting, wearing contact lenses, computer radiation, television screen radiation, air-conditioning, smoky rooms, wind, pollution, those are just some of the factors that can cause the 'dry eye' syndrome every day. For the proper care of the eyes, in its ophthalmologic part of its portfolio, Hemofarm presents Hemodrops eye drops - artificial tears, which are used locally for the prevention and treatment of dryness and eye irritation, which are associated with decreased production of tears.

Some of Hemofarm's OTC drugs that are widely used in everyday life for many years are:

- Drugs that provide rapid assistance to patients in the elimination of symptoms of cold and flu: Grippostad, Febricet, Rinasek, Omnitus, Mucodyne,
- Drugs that provide assistance with allergies: Pressing, Nafazol nose drops, Snoop nasal spray,
- Drugs that provide assistance with gastrointestinal (stomach) problems: Ranitidine, Panlax, Lactulose, Peptic aid,
- Drugs that provide assistance for the treatment of pain: Caffebol, Midol 300, Febricet.

In 2015, Hemofarm launched its 'Health Corner' project. The aim of this project is to better understand the needs and desires of Hemofarm products' users, through conversations in the waiting rooms of health centres and pharmacies. In addition to building and enhancing mutual trust, the project has resulted in:

- Educating end users about the importance of correct and timely use of dietary supplements,
- Unburdening physicians of patients' many questions related to advice about taking dietary supplements, whose number is increasing on the Serbian pharmaceuticals market,
- Eliminating or mitigating the negative effects brought about by self-medication, which in recent years in Serbia occupies an important place in society and the healthcare system.

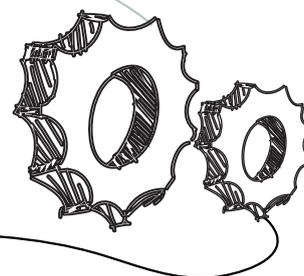
Hemofarm's Sales and Marketing Sector respects the moral and legal guidelines of responsible marketing which is based on the principles of sustainability; this is especially important because of the risk in the area in which Hemofarm operates here, irregular and uncontrolled use of products may be dangerous to human life. Activities of this sector are regulated by domestic and international legislation, but also by ethical rules that govern the sale and marketing of pharmaceutical products, as well as internal STADA Group corporate policies.



Hemofarm's leading market position stands primarily in the service of the patients' health, and is reflected through constant communication and interaction with all market participants, with professionals and the general public. The exchange of technical information about products and the latest therapeutic guidelines represent a platform for communication between the Marketing and Sales Sector and healthcare professionals (doctors, pharmacists), but also serves as a platform for communication with the general public to the extent afforded by law. Also, for Hemofarm the availability of pharmaceutical products is an imperative, because only if the medicine is fully available to the patient, the therapy makes sense. In Serbia there are about 3,300 public and private pharmacies, as well as 38 Health centres, which have their own pharmacies within their infrastructures. Hemofarm's complete portfolio of products is available to users and patients in all these pharmacies throughout Serbia. Hemofarm is trying to develop good business relationship with all health centres and pharmacies, regardless of whether they are public or private. Also, the company does not make a difference in the geographical positioning of medical and pharmaceutical institutions with which it cooperates, thus enabling the same therapy at each patient's fingertips.

Beside the maximum level of product availability, Hemofarm, together with its business partners in the supply chain, strives in every possible way to avoid shortages of its products. Rich portfolio and availability of Hemofarm's products, which are synonyms for pharmaceutical quality and reliability, is a kind of support for the entire health system, because the company offers treatment for all the biggest health risk factors in Serbia.

Quality without compromise



Pharmaceutical quality is a complex category that includes a range of activities, operational procedures, standards, etc. with one common goal - to ensure a good and reliable product! Since pharmaceutical products, directly or indirectly, influence a human life, their quality and safety must be uncompromised. Also, they must be suitable for adequate and precisely prescribed purposes. Quality assurance for Hemofarm starts by purchasing the best raw materials from which the drugs are made, and its ultimate dimension is successfully completed therapy. Quality is really the most important reason why physicians choose Hemofarm's products for therapy, and patients and users prefer its OTC portfolio.

Today, the biggest threat to quality is the increasingly frequent occurrence of counterfeit pharmaceutical products worldwide that affects both health and life of people, as well as pharmaceutical manufacturers. Therefore Hemofarm preventively monitors the market and so far had no recorded cases of counterfeiting products from its portfolio, and during 2015 none of Hemofarm's products were banned in the domestic or international markets.

From high-quality raw materials to high-quality products

For Hemofarm, raw materials are one of the most important baselines from which pharmaceutical products originate. The specificity and complexity of the procurement is reflected in finding and providing pharmaceutical raw materials of adequate quality, because it largely reflects on the quality of the finished product. Often the supply of such raw materials is very limited and based on a small number of specialized foreign suppliers. Despite these challenges, Hemofarm is striving to give priority to quality as the most important criterion during the procurement procedure; all the suppliers and service providers, regardless of their geographic location, receive equal opportunities and are treated equally.

Group of materials	Domestic market in %	Foreign market in %	% of stake
raw materials	4.76	95.24	58.25
packaging	59.80	40.20	15.47
in bulk / GP	15.44	84.56	8.79
investments	63.68	36.32	7.02
services	94.57	5.43	5.29
other	84.50	15.50	5.18
GRAND TOTAL	27.23	72.77	

In 2015, local suppliers were represented with 27% in the total cost of purchased materials. These vendors are not located very far from the location of the Hemofarm company, such as Vršac Technology Park.¹⁶ The advantage of the local market lies in lower transport costs and lower insurance of goods, shorter deadlines for delivery of a smaller number of goods, which directly leads to reduction of storage costs and reserves. It also allows for a quicker response to urgent procurements, lower costs of procurement due to the proximity of business partners, bigger procurement reliability, easier communication and 'just-in-time' procurements.

When choosing a supplier Hemofarm takes into consideration the quality of the goods, which are determined by the purchaser (i.e. Hemofarm in this case), that the price of the goods is acceptable, that the supplier respects deadlines, and provides useful support, service and necessary information. The potential supplier has to take responsibility for potential problems, meet the needs of the purchaser and provide information about problems with the procurement, as well as to respect the rights of its employees, show social responsibility and maintain the stability of its financial position.

Domestic suppliers have been engaged for the purchase of package materials such as: paper packaging, wood packaging, plastic packaging, etc. They were less engaged in the purchase of raw materials which can be explained by the specific activity of the company and lack of Serbian producers of raw materials which could be used in the pharmaceutical industry.

The biggest share in procurement value is reserved for raw materials (around 60%), while the share of packaging stands at nearly 15%, 'in bulk'¹⁷ and finished products stand at 9%, while the rest goes for investments, services and other.

¹⁶ Initiated in cooperation with local government and Hemofarm; it has enabled many companies to produce and sell their products in a modern, efficient and economical manner in the vicinity of those who need their products; Proximity to the border with Romania provides special potential for sales of goods and services in the EU; More information on the official portal of the Municipality of Vršac: http://www.vrsac.com/active/sr-latin/home/aktuelno/privreda/tehnoloski_park.html

¹⁷ This is a semi-finished product that has passed all stages of the production process, or preparation, including packaging and inner packaging, other than packaging the drug in the outer carton.

Categories	% in 2014	% in 2015
Raw materials	50	49
Glass packaging	5	11
Paper packaging	23	20
Wood packaging	14	12
Metal packaging	2	1
Plastic packaging	6	7

The entire procurement that consists of active and auxiliary raw materials stands at 6.7 thousand tons, while the amount of procurement of glass packaging stands at 1.5 thousand tons. The amount of procurement of paper packaging stands at 2.8 thousand tons, wooden packaging at 1.7 thousand tons, metal packaging 200 tons and plastic packaging 990 tons.





Quality control and assurance

The core of Hemofarm's business operations reflects development, production and marketing of high-quality, efficient, safe and available pharmaceutical products, distinctive in relation to the competition. The best measure of success for such a product is provided by the users themselves: patients and healthcare professionals – doctors and pharmacists.

Hemofarm's Corporate Quality Policy¹⁸ is the starting point for compliance with domestic and international regulations, with guidelines that define the pharmaceutical branch and contracts with business partners¹⁹:

¹⁸ Available at Corporate internet presentation www.hemofarm.com ¹⁹ The guidelines of Good Manufacturing Practice (EU GMP8); Pharmacopoeia Regulations; National, European (EP), the US (USP), British (BP) and other relevant pharmacopoeia requirements; ICH9 regulation (International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use - The International Organization for harmonization of technical requirements for registration of drugs intended for humans), as well as other relevant international standards.

Hemofarm's quality principles:

1. All of us at Hemofarm are committed to ensuring product quality, and the management is responsible for its permanent maintenance at all levels.
2. Product quality is crucial for our patients and customers, doctors and pharmacists, our families and the community in which we live and work.
3. We achieve product quality through maximum consistency and continuous compliance with the highest pharmaceutical industry standards, as well as through focus on continuous development and preventive elimination of all possible risks.

Expanding capacities and improving specialized equipment and resources, with simultaneous savings of operating costs were the main motives for reorganization of Quality Control (QC) and Quality Assurance (QA)²⁰ within the Quality Division (2014). The development of a new division has enabled the company to increase its scope of activities in relation to the parent company and foreign markets, providing quality that is worthy of European and world standards. New Quality²¹ building, an important project in 2015, is the logical consequence of the process of increased opening to the STADA Group and EU.

The new facility harmonized with the state-of-the-art requirements of energy efficiency, will enable all QA/QC organizational units to be in the same place (except for the Microbiological laboratory). Adequate space (which is also the GMP requirement), higher satisfaction of employees and possibility of improving the efficiency and organization of work are excellent preconditions for establishing a lean organization and modern approach to work of QA/QC. The beginning of work of chemical laboratories and laboratories for quality control of packaging materials, equipped with the latest equipment, is planned for the second half of 2016.

The company strives to be maximally open and transparent, as we expect it from our business partners. Advocating adequate product quality, the company also carries out internal monitoring of its production sites, and is always ready for external audits by domestic and foreign competent authorities, certification companies, auditors and others. Therefore, the best quality assurance, in addition to our customer's trust, is compliance with the requirements of good manufacturing practices and standards ISO²² 9001: 2008 and ISO 14001: 2004. The list of certificates that Hemofarm possesses was amended in relation to 2014 with positive findings of the inspections:

- German Inspectorate for Medicinal Products of Darmstadt Region - production of solid dosage forms (Solid forms drive) and liquid pharmaceutical products of small volume (Injection products / Department of injection solutions) in Vršac.

²⁰ QC/QA - Quality Control / Quality Assurance

²¹ Building on 7,000 m² as a greenfield project

²² ISO (International Organization for Standardization)

External Inspections in Hemofarm A.D. during 2015:

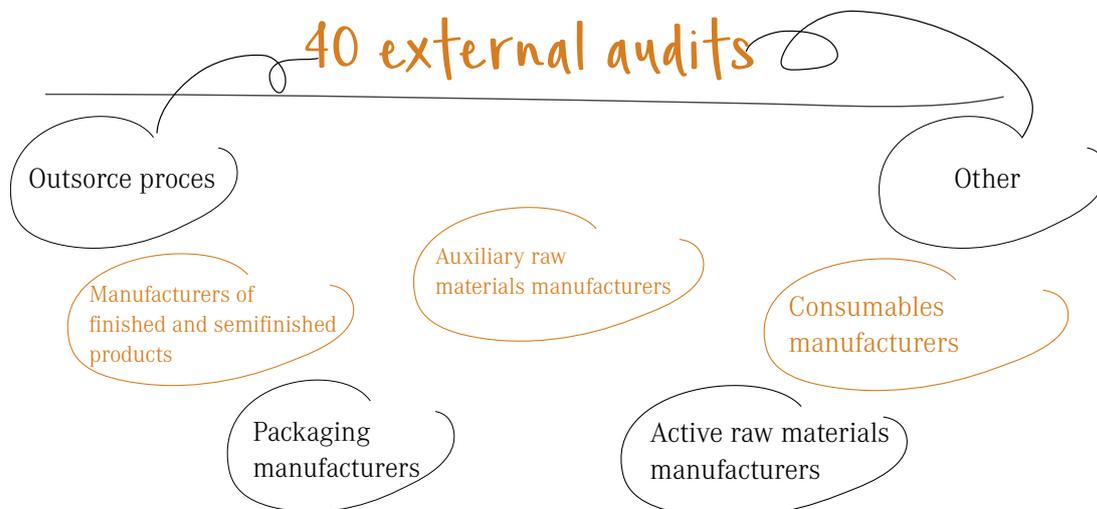
31 inspections

<u>Šabac</u>	<u>Banja Luka</u>	<u>Podgorica</u>	<u>Dubovac</u>	<u>Vršac</u>
<ul style="list-style-type: none"> • SGS (1) • Contractors (1) • Regulatory inspections (2) • Other (2) 	<ul style="list-style-type: none"> • SGS (1) • Regulatory inspections (1) 	<ul style="list-style-type: none"> • SGS (2) • Contractors (1) • Regulatory inspections (1) 	<ul style="list-style-type: none"> • SGS (1*) • Contractors (1) • Regulatory inspections (4) 	<ul style="list-style-type: none"> • SGS (1*) • Contractors (3) • Regulatory inspections (10)

* Joint Inspection (Vršac i Dubovac) and the first ISO 18001 Inspection for Šabac drive

- German Inspectorate for Medicinal Products of Sashsen Anhalt Region - production of infusion solutions (Sterile products drive / Department of infusion solutions) in Vršac;
- Agency for Medicines and Medical Devices of Montenegro (CALIMS) - secondary packaging of cephalosporin in Hemomont d.o.o. Podgorica;
- Agency for Medicines and Medical Devices of Bosnia and Herzegovina - production of solid forms in Hemofarm d.o.o. Banja Luka;
- The Ministry of Health of the Republic of Serbia - Dubovac Antibiotics drive and Šabac drive;
- German Inspectorate for Medicinal Products of Darmstadt Region - Šabac drive.

In 2015 Hemofarm renewed its US FDA certification, one of the most stringent certificates, that allows product placement in the United States.



The company constantly implements prevention, identification, investigation and reporting of non-compliances, through all stages of the production cycle and product life. Hemofarm more intensively applies new technologies, IT/software, automated and automatic computerized systems, with the growing trend of electronic data management. Accordingly, in 2015 there was a major optimization in total number of distributed and archived copies of production records, with a significant cost, printing paper and related supplies reduction. Since 2013, Hemofarm monitors environmental trends (quality of the environment in production) by using specific software; the company is constantly improving this system and extends it to a larger number of production sites and facilities. In 2015, the system for the identification of raw materials through packaging in containers, without sampling (which was previously required) was introduced. Also, Hemofarm reduced consumption of testing materials and testing life for a total of 178 hours.

Despite all the measures and standards of control and quality assurance, two cases of Hemofarm's product recall from the market were recorded in 2015. The first was an antiepileptic carbamazepine - it happened as a result of preventive measures implemented at the level of European legislation (CEP)²³, although adequate laboratory tests proved no deficiencies with the product. Also, there was a product recall of a specific batch of tablets and syrups based on pseudoephedrine + triprolidine intended for symptoms of nasal congestion and sneezing. This was due to the findings of the analysis of random samples from the sales chain by ALIMIS, performed as part of regular activities and assessment of all the pharmaceutical products available in the domestic market. Detailed testing and repeated investigation verified that the cause of suspected deviation in the composition, as suggested by ALIMIS, was not present due to impaired quality of the product structure, but due to different methodologies of laboratory analysis, which did not compromise patients' safety. The public was informed in time about these recalled/replaced products and, most importantly, no consequences were recorded.

In 2015, Hemofarm achieved new records in production, which was largely made possible through Control and Quality assurance. Along with Manufacturing, R&D and Procurement Sector, the Quality Sector contributed to the creation of a quality portfolio through the following activities: working with raw materials for the production, testing of samples in Serbia and the EU, launching of finished products mainly to the markets of Bosnia and Herzegovina and Serbia, continued development of quality management, as well as harmonization with international regulations. This sector, which is a direct synonym for quality, firmly stands as a source of great expectations, but it has been also burdened by huge responsibility. It is the most important service of support to production and sales. This Sector allows Hemofarm to perform its primary activities by carrying out entry and exit controls - from raw materials to finished products. This Sector also stands as a firm guarantee for customers that what they receive in the package is in compliance with the law and strict regulations and therapeutic applications, which all guarantees safety in use, according to intended purpose.

²³ The European Pharmacopoeia and certificates of suitability - A system for the inspection and quality assurance and compliance with international standards for pharmaceutical companies that operate at the EU level; quality checks are performed before and after the release of pharmaceutical raw materials in circulation... In the case of Hemofarm's product, CEP suspected a certain percentage of potential non-conformities with the quality of the raw materials coming from the supplier.

Research towards continuous development



One of the biggest challenges of the pharmaceutical industry is the constant search for more adequate and more modern therapy that allows a better quality of life and greater opportunities for improving health. At the same time, the global economy drives the trend of reducing costs, while health systems need drug prices reduction in order to survive and remain sustainable. Taking into account that quality in the pharmaceutical industry has no alternative, Hemofarm, as a generic pharmaceutical company, sees great potential for the development and sales of its portfolio both in Serbia and all markets of the STADA Group. The advantage of generic pharmaceutical manufacturers in relation to the originators comes out of the fact that they offer drugs of the same quality and performance, but at a more accessible price. Continuous optimization of its product portfolio and highly developed and proactive research and development, combined with permanent improvement of technological competencies, organizational and operational excellence, represent some of the most important comparative advantages of Hemofarm, ensuring its market competitiveness.

