



Hemofarm A.D. Sustainability Report has been prepared for the fifth 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 87 indicators.

An independent auditing company KPMG d.o.o. Beograd has verified the conformity assessment of the 2016 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 2015.

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

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GM introductory speech
OUR COMPANY
- COMPANY PROFILE AND BUSINESS POLICY 16 - FINANCIAL INDICATORS AND BUSINESS RESULTS IN 2016
WALKING THE HEALTH PATH TOGETHER
- BETTER HEALTH FOR QUALITY OF LIFE
- HEMOFARM FOUNDATION64

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. ,	u	١١)			100	н		V١	ш

- OUR TEAM IS OUR SUCCESS
OUR PLANET AND ENVIRONMENT
- WE ONLY BORROWED THE PLANET FROM OUR ANCESTORS AND WE OWE IT TO THE OFFSPRING
OUR RESPONSIBILITY
OUR RESPONSIBILITY AND VALUES WE BELIEVE IN
ABOUT THE REPORT AND REPORTING PRINCIPLES
- REPORTING PRINCIPLES

- OPINION OF INDEPENDENT AUDITOR114

Our the cause of the year billion of TPMs in total. in make compaled to the pleading year and as much as make than the budgeted quantities whe pladwed in all Hernafalm's fathers. There - Solid Desport Forms Plant. Ste



HEMOFARM IN 2016



¹ Hemofarm was founded on 1st June 1960, in Vršac, where it is headquartered today. Since 2006, it has been a member of German STADA Group;

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² Southeast Europe, EU, Middle East, North Africa, CIS;

³ The central plant complex in Vršac, the plants in Dubovac, Šabac, and Banovci (Serbia), Banja Luka (Bosnia and Herzegovina), and Podgorica (Montenegro), the representative offices in Belgrade, Niš, Novi Sad, and Kragujevac, the subsidiaries in Macedonia, Bosnia and Herzegovina, Montenegro, and Romania, the representative office in Algeria and the laboratory in Timisoara (Romania).





INTRODUCTORY SPEECH

Hemofarm has enjoyed the reputation of the local pharmaceutical industry leader for decades, and we are particularly proud of the role it has in following modern pharmaceutical and medical trends. We always try to bring good practice from other countries into Serbia, but we also try to export our vast experience to colleagues in the country and in the entire region. When we started reporting on sustainable development exactly five years ago, we were also a little bit uneasy about whether and to what extent that new trend would come to life.

Half a decade ago, we were pioneers in this field; today we are almost veterans. Sustainable development has become an essential principle of our business operations; it is reflected in every step we take. Now we are going further and with the aid of our close partners, we try to show the others what sustainable development really means for everyday business of companies and to what extent it brings numerous benefits. We set ourselves a new goal - to inspire and motivate other colleagues to do something for themselves but also for the communities in which they operate.

The annual reports like this usually require that at the outset we summarize what marked the period from the publication of the previous report to the moment of the new release. In this sense, we can easily say that the previous period was certainly dynamic for us. On the one hand, the last year was marked by many

changes for Hemofarm aimed at providing longterm stability of the company, contributing further to the development of STADA Group and ensuring greater sustainability of the national health system. It is important to mention that we acquired 'Ivančić i sinovi' company which enriched our portfolio and improved the production capacities. Velexfarm wholesaler has also become a part of Hemofarm which has given an additional impetus to the further development of our pharmaceutical supply chain. All of this has resulted in an increase in the number of employees which is a particular satisfaction but also a challenge in the development of our corporate culture, which has been the focus of our internal development since 2015. On behalf of Hemofarm, I look forward to these achievements and I am ready to guarantee that we are going to commit ourselves to continuing to work diligently, making the company modern, dynamic and constructive when it comes to business environment.

Hemofarm has also got a new senior management team, whose task is to provide quality support to all business ventures of the company, both on the national and on global pharmaceutical market. In 2016, we completed and successfully put into operation the most up-to-date Quality Building, which integrates QA and QC functions. and you will have the opportunity to get to know more about this by reading the report.

This is a moment to present the current and the future activities. I will start with what I am very proud of, which is the construction of the Central Plant for Blister Packaging of Solid Pharmaceutical Dosage Forms in Vršac. It is one of our largest investment projects that will ensure that the entire work is done in one place, since it will be a replacement for three plants (Vršac, Šabac, Banja Luka) in two countries. Apart from increasing capacities and flexibility, this project will ensure the company a new dimension of market competitiveness, cost reduction, and a significant advantage at the level of STADA Group. This facility, built within

the central Vršac factory complex in accordance with the latest cGMP and FMD requirements, will cover $5,500 \text{ m}^2$ with a total of $1,850 \text{ m}^2$ of 'clean rooms' and 7,000 pallet places. The capacity of the new plant will be 600 million blister packs on 13 packing lines, but I suggest that we leave the rest of the details for our next report.

The tradition is such that I would be sharing a few more important information, results and achievements here with you, but on this occasion I will skip this in the desire to avoid disclosing everything immediately, at the beginning. I invite you to read this report and get acquainted with the overall activities of Hemofarm in 2016 and in this way you will receive a new confirmation why Hemofarm represents a successful ongoing story. The upcoming pages are rich in information about our successful team of executives, an improved portfolio, new production facilities and capacities, but also about all our deeds that we, with all our hearts and pleasure, donated to the society we live in and work for.

Guided by the principle that we can inspire others with our own, personal examples and actions, one can argue that the past year may have been exactly a meeting point where all of our business principles - CARE, QUALITY, AVAILABILITY and TRUST, were melted into one human, caring idea; an idea which, besides carrying the main message of the importance of organ donation, advocates and promotes life.

I wish you a pleasant stay on the road of sustainable development of Hemofarm in 2016!

All the best

dr Ronald Seeliger





WHEN WORDS BECOME ACTIONS

Professional public is familiar with the fact that the United Nations Millennium Goals have recently been replaced by the Sustainable Development Goals. These global goals of sustainable development, more precisely 17 of them, have been announced as a historic opportunity to improve lives of all people on the planet, and to bring people's attitude towards the environment to a higher level. When this professional vocabulary is transferred into everyday-life vocabulary, it is clear that history could not exist without an individual and that each of us, with our small and ordinary actions, contributes daily to the sustainable development of the planet. We – the children of Hemofarm, about 3,000 employees, are aware of the consequences of personal actions, and we are trying to make a contribution in making our planet a better place to live! And that it continues its millenniums-long existence!

The previous year was professionally rich and challenging. However, as the space for this address is limited, on this occasion I would like to point out a few activities that give a logical answer why exactly we named this new report: 'When Words Become Actions'.

I will start with something that does not represent the primary activity of the Company, but it reveals

its human face. What certainly marked the previous year, but also the entire history of our Hemofarm Foundation, is a campaign that has definitely changed the awareness of the Serbian public, and that is 'The Most Important Call in Life' campaign! By providing support to the Ministry of Health, immediately after entering this campaign, our efforts soon resulted in the announcement of 6th of June as the National Day of Donors, which we will be marking each year as of 2016. While preparations were underway for a new and modern law, tailored to suit the patients, we were spreading the news across Serbia about the importance of donating organs and fighting for the life of every individual. There was not a single moment in this campaign when we did not wage a personal struggle, the one you wage by being sympathetic to the people who are waiting for their most important call – a call that saves life and that inspires hope that an adequate donor has been found. Each new signed donor card brought us a personal sense of satisfaction that it has potentially saved eight lives. That is why we will continue this mission, and the next task is that the Serbian Parliament adopts a new law on organ transplantation and donation as soon as possible, preferably this year already.

On the other hand, by summarizing the key data presented in this report, one can notice that there has been an increase in the number of complaints against pharmaceutical products. This fact seems like an unpleasant surprise at first. However, the background is completely different and extremely constructive – namely, the quality of pharmaceutical products has not decreased, but the public and patients' awareness has increased drastically as well as their awareness that they have the right to make a complaint or send a query about everything that they do not like or that is not clear to them. We can be proud of the way we educated our patients and taught them to fight for themselves, just as we fight for each one of them.

This is a moment to look back at the panel on sustainable development, which was recently jointly organized by the Serbian Association of Managers and Hemofarm. On this occasion, we gathered the economic leaders of the country and the region with the single goal of pointing out the importance of sustainable development and active investments in people's development and encouraging innovation, because this alone leads to progress of companies and also to progress of the entire society.

Our future work will be a continuation of the things we have begun – our goal is to be a model and a paragon for better life and better health, by performing our work and actions, both corporate and personal. For this reason exactly we gave this title to our report, since our words have definitely become actions!

What awaits us in 2017 is to shift the focus from reporting on sustainable development to management. We are going to begin this process with a detailed in-depth analysis of all our business operations, with the aim of defining Hemofarm's principles of sustainable development. And these experiences, along with everything we have encountered so far on the path of sustainable development, will continue to be shared with anyone who can find them useful – for 'we did not inherit the planet, but we only borrowed it from our ancestors and we owe it to our descendants...'

Next year, we will submit a new report and we hope for even better results, because the fight for every single individual, every human being and every patient is a battle in which Hemofarm has been winning for decades.

Sanda Savic Director of Corporate Affairs and Communications

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STAKEHOLDERS AND OUR MOST IMPORTANT TOPICS IN 2016

In the spirit of a fair and transparent business partnership, as a responsible employer and one of the most stable supporters of the society and the local communities in which it operates, Hemofarm encourages dialogue at all levels. The company, its management and employees, believe that mutual respect is the key to successful cooperation and progress, and are always ready to hear the opinion of the interlocutors, but also to share their views, knowledge and experiences.

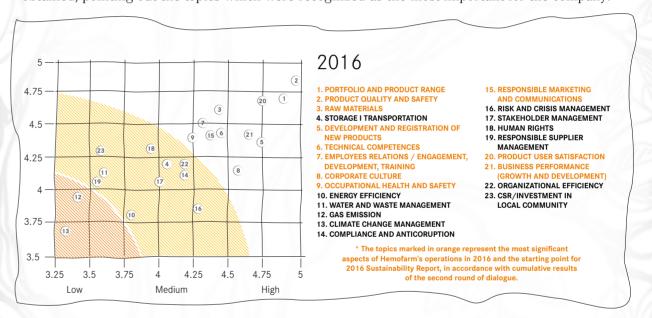
A dialogue with stakeholders, as part of the GRI (G4) standard by which Hemofarm reports on its sustainable development since 2012, was only a logical continuation of what the company had been doing for many years. In 2016, the second round of dialogue with key stakeholders was

organized according to the Hemofarm senior management team segmentation, and the topics offered to them remained the same as in the first round. The continuity and consistency of checking stakeholders' perception of Hemofarm's business operations was achieved in this manner. In addition, stakeholders were invited to evaluate the current cooperation with the company in order to identify potential areas for improvement, and Hemofarm was able to perceive its business operations from their point of view as well. The dialogue was again led by an independent consultant, which allowed for maximization of objectivity, and any constructive criticism was more than welcome. The stakeholders were offered a total of 23 topics in 6 key areas to rank them according

to their importance and impact on Hemofarm's operations:



More than 76% of the proposed 150 participants responded. After comparing the aggregate results of the topic ranking by all the stakeholders involved, the second Hemofarm matrix of materiality was obtained, pointing out the topics which were recognized as the most important for the company:



Quality and safety of products, portfolio and product range, satisfaction of product users, and raw materials were again, after the second round of the dialogue, the topics the stakeholders indicated as the topics of highest importance in Hemofarm business operations. On the one hand, the obtained results and order of ranked topics are not surprising considering the specificity of the pharmaceutical industry, while on the other hand, a positive movement of CSR is recorded, which confirms that the activities of Hemofarm and the Hemofarm Foundation between the two periods of stakeholder surveys have raised the awareness of campaigns such as 'The Most Important Call in Life' (promotion of organ donation), etc. Emission of Gases and Climate Change Management are still topics that have not been sufficiently recognized, which remains a challenge for achieving more intensive public awareness of their importance. This is why Hemofarm feels responsible to include these topics as well in its report on sustainable development and present them in a proper manner.

The management and employees of Hemofarm have learned a lot from the first and the second round of the dialogue with key stakeholders, and the company will continue to acknowledge and appreciate opinions of its stakeholders. The third round of the dialogue is planned for the second half of 2017, when even more detailed and more concrete feedback is expected.

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This feedback will confirm the development path of the new corporate culture in the company and its impact on the external public with one common goal - to make Hemofarm even better, both in its primary and in its accompanying activities.

Considering the fact that the employees are one of the key stakeholders of the company, it is crystal clear how much the internal communication is important for Hemofarm. In addition to the announcement boards and the corporate mailing lists for which a new and unique address (interne.komunikacije@ hemofarm.com) was established, and the corporate Intranet was significantly improved in 2016. It has become more attractive with more interesting content, thus taking a much more important place in the process of informing employees on current affairs in the company. Contemporary aesthetics, search intuition, visually better and high quality content free from all redundant information, have undoubtedly contributed to the increasing popularity of this internal communication channel. An important novelty was the eNPS survey, which was carried out in the last guarter of 2016. It measured the satisfaction of employees, as well as their needs and expectations, thus mapping the areas for improvement and confirming that even the internal communications were increasingly focused on digital solutions. This survey will be one of the ongoing activities, which will measure the development of both corporate culture and the company itself. External communication is a particular challenge for Hemofarm, because the company's activity is conditioned by legal restrictions in the distribution of pharmaceutical information on drugs, especially to end-users and patients (mainly for Rx products). The external public with whom Hemofarm communicates consists of business partners, representatives of professional public, the government and the regulatory sector, local communities, general public⁴, representatives of media, etc. During 2016, Hemofarm continued to develop its digital channels of communication and social networks⁵, by which it aims to develop public awareness of the importance of prevention and improvement of health. All interested parties can contact Hemofarm via contacts posted on the website or via mail syakodobro@ hemofarm.com, and the company will make every effort to provide prompt, high quality feedback to any query.

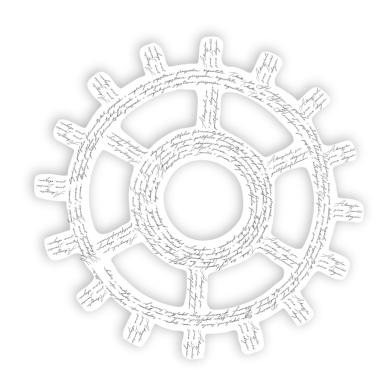
The supply chain of the pharmaceutical market is one of the most important factors in the stability of medicinal product trade, and Hemofarm works in cooperation with numerous business partners, such as suppliers, wholesalers and professional public (doctors and pharmacists). It is therefore essential to assess their satisfaction concerning cooperation regularly, on an annual basis, considering what is good and what can be subjected to improvement or innovation. This is the best way for the company to improve its resources and business operations, as well as to improve the relationship with business partners, in order to constantly enhance the satisfaction of its end users and patients. Within the second round of the key stakeholder dialogue, Hemofarm not only invited stakeholders to rank important business issues, but it also invited interested parties to assess the overall cooperation and that far and Hemofarm's resources, products and services. This process was led by an independent consultant, who provided neutrality for assessment and for creation of recommendations for improvements. During 2016, the company paid special attention to

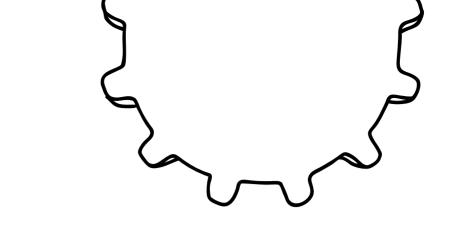
the satisfaction of wholesalers, professional public and suppliers. Apart from minor administrative and operational challenges and technical difficulties in daily cooperation, Hemofarm received best marks and its role as a stable partner of the national health system was confirmed. Representatives of regulatory bodies and the local community also endorsed such assessments. Satisfaction with the cooperation was also emphasized by professional public that commended Hemofarm's efforts to make all current information, trends and knowledge in the field of medicine and pharmacy available, as well as the willingness of our expert associates to be consulted whenever needed. partners with whom the Human Resources sector cooperates once again drew attention to the reasons why Hemofarm is traditionally one of the most desirable employers, while the suppliers pointed out how important it is to them that Hemofarm is a solvent and stable partner, that meets the deadlines and contracted terms, with a recommendation to focus even more on long-term planning of raw materials and production equipment. All these suggestions were received by the representatives of the company with full attention and will be thoroughly considered and maximally respected.

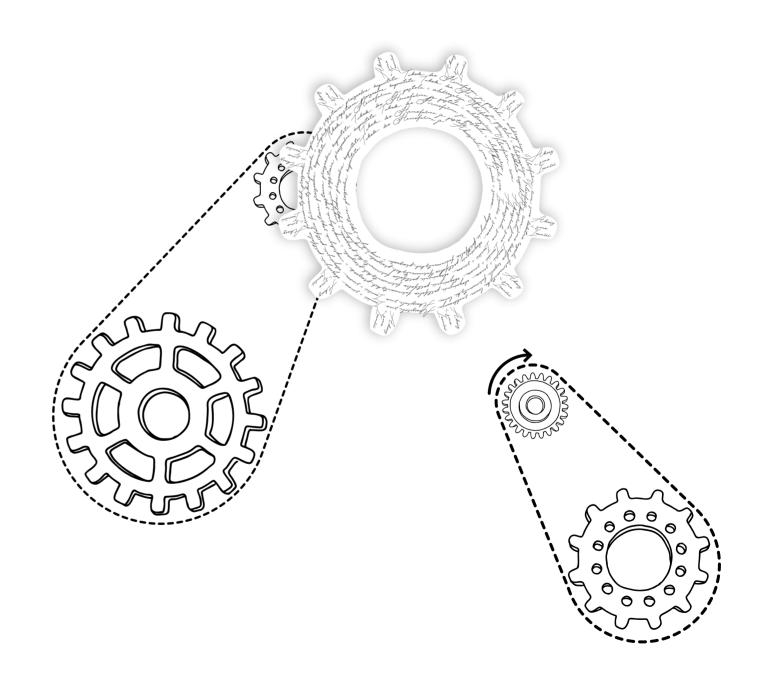


The values that motivate we do are: us in everything we do are: care, quality, availability and trust.

Our company

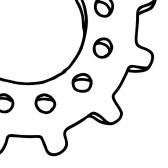






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COMPANY PROFILE AND BUSINESS POLICY

In 2016, Hemofarm maintained its leading position as the most successful pharmaceutical producer in Serbia and in the region. Its most important task is to care about human health through production and sales of quality, efficient, safe and available generic pharmaceutical products. Compared to the previous reporting cycle (Sustainable Development Report for 2015). the biggest change in the structure of Hemofarm A.D. happened with the acquisition of 'Ivančić i sinovi d.o.o' company, i.e. acquisition of its production program and brands. The integration of employees and all resources was performed successfully, without any disturbance in business operations and with full respect for all rights of employees and business partners.

The modern way of life, with all its needs and specificities on the one hand, as well as the complex market, with extremely variable economic conditions, with ever more complex regulation on the other hand, constantly pose new challenges to all economic factors, especially to pharmaceutical manufacturers. That is why Hemofarm management proactively monitors market trends, in an effort to align business challenges with the current and future needs of patients, the health system and the society in general. On this path, the company is focused on its own strategic development, through mid-term and long-term planning, optimization of its portfolio in a way that the pharmaceutical market of Serbia is not threatened, as well as through consideration of all future possible directions of development of pharmacy as a branch. Also, Hemofarm pays great attention to its own organizational excellence and how to be constantly better, which is why it is not surprising that special importance is given to the continuous improvement of the already considerably rejuvenated corporate culture. In order to improve people's health and quality of life, Hemofarm is constantly improving its production processes, enabling the creation of better and more affordable drugs, and continuous research and innovation of R & D provides a chance for new therapeutic applications of generic pharmaceutical products.

According to its structure, Hemofarm A.D. is a joint stock company, managed by the Shareholders Assembly as the highest governing body, and CEO, whom it elects. In addition to Mr. Ronald Seeliger, CEO, the top management and management of the company are made up of senior management team members (SMT). In an effort to functionally improve the top management structure and to agree with the organizational structure of STADA, Senior Management Team has been expanded in accordance with the areas of responsibility and instead of the previous 3 members received a new convocation:







1. Saša Ostojić, Senior Marketing Director for Rx,

2. Jovana Antić, Senior Marketing Director for CHC / OTC.

3. Olivera Beuković, Senior Director of Strategic Marketing,

4. Aleksandar Veselinović, Senior Director of Operations Management,

5. Dejan Ivanović, Senior Production Director,

6. Nikola Turkan, Chief Financial Officer.

7. Sanda Savić, Senior Director of Corporate Affairs,

8. Sanja Ristić, Senior Director of Internal Audit,

9. Žarko Lelovac, Senior Director of Business Development,

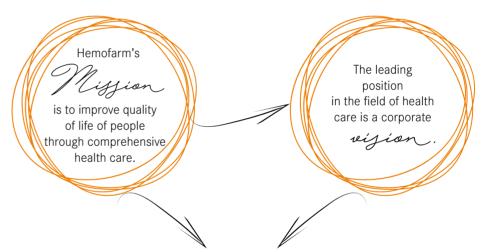
10. Natalija Popović, Senior Director for Strategy and Sustainable Development,

11. Vania Salai, Senior Director of Human Resources.

12. Jelena Rankov, Director of Quality Control, and

13. Nenad Ružić, Director of Quality Assurance.

The experts originating from local community account for around 20% of SMT members.



The overall approach to business operations in Hemofarm is based on four key values:

which are united in the corporate slogan 'All the Best'. Corporate key values will be developed and changed in the future in line with the progress of corporate culture.

The principles of sustainable development are one of the key approaches to business, with which Hemofarm's business strategy is harmonized, and they are embedded in all segments of the company's business operations. Contemporary and rich portfolio consisting of quality, efficient and affordable pharmaceutical products, along with commercial growth, organizational excellence and responsibility, is the basis of the corporate strategy that provides a comparative advantage and leadership position to Hemofarm. Sustainable development provides the best opportunities to harmonize these strategic aspects with the economic, ecological and social factors of comprehensive development. In accordance with its mission and vision, Hemofarm shifts focus from treatment to prevention, in an effort to improve quality of life and health of people.

