

Report on management of

Gladpharm LTD for 2019

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1. Organizational structure and enterprise activity description

Gladpharm LTD is an enterprise with a line and staff management, which is characterized by:

- 1) division of management functions by areas;
- 2) clear subordination, centralization of management within the area (subordination to one supervisor).

The structure of Gladpharm LTD includes 9 areas:

- **accounting and tax planning** (headed by the Head of the Department of Accounting and Tax Planning – Chief Accountant);
- **Finance** (headed by the Director of Finance);
- **commercial area** (headed by the Commercial Director), which includes: procurement, customs clearance;
- **personnel management** (headed by the Head of the Personnel Department), which includes: work with personnel, organization of trips, administrative and economic activities;
- **logistics and certification** (headed by the head of the Department of Logistics and Certification), which includes transport and pharmacy warehouse management;
- **Marketing** (headed by the Director of Marketing and Strategic Development), which includes marketing of OTC and RX drugs, pharmacovigilance, organization of events;
- **Legal Affairs and Business Ethics Department** (headed by the Head of Legal Affairs and Business Ethics Department);
- **sales** (headed by the Director of the Sales Department), which includes the management of regional field force;
- **commercial issues, business analytics and software** (headed by the Commercial Director), which includes: sales department, analytics department, IT and software department;

The Company has developed and approved the Organizational Structure, the activities of each area are regulated by relevant internal Regulations.

Gladpharm LTD has a strategy aimed at the efficient use of available resources to achieve the main goal – to provide qualitative and affordable medicines to Ukrainians.

The ultimate goal of the Company is timely and high-quality provision of access to consumers to competitive, certified and quality products that meet all medical norms and standards, meet the requirements and expectations of consumers and ensure a stable financial position of the Company.

The main goals and values are:

- timely and complete satisfaction of consumer needs;
- management of the Company's activities and resources based on a risk-oriented approach;
- continuous improvement of internal management and control processes;
- support and ensuring the personal interest of each employee in the results of their work and the creation of working conditions that ensure quality and timely performance of work;
- our employees are a close-knit team of like-minded people, the synergy of which allows

us to overcome any difficulties in achieving our goals.

2. Activity results

Finance indicators

	2019	2018	Change	Change %
Net income from sales of products (goods, works, services)	1 979 263	1 682 209	297 054	17,7
Cost of products sold (goods, works, services)	(1 230 722)	-1 172 399	-58 323	5,0
Gross:				
income	748 541	509 810	238 731	46,8
loss	-	-		
Other operating income	19 810	5 333	14 477	271,5
Administrative expenses	(123 654)	-95 751	-27 903	29,1
Selling expenses	(396 886)	-294 206	-102 680	34,9
Other operating income	(13 917)	-10 008	-3 909	39,1
Financial result from operating activities				
income	233 894	115 178	118 716	103,1
Other financial income	2 241	2 309	-68	-2,9
Other income	1 398	4 045	-2 647	-65,4
Financial expenses	(847)	-1 722	875	-50,8
Other expenses	(4 888)	-6 686	1 798	-26,9
Financial result before tax:				
income	231 798	113 124	118 674	104,9
Expenses (income) on income tax	(43 330)	-21 721	-21 609	99,5
Net financial result:				
income	188 468	91 403	97 065	106,2
Comprehensive income				
Revaluation (depreciation) of non-current assets	19 368	20 530	-1 162	-5,7
Elements of operating costs				
Material costs	58 409	45 828	12 581	27,5
Salary expenses	193 901	154 595	39 306	25,4
Deductions for social events	25 482	19 936	5 546	27,8
Amortization	45 965	28 902	17 063	59,0
Other operating expenses	290 708	222 641	68 067	30,6
Total	614 465	471 902	142 563	30,2

Indicators of enterprise profitability

	2019	2018	Зміна %
	%	%	
Gross profitability of sales	35,62	28,89	23,3
Net profitability	11,79	6,18	90,8

3. Liquidity and liabilities

3.1. Main sources of liquidity supply (assets)

We would like to note that the assets of Gladpharm LLC at the end of 2019 increased by **183 840 thousand UAH, or by 37.5%** and amounted to 674 140 thousand UAH.

This increase was due to current assets by 29.25% or 110 273 thousand UAH and non-current assets by 64.95% or 73 567 thousand UAH.

We note that at the end of 2019 current assets amount to 487 265 thousand UAH, non-current assets amount to 186 875 thousand UAH.