Research & Development (R&D)

Research and development are the backbone of growth and progress of the pharmaceutical industry, research and development push the boundaries of the possibilities of application of existing and creation of new pharmaceutical products. The Research and Development Sector (R&D) enables Hemofarm to offer, as quickly as possible, a high quality, efficient, safe and stable pharmaceutical product to the market, with respect for and compliance with the strictest regulatory and marketing requirements of target markets, including EU countries, as well as other markets in which the STADA group is present (Russia, CIS, Asia, MENA). Upon the expiration of the term of the patent one loses the right to exclusive sale for originator products; for pharmaceutical companies this presents the beginning of the fight for the leading position on the market of generic drugs. The aim of Hemofarm's R&D Sector is for the company to complete development, registration and transfer, as well as quick and efficient launching of new products before the expiration of patent protection, as an adaptive response to originator medicines, thus making treatments more accessible to the patients. This is the basis of the competitive advantage that has given the company a leading position in the pharmaceutical market of Serbia and the Western Balkans, by circulating their preparations in 11 of the 14 ATC classification pharmacotherapy groups.

According to the epidemiological structure of the therapeutic indications and the patients' needs in the markets in which Hemofarm operates, R&D Sector is focused on the most important pharmacotherapy groups, the focus is on preparations for cardiovascular diseases, antibiotics and neuropsychiatric preparations. During 2015, the following new products have been launched:

Launched in the EU		Launched in Serbia		Launched in Bosnia and Herzegovina	
product	dosage(mg)	product	dosage(mg)	product	dosage(mg)
duloxetine capsules with modified release	30 i 60; 20 i 40	Elfonis® film tablets	400	Cenomar® film tablets	400
aripiprazole tablets	5,10,15 i 30	Yanida® film tablets	80 i 160	Cornelin® film tablets	10 i 20
aripiprazole orodispersible tablets	10 i 15	Yanida Plus® film tablets	80+12.5 160+12.5 160+25	Yanida Plus® film tablets	80+12.5 160+12.5 160+25
Zenix® infusion solution has been launched in the Russian Federation				Peptix® powder for injection/ infusion solutions	40

In the past 25 years of its existence Hemofarm's R&D Sector developed and marketed over 250 products (Rx and OTC products, food supplements and cosmetic products in almost all pharmaceutical forms - all kinds of tablets, capsules, syrups, ointments, creams, gels, ampoules, injections, infusions, etc.). Improved products are being created through research work that represents added value for our patients. Taking into account the needs of doctors, pharmacists and patients, the R&D Sector created the forms of the products which are more comfortable for application (smaller tablets, divisible tablets with a cross-score, increased product packaging with more tablets or syrup quantity in order to cover monthly therapy, etc.).

In 2015, Hemofarm received 195 new registration rescripts for drugs (146), medical devices (33) and dietetic products (16) in 13 different markets, mostly in Bosnia and Herzegovina, Serbia and Macedonia. Transfer of technology has been realized in Hemofarm production plants for a total of 31 products (out of which 21 from the STADA portfolio). The transfer of 34 products within Hemofarm production facilities in the country and the region has been achieved, as well. These results are the best proof of the efficiency and expertise of Hemofarm's R&D Sector.

Activities	Realization		
	2014	2015	%
The number of new registrations and rescripts for medical devices and dietary products	125	195	+56
The number of dossiers prepared and submitted for new registration	105	210	+100
The number of dossiers prepared and submitted for registration renewal	153	176	+15

Research is being carried out in Hemofarm in accordance with current regulations of ‘The International Conference on Harmonization’ (ICH) and ‘Good Laboratory, manufacturers, clinical practice’ guidelines (GLP, GMP, GCP), as well as in accordance with regulations of the specific countries. In Hemofarm the process of research and development engenders the conditions and environment for the innovative product development process to be created and maintained, with special attention to the application of the highest ethical standards in all phases of the process of developing a new generic drug. The company’s ‘Quality Policy’ and high quality standards are implemented during the development of a new drug, and the principles of ‘Good Clinical Practice’²⁴ shall be applied in the implementation of clinical trials²⁵ and other activities, which are responsible for the medical aspects of research and development. Compliance with these standards provides the assurance to that public that the rights, safety and welfare of volunteers in clinical trials are respected in accordance with the principles of the Helsinki Declaration, and that the information presented in the results of these studies are authentic. The rights, safety and interests of participants and subjects in clinical studies must have priority over the interests of science and society as a whole.

Ninety top professionals, who make up Hemofarm’s professional R&D team have a long-term vision of development based on the fact that improving the quality of life and health is increasingly driven by science and is based on new scientific developments. During the past year, the application of the ‘Best Practice Guide – Development of the New Generic Products’²⁶ principles has started, as well as of the new Quality by Design (QbD) approach for the development of pharmaceutical products through a set of tools for risk analysis and design of experiments.

²⁴ Good Clinical Practice is an international ethical and scientific quality standard for designing, conducting, and recording and reporting of clinical studies.

²⁵ Clinical trials of drugs are studies performed on humans to determine or confirm the clinical, pharmacological or pharmacodynamic effects of one or more of the studied drugs, i.e. to identify any adverse reactions to one or more of the drugs tested, to examine the absorption, distribution, metabolism and excretion of one or more drugs in order to determine its safety, or efficiency. Clinical trials must be planned and conducted in such way that pain, discomfort, fear and any other foreseeable risk to the health of patients have to be decreased to the lowest possible measure, as highlighted in the Law on medicines and medical devices.

²⁶ Provides standards and guidelines for the process of new product development, for activities in development processes of new generic products under the traditional approach, and under the new Quality by Design (QbD) approach.

Operational excellence and project management



In 2015, Hemofarm has continued with a program of continuous improvement in which it successfully implemented a number of initiatives, mostly in Production, Procurement, R&D and Quality Control Sectors. The aim is to increase efficiency and reduce downtime, to optimize material consumption and reduce different types of losses, including energy consumption and costs of production, storage and transport. Some examples of this are:

1. Increased productivity by 30% on the line for filling and packaging solutions in Šabac due to the reorganization of work;
2. Optimization of ampoule sampling procedures in Vršac with an increased yield of up to 3% (per batch) and the reduction of losses in solution, with an increased contribution to the max. 4.5% (by product);
3. The introduction of new refrigerators for the transportation of materials reduced transport costs, while the two successful Six Sigma²⁷ projects in the organization of Hemofarm's R&D Sector optimized and reduced the number of samples by 50% and reduced reagent consumption and energy consumption during the analysis of samples by about 24%;
4. Completed study of the introduction of LED lighting instead of traditional neon light bulbs in Šabac factory, which will reduce electricity consumption by 5% per annum.

An important aspect in the production of Hemofarm's products is the preparation and provision of clear, reliable and unambiguous product information on the package, in accordance with the requirements of each individual market. Hemofarm is constantly improving its product packaging - besides the fact that all the boxes are made from recycled cardboard, improved design with a clearer visual identification of products has been made, and reduced cost of production is set as one of the imperatives for further development.

One of the ways to improve the organizational and operational excellence in the past year was the establishment of the Projects Management Office (PMO), within Hemofarm's Corporate Development Sector. This office started managing projects in line with leading international PMI²⁸ methodology. The aim was to consolidate in one place all the projects and initiatives that are currently under work or planned in the company, starting with a proposal for the introduction of the new products up to collecting all constructive ideas that would enhance the quality of company work and business growth. Centralized monitoring of projects enables the increase of corporate efficiency and effectiveness, while avoiding duplication of some or all of the project phases. Experiences in PMO's work, with adequate training, will create not only qualified internal project managers, but will also allow the implementation of templates, forms and operating procedures which will create the most rational management process for projects in the future.

²⁷ Six Sigma - business management strategy that reduces costs and improves the results of the removal of defects, errors, variations... Lean - a method for improving the process of identifying and eliminating losses, resulting in activities that add value.

²⁸ PMI (Project Management Institute) is an international association of reference in the field of project management that brings together professionals around the world. PMI is located in the United States, it issues standard reference book titled PMBOK, and every year through a network of its branches it organizes certification of project management professionals (PMP Project Management Professional).



Safe products **only**

Safe product for Hemofarm is one of the basic dimensions of responsibility that does not end with production, but also extends over the product's lifetime. For the company this goes beyond legal obligations, given that pharmaceutical products directly affect the quality of life of people. Therefore, each employee of Hemofarm has an obligation to ensure the safety of pharmaceutical products that the company produces.

All aspects of drug safety and quality become fully confirmed only after the drug is registered and starts to be used by a larger number of patients.²⁹ Ethical and legal obligations of the manufacturer are to continuously collect information on the safety of drugs on the market, to process and evaluate this information, and report it to regulatory authorities around the world, as well as to healthcare professionals and the general public. Detection, assessment, understanding and prevention of side effects are activities carried out in the context of pharmacovigilance.

²⁹ In the post-marketing phase of the pharmaceutical products' life cycle.



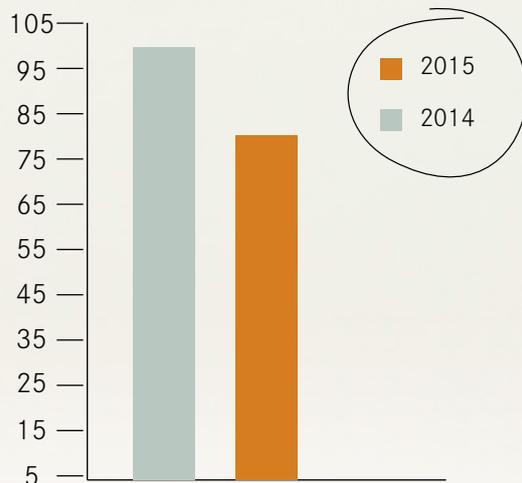
Health workers, holders of licenses to trade in medicines and the National Center for pharmacovigilance are part of the system of pharmacovigilance in Serbia. Close cooperation between members of the system leads to adequate definition of the drug's safety profile, and helps in identifying any potential signals. Side effects of drugs represent a clinical problem, which is a particular challenge to modern medicine, and often remains unrecognized by health professionals. Therefore, activities in the field of pharmacovigilance are as important as international cooperation of relevant institutions in this area, which should know no boundaries.

Side effects and reclamations

Responsibility for monitoring the safety, efficiency and quality of products is the obligation of all Hemofarm's employees, but is also the obligation of those with whom the company is in a contractual relationship. Adverse reactions to a pharmaceutical product or any other type of customer dissatisfaction are registered as a complaint. Complaints can arrive directly from healthcare professionals, regulators, patients, consumers, professional journals or the media. For Hemofarm, the safety of pharmaceutical products is a particular priority. Accordingly, in 2015, Hemofarm introduced info cards for all employees with precise instructions on the procedures in case of meeting with any adverse effects.³⁰ Hemofarm has also allowed interested parties to submit a complaint on the product directly by means of forms for reporting adverse reactions to the official corporate website³¹, which is mostly intended for business partners in the supply chain of the pharmaceutical market, as well as through e-mail addresses svakodobro@hemofarm.com and nezeljena.dejstava@hemofarm.com which are primarily intended for patients and product end users, as well as through all publicly available telephone numbers of the company. In addition, representatives of the Marketing and Sales Sector are always available to accept all kinds of complaints on Hemofarm products, primarily from doctors and pharmacists. In the case of identifying a complaint or a side effect of the drug, Hemofarm reacts in accordance with standard operating procedures for assessing the safety profile of registered products, while in the case of recognizing potential risk, the company initiates an evaluation of all available data.

³⁰ The complaints on the quality of medicines in terms of lack of action of the drug belong to the complaints with elements of adverse effects of the drug. R&D and QC Sectors are involved in dealing with complaints with elements of adverse events.

³¹ <http://www.hemofarm.com/proizvodi/prijava-nezeljenih-reakcija-na-lek>

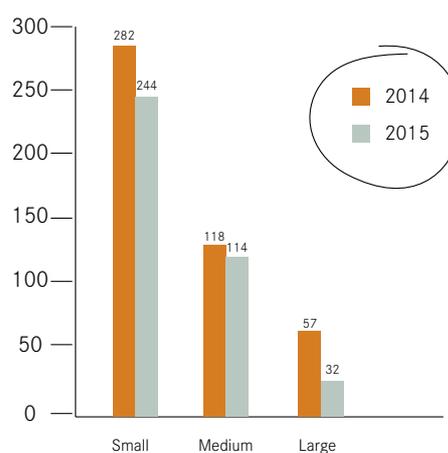
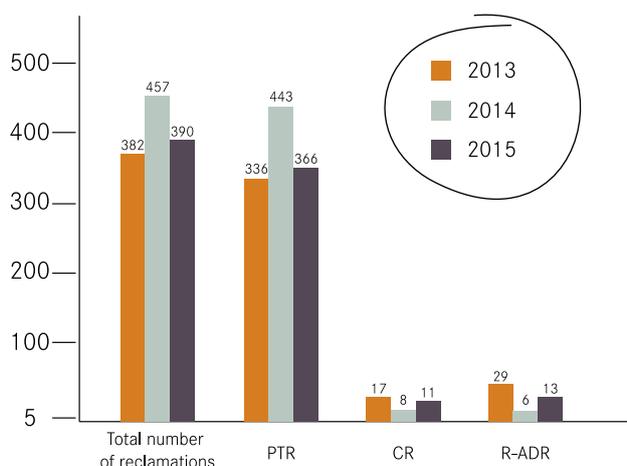


During 2015, for the entire Hemofarm A.D. market 85 reports of adverse effects (ADR) were received from medical staff and patients (102 in 2014). Twenty-three cases (27 in 2014) were assessed as serious and 62 (75 in 2014) as not-so-serious side effects. It is noteworthy that the number of reports of adverse reactions to a large extent depends on the training and readiness of health workers or patients to complete the application.

During 2015, a total of 390 complaints for products that are produced in all production plants of Hemofarm was recorded. This is as much as 14.7% less than in 2014 (457), despite the significant increase in production (by 7%). Decrease in the number of complaints is the result of the undertaken corrective and preventive measures, but is also the result achieved through improvements in products, the production process and pharmaceutical packaging as well. Out of the total number of complaints, 366 complaints were manufacturing-technical complaints (PTR)³², 11 commercial (CR)³³ and 13 complaints contained elements of adverse drug reactions (ADR-R)³⁴. Complaints were mainly related to packaging and labelling, and not to product quality and functionality.

Number of complaints categorized by PTR, CR, R-ADR is shown in the following chart:

Number of reclamations according to the classification of small, medium and large is shown in the following chart:



³² Complaints about the packaging and labelling, damage and irregularities on the product, etc.

³³ Complaints about the delay in the delivery to the user, delivering inadequate quantities of products, inadequate supplier - purchaser relations or inadequate supplier - contract partner relations, etc.

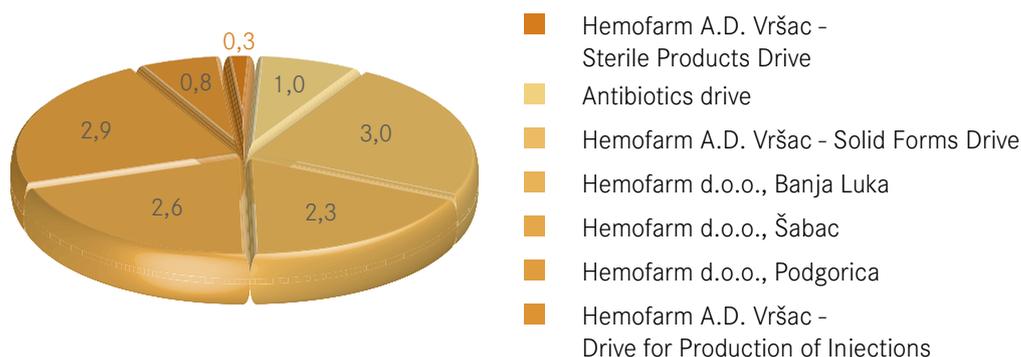
³⁴ Complaints with elements of adverse effects of the drug or suspicion of such effects, as well as complaints about data on the interaction of drugs, exposure to drugs during pregnancy and breastfeeding, lack of therapeutic effect of the drug, doubts about the quality of the drug, overdose, medical errors, drug abuse, use of the drug in unapproved indications, adverse effects at the workplace, and the information on the fake drugs and suspicion of transmitting infectious agents by the drug.



Classification of small, medium and large complaints is made on the basis of the following criteria: the seriousness of side effects, the mechanism of detection and the repetition rate. Complaints concerning the quality of products, where a high score of criterion for severity of consequences exists, are classified as medium or large complaints. Complaints relating to irregularities in packages are mostly classified as small.

Based on the number of produced packages, the largest number of complaints was recorded for the Solid Dosage Forms Plant in the central production complex in Vršac (46%) and then for the Solid Forms drive and Semi-solid and liquid forms drive (together 21%) in the manufacturing complex in Šabac, which was expected given that production in those three plants represent 57% of total Hemofarm's production.