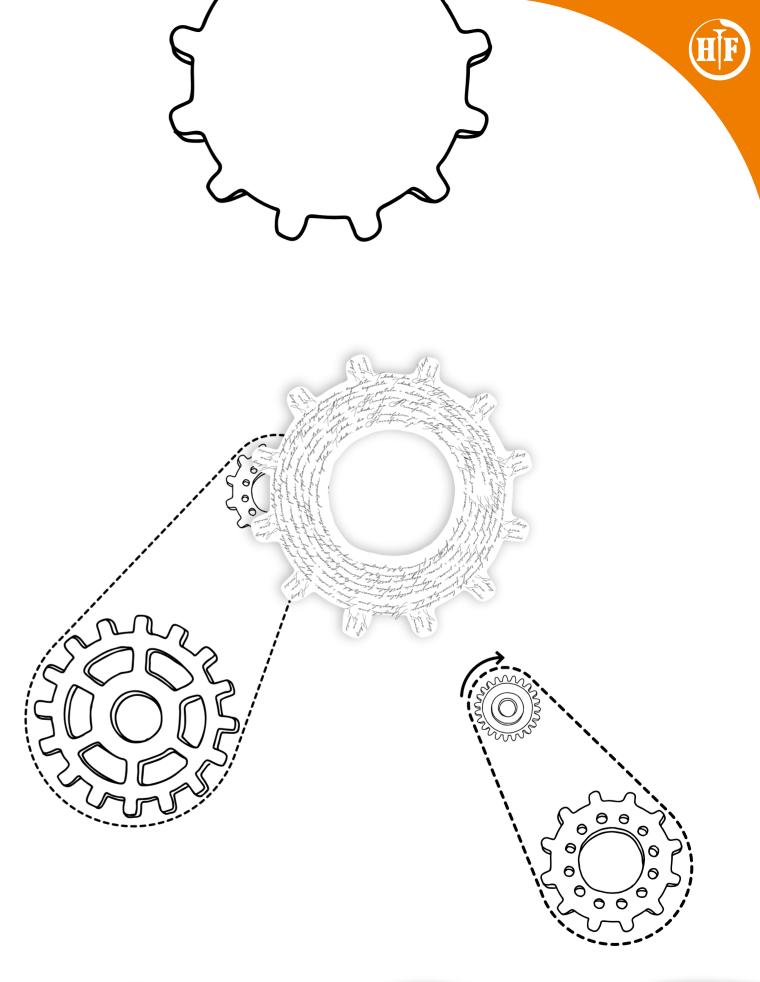
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This is why an optimized and balanced portfolio allows Hemofarm to be a stable support to the healthcare system, in the interest of more adequate satisfaction of the patients' and product users' needs.

Hemofarm also bases its business operation on 15 principles of corporate governance at all levels of the company, for example on the prohibition of corruption, money laundering, separation of interests, abuse and discrimination, political and insider activities, etc. These principles have been defined based on the principles of the Organization for Economic Co-operation and Development. They regulate and maintain financial integrity, cooperation with members of professional circles and competent state institutions, ensure respect for competition protection, mutual respect, tolerance, maintenance of product quality levels, environmental protection, health and safety of employees, etc.⁶ In addition, an important value system in which the company, the management and the employees all believe is presented in the leading code of business-social compliance - BSCI⁷ (Business Social Compliance Initiative). For Hemofarm, this Code is one of the guidelines for improving the working conditions of the employees and the business environment as a whole, promoting socially responsible business operation and observing human rights, and the company delegates it with great pleasure to its business partners⁸ as well. In addition to adhering to legal and administrative frameworks, Hemofarm accepts and implements demanding international standards, which is confirmed by a large number of certificates relevant to the pharmaceutical industry. The company always seeks to ensure that the legal framework is only a starting point, while offering an even higher degree of responsibility through its activities, both internally and externally. Safety and stability in daily operations are important aspects of business responsibility for Hemofarm. This is why the company takes care of all its production and business facilities, regardless of where they are located. One of the most important preventive corporate resources is the centralized risk management system (Risk Management) at STADA Group level. This is software which unifies all potential.

direct and indirect risks from all segments of business operation. The software is updated on a regular basis, by quarterly reviews of all identified risks and by implementing appropriate preventive and corrective measures. Hemofarm confirms its responsibility towards the social communities in which it operates, through participation in activities of institutions and organizations focused on economic and social development. An active dialogue and exchange of knowledge and experiences are achieved by membership of Hemofarm experts in the most important economic and expert associations (Serbian Chamber of Commerce, German-Serbian Chamber of Commerce, NALED, FIC, AmCham, JUSK, European QP Association, American Society for Quality, Pharmaceutical Society of Serbia, etc.). Thus, the company gets the opportunity to follow and adopt the latest global business trends, but also to participate directly in projects that contribute to the essential development of the society, healthcare system and economy in Serbia.9

In 2016, the economic and social engagement of Hemofarm Group and the Hemofarm Foundation were awarded with the following awards: TOP SERBIAN BRANDS; '28 April' National recognition for safety and health at work from the Ministry of Labour, Employment, Veteran Affairs and Social Affairs; Superbrands Serbia for the best corporate brand in the pharmaceutical industry category; Jubilee award of the Serbian Chamber of Commerce for 56 years of successful business operation; The main prize VIRTUS for the 'The Most Important Call in Life' campaign and support to the donation and organ transplantation program in Serbia; Special recognition to Hemomont from the Union of Montenegrin employers for social responsibility in business; The 'The Most Important Call in Life' campaign won the award for the socially responsible company of the year from the Serbian Association of Managers. Also, at 23rd Golden Drum Festival in Slovenia, the most important regional festival of creativity, the 'Most Important Call in Life' campaign won the Golden, Silver and Bronze Prize from the Serbian Association of Managers.



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FINANCIAL INDICATORS AND **BUSINESS RESULTS IN 2016**

Many believe that the pharmaceutical industry is one of the most profitable industries, in terms of production volumes and the quantity of drugs delivered, especially concerning successful global pharmaceutical manufacturers. On the other hand, it is a strictly controlled and restrictive branch, which often requires huge investments that are cost-effective only in the long run. In addition, every market in which pharmaceutical companies are present has its own specificities and challenges. Being

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even more precise, the development of pharmaceutical products, whether originator or generic, is a long-lasting and complex process, which also requires significant investments and during which responsible attitude to challenges and proper care for human health are of crucial importance.

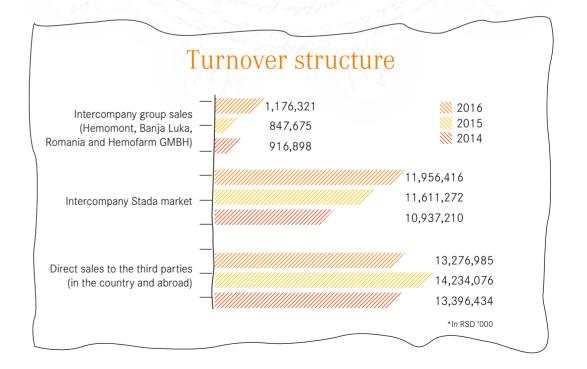
The economic situation in Serbia, which has made some progress and development in the recent times following the global economic



crisis, still does not provide enough room for greater self-investments and business development, and above all, investments in production. That's why international cooperation and the presence of foreign companies that are in a position to invest in local development for which they believe may have good prospects, are very important. One of such good investment opportunities is also Hemofarm, the potential of which was recognized by the German STADA Group. Ever since 2006 takeover, STADA Group has been continuously investing in the development of the pharmaceutical leader in both Vršac and the region. It is this kind of development that enables Hemofarm to be a stable partner and support for the domestic health system, especially in the domain of uninterrupted supply of pharmaceutical market, which is of particular importance for all patients.

During 2016, the influence of negative external factors on the company's operations was still present. Despite achieving a new record in the volume and complexity of production, Hemofarm AD recorded a 1.06% decline in sales revenue in 2016, compared to 2015.

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In RSD '000	31/12/2014	31/12/2015	31/12/2016
sales	25,250,542	26,693,023	26,409,722



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Compared to 2015, growth was recorded in the markets of intercompany STADA Group, as well as in the markets of intercompany Hemofarm Group, while sales to third parties in the country and abroad recorded a decline in revenues.

Directly generated value was lower by 0.92% compared to 2015, as sales to third parties in the country and abroad decreased, and the achieved dividend income was reduced compared to 2015. In accordance with the indicated economic parameters, the distributed economic value also decreased compared to 2015.

	Data from audited statements as on de	ecember 3	1 st , 2016
	in RSD ' 000	2015	2016
	Directly generated value	27,229,143	26,979,129
	Distributed economic value	23,265,725	23,174,406
	Operating costs	17,447,158	17,515,391
	Salaries and other compensations	5,036,883	5,260,294
	Interest on received loans	229,085	137,707
	Taxes	442,743	156,923
	Community investing	109,856	104,091
1	Increase in the company's economic value	3,963,418	3,804,723
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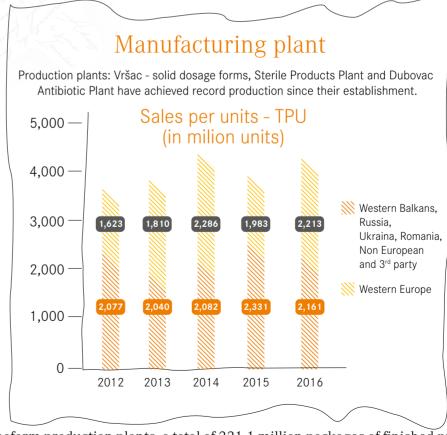
In 2016, the company recorded a decrease in economic value by 4%, primarily due to a drop in sales revenues in the total generated value.

In accordance with a 10-year tax incentive, the implementation of which began in 2014, Hemofarm achieved savings of € 1.68 million in 2016¹⁰. Total planned savings in the period 2014-2017 will amount to € 5.7 million.

RECORD-BREAKING **PRODUCTION**

Hemofarm is a proven pharmaceutical market leader, who is breaking its own production records year after year. This is exactly what happened also in 2016, when 4.37 billion product units or 1.3% more than in 2015 were produced in all Hemofarm plants. In addition to the fact that the manufactured product range is mostly exported to foreign markets, mainly in the EU, it is necessary to emphasize that another record has been broken - in 2016, the quantities planned by the budget were exceeded by as much as 11%.

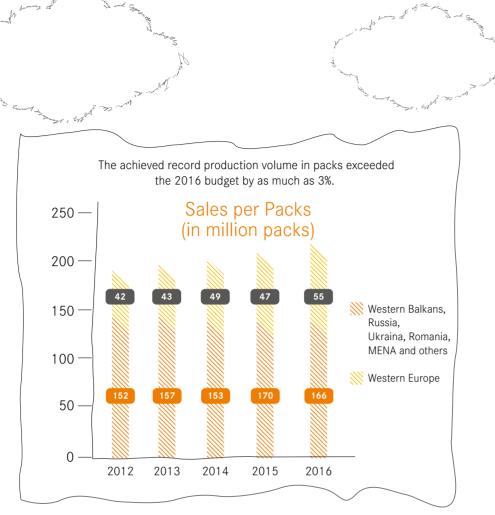
Out of the total number of units produced, the structure is dominated by solid dosage forms tablets, film-coated tablets and capsules (4.19 billion or 95.91%), followed by ampoules (101.45 million or 2.32%), infusions (31.86 million or 0.73%), syrups and solvents (15.31 million or 0.35%), suppositories (14.64 million or 0.33%), lyophilizates (10.6 million or 0.24%), ointments and gels (5 million or 0.11%).



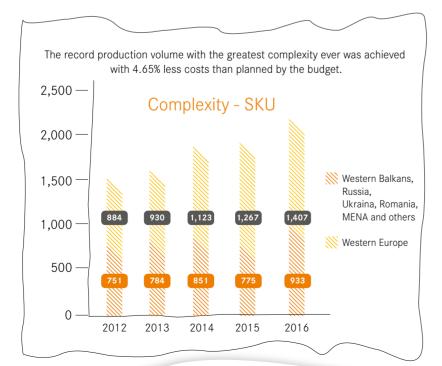
In all Hemofarm production plants, a total of 221.1 million packages of finished products of various dosage forms were packed, which is a new record in the history of Hemofarm - 2% more than in the previous, also a record year.

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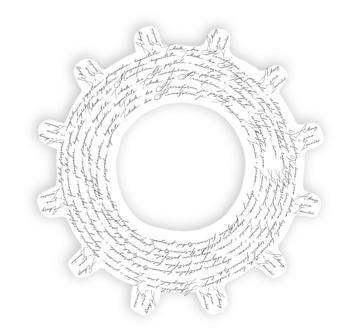


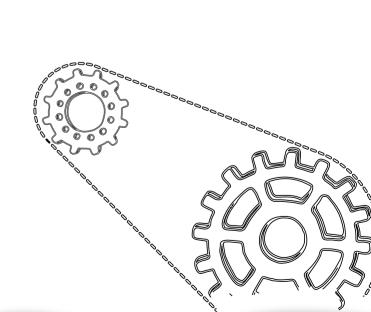
In 2016, further growth of complexity was registered - the product range reached 2,340 SKUs (Stock Keeping Units) in 2016, which is by almost 15% more compared to the previous, also a record year. This is also the greatest achieved complexity in the history of Hemofarm.



In 2016, a total of 29,540 process orders were created (1% more than in 2015), 4,777 protocols for production and packaging were issued (40% more than in 2015). The SNUP¹¹ project and the production of the required validation batches were successfully implemented, while Hemomont production site received the EU GMP certificate. Also, in 2016, the integration of the 'Ivančić i sinovi' production plant into the Hemofarm Production System was successfully completed. In the last quarter of 2016, a significant change was made in the organization of Hemofarm Production. This was one of the biggest and most significant changes in the organization of this division in the long-standing history of the company. Instead of the previous geographical division,

production plants are now grouped according to dosage forms - they are divided into Non-Sterile and Sterile Dosage Forms. In this way, centers of excellence have been formed, within which the employees of similar competences can work on further development not only of the division, but also of each plant. The new organizational structure enables easier, faster and more efficient form of communication both within the Production and among other organizational units in Hemofarm. Consistent quality of production of Hemofarm products and plants, accompanied by continuous complying with the latest regulatory requirements, was verified by 41 external inspections (Ministry of Health of the Republic of Serbia, EU and for the first time by the Russian National Agency) in the course of 2016.





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1 Nassi and throat spray solution, produced in Hemomont, Podgorica.

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Purchasing high quality pharmaceutical raw materials is only a prerequisite for producing good pharmaceutical products. Production, with all of its accompanying departments in the company, enables the launch of modern and rich product range that meets the world standards and the needs of patients. In addition, there are other important departments in the pharmaceutical production chain, such as storage and transport. 12 These departments within the company enable raw materials to reach the Production and have adequate treatment, in accordance with strict regulations. They also provide for distribution of finished products after they have been produced to the end users - patients.

When it comes to storage and transport, Hemofarm does its best to implement stateof-the-art storage equipment, depending on storage conditions and capacity, according to all legal, GMP and GDP regulations. The company also continuously takes all preventive and corrective actions, including maximum occupational safety and environmental protection.

In the course of 2016, 'Ivančić i sinovi' production plant in Banovci became part of the Hemofarm Group. Not only were production capacities integrated, but storage capacities were extended as well.

In line with the constant increase in GMP¹³ requirements, Hemofarm strives to properly respond to stricter standards, as is witnessed also by successful implementation of the project of adaptation of packaging material warehouse in Šabac¹⁴.





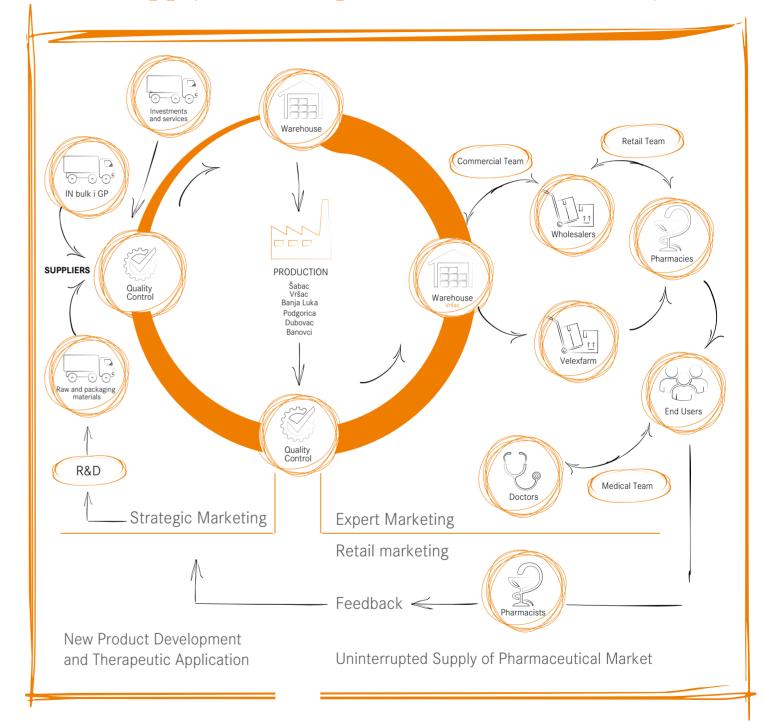


In 2016, the second phase of construction of a new high-bay warehouse with the mobile racking system in the Podgorica plant was completed, with warehousing capacities being increased by 1,512 pallets, resulting in a warehouse with a total capacity of 2,688 pallets. A part of the warehouse was separated with a metal cage, which is used for storage of non-conforming materials to be returned to the supplier. Thus, all GMP storage standards were met, while level of storage security was increased.

During 2016, according to the highest level of security and limited accessibility, not a single case of unauthorized disposal of any kind of material, and especially narcotics, was recorded.



Supply chain in pharmaceutical industry



total. i.e. more compared to the pleading year and as much as more than the budgeted quantities

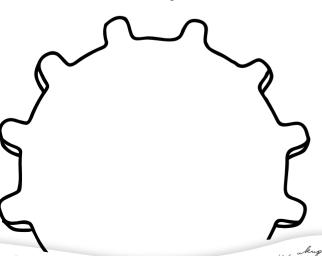
Monufacturing plants: Vigar - Solid Dosport Johns Plant. So



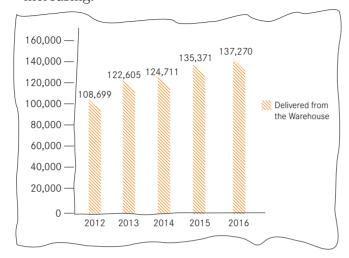
In the course of 2016, one of the rooms in the flammable material warehouse was air conditioned in a temperature regime of 15-25°C, whereby a requirement related to temperature storage conditions was met, as well as the regulatory requirement for the storage of flammable materials. 15 The biggest challenge was the installation and implementation of the explosion safety system in accordance with the legislation.

In order to improve the quality and efficiency of warehouse operations, the fleet of internal transport vehicles has also been significantly renewed. Almost complete internal transport is based on automated rack cranes and electric forklift trucks, while aspects of safety and reduction of emissions of harmful gases are important and determining factors for the selection and procurement of specified purpose vehicles and machines.

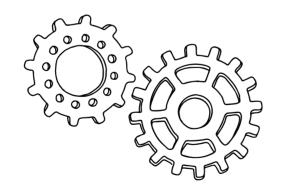
In order to deliver products to the wholesale network in a quality manner, while meeting GDP¹⁶ requirements, Hemofarm continued cooperating with its network of existing carriers and introduced cooperation with 4 new carriers that successfully passed the adequate qualification of the Quality Assurance Divisoon in 2016. In addition, winter and summer transport regimes were validated so that the highest GDP standards could be met in the phase of transport of materials and finished products.



The total number of delivered pallets from the warehouse of finished products is constantly increasing:



Since Hemofarm exports the major part of its manufactured product range, additional reliefs for fast and efficient transport are introduced through simplified customs procedures.¹⁷



OPERATIONAL EXCELLENCE AS CONSTANT STRIVING TO BE BETTER

Although Hemofarm's production plants are already among the top 20% in the world regarding energy efficiency, 18 and the production breaks new records every year, the efforts to make the company even better do not end here. Operational excellence is an important aspect of the company's promotion and advancement, with the particular focus placed on production. The Portal for submitting proposals and ideas, a new functionality implemented within the PMO (Project Management Office) is one of the key incubators of initiatives and ideas that lead Hemofarm towards

multidimensional development and better market competitiveness. During 2016, the company kept on developing the continuous improvement program aimed at achieving progress in the domain of optimization of production processes.

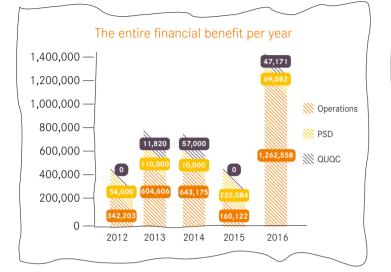
Morethan 70% of the total number of promotions initiated in 2016 originated in the Production Division. All improvements are directed to better time allocation to determine activities in certain phases, better organization, further process control, elimination of duplicate activities, and simplification of procedures in general. During 2016, a total of 38 projects were completed.

Achieved financial benefit in 2016 amounted to € 1,378,811, which is the most significant financial impact that continuous improvement projects have made since the launch of the programme in 2012!

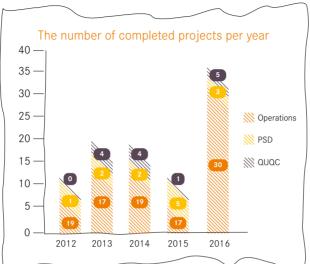
Financial benefit, achieved through operational excellence and continuous improvements in 2016, is the result of 19 successfully implemented projects. This is not the only benefit - by virtue of 19 additional projects in 2016, the company achieved better time allocation in certain production phases, better organization and further process control, elimination of duplicate activities, reduction of tests and simplification of procedures in general.











Only some of the most significant results of implementation of initiatives and improvement projects in the field of Hemofarm production achieved in 2016 are set out below:

- 1. Rationalization of packaging tools and unification of blisters for the product being packed in the Packaging Center having introduced a perforation blister for all markets of 35 semi-finished products, instead of blister combination with and without perforation, the number of packaging tools that were required to be purchased was reduced by 60 tool sets, with the savings of € 907.250:
- 2. Solution waste reduction (after reconstruction of the LURGI preparation system) reduction of solution waste in the solution preparation system was achieved, with increase of batch yield up to 4.5%, and annual savings of €122,000;
- 3. A new boiler room project, which improved the production and distribution of technical steam and hot water in Hemofarm, whereby savings of \leq 46,700 per year were achieved (which is equivalent to the savings of 934,000 kWh).

- 4. Optimization of procedures in the GMP documentation department and defining the optimal configuration of the transportation boxes, which reduced working hours of associates, and led to reduction of transport costs, with an annual financial benefit of € 43,694;
- 5. Isolation of valves on the technical steam and condensate distribution systems in cooperation with the International Finance Corporation (IFC) a branch of the World Bank Group, a part of an initiative aimed at optimizing energy losses was performed; the isolation of valves reduced heat losses from radiation coming from valves operating at high temperatures, with a financial benefit of € 26,072 per year (which is equivalent to the savings of 521,440 kWh).

Since the company is focused on further growth, accountability and operational excellence, some of the next steps, planned for 2017, include the following projects:

1. Continuation of the programme of reduction of time necessary to readjust or

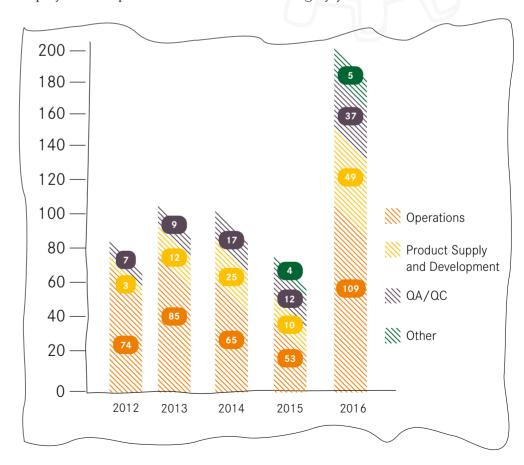


change format on mechanical packaging lines (harmonization of blister dimensions, reduction of the number of different types of labels, simplification of the procedures for labeling, sorting and manipulating non-hazardous waste during the process, etc.)