The main changes in current assets as of 31.12.2019 compared to 31.12.2018:

- goods **increased** by 79 455 thousand UAH;
- finished products **increased** by 6 395 thousand UAH;
- receivables **increased** by 43 349 thousand UAH;
- cash balances **decreased** by 16 381 thousand UAH.

The main changes in non-current assets as of 31.12.2019 compared to 31.12.2018:

- the book value of intangible assets **increased** by 4 517 thousand UAH;
- the balance value of fixed assets **increased** by 69 133 thousand UAH.

The liquidity of an enterprise reflects its ability to settle its current liabilities with available working capital by rapidly converting them into cash.

Quick liquidity ratio = (Amount of current assets – Amount of inventories)/Current liabilities

The quick liquidity ratio (QLR) was equal to 0.93 in 2018, 0.95 in 2019 with the QLR optimal value of 0.5.

In 2019, the quick liquidity ratio (QLR) increased compared to 2018, and is much higher than normal. The ratio shows the ability of the company to repay its short-term liabilities on time with the help of highly liquid assets.

The quick liquidity ratio gives grounds to claim that Gladpharm LTD is creditworthy and attractive as a business partner.

The main source of economic activity financing in 2019 was the proceeds from the sale of medicines on the Ukrainian market.

3.2. Liabilities

The liabilities of Gladpharm LTD are included in long-term and current liabilities and collateral.

Long-term and current liabilities in 2019 compared to 2018 increased by 25 513 thousand UAH, or 10.03% and amounted to 279 753 thousand UAH.

Current liabilities and collateral for services and other current liabilities as of December 31, 2019 amounted to 273 417 thousand UAH, long-term liabilities (deferred tax liabilities) – 6 336 thousand UAH.

Below are the liabilities of Gladpharm LTD for the remaining terms to maturity in accordance

with the agreements (Table № 1).

Table No 1

Analysis of financial liabilities by maturity,
thousand UAH

No	Indicator	As of 31.12.2019 p.					
		Up to 1 month	From 1 month to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years	Totally
1	2	3	4	5	6		7
1	Bank loans	-	-	-	-		-
2	Current accounts payable on long-term liabilities	-	-	-	-		-
3	Accounts payable for goods, works, services	103 267	112 209		-		215 476
4	Accounts payable with the budget, on salaries	193	8 838	1			9 032
5	Current collateral	19 352	14 092	3 831			37 275
6	Other current liabilities	5 464	2 004	4 166	-		11 634
7	Totally	128 276	137 143	7 998			273 417

4. Ecological aspect

The economic activity of Gladpharm LTD is carried out within the framework of the current legislation of Ukraine, incl. **environmental**.

The Company's policy is always aimed at strict implementation of planned environmental measures.

The activity of Gladpharm LTD does not have significant impact on the environment. Waste is removed on time according to the concluded agreements. Separate waste collection is organized. Motor transport passes technical control in time. The company does not discharge wastewater into water bodies. Communication with employees is constantly carried out to increase environmental awareness.

Measures to protect the environment and reduce the impact of the enterprise on the environment in 2020:

- in the direction of rational use of water in sanitary facilities it is planned to install modern touch mixers;
- in the direction of energy consumption, it is planned to install energy-saving LED lamps, and it is also planned to install an automatic light switch-off system in public places;
- in the direction of reducing the influence of greenhouse gases, it is planned to improve the territory with landscaping.

5. Social aspects and personnel policy

5.1. Personnel policy

Personnel policy of Gladpharm LTD is a set of rules, norms and goals that determine the direction and content of work with staff. By means of personnel policy, the goals and objectives of personnel management are implemented. Personnel policy is formed by the management of the organization, implemented by the personnel service in the process of performing its functions by its employees.

The management has defined rules and principles aimed at increasing employee welfare and enterprise development. Awareness of employees about the goals and objectives of the company allows them not only to benefit from the employment relationship, but also to perform their duties more effectively.

In total, the Company employs 131 men and 252 women, which is 34% and 66% respectively. The structure of the Company approved 71 management positions, including: women hold 46 positions, which is 12% of the total, men – 25 positions or 6.5%.

The structure of staff within age groups reflects that the majority of staff are employees in the age categories from 31 to 50 years old (a total of 69% or 263 persons). Persons over the age of 51 make up 17% of the staff or 67 persons (including 11 employees over the age of 61), young professionals under the age of 30 – 14% (53 persons). The average age of employees in the Company is 41 years old.