The number of complaints per million produced packages



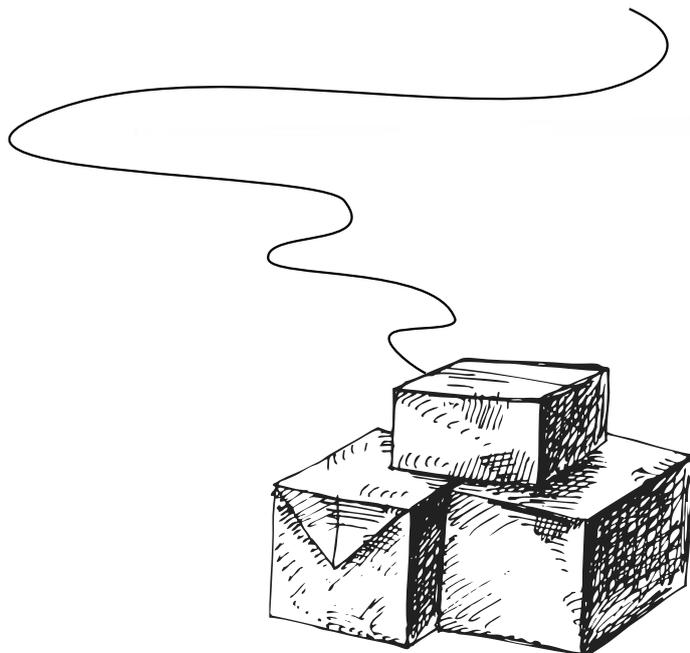
For each complaint received, the Quality Control Sector performs adequate checks and investigation about the justification of suspicion of a safety or quality aspect of the product. Each complaint is registered and contains legally required information (title / series of products, the applicant, a description of the complaint and the report on the investigation). After the document has been filed, the classification of complaint (small, medium or large) is performed. After completed investigation, the conclusion is given about whether the complaint was justified, unjustified or ambiguous, and an official response to the complaint is formed. All findings from the investigation are carefully analysed in terms of the manufacturing process, packaging, testing and handling of products, and measures for improvement are proposed. During the investigation of complaints, in 2015, the following corrective and preventive measures were initiated and implemented:

- Audits and improvement of work instructions in manufacture and control;
- Reinforcement of control during the manufacturing process and/or during packaging of certain products;
- Improvements related to contact packaging;
- Improvements in terms of preventive checks - the functionality of the production tools equipment will be audited, etc.

In order to reduce complaints, appropriate improvements have been put in place, and there is continuous work on increasing the efficiency of the investigation processes, in order to achieve the best possible corrective and preventive measures.



Our products are
high-quality, safe,
effective and
available.



OUR RESPONSIBILITY

RESPONSIBLE MARKETING

SUSTAINABLE PACKAGING OF PRODUCTS

CARE FOR OTHERS

Support to institutions and associations in the healthcare system

Improving the social status of individuals

Wholeheartedly for culture, education, sport

Scholarships for improvement and development of education

Support to environmental protection

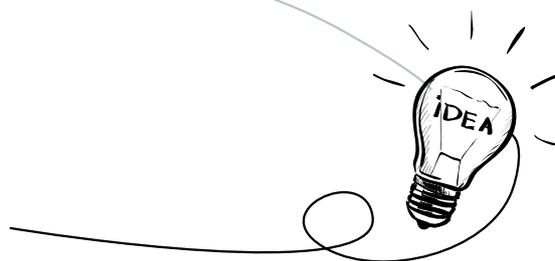
ETHICAL BUSINESS

Responsible management of suppliers

Anti-corruption and preventing the conflict of interest



Responsible marketing



Pharmaceutical marketing must be based on accountability, transparency and accuracy of information, as incorrect or uncontrolled use of drugs can pose danger to human life. A prerequisite for successful treatment is that doctors and pharmacists are fully familiar with all the benefits and risks of the application of a pharmaceutical product. Patients also need to be adequately informed about the choice of available treatments and therapies, through dialogue with their doctors or pharmacists. Therefore, pharmaceutical marketing represents a key segment of the presentation performance, application and effects of drugs, as well as an essential source of information on pharmaceutical products. For Hemofarm, responsible pharmaceutical marketing means a sure path to building trust with healthcare professionals, patients and all stakeholders, while for product users it represents a confirmation of correct and safe application. Through responsible marketing Hemofarm tries to recognize the potential for optimizing its portfolio.

Hemofarm pays special attention to creation of marketing activities for its products. It promotes its portfolio of medicines and dietary supplements, which support solving health problems and helps improving health, by applying three basic principles:

- Compliance with national and international legal frameworks and legal regulations which govern pharmaceutical marketing, as well as the application of internal corporate rules of STADA Group;
- Establishing marketing messages and claims about products on scientific evidence, i.e. making reference to them in the promotion of the product (such as, for example, clinical trials, etc.);
- An ethical and highly moral approach in every aspect of promotion - from the idea to implementation.

In pharmaceutical marketing it is essential that there are no hidden, unverified promises or messages with a false hope for a cure. Therefore, ethics and responsibility of pharmaceutical companies are crucial. Thus, for Hemofarm, it is important that potential customers receive quality products, and transparent, accurate and fair information about a particular pharmaceutical product. Significant legal restrictions in the pharmaceutical marketing are a particular challenge in creating marketing messages - there are restrictions in the possibilities of communication for certain types of products (medicines), there is restriction in the level of information that can be communicated (prescription drugs cannot be promoted to the general public), and there is a possible restriction in the angle from which the products are marketed ('products help in the effort or desire to alleviate symptoms', rather than assertion that 'products directly cure').

Therefore, Hemofarm's Marketing and Sales Sector has based its work on implementing the 'Regulations on Advertising Drugs or Medical Devices'³⁵, which prescribe methods for advertising drugs, define guidelines for the production and distribution of marketing materials, sharing of samples, as well as cooperation with healthcare professionals and professional associations.

³⁵ <http://www.zdravlje.gov.rs/downloads/Zakoni/Pravilnici/PravilnikONacinuOglasavanjaLekaOdnosnoMedicinskogSredstva.pdf>



Hemofarm's Legal Sector has a consultative role in these activities and performs continuous endeavour in providing patients with the highest quality pharmaceutical information. The Agency for Medicines and Medical Devices (ALIMS³⁶) approves all marketing solutions, messages and marketing channels before the start of the promotion of pharmaceutical products that Hemofarm conducts for products created in Hemofarm's factories.

Although legislation strictly regulates the area of pharmaceutical marketing, when it comes to supplements, criteria for promotion are still not precisely specified (a separate law is being drafted), and these products are freely advertised to the general public. Even with supplements, Hemofarm seeks to establish every marketing message or argument based on scientifically validated references or clinical studies, whenever possible, thus accessing this category in a responsible way, as they were over the counter (OTC) products or prescription drugs. By providing high-quality, verified and validated, marketing information Hemofarm strives to inspire other pharmaceutical companies to follow this example.

(Excerpt from the Principles of conduct for employees of Hemofarm A.D. Vršac and its subsidiaries, available on <http://www.hemofarm.com/poslovanje/korporativni-kodeks>))

2. The Principle of cooperation with members of professional circles and their institutions

Employees of Hemofarm are obliged to maintain continuous cooperation with doctors and pharmacists and other members of the professional community and their institutions and facilities, in a way that does not jeopardize the neutrality and independence of any of the participants.

³⁶ <http://www.alims.gov.rs/latin/>

Prescription drugs, OTC drugs and nutritional supplements are complex products designed to meet the needs of patients. Continuous education of health professionals is therefore necessary about their preventive therapeutic use, new medical and pharmaceutical achievements and benefits for patients. It is expected that pharmaceutical manufacturers provide and support such training and exchange of knowledge. On the other hand, doctors and pharmacists provide to the pharmaceutical industry worthy, independent and expert knowledge on the basis of professional medical experience. This active exchange of knowledge improves the quality of care and treatment of patients, and improves society as a whole. In this process it is essential to preserve the integrity and independence of the decisions of health workers to prescribe a particular drug, thereby protecting the healthcare system itself. In line with its regulations and internal procedures Hemofarm publishes information about all sponsored expert meetings and about the amount of funds spent for this purpose. Therefore, Hemofarm insists on fair and transparent business practices and regularly updates quarterly data on its corporate website.³⁷

By combining the principles of responsible marketing with the principles of sustainable development, Hemofarm's Marketing and Sales Sector has, in 2015, introduced significant changes in the way of presenting technical information to health workers. Instead of publishing a large number of brochures, which in addition to financial costs require other resources, (significant amount of paper), Hemofarm has introduced an electronic promotion of its products to the professional public through Apple iPad platforms and applications. This enables constant promotion of new contents through interactive dialogue with doctors (sending e-brochure in the mail, questions and answers, e-consultations, etc.) while pharmaceutical marketing became more dynamic. Hemofarm's pharmaceutical marketing is also significantly more focused and directed to a direct feedback from health workers in connection with the professional amenities - are they clear, useful for working with patients, sufficient education, etc. The transition period from classical marketing to this new form of pharmaceutical e-marketing is currently taking place, so the full effect of the transition is yet to be measured and published. This is a good example of the innovative performance in the Serbian market, compared to the competition.

Sustainable packaging of products



The development of needs of patients and product users, as well as the development of modern lifestyle in general, set numerous challenges before pharmaceutical companies. One of the greatest challenges for Hemofarm is how to make its products sustainable, which is the reason why the company is actively working on creating guidelines, initiatives and projects that will enhance the positive impact of products on the environment, without compromising quality and safety of products themselves. In this regard, the focus is on the development of sustainable packaging and packaging materials for products.

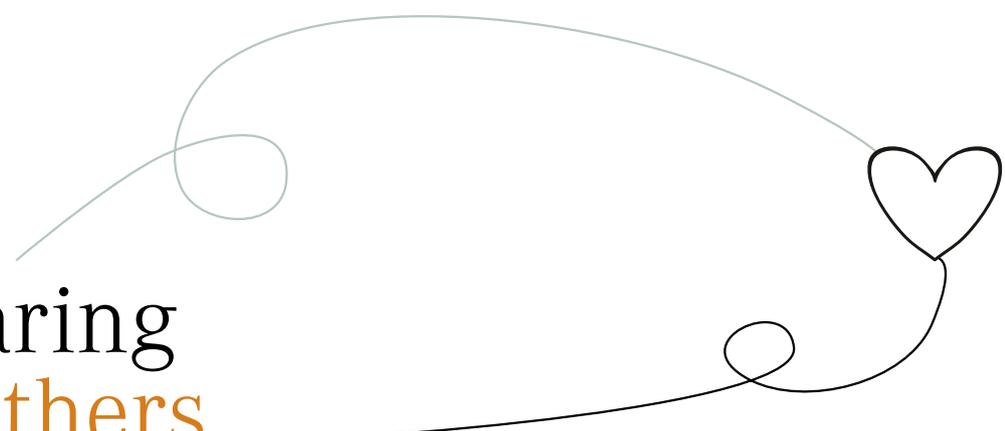
³⁷ Data for the previous quarter are published not later than the 20th of the first month of the next quarter; More information on <http://www.hemofarm.com/poslovanje/korporativni-kodeks>



Hemofarm has introduced recycled cardboard in production of packaging materials (medicinal product packaging) and transportation boxes. This project was started in 2013, when 97% of packages were made of non-recycled cardboard. Only 2 years later, in 2015, the share of recycled cardboard was increased to as much as 70%. Likewise, Hemofarm considers also the possibilities of reducing the quantities or composition of packaging material for its products, without affecting the performance, packaging material and packaged products. Thus, the company works intensively on the finalization and implementation of the project of reducing the consumption of polypropylene in CRC closures (Child Resistant Closures - caps that children cannot open). Previous analyses have shown that it is possible to reduce the consumption of polypropylene by closure by approximately 0.8 g, which is less by 25% than the total weight of the existing closure, which would amount to a saving of about 5 tons of this raw material annually.

Furthermore, one of the dimensions of responsible marketing at Hemofarm is proper packaging and labelling of pharmaceutical products, in compliance with statutory regulations. Apart from packaging and labelling of products, it is important that each medicinal product package contains a patient information leaflet stating its administration, indications, side effects, etc. In addition to the basic legal guidelines on the appearance and contents of the packaging material and patient information leaflet, as well as specified necessary information, Hemofarm labels its products also in Braille alphabet, enabling blind and visually impaired persons' comfortable administration with full availability of the necessary information.

Caring for others

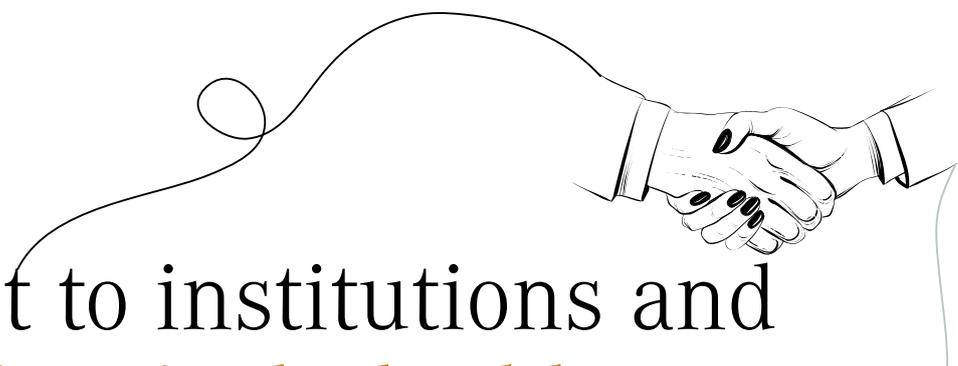


Hemofarm is a company that takes care not only of its employees and their families, business partners and users of its products, but also of the local communities in which it operates. Hemofarm implements its care and support for the disadvantaged through the activities of the Hemofarm Foundation.³⁸ For past two decades of its existence, the Foundation sought to recognize vulnerable society members who need help, to protect the environment, but above all to identify the needs of the health system as its stable and supportive partner. The social transition, with many adverse global and local economic parameters, caused the national healthcare system to be in a much more difficult position than its users could bare. Therefore Hemofarm is in every way trying to offer help to the healthcare system of Serbia. This is achieved in several ways - primarily through a rich, high-quality portfolio of products, promotion of healthy habits and lifestyles, which improve the quality of life and reduce the risks of developing ailments and diseases, as well as through the work of the Foundation, that strives to shift its activities from perceiving the real needs of the system to concrete actions in supporting its parts and therefore patients. It is precisely this institutionalization of support that resulted in a significant increase in the number of end users who earn system benefits through the work of the Foundation.

The largest volume of Foundation's activity reflects the strategic commitment to support the healthcare system and its activity is directed towards the national campaign called 'Wholeheartedly'. The main objective is to improve the quality of people's health through raising the quality of services in the healthcare system of Serbia. The campaign is a reflection of efforts to build public-private partnerships with the institutions of the system: the Ministry of Health of the Republic of Serbia, local governments, clinical-hospital centers, health centers and other relevant institutions.

In 2015, the Foundation donated more than 67 million dinars for projects in the fields of health, education and young talents, providing culture and support to the most vulnerable population. The Foundation implemented 83 campaigns during the year, achieved through 82 partnerships. Development of awareness of the importance of health and social issues was one of many goals, with finding out various ways for many to become involved in their resolution. The Foundation published a total of 834 media about these goals. Following the same objective, the Foundation has improved the way of communicating on social networks in order to enhance its transparency and it introduced new programs and activities to the general public.

³⁸ <http://www.fondacijahemofarm.org.rs/>



Support to institutions and associations in the healthcare system

Twenty medical institutions in Serbia received donations of medical equipment and apparatus, with a total value of around 36 million dinars. The Criteria for their selection (in cooperation with Hemofarm's Department of Marketing and in accordance with the Calendar of Health of Serbia³⁹) were: the seriousness of the problems, degree of threat for patients and the number of patients who were potential beneficiaries of support. Some of the institutions that received donations are:

1. The Institute for Cardiovascular Diseases Dedinje - The ultra-sound machine B-color Doppler flow was donated to the Clinic for Vascular Surgery. The Institute annually examines about 60,000 persons and performs 4,000 cardiovascular operations. At the 'Carotid Doppler ward', where the donated machine was sent, about 7,000 examinations are performed annually (diagnostic procedures).

2. Clinical Center of Serbia (KCS)

- a.** Emergency Center was donated: intubation laryngeal mask, syringe pumps, trans ventoxylog;
- b.** Clinic for Emergency Cardiology was donated a portable device for ultra-sound examination of the heart;

It is important to note that KCS inpatient activities include more than 90,000 patients per year, with more than 950,000 patient-days of treatment, over 50,000 performed surgeries and more than 7,000 births. In daily hospitals over 25,000 patients are treated and 5,000 operations are performed. Therefore, support to the work of this health institution, which is one of the largest in Serbia, presents essential support to the local health system and many patients who are treated here.

3. Institute for Pulmonary Diseases in Sremska Kamenica was donated the spirometer and 6 hospital beds with antidecubitus mattresses. During the year, the Ambulatory - reception service examines approximately 25,000 patients of whom 6,000 are retained in hospital. At Clinic III, Department B, where the donated beds stand, 300 patients are treated per year. The donated spirometer is used for field work, and about 350-400 annual reviews are performed on it.

4. Military Medical Academy (VMA) - Clinic for Anaesthesiology was donated the video laryngoscope. Each year, the VMA reviews about 230,000 insured civilians, of which over 20,000 are hospitalized. The donated apparatus is used annually for examining about 500 patients at the Clinic for Anaesthesiology and Intensive Care - VMA.

³⁹ <http://www.batut.org.rs/index.php?calendar=1>

5. **Clinical Center Kragujevac** was donated 'Olympus' - the video bronchoscope. In this medical institution 28,400 people patients are examined annually and the Clinic of Pulmonology examines around 12,000 patients out of which 2,000 patients are hospitalized per year. About 500 people are examined annually with the donated machine.

6. **Institute of Oncology and Radiology of Serbia** was donated the funds for the camera sequencer to test cancer genes; The Institute annually examines about 6,000 people and about 50 samples are done on the donated camera.

7. **Clinical Center of Niš:**

a. Clinic for lung diseases 'Knez Selo' was donated a bronchoscope and ten pulse oximeters;

b. Clinic for cardio-vascular diseases was donated ultrasound machine for echocardiography and four cables for Holter ECG;

KC Niš has about 2.5 million patients, and the 'Knez Selo' performs about 700 to 1,000 bronchoscopies, while the Cardiology clinic annually performs about 8,000 examinations on the donated ultrasound machine.

8. **General Hospital 'Euromedik'** was donated funds for the purchase of digital mammography; The Foundation annually performs about 20,000 examinations, while the donated camera is annually used for examinations of about 2,000 patients.