2. Harmonization of packaging

- Blisters elimination of 8 dimensions of blisters currently existing in Šabac and their unification to similar blister dimensions in the new Packaging Center (this reduced the total number of tools required for packaging by 36 tool sets, with the expected decrease in investments by € 515,000);
- Vails harmonization of vials and caps for various products that will be packed on the new line for counting and packing tablets into vials in Šabac, along with the rationalization of the number of tools required for packaging and optimal machine operation;

In order to constantly improve the company, a total of 200 employees passed YellowBelt training within 17 workshops held in Vršac, Šabac, Banja Luka and Podgorica in 2016. An overview of the number of employees who passed the YellowBelt training by years is shown in the chart below:



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BETTER HEALTH FOR QUALITY OF LIFE

By following and analyzing risk factors, the leading causes of death, as well as the health trend in Serbia, Hemofarm is constantly striving to respond to the needs of the population in the most adequate way in terms of prevention and therapy. Thus it contributes to prevention of occurrence of health problems or helps alleviation of symptoms of impaired health. The company is committed to shifting focus from treatment to prevention and creating healthy lifestyles, as timely responses to an increasingly stressful and quicker lifestyle. 19

In this way, when prevention is put in focus, the domestic health system is being relieved, and it can then focus on a smaller number of patients who really need complex health care. Hemofarm's leading position in the pharmaceutical market is not only a reflection of a well-optimized product range, but also a confirmation that the company actively monitors patients' needs and market demands, offering its products in several key segments: prescription drugs (Rx), drugs that can be bought without prescription (OTC - 'Overthe-Counter') and CHC products ('Consumers Healthcare'), the majority of which are increasingly popular dietary supplements.

For Hemofarm, health is a human right and therefore the company offers:

- Pharmaceutical products of recognizable quality, which are safe, effective and accessible,
- Reliable, verified and scientifically confirmed information on the appropriate use of pharmaceutical products, through responsible marketing, and

 Continuing education of doctors and pharmacists about the latest medical and pharmaceutical achievements, as well as about innovations in the therapeutic use of medicines, and also advising the users of the product.20

The moral and legal guidelines for responsible marketing are respected within Hemofarm marketing, primarily because of the nature and type of the products that the company produces and sells and and potentially improper and uncontrolled use of which can be life-threatening. The activities of the Marketing and Sales Division are regulated by domestic and international legal and ethical rules which govern sale and advertising of pharmaceutical products, as well as by the internal corporate rules of the STADA Group. The success of the company, in addition to product quality and variety of product range, is the result of constant consideration and responding to patients' needs. The exchange of professional information on products and the latest therapeutic guidelines is the essence of Hemofarm's communication with professional public (health workers - doctors, pharmacists), but also with the general public in the health promotion mission. In this regard, another important factor in the market success, but also in the therapeutic success, is the availability of Hemofarm's pharmaceutical products. This is one of the imperatives for the company, because only if the medicine is within the reach of a patient, the therapy makes sense. That's why Hemofarm works on equally good business relationships with all health and pharmacy institutions, 21 regardless of whether they are state or private, or where they are located, in



order for the same therapy to be at hand for every patient. And that's not all - besides quality and wide product range, exchange of the latest professional information with interested parties, and good coverage through pharmacy chains, Hemofarm with its business partners, and above all wholesalers, strives to prevent any possible shortage or deficit of its products in the market, thus completing its support to domestic health care and myriad of patients.

HEALTH IS THE PATH WE WALK TOGETHER

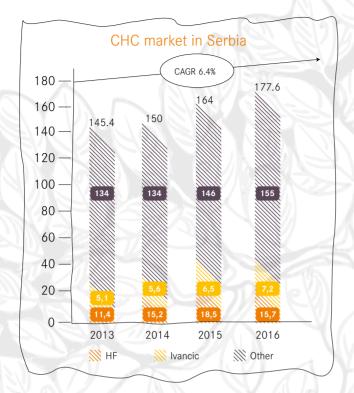
Diseases of the cardiovascular system continue to be one of the leading causes of mortality in Serbia, followed by malignant tumors. Such clinical features are also seen in the more developed parts of the world, confirming that chronic non-communicable diseases²² are still the leading ones in the national pathology. Following the risk factors and the problems of modern man, as well as the development of pharmacy trends²³, Hemofarm has recognized market potentials by 2020, which has already been taken into account in the optimization, expansion and rounding-up of the company's portfolio.

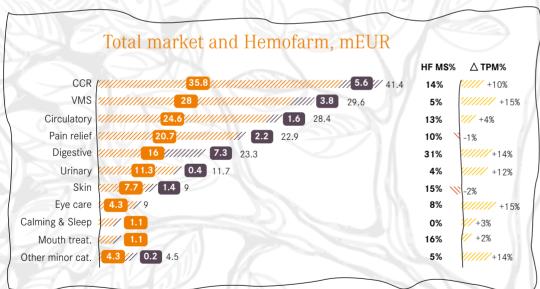
In the pharmaceutical industry, globally, there is a noticeable increase in demand and use of products that fall within the domain of prevention and development of healthy lifestyles, i.e. CHC (Consumer Healthcare) products. In the period from 2013 to 2016, a stable trend of growth of the CHC segment in Serbia was registered, amounting to approximately 6.9%. The specificities of the Rx and CHC segments are what contributed to this growth, where the key drivers for this growth are the prices and the introduction of new products on the local market. The value of the CHC market in Serbia amounts to about

€ 178 million, while Hemofarm is the market leader with a share of around 13% and sales of around € 23 million. Therapeutic groups within this market, which contributed most to this growth, were vitamins and minerals (growth of 15%), remedies for respiratory infections (growth of 10%), digestive system (growth of 14%), etc. These are the segments in which Hemofarm has well-positioned brands that will grow stronger in the coming period through the extensions of these brands or the introduction of new products.









Having analyzed the possibilities and the market in detail, in addition to optimizing and improving the portfolio, Hemofarm is also planning a more creative approach to market appearance, through better packaging material design, new distribution and promotion

channels, as well as product segmentation by strategic groups (Lifestyle, Children's Health, Women's Health, etc.) In this way, more constructive relations and communication with the end consumers would be established. and product positioning would be more



effective and efficient. The changed approach and the concept, along with attractive, high-quality and available products with affordable prices would help Hemofarm not only to further strengthen the leading position in Serbia, but also to conquer new markets.

In the following period, the company's priority will be the introduction of new products and the extension of existing products in the Hemofarm portfolio. The focus will be on well-known and good-quality products from the STADA product range, the introduction of new products in therapeutic groups that have a good growth trend (vitamins and minerals, products for respiratory infections, digestive system, etc.) as well as creating market in certain segments that have good prospects, but whose potential has not yet been fully exploited. Another important goal is to strengthen the position of existing products by expanding the product range with newer and more contemporary forms that will prolong the life cycle of these products. This approach allows for the creation of all necessary preconditions for the timely launch of strategically well selected and recognized products that ensure the growth of Hemofarm's market share or the creation of a market in general, as well as the development of end-user awareness in accordance with contemporary trends.

Hemofarm maintained its leading position in the pharmaceutical market of Serbia in 2016, despite the decrease in the price of medicines, which led to a slight drop in the value of sales (according to the IMS data):

Manufacturer	2015	2016	rast	ms% 2015	ms% 201 <i>6</i>
HEMOFARM	82	74.9	-8.7%	30.5%	27.3%
GALENIKA	26.8	29.2	9.1%	10%	10.6%
ALKALOID	16.3	16.9	3.7%	6.1%	6.2%
ACTAVIS	15.7	16.6	5.9%	5.8%	6.0%
PHARMASWISS	15,1	16.1	6.3%	5.6%	5.9%
SANOFI	8.3	9.3	13.1%	3.1%	3.4%
KRKA	7.8	9.0	15.6%	2.9%	3.3%
GLAXOSMITHKLINE	5.4	5.6	3.7%	2.0%	2.1%
MYLAN	4.8	5.0	4.5%	1.8%	1.8%
BAYER	4.5	4.4	-2.8%	1.7%	1.6%
TOP 10 MANUFACTURERS	186.8	187.2	0.2%	69.4%	68.1%
OTHERS	182.2	87.7	6.7%	30.6%	31.9%
TOTAL	269.0	274.8	2.2%	100%	100%

Manufacturer	2015	2016	rast	ms% 2015	ms% 201 <i>6</i>
HEMOFARM	107.7	100.5	-6.7%	14.8%	12.8%
PHARMASWISS	50.7	55.7	9.8%	6.9%	7.1%
GALENIKA	38.9	43.3	11.4%	5.3%	5.5%
ACTAVIS	32.9	37.4	13.6%	4.5%	4.8%
NOVO NORDISK	31.8	35.7	12.4%	4.4%	4.6%
ROCHE	25.3	27.7	9.3%	3.5%	3.5%
ALKALOID	22.3	23.6	5.7%	3.1%	3.0%
GLAXOSMITHKLINE	22.1	23.4	5.9%	3.0%	3.0%
PFIZER	19.4	23.3	20%	2.7%	3.0%
SANOFI	20.9	22.7	8.5%	2.9%	2.9%
TOP 10 MANUFACTURERS	372	393.2	5.7%	51%	50.2%
OTHER	357.9	390.1	9.0%	49%	49.8%

By adequately supporting the clinical features in Serbia and responding to the needs of patients, Hemofarm's products cover the following pharmacotherapeutic groups (as many as 12 out of 14 groups in total):

- A Alimentary tract and metabolism
- B Blood and blood forming organs
- C Cardiovascular system
- D -Dermatologicals
- G Genito-urinary system and sex hormones
- H Systemic hormonal preparations, excluding sex hormones and insulins
- J Antiinfectives for systemic use
- L Antineoplastics and immunomodulation agents
- M- Musculo-skeletal system
- N Nervous system
- R Respiratory system
- S Sensory organs

			HEMOFAR	М				TOTAL		
ATC 1	2015	2016	MS 2015	MS 2016	%16/15	2015	2016	MS 2015	MS 2016	%16/15
C Cardiovascular system	21.5	19.3	33.5%	30%	-10%	64	64.5	27.3%	27.1%	0.7%
N Nervous system	18.1	16.9	37.6%	34.9%	-6.2%	48	48.6	20.4%	20.4%	1.3%
B Blood & blood forming organs	14.8	13.3	55%	51.1%	-9.9%	26.8	26	11.4%	10.9%	-2.9%
A Alimentary tract &metabolism	8.5	8.2	30.4%	27.6%	-2.6%	27.8	29.8	11.9%	12.5%	7%
Antiinfectives for syst use	5.4	4.5	36.9%	33.5%	-15.7%	14.6	13.6	6.2%	5.7%	-7.3%
M Musculo-skeletal system	5.2	4.4	28.4%	23.4%	-14.8%	18.3	18.9	7.8%	7.9%	3.5%
R Respiratory system	2.9	2.5	17.7%	15%	-11.5%	16.2	17	6.9%	7.1%	4,8%
S Sensory organs	0.9	0.9	22%	20.5%	-2.8%	4.3	4.5	1.8%	1.9%	5.6%
G G/urinary syst & sex hormone	0.7	0.6	12.1%	10.7%	-8.5%	5.6	5.8	2.4%	2.4%	3.2%
D Dermatologicals	0.7	0.6	13.1%	11.1%	-11.2%	5.2	5.4	2.2%	2.3%	5.2%
H Syst horm prep excl sex horm	0.2	0.2	10.7%	9.8%	1.2%	2.2	2.4	0.9%	1%	11%
L Antineoplastic&immunomod ag	0	0	0%	0.1%	204.7%	1.3	1.3	0.6%	0.5%	-0.8%
P A/parasitic prod insec&repel	0	0	0%	0%	0%	0.3	0.4	0.1%	0.2%	7.1%
V Ostalo	0	0	0%	0%	0%	0.1	0.1	0.1%	0%	-16.4%

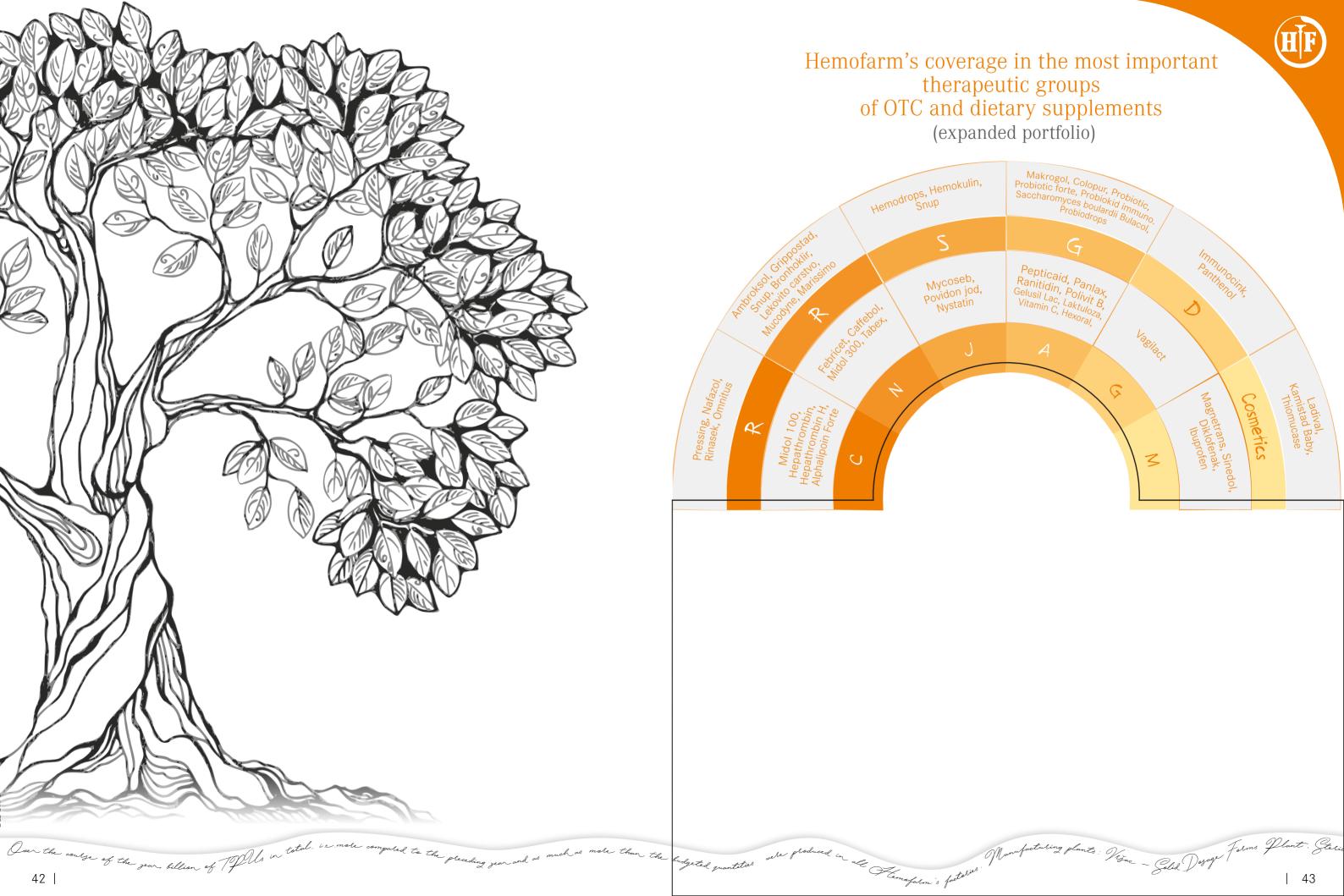


According to the financial indicators (the following table) in 2016, Hemofarm confirmed the leading position in the Rx segment on the Serbian market with 32.5% share²⁴, while the top 3 groups of drugs²⁵ in terms of sales also in 2016 were: the drugs for the cardiovascular system (C), the central nervous system (N) and systemic anti-infective drugs (J):

HF segment C-N-J 2015 - 2016

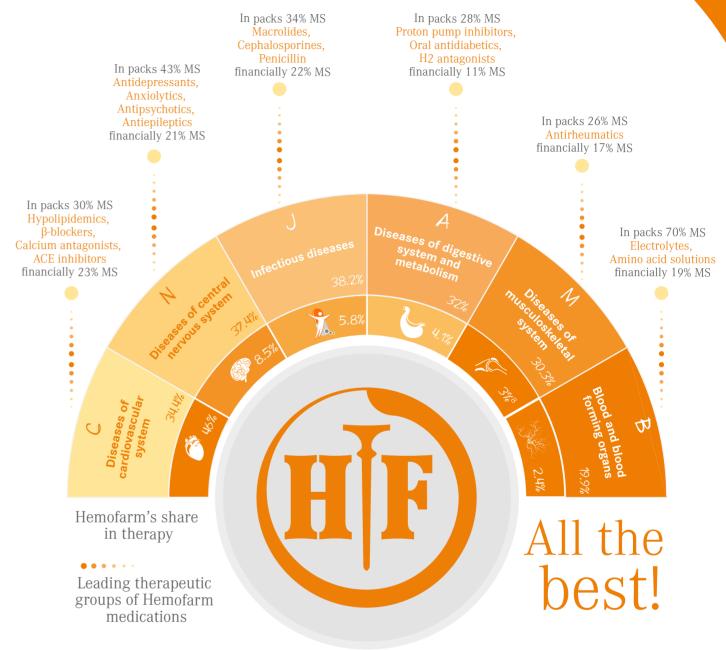
ATC 1	ATC 2	Growth in packs 2016 vs. 2015 %	Growth in EUR 2016 vs. 2015 %
C Cardiovascular system	C07 beta blocking agents	-9.1%	-5.5%
	C10 lipid modifying agents	-13.2%	-4.7%
N nervous system	N02 analgesics	23.3%	-24.7%
	N06 psychoanaleptics	-2.4%	0.7%
J antiinfectives for	J02 antimycotics for system use	-16.3%	-14%
Syst use	J06 antibacterials for syst use	29.8%	-9.5%





Hemofarm's coverage in the most important therapeutic groups of Rx medicines





- A Alimentary tract and metabolism
- B Blood and blood forming organs
- C Cardiovascular system
- D -Dermatologicals
- G Genito-urinary system and sex hormones
- H Systemic hormonal preparations, excluding sex hormones and insulins
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- L Antineoplastics and immunomodulation agents
- M- Musculo-skeletal system
- N Nervous system
- R Respiratory system
- S Sensory organs

44 | 45

In addition to being the leader in the treatment of the most common diseases of the modern society, as well as being the leader in a wide range of pharmacotherapeutic indications, Hemofarm is trying to influence the awareness of the population in order to reduce or prevent the impact of increasingly present risk factors. Prevention is expected to improve health and reduce the need for therapeutic use of drugs or at least reduce it to a realistic minimum. In this way, we strive towards building a healthier domestic population, which lives better, more comfortably and longer. However, therapy is sometimes inevitable and it is precisely at that time that Hemofarm medications are recognized as good-quality and trustworthy, effective and accessible. Leading medicines of Hemofarm on the Serbian market, issued on doctor's prescription (according to the INN)²⁶ are:

Per number	of packs	Per sale	s in €
• bromazepam	• lorazepam	• bromazepam	• metoprolol
sodium chloride	metoprolol	sodium chloride	• amoxicillin, clavulanic acid
• metformin	• glucose	metformin	ranitidin
diclofenac	• isosorbide mononitrate	• diclofenac	• bisoprolol
• ranitidine	• bisoprolol	• lorazepam	• enalapril

By advocating for prevention, the company promotes smoking cessation, increase in physical activity, decreased obesity, etc. On a mission of prevention, Hemofarm has significantly improved its portfolio by acquiring products of 'Ivančić i sinovi' company. The activities at the specialized website www.bezduvana.rs which provides a wealth of useful information and support for people who want to give up their addictions to cigarettes and nicotine are just one of the examples. Hemofarm OTC products continue to occupy a leading position in the pharmaceutical market of Serbia, with a share of 20% in packs /cartons, to which we should add additional 8.8% accounting for CHC products. In value, the OTC market share is 15.5% and CHC market share is 6.7%.

Per number	r of packs	Per sales in €			
Febricet	• Rinasek	Hepathrombin	Ranitidin		
Midol 100	Combined powder	• Midol 100	• Panlax		
Nafazol	• Panlax	Pressing	 Rinasek 		
Pressing	Ranitidin	Febricet	Povidone iodine		
Hepathrombin	Nystatin	Nafazol	 Combine powder 		



Risk factors, which are increasingly numerous and ever more present, combined with a modern way of life, where one has less and less time to devote to oneself, pose a serious threat to human health. Therefore, Hemofarm strives, by offering OTC / CHC products and food supplements, to make it easier for people to take care of themselves and improve their health, contributing at the same time to the improvement of their quality of life. Some of those products are: Polivit B (vitamin B complex for normal psychological and mental function, without fatigue and exhaustion), mini product range Febricet and Grippostad (paracetamol) against symptoms of common cold, flu and mild to moderate pain, Ladival product range for sunbathing, Midol 100 (acetylsalicylic acid) which reduces the risk of infarction and other cardiovascular diseases, Hepathrombin gel and ointment (heparin sodium) for better circulation, against swellings and leg pain, then vitamins and minerals, such as Vitamin C (900 mg), Magnetrans (375 mg magnesium), etc. In addition, some of Hemofarm's products, which have been widely used in everyday life for many years are:

- medicines that give patients quick relief in eliminating symptoms of common cold and flu: besides Grippostad, Febricet Rinasek, Omnitus, Mucodyne...
- in allergies: Pressing, Nafazol nasal drops, Snup nose spray...
- in gastroenterological (stomach) problems: Ranitidin, Panlax, Lactulose, Pepticaid...
- for pain therapy: beside Febricet Caffebol, Midol 300...
- against cellulite Thiomucase gel.

THINK TODAY FOR HEALTHIER TOMORROW

Within the framework of corporate organizational changes, implemented in order to improve the competitiveness and to strengthen Hemofarm Group, in early June 2016, the Strategic Marketing and Business Development Division was formed within the CEO's Office in response to the increasingly sophisticated challenges of the industry. This division is designed as the best support to the Marketing and Sales Division, and that support will be achieved through identification of potentials which are in line with the global and local trends of the pharmaceutical industry, as well as through continuous improvement and portfolio development strategy. It consists of three teams: Business Development Team, Strategic Marketing Team and Market Access Team.

Continuous research and monitoring of new therapeutic trends and protocols in the pharmaceutical market enable timely provision of valid information which is a prerequisite for making the right decisions for the introduction of new products into the portfolio, risk management and product range optimization. Also, innovations must be accompanied by coordination of cross-divisional cooperation in order to optimize and enhance Hemofarm product range as efficiently as possible, while defining the prospects of the company's core business, as well as the company's operations in Serbia, and in all Hemofarm markets.

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Initiation of new ideas for business development in the area of introduction of new products, expansion of the Hemofarm Group core business, and potential acquisitions of certain products and companies are only a part of the scope of work of the Strategic Marketing Division, which cooperates with license partners, negotiates the conditions and follows further steps of cooperation with potential and existing stakeholders. The cooperation with R&D is an important aspect of the dayto-day work of this division, with the aim of introducing products that are created as a result of company's own development and the use of in-house development capacities. All of this is based either on the expert monitoring of the status of patents on Hemofarm's markets, or on a number of other pieces of information necessary for the improvement of company's market position. In other words, Strategic Marketing and Business Development Division has the task to continuously monitor and review the current business environment in which the company operates, and according to the situation on the market, as well as within the Hemofarm Group, to consolidate the old projects and launch new ones that will enable accomplishment of short-term and long-term goals.