The value of an employee for the Company is determined by its potential ability to produce ideas and transform their knowledge, skills and abilities into a product that ensures the achievement of the Company's strategic goals (development, gaining market share, reducing costs, etc.).

The value of the Company for the employee is determined by the ability to implement their competencies, expanding the portfolio of competencies and achieving a balance between remuneration and employee needs.

Every year Gladpharm LTD conducts an independent survey of the Employer's Brand Index (employee Net Promoter Score). In 2019, eNPS was: Significant – 72 (office staff, warehouse) and Extra Positive – 46.6 (field force).

The Company's personnel policy consists of many elements of tangible and intangible incentive and is designed for each category of employees. It contains:

- working conditions
- salary
- opportunity for development
- team interaction
- competent management
- understanding of goals and strategies
- informing and receiving information
- motivation and rewards.

The Company pays special attention to training, which contributes to the development of competence and expertise of employees. Refresher courses, participation in conferences and seminars, attending master classes, access to paid online lectures – all this allows employees to maintain competence.

The goals and objectives of the training must meet the strategic goals of the Company, the tasks of individual departments, individual development plans of the employee, as well as meet the requirements of legislation.

The company implements formal and informal professional training of employees.

At formal professional training the agreement with the corresponding subject which is carrying out training is concluded. To direct the employee to training, an appropriate order is issued. Based on the results of formal professional training, the employee receives a document on education of the established standard. In non-formal education, various activities are organized to improve the skills of employees, personal growth training, business training, business communication training, etc.

Training can take place on several platforms, such as offline lectures and online lectures, courses that can be taken online from both a computer and a smartphone. Directions and methods of training are determined in accordance with the needs and capabilities of the Company.

Local – trainings can be both in the Company's office and field trainings (in a rented room) and can last several days. They are conducted under the guidance of a qualified speaker or internal specialists (coaches). Local training takes place for a group of employees and contributes to the simultaneous receipt of a large amount of information. Interactive learning in the workplace. This training can take the form of simulations, scenarios, role-playing games, quizzes, games. By practicing new skills and applying them in realistic work scenarios, employees are not only more involved, but also better master what they have learned.

Practical training misses theoretical and deepens knowledge of the application of practices, allowing you to quickly master the subject of study and take an active part in the process.

Online learning – online workplace learning programs can include courses, webinars, videos. Thanks to online training, employees can practice at their own pace and according to their needs.

Coaching or mentoring programs are designed to retain employees and increase productivity.

Every year, the Company selects the most productive employees, whom it helps to improve their skills in order to be able to hold a higher position.

The company strictly adheres to the labor legislation of Ukraine.

The company does not divide professions into “male” and “female”. Age is not important for the Company. There are employees from 21 to 70 years old.

The company decides on hiring, promotion, development and career advancement, demotion, dismissal solely on the basis of quality of work and capacity in accordance with the requirements of a particular position.

When selecting an employee for the position, the Company's choice is first of all based on the competencies (professional and personal characteristics of the candidate), and not on characteristics that are not relevant to the work, such as:

- belonging to a particular sex,
- age,
- religion,
- race, ethnicity or nationality, skin color,
- sexual orientation,
- disability,
- veteran status,
- any other legally protected status.

The company carefully determines what level of education, training and professional experience is required for a particular position, acts fairly and gives qualified people the opportunity to develop their abilities, advance in their careers.

The company provides equal remuneration for work of equal value with equal qualifications and length of service of the employee.

5.2. Occupational safety and security

Gladpharm LTD strives to protect the health and ensure the safety of its employees, visitors, contractors and consumers. We make sure that working conditions in the workplace meet the requirements of labor law and internal policies.

The Company encourages each employee to follow safety rules and safety measures to protect themselves and their colleagues. Each employee must notify his/her supervisor of all occupational injuries and accidents, as well as prevent safety violations.

The best way to create a safety culture is to:

- Always remember about safety,
- Follow all safety rules and regulations,
- Never do something that is dangerous,
- Report on safety issues to responsible employees.

The company encourages speaking openly and reporting if:

- you have been asked to do work that you think you are not qualified to do and that could harm you and others;
- you have been asked to perform a task that you consider dangerous;
- you see someone doing a job that you think is dangerous, or a colleague doing a job without proper training;
- you suspect that the vehicle or equipment is malfunctioning and may be dangerous.

The following safety rules are the responsibility of each of us – we insist that work be done in a safe way, regardless of its nature.