9. **Public Health Institution 'University Clinical Center' of the Republic of Srpska in Banja Luka** was donated funds for the purchase of two beds for intensive care and ten aspiration pumps for the treatment of patients who are on mechanical ventilation.

With its slogan 'Wholeheartedly', the Foundation has joined the Ministry of Health's campaign 'Prolong life' with the aim to increase awareness of the importance of organ donation and transplantation. That is how the campaign called 'Extend the Life Wholeheartedly' was created. Lectures were organized with renowned doctors, transplant patients and celebrities for over 700 media employees at 'Adriamedia' and 'Colorpress', Serbian National Theatre in Novi Sad and the Police Academy in Belgrade. One of the key topics at the 'Pro-femina: Conference on health' was organ transplantation, and a street walk was organized on the occasion of the European Day of the Donor, in which, not only Hemofarm Foundation and Hemofarm company employees participated, but eminent doctors, public figures and citizens, as well. More than 150 donor cards were signed with Foundation activities, as an expression of readiness and good will to extend the life of those whose health is seriously threatened.

In 2015, Hemofarm A.D. also supported the health system through grants, totalling 18 million dinars, which is higher than in the previous year. Donations have included assistance in drugs (42%), and in funds dedicated to renovation of health facilities and medical equipment (58%). Part of the donation was related to the urgent care of migrants from the Middle East, in transit through Serbia, in the form of medicines and personal hygiene items.

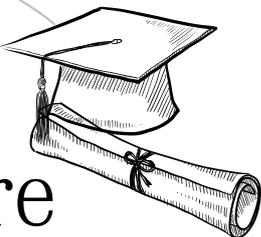
Investments in the health sector, in order to support patients, resulted in the improvement of cooperation with state institutions, holders of primary and secondary health care, citizens' associations and the media. Contribution to the development and improvement of quality of life was achieved through a stronger partnership with the local government in Belgrade, Vršac, Šabac, Novi Sad, Niš, Kragujevac, Zrenjanin, Sremska Kamenica, Irig, and Banja Luka.



Improving the social status of individuals

Support to vulnerable and socially vulnerable groups that are exposed to specific health risks is one of the priorities of the Hemofarm Foundation. In this regard, the Foundation conducted 31 initiatives in the amount of 2.6 million dinars. A special segment represents support to Hemofarm employees, as the most valuable resource of the company, in the form of donations to children of deceased workers, funds for resolving housing issues and for the functioning of the Association of Hemofarm Pensioners.

The National Association of Parents whose children are suffering from cancer 'Nurdor' was donated funds for the activities whose ultimate goal is the rehabilitation camp for children treated for malignant disease. The Foundation has also supported the work of the institutions of social protection which are taking care of the youngest and elderly persons through direct donations, food and equipment. The Foundation supported educational institutions in purchasing children's snacks and improvement of living conditions for children and young people. Children who were treated at the General Hospital in Vršac and Šabac and children from the Center for Protection of Infants and Children at Zvečanska Street in Belgrade received presents for New Year. Within the campaign 'Caps for handicap' 500 kg of caps were donated for the purchase of wheelchairs - these wheelchairs were needed by the members of the Association of paraplegics and quadriplegics 'Banat' from Zrenjanin. More than 30 employees of Hemofarm and Hemofarm Foundation donated blood at the Blood Transfusion Institute in Belgrade, Vršac and Šabac for patients who were waiting for surgery. Assistance was provided to migrants, hygiene products were donated to the General Hospital in Subotica, and employees of Hemofarm and the Foundation, along with other volunteers and Foundation scholars, presented wardrobe, hygiene products and food for Belgrade's informal reception center 'Miksalište'. Through these activities, among other things, we promoted the team spirit of employees, but we also promoted good relationships with the Foundation's scholars.



‘Wholeheartedly’ for culture education, sport

Support for art and cultural events, and support for educational institutions and projects in order to develop the sports and team spirit and responsibility towards their own health, resulted in 23 activities implemented with a donation totalling almost 17 million dinars. Humanitarian auction of paintings was organized and an SMS number was launched – the main goal of these two actions was donating funds to rebuild the ‘Boško Buha’ theater. Belgrade Dance Festival was donated funds for the maintenance of 12th Festival of ballet and dance troupes. Literary award ‘Vasko Popa’ Manifestation was donated the funds for the first prize, the winner was Jovan Zivlak. Association of Dramatic Artists of Serbia was donated funds for the regulation of healthcare of association’s members. Support was given to festival ‘EXIT 2015’, 28th ‘Belgrade Marathon’ and to the club ‘Extreme Summit Team’ in order to send the first women’s expedition to the Himalayas. We supported the projects of local interest at TV Banat - Vršac. All these activities have also contributed to the improvement of cooperation with the international community – cooperation with the Embassy of Germany, the German-Serbian Business Association, Embassy of the Netherlands, representatives of civil society and the media.

Scholarships for improvement and development of education

To stimulate development in the field of education 10.6 million dinars were allocated in 2015. Exactly 101 scholarships were given to students and pupils from the territory of Serbia for the school year 2014/2015, and 60 scholarships for the school year 2015/2016. The focus of the activities in the development of education sector is to support the children of employees to acquire desired knowledge in selected Universities and support young indigent people in Serbia to study Medicine and Pharmacy. The support for education should encourage the development of quality personnel, as the most valuable resource, who will one day work in companies such as Hemofarm.



Support to environmental protection

We supported nature preservation and environmental protection in the form of a donation of more than 370 thousand dinars. The Foundation has supported the activities in this field through two different activities - Foundation 'Catalyst' from Belgrade was donated the funds for the project 'Recycling Yard' and another action 'November, a Month of Trees' was realized in Šabac, in which the representatives of Hemofarm and the Foundation, together with local authorities and children, reforested this city that suffered heavy damage in the catastrophic floods that hit Serbia in 2014.

Ethical business



Ethics for Hemofarm are an indispensable factor in the approach to business as it allows truthfulness and justice, fair competition, responsibility as a basis of marketing and PR. It also enables openness to the expectations of society and implementation of social responsibility principles. Last but not least, ethics include many other aspects of the overall behaviour of the company and its employees in the country and abroad, with focus on providing equal opportunities to all. The company does this in a systematic and transparent manner, applying a set of international standards such as BSCI, which are often above the current legislation and internal procedures and operational procedures, and are available to all employees. In this way, Hemofarm seeks to provide the best, but also to wake up the best in its staff and in the local communities, by continuously improving its business operations by making them sustainable.

Responsible management of suppliers

Despite all the specifics of the procurement of pharmaceutical raw materials, which by its nature is often limited to a small number of highly profiled potential providers, all the suppliers and service providers, during the procurement procedure, regardless of their geographic location, have equal opportunities and are treated equally. Also, whenever possible, the company strives to consider the affordability and availability of certain starting products, raw materials and services within the range of domestic suppliers, thus confirming its commitment to social responsibility. In this regard, in 2015, local suppliers were represented with 27% of the total cost of procurement. Despite the numerous advantages of the local market, the quality remains determinant category for Hemofarm, without any possible compromise. During selection,

Hemofarm takes into consideration the following facts: the suppliers are in a stable financial position, they respect the rights of their employees and that they are socially responsible. Hemofarm has aligned its business with the leading code of social responsibility - BSCI, and has introduced all of its suppliers to this code. Suppliers are expected to respect this code themselves, which is, above all, a guarantee of fair treatment of employees, respect of their work, social and human rights, prevention of abuse in the work of minors or children, guarantee of social responsibility, etc. Every year, Hemofarm interviews its suppliers about their awareness and implementation of BSCI Code. During 2015, the company interviewed all suppliers with whom cooperates for the first time.⁴⁰ The aim is to influence the revision of suppliers if they are socially irresponsible. This is one of continuous activities of Hemofarm's Procurement Sector.

⁴⁰ Additional 30 questionnaires were forwarded to suppliers.



Our principles include responsible supplier management, anti-corruption and prevention of the conflict of interest.

Anti-corruption and preventing the conflict of interest

The company expects from its employees the highest personal and collective integrity. In order to set clear expectations from all employees, senior management of the company has released a set of 15 principles of corporate behaviour, which is publicly available on the corporate website.⁴¹ Anti-corruption is one of the most important segments of these principles, one which the company approaches proactively. Due to many risks brought by the business or pharmaceuticals industry itself, the company continuously improves the training of management to prevent, recognize and adequately treat every potential activity that can carry the elements of corruption.

The management is obliged to transfer such actions to all employees, while Legal Sector continuously monitors all business operations. One of the preventive measures are precisely defined corporate procedures and operating procedures, which by establishing certain rules of conduct and business, reduce the risk of corruption to a minimum. One of the examples is a special 'Declaration of preventing the conflict of interest' that is applied to employees of the Procurement Sector. It prevents cooperation between a company employee with persons with whom they are next of kin or in any other personal relationship - it refers and is applied to potential or existing suppliers of Hemofarm. In addition to corruption, some of the principles of corporate behaviour include: respecting the protection of competition, preventing any form of discrimination, preventing political activity, money laundering, etc. Hemofarm has issued the 'Ordinance on raising awareness and protection of whistle-blowers'⁴², which is publicly available on the website of the company and which protects the rights and identity of anyone pointing to any direct or indirect irregularities in the operations of Hemofarm.⁴³

⁴¹ <http://www.hemofarm.com/Binary/30216/Principles-of-conduct-Hemofarm.pdf>

⁴² Whistleblowing - the disclosure of information about violation of regulations, violation of human rights, the exercise of powers contrary to the purpose for which the same is issued, danger to life, public health, environment, safety and preventing damage to large scale.

⁴³ <http://www.hemofarm.com/Binary/20174/Pravilnik.pdf>

The background of the entire page is a photograph of industrial machinery, likely a brewing or food processing plant. It features large stainless steel tanks, pipes, and various mechanical components. The lighting is bright and clean, emphasizing the metallic surfaces.

OUR PEOPLE

A vertical decorative bar on the left side of the page, composed of a series of small, stacked rectangular segments in various shades of green and yellow, with a thin orange stripe near the top.

MOTIVATED TEAM WINS
EQUAL OPPORTUNITIES
HEALTHY AND SAFE TEAM BEFORE ALL
CORPORATE CULTURE



2,216 families of our
employees are our
biggest motivation



Human resources represent the greatest value and potential of Hemofarm. Therefore it is not surprising that the company has a long-term focus on employee development, improving of motivation, nurturing of talent, and active development of leadership and manager skills. In addition, within its priorities, in early 2015 Hemofarm laid the key basis for improving organizational culture and securing successors to key positions. The fulfilment of these strategic goals in the coming years will have impact on the success of the entire company, as well as on the achievement of business results - from customer satisfaction to increased productivity and profitability.

Hemofarm has a total of 2,216 employees⁴⁴ - the growth of about 20% was caused by the merger of Šabac drive, business development and preparation for FDA⁴⁵ inspection. The biggest structural change in 2015 was the merger of Hemofarm d.o.o. Šabac into the parent Company Hemofarm A.D. Vršac, and one of the important aspects of that merger was successful integration of personnel. All 343 employees retained the same legal status by signing an annex to the employment contract. They have also accepted a new Collective Agreement, signed for three years, which applies to all Hemofarm A.D. employees from January 1st, 2015. This Collective Agreement represents a guarantee of their material and social security.

⁴⁴ According to HR internal data, provided on December 31st, 2015.

⁴⁵ FDA - Food and Drug Administration - leading US certification body that issues licences for the operation of Pharmaceutical products in the USA

Number of employees 2012-2015



In 2015, Hemofarm hired 91 employees for an indefinite period of time.⁴⁶ Of the total number of employees, 165 were hired under fixed - term contracts, and one employee works part-time. The implementation of the ten-year tax incentive is still going on in Hemofarm, which includes the annual preserving of defined number of jobs in accordance with this arrangement.

A total of 76 workers have left the company during the year, which is about 3.4% of the total number of employees.

From the number mentioned, 23 employees retired, which represents around 1% of the total number of employees, while 45 of employees left the company by mutual agreement. Compared to 2014, the number of employees who left the company rose by 38.2%, mainly through leaving by mutual agreement or due to the fact that the employees became eligible for retirement. Staff turnover in 2015 amounted to 3.4%.

The Age of Employees	2013		2014		2015	
	hired	left	hired	left	hired	left
<20			2		2	
20-29	43	17	142	8	103	9
30-39	35	43	37	8	45	18
40-49	4	20	12	6	11	12
50-59	4	27	1	18	1	28
60-69	1	10		7		9
grand total	83	117	194	47	162	76

year	Employees who are entitled to leave for child care		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 have been still employed 12 months later	
	man	woman	man	woman	man	woman	man	woman	man	woman
2013		65		65		65		63		63
2014		63		63		61		26		26
2015		84		84		84		28		28

Absence from work due to pregnancy or maternity leave does not represent an obstacle for employees to return to their job positions. During 2015, 84 employees were on maternity leave. All the women who gave birth returned to work on the same job position in 2015, after maternity leave.

⁴⁶ Either the arrival of new employees in the company or changes in status from a specified to indefinite period.

Motivated team wins



Motivation is one of the most important aspects of the individual and team development in Hemofarm. Transparency is an important part of the motivation of employees. Transparency is ensured through a formal process of giving feedback to employees about their work, i.e. through 'Annual Evaluation'. For the newly employed transparency is provided through the 'On boarding' process - the evaluation of adaptation of new employees into the work environment. In 2015, the objectives from personal career plans have been integrated through the annual evaluation of employees. The annual evaluation, in addition to the afore mentioned transparency in manager-employee relations, provides the personal and professional assessment of development in the period of one year, as well as direction in which each employee proceeds in his career.

Key performance indicators (KPI), which are the component of the Annual evaluation, show that 97% of managers had ended the evaluation in time. A total of 99% of employees was evaluated in time, and the results show that the company has a 9% of 'top' performers and 2% of 'low' performers. For those 2 % certain action plans and specific development plan will be designed, as well as a proposal of a potential rotation to the adequate business position. The competency matrix was created as one of the results of the annual evaluation, and according to it a training plan for 2016 will be developed. The training of assessors for 'Managing Annual discussion' was continued. New training for the 'Management of difficult situations at the annual interview for assessors' was created, and the assessors have already passed the first training. All these figures show the success of the process, but they also show a systematic approach to the improvement of employees, as well as a major contribution to the manager-employee relationship. Managers are continually provided with support in work with employees and in the proper management of their results.

Given that people, without whom no development would be possible, are the most important resource of Hemofarm, the company is continuously exploring opportunities for their professional development and advancement. One such project is the provision of a successor for the 34 key managerial positions. It was launched with the aim of making timely and accurate responses to market changes, maintaining competitiveness, development of human resources quality and systematic planning of staff careers, which enables stability, reliability and sustainability of the company. A total of 96 candidates participated in the process of transparent identification and selection of potential successors. Defined criteria are followed by the creation of a list of potential candidates. During the year each candidate undergoes structured interviews in order for their personal motivation for participation in the program to be examined, and their own potential established through analysis of a personality profile. At the beginning of 2016, the creation of individual development plans, according to individual needs and performances, was started. Also, the identification of new key positions and new potential successors was set.



Hemofarm applies the policy of zero tolerance for any form of gender, ethnic, religious or any other discrimination and there is no distinction in the rights and obligations of employees hired for a definite or indefinite period of time. The best evidenced about equality is the fact that from the total number of employees 52.43% are women, and their share in management positions stands at 50.5%. The company has set equal earnings for the same job positions, regardless of gender, where the minimum gross salary in Hemofarm is above the minimum wage in Serbia.

Minimum gross salary (RSD, December 2015)	
Hemofarm A.D. ⁴⁷	Republic of Serbia
41,522.36	30,129.00

⁴⁷ According to legislation and the provisions of the applicable employment contract; (For 22 working days, the decision on the amount of minimum wage for the period January - December 2015 ('RS Official Gazette' No. 104/2014) determines the amount of RSD 121.00 net per working hour, which is applicable from January 1st, 2015).



Hemofarm is trying to retain the most talented and the most valuable human resources, but it especially cherishes the culture of rewarding those whose efforts contribute to additional professional efficiency and effective development of the company. Employees who show exceptional results during monthly evaluations are entitled to a one-time increase of personal income in the amount of 10% of their basic monthly salary.⁴⁸ In accordance with the Collective Agreement, all employees are provided recourse for holidays, and female colleagues are provided a gift on March 8th. The celebration of New Year's holidays with presenting the gifts is organized for the children of employees. Also, as a form of an award for continuous work in Hemofarm, employees are awarded jubilee awards, which are not only a thank you note for their loyalty and hard work, but also an incentive to achieve even better business results.

Years of work in the Company	Amount of jubilee award (KSD)	Years of work in the Company	Amount of jubilee award (KSD)
10	43,700.00	30	116,600.00
15	58,300.00	35	145,800.00
20	87,500.00	40	160,400.00
25	102,000.00		

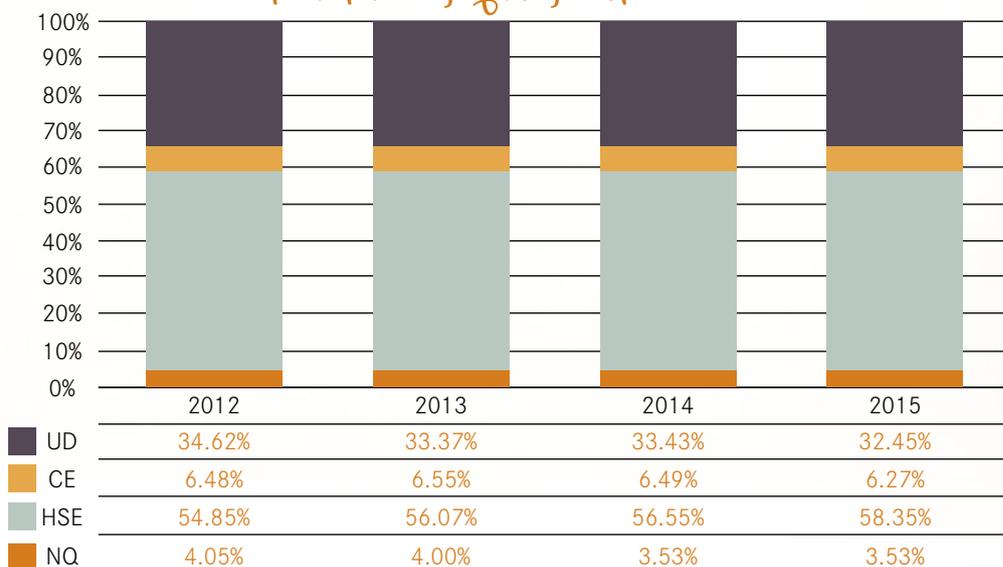
In accordance with the Labour Law, in case that a need to change the workplace happens, the employee receives an offer and should decide whether to accept an annex to the employment contract; a period of eight working days is allowed for that decision. Upon retirement, the determination and payment of severance pay takes into account the gross average wage at the company level or the amount of the average salaries in the last three months, depending on which option is more favourable to the employee.