In addition to strategic recommendations for the development of digital communication channels and collaboration with the Key Opinion Leaders, whose professional and credible opinion plays an essential role in creating and positioning of portfolio, the Strategic Marketing and Business Development Division is also responsible for determining market performance, monitoring the development of the new healthcare economics models and integrating guidelines at the level of STADA markets which are significant for Hemofarm. Regarding this, we should particularly emphasize the simplified customs procedures, by using which Hemofarm has made its products more accessible in foreign countries for many years, which has already been mentioned in the previous sustainable development reports. Besides keeping all the activities and products of Hemofarm up-todate with the times in which it operates, as well as adapting them to the future trends, this division gives the company a comparative advantage over the competition.

Organizational changes in the Marketing and Sales Division are just a part of the broader strategic activities, which should enable Hemofarm to achieve even better growth and success in the medium and long term. These activities include the recently launched marketing projects which were in focus in 2016, with the aim of raising the visibility of Hemofarm products, as well as bringing closer their use value and application primarily to users and patients. One of these projects is the project of establishing the Merchandising Standards intended for 250 leading pharmacies in Serbia. The project was initiated on the basis of observed problems with the presentation of OTC products in the pharmacies themselves: lack of regulations on displaying OTC products, cluttered shelves, many competitive products of uneven quality, etc. On the other hand, the efficient presentation of the products is one of the key factors in communication with consumers at the point of sale, and one of the essential tools which enable consumers to identify and select products, while ensuring them that the selected brand is of good quality. Therefore, the Marketing Division has chosen a systematic approach to the way of selecting and presenting products to customers, which would be conducted at the point of sale (POS) through: product presentation, adequate pricing policy, advertising and education. The goal of this project, in addition to achieving better emphasis on Hemofarm's products according to its leading position in the market, was also the establishment of good-quality cooperation with consumers, as well as with the pharmacists in the long run. Hemofarm representatives who regularly visited the selected pharmacies and worked on the implementation of product positioning, in accordance with the guidelines, proved to be a good support to pharmacists in facilitating their daily work, all in the interest of patients. The pharmacists showed much better results in faster selection of the required products, and patients were less likely to wait for dispensing of the requested products.

Also, through the project of mysterious customers (Mystery Shopper), the Marketing and Sales Division wanted to measure the quality of service, performance and shopping experience of an average and trained customer during 2016. The key objective was to check the pharmacists' knowledge of the products and their indications, applications, etc. This is especially important for the adequate counseling of patients and product users who are looking for the best solution for mild problems they suffer from or for patients who incline to prevention. In addition, checking market supply and preventing the shortage of pharmaceutical products were in the focus of this project, which gave excellent results and showed not only a high level of awareness of the professional public on Hemofarm's quality, but also confirmed the excellent availability of products, favorite among users.

These projects, like many others, that Hemofarm has already implemented or is planning to implement, are designed to meet the needs of the expert and general public and help in everyday business and / or in selecting the best therapy / prevention for patients. Staying loyal to Hemofarm as a brand is the market's highest quality reaction to all of the company's values, which is especially important in the pharmaceutical industry, in which products affect the quality of health and life.



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QUALITY AS A STARTING POINT AND THE MOST IMPORTANT OBJECTIVE

Pharmaceutical production is a strictly regulated industrial activity in which quality stands as one of the key assumptions. Quality is a necessary minimum for every pharmaceutical product because it has a large, sometimes crucial, impact on the health and life of people. For Hemofarm, quality is already a traditionally recognizable strong point that distinguishes and categorizes company and its products in relation to competition. That is why ensuring quality in Hemofarm begins with the purchase of the best raw materials for making the medicines, and ends with the positive effects of successfully completed therapy. Accordingly, it is not surprising that the quality and effectiveness are the

main reasons for the selection and reuse of Hemofarm products by a large number and generations of satisfied users and patients. Also, these are the most important factors for doctors and pharmacists to choose and recommend Hemofarm products, which makes the company one of the most stable partners of the domestic healthcare system.

Hemofarm is constantly working to improve quality in all segments of business, and the company proactively monitors the market for the timely location and prevention of the appearance of possible copies and counterfeit medicines, which until now, luckily, did not happen.



HIGH-QUALITY RAW MATERIALS FOR HIGH-QUALITY MEDICINES

There are no high-quality products without high-quality raw materials, especially in the pharmaceutical industry. That is why Hemofarm pays special attention to the selection of the best raw materials, which are a prerequisite for good medicines and other pharmaceutical products. It is superfluous to re-emphasize how important this aspect is, since it covers the product range that affects the health and life of people. Procurement of pharmaceutical raw materials is very complex and challenging, since the availability of certain raw materials is very limited (a small number of foreign suppliers) or very demanding in terms of legislation (procurement of raw materials for the neurological product range, which is monitored and strictly controlled by the competent international narcotic drugs institutions). Despite such challenges, Hemofarm strives to ensure equal opportunities in the course of the procurement process for all the suppliers, giving the highest priority to quality. All suppliers and service providers are treated equally, regardless of their territorial affiliation.²⁶

The group of materials	Domestic market in %	Foreign market in %	share %
Raw materials	5.67	94.33	53.67
Packaging materials	57.91	42.09	14.33
In bulk and FP	24.91	75.09	8.41
Investments	92.64	7.36	8.06
Services	91.41	8.59	10.5
Others	87.2	12.8	5.02
GRAND TOTAL	34.88	65.12	100

An important aspect of procurement, on which Hemofarm insists, which is also in accordance with GRI standard itself, is the share of domestic suppliers in total procurement. Considering that these suppliers are spatially not far from Hemofarm, the company considers their involvement in procurement as a kind of support to the development of local economy in Serbia. Of course, the precondition is that the same quality criterion is fulfilled; it is the same quality criterion that would be expected from potential foreign suppliers, as well. In this regard, during last year, the company significantly increased the value share of domestic suppliers -34.9%²⁹ of the total procurement compared to 27% in 2015. The increase in the value share of domestic suppliers is also reflected by the increase in the local production of plastic packaging elements (closures, syrup spoons, etc.), and its trend of growth will be showed only in the coming years by having used a larger range of STADA products. The current financial effects, besides the development of the local economy, are also reflected in the savings of 10 to 30%.

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The advantages of the local market and suppliers are also reflected in the lower costs of transport and goods insurance, shorter delivery times of small quantities (lower storage and inventory costs), faster settlement of orders, lower procurement costs due to the proximity of business partners, greater reliability of delivery due to low transport risks, easier communication, timely (so-called 'just-in-time') deliveries. The principles that the company respects in the selection of suppliers imply that a prospective supplier has to ensure the quality of the products as determined and required by Hemofarm, to offer products at an affordable price, meet deadlines, and provide adequate support, service and useful information.

Category	% in 2014	% in 2015	% in 2016
raw materials	50	49	47
glass packaging material	5	11	9
paper packaging material	23	20	21
wood packaging material	14	12	211
metal packaging material	2	1	2
plastic packaging material	6	7	10

Testing and introducing new suppliers in Hemofarm is a complex process that includes all the necessary certifications that should confirm the adequate qualification of suppliers. Procurement rules and procedures are clearly defined and publicly available on the corporate website, as well as on the intranet, and this whole process is fair and transparent. All Hemofarm's suppliers are required to take responsibility for potential or real problems in the procurement process, and to inform Hemofarm timely about the problems related to the order or delivery. In addition, suppliers are obliged to respect the rights of their employees, to be socially responsible and to be in a stable financial position. That is why Hemofarm annually presents the values of the leading code of social compliance (BSCI) to its suppliers, inviting them to fill out the appropriate BSCI questionnaires. Thus, in 2016, Hemofarm surveyed additional 14 suppliers from its supply chain. Hemofarm also passed positive experience from its long-term practice with BSCI questionnaires and important feedback from the suppliers to the level of the parent STADA Group, which also started distributing such questionnaires in its supplier chain. This process is software managed in Germany, and the feedback contributes not only to improvements within STADA, but also to the development of the local communities in which it operates. The largest share in the total procurement value is held by raw materials (about 60%), the share of packaging material is slightly more than 15%, the share of in-bulk (which is to be

packed in the outer pack) and the share of the finished products is 9%, while the rest refers to investments, services etc.

Considering the purchase of raw materials that include active ingredients and excipients. the total quantity is about 5.5 thousand tons. for glass packaging material approximately 1.1 thousand tons, paper packaging material nearly 2.4 thousand tons, wooden packaging material about 1.3 thousand tons, metal packaging material about 220 tons, and for plastic packaging material about 1.1 thousand tons. The share of recycled boxes in the total quantity of Hemofarm products' packaging boxes (primary and transportation) which was 820 tons in the previous year increased to 75% (+5% compared to the previous year) and amounted to about 615 tons. It is important to note that certain local companies of the STADA Group in 2016 received the incentive of the French Government for using recycled cardboard for packing of products that were produced in Hemofarm. This example encourages and inspires more intensive application of recycled materials in the packaging of pharmaceutical products, as well as the design of sustainable packs. Also, this example can be encouraging to the local Balkan competent state institutions, which, following the example of French colleagues, can use their influence to enhance the recycling of recycled packaging and encourage its implementation. The Hemofarm Procurement Division launched ten optimization projects in 2016, some of which are at the level of STADA Group, which should provide for higher efficiency and better procurement of raw materials, consideration of alternative sources of raw materials (such as seawater in Montenegro, instead of

importing it from Scandinavian countries) etc. The projected financial benefits and savings from the implementation of these projects range between 2.5 and 3 million euros. Also, by continuous exchange of experience with its suppliers, the Procurement Division is always ready to recognize good examples that can be instructive for Hemofarm. For example, it is worth highlighting the idea of a Slovenian potential supplier who restores the energy (released in the process of production and processing of plastics) back to the system through the air conditioning system of production facilities, which reduces the cost of heating and cooling to almost zero.





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HIGH-QUALITY MANAGEMENT - THE BIGGEST

WARRANTY FOR GOOD PRODUCTS

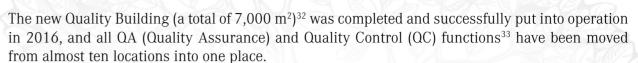
Quality is one of Hemofarm's key values and principles, which is reflected by constant harmonization and improvement of the quality management system in accordance with the Good Manufacturing Practice Guidelines (GMP), the requirements of the ISO 9001: 2015 standard and the guidelines related to the production and marketing of medicines and medical devices. Hemofarm has set three of its own quality principles, which are embedded in all activities in the field of quality control and assurance:³¹

Hemofarm's principles of quality:

- 1. All of us in Hemofarm are committed to ensuring product quality, and all levels of management are responsible for its ongoing maintenance.
- 2. Product quality is essential for our patients and users, doctors and pharmacists, our families and the community we live in and work in.
- 3. Product quality is achieved through maximum consistency and constant compliance with the highest standards of the pharmaceutical industry, as well as the focus on continuous development and preventive elimination of all potential risks.

The priority of employees in Hemofarm is working on improving the health of our users and improving the quality of life. Hemofarm is constantly seeking new ways of improving skills and knowledge in order to develop a quality system through the development of its employees. The legal requirements and requirements of international standards are respected. Hemofarm is actively working on communication and establishing cooperation with other pharmaceutical companies, both domestic and foreign. The company is getting familiar with the requirements of new markets which are interesting in terms of selling Hemofarm products there, and then specific regulations of the new countries and partners are embedded in the procedures and elements of the Hemofarm Quality system. The positive findings of inspections from new markets confirm the company's willingness to meet all requirements. Successfully completed first inspections by regulatory bodies from South Korea and Turkey in 2016 enabled the distribution of medicines manufactured in Hemofarm on these markets.

Hemofarm's Quality Sector, which combines Quality Control and Quality Assurance, completed its restructuring in 2016, which included the completion of the new Quality Building and the reorganization of teams to further increase efficiency and productivity.



It is a modern building, built according to all leading principles of energy efficiency and it is integrated into the existing infrastructure and the natural environment in the best possible way. This enabled multiple improvements of the efficiency³⁴ of all important functions in Hemofarm's quality management. The new laboratories are equipped with state-of-the-art equipment, which enables better performance of regular business activities. The new laboratories represent the best location for all young future experts, current students of vocational schools and students of related faculties to get to know the principles of good practice, as part of Hemofarm's commitment to support dual education in Serbia.

The space is divided into three floors: a physico-chemical laboratory, a packaging material laboratory, stability chambers and a validation and calibration laboratory are on the ground floor.







Office space and archives are on the first floor, and the second floor, besides the office space, holds a technical floor covering a separate system for the production of purified water (PW) and a system for the production of 100% pure air - HVAC.

Following the modern technologies and taking into account the efficient energy use, the new facility has the latest LED lighting, which will significantly reduce both the costs of electricity and the costs of maintenance and replacement of luminaries, which is common in classical, neon lighting.

The new Hemofarm quality organizational scheme was adopted in October 2016 in order to additionally contribute to the effectiveness of the quality management system and processes, including 273 employees (QA and QC). Functional team formation in accordance with everyday tasks was introduced for better process management, faster decision making and more efficient delegation of tasks and reduction of overtime work.

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Myset The construction of this Greenfield project began in June 2015.

33 Except the microbiological laboratory, which is located in another building.

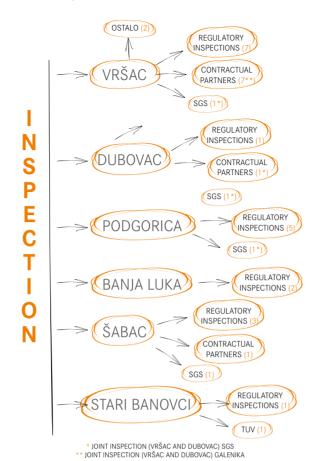
44 MPossibility of capacity increase, installation of stability room, future improvements, more modern approach to work, which are the basic preconditions for establishment of Lean organiza

In the Hemofarm's Quality Assurance daily work, a proactive approach is applied: the rules governing the manufacturing process in the field of pharmaceutical industry are monitored, the risks are evaluated and the appropriate measures of continuous improvement are implemented in order to minimize the possibility of errors in the process of production and control of the medicinal product. The goals are to maintain the highest level of quality and integrity of products and to maintain recognition and compliance with the regulations and guidelines of good manufacturing practice in the pharmaceutical industry. Increasing the number of preventive actions by 78.13% and reducing the number of corrective actions by 27.35% compared to the previous year are the parameters that point to more efficient functioning of the quality management system.

The list of certificates that Hemofarm owns has been updated in relation to 2015. Hemofarm is aligning its business with the demands of new markets and regulations, which was confirmed in 2016 by the successfully completed inspections by the South Korean, Turkish and Russian ministries, which in 2016 performed first inspections in Hemofarm. In addition, re-inspection was performed by the German Darmstadt Medical Inspectorate at the locations of Vršac and Banja Luka, as well as the first inspection of the new department for the production of nasal spray - SNUP within Hemomont. The findings of the inspection show that Hemofarm successfully maintains high standards in the production and trade of medicines and medical devices, which is confirmed by certificates for inspected plants.

In 2016, Hemofarm successfully completed the certification according to the new requirements of the standards ISO 9001: 2015 and ISO 14001: 2015. The ISO 9001 recertification has consolidated, for the first

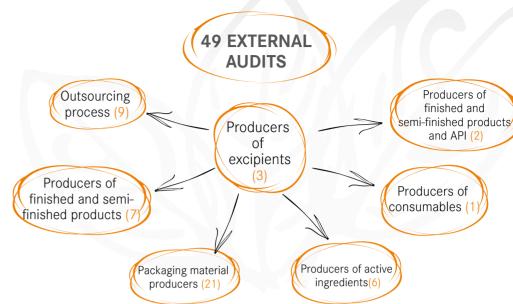
Inspections at Hemofarm in 2016



time, six locations within Hemofarm A.D. (Vršac, Dubovac, Belgrade, Šabac, Banja Luka and Podgorica) as part of the project of improving and optimizing the costs of recertification.³⁵ Holding the ISO 9001: 2015 certificate, in which the additional emphasis is placed on risk management, Hemofarm shows that it successfully follows the latest trends in the field of quality management.

The new plant at Stari Banovci (Ivančić i sinovi) has expanded the list of certificates that Hemofarm possesses to include also HACCP and ISO 9001 certificates for the production and control of food supplements and herbal teas, as well as the GMP certificate of the Serbian Ministry of Health for the production of solid dosage forms. This has significantly expanded the range of dietary products, and immediately after taking over the plant, all necessary adjustments have been made to optimize the common processes, while the corporate quality management system included the production of new dietary supplements.

Checking the quality of suppliers - external audits in 2016



External audits are carried out in order to verify the compliance of the quality management system with the requirements of good manufacturing practice and good distribution practices, pharmacopoeia regulations, ISO standard and other requirements. Compliance is confirmed by the findings of direct verifications performed by companies with whom Hemofarm cooperates. In 2016, 49 external audits were carried out, which is 9 audits more than in 2015. These audits also served as a way to intensify the training of new leading auditors, resulting in a strengthening of the team, which now has more resources and capacities for independent auditing.

Within the Quality Control, the process of continuous improvement of the work process and procedures in accordance with the EU GMP Guidelines has been successfully continued during 2016. It has been achieved in accordance with the valid pharmacopoeia regulations and the requirements of the ICH regulations. Following the modern world trends and by applying the tools and skills acquired on various professional trainings in the country and abroad, several projects have been successfully implemented which significantly improved the processes and reduced the costs:

- Automatic Computation of related substances in Liquid and Gas Chromatography Software (Kaizen Project) - The procedure for processing and issuing results has been simplified by introducing this improvement and overtime work has been reduced.
- Introduction of electronic signature in liquid and gas chromatography software (Yellow Belt project) after the implementation of the electronic signature, the process of signing, checking and issuing results of chromatographic testing was significantly accelerated. The printing and use of paper reports were minimized, resulting in significant savings in consumable office supplies.
- Introduction of electronic signature i n bacterial endotoxin testing software in the microbiological laboratory (Yellow Belt project) significant shortening of the time required for signing and issuing results, considerably lower paper consumption and minimization of errors.

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The Service for Chemical Testing, Sampling and Control of Packaging Materials, Microbiological Testing Service, Analytical Support Department and Quality Controls' Stability Department are key factors of Hemofarm Quality Control. One of the first challenges which these services faced, after the new systematization and completion of the Quality Building, was the relocation and formation of laboratories at a new location.



The new Physico-Chemical Laboratory, with over 170 most modern instruments, extends to 1,013 m² (compared to 390 m² at the old site) and has been relocated and opened in only 4 days,³⁶ with excellent coordination and cooperation of all relevant sectors in the company. This laboratory meets the strictest requirements of good laboratory practice, but also the highest standards in terms of health and safety at work.³⁷



Laboratory for preparation of samples for HPLC



Laboratory for particle testing



Laboratory for gas chromatography



Laboratory for liquid chromatography



Stability chambers

At the end of 2016, eight projects, involving all Divisions, were initiated, which will significantly improve nearly all processes. Some of the most important ones are: project of reduction in testing starting materials, finished products, packaging material; project for implementing ideas for continuous improvement in QC, and management process optimization in a chemical laboratory.



RESULTS OF HEMOFARM'S RESEARCH AND DEVELOPMENT

Coordinated and harmonized cooperation between all divisions in the company is crucial for the creation, launch and maintenance of a good portfolio of pharmaceutical products, which, on one hand, ensures that patients receive the best possible therapy (high quality and effective products at an affordable price), while, on the other hand, it enables Hemofarm to have a leading market position in the region. This is, precisely, where the most important role of Research and Development³⁸ is shown. The activities of Research and Development Division follow the trends in therapy and winning new products (research, checking, preparing for the market in accordance with all the necessary regulatory requirements in the country and abroad). Respecting all ethical principles, especially in clinical studies and trials,³⁹ represents a category which does not allow for any compromises. During 2016, as a result of the activities carried out within the Research and Development Division of Hemofarm, 69 new products were launched on the markets of South-East Europe.

	•		velopment	0	
_aunched in EU	Launched	Launched in Serbia		Launched in Serbia	
product dosag (mg)		dosage (mg)	product	dosage (mg)	
Linezolid 600m film-coated tablets	g Elfonis® solution	400mg/ 250mg	Cornelin® film-coated tablets	10mg/ 20mg	
Linezolid 2mg/ml infusion solution 2mg/l	Taita® capsules	30mg/ 60mg	Cornelin® film-coated tablets	10mg/ 20mg	
Sildanafil 20mg film-coated tablets 20m	Peptix® injections	30mg/ 60mg			

In 2016, Hemofarm received 159 new marketing authorizations for medicines and medical devices. 132 new products were registered in 11 markets and 27 entries of medical devices have been achieved. The total number in 2016 is lower compared to 2015, but 104% has been realized in relation to the 2016 plan. The total number of marketing authorizations at the end of 2016 amounted to approximately 1,800 which means that the share of new

marketing authorizations received in 2016 is about 8.8% compared to the total number of MAs. The transfer of technology to the production facilities of Hemofarm was realized for a total of 37 products, out of which 70% were new products for the entire STADA Group, and 25% of transfers represented products of STADA Group, which were transferred to Hemofarm's production

Activities	Realization			
	2015	2016	%	
Number of new marketing authorizations and entries of medical devices and dietary supplements	195	159	-18	
Number of prepared and submitted files for new registration	210	188	-10	
Number of prepared and submitted files for renewal of registration	176	208	+18	

facilities. Such results are the best confirmation of the efficiency and expertise of Hemofarm's Research and Development Division.

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RODUCT SAFETY AND COMPLAINTS

Safety in the therapeutic and / or preventive use of pharmaceutical products is one of the most important aspects, which is officially confirmed after the registration of the medicine. Such safety is a special priority for Hemofarm. Pharmaceutical manufacturers have a legal, but also ethical obligation to continuously collect information on the safety of medicines available on the market and to report them in accordance with procedures and adequate assessments to regulatory bodies around the world, healthcare professionals and the general public. Pharmacovigilance is one of the most important systems in pharmaceutical companies but it is a system also presented at the state and global level, through which side effects and reactions to medicines⁴⁰ are discovered, assessed, evaluated and prevented. Adverse effects of medicines are a particular challenge for modern medicine and a very serious clinical problem, which is recognized only after the beginning of the use of a drug, i.e. through its application in practice. Adequate and timely response to identified side effects is essential for human health and lives, where particular consideration should be given to the timely exchange of information and international cooperation of the competent institutions in this field.

The responsibility for the quality, safety and efficacy of Hemofarm's pharmaceutical products lies with every employee. Also, the same responsibility is shared by those with

whom the company has contractual relations. Accordingly, the obligation of every individual in Hemofarm is to be ready and receptive to receive information about side effects by third parties. In case of identification of the complaint or side effects of the medicinal product, Hemofarm will comply with the standard operational procedures for assessing the safety profile of the registered preparation. and in case of recognizing the potential risk, the company will initiate the evaluation of all available data. Each employee went through pharmacovigilance training and received special info cards, made in practical format to be at hand, with a reminder of the necessary steps to be followed, as well as with contacts within the company in case they encounter any possible side effects.