5.3. Respect for human rights

All employees of the Company are guaranteed respect for human rights without any restrictions on race, color, political, religious or other beliefs, gender, gender identity, sexual orientation,

ethnic and social origin, age, health, family and property status, place of residence, by language or other characteristics.

5.4. Measures to combat corruption and bribery

The fight against corruption is a key element in implementing the Company's economic security. To this end, most processes have preventive measures that prevent, or significantly reduce, the potential for corrupt influence on staff management decisions.

Gladpharm LTD declares and confirms its commitment to the principles of ethical business conduct and compliance with anti-corruption requirements applicable to the Company, and with this purpose:

- Introduces the function of Business Ethics Advisor, the main purpose of which is to introduce a culture of ethical business conduct at all organizational levels of the Company;
- Declares compliance with the Code of Corporate Culture and internal ethical standards in doing business;
- Develops and implements the necessary procedures and policies to prevent unethical promotion and ethical interaction with healthcare professionals;
- Actively implements mechanisms to prevent the receipt/provision of payments and gifts, which can be considered as those made to encourage any action;
- Implements the process of verification and selection of contractors based on their reliability and business ethics;
- The company creates and develops an effective mechanism to prevent corruption based on legal requirements and best practices. Employees of the Company are aware of the most risky, in terms of corruption, areas of activity of Gladpharm LTD.

Declaring compliance with anti-corruption requirements and standards of corporate ethics, the Company seeks to:

- Do business ethically and demand it from its employees, partners and contractors;
- Make compliance culture an integral part of corporate culture as a whole;
- Prevent corrupt actions by the Company's employees;
- Exclude any possibility of using the Company's assets and resources for bad faith or transactions.

6. Risks

The Company's risk management policy is aimed at identifying and analyzing the risks to which the Company is exposed, establishing acceptable risk limits and appropriate control mechanisms, as well as monitoring risks and compliance with established restrictions. Risk management policies and systems are regularly reviewed for changes in market conditions and group activities.

Credit risk is the risk that the Company will incur a financial loss as a result of a buyer's or counterparty's failure to meet its contractual obligations under a financial instrument. This risk is mainly related to the existing receivables of customers, as well as subscriptions to suppliers. Customers (buyers) mainly carry out transactions with the Company on the basis of deferred

payment. The carrying amount of financial assets reflects the maximum amount exposed to the Company's credit risk.

The company is exposed to currency risk if there are transactions or balances of settlements denominated in foreign currency.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As the Company has a significant amount of trade payables incurred in US dollars, taking into account the latest market trends of exchange rate fluctuations, currency risk is still very relevant for the Company. However, some of this risk can be offset by the fact that the bulk of the debt is debt to related parties with whom a compromise or restructuring of the relevant debt can theoretically be reached.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As of December 31, 2019, the Company has no accounts payable on loans received in the amount, so it can be argued that the interest rate risk in the Company is absent.

Liquidity risk is the risk that the Company will not be able to meet (or will have difficulty) in meeting its financial obligations when they fall due. The Company is developing a liquidity management approach that will ensure that, as far as possible, the Company has sufficient liquidity to meet its obligations on time, both under normal and stressful conditions, avoiding unacceptable losses and without risking the Company's reputation. Typically, the Company ensures that cash is available on demand in an amount sufficient to cover the expected operating expenses.

7. Development prospects

The main activity of the Company is the sale of pharmaceutical products of Indian and domestic production. It is planned to continue to increase sales to about 20%, which, in turn, should increase the Company's profits.

The further development of the company Gladpharm LTD is facilitated by the fact that the brand of products, the trade of which the Company is engaged in, is gaining more popularity among consumers and doctors.

The Company is completing the renovation of its own office space, which will significantly improve the Company's attractiveness as an employer, improve working conditions for employees, and provide an opportunity to continue further growth and development.

During the COVID-19 pandemic, the Company's management analyzed the overall impact of this phenomenon, both on the Company's operations and on the economy as a whole. During a pandemic, global supply chains are disrupted, production capacity is reduced, in many European countries economic activity is carried out only as a matter of urgency, and consumers' negative expectations about future jobs and incomes have significant impact.

Management is considering the possibility of developing domestic pharmaceutical production and take measures to reduce dependence on imports to reduce the impact of currency fluctuations and global cataclysms on the Company's activity.