In the course of 2015, an increase in the total number of staff training was recorded, with a reduction of funds allocated for training, as a result of an increase in internal trainings of new employees and introduction of the new operating procedures and work instructions, which was dictated by the OHSAS 18001 standard. During last year the employees had undergone a total of 5,031⁴⁹ external and internal educations and trainings (4,099 in 2014). In 2015, the total number of hours that employees spent on some of the trainings was 7,546 h⁵⁰, i.e. each employee had spent 3.4 h in trainings, as in 2014, which confirms that the increase in the number of employees did not lead to a decrease in the level of attention given to their development. A total of 457,767 euros was invested in external education at the level of the Hemofarm Group, which represents a reduction of about 6% (2,014 - 485,164 euros). The investment at the level of Hemofarm A.D., which has the largest number of employees, amounted to 389,881 euros, which is a slight increase compared to the previous year (2014 - 388,107 euros).⁵¹ All new employees, a total of 162, were trained in accordance with the procedures of business introduction. Training lasted for at least two months, with monitoring and evaluation of employees' adaptation, and mandatory training on the protection and respect of human rights.

⁴⁸ Based on the Ordinance on defining the framework for determining salaries and other earnings; ⁴⁹ The Measuring unit is a training per employee; the same employees attended more than one training, in accordance with the requirements of job positions.

⁵⁰ The average duration of one training is 1.5 h.; ⁵¹ The greatest number of educations (about 75%) was organized for the organizational unit of Technical Operations, which is not surprising, given the increased volume and complexity of production.

Structure of qualification 2012-2015



UD - University degree; CE - College education; HSE - High school education; NQ - non - qualified

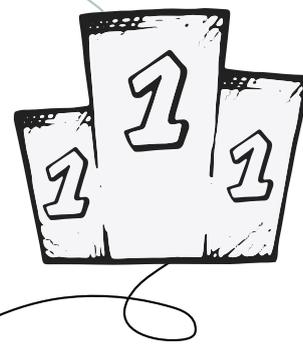
Hemofarm offers full legal protection and support⁵² to its employees, and in 2015 one case of mobbing was reported, which was rejected in the conducted internal procedure as unfounded. During the year we have started workshops for prevention of mobbing and resolving all doubts about it, and managers were given recommendations for identifying and preventing all forms of mobbing, which will be presented in the form of brochures on prevention in 2016. The company's history has recorded only three cases of the initiation of proceedings on the grounds of violation of the Law on Prevention of Harassment at Work, of which one was rejected in court as unfounded, while two are still in court procedure.

Hemofarm nurtures its employees' right to self-organization and trade unions. Two trade union organizations operate within the company. The fact that membership in the leading Independent trade union increased from 1,315 to 1,785 members (which makes 80.5% of total number of employees), tells about the interest of employees to actively participate in the protection of their own rights and to work on the improvement of their rights.

Every year, on the company's birthday, a reception for Hemofarm's pensioners is organized, and this reception also gives employees the opportunity to socialize with each other, to learn more about how the Hemofarm used to function, and how it functions now. Also, through monthly donations we achieve support to the work of the Association of Pensioners, celebrating their knowledge, experience and commitment.

⁵² During 2015 there were no initiated proceedings against the company on the basis of gender, ethnic, religious or any other form of discrimination. The company has not had cases of work engagement of underage workers.

E qual opportunities



Hemofarm is developing into a modern and dynamic company. For our company, the right to work presents a universal right, while professional competence is for Hemofarm one of the most important aspects of business, which traditionally makes Hemofarm one of the most desirable employers in Serbia. It is therefore not surprising that, during 2015, over 6,000 potential candidates expressed interest in 138 open positions. In accordance with corporate procedures, while advocating for transparency and the provision of equal opportunities to all, 1,414 candidates, from the total number of applicants, passed through a process of selection and recruitment. In this way, the company's first-round selection increased the number of individuals tested by 95%, while 784 candidates entered the second round. According to the set criteria, this was 55% more than in the previous year. As a result, Hemofarm has selected the best people for the purpose of business development, and, at the same time, mapped the best ones available on the domestic labour market. It is worth noting that the company prohibits discrimination of employees as well as discrimination of candidates for the job. It also banned the employment of children, younger than 18 years old. Legal Department constantly monitors all business operation of Hemofarm, including human rights protection aspect of all employees as well as job candidates. The rules for internal advertising are clearly set out, as well as the duration of the selection and recruitment, and connection of employment process with the monitoring of the new recruits' adaptation.

The company encourages employees to develop by changing business positions within the company, allowing both vertical and horizontal promotion. In line with that trend which is very important for individual career development and gaining a richer business experience, the number of internal candidates who have applied for some of the open commercial positions rose by as much as 160% compared to the previous year.

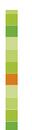
When selecting and appointing senior management, Hemofarm A.D. cherishes the practice of providing equal opportunity both to in-house experts and external candidates, on one hand, and to local and international experts, on the other hand. Accordingly, middle and senior management consists of experts from the circles of the local population with equal participation, expressed in percentage terms, as other experts. Also, Internal legal acts prevent conflicts of interest at all levels and business positions.



Healthy and safe team before all



Safety and health of Hemofarm's employees, business partners and visitors is one of the priorities of the company, and therefore the level of their safety and protection improves daily. Using the latest technologies and preventive measures of safety and health protection, as well as fire protection, the Company creates conditions for healthy and safe stay in all the working and auxiliary premises at Hemofarm. In this way dangerous situations or occupational injuries are prevented or reduced to a minimum, which minimizes the number of working days lost, due to sick leave.



Hemofarm achieves the highest level of safety and health at work by applying the guidelines provided by national legislation, but also through complying with the procedures of an Integrated system of environmental management (ISO 14001) and Occupational Health and Safety Management System (OHSAS 18001) for which Hemofarm is certified for facilities in Vršac and Dubovac, and from 2015 in Šabac as well. Info tables are posted at all three locations and they show the number of injuries at work in a given location in the current year, the number of days without injury and date of the last violation. This type of notifying employees on occupational injuries has led to increased awareness of safety and health at work. The speedometer was set at Vršac location in order to control the speed of motor vehicles on the factory grounds.

Physical and technical security of its resources, employees and the environment, Hemofarm guarantees through the system of video surveillance and fire detection. It also has its own security service based on experienced staff with full training on the respect and protection of human rights.

During the year, a series of activities were undertaken in order for workers to feel safe and secure at their work place. During 2015, occupational diseases and work related diseases were not present in Hemofarm. The activities of the Security Committee, that actively participates in the investigation of incidents, giving suggestions and proposals for improving the system, and in other activities, contributed to that. The Committee, which has three members, was formed in accordance with the legislation and the Special Collective Agreement on Safety and Health at Work, and it represents the best connection between the company's management and employees. The best proof of Hemofarm's responsibility and commitment is the special '28 April' award which is presented for the commitment to the values of safety and health at work, and spreading the culture of prevention. This important annual award for the most responsible companies, entrepreneurs and individuals is granted by the Agency for Safety and Health at Work, on the occasion of the International Day for Safety and Health at Work, and Hemofarm was awarded with it three times (2012, 2014 and 2015).

Training of employees is one of the most important preventive measures in Hemofarm, because it enables identification of potential hazards and implementation of measures in order to be protected against hazards. During 2015, 2,538 trainings in health and safety at work and environmental protection were performed, and all employees have passed the test of general knowledge about work safety and health at work, technical protection, providing first aid and fire protection. They also participated in evacuation exercises in case of emergencies in factory plants in Vršac, Šabac and Dubovac, in accordance with the internal procedures of the company.

In addition to internal training, Hemofarm engages authorized institutions to perform specific trainings of its employees. During 2015, special trainings were carried out in order to check the knowledge of first aid and handling of internal transport. Also, eight employees completed the 'Professional examination on the practical capacity of persons to perform the tasks connected with safety and health at work' in the Department for Safety and Health at Work, at Ministry of Labour, employment, and social issues.



In 2015, a number of preventive measures was performed in order for each position to be safe and secure. Examinations and testing of work equipment, personal protective equipment, electrical installations, and conditions of the working environment were carried out as well as monitoring of the following processes: measurement of pollutant emissions from the boiler plant, measuring emissions of organic solvents, and quality testing of technology and atmospheric wastewater. Safe management of chemicals is regulated in the context of an integrated system of procedures and legislation. Company's Intranet offers a list of chemicals with instructions for safe handling, and it is available to all users of chemicals.

Fire protection, protection from chemical accidents and natural disasters is provided by Hemofarm's professional fire brigade. In addition to professional firefighters, it is comprised of associate members who are normally positioned at different positions in the company. Work areas are equipped with fire-extinguishing equipment, alarm systems, fire detection and extinguishing equipment, fire dampers, panic lighting and other systems that have been set in order to ensure safe stay of employees in work areas. Within the storage of combustible materials there are special measures to be followed in case of accidents. In case of a spill of flammable liquids there are reception pits for the neutralization of dangerous materials.

Despite all preventive measures, care, caution and knowledge of employees, injuries can still occur. In this case, the injured are immediately provided first aid in accordance with the appropriate procedures, they are accompanied and transported to the nearest health facility, if necessary. The employee's condition is monitored till final recovery. All employees are informed on where in the company they can seek help and to whom to turn to for first aid in case of injury or sudden illness. At Hemofarm, more than 2% of employees are trained in first aid, while other employees go through various levels of training in order to acquire knowledge in this field.



Hemofarm makes no difference between the safety and health at work of its employees and its business partners, which shows the concern for the whole society in which it operates. When choosing a contractor or supplier, the company in particular takes into account whether a potential partner is solvent, meets the legal requirements and takes into account the measures of safety and health at work. A potential partner needs to possess a certificate of paid taxes, declarations of respecting human rights and the rights of employees, the evidence that the workers are registered, and to have the Qualification questionnaire and BSCI questionnaires filled in. In accordance with specific needs, potential contractors are required to submit certificates of training for safe and healthy work, medical certificates, insurance policies, expert findings, studies, procedures, policies. Only when the Contractor is qualified, a binding Annex on health and safety at work, environmental protection and fire protection is signed, with the possibility of fines due to violations of rules and regulations in the areas defined in Annex. During 2015, all contractors complied with defined measures of safety and health at work, fire protection and environmental protection.

Analysis of Safety and protection system in 2015 is shown in the following table:

Process Performance Indicator	2013		2014		2015 Hemofarm A.D.
	Vršac	Šabac	Vršac	Šabac	
The Number of Employees	1,648	346	1,786	346	2,216
	1,994		2,132		
The Number of Injuries at Work	24	6	23	6	20
	30		29		
The Number of Trainings / Courses HS Sector	433	1,658	2,746	163	2,538
	2,091		2,909		
% of Injuries comparing to the total number of Employees	1.50		1.36		0.9
Average number of days of absence from work	22		22.6		46.1 ⁵³
The Number of lost hours due to accidents / per million working hours	1,227.5		1,117.7		923.3
The Number of registered near misses ⁵⁴	0		0		11

⁵³ Average number of days of absence from work is higher because one employee had 167 days of sick leave (fall within the company on arrival at work)

⁵⁴ Unsafe events (near miss) are events or situations that have not led to injuries / damage or could have caused them. Employees are encouraged to report any unsafe event or situation and thus prevent injury or damage.



Every employee has achieved 2,088 working hours, a total of 6,715,008 hours of work accomplished (for all 2,216 employees). A total of 775 working days (6,200 hours) has been lost due to injuries. The number of hours lost due to accidents per million working hours decreased comparing to 2014 by 17.4%. Compared to 2014, the Company recorded a decrease of the total number of injuries by 31%. The percentage of employees who had suffered an injury at work in relation to the total number of employees decreased by 35.2%.

In addition to the legal basis for achieving the safety and health at work and certificates by which Hemofarm confirms its determination to be proactive in these areas, the company is continuously concerned about improving the health of its employees through the following actions:

- Direct investments: periodic medical examinations for certain business positions; Regular sanitation and ophthalmological examinations; Cooperation with specialists in occupational medicine (Health and workplace inspections, risk assessments, technical assistance, etc.); Training in first aid; examination of the working conditions, work equipment and means and equipment for personal protection; procurement of work clothes and equipment for personal protection and placement of labels for safe and healthy work; horizontal and vertical traffic signs in Sabac Plant and setting the speedometer in Vršac.
- Insurance against accidents: insurance covers a period of 24 hours, at work and outside of work, including the occurrences of disability or loss of life;
- Voluntary pension fund: the aim is to enable good living conditions for every employee during their working life, but also after retirement by encouraging loyalty to the company; the company will deposit RSD 2,000 a month to employees who decide to deposit at least RSD 1,000 from their own assets, and who are in a permanent work relation for over three years, or who are employed for an indefinite period of time from the first working day in the company. About 42% of the total number of employees have consented the voluntary pension fund.



- Voluntary health insurance is intended for all employees and covers the costs of medicines, specialist examinations, periodic medical examinations, sanitary inspection, treatment, surgery, orthopaedic devices
- Solidarity Fund: financing the work of Sport sections and recreation of employees (renting space, provision of equipment and props); aid for an employee due to illness and sick leave longer than 6 months; aid for an employee for the birth and adoption of a child; helping single parents; helping the employee in case of death of a close family member.

The section of voluntary blood donors in Vršac and Šabac functions for years as a part of the Solidarity Fund. Employees regularly donate blood voluntarily, or respond to the appeals of the local blood transfusion services, thus greatly helping local healthcare systems in assisting the most vulnerable patients.

Also, employees have access to the resources of the representative Independent Union for organizing recreation, sports clubs and sports meetings of employees, assistance in crisis situations, as well as ongoing maintenance and improvement of workers' rights in general. The sports section of the Independent Trade Union called 'Hemofarm Sports Society' exists in order to promote a healthy and quality life. In this way the Independent trade union provides to its members engagement in recreational and competitive sports (football, volleyball, basketball, archery, etc.). The best of them represent the Company at organized annual sports games or at individual events, which encourages teamwork and a competitive spirit.

Taking care of employees and their families reflects corporate values. Therefore, employees are guaranteed benefits which go beyond the provisions of labour and related regulations at the national level. Experts are available within Hemofarm to provide psychosocial support to employees and their families, in order to balance, in the best possible way, their careers with their family lives. Such balance would make them fully realized in both segments of their lives.

Corporate culture



A strategic approach to managing human resources, in addition to the professional development of employees, includes corporate culture, which is developed through constant promotion of corporate key values - not related only to products, but also to interpersonal relations. Hemofarm's approach to people goes beyond the legal obligations of care for employees. That is why Hemofarm gives great importance to the protection and health of employees, a pleasant working atmosphere, positive and stimulating environment, but it also gives great importance to creating equal conditions for the development of personal and team potential in different areas of work. One of the indicators that shows that Hemofarm has successfully created a modern

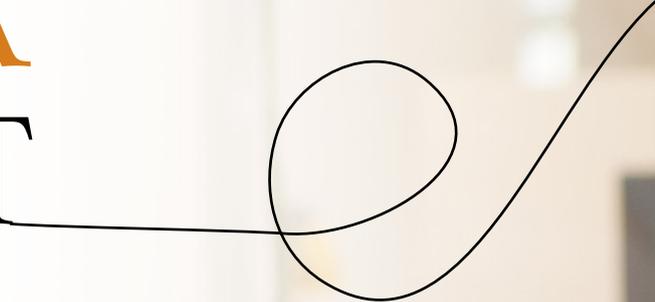


We develop a new corporate culture.

working environment, in which respect for diversity and equality truly exists, lies in the fact that women make up the majority of employees at all organizational levels. Hemofarm's support for families with children also influences the satisfaction of the employees. In addition to one-time allowance for each baby born, Hemofarm provides financial assistance and school supplies for children of single parents.

Corporate culture is a multi - dimensional category for Hemofarm and it includes a whole set of characteristics and behaviours of employees in the workplace. Corporate culture is a very important factor that influences communication within the company, while the communication itself stands as a very important factor in business success. For this reason, corporate culture needs to be continuously reviewed, promoted and developed, as well as the company itself. One of the biggest challenges in the context of improving Hemofarm are the development and changes of the corporate culture mentioned above. In 2015, employee survey was carried out on the existing corporate culture and efficiency of the corporate culture, with the aim of objective assessment of development potentials. Through the company's mailing lists and bulletin boards, all employees had the opportunity to familiarize themselves with the launching of this project and were invited to give their comments and suggestions. By randomized choice, a total of 614 employees completed the survey, and their results will show the current status and the best course of development. Human Resources Sector has selected a strategic consultant with whom it examines all aspects of the current corporate culture, so that further actions, based on the results of the survey, can follow in early 2016. Workshops are planned to be held, and they will, through teamwork, result in concrete measures and actions. These measures and actions will affect harmonization of and changes in key corporate values, all in line with the new organizational culture.