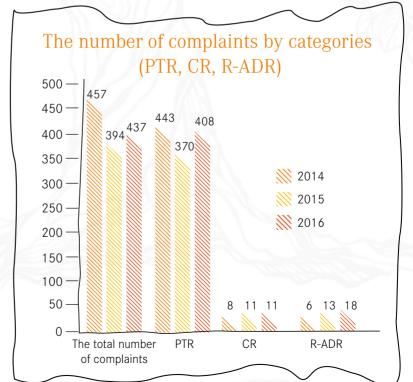
Adverse reactions to pharmaceutical products or any other type of dissatisfaction of the product user are recorded as complaints.⁴¹ Complaints can come directly from health workers - doctors and pharmacists, who are at the first line of communication between the patient and the pharmaceutical product. Also, complaints can be submitted by regulatory bodies, patients, consumers, professional journals and media, as well as employees themselves. Concerning Hemofarm's employees, the representatives of the Marketing and Sales Department, who are always at the doctors' and pharmacists' disposal and ready to accept all kinds of complaints, play an especially important role in pharmacovigilance. Hemofarm has enabled

the interested parties to complain directly about the products, through a 'reporting side effects form' on the official corporate internet presentation⁴² as well as via e-mails svakodobro@hemofarm. com and nezeljena.dejstava@hemofarm.com. In addition, Research and Development Division (R & D) and Quality Assurance (QA) are involved in the processing of complaints with elements of side effects in Hemofarm.

During 2016, a total of 443 complaints were recorded, out of which 437⁴³ were for products produced in all Hemofarm's production plants, and 6 for products produced by the third parties. By comparing the number of received complaints and production volumes in 2015 and 2016. during 2016, there was an increase in the number of complaints by about 10% (with the increased production volume of 2.1%). The investigation found that out of the total number of received complaints, as much as 47% of complaints were unjustified, but what is encouraging is the people's awareness of the need to report even their least doubts that something is wrong with the pharmaceutical product with which they are in contact.

Out of the total number of complaints, 408 complaints⁴⁴ were of a production-technical nature

11 were commercial (CR)⁴⁶ and there were 18 complaints that, in addition to medicine quality complaints, contain elements of the adverse drug reaction (R-ADR)⁴⁷, too. Complaints are mostly related to packaging and labelling, and not to the quality and functionality of the product itself. The number of complaints according to the PTR, CR and R-ADR categorization is shown in the following graph:





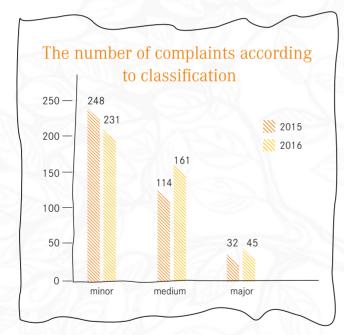




By inspecting the number of received complaints over the previous three years, we have concluded that the customer complaining process is stable and the number of received complaints in 2016 is at the same level with other years with some, expected, variations. By comparing the number of complaints by categories, there is an increase in the number of complaints in 2016 categorized as R-ADR complaints. 18 complaints from this group were received:

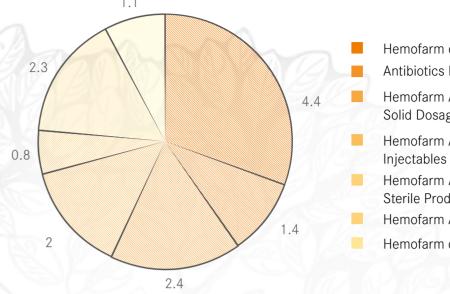
- 10 complaints about the lack of effect or the delayed effect of the medicinal product, whereby the results of the investigation and examination have shown that the quality of the products meets the prescribed standard;
- 7 complaints of side effects that are described in the applicable SmPC and instructions for use;
- 1 complaint alleging discomfort due to a different tablet taste.

The number of complaints according to the 'minor, medium and major' classification is shown in the following graph:



The classification of 'minor, medium and major' complaints is based on the severity of the consequences, detection mechanisms and the frequency of repetition. Complaints concerning the product quality that can cause severe consequences are classified as medium or major complaints. Complaints related to packaging irregularities are mostly classified as minor. 48

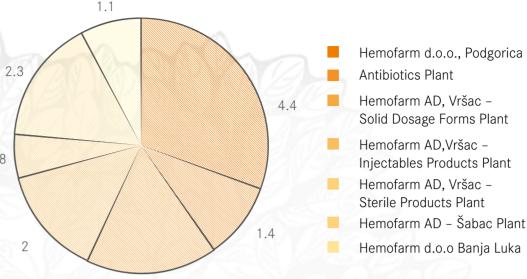
The largest number of complaints was recorded for the Solid Dosage Forms Plant in Vršac central production complex (39%) and Solid Dosage Forms Plant and Semi-Solid and Liquid Forms Plant (jointly 28%) in the production complex in Šabac, which is expected considering that the production in these plants account for 57% of the total production of Hemofarm.



It can be seen from the chart that Hemomont d.o.o Podgorica has the highest number of complaints per one million packs produced. One of the reasons for this is 8 complaints submitted due to problems with the identification test in the certification laboratory in Ukraine before the product was distributed on the market. This analytical question has been successfully solved.

For each received complaint, the Quality Assurance Service performs adequate audits and investigations to determine whether the suspicion of the safety or quality of the product was justified. Each complaint is recorded and contains the necessary information (name / product lot, applicant, description of complaint and investigation report). Upon completion of the investigation, the conclusion is made whether the complaint was justified, unjustified or unclear, and an official response to the complaint is formed. All investigation findings are carefully analyzed from the perspective of production, packaging, testing or products handling and specific measures of improvement are prescribed. During the investigation of the complaints in 2016, the following corrective and preventive measures were initiated and implemented:

 revision and improvement of work instructions, both in production and control system;



- enhancing controls during the production process and / or packaging of certain products:
- improving the functionality of the packaging, etc.

In order to prevent complaints, appropriate improvements are prescribed, and continuous efforts are also being made to increase the efficiency of the investigation process. In December 2016, the customer complaining process was optimized in the following way:

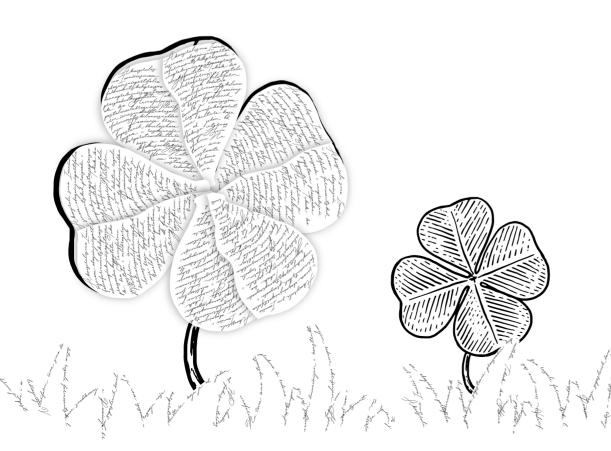
- recording of complaints on admission was reduced:
- the classification of complaints was simplified;
- the scope of the investigation documentation was optimized for complaints that are classified as minor ones.

In this way, the effectiveness and efficiency of the process have been increased, the period for notifying the buyer about the investigation results was shortened, and the shortening of the deadline for documenting and archiving complaints has been achieved.



When words become actions,
the jociety becomes
a better place to live.

Our support to the community











HEMOFARM FOUNDATION

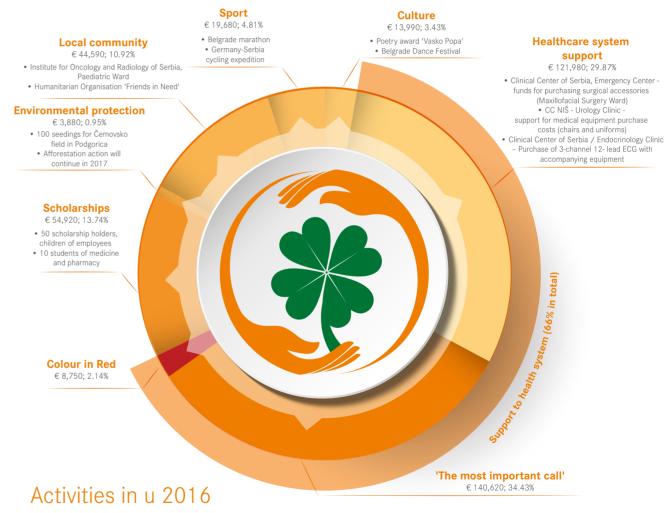
Personal and corporate development would make no sense if the company did not take care also about providing support, help and development of communities in which it operates. Hemofarm's management and employees firmly believe that supporting the environment is one of the key factors for stability of society, enabling further growth and development. Therefore, through Hemofarm Foundation,⁴⁹ work and projects, Hemofarm has been making its environment a better place to live for 24 years. The focus is on improving the health of individuals through prevention

as well as better treatment conditions as well as providing support to the entire healthcare system of Serbia through the establishment of public-private partnerships with institutions, civil society organizations, respectable individuals and media. In addition to promoting healthy lifestyles as well as modern and rich product portfolio, and investing efforts to adequately supply the pharmaceutical market, Hemofarm tries to identify the systemic and social needs and provide support to as many people as possible through the work of relevant institutions. At the same time,

by supporting culture, sports and education, the Foundation tries to help development of young and talented individuals who will be the new opinion leaders of a better society and more prosperous Serbia. In 2017, Hemofarm Foundation also initiated the 'Mentoring Program' aimed at providing support to young people in acquiring further education in the field of medicine and pharmacy, as well as encouraging further personal and professional development and their employment.

During 2016, Hemofarm Foundation implemented 113 activities, for which it earmarked nearly RSD 50 million (more than EUR 400,000). The emphasis was still on the 'Prolong Life',⁵⁰ campaign with 'The Most Important Call in Life' having

a key place within it, thanks to which the promotion of organ donation got a new, deeper meaning and higher visibility in the public. Additionally, other program activities of the Foundation were focused on providing support to the healthcare system of Serbia ('Wholeheartedly for Health', 18 donations amounting to EUR 121,978 in total) scholarship and award program ('Wholeheartedly for Knowledge" / total earmarked amount of EUR 54,920), and a total of 32 activities of providing support to culture ('Wholeheartedly for Culture', EUR 13,989 in total), support to sports ('Wholeheartedly for Sport', EUR 19,679 in total), environmental protection ('Wholeheartedly for Nature' EUR 3,884 in total) and activism in local communities (a total of 26 activities within 'Health', 'Local





Communities', 'Equality for All', 'Culture, Sports and Education', EUR 44,590 in total) in the past year. In addition, Hemofarm A.D. has supported the healthcare system with more than RSD 18 million (about EUR 146,000) through donations of medicines (18%) and funds for purchasing medical and IT equipment (82%), allocated in such a manner as to cover as many users of medical institutions as possible.

After a series of lectures on organ donation and transplantation to employees of MediGroup, Serbian Chamber of Commerce. Union of Nurses and Technicians of Serbia, members of the City Assembly of Belgrade, employees of Palilula municipality, German-Serbian Chamber of Commerce, and Association of Pharmacists of Vojvodina, Hemofarm Foundation has entered a new phase of the campaign entitled 'The Most Important Call in Life'. The aim was to raise public awareness of the importance of organ donation, as well as to highlight the problems of people waiting for transplantation, and create a national consensus on the adoption of a new Organ Transplantation Act. With the help of the Ministry of Health of the Republic of Serbia and 'Milan Jovanovic Batut' Institute, June 6th (2016) was declared the National Day of Donors in Serbia, when the campaign was officially launched, with more than 10,000 people receiving a phone call with recorded messages from patients waiting for a transplant and hoping to receive that most important call in their lives.⁵¹ Thus, the campaign was an issue at stake in all national and local media for five days, pointing out the importance and significance of organ donation.

The aim of the campaign was to draw attention to the fact that there is a significant number of patients in Serbia who are waiting for organ transplantation as their only hope of salvation, but most of them do not receive the most important call in life. Patients themselves,



who have been waiting for transplantation for many years, were the main actors of the campaign and boldly shared their life stories: Aleksandar Mitrović (waiting for a kidney transplant for 4 years), Magdalena Blagojević (waiting for a kidney transplant for 2 years), Marko Mitrić (waiting for a heart transplant for a year). Nebojsa Pospišil (waiting for a heart transplant for 9 years), Sanja Bojić (waiting for a kidney transplant for 7 years). Aleksandra Mitrović (waiting for a kidney transplant for 2 years), and Slavica Obradović (waiting for a liver transplant for 2 years). Their testimonies and key messages were presented to the public through TV and print campaigns, media visits, as well as billboards in 20 cities in Serbia. By the recommendation of the Ministry of Health of the Republic of Serbia and the Regulatory body for electronic media -REM, national and local TV and radio stations broadcast 'The Most Important Call' video free of charge for one month, which enabled the Hemofarm Foundation to earmark more than EUR 90,000 planned for broadcasting to other



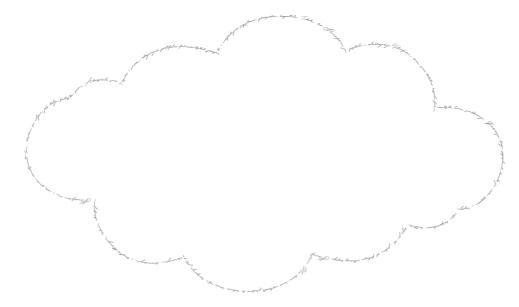
projects and activities of social significance. Danica Vučenić's documentary film 'The Most Important Call', directed by Mateja Rackov, was also filmed within the campaign. The film had its premiere at the Free Zone festival at the Cultural Center of Belgrade on November 16th 2016, and its television premiere is expected to mark the second in a row National Day of Donors - June 6th, 2017. With the support of the Department of Biomedicine of the Ministry of Health of the Republic of Serbia and Health Secretariat of the City Assembly of Belgrade, Hemofarm Foundation has posted posters and flyers in 17 health centers and distributed the necessary forms and donor cards for the interested citizens in order to simplify the procedure and enable easier issuance of donor cards. Members of the City Assembly of Belgrade signed donor cards, giving thus support to 'The Most Important Call', and the Prime Minister of the Republic of Serbia Aleksandar Vučić has also received patients, participants in this campaign and representatives of the Foundation, announcing personal commitment to this important topic.

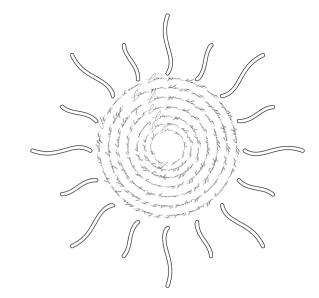
'The Most Important Call' was also supported by representatives of the international community: Ambassador of Germany, Axel Dittmann, USA Ambassador, Kyle R. Scott, Minister of State Administration and Local Government Ana Brnabić and many others. In addition, the campaign was supported by more than 30 public figures, including actress Tanja Bosković, actor Dragan Bjelogrlić, who joined the campaign with the new film 'The Guardians of the Formula', 52 Lazar Ristovski, journalist Minja Miletić, Rada Djurić, Uroš Milovanović, Tanja Jovićević, participants of the Belgrade Games Festival, as well as many others. There was no lack of support from some of the most important festivals, cultural and sporting events, such as 'Mikser' festival, 'Belgrade Marathon', 'Orange Bike Ride', Beta

News Agency and others. Belgrade Fashion Week organized a special fashion show with the organ donation topic 'Prolong Life - Colour in Red', with more than 20 Belgrade designers taking part with their models, while the dresses were worn by the stars of the local public scene. Hemofarm employees, who joined this campaign from the first day, participated in 'sports-humanitarian adventure', thus promoting organ donation also beyond the borders of Serbia. Six recreational cyclists rode their bicycles from Germany to Serbia. a length of 1,400 km: the road started at the headquarters of STADA Group in Bad Vilbel, and ended in Vršac, the headquarters of Hemofarm. Thus, in addition to promoting this campaign, they have raised awareness of all Hemofarm and STADA Group employees.

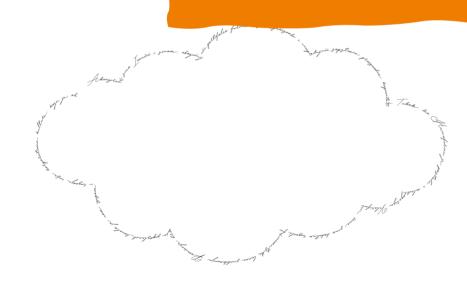
In addition to promoting organ donation and the new Organ Transplantation Act, which is expected to be adopted in 2017, Hemofarm Foundation, together with its partners in the 'Most Important Call'⁵³ campaign, aimed to improve the conditions and position of Serbia for joining the international organization - Eurotransplant. Developing public awareness and improving the position of patients waiting for organ transplantation are the most important goals of all activities implemented during the year, and the importance and quality of this campaign are best confirmed by numerous national and international awards and recognitions.

Every day, the biggest inspiration for us inspiration for us are the families of are employees.





Our team





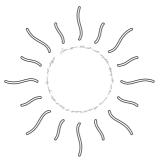


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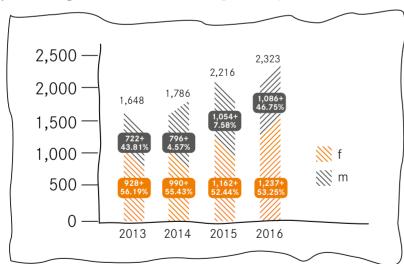
OUR TEAM IS OUR SUCCESS





The success of each company depends on its resources, as well as on the way it engages them for its business. The most important resource for Hemofarm is people - employees, without which the success story of a domestic pharmaceutical leader would not be possible. That is why the development of employees and improvement of their potentials are one of the imperatives of the company. Human Resources Division, as well as the entire Hemofarm, are focused on improving employee's motivation, talent care and active development of leadership and managerial skills, in an effort to make the business environment a better place for work. At the beginning of 2015, the company management set the key bases for two important projects - improving organizational culture and securing successors for key positions. During 2016, the emphasis was placed on achieving already defined goals for these two

important projects, which in the short and medium term will contribute to the success of the entire company and achievement of all business results, from customer satisfaction to increase in productivity and profitability. In order to further improve the HR function in the light of human resources development, top management of the company presented the new structure of this important division during the previous year, which will be fully operational in 2017. There are a total of 2,323 employees,54 in Hemofarm, and 4.8% growth is directly conditioned by the acquisition of a new legal entity - pharmaceutical company 'Ivančić i Sinovi'. All 89 employees of this company have retained their employment status and by signing new Labour Contracts with them, Hemofarm Collective Bargaining Agreement has become effective, providing them additional benefits.



2013 - 2016 headcount trend

During 2016, a total of 49 employees⁵⁵ were employed in Hemofarm for an indefinite period of time. Of the total number of employees, 273 of them were engaged on a fixed-term contract basis, and two employees worked part-time. The ten-year tax incentive, which also implies the annual preservation of a defined number of jobs in line with this arrangement, is still valid in Hemofarm.



In 2016, 78 workers left the company, which is about 3.3% of the total number of employees. Out of the abovementioned number, 6 employees went to retirement, while 22 workers left the company by agreement. Fluctuation of employees in 2016 amounts to 4.1%.

_			$\overline{}$				
20	13	20	14	20	15	20	16
came	left	came	left	came	left	came	left
		2		2			
43	17	14				61	14
35	43	37	8	45	18	84	27
4	20	12	6	11	12	25	15
4	27	1	18	1	28	13	14
1	10		7		9	1	8
83	117	194	47	162	76	184	78
	43 35 4 4	43 17 35 43 4 20 4 27 1 10	came left came 2 43 17 14 35 43 37 4 20 12 4 27 1 1 10	came left came left 2 43 17 14 35 43 37 8 4 20 12 6 4 27 1 18 1 10 7	came left came left came 2 2 2 43 17 14 14 35 43 37 8 45 4 20 12 6 11 4 27 1 18 1 1 10 7 1 7	came left came left came left 2 2 2 2 43 17 14 35 43 37 8 45 18 4 20 12 6 11 12 4 27 1 18 1 28 1 10 7 9	came left came left came left came 2 2 2 2 61 35 43 37 8 45 18 84 4 20 12 6 11 12 25 4 27 1 18 1 28 13 1 10 7 9 1

year	Employees entitled to for chi		exer	ees who cised to absence	expected	employees to return bsence	Employe retur to work aft	ned	to work af and a	who returned ter absence are still 2 months later
	male	female	male	female	male	female	male	female	male	female
2013		65		65		65		63		63
2014		63		63		61		26		26
2015		84		84		84		28		28
2016		96		96		96		54		54

Hemofarm, as a responsible company that strives towards a sustainable future, firmly believes in family as the basic building unit of the society, and therefore, devotes special attention to pregnant women, women in labour, and future parents who are employed with Hemofarm. Therefore, absence due to maintenance of pregnancy or maternity care does not pose an obstacle to employees' return to work. During 2016, there were 96 employees on maternity leave. After completing the maternity leave, in 2016, all women who were on maternity leave returned to work at the same business position.







WE DEVELOP CORPORATE CULTURE TOGETHER AND MOTIVATE EACH OTHER

Hemofarm is a company which believes that people are its greatest asset! That is why their development, both individual and as a part of the team, has a special importance for the company. Transparency is one of the key aspects of employee's motivation. Therefore, through the annual evaluation, each employee is given a feedback on their work, which encourages not only personal development, but also overcoming possible difficulties in work. The process of annual evaluation continued in 2016, now for the third time in a row. This process enables monitoring of employees' progress and rests on an open and constructive

dialogue between employees and executives. Through detailed and objective analysis, performance assessment, and structured monitoring, promotion and improvement of work performance, Hemofarm is constantly improving, as every employee gets the opportunity to offer the best of himself/herself. Managers provide employees with valuable feedback on what they have done in a desirable manner in the previous year, what are their strengths, and what they should change to achieve even better results. Upon completion of the evaluation process, a clearer picture of the situation in teams, strengths,

weaknesses and talents is obtained, both at a group and individual level. It is an important factor in planning future development directions and achieving business goals. If done properly, the annual evaluation of employees has a positive impact on motivation, satisfaction and engagement of employees, and vice versa. But, how do we know which way is right and how to conduct a dialogue? In order to offer answers to these

essential questions, as well as

to raise the annual evaluation

process to a higher level, HR Education and Development Service of Hemofarm has recorded 15 educational video clips. Stars and screenwriters were Hemofarm employees - colleagues from all organizational units of the company who wanted to join the project. At the same time, all employees were invited to be an 'Oscar-winning' jury. A vote for the best male role, female role, script and video was organized, with the official announcement and rewarding of the winners. In this way, not only executives who perform the annual evaluation receive better guidance and support for proper approach to this process, but also employees have a good opportunity to accept the evaluation process in a better way and identify themselves with real-life workplace situations. Stage fright was not an obstacle for some of the employees to try out the role of actors for the first time, and one of the best results of this internal project implemented without additional funds, is the fact that the entire collective learned how to constructively work in different real business situations, shown in video clips. Also, this project was a great opportunity to improve relations between managers and employees. The Key Performance Indicators (KPIs) of the annual evaluation process show that a total of 91% of employees are evaluated on time. This

percentage is slightly lower than that of last year (99%) mainly due to the integration of the acquired teams, and operational and technical aspects of their involvement in the evaluation process. In line with the evaluation results, the company has 14% of top performers and 1% of underperformers, for which individual action and personal development plans will be created. Compared to the previous reporting cycle (2015), a jump of top-performer percentage is also evident, as well as nearly double lower percentage of underperformers (despite the increase in the headcount). Underperformers are employees with extremely low results during the year being evaluated, both in terms of performance and achievement of goals, as well as behavior, while on the other hand, top performers are employees who have exceeded the expectations of their superiors in all spheres of their work. It is extremely important for the organization to recognize and identify both of them, in order to properly manage the further work and behavior of underperformers, and to adequately respond to the needs of top performers and thus keep them in the company. As in all previous years, based on competence matrix which is one of the results of the annual evaluation, a training plan for 2017 will be developed. The training of evaluators for managing annual interviews has been followed-up. The pharmaceutical sector, which operates according to strict professional standards, requires continuous training of personnel. During the year, employees went through 3,614⁵⁶ external and internal training courses and trainings (5,031 in 2015). Reduction in the number of trainings was conditioned by cost optimization, as well as by the fact that certain training sessions implemented in 2015 were still valid, and they did not have to be repeated.⁵⁷

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e unit of measure is training per employee; the same employees attended several trainings, in accordance with the requirements of the business position; the average duration of one training is 1.5 hours, and the largest nings (about 75%) was organized within Technical Operations, in accordance with the business requirements.