8. Corporate management

Corporate management is a system of relations that determines the rules and procedures for making decisions on the Company's activities and control, as well as the distribution of rights and responsibilities between the Company's bodies in relation to its management.

Corporate management is one of the key elements and a prerequisite for the successful operation of the Company and increasing investor confidence. Having an effective corporate management system increases the cost of capital. The company is encouraged to use resources more efficiently, which creates a basis for growth.

The essence of corporate governance is a system of relations between investors – the owners of the company, its managers, as well as interested persons to ensure the effective operation of the Company, the balance of influence and balance of interests of participants in corporate relations.

The importance of corporate management for Gladpharm LTD lies in its contribution to increasing its competitiveness and economic efficiency by ensuring:

- financial transparency;
- introduction of rules of effective management and proper control.

Governing bodies, their composition and powers

The governing bodies of Gladpharm LTD are (according to the Articles of Association):

- **General Meeting of Participants (represented by the Sole Participant)**
- **Management Board** consisting of 7 persons, which is the executive body of the Company carrying out the current management of its activities. The Management Board is headed by the Managing Director.

Management Board			
1	Rajeev Gupta	Managing Director	The Directorate manages the production and economic and financial and economic activities of the Company, bearing full responsibility for the consequences of decisions, safety and efficient use of the Company's property, as well as financial and economic results of its activities.
2	Sheikh Imran Bashir	Director of Sales Department	
3	Chuba P.S.	Director of Marketing and Strategic Development	
4	Burda N.M.	Head of Personnel Department	The Directorate organizes the work and effective interaction of all structural units, directs their activities to develop and improve the efficiency of the Company, to increase sales and increase profits, to increase the quality and competitiveness of products sold, its compliance with international standards in order to win domestic and foreign market and
5	Neplokhov S.S.	Head of the Department of Legal Affairs and Business Ethics	
6	Monashko T.F.	Chief Accountant	

7	Verma Ashwin	Financial Director	<p>meet the needs of consumers.</p> <p>The Directorate ensures that the Company fulfills all obligations to state, regional and local budgets, state extra-budgetary social funds, suppliers, customers and creditors, including bank institutions, as well as the implementation of economic and employment contracts and business plans.</p>
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- **Audit Commission** consisting of 3 persons, which monitors and audits the financial and economic activities of the Company.

AUDIT COMMISSION			
1	Monashko T.F.	Head of Audit Commission	<p>The Audit Commission is a body of the Company that controls the financial and economic activities of the Company.</p> <p>The task of the Audit Commission is to inspect the financial and economic activities of the Company for the financial year.</p> <p>The Audit Commission shall report the results of its inspections to the Participant.</p> <p>The Audit Commission has the right to:</p> <ol style="list-style-type: none"> 1) receive from the Company's officials the information and documentation necessary for the proper performance of the functions assigned to it, within 10 (ten) working days from the date of submission of a written request for the provision of such information and documentation; 2) inspect the premises where cash and valuables are stored and check their actual availability; 3) make proposals for the elimination of violations and shortcomings in the financial and economic activities of the Company identified during the inspection; 4) if necessary and within the limits of the estimate approved by the Participant, involve professional consultants, experts, auditors in the inspections; 5) in case of entrusting the audit commission with the functions of the audit committee – have other rights of the audit committee, which are provided by the Law of Ukraine “On Audit of Financial Statements and Audit Activities”. <p>The Audit Commission is obliged to:</p> <ol style="list-style-type: none"> 1) inspect the financial and economic activities of the Company based on the results of the financial year, as well as, if necessary, unscheduled (special) inspections; 2) conduct a competition for the appointment of an auditing entity to provide services for the statutory audit of financial statements. The competition is open to auditing entities that meet the requirements established by the Law of Ukraine "On Auditing Financial Statements and Auditing Activities" and
2	Postoiuk I.M.	Member of Audit Commission	
3	Lavrynychuk T.V.	Member of Audit Commission	
4	Verma Ashwin	Member of Audit Commission	

			<p>in the manner set forth in paragraph 4 of this Regulation;</p> <p>3) timely draw conclusions on the results of inspections and provide them to the Participant and the initiator of the unscheduled (special) inspection;</p> <p>4) report to the Participant on the results of inspections and identified deficiencies and violations;</p> <p>5) immediately inform the Participant about the facts of fraud and abuse, which were revealed during the inspections;</p> <p>6) monitor the elimination of deficiencies and violations identified during inspections and the implementation of appropriate actions to eliminate them.</p>
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