OUR PLANET



CLIMATE CHANGE AND HUMAN HEALTH

OUR TODAY - YOUR TOMORROW

Waste management

Gas emissions

Water management

Energy consumption

Comparative analysis of resources management

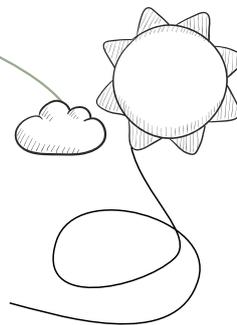
RETURNING TO NATURE

HEMOFARM'S SUSTAINABLE DEVELOPMENT OF IN 2015



Hemofarm is already
among the 20% of the most
energy-efficient companies
in its category in the world!

Climatic change and human health



The irresponsible attitude of man towards nature has actively contributed to the development of climate change, which is today the most influential meteorological factor. Being aware of substantial damage inflicted on natural ecosystems and ozone, Hemofarm continuously seeks to develop awareness not only of the company, but of the general population as well. The company recognizes the importance of climate change and managing climate change, therefore its actions towards these matters are accountable and responsible, especially in the field of possible preventive actions.

In addition to the less expressed differences between seasons, there are more frequent occurrences of drought, flooding, high winds and other bad weather conditions. Serbia has felt direct impact of climate change in the form of heavy flooding, which threatens housing and economic infrastructure year after year. Detailed analyses and assessments of the consequences of climate change on health are still not carried out in Serbia, though it has been shown that during extremely hot or cold weather periods the help of physicians is more frequently sought by the chronically ill, the elderly and the children. These impacts represent an important indicator for the health system and for all of its stakeholders, including Hemofarm. Meteoropathy is exacerbation of symptoms of chronic diseases, and with healthy people it brings to development chronic fatigue, mood swings, decreased concentration, developed apathy, insomnia, and so on. It is caused by sudden or unexpected changes in intense weather conditions and presently it already affects as much as 30% of the world's population, with the trend of constant increase.⁵⁵ Besides the obvious effects caused by drastic weather changes, there are also some 'invisible' effects on health, which are yet to be manifested. Since weather conditions and climate change bring on the increase in concentration of pollutants in the air, in the long run this may bring to an increase in the number of cardiovascular (increase in mortality during heat waves, and death caused by heat stroke) and respiratory diseases (meteorological parameters affect the distribution and seasonal producing of allergens). These indicators represent important alarm for Hemofarm and our company takes them seriously; in addition to the development of awareness we are trying to optimize the portfolio to the needs of modern symptoms and diseases, but we are also trying to actively protect the environment, in order to mitigate the effects of climate change and preserve the available resources.

Besides building up high level of awareness about the importance of environmental protection, Hemofarm is trying to actively manage risks associated with climate change and its effects on business. This approach has proven to be correct during last year's devastating floods in Serbia. Although the national state institutions and insurance companies still do not recognize climate change as a risk factor, Hemofarm continuously scans all the aspects of the environment in which it operates by proactively treating potential risks and hazards, in addition to planning and implementing appropriate preventive and corrective measures.

Thus, the risks of flooding in Hemofarm's factory complex in Šabac were noticed in time. The construction of protective walls and system of drainage canals was a part of an organized defence of the factory from floods - it resulted in the prevention of possible multi-million euro damage in the production plant and the surrounding environment that could have occurred due to flooding.

⁵⁵ According to World Health Organization data



Our today - your tomorrow

Since the essence of environmental protection lies in preserving resources inherited from the previous generation, and enabling future generations to have the same resources at their disposal, Hemofarm strives to reconcile every aspect of its operations within the principles of sustainable development. Accordingly, the company attaches particular attention to responsible management of gas emissions, water and energy consumption, and waste disposal.

Through continuous improvement within its business, Hemofarm aims to achieve progress in the field of optimization of the production processes, the ecological aspects of origin and pharmaceutical packaging, increasing the use of recycled raw materials or recycling waste materials, and to make storage and transportation more efficient, while at the same time raising the level of their sustainability.

One of the good examples present at Hemofarm is the construction of a new Hemofarm Quality building, which was designed in accordance with current standards of energy efficiency. The main concept during the process of designing this building was to achieve energy savings, so the feasibility study of installation of LED lighting has been performed, and the building was given an adequate energy passport. Also, one of the most important projects for Hemofarm in 2015 and 2016 is the construction of a new boiler room. In addition to ensuring the stability of heat supply in the long run, a number of reasons for this project lie in the field of energy efficiency. The economizer will be installed on a steam boiler, which will enable the heat from the flue gas to be used for preheating boiler water. The burner of a steam boiler is characterized by extremely low values of harmful emissions. Also, the hot water boilers in the new boiler room are condensing type boilers, water content is increased, and the construction of boiler tubes is very specific, with increased values of surface area for heat transfer, all of which leads to the impressive efficiency. The burners for heating boilers have also low values of harmful emissions. The commitment to have more hot water boilers of smaller capacity will lead to a smaller number of starts, as well as to an efficient and flexible operation that will easily be able to adapt to the needs of thermal energy in transitional periods (beginning and end of the heating season). Frequency regulation of pumps is one of the energy efficiency measures that was implemented in the new boiler room, as well as the use of LED lighting. Energy efficiency is enhanced with the strategic positioning of the new boiler itself - close to all major consumers, which reduces heat loss arising from the transport of energy fluids.

Water is very important for Hemofarm but it is also, socially and globally, a highly sensitive resource. The main problems that the Republic of Serbia faces in the field of water protection are insufficient development of sewage infrastructure in cities and industry, and especially the insufficient number of constructed devices for the treatment of waste water, which has led to high pollution of waterways. An additional complicating factor is the low price of water which is not sufficient to ensure adequate maintenance of existing water supplies and sewage systems; the construction of sewage, on one hand, and wastewater and industrial water treatment plants, on the other, require huge investments. According to the Central European Development Forum (CEDEF) in May 2015, more than 65% of industrial facilities in Serbia did not treat waste water.⁵⁶ Hemofarm's responsible behaviour towards the environment is reflected through the attention paid to the protection of water as an important aspect of the environment. One of the completed projects and goals for improvement and reduction of environmental impact is the launch of a primary treatment plant in Vršac. There, the primary treatment plant, firstly through physical process (filtration in roto sieve), and then through the chemical processes, treats sanitary and process wastewater prior to its discharge into the city sewers. In Šabac, due to the specific manufacturing process, the treatment process (water treatment) is more complex and involves the processes of collection and equalization, coagulation and flocculation, flotation and biodegradability. The remains from the waste water processing treatment from both plants are disposed of in a proper manner, to the landfill licensed to accept these categories of waste. Hemofarm received usage permits for the two plants in September 2015, and the total investment in these projects and environmental protection in that calendar year amounted to EUR 1.6 million.

⁵⁶ http://www.cedeforum.org/sesti_medjunarodni_energetski_forum.html

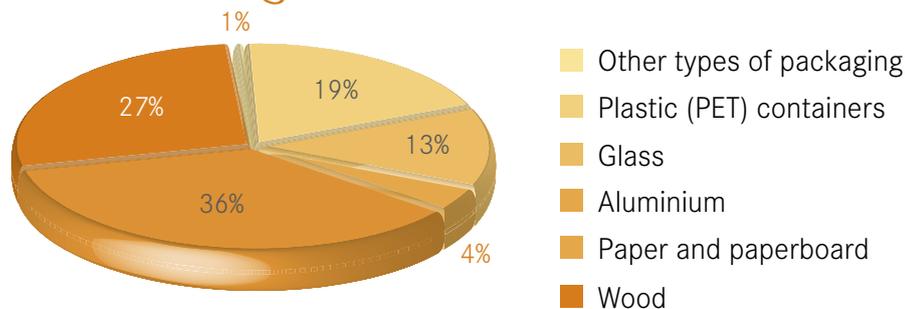
Hemofarm confirms its active care for the environment through a comprehensive approach to risk management and preventive actions. Starting from 2009, the company created more than 10 studies on environmental impact for the environment in which it operates, i.e. an impact study on the environment in case of accidents and other unfortunate situations, or an impact study of primary wastewater treatment plants, etc. All the studies confirm that Hemofarm A.D. has no harmful impact on the environment with population, flora, fauna and residential and commercial infrastructure around its production complexes, which is the best proof of its high level responsibility. The company proudly stands out with its team as a good neighbour and citizen within local communities in which it operates.

Waste management



Hemofarm as a responsible and conscientious company, whose business approach respects the principles of sustainable development and environmental protection, pays special attention to the proper management of waste. The waste that is the result of performing the activities of the company, includes waste generated outside the production site of the company and industrial waste, which was created within the Hemofarm production-business complex. Since it is not in direct contact with the end users of its products, and therefore is not able to collect packaging waste from the products whose life cycle is completed, Hemofarm continues to fulfil the commitments defined by the National Plan for reducing packaging waste. This Plan defines the general objectives in terms of re-use and recycling of packaging waste and specific targets for recycling of paper / cardboard, plastic, glass, metal, wood from packaging waste. Hemofarm meets liabilities from that Plan through cooperation with authorized operator, who takes responsibility for mentioned packaging to be disposed in a proper way.⁵⁷

The amount of packaging for which the obligation of management was transferred to the operator



⁵⁷ Mostly packaging and transport packaging and the instructions on the medicine, from the materials that may be recycled.

When it comes to industrial waste, there is an increase in amount of generated waste compared to 2014. There are several reasons for this increase:

- The merger of the Šabac factory with Hemofarm A.D. which technically adds quantities of generated / disposed waste
- Šabac drive had 38.1 ton of hazardous waste per stock at the end of 2014 (Vršac had only 3 tons)
- Increased volume and complexity of production, which, despite substantial optimization of development and production, line - draws an increased generation of waste

Overview of industrial waste by type in tons for 2015:

Type of waste	January 1 st . 2015	Produced waste in 2015 (2014)	Waste taken care of in 2015 (2014)	December 31 st . 2014	Procedure
Non-hazardous (has certain use value – paper, cardboard, wood, plastic, metal)	-	489.61 (354)	489.61 (354)	-	Transferred to authorized operators for further action, depending on the type of waste
Non-hazardous (comunal)	-	5,140m ³	5,140m ³	-	Forwarded to the public communal company which disposes it to the local landfill
Hazardous (has certain use value – electrical and electronic waste, fluorescent bulbs, batteries...)	-	2.48	2.48	-	Forwarded to the authorized operators for further processing, depending on the type of waste
Hazardous (has no pharmaceutical use)	41.1 (38.1 in Šabac and 3 in Vršac)	154.63 (125)	118.04 (122)	77.69	Exported to Germany for incineration
In total	4.1	646.73t+ 5,140m ³	610.13t+ 5,140m ³	77.69	

In 2015, Hemofarm had generated a total of 646.73 tons of industrial waste, of which 154.63 tons of hazardous pharmaceutical waste and 492.1 tons of recyclable waste with use value which was fully handed over to operators for further processing. In addition, industrial waste includes non-hazardous solid waste that is generated daily, it is disposed of by the local communal company⁵⁸ and its quantity in 2015 was 5,140 m³.

Hemofarm A.D. continues the practice of exporting hazardous pharmaceutical waste abroad. From the total quantity of generated waste in 2015, Hemofarm had individually exported 118.04 tons to be neutralized by incineration in an authorized plant in Germany, after receiving the permission from the relevant ministry for the second time in a row. The remaining 77.69 tons were contracted for exports in 2016, and the decision how to dispose of the waste was completely in line with legal regulations and on the basis of best available techniques and practices.

⁵⁸ Monitoring and evaluation of the quantity of this waste is done in m³, while the costs of transportation are given per m²; transport is made from Hemofarm production circuits, using containers of 1 m³.



Gas emissions

One of the most important aspects of environmental protection is a reduction in emission of greenhouse gases (GHG) as well as pointing out to the dangers that they are causing. Preventing such emissions into the atmosphere is essential for the preservation of the ozone layer, for the slowing of global warming process and for reducing the harmful solar radiation, and all indirect effects caused by the negative impact of people and the economy.

The member states of the United Nations formalized their dedication and efforts in order to stabilize the concentration of greenhouse gases and thereby prevent the negative anthropogenic influence on the climate system, with the adoption of the UN Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol. Kyoto Protocol sets targets for reducing emissions of industrialized countries that include emissions of six gases.⁵⁹ The Republic of Serbia has an obligation to respect the Convention relating to reporting on the activities aimed at fighting climate change and adaptation to the changing climate conditions while, under the Protocol, it has no obligations concerning quantitative GHG reduction. Hemofarm as a socially responsible company, whose business approach respects the principles of sustainable development, pays great attention to the control of emissions of greenhouse gases. Since the company has adopted the international GRI methodology of reporting on sustainable development, an important segment of this standard is to precisely measure the GHG emissions. In this way, it is possible to, at least partially, control the direct impact of people and industry on the preservation of the ozone layer and reducing their harmful impact.

⁵⁹ Carbon dioxide - CO₂, methane - CH₄, nitrous oxide - NO_x, sulphur hexafluoride - SF₆, perfluorocarbon PFC / i hydrofluorocarbons / HFC.

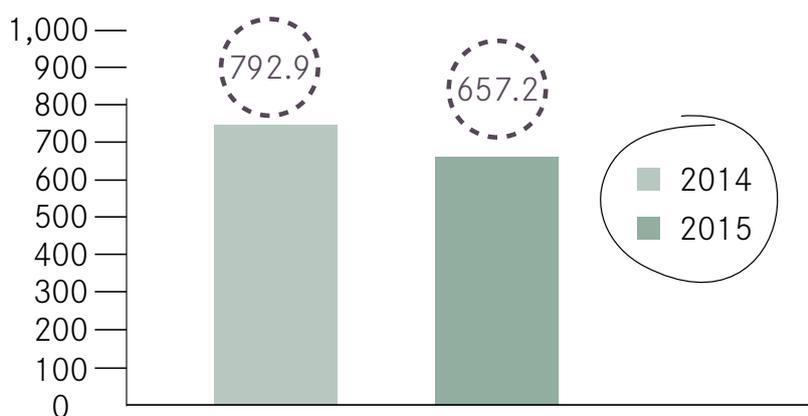
Although the pharmaceutical industry is not a major emitter of greenhouse gases, it is important that these emissions are constantly monitored and minimized. Therefore Hemofarm constantly monitors all three direct sources⁶⁰ of emissions of greenhouse gases within its production:

1. The combustion of natural gas in the boiler room,
2. The use of refrigerants for use in technological processes, and
3. The consumption of fuel in company vehicles.

Gases whose emissions are monitored in Hemofarm are: CO₂, CH₄, NO_x and HFCs, while no emissions of other gases covered by the Kyoto Protocol⁶¹ are present at Hemofarm.

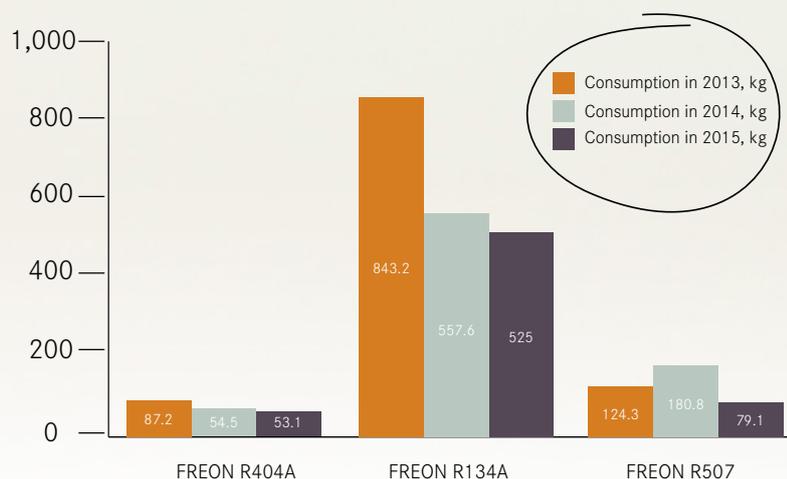
One of the primary sources of energy that Hemofarm uses in its production is natural gas. The annual consumption of natural gas in 2015 amounted to 5,510.710 m³. Although the achieved annual consumption of natural gas was lowered by 4.2%, its share in total GHG emission remains the largest.

In line with existing business practice, within the framework of conservation and environmental protection, Hemofarm bases its production on the supply of 'CFC Free' Freons (no chlorofluorocarbon) which are used as gas for refrigeration systems. During 2015, for use in refrigeration processes, Hemofarm received a total of 657.2 kg 'ozone-friendly' freon, which is about 17% less than in the previous year, due to optimized operation of the cooling system, with a reduced number of failures.

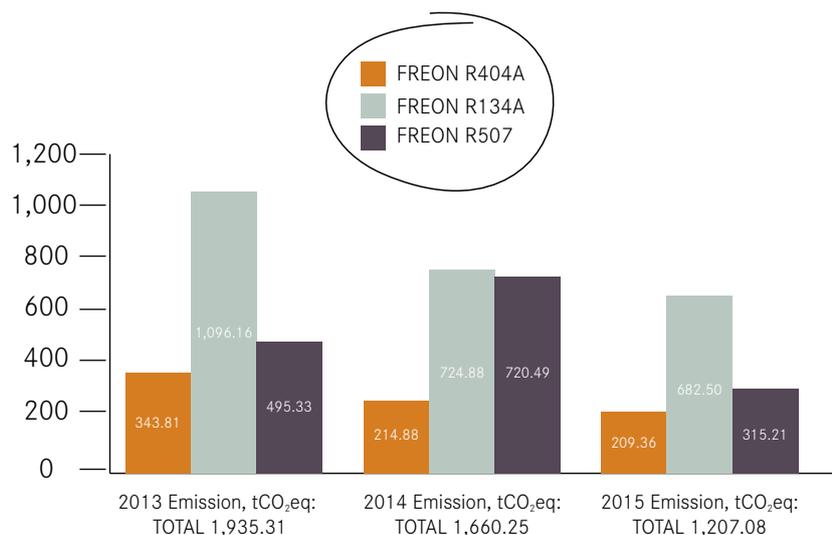


⁶⁰ As defined by Corporate Accounting and Reporting Standard: direct emissions (or Scope 1 emissions) are emissions from sources that are owned or controlled by the organization', such as: Stationary Combustion: from the combustion of fossil fuels (e.g. natural gas, fuel oil, propane, etc.) for comfort heating or other industrial applications.; ⁶¹ http://unfccc.int/kyoto_protocol/items/2830.php

The amount of delivered ‘ozone-friendly’ freons, for use in refrigeration processes, in 2015 is presented in the following table:



Reduction of use of Freons resulted also in reduction of emissions of greenhouse gases originating from the use of refrigerants by 27% compared to 2014.