Also, due to the already mentioned acquisition of teams from other legal entities that have become a part of Hemofarm, firstly, it is necessary to complete their integration into the company, followed by joining training in full intensity. Accordingly, a new increase in the total number of training is expected in 2017. According to various job requirements, a total of 512 employees in 2016 had the opportunity to improve their skills, knowledge and expertise, while 374 employees passed soft skills training according to their assessed competencies. Two leading sets of competencies that, after the annual evaluation, showed the need for improvement were analytics and decision making, and effective listening and sensitivity. In addition, special attention was paid to the development of leadership competencies of 57 employees - possible successors, within the Succession Planning Program. Vision, career planning, and awareness of leadership were in the focus of possible successors and they have become more prepared to make progress and take on key roles in the company when the opportunity arises by advancement of knowledge, skills and abilities according to their individual development plans.

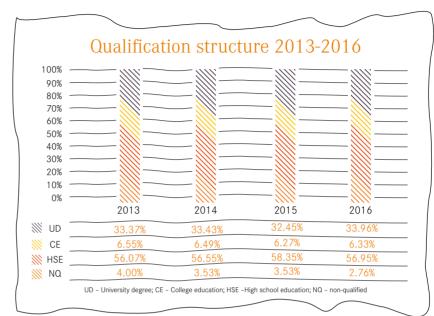
underwent training in accordance with the procedure of introducing new employees to work, that lasts minimum two months, with monitoring and evaluation of their adaptation, compulsory training on protection and respect for human rights and prevention of corruption. Following the acquisition of new legal entities, Hemofarm increased the number of trainings in the field of occupational health and safety for all new employees and those integrated into the system by over 80% in 2016.

All new employees, 162 of them in total,

During 2016, investment in internal and external trainings amounted to € 188,816 at the level of Hemofarm Group, while investment in education amounted to € 157,087 at the level of Hemofarm A.D. Although investment in education has almost halved compared to 2015, number of trainings has been reduced by just over 30%. Reducing investment in education is the result of savings through better contracting and additional optimization of the 'price and quality ratio' through an education tender launched in 2016. Agencies offering in-house trainings were invited to send bids according to a pre-defined catalog of education with topics and modules. After the analysis of all bids, negotiations ensued, and annual contracts were executed with the agencies that gave the best terms. The total number of hours spent in trainings by Hemofarm employees during the previous year amounted to 6,737 h (7,546h in 2015) or 2.9h per employee (3.4h in 2015).

By investing in employees, Hemofarm strives to differentiate itself from the competition, as well as from other business entities in Serbia and the region, precisely on the basis of their skills, knowledge and motivation, believing that the development of employees directly leads to an improvement of performances of both the company and

business operation itself.



Corporate culture and its continuous development remain topics in the focus of both Human Resources Division and the entire company. Also, corporate culture takes an important place in the dialogue with key stakeholders, of which Hemofarm seeks to obtain all useful suggestions and guidelines for further development. The joint mission of all Hemofarm employees is that both business and interpersonal relations are a reflection of true goodwill of each individual, and therefore above the level required by the legislative system. A pleasant, positive and stimulating working environment, with full respect for the culture of diversity and respect for the principles of equality, have already become the best synonym for describing the everyday atmosphere in the company.

'The corporate culture change' project that began at the end of 2015, which aims to create a constructive working environment that will be motivating for each employee individually, was successfully followed-up in 2016. During the past year, the results of the current corporate culture analysis were presented as well as plans for its further development

and improvement. Also, an important segment in this area is the performance of individual assessments on the basis of which personal development plans of all senior management team members, who will be the key bearers of the new corporate culture, were created. Their task is to breathe new energy into a well-established and developed system. This project remains in focus as one of the most important for the company also in 2017.

Vršac is a multiethnic environment in the border

region of Serbia. This fact has influenced a high level of awareness of the coherent coexistence and business cooperation of members of several nations since the founding of the company. This culture of cultivating diversity has paved the way and has developed a highly tolerant society that is open to diversity. It is therefore not surprising that there is a policy of zero tolerance for every form of gender, national, religious or any other discrimination in Hemofarm. Also, the company does not make a difference in the rights and obligations of employees, regardless of whether they are engaged for a fixed or indefinite period of time. The best evidence of equality is the fact that of the total number of employees 53.25% are women, and their share in management positions is 59.6%. The company has unique wages for the same working

posts, regardless of gender, and minimum the gross salary in Hemofarm is above the minimum wage in

Serbia.



Minimal gross salary (in RSD, December 2016)

Hemofarm A.D.⁵⁸ Republic of Serbia
41.522.36 30.129.00

Employees who show exceptional results during evaluations are entitled to a one-off increase of personal income in the amount of 10% of their basic monthly salary.⁵⁹ Thus, Hemofarm is trying to retain the most talented and most valuable human resources, by developing

the culture of rewarding the ones whose efforts directly contribute to professional development of the company. In accordance with the Collective Bargaining Agreement, all employees are provided annual holiday allowance, and female colleagues are provided a gift on March 8th. The celebration of New Year's holidays with presentation of 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 diligence, but also an incentive to achieve even

1				
Y	ears of service in the Company	Amount of jubilee award (RSD)	Years of service in the Company	Amount of jubilee award (RSD)
	10	39,400.00	30	105,000.00
	15	52,500.00	35	131,200.00
	20	78,700.00	40	144,400.00
	25	91,900.00		

In accordance with the Labour Law, in case there is a need for changing the workplace, an employee receives an offer with the possibility to decide whether he/she accepts an annex to the Labour Contract within a period of eight business days. In case of a retirement, three average wages in

the Republic of Serbia according to the latest published data of the Statistical Office of the Republic of Serbia, which is more favorable in relation to the legal regulations, are taken into account for determining and effecting severance payment to colleagues. Hemofarm's support for families with children also affects the satisfaction of its employees, and in addition to the one-off payment for each born baby, the children of single parents are provided with financial assistance and school supplies.

Hemofarm offers full legal protection and support to its employees. One case of mobbing was reported in 2016, which was rejected as unfounded in the internal procedure. During the year, we have started workshops for prevention of mobbing and resolving all doubts about it and employees were encouraged not to hesitate and report even the slightest suspicion of violation of their rights. The high awareness of employees about respecting rights among colleagues is best confirmed by the fact that

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 by the court as unfounded, while the other two were ruled in favour of the company (one is legally effective and the other is the first instance judgement).

Hemofarm promotes the right of its employees to trade unions, and respects the operation of two trade unions. The fact that the membership in the leading Independent trade union increased from 1,785 to 1,841 members indicates the interest of employees to actively participate in the protection of their own rights and work on the improvement thereof. The trend of increase in headcount is accompanied by the trend of increase in trade union membership, which still amounts to approximately 80% of the total headcount.

Reception for Hemofarm's pensioners is organized every year, on the occasion of

company's anniversary. Thus, while getting together, employees are given the opportunity to learn more about how Hemofarm used to be, and how it is now. Also, the Company supports Association of Pensioners operation through monthly donations, the, thus paying tribute to knowledge, experience and commitment, which former employees rendered to Hemofarm. Monthly donation for pensioners amounts to RSD 40,000. Also, the anniversary celebration of the Company is traditionally marked by the 'Open Doors Day', when all fellow citizens and family members can visit the central factory complex in Vršac and get acquainted with Hemofarm's operation.

OUR TEAM IS HEALTHY AND SAFE

Occupational health and safety are not just business topics for Hemofarm that are gaining in importance today. These are the postulates on which a responsible relationship is built with both employees and business partners and all visitors to Hemofarm's plants or business premises. In the end, it is a reflection of corporate responsibility towards the environments surrounding Hemofarm!

Occupational health and safety in Hemofarm as well as safe stay in general, are achieved through a series of synchronized and related activities that are primarily focused on prevention and education. This system is continually upgraded using the latest technologies. The company ensures safety of employees, resources and environment through video surveillance systems and fire detector. The company has also got its own Physical and Technical Security Service, whose experienced and professional staff have

undergone all the necessary trainings, where special emphasis has been put on respecting and protecting human rights. Hemofarm owns its own professional fire brigade. It is available to both the company and fellow citizens for protection against fire, chemical accidents, natural disasters, and the like. Hemofarm prevents and minimizes risky situations or injuries at work by all its activities in the field of occupational health and

safety at work. Thus the Company becomes more efficient and minimizes the number of lost business days due to sick leave.

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National legislation and stipulated guidelines are only the starting point for Hemofarm in achieving the highest level of safety and health protection at work. This complex and important field in the company is regulated also by the procedures of the integrated environmental protection management system (ISO 14001) and occupational health and safety management system (OHSAS 18001) for which Hemofarm is certified in its plants in Vršac, Šabac and Dubovac. There have already been info boards at all three sites showing the number of occupational injuries at the site itself in the current year, number of days without injury and date of the last injury. After the acquisition of 'Ivančić i Sinovi' company, such an information board was placed also in Stari Banovci plant. This type of informing employees and guests has increased the levels of their awareness about the importance of preventive measures in safety and health protection at work. Within the central factory complex in Vršac, there is also a speedometer installed to control the speed of motor vehicles moving within the factory circle.

Hemofarm's Security Committe⁶¹ plays an important role in defining and implementing a series of activities that are conducted for a safe and secure workplace every year. It actively participates in the investigation of possible incidents, giving proposals and suggestions for improving the system, and is the best link between management and employees. During 2016, within the framework of preventive measures, the Company performed inspections and testing of equipment for work and personal protection, electrical installations, working conditions and pollutant emissions from the boiler plant, organic solvent emissions, as well as testing the quality of technological and atmospheric waste water. Safe chemical management is regulated by the Integrated System Procedures and Legislation. The corporate Intranet includes a base of chemicals with instructions for safe handling and behavior in possible hazardous situations, and is therefore available to all users of chemicals.

On the occasion of marking April 28th the World Occupational Safety and Health Day, and Occupational Safety and Health Day in the Republic of Serbia, the Ministry of Labor, Employment, Veterans' Affairs and Social Affairs and Occupational Safety and Health Administration have already rewarded Hemofarm three times for commitment to occupational safety and health values and spreading the culture of prevention (2012, 2014 and 2015).

Education of all employees is one of the most important preventive measures in Hemofarm, because it trains employees to identify possible hazards and apply measures for protection thereof. There were 4,601 trainings (2,538 in 2015) conducted in the area of occupational health and safety, environmental protection,

fire protection and accident prevention during 2016, and all employees passed the testing of general knowledge on safety and health at work, technical protection, first aid, accident prevention and fire protection. They also participated in emergency evacuation exercises in Vršac, Šabac and Dubovac plants, in accordance with company's internal procedures.



Evacuation exercises in Vršac



Evacuation exercises in Dubovac



Evacuation exercises in Šabac

In addition to in-house trainings, there were 46 special trainings with a knowledge test for first aid and 15 training in operating the means for in-house transport carried out by the help of external experts in 2016.

When selecting possible contractors or suppliers, the company does not make a difference in occupational safety and health protection of both its employees and business partners. Particular care is taken to ensure that the business partner is solvent, meets legal requirements and takes care of occupational safety and health measures whereby Hemofarm puts the rights of all employees in the first place. It is therefore necessary to attach certificates of paid tax, statements on respect for human rights and employees' rights, evidence that employees have been registered and to fill out the Qualification Questionnaire and BSCI Questionnaire⁶³ before the beginning of cooperation. Only when the contractor has been qualified, a binding Annex on Safety and Health at Work, Environmental Protection and Fire Protection is signed. Such an audit and previous qualifications of business partners is essential since there was a large number of contractors

who were present at Hemofarm sites every day during 2016. The occupational safety and health protection of such business partners were provided at the highest level. Due to the current construction works, between 25 and 30 companies with about 150 employees were present in the central factory complex in Vršac on a monthly basis, while this number amounted to 10 companies with 50 employees in Šabac complex. The greatest reward for all efforts invested in the field of safety and health at work as well as confirmation that complex procedures are necessary is the fact that there were no injuries at work of any of contractors' employees! Each employee achieved 2,016 business hours, with a total of 4,715,424 business hours (for all 2,323 employees). Total lost working days in the amount of 567 (4,536 business hours) were recorded due to injuries. The number of hours lost due to accidents per million business hours increased by 4.7% in relation to 2015. Compared to 2015, the total number of injuries was increased by 5%, but the percentage of injured workers relative to total headcount is the same as in the previous vear (0.9%).

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12 In Hemofarm, more than 2% of employees are trained for first aid, and other employees acquire the necessary knowledge in this field through different levels of training. All employees are familiar with the fact where and with whom they can seek help in the event of an injury or sudden illness. 18 In accordance with specific needs, possible contractors are obliged to submit certificates of occupational safety and health training, medical certificates, insurance policies, professional findings, studies, procedures

Process Performance Indicator	2013	2014	2015	2016
	Vršac Šabac	Vršac Šabac	Hemofarm A.D.	Hemofarm A.D.
Headcount	1,648 346 1,994	1,786 346 2,132	2,216	2,323
Number of Injuries at Work	24 6	23 6	20	21
Number of Trainings / Courses SP Service	433 1,658 2,091	2,746 163 2,909	2,538	4,601
% of injuries comparing to headcount	1.50	1.36	0.9	0.9
Average number of days of absence from work	22	22.6	46.164	26.6
Number of lost hours due to accidents/per million business hours	1,227.5	1,117.7	923.3	966.9
Number of registered near misses	0	0	11	20
	The second			

Near miss events are events or situations that did not lead to injury / damage, but they could have caused them. Employees are encouraged to report any unsafe event or situation and thus prevent injury or damage. The number of registered 'near miss' events has increased by 80%, which is not the consequence of reduced security in Hemofarm, but rather of the higher level of employee's awareness of this important topic, which is a crucial aspect for further prevention.

Hemofarm is a company that strives to always act proactively and legal bases are just the starting point for the company. In addition to direct investments⁶⁵, which we have already mentioned in this chapter, the company continuously takes care also of improving the health of its employees, through:

- 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 also after retirement; the company pays RSD 2,000 a month to employees⁶⁶ who pay minimum RSD 1,000 from their own funds;
- Voluntary health insurance is intended for all employees and covers the costs of medicines, specialist examinations, treatment, surgery, etc.;
- Solidarity Fund: financing the work of sport sections and recreation of employees: aid for an employee due to illness and sick leave longer than 6 months; aid for an employee for birth and adoption of a child; helping single parents; helping employees in case of death of a close family member.

Section of voluntary blood donors in Vršac, Šabac, Dubovac, and Stari Banovci as well as Business Centres has been functioning as a part of the Solidarity Fund within Hemofarm, for years. There are between 400 and 500 donors active at any time, who regularly donate blood voluntarily, or respond to the appeals of the local blood transfusion services, thus helping the most vulnerable patients. The Independent Trade Union also has funds for organizing recreations, sport sections and sports meetings of employees, providing assistance in crisis situations, as well as ongoing maintenance and improvement of workers' rights in general.⁶⁷

Taking care of employees and their families reflects the corporate values. Therefore, employees have guaranteed benefits exceeding the provisions of labor and related regulations at the national level. There are experts available within Hemofarm who provide psychosocial support to employees and their families, in order to balance in the best possible way their careers with their family lives, thus developing their potentials to the fullest in both segments of their lives.



ONLY EQUAL OPPORTUNITIES BRING OUT THE BEST IN US

Hemofarm attaches great importance to the creation of equal conditions for the development of personal and team potentials in different areas of work, believing that only equal opportunities can bring out the best in each individual. Women account for the majority of employees at all organizational levels, as well as in leadership positions, which is a confirmation of company's commitment that personal competence and integrity are the main trump of equality of all employees. When selecting and appointing the management and top management members, Hemofarm observes the practice of providing equal opportunities to internal experts and external candidates, or local experts and international professionals. Consequently, within

the middle and top management, experts from the circles of the local population participate in the same percentage as other experts. In this way, not only does

the company get a good chance to develop itself as a mix of different cultures and expertise, but it also enables local communities to enhance professional development that is important for the whole population. In-house legal enactments also regulate the prevention of conflicts of interest, both at the frontline and at the level of all business positions.

Hemofarm has been one of the most desirable employers in Serbia and the region for years. It has been so due to the existence of good working conditions and the fact that expertise is the first criterion for hiring. During 2016, Hemofarm had 46 vacant business positions. The company strives for transparency, providing equal opportunities to everyone, in accordance with corporate procedures, through the selection and recruitment process passed by 1,042 candidates out of the total number of applicants, which shows the

continuity in the trend of a high percentage of tested candidates. In this way, the Company has selected the best personnel, but it also signalized to the labor market that there are many potentially good candidates, who will get their new chance at some of the next competitions either in Hemofarm or in some other leading company in Serbia. It is important to note that discrimination of employees and job candidates is prohibited in the company. Also, employment of children under the age of 18 is prohibited. Legal Affairs Division of the Company monitors all business operations in terms of protection and impact on human rights of employees or job candidates.

Another dimension of equality provided by Hemofarm is giving the chance to internal staff as well as external candidates when the need for a new business position arises. The rules of internal and / or external advertising, duration of selection and recruitment as well as integration of employment with monitoring the adaptation of new employees are clearly defined. By supporting the change of business positions within the Company, with the possible vertical and horizontal advancement, Hemofarm encourages employees to develop. In line with this trend, which is very important for individual career development and acquisition of a richer business experience, flexibility and achievement of the set goals are enabled. In order to promote equity and transparency, as well as its corporate key values, Hemofarm always participates in employment fairs, and has traditionally been a good partner of leading domestic employment portals.

Over the

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was and as much as well amonths due to a recovery after falling fine company's circle when going to work. 15 They include means for periodical medicial paraminations for certain business itions, Regular sanitary and ophthalmological examinations; Cooperation with occupational medicine; First aid training; Testing of working environment conditions, testing of equipment for work and means and equipment for more than three years, or who are employed for an ordinative to the found the first working day in the company. 16 The Sports Section of the Independent Trade Union is also active in Hemosfarm, which encourages recreational and organization is also active in the mort paraminations. 16 The point of the mort periodical medicine for the first working day in the company. 16 The point is also active in the most provided in various sports (floots), valled the subspiration of the foundation of the foundation of the subspiration of the foundation of t



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ANCESTORS AND WE OWE IT TO THE OFFSPRING

Extreme natural calamities such as large fires, floods, land erosion, storms and waves of tropical heat increasingly attract the attention of the general public and the media. This is not surprising given that some of the extreme climate phenomena occur every day in the world, negatively affecting the population, environment and infrastructure. Statistical analyzes show that the occurrence of these phenomena has increased due to climate changes and it is becoming ever more obvious that the immediate action and protection from the effects of climate changes are imperative, as well as setting up a strategy for the preservation and conservation of the Planet.

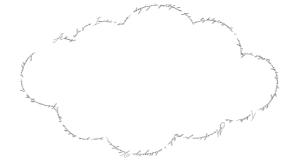
Climate on Earth has been changing throughout its history, but these changes have not always had the same cause. Until the beginning of the industrial revolution, the climate changed as a result of changes in natural circumstances. Presently, the term 'climate changes' indicates the changes which have occurred since the beginning of the twentieth century, as a result of human activity.

It has been proven that global warming is not self-induced, but is rather the result of anthropogenic impact. At this point, the average temperature on Earth is higher by 0.8 degrees than before the industrial revolution, that is, before people began to consume fossil fuels massively and build up carbon dioxide in the atmosphere. According to the Serbian Environmental Protection Agency, temperatures are on the rise also in Serbia, especially in the last 15 years.

Carbon dioxide (CO₂), a gas released by the combustion of coal, oil, oil derivatives and gas, has the most significant effect on global

warming. About 25 billion tons of carbon dioxide is released into the atmosphere every day, 800 tons every second! Such a carbon dioxide emission trend could increase the average Earth's temperature by 1.4-6.4°C by the end of this century. It is believed that an increase in temperature of above 2°C would lead to a dangerous climate change and devastating impact on the plant and animal biodiversities.

As much as the mankind in general stands responsible for the current situation in which it brought the planet Earth, every single individual is similarly responsible for its future! Therefore, Hemofarm employees, aware of the importance of climate changes, have been trying not only to minimize the impact on the environment, but also to contribute to raising awareness in Serbia about the importance of this serious topic through their daily activities. That is why special attention is paid to an efficient and good-host management of currently available resources, in order to preserve them for generations to come. Only a part of these activities is focused on responsible management of gas emissions, water and energy consumption, and waste management, because Hemofarm seeks to align each aspect of its business with the principles of sustainable development. Continuous efforts of this company to increase the use of recycled materials, such as cardboard for packaging, and to optimize production processes, should be mentioned, as well. Waste recycling is also an important challenge for Hemofarm. Great attention is paid to continuous optimization of storage and transport, especially through maximizing the utilization of transport packages through their size, occupancy and pallet positioning, as this





Hemofarm's concern for the rational use of available resources and the preservation of the environment is best shown when words become actions. Regarding this matter, several important projects were finalized or entered the phase of full implementation during last year; these projects were already discussed in the previous Sustainable Development Report of the Company. One of the biggest projects is the commissioning of a new Quality Building, which combines the functions of quality control and quality assurance, a building which has been developed according to all current principles of energy efficiency (LED lighting, modern insulation and the concept of spatial positioning, etc.) and has an adequate energy passport. A new boiler room with state-of-the-art equipment, which provides for energy stability at the central production site, along with other benefits related to energy efficiency, was built in addition to this important building. Hemofarm does not regard water solely as one of the key resources, but also as one of the most important segments of caring for environmental protection. In addition to striving to drain this resource from its own artesian wells in a controlled way, an important aspect of water management is the commissioning of primary wastewater treatment plants in Hemofarm plants in Vršac and Šabac. 6869 The activities which preceded the construction of the treatment plants included development of the study on the impact assessment for the primary treatment plant in Vršac, as well as development of a study for the environmental impact assessment for the treatment plant in Šabac. The evidence has been provided for each of these facilities





that there are no protected natural assets and archaeological sites, plant and wildlife species and their habitats on the site and in the immediate environment, and that the environment is not endangered. During 2016, the primary wastewater treatment plant in Šabac operated with an average capacity of 57%, 22,680 m³ of technical wastewater,⁷⁰ was processed, with an average processing price of approximately €1.1 / m³, which is nearly 18% less than the price estimated by the project. The total costs of wastewater treatment in Šabac amounted to about € 25.000 in the last year, and Hemofarm's total investment in environmental protection in 2016 was around 620,000 EUR.