For transport between home and factory Hemofarm employees use private cars, public transport (bus) and in the summer, at all locations, the number of arrivals by bikes or mopeds increases.

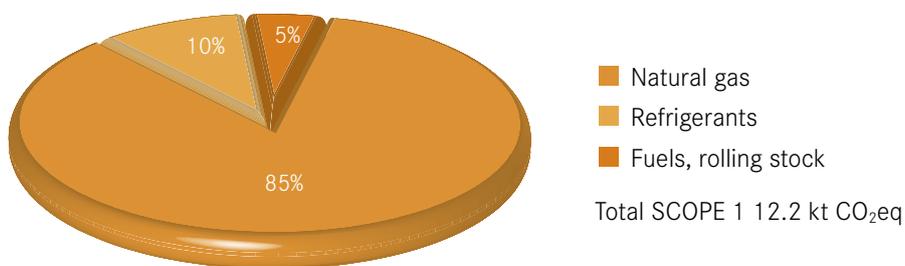
One-third of emissions (about 28%) comes from fuel consumption made by passenger cars and buses for transporting employees on the Belgrade - Vršac - Belgrade line, while 2/3 or about 72% of emission comes from local and suburban public transport. Total emission from these sources amounted to 119.6 kt in 2015. Since October 2015, there is an organized bus transport for employees who commute on the Belgrade-Vršac-Belgrade line, which shows Hemofarm’s concern for security and traffic safety of its employees. This initiative has also reduced the number of arrivals of individual passenger cars and achieved a reduction of GHG emissions by 12%, which is an example that should be followed by other companies in Serbia.

Emissions resulting from the use of Hemofarm official vehicles in 2015 amounted to 661.2 t CO₂eq, of which 45% comes from the use of gasoline and 55% from diesel fuel.

Based on the given data and calculation according to international standards and formulas, an inventory of greenhouse gases (GHG) was made, which showed that the total direct emissions of these gases from Hemofarm in 2015 amounted to 12.2 kt CO₂eq. The division according to the source of emissions is shown in the following table:

*Total emission of greenhouse gases in Hemofarm
(Direct GHG emission - Scope 1)⁶²*

<i>1. Natural gas</i>	<i>CO₂</i>	<i>CH₄</i>	<i>NO_x</i>
Emission, t_CO ₂ eq	10,306.47	5.14	4.86
Emission, t_CO ₂ eq	10,306.47		
<i>2. Freons</i>	<i>CO₂</i>	<i>CH₄</i>	<i>NO_x</i>
Emission, t_CO ₂ eq	209.36	682.50	315.21
Emission, t_CO ₂ eq	1,207.08		
<i>3. Fuels, mobile combustion</i>	<i>CO₂</i>	<i>CH₄</i>	<i>NO_x</i>
Emission, t_CO ₂ eq	649.49	0.97	11.34
Emission, t_CO ₂ eq	661.81		
TOTAL SCOPE 1, tCO₂eq	12,185.37		



⁶² The calculation was performed using the IPCC - Tier 1 Methodology

Water management

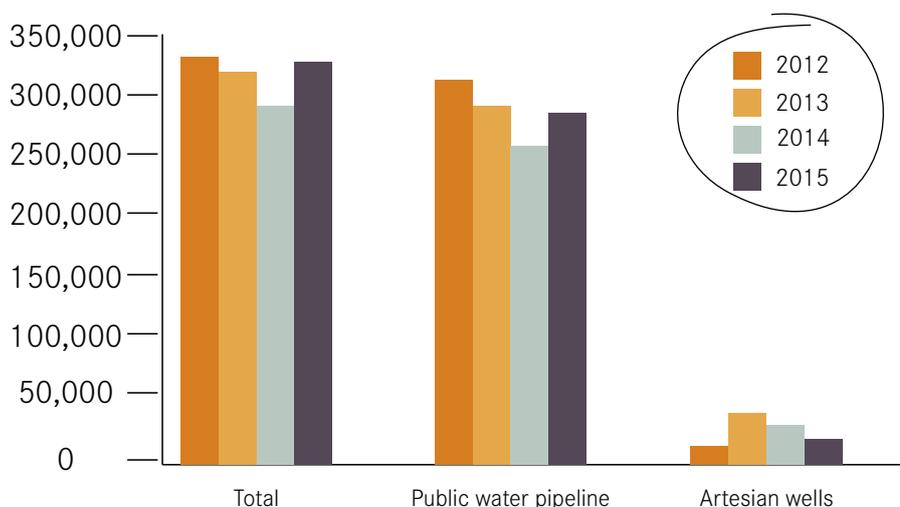


Water is an important resource that Hemofarm uses in significant quantities in the production process of pharmaceutical products. City water is used in technological processes for the production of purified water (PW), water for injections (WFI) and pure steam. Water is also used for the production of technical steam and hot water, as well as for the functioning of the cooling system (cold water) and sanitary purposes. For its needs Hemofarm uses water from the public water pipeline and artesian wells.

The total amount of used water from public water pipeline has been increased from 262,481 m³ in 2014 to 288,061 m³ in 2015, which represents an increase of 9.75% and it was caused by the significant increase in production volume of pharmaceutical forms of infusions (34% more bottles) and ampoules (2% of produced vials), in which the water for injections is incorporated into the product itself.

The total amount of extracted water from artesian wells was reduced from 33,218 m³ in 2014 to 27,493 m³ in 2015. One of the reasons for this decrease was the suspension of the abstraction of water from artesian well due to a technical fault - the time needed to remove the fault was nearly 2 months. With its water abstraction Hemofarm does not endanger any of the resources of the water intake. Artesian wells within the company are autonomous, a city water source located in Pavliš, has a capacity of 250 to 300 litres per second and meets all the needs of residents of Vršac and surrounding villages. Water abstraction from own artesian wells has no effect on the availability of water to the local population

The amount of extracted water (m³), by water source:



If we observe the total consumption of water from both sources, it was by 6.7% higher in comparison to the previous year, but it decreased compared to 2012 and 2013 as a direct consequence of the growing volume and complexity of production. Despite the increase in volume of water abstracted for the production process, the absolute value of the increase in water consumption is less than the absolute value of the increase in production, based on which the growth of consumption is not a negative parameter.

Hemofarm continually strives to conserve resources, the company is directed towards recycling, energy recovery and other forms of savings. One of the good examples is the technical steam. At Hemofarm technical steam does not have contact with the final product, and in the process of its production all the condensate is returned to the boiler for re-use. This, in effect, performs a continuous recovery of the water used in the production process and the use of technical steam. Also, the thermal energy of waste water steam boilers, which would be, as a result of desalination and removal of sediment from the steam boiler rejected, in regular work, is at Hemofarm used as a heat source for heating hot water in the Sterile products plant. This continuously saves approximately 120 tons of technical steam per year. Compared to the total water withdrawal in 2015, the quantity of water reused in production and distribution of exhaust steam accounts for 10.8%.

An important aspect of managing water as a resource, is the commissioning of primary wastewater treatment plants in Hemofarm facilities in Vršac and Šabac. The activities preceding the construction of the treatment plants included the preparation of the EIA (Environmental impact assessment) study for the primary wastewater treatment plant in Vršac and preparation of a study to assess the impact on the environment by the wastewater treatment plant in Šabac. For both buildings was shown that there are no protected areas and archaeological sites, wild plant and animal species and their habitats on-site and in the immediate surroundings, and that they do not endanger the environment. The total amount of treated wastewater discharged into the municipal sewage network in both plants amounts to 245,000 m³, which puts Hemofarm among only a few of companies which take care of the environment in Serbia in this way.

Energy consumption



Natural gas and electricity are the most important energy sources in Hemofarm. Electricity is used in production processes, to operate air compressors, chillers and HVAC⁶³. The biggest consumers are air compressors and chillers - production of compressed air and cooling water covers 1/3 of the total electricity consumption for the manufacturing site in Vršac. Most of the natural gas is consumed in the departments of chemical water - about 37% of the produced technical steam is required to produce purified water, water for injections and pure steams in Vršac facility.

⁶³ HVAC - (heating, ventilation and air conditioning) is the technology of indoor and vehicular environmental comfort, its goal is to provide thermal comfort and acceptable indoor air quality.



Other major segments of the natural gas consumption involve space heating and other technological processes.

Overview of electric energy consumption:

Year	Electric energy (kWh)	Electric energy (GJ)
2012	33,655,147	121,158.53
2013	33,388,114	120,197.21
2014	34,367,508	123,719.43
2015	35,631,588	128,273.72

Total electricity consumption in 2015 increased by 3.6 % compared to previous year, but when it is compared with production volume increase by as much as 7 %, the average electricity consumption per produced package of product remains the same, or slightly reduced.

The average is the lowest in the last three years. This is the result of production processes optimization through continuous implementation of projects, activities and initiatives in the field of operational excellence.

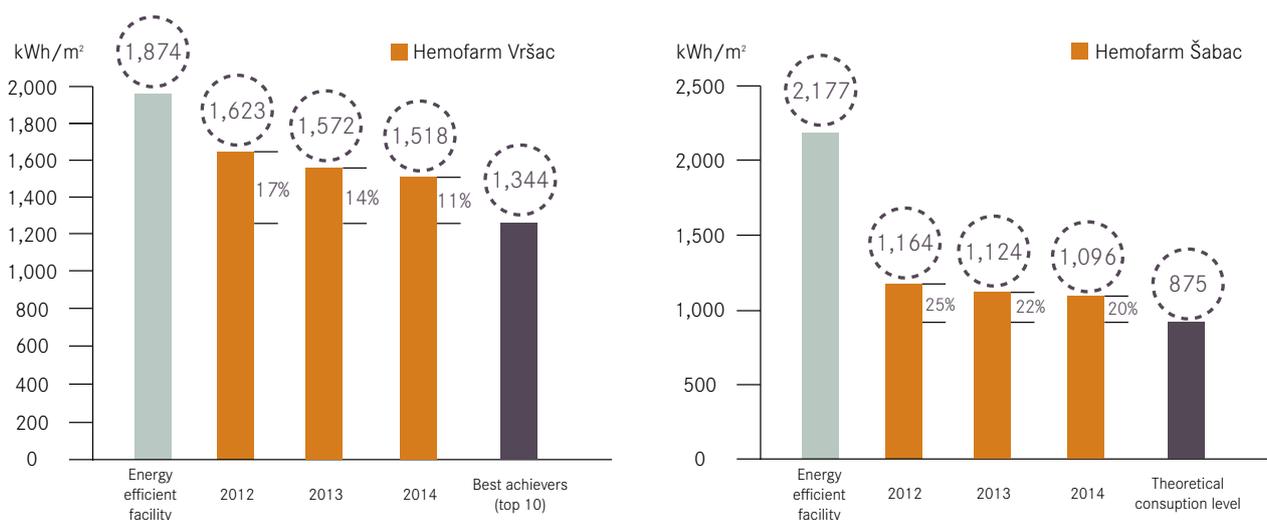
Gas consumption in Hemofarm A.D. decreased in 2015 by 4.2% compared to the previous year, continuing the downward trend, despite the increase in production volume. One of the main reasons for this decrease are changed climate conditions with milder and less cold winters, which have reduced the need for heating or reheating production and business facilities. It is expected that this downward trend continues in the future.

Overview of natural gas consumption:

Year	Gas. m ³	Gas. GJ
2012	5,515,130	184,000
2013	5,251,724	175,000
2014	4,833,904	162,000
2015	4,628,510	155,000

A member of the World Bank Group, which was engaged by Hemofarm in 2015 to assess the efficiency of resource use and propose measures for possible improvement thereof, classified the production plants in Vršac and Šabac into the group of very efficient ones in the IFC (International Finance Corporation) report. Applying statistical methods and analyses which enable benchmarking of energy efficiency of the subject plant with similar plants in the United States, data were obtained indicating that the plants in Vršac and Šabac belong to a small group of 20% most efficient plants, within the group of analysed plants (each in its plant category). The results of such analysis are used as a benchmark and indicator of energy performance during the analysed three-year period (2012-2014).

Total energy consumption:

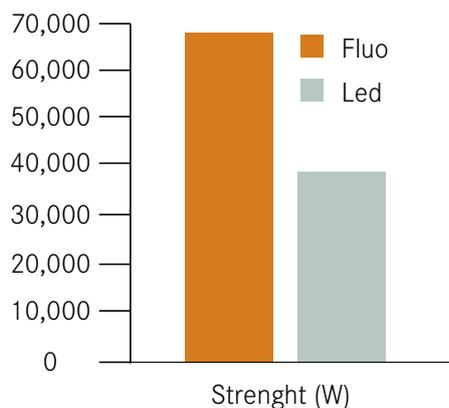


Following the detailed analysis, measures were proposed for further increase in efficient use of resources, which will be added to the initiatives and projects that Hemofarm regularly performs in the upcoming years. The report discussed also the possibility of using alternative energy sources, which will also be in Hemofarm's focus in the near future.

Despite the fact there are still no conditions for using or switching to alternative energy sources, Hemofarm continuously examines all potentials of strategic and tactical improvements of currently available energy sources within its energy management, energy efficiency and

sustainable development. The company strives to move its focus from short-term activities and initiatives to medium and long-term investment projects, which would enable more stable and sustainable business. Some of the examples that are currently being implemented are:

- update of frequency inverters on two new air compressors - except energy savings this would allow better stability and efficiency due to the speed adjusting system of the compressors within the production process; some of the benefits include increased productivity and reduced maintenance costs by reducing the number of starts and stops of machines; using slow acceleration and deceleration, avoiding sudden strikes in mechanical assemblies, etc. the repayment period of this investment would be one to three years;
- the project of exploitation of waste heat air compressors by acquisition and integration of 'Energy Recovery' device; the repayment period of this investment would be less than two years;
- installation of insulation 'jackets' - mounting/dismounting elements that contribute to the reduction of heat loss; all technical steam and condensate pipes in Hemofarm are well insulated, but in cooperation with IFC it was noted that some elements of the armature present places of heat loss; preliminary work, research and consultations were conducted in 2015, with a goal to complete full implementation during 2016; , heat losses on such isolated valves should be reduced to 11-20% compared to non-insulated, according to the manufacturer specifications and the repayment period of this investment would be two to three years



Following the general aim of increasing energy efficiency in Hemofarm, the continuous modernization of lighting is carried out - Installation of LED lamps as a replacement for traditional fluorescent tubes. This concept has been applied for new projects as well - in the construction of Hemofarm Quality building in which, for the first time, only LED lighting will be installed instead of fluorescent tubes. Comparative analysis showed that the extra investment in LED lighting will pay off through reduced electricity costs in approximately 3.5 years at current electricity prices (7,00 din / kWh).

In addition, cost savings in the field of 'maintenance costs' will be generated due to the fact that LED lighting lasts much longer (about twice as many hours of work) and replacement of LED lighting is less frequent compared to fluorescent tubes.

Also, considering external lighting of factory grounds and parking lots, the replacement of the remaining lamps that use mercury LED lighting sources is in progress. Full effects and expected annual savings will amount to about 3,800 EUR including profitability period of 41 months.