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**According to Central European Development Forum (CEDEF) data from May 2015, over 65% of industrial plants in Serbia does not treat wastewater http://www.cedeforum.org/sest_medjunarodii_engegtski_forum.html bether pirmary treatment plant in Vfsa reats sanitiary and technological wastewater institutes. In Sabas, club process, the processes, before the wastewater is discharged into the ofty; sweage system. In Sabas, club process, the processes (water treatment) in the treatment) plant is more complex and includes the processes of collection and egalization, coagulation and flocculation, floation and biodegradation. Waste from the wastewater treatment process from both plants is disposed in the prescribed manner, to landfills that have permission to accept these waste categories. Hemofarm received the use permit for both plants in September 2015. **Out of a total of 252,420 m² of wastewater in entire Hemofarm, which was discharged after



WATER MANAGEMENT

Water represents an important production resource in the pharmaceutical industry. Hemofarm acquires this resource, for its own needs, from public water supply system and from its own artesian wells. Water taken from public water supply system is consumed in technological processes and for the production of purified water (PW), water for injections (WFI) and pure steam (PS). Also, water is used for the production of technical steam and hot water, as well as for the functioning of the cooling system (cooling water) and sanitary needs. In addition to the fact that Hemofarm takes care of the rational and responsible water consumption for its production, it pays even more attention to wastewater, its quality and its impact on the environment. Regarding this, during last year, the primary wastewater treatment plants within the factory plants in Šabac and Vršac had full application, making the local environment a cleaner and better place for the flora and fauna, without any negative impact on humans.

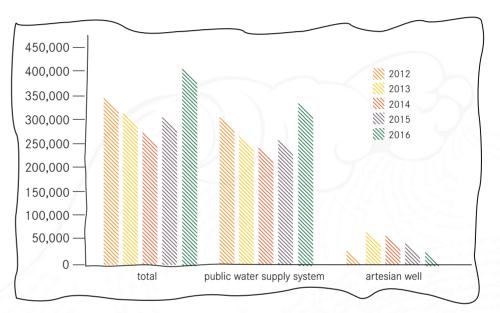
Over the past year, the total amount of water taken from the public water supply system increased from 334,972 m³ (2015) to 350,349 m³ (2016). The increase of about 4.6% was caused by a significant increase in the volume of production of pharmaceutical forms of ampoules (27% more ampoules produced) in which water for injections is incorporated into the product itself, as well as by an increase



in the number of process orders (1% more) and the complexity of production (15% more than in 2015). All of this resulted in increased consumption of water for washing processes.

Artesian wells within the central factory complex in Vršac are autonomous, while the city water source, located in Pavliš⁷¹ meets all the needs of the inhabitants of Vršac and the surrounding settlements. Although it does not jeopardize the public water supply system or any other water resources, Hemofarm is striving to continuously increase the utilization of its own artesian wells. Thus, in the past year, the total amount of water taken from the artesian well increased by 40.3%, i.e. from 51.267 m³ (2015) to 71.916 m³ (2016).

Overview of the total amount of taken water (m³), by source:



The analysis of total water consumption from both sources shows an increase of 9.3% comparing to 2015. The increase in water consumption is directly conditioned by the increase in the volume and complexity of production and the commissioning of a new Quality building. The absolute value of the increase in water consumption is less than the absolute value of the increase in production, which is why the increase in water consumption in the past year was not a negative parameter.

Hemofarm pays special attention to the development of employees' awareness of the importance of preserving resources. One of the best examples is an initiative given by the employees that the water should be frozen overnight, when the price of electricity is cheaper, and gradually dissolved over the day and used for cooling systems in production. In addition to this inspiring example, which

has been successfully applied since 2012, the Company continuously takes care of water recovery and all other possible ways of saving this important resource. An example which should be pointed out is the example of technical steam. It has no contact with the product, and all the condensate is returned to the boiler room for reuse. Practically, in this way, there is a continuous recovery of water used in Hemofarm's production processes. In addition, the thermal energy of the waste water of steam boilers, which would be discharged in the regular operation as a result of the desalination process and the removal of the residue from the steam boiler, is used in Hemofarm as a heat source for the preparation of sanitary hot water in the Sterile Products Plant. This saves approximately 120 tons of technical steam per year, and in relation to all taken water during 2016, the amount of water reused in the production and distribution of technical steam is 10.3%.⁷²

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a capacity of 250 to 300 liters per second. 72 The share of fresh / additional water in the processes of production and distribution of technical steam for 2016 accounts for 32.3%, and the amount of condensate (reuse



ENERGY CONSUMPTION

Electricity and natural gas are the key sources of energy in Hemofarm. Electricity is used in manufacturing processes, for the operation of air compressors and chillers, as well as for the heating-ventilation-air conditioning system (HVAC). Air compressors and chillers are the largest consumers, and the production of compressed air and cooling water accounts for one third of total electricity consumption for the central production complex in Vršac. Natural gas is mostly consumed in chemical water treatment departments - approximately 36% of the produced technical steam was needed in 2016 for the production of purified water, water for injections and clean steam in Vršac. Other major segments of natural gas consumption are space heating and other technological processes.

Year	Electricity, KWh	Electricity, G
2015	44,364,493*	159,712.17
2016	45,371,748	163,338.9

*The overview includes the plant in Šabac, which has been within Hemofarm A.D. since 01/01/2016. Before the consolidated overview, the consumption amounted to 35,631,588 KWh, i.e. 128,273.72 GJ

Electricity consumption in 2016 increased by 2.3% compared to the previous year. This increase is a direct consequence of the volume growth (1.3% more units produced, i.e. 2%

Year	Gas, m ³	Gas, GJ
2015	5,510,710*	183,782
2016	6,135,542	204,620

^{*}The overview includes the plant in Šabac, which has been within Hemofarm A.D. since 01/01/2016. Before the consolidated overview, the consumption amounted to 4.628,510 m³, i.e. 155,000 GJ

more packs than in 2015) and the complexity of production (15% more SKU compared to 2015), as well as the commissioning of new Quality building. Consequently, according to the increase in production, this growth of consumption is not a negative parameter.

The increase in gas consumption by 11.3% in 2016 was caused by the unusually cold months at the end of the year (November and December), with the fact that the previous winter of 2015 was significantly warmer and temperatures were above average. Additional factor of increased consumption of gas was the commissioning of a new Quality building, which has also caused the increase in all related costs (electricity, natural gas, water). Also, the utilization of the new SEJONG filmcoating device in the Šabac plant, which uses technical steam for heating processes and process air dehumidification, significantly increased during 2016. In addition, the HVAC System for the Warehouse with controlled relative humidity conditions, which uses technical steam, was put into operation at the end of the year.

Hemofarm invited all employees to a continuous dialogue, focused on reviewing all the initiatives that could be implemented in everyday work and which would make the Company even better. This is a significant contribution to strategic initiatives, such as improving energy management and energy efficiency, etc. In addition to shortterm activities, the company seeks to focus on mid-term and long-term investment projects for securing even greater stability and sustainability of operations. One of the positive examples is the project of installation of 'insulation jackets' on the systems for distribution of technical steam and condensat⁷³ , in cooperation with the International Finance

Corporation (IFC), the World Bank branch, whereby the savings of € 34,395 have already been achieved on an annual basis. Some other examples are:

- Replacement of fluo-tubes with LED lighting, as a continuous project of general increase in energy efficiency in Hemofarm; One of the largest facilities in which LED lighting has been installed instead of classic fluo-tubes is the new Quality Building⁷⁴; Stage replacement of lighting is taking place in Šabac production complex, all in accordance with the planned improvements of individual production departments;
- At the end of 2016, at Šabac plant, a new 1MW chiller was installed with the possibility of free-cooling in the winter period the cooling compressor does not operate in this mode which leads to a reduction in the consumption of electricity comparing to the classical system (estimated at around 38,800.00 kWh per year, and in the following period, when new planned technological consumers in the Solid Dosage Forms Plant have been installed, the savings will be even higher), and frequent switching on / off is also avoided, which prolongs the useful life of the cooling compressor and reduces maintenance costs;
- During 2017, activities on the installation of two new air compressors in the Šabac plant are planned. One of the compressors will be with the frequency regulator, which together with the new intelligent control unit for the control of all Atlas Copco compressors, will contribute to energy savings and more stable operation of the entire system; The estimate of savings is about € 6,000-7,000 per year, and preparatory works already began in 2016;

• In the Vršac production complex, implementation of the project for purchase and installation of a new chiller, with the possibility of using waste heat - Total Heat Recovery, is planned for 2017; Waste heat from the chiller would be used as a heat source for heating of the Solid Dosage Forms Plant; The expected annual savings are estimated at €57,600 per year

Construction of a new Quality building is one of the best examples of the endeavour to achieve the maximum energy efficiency in Hemofarm. The feasibility study for the installation of LED lighting preceded the project conception, and the facility also received an adequate energy passport. In the immediate vicinity of this building, and all major consumers, the construction of a new boiler room was finalized, as one of the very important projects in 2016. It ensured the stability of the heating energy supply over a longer period of time, with the benefit of additional energy efficiency.⁷⁵ Also, the construction

of a Central Packaging Plant was continued, which will make the whole process of the creation of pharmaceutical products, as well as the Company itself, much more efficient.

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Il pay off through reduced electricity costs in about 3.5 years at current electricity prices. Also, savings in maintenance costs have already been achieved, as LED lighting comparing to the flux tribus. The horizon which itself has been conceived as an energy efficient facility, has among other





Hemofarm, as a socially responsible company, which operates in compliance with the principles of sustainable development, is increasingly focusing attention on the control of greenhouse gas emissions (GHG).76 It is also one of the most important aspects of environmental protection in general. By monitoring gas emissions and constantly striving to reduce them, it is possible, at least partially, to control the direct but also indirect impact of people and industry on the preservation of the ozone layer and the reduction of all adverse effects. Although the pharmaceutical industry is known as a small GHG emitter, it is important that these emissions are constantly monitored and minimized. Therefore Hemofarm closely follows each of the three direct sources of greenhouse gas emissions⁷⁷ within its production, which are:

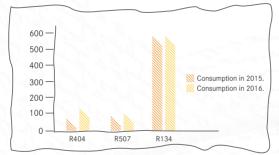
- 1. combustion of natural gas in the boiler room,
- 2. use of cooling utilities for the needs of technological processes, and
- 3. fuel consumption for the needs of company cars.

Gases, the emissions of which are monitored, are CO₂, CH₄, NO_x and HFCs, and there are no emissions of other gases in Hemofarm.⁷⁸ Natural gas is one of the basic manufacturing energy sources in Hemofarm. Its annual consumption increased (+11.3%) at an annual level, amounting to 6,135,542 m³ in 2016.

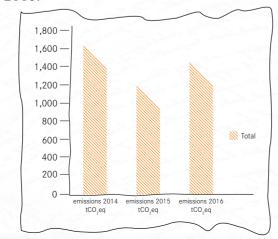
The increase in consumption resulted from the commissioning of a new Quality building, and considerably less favourable weather conditions compared to 2015. Its share in the total GHG emissions remains the highest, accordingly.

Hemofarm's production is based on the

purchase of gases for cooling devices (freons), labeled 'CFC Free' freons (without chlorofluorocarbonate). In 2016, a total of 727.6 kg of 'ozone-friendly' freon was delivered to Hemofarm for use in cooling technology, which is about 10.7% more than in the previous year. The installation, testing of the system and putting into operation of a new chiller, in addition to the integration of new legal entities into Hemofarm A.D, brought about this increase, which is expected to remain the same or show a slight decline in case of keeping the level or a slight increase in production volume during 2017. The amount of delivered 'ozone-friendly' freons used in cooling technology in 2016 is shown in the following graph:



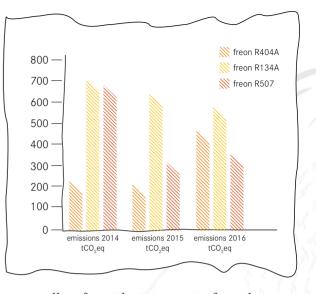
Due to the increased consumption of R404 and R507 cooling utilities, greenhouse gas emissions originating from the use of cooling utilities have increased by 23% comparing to 2015.





Γ				
		Emissions 2014 tCO ₂ eq	Emissions 2015 tCO ₂ eq	Emissions 2016 tCO ₂ eq
	freon R404A	214.8826	209.36	442.38
	freon R404A	724.88	628.50	682.50
	freon R507	720.488	315.21	360.24
	total	1,660.25	1,207.08	1,485.13
L				

For commuting from home to work, Hemofarm employees use private passenger cars and public transport buses, while bicycles and scooters are more frequently used in the summer period. GHG emissions from the transport of employees include the means of



public transportation by the local and intercity lines, as well as from the transport of employees on the Belgrade-Vršac route. Emissions from private passenger cars of workers residing in the territory of Vršac, Belgrade and Pančevo, as well as in the housing estates in the surroundings of these towns are presented aggregately in the following table:

Impact of employee commuting to/ from work on the environment	tCO ₂ eq	%
1. BG - VŠ - BG	- All and a second	100
Total emissions from commuting of employees, BG - VŠ - BG, 2016	35.59	6%
2. Local – public transportation	e to	A 4
Total emissions from commuting of employees, public transportation, local	67.69	12%
3. Private transportation – Vršac and surroundings		5-4
Total emissions from commuting of employees, public transportation, local	471.11	82%
Total emissions from commuting of employees SCOPE 3, tCO ₂ eq	574.4 kt	gentlement

Out of the calculated emissions, about 6% originates from fuel consumption of passenger cars and buses for employees commuting on Belgrade-Vršac-Belgrade route, 12% of emissions originate from local and suburban public transport, while as much as 82% originates from private transportation of employees using own cars. Total emissions from these sources amounted to 574.4 kt in 2016.

Since October 2015, bus transport has been organized for employees commuting on the Belgrade-Vršac-Belgrade route on a daily basis, whereby Hemofarm has shown care for the traffic safety and security of its employees. This initiative has reduced the number of single arrivals by passenger cars, as in 2016, the number of employees, who commute from Belgrade by organized bus transport instead by private transport, increased from 23 to 51. Therefore, 70% reduction in GHG emissions compared to the baseline scenario was achieved. Organized transportation of employees who live in the capital city and work in Vršac gives special opportunities and increases the mobility of experts willing to accept the challenge of working outside the home city without having to move, which is one of many benefits the Company offers in hiring.

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e number of passengers commuting on the Belgrade-Vršac route increased from 23 at the end of 2015 to 51 employees in 2016



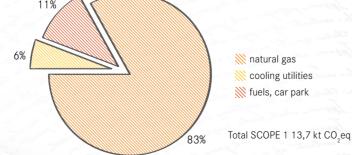
The emissions generated by Hemofarm's company cars in 2016 amounted to 785.83 t CO2eq, of which 48% originates from petrol and 52% from diesel. The emissions from the use of fossil fuels show a growth of 19% compared to 2015. Growth is largely due to acquisitions and integration of new legal entities into Hemofarm A.D. (Šabac Plant and 'Ivančić i sinovi').80

According to the data presented and calculations made in accordance with international standards and formulas, a GHG gases inventory has been conducted, showing that the total direct emissions of these gases from Hemofarm in 2016 amounted to 13.7 kt CO2eg. Distribution by sources of emissions is shown in the following table:

		n of GHG gases ssions - Scope 1) ⁸¹	
7 2 27 2			
1. Natural gas	CO ₂	CH ₄	NOX
emission, t_CO ₂ eq	11,475.070	5.727	5.420
emission, t_CO ₂ eq	a Marie Italia	16.18.0112-1.5	11,486.218
2. freons	R404A	R134	R507
emission, t_CO ₂ eq	442.38	682.50	360.24
emission, t_CO ₂ eq	of I form the	$([0,1,-F],F^{2}]$	1,485.13
3. Fuels, mobile combustion	CO ₂	CH ₄	NOX
emission, t_CO ₂ eq	771.04	1.16	13.64
emission, t_CO ₂ eq	11/2/11/2019	1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1	785.83
total scope 1, t_CO ₂ eq			13,757.18

The increase in total direct emission by about 12% compared to 2015 (12.2 kt CO2eg) is the result of several factors. First of all, the plant in Šabac became a part of Hemofarm A. D whose capacities were also expanded by the acquisition of 'Ivančić i sinovi'. Besides expanding the production capacities, it also resulted in an increase in the number of company cars. Also, a new Quality Building was commissioned in Vršac, which, together with the plants in Šabac and Stari Banovci ('Ivančić i sinovi'), resulted in a higher natural gas and freon consumption, which reflected in direct GHG emissions. When absolute values are compared, including production capacities and output, number of employees (business

premises users and company cars), and the size of plants and other business premises for 2015 and 2016, the direct emission values did not increase as a negative parameter, but they rather followed the growth trend of the Company.





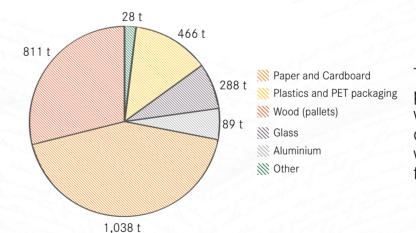
WASTE MANAGEMENT

As a member of the pharmaceutical industry, Hemofarm belongs to so-called 'white' industrial producers, which are not big polluters or huge waste generators. However, the very type of products, as well as what is generated in the production processes, even after the end of the life cycle of a pharmaceutical product, represent an important aspect of Hemofarm's responsibility. Thus, generated waste can be classified into:

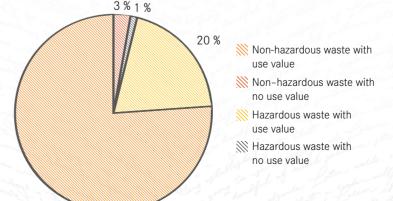
- waste generated outside the manufacturing sites of the Company, and
- industrial waste generated within the manufacturing and business complexes of the Company.

In accordance with the legal regulations, Hemofarm is not in direct contact with the end users of products. Therefore it is not able to collect waste packaging from its products whose life cycle has been completed, so it fulfills its indirect obligations according to the National Packaging Reduction Plan. This Plan has established general goals regarding the reuse and recycling of packaging waste. as well as specific targets for recycling paper / cardboard, plastic, glass, metal, wood from packaging waste. According to this Plan, Hemofarm cooperates with an authorized operator that undertakes the responsibility to make sure that the mentioned packaging is properly disposed of.82

An overview of industrial waste trend by type (hazardous /non-hazardous) as well as by the use value (has / no use value) in tons for 2016 is shown in the table and graph below:



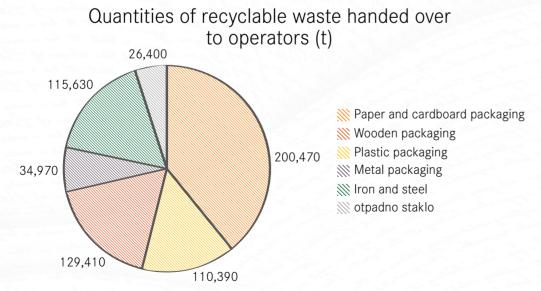
The quantity of packaging for which the obligation of management was transferred to the operator



Review of industrial waste types

	Type of waste	Balance on January 1 st , 2016	Generated waste in 2016	Transferred for disposal in 2016	Procedure
Non-hazardous (has use value - paper, cardboard, wood, plastic, metal)	0	(489.61) 617.27	(489.61) 617.27	0	It is submitted to authorized operators for further treatment that depends on the type of waste
Non-hazardous (has no use value) - Industrial non-hazardous - Municipal waste	0.37 +0m³	23.48 +5,397m ³	21.25 +5,397m ³	2.6 +0m³	- It is submitted to authorized operators for further treatment that depends on the type of waste - It is submitted to the Public Utility Company which disposes it to the local landfill
Hazardous (has use value - Electrical and electronic waste, fluorescent tubes)	0	(2.48) 5.13	(2.48) 5.13	0	It is submitted to authorized operators for further treatment that depends on the type of waste
Non-hazardous (has no use value) - Independently exported - Submitted to operators	77.69 +5.58	(154.63) 154,989 +7.14	(118.04) 155.8 +11.28	76,879 +1.44	- Independently exported for incineration - Submitted to authorized operators for further treatment that depends on the type of waste
TOTAL	80,640 +0m³	(646.73t) 808,009 +5,397m ³	(610.13t) 810,730 +5.397m ³	80,919 +0m ³	

Hemofarm generated a total of 808 tons of industrial waste in 2016, of which 167 tons of hazardous waste was disposed of by the process of incineration in Germany and Austria. Out of the total amount of this waste, which was delivered for disposal in 2016, Hemofarm independently exported 155.8 tonnes (93%), after having obtained the independent export permit from the competent Ministry for the third time. Recyclable non-hazardous waste with use value (617.27t) is handed over to operators for further processing. The increase in the quantity of generated waste compared to 2015 is largely due to the demolition of an existing facility at the site for the construction of the Packaging Center within the central factory complex in Vršac.



Local utility companies also dispose of the municipal waste generated⁸⁴ by Hemofarm on a daily basis, the quantity of which amounted to 5,397 m³ in 2016.



of the year billion of THUS in pleaseding year and as pleaseding year and as The remaining 81 tons will be disposed of in 2017, and the decision on the method of disposal of the waste is harmonized with the legal regulations and made on the basis of the best available techniques and practices. ** Monitoring and esting the state of the best available techniques and practices. ** Monitoring and esting the state of the best available techniques and practices. ** Monitoring and esting the state of the best available techniques and practices. ** Monitoring and esting the state of the best available techniques and practices. ** Monitoring and esting the state of the state of the best available techniques and practices. ** Monitoring and esting the state of the state o

Monufacturing plants: Vijac - Solid Dogage Johns Glant. S



COMPARATIVE ANALYSIS OF RESOURCES

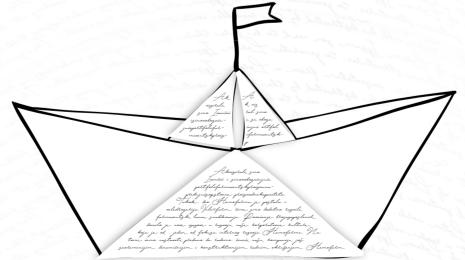
AND SUSTAINABLE DEVELOPMENT IN 2016

	2015	2016	difference
Electricity consumption (kWh)	44,364,493	45,371,748	+2.3%
Gas consumption (m³)	5,510,710	6,135,542	+11.3%
Water quantity (m³) used from:			
public water supply system artesian wells	334,972 51,267	350,349 71,916	+4.6% +40.3%

Water and energy sources consumption in Hemofarm increased during 2016. First of all, production volume and complexity increased, repeatedly breaking records – 221 million packs of products were produced in the previous year, showing a growth of about 2% (compared to similarly record-breaking year 2015). The increase in the consumption of resources additionally resulted from the increase in the total surface area of production and business premises (new Quality building and acquisition of Ivančić i sinovi company), as well as very unfavourable weather conditions with long and cold winter periods. The increase in the consumption of electric power and gas was, to a certain extent, also due to the construction site presently in place for Packaging Centre, which is in the phase of rough works, within Vršac-located factory complex. The major change in resource management is the substantial increase in the consumption of water from own artesian wells, which recorded an increase of as much as 40.3%.

Hemofarm has been continuously looking into the possibility of even higher utilization of own artesian wells, and an additional growth is expected in the upcoming years. In spite of the indicated increases, it is important to note that, the consumption of resources per finished product unit dropped by approximately 0.6%, owing to numerous optimization and energy efficiency projects! Decrease percentage does not have a material financial effect, but it is immensely important as a positive result of the efforts of the entire Hemofarm staff to improve its performances and be responsible from the point of view of sustainable development and care for the Earth and available resources.

Consur per			rgy sou	
langer of Letter	2013	2014	2015	2016
ELECTRICITY (kWh/pack)	0.176	0.174	0.165	0.164
NATURAL GAS (m³/pack)	0.028	0.025	0.025	0.023



Production						
	2013	2014	2015	2016		
In millions of packs	200	202	216	221		
Sales						
In millions of RSD	22,730	25,260	27,490	26,979		

Water consumption							
(in m³)	2013	2014	2015	2016	2017		
Public water supply system	331,312	286,654	262,481	288,061*	350,349		
Artesian well	9,106	43,185	33,218	27,493*	71,916		
Total	340,418	329,839	295,699	315,554*	422,265		
*F							

	Headcount trend					
	2012	2013	2014	2015	2016	
WOMEN	937	926	990	1,162	1,237	
MEN	744	722	796	1,054	1,086	
TOTAL	1,681	1,648	1,786	2,216	2,323	

GHG emissions (Freons)

343.81

1.096.16

495.33

2014

214.88

724.88

720.49

209.36

682.50

315.21

442.38

682.50

360.24

0.0000067 0.0000056

(tCO₂eq)

FREON R404A

FREON R134A

FREON R507

PRODUCT PACK

EMISSION PER FINISHED

		Wast	e*		
(in tons)	2012 generated/ disposed of	2013 generated/ disposed of	,	2015 generated/ disposed of	2016 generated/ disposed of
HAZARDOUS	148/156	105/110	125/122	129.9/78	167.26/ 172.21*
NON- HAZARDOUS	260/260	310/310	354/354	330.8/	640.75/ 638.15

Number of injuries at work*						
the of the	2012	2013	2014	2015	2016	
Total	30	30	29	16	21	
Compared to headcount	1.78	1.50	1.36	0.86	0.90	

RESULTS OF USE OF RECYCLED CARDBOARD FOR PRODUCT PACKAGING

	1t	2015 (1,100t)	2016 (615.25t)
Electricity savings	4,200kw	4,620 MW or about 47 days of electric power consumption in Hemofarm	2,584 MW or about 26 days of electric power consumption in Hemofarm
Water savings	32,000m³	35,200,000 m ³ or about 40 days of water consumption in Hemofarm ⁸⁵	19,688,000 m³ or about 22 days of water consumption in Hemofarm
Preserved trees (pcs.)	17	18,700	10,459

Air pollution reduced by 74%

Monufacturing plants: Vijac -



OUR RESPONSIBILITY

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 and product users also need to be adequately informed about the choice of available treatments and therapies, through dialogue with their doctors or pharmacists. Therefore, the responsible and adequate pharmaceutical marketing represents a key segment of reviewing performance, application and effects of drugs. For Hemofarm, responsible pharmaceutical marketing means a sure path to building trust within local healthcare system, while for product users it represents a confirmation of quality, as well as proper and safe application.

Hemofarm harmonizes all marketing activities related to its products with national and international legal regulations and framework which govern pharmaceutical industry. The company also strictly observes in-house corporate rules of STADA Group. All marketing messages and claims are based on scientific evidence and referenced to relevant references such as clinical trials, and similar. From an idea to implementation, Hemofarm bases its marketing on ethical and highly moral approach, led by the idea that the health and life of people are priceless.

Hemofarm insists on providing potential consumers with quality, transparent and accurate information about particular

pharmaceutical product, without possibly concealed, unverified or messages with a false hope for a cure. Besides this, pharmaceutical marketing is a huge challenge for Hemofarm precisely for communication restrictions in view of the specific business activity. Appreciating the principle of impartiality and independence of all pharmaceutical market players, professionals or patients.86 Besides this, pharmaceutical marketing is a huge challenge for Hemofarm precisely for communication restrictions in view of the specific business activity. Appreciating the principle of impartiality and independence of all pharmaceutical market players, professionals or patients,87 Hemofarm has additionally intensified electronic promotion of its products for professionals. It is implemented through Apple iPad platform and applications, which enable all-time presentation of the news, interactive communication and faster exchange of the latest pharmaceutical and medical achievements. Apart from huge savings in time and resources (paper and similar), this is a good example of the beginning of business digitalization, in line with modern trends. Apart from this, continuous medical and pharmaceutical education still make an important segment of continuous education of professionals, providing for keeping up with the latest therapeutic trends and scientific achievements. Hemofarm publishes the information about all sponsored professional gatherings and the amount of the funds spent, in line with legal enactments and in-house procedures, making thereby its operations fair and transparent. Quarterly data are available at the corporate web page.88

Ethical business approach

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 in the country and abroad, with the focus on providing equal opportunities to all. The company does this in a systematic and transparent manner, applying a set of international standards and business-social codes such as BSCI, which are often above the current legislation, as well as internal procedures and operational procedures, which are available to all employees. In this way, Hemofarm seeks to provide, trigger and inspire the best not only in its staff, but also in the local communities, and its environment.

Anti-corruption and preventing the conflict of interest

personal and collective integrity. In order to provide maximum transparency and set clear and explicit 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. 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 pharmaceutical industry itself, the company continuously improves the skills of already trained management and employees to

recognize and adequately respond to any potential activity that can carry the elements of corruption.

Legal Division's role is to continuously monitor all business operations. Prevention plays a key role in anti-corruption actions in line with the precisely defined corporate and operating procedures. The statement on preventing the 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, is also one of the preventive actions.

Responsible management of suppliers

Despite all the specifics of the procurement of pharmaceutical raw materials, which is, by its nature, often limited to a small number of highly profiled potential providers on a global market, 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, which is also confirmed by significant increase in the share of local suppliers in total procurement in 2016. Despite the numerous advantages of the local market, the quality remains determinant category for Hemofarm, without any possible compromise. During selection, Hemofarm takes into account whether suppliers have a

Over the carry of the carry of

A intrinstenting extractives, occused on in product primotion, are used on the application of the register of the production of the register of the providing the highest quality pharmaceutical information, which is subject to prior approval of the Serbian Medicines and Medical Devices Agency (ALIMS). In accordance with the Code of Conduct for employees of Hemofarm A.D. Vršac and its subsidiaries, available at http://www.hemofarm.com/poslovanje/korporativni-kodeks.

89 http://www.zdravlje.gov.rs/downloads/Zakoni/Pravilnici/ PravilnikONacinuOglasavanjaLekaOdnosnoMedicinskogSredstva.



sound financial standing, respect the rights of their employees and whether they are socially responsible.

Hemofarm has aligned its business with the leading code of corporate social responsibility - BSCI, and has introduced all of its suppliers to this code. Suppliers are expected to comply with this code themselves, which is, above all, a guarantee of fair treatment of employees, respect of their labour, social and human rights, prevention of abuse in the work of minors or children, guarantee of social responsibility, etc. Every year, Hemofarm performs a survey of its suppliers about their awareness and implementation of BSCI Code. During 2016, the company surveyed all suppliers with which it cooperates for the first time, and the BSCI questions included the information on the status of employees (business hours, regularity of receiving earnings, respecting rights, engaging minors, freedom of collective bargaining, and similar), operation certificates and standards, occupational safety and health, environmental protection, etc. The aim of the survey is to effect supplier reconsideration, if they are not socially responsible, which represents one of continuous activities of Hemofarm Purchasing Division. During 2016, all surveyed suppliers showed a high level of awareness of the importance of abiding by the BSCI principles in daily operations. Not a single case of non-compliance with these principles was established, and each possible deviation would eliminate the supplier from future cooperation with Hemofarm.

Sustainable packaging of products

Optimizations and savings are not the only challenges that pharmaceutical companies face nowadays. There are also some trends which have become an inseparable part of approach to business operation - perhaps

the greatest one for pharmaceutical industry: creating sustainable products, which meet the increasingly demanding requirements of product consumers, as well as elevating the level of product packaging sustainability, through both improved design and better selection of modern materials for creating packaging materials. Hemofarm has introduced recycled cardboard in production of packaging materials (medicinal product packaging) and transportation boxes. Ever since 2013, the company has been striving to increase the share of recycled cardboard, and it has almost completely replaced the non-recycled cardboard with the recycled one. The percentage of recycled cardboard was additionally increased during the last year, and it would have been even higher, if there were not for some regulatory obstacles for the OTC segment which prevent its use in specific markets. There is also a positive experience of a STADA Group subsidiary from France, which was subsidized by the state for use of recycled cardboard for packaging products which were manufactured precisely in Hemofarm.

Furthermore, Hemofarm finalized complete implementation of the project of reducing the consumption of polypropylene in CRC closures (Child Resistant Closures - caps that children cannot open), with annual savings of about 5 tons of this raw material.

Striving to always meet the demands of its consumers, which is beyond the scope of statutory minimum, providing, apart from proper basic product labelling, also a patient information leaflet stating its administration, indications, side effects, etc., Hemofarm labels its products also in Braille alphabet, thus enabling blind and visually impaired persons' comfortable administration, with full availability of the necessary information.



Materiality matrix is a bazeline of our report.

About the report and reporting principles

the course of the year. billion of TPUs in total. it more compared to the preceding year and of much o



REPORTING 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 2016, methodological rules and G4 principles of the Global Reporting Initiative (GRI) standard were used as a basis. Previously published report refers to year 2015 and it was published in October 14th 2016. This report does not include Hemomont, Hemofarm d.o.o. Banja Luka, STADA Hemofarm S.R.L., Ivancic i sinovi, Velexfarm, nor other subsidiaries in the country or abroad.

The starting point for preparation of this Report is Hemofarm's first Materiality Matrix (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 the company, on one side, and key stakeholders, on the other side.

> > 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.

The topic are ranked according to significance from the point of

view of the company (horizontal axis) and positioned according to the assessments obtained from the stakeholders (on vertical axis). Indicators and topics are connected through the analysis of GRI indicators, whereby the Materiality Matrix provides the basis for future reporting, as well as improvement of business operations. Additionally, the company has covered the topics which weren't the highest ranking ones, but are considered important for the overall development of the local communities in which Hemofarm is doing business, surpassing the requirements of the basic level of reporting according to the GRI G4 standard.

Considering that the Sustainability Report covers 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 the GRI guidelines enables the company to report transparently about the performance in the four key areas of sustainable operations - economic, environmental, social, and management. Apart from the company profile, as well as a number of indicators, the report is founded on the following principles.

Materiality Matrix

The starting point for preparation of this Report is the first Materiality Matrix of Hemofarm (presented at the begging 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 2016 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').

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 2016, inclusive. Comparative data from previous years were also shown where possible. Financial and economic indicators are taken from Hemofarm A.D. 2016 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.

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Objective presentation of the company results in 2016, when it comes to economic, environmental and social dimension, is based on answers to 87 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 2016 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.



GRI index

Hemofarm A.D. has no limitations concerning the reporting, neither within the organization nor outside of it. Also, with regard to the data presented in the previous reporting cycle (for 2015), there were no subsequent corrections of the previously stated figures.

Overall business operations of Hemofarm A.D. in 2016 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 2016, 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 2016, 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 2016.

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 2016, 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 2016, 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 2016 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 2016.

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Dro	file Description	Page
Strategy a	nd analysis	
G4-1	CEO Letter	4-5
G4-2	Key impacts, risks, and opportunities	12-15
Organizat	ional Profile	
G4-3	Organization name	12
G4-4	Primary brands, products, and services	34-36
G4-5	Headquarters location	3
G4-6	Where the organization operates	3
G4-7	Nature of ownership and legal form	13
G4-8	Markets served	3
G4-9	Scale of the organization	3
G4-10	Total number of employees by type	71
G4-11	Collective bargaining agreements	70
G4-12	Supply chain description	101
G4-13	Organizational changes during the reporting period	12
G4-14	Precautionary principle	14-15
G4-15	External charters, principles, or other initiatives	14
G4-16	Membership associations	14
Identified	Material Aspects & Boundaries	
G4-17	Entities included in financial statements	19
G4-18	Process for defining report boundaries and content	8-9
G4-19	Material aspects included in the report	8-9
G4-20	Descriptions of material aspect boundaries within the organization	8-9
G4-21	Descriptions of material aspect boundaries outside the organization	8-9
G4-22	Restatements	/
G4-23	Changes from previous reports in terms of scope and/or boundaries	/
Stakehold	er Engagement	
G4-24	Stakeholder groups	8
G4-25	How stakeholders were identified	8-9
G4-26	Approach to stakeholder engagement	8-9
G4-27	Topics raised during stakeholder engagements	9
Report Pr	ofile	
G4-28	Reporting period	108
G4-29	Date of most recent report	108
G4-30	Reporting cycle	108
G4-31	Report contact	1
G4-32	"In accordance" option, GRI Index and report assurance	108
G4-33	Policy regarding report assurance	110
Governan	ce	I
G4-34	Governance structure of the organization	13
G4-35	Process for delegating authority for sustainability topics from the board to senior executives and other employees	6-7

fro	file Lescription	f a
Governan	се	
G4-35	Process for delegating authority for sustainability topics from the board to senior executives and other employees	/
G4-36	High-level accountability for sustainability topics	14-15
G4-37	Processes for consultation between stakeholders and the board on sustainability topics	8-9
G4-38	Composition of the board and its committees	13
G4-39	Whether the chair of the board is also an executive officer	13
G4-40	Nomination and selection processes for the board and its committees	/
G4-41	Board conflicts of interest	/
G4-42	Board and executives' roles in the organization's mission statements, strategies, policies, and goals related to sustainability impacts	/
G4-43	Board knowledge of sustainability topics	/
G4-44	Board performance with respect to governance of sustainability topics	/
G4-45	Board role in the identification and management of sustainability impacts, risks, and opportunities	/
G4-46	Board role in reviewing risk management processes for sustainability topics	/
G4-47	Frequency of the board's review of sustainability impacts, risks, and opportunities	/
G4-48	Highest committee or position that formally reviews and approves the organization's sustainability report	/
G4-49	Process for communicating critical concerns to the board	/
G4-50	Nature and total number of critical concerns that were communicated to the board	/
G4-51	Remuneration policies for the board and senior executives	/
G4-52	Process for determining remuneration	/
G4-53	Stakeholders' views on remuneration	/
G4-54	Ratio of the annual total compensation for the organization's highest-paid individual to the median annual total compensation for all employees	/
G4-55	Ratio of percentage increase in annual total compensation for the organization's highest-paid individual to the median percentage increase in annual total compensation for all employees	/
Ethics & I	ntegrity	
G4-56	Code of conduct	13-15
G4-57	Helplines or advice lines for employees	15
G4-57 G4-58	Mechanisms for reporting concerns about unethical or unlawful behavior	

and as much as make than the budgeted quantities were graduced in 110|

al Hemafain's factories | 111

Prop	file Description	Page
Economic P	Performance	
G4-EC1	Economic value	19
G4-EC2	Climate change risks	86
G4-EC3	Benefit plan coverage	81-82
Market Pres	sence	
G4-EC4	Financial assistance from the government	19
G4-EC5	Ratio of entry level wage to local minimum wage	73
G4-EC6	Proportion of senior management hired from the local community	13
Indirect Eco	onomic Impacts	•
G4-EC7	Infrastructure investments	21
G4-EC8	Indirect economic impacts	60-64
Procuremen	nt Practices	
G4-EC9	Local suppliers	66
Materials		
G4-EN1	Materials by weight or volume	39-40
G4-EN2	Recycled input materials	59
Energy		
G4-EN3	Energy consumption (Scope 1 + 2)	97
G4-EN4	Energy consumption outside of the organization	91
G4-EN5	Energy intensity	98
G4-EN6	Energy reductions	99
Water		
G4-EN8	Water withdrawals by source	95
G4-EN9	Water sources affected by withdrawals	95
G4-EN10	Water recycled and reused	96
Biodiversity	V	
G4-EN11	Facilities in or near areas of high diversity	111
G4-EN12	Impacts on biodiversity	111
G4-EN13	Habitats protected or restored	111
G4-EN14	IUCN Red List species	111
Emissions		
G4-EN15	GHG emissions (Scope 1)	93
G4-EN18	Greenhouse gas (GHG) emissions intensity	97
G4-EN19	Reduction of GHG emissions	93
G4-EN20	Ozone-depleting substances (ODS)	94
G4-EN21	NOx, SOx and other emissions	94
Effluents &	Waste	
G4-EN22	Water discharge	96
G4-EN23	Waste by type and disposal method	90
G4-EN24	Significant spills	111
G4-EN25	Hazardous waste	90
G4-EN26	Biodiversity affected by runoff	111



flog	lile Description	Dag
Products ar		
G4-EN27	Mitigation of environmental impacts of products and services	87-89
G4-EN28	Products and packaging materials reclaimed	49-52
Compliance		49-32
G4-EN29	Environmental fines and sanctions	111
Transport	Environmental lines and sanctions	111
G4-EN30	Environmental impacts from product distribution and employee travel	92-93
	ntal Investments	92-90
G4-EN31	Environmental investments	88
	vironmental	
G4-EN32	New suppliers screened using environmental criteria	66
G4-EN33	Supply chain environmental impacts	66
	ntal Grievance Mechanisms	
G4-EN34	Environmental grievances	111
Employmer		111
G4-LA1	Number and rate of new employee hires and turnover	71
G4-LA1 G4-LA2	Benefits provided to full-time employees	74
G4-LA3	Return to work and retention rates after parental leave, by gender	71
	nagement Relations	/ 1
G4-LA4	Minimum notice periods regarding operational changes, including	74
OTEMT	whether these are specified in collective agreements	74
Occupation	al Health & Safety	
G4-LA5	Workforce represented in health and safety committees	78
G4-LA6	Rates of injury, occupational disease, lost days, absenteeism,	0.0
	and work-related fatalities	80
G4-LA7	Workers with high incidence risk of diseases	/
G4-LA8	Health and safety topics covered in agreements with trade unions	82
Training & 1	Education	
G4-LA9	Average hours of training for employees	74
G4-LA11	Employees receiving performance and career development reviews	72
Diversity		
G4-LA12	Composition of governance bodies and employees	71
Equal Pay fo	or Women & Men	
G4-LA13	Ratio of basic salary and remuneration of women to men	73
Supplier As	sessment for Labor Practices	
G4-LA14	New suppliers that were screened using labor practices criteria	80
G4-LA15	Negative impacts for labor practices in the supply chain	80
Labor Pract	ices Grievance Mechanisms	
G4-LA16	Grievances about labor practices	110
Human Rig	hts Investments	
G4-HR1	Investment agreements and contracts that include human rights clauses or	80

112|

Monufactuling plants: Vijac - Solid Dogage Johns Plant: Sterie Fernafalm's fatheries | 113

Pro	file Description	Page
Human Rig	hts Investments	
G4-HR2	Employee training on human rights	74
Non-discri		
G4-HR3	Incidents of discrimination	110
Freedom of	f Association	
G4-HR4	Significant risk of freedom of association in operations and suppliers	80
Child Labo	r	
G4-HR5	Significant risk of child labor in operations and suppliers	80
Forced or C	Compulsory Labor	
G4-HR6	Significant risk of forced or compulsory labor in operations and suppliers	80
Security Pr	ractices	
G4-HR7	Security personnel trained in the organization's human rights policies	74
Indigenous	Rights	
G4-HR8	Incidents of violations involving rights of indigenous peoples	/
Human Rig	thts Assessments	
G4-HR9	Operations that have been subject to human rights assessments	66
Supplier H	uman Rights Assessments	
G4-HR10	New suppliers screened for human rights	80
G4-HR11	Human rights impacts in the supply chain	66
Human Rig	thts Grievance Mechanisms	
G4-HR12	Grievances about human rights impacts	110
Local Comi	munities	
G4-S01	Local community engagement, impact assessments and development programs	63-65
G4-S02	Negative impacts on local communities	110
Anti-corruj	otion	
G4-S03	Risks related to corruption	67
G4-S04	Communications and training on anti-corruption	67
G4-S05	Confirmed incidents of corruption	110
Public Poli	су	
G4-S06	Political contributions	110
Anti-compe	etitive Behavior	
G4-S07	Anti-competitive behavior	110
Compliance	8	
G4-S08	Fines for non-compliance with laws	110
Supplier A	ssessment for Impacts on Society	
G4-S09	New suppliers screened for impacts on society	66
G4-S010	Negative impacts on society in the supply chain	80
Grievance	Mechanisms for Impacts on Society	
G4-S011	Grievances about impacts on society	110

Description Customer Health & Safety 45-47 Health and safety impact assessments of products and services G4-PR1 110 G4-PR2 Non-compliance concerning the health and safety impacts of products and services Product & Service Labeling G4-PR3 58 Product and service information required for labeling 111 G4-PR4 Non-compliance with regulations concerning product and service labeling G4-PR5 Surveys measuring customer satisfaction 16-17 Marketing & Communications G4-PR6 Sale of banned or disputed products 111 G4-PR7 Non-compliance with regulations concerning marketing communication 111 Customer Privacy G4-PR8 Complaints regarding breaches of customer privacy and losses of customer data 111 Product Compliance G4-PR9 Fines for non-compliance with laws and regulations concerning products and services 111

Our the carrye of the year billion of TPMs in total. in more campaled to the pleading year and as much as made than the budgeted quantities were planted in all Humafalm's fathering plants: New - Solid Despay | 115





KPMG d.o.o. Beograd Kraljice Natalije 11 11000 Belgrade Serbia

Tel.: +381 (0)11 20 50 500 Fax: +381 (0)11 20 50 550 www.kpma.com/rs

TRANSLATION

Independent Limited Assurance Report

TO THE SHAREHOLDERS

HEMOFARM A.D., VRŠAC

We were engaged by the shareholders of Hemofarm ad, Vršac ("the Company") to provide limited assurance on the Sustainability Report for the year ended 31 December 2016 of Hemofarm ad, 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 described the "Application of 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

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained. information systems are properly updated and that any changes in reporting encompass all significant business units.

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.

KPMG

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.

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 Company's processes for determining the material issues for 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 Belgrade, 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 has 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.

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 Sustainability Report of Hemofarm ad, Vršac for the year ended 31 December

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2016 is not presented, in all material respects, in accordance with the Sustainability Reporting Guidelines (G4) of the Global Reporting Initiative as described in the "Application of Reporting principles" section.

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

Belgrade, 9 October 2017

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.

3

Belgrade, 9 October 2017

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KPMG d.o.o. Beograd

James Thornley Senior Partner

Hemofarm selected Shiro Alga Carta paper made by the renowned producer Favini for the covers of this Sustainable Development Report. This paper is special because it was produced using harmful algal blooms of the Venetian Lagoon. The algae collection and processing project was initiated and supported by the EU. The algae, which are practically "weeds", were removed from the lagoon and used for production of paper. In this way, together with its stakeholders who participated in the preparation of this report, Hemofarm wants to inspire other companies and individuals to protect the environment and be innovative in the use of available resources.



HEMOFARM A.D.

Beogradski put bb, 26300 Vršac phone: +381 13 803 100

Hemofarm A.D. Business Centre 70 Prote Mateje St., 11000 Belgrade phone: +381 11 381 1200

> svakodobro@hemofarm.com www.hemofarm.com 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.*