Comparative analysis of resources management



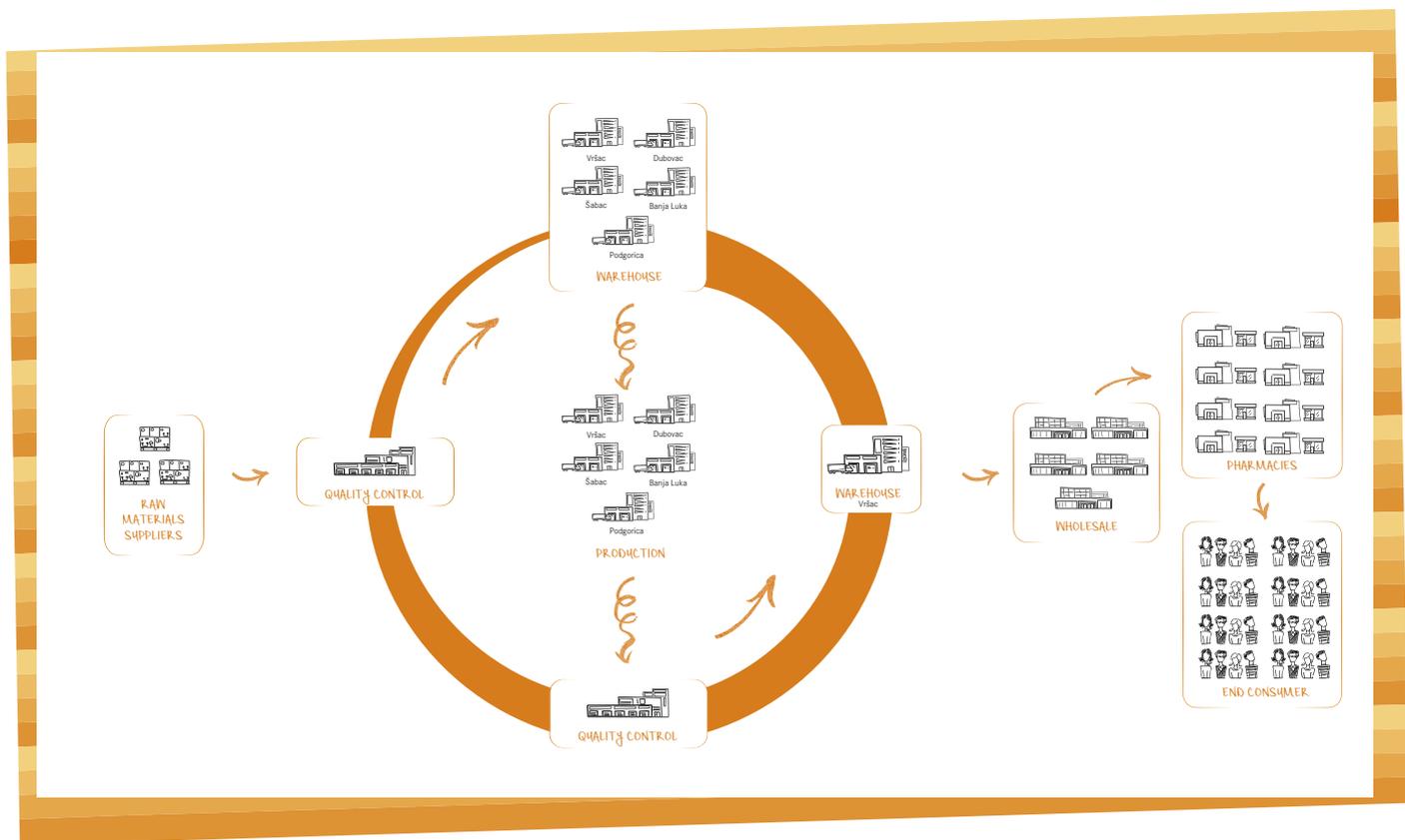
Source	2014	2015	Difference
Electricity (kWh)	34,367,508	35,631,588	+3.6%
Natural Gas (m ³)	4,833,904	4,628,510	-4.2%
Water (m ³)			
Public water pipeline	262,481	288,061	+9.75%
Artesian wells	33,218	27,493	-17.2%

Although Hemofarm achieved increased volume (7%) and the complexity of production (up 3%) in 2015, the use of energy has not increased significantly. The consumption of electricity has increased by only 3.6%, while consumption of natural gas declined by slightly more than 4% by optimizing production processes and due to the milder climate. Consumption of water from the public water pipeline grew by less than 10%, as a result of a significant increase in production volume, mainly infusion (34% more bottles), in which the water for injections is incorporated into the product itself. At the same time there was a reduction in the amount of water abstracted from artesian wells due to elimination of technical failures and infrastructure upgrades in 2015.

Returning to nature

Hemofarm confirms its social and business responsibility through socially responsible procurement. The concept of sustainable and socially responsible procurement is an important segment for improvement of production for the whole STADA Group. In the framework of the Six Sigma project to improve production, this concept provides the basis for maximizing cost-benefit relationship and actively promotes the positive performance of corporate social responsibility, environmental protection, and economic and social aspect.

Scheme of socially responsible procurement chain in the pharmaceutical industry:



Hemofarm continuously strives to improve the process of procurement, not only through continuous cost optimization and finding cost-effective sources of raw materials and services without compromising quality, but also through the choice of recycled materials and green technologies. One of the most important projects in Hemofarm, when it comes to the use of recycled materials, is the introduction of boxes made of recycled cardboard. The project started in 2013, when 97% of packaging (medication boxes) and transport boxes were made from non-recycled cardboard. Only two years later, in 2015, the share of recycled cardboard in the annual procurement of packaging and boxes was about 70%⁶⁴. The amount of recycled cardboard has remained almost at the same level as in 2014, but there has been an increase in the volume and complexity of production. This share could be higher, but certain specific requirements for the packaging of pharmaceutical products for export, as well as their placement on the different international markets, yields strict requirements, which sometimes prevent the use of recycled cardboard packaging.

It was confirmed, during the application, that the transition from non-recycled (GC2) to recycled cardboard (GD2) does not have any negative effects on the performance of manufacturing processes nor on the quality of the finished product in whole. In the course of 2015 about 1.1 thousand tons of basic boxes made from recycled cardboard were acquired, while about 450 tons of basic boxes made from the non-recycled paperboard were purchased.

⁶⁴ The share of recycled cardboard in 2014 was around 80%.

The result of the use of recycled cardboard	1t	1,100t
Electricity savings	4,200 (kW)	4,620 (MW) or around 47 days of electricity consumption in Hemofarm
Water savings	32,000	35,200,000 or about 40 days of water consumption in Hemofarm ⁶⁵
Preserved trees (piece)	17	18,700
The air pollution reduced by 74 %		
Money savings about 10 %		

Also, very complex and demanding project to introduce new CRC caps (Child resistant Closures - caps that children cannot open) was continued during 2015. Its full implementation of this project will ensure that less polypropylene will be spend, about 0.8 g less of polypropylene will be used per cap - which is 25% less than the total weight of current cap. Projected on the annual tonnage of around 6 million units it is expected that around 5 tonnes of polypropylene less will be annually used.

Regarding purchasing raw materials, which includes active raw materials and auxiliary raw materials, total amount is around 6.7 thousand tons, glass packaging is at about 1.5 thousand tons, paper packaging around 2.8 thousand tons, wooden packaging around 1.7 tons , metal packaging about 200 tons, plastic packaging around 990 tons. Of the total quantity of procured paper packaging, 40% is renewable (recycled paperboard packaging), which is on the same level as in 2014. In the coming years, Hemofarm will seek to increase the share of renewable raw materials in its procurement, according to the possibilities offered by the demanding pharmaceutical standards, which will, in addition to direct benefits, achieve indirect benefits in environmental protection through further reductions in emissions of greenhouse gases, etc.

Hemofarm's sustainable development in 2015.⁶⁵

Production

	2012	2013	2014	2015
in millions of packages	194	200	202	216

Sales

	2012	2013	2014	2015
in millions of RSD	23,171	22,730	25,260	27,490

Consumption of energy sources by finished product package

	2013	2014	2015
Electricity (kwh/pack)	0.17	0.17	0.16
Natural gas (m ³ /pack)	0.03	0.02	0.02

Water consumption

In m ³	2012	2013	2014	2015
Public water supply	331,312	286,654	282,481	288,061
Artesian well	9,106	43,185	33,218	27,493
TOTAL	340,418	329,839	295,99	315,554

⁶⁵ Hemofarm A.D., excluding Šabac plant

Emissions of greenhouse gases (Freons)

(tCO ₂ eq)	2013	2014	2015
FREON R404A	343.81	214.88	209.36
FREON R134A	1,096.16	724.88	682.50
FREON R507	495.33	720.49	315.21

Waste

in tons	2012	2013	2014	2015
HAZARDOUS	148/156	105/110	125/122	129.9/78*
NON-HAZARDOUS	260/260	310/310	354/354	330.8/330.8

* The stated amount was disposed of in 2015, while the rest is transferred to 2016 according to plan and dynamics of waste disposal management.

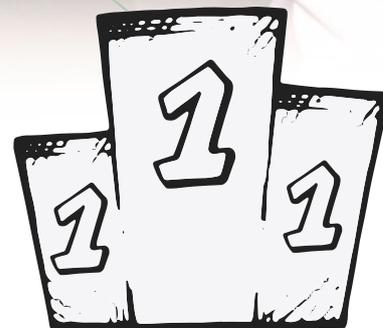
Headcount trend

	2012	2013	2014	2015
WOMEN	937	926	990	1,162
MEN	744	722	796	1,054
TOTAL	1,681	1,648	1,786	2,216*

* of which 1,844 in Hemofarm A.D., excluding Šabac plant

Number of injuries at work*

	2012	2013	2014	2015
Total	30	30	29	16
Compared to headcount (%)	1.78	1.50	1.36	0.86



GRI INDEX



REPORTING PRINCIPLES

INDEX OF INDICATORS

INDEPENDENT AUDITOR'S REPORT

A woman with long brown hair, wearing a patterned top, is smiling and holding a yellow sign. The background is a blurred indoor setting with warm lighting.

We invite you as well to
harmonize your business
with the principles of
sustainable development

R

eporting principles



Hemofarm A.D. Annual Sustainability Report provides all stakeholders with the information about progress continuously achieved by the company by keeping up with the global trends, while striving to remain a reliable partner in all relations and a stable backbone of the local healthcare system. In preparation and conceiving of this annual sustainability report of Hemofarm A.D., covering the period from January 1st until December 31st 2015, methodological rules and G4 principles of the Global Reporting Initiative (GRI) standard were used as a basis. Previously published report refers to year 2014.

Global Reporting Initiative is a non-profitable organization advocating for establishing a sustainable global economy, setting guidelines for preparation of sustainability reports. The indicated guidelines are acknowledged worldwide and accepted by all leading companies.

Materiality Matrix

The starting point for preparation of this Report is the first Materiality Matrix of Hemofarm (presented at the beginning of the Report), which is a comparative overview of the most important topics for business operations from the point of view of a company, on one side, and key stakeholders, on the other side. The topics are ranked according to the significance from the point of view of the company (horizontal axis) and positioned according to the assessments obtained from stakeholders (on vertical axis). Indicators and topics are connected through analysis of GRI indicators, whereby Materiality Matrix provides the basis for future reporting, as well as improvement of business operations. Additionally, the company has covered the topics which were not the top-ranking ones, but are considered important for the overall development of local communities in which Hemofarm operates, surpassing the requirements of the basic level of reporting according to GRI G4 standard.

Considering that the Sustainability Report encompasses the topics relevant for the company and stakeholders, the Report can be the basis for assessment and decisions of the management bodies and stakeholders. Application of GRI guidelines enables the company to report transparently about the performance in the four key areas of sustainable operations - economic, environmental, social and management. In addition to the company profile and a number of indicators, the basis of the report is grounded on the following principles.

Materiality

The Report encompasses all the topics which are relevant for the stakeholders. The Report includes all economic, environmental, social and management-related topics and activities, as well as the activities which had influence on the company, that is, the activities which would have a potential effect on the opinion of stakeholders. The process of specifying priority topics in the 2015 Report involved an active dialogue with key stakeholders via workshops, one-on-one interviews and online polls, creating the Materiality Matrix in accordance with the GRI guidelines, needs and interests of all stakeholders, as well as strategic priorities of the company.

Inclusivity

One of the goals of Hemofarm and sustainability reporting is to improve mutual relations, by creating conditions for an efficient dialogue with all stakeholders, improve mutual relations and raise the general level of satisfaction with company operations. Apart from dialogue with key stakeholders, the Report also includes internal survey on employees' attitudes, annual survey among the expert public - physicians and pharmacists, wholesalers and private pharmacies - and market research, jointly showing how the company operations affect the environment (described in chapter 'Dialogue as an Approach to Sustainable Business Operations').

The company is looking forward to any feedback from the readers of this report concerning its quality and content, because Hemofarm is ready to consider any feedback so that the quality of future reports could be enhanced. The e-mail address for sending suggestions, impressions and any feedback is svakodobro@hemofarm.com.

Sustainability

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

Completeness

The Report provides information and data until December 31st 2015, inclusive. Comparative data from previous years were also shown where possible. Financial and economic indicators are taken from Hemofarm A.D. 2015 Consolidated Financial Statement, pertaining to the company activities in Serbia, excluding related legal persons in Montenegro, Bosnia and Herzegovina and Romania.

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 2015, when it comes to economic, environmental and social dimension, is based on answers to 85 indicators of GRI methodology, which present all relevant information, regardless of their characteristics.

Comparability

Comparability means presenting data in a consistent and continuous manner, so as to provide an option of comparison with GRI standards and other companies.

Since this is the fourth Sustainability Report published by Hemofarm A.D. it is possible to compare it with the previous three reports.

Accuracy

Accuracy implies providing information of appropriate quality and quantity, as well as constantly improving the system for data collection and analysis. Where it was not possible to collect source data, the calculation was performed with explanations regarding the calculation methodology.

Timeliness

Timeliness presumes consistency in reporting frequency and in the length of 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 is actually presenting information in a transparent, simple and clear manner, thus ensuring the accessibility to information. Availability and intelligibility for all stakeholders were the main landmarks strived towards during preparation of the 2015 Report.

Reliability

Reliability implies collecting, recording, compiling, analysing and publishing the information in a way which can be subjected to inspection and which can substantiate quality and materiality of information.

Relying on standards and requirements of the globally recognized GRI methodology, this Report was verified by the auditing company KPMG d.o.o. Beograd.



Overall business operations of Hemofarm A.D. in 2015 were completely aligned with the applicable legal regulations. Accordingly, there wasn't a single case of complaint or fine imposed with regard to company products.

Over the course of 2015, similarly to the previous three reporting cycles, Hemofarm A.D. did not grant any kind of donations, either in kind or in money, to political parties, politically active persons, or political institutions.

Over the course of 2015, there were neither complaints filed nor proceedings instituted against the company on the grounds of gender, national, religious or any other type of discrimination or violation of human rights. The company has not had either cases of work engagement of minors, or cases of violation of labour rights of its employees, on any grounds, so far.

Hemofarm A.D. did not record a single corruption or monopoly-related incident or non-compliance or conflict with legal regulations in 2015.

Not a single case of a risky or crisis situation, which inflicted damage to the company or the environment, or indirectly negatively affected local communities, was recorded over the course of half-a-century long history of the company.

Over the course of 2015, similarly to the previous three reporting cycles, no official remarks, fines or restrictions were imposed on Hemofarm A.D. as regards packaging and/or labelling of its products, sales of banned products, marketing communication, or violation of privacy and loss of consumer data.

Business operations of Hemofarm A.D. do not exert negative impact either on the environment or biodiversity in the environment of manufacturing plants and business premises of the company in which core activity is carried out. In that regard, there are no protected habitats or endangered animal and plant species, which are under special protection, at the sites on which Hemofarm A.D. operates.

Not a single case of waste water effluence from the facilities in Hemofarm A.D. was recorded neither over the course of 2015, nor in the period from 2012, when the company started reporting on sustainable development, to date.

Although Hemofarm A.D. does not exert negative impact on the environment, the company has been continuously striving to improve its business operations. One of such examples is the initiative for reducing organic solvents in manufacturing process.

Hemofarm A.D. neither received any complaints or protests, nor had any fine imposed for negative impact on the environment and local community over the course of 2015 or during the previous three reporting cycles.

Hemofarm A.D. does not exert negative impact on the inhabitants in the communities in which it performs its activity.

Not a single non-compliance of Hemofarm A.D. products with the law in terms of safety and protection of health was recorded over the course of 2015.



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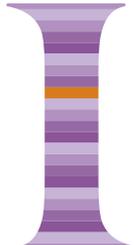
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I NDEPENDENT AUDITORS REPORT



INDEPENDENT AUDITOR'S REPORT

HEFE



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TRANSLATION

Independent Limited Assurance Report

TO THE OWNERS
HEMOFARM A.D., VRŠAC

We were engaged by the owners of Hemofarm a.d., Vršac ("the Company") to provide limited assurance on the Report on Sustainable development report for the year ended 31 December 2015 of Hemofarm a.d., Vršac ("the Report").

Management's responsibilities

Management is responsible for the preparation and presentation of the Report in accordance with the Sustainability Reporting Guidelines (G4) of the Global Reporting Initiative as set out in the "Reporting principles" section of the Report, and the information and assertions contained within it; 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 responsibilities

Our responsibility is to carry out a limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. That Standard requires that we plan and perform the engagement to obtain limited assurance about whether the Report is free from material misstatement.

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

KPMG d.o.o. Beograd, a Serbian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Matični broj: 17149656
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TRANSLATION

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Procedures performed

A limited assurance engagement on a sustainability report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the Report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

- Inquiries of management to gain an understanding of the Company's processes for determining the material issues for the Company's key stakeholder groups.
- Interviews with senior management and relevant staff at group level and selected business unit level concerning sustainability strategy and policies for material issues, and the implementation of these across the business.
- Interviews with relevant staff at the corporate and business unit level responsible for providing the information in the Report.
- Visits to sites operating in Vršac, selected on the basis of a risk analysis including the consideration of both quantitative and qualitative criteria.
- Comparing the information presented in the Report to corresponding information in the relevant underlying sources to determine whether all the relevant information contained in such underlying sources has been included in the Report.
- Reading the information presented in the Report to determine whether it is in line with our overall knowledge of, and experience with, the sustainability performance of the Company.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

**TRANSLATION**

Based on the procedures performed and the evidence obtained, as described above, nothing has come to our attention that causes us to believe that the Report on Socially Responsible and Sustainable Business of Hemofarm a.d., Vršac for the year ended 31 December 2015 is not presented, in all material respects, in accordance with the Sustainability Reporting Guidelines (G4) of the Global Reporting Initiative as set out in the "Reporting principles" section.

In accordance with the terms of our engagement, this independent limited assurance report on the Report has been prepared for Hemofarm a.d., Vršac in connect with reporting to Hemofarm a.d. and for no other purpose or in any other context.

Belgrade, 14 October 2016

KPMG d.o.o. Beograd

(L.S.)

James Thornley
Senior Partner

This is a translation of the original Independent 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, 14 October 2016

KPMG d.o.o. Beograd



(L.S.)

James Thornley
Senior Partner





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 svako dobro - HEMOFARM



This report has been printed on the paper produced in compliance with the environmental and social standards of the Forest Stewardship Council (FSC).

No hazardous waste has been generated during the preparation of this Sustainability Report.*

* In place of chemical developers, Vizartis d.o.o. printing shop uses advanced certified materials in the production process as a result of which no hazardous waste is generated.