

**Report on management of
Kusum Pharm LLC for 2019**

Contents:

1. Organizational structure and enterprise activity description
2. Activity results
3. Liquidity and liabilities
4. Environmental aspect
5. Social aspects and personnel policy
6. Risks
7. Corporate management

1. Organizational structure and enterprise activity description

Kusum Pharm LLC was founded in 2005. This limited liability company is a legal entity and operates on the basis of the Articles of Association in accordance with the legislation of Ukraine. In 2006, the construction of a pharmaceutical plant was started at the expense of foreign capital and was an investment project in the development of Ukrainian pharmaceutical production.

Kusum Pharm LLC 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 Kusum Pharm LLC includes the following areas:

- **plant activities** (headed by the Plant Director), including Quality Assurance Department, Quality Control Department, Development and Research Department, production, Housekeeping, administration, Mechanical Department, Warehouse;
- **Analytics Department** (headed by the Head of Analytics Department);
- **Sales Department** (headed by the Head of Field Force);
- **IT Department** (headed by the Head of IT Department);
- **Planning, Procurement, Customs Clearance and Logistics Department** (headed by the Head of Planning, Procurement, Customs Clearance and Logistics Department);
- **Accounting and Tax Planning Department** (headed by the Head of Accounting and Tax Planning Department);
- **Personnel Department** (headed by the Head of Personnel Department);
- **Legal Affairs and Business Ethics Department** (headed by the Head of Legal Affairs and Business Ethics Department);
- **Marketing Department** (headed by the Director of Marketing and Strategic Development), which includes marketing of OTC and RX drugs, pharmacovigilance, organization of events;
- **Medicines Registration Department** (headed by the Head of Medicines Registration Department);
- **Finance** (headed by the Director of Finance);
- **Security Service** (headed by the Head of Security Service).

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

Kusum Pharm LLC 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 the production of qualitative, competitive, certified drugs that meet all necessary standards and are affordable to consumers.

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.

Description of activity

On August 12, 2009 the enterprise was put into operation. The pharmaceutical plant is located on the outskirts of Sumy in an environmentally friendly area at the address: 40030, Sumy, 54, Skryabina str. It occupies a total area of 5.4291 hectares.

Kusum Pharm LLC is an independent business entity created for the manufacturing of products, performance of works and provision of services in order to meet public needs and make profit. The enterprise independently carries out its activity, disposes of its products, the received profit, which remained at its disposal after payment of taxes and other obligatory payments.

The form of ownership is private ownership. The supreme governing body of Kusum Pharm LLC is the General Meeting of Participants. The executive body of Kusum Pharm LLC is the Managing Director.

The main activity is the production of pharmaceuticals and materials. The plant produces cardiological, gastroenterological, anti-inflammatory, antipyretic, antihypertensive, mucolytic, as well as drugs for pediatric practice in the form of syrups and others. On March 13, 2009 Kusum Pharm LLC received a License from the State Service of Medicines and Medical Devices for the production of medicines (in the form of coated tablets, uncoated tablets, suspensions, capsules, granules).

On November 16, 2010, a certificate of compliance with EU GMP standards was received.

The company has modern equipment of leading foreign manufacturers in the field of medicine for the manufacture of drugs in the form of solid drugs and liquid dosage forms, as well as modern packaging equipment that allows to pack drugs in blisters, strips, sachets, capsules, vials. There are two certified and accredited laboratories for microbiological analysis and chemical and physical analysis. Also, the structure of plants has departments for quality assurance and quality control of raw materials, products, packaging material, technological processes.

The sources of formation of financial results of the enterprise are profit, depreciation deductions.

The company has created the following funds: statutory, reserve and other funds of general and special purpose. The company has an independent balance sheet, there the assets are reflected. The property of the enterprise consists of fixed and current assets, as well as other material and financial values.

The company maintains accounting and statistical reporting in the manner set forth by the legislation of Ukraine.

2. Activity results

Finance indicators

	2019	2018	Change	Change %
Net income from sales of products (goods, works, services)	706 561	603 911	102 650	17,0

Cost of products sold (goods, works, services)	(253 888)	(234 971)	(18 917)	8,0
Gross:				
income	452 673	368 940	83 733	22,7
loss	-	-		
Other operating income	39 178	30 484	8 694	28,5
Administrative expenses	(53 398)	(51 792)	(1 606)	3,1
Selling expenses	(211 304)	(227 269)	15 965	-7,0
Other operating income	(22 083)	(42 281)	20 198	-47,8
Financial result from operating activities:				
income	205 066	78 082	126 984	162,6
Other financial income	111	45	66	146,7
Other income	803	85	718	844,7
Financial expenses	(12 331)	(8 281)	(4 050)	48,9
Other expenses	(730)	(4 942)	4 212	-85,22
Financial result before tax:				
income	192 919	64 989	127 930	196,8
Expenses (income) on income tax	(34 659)	(8 137)	(26 522)	325,9
Net financial result:				
income	158 260	56 852	101 408	178,4
Comprehensive income				
Revaluation (depreciation) of non-current assets	18 643	17 240	1 403	8,1
Elements of operating costs				
Material costs	205 433	179 063	26 370	14,7
Salary expenses	173 794	134 679	39 115	29,0
Deductions for social events	30 675	23 375	7 300	31,2
Amortization	33 669	25 324	8 345	32,9
Other operating expenses	138 988	209 574	-70 586	-33,7
Total	582 559	572 015	10 544	1,8

Indicators of enterprise profitability

	2019	2018	Change %
%	%	%	

Gross profitability of sales	27	15	80
Net profitability	29,02	12,93	124,44

3. 1.Liquidity and liabilities

3.1. Main sources of liquidity supply (assets)

We would like to note that the assets of Kusum Pharm LLC at the end of 2019 increased by **77 362 thousand UAH, or by 17.8%** and amounted to 510 737 thousand UAH.

This increase was due to current assets by 1.66%, or 3 647 UAH and non-current assets by 34.0% or 73 715 thousand UAH.

We note that at the end of 2019 current assets amount to 510 737 thousand UAH, non-current assets amount to 290 644 thousand UAH.

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

- goods **increased** by 26 thousand UAH;
- inventories decreased by 15 279 thousand UAH;
- work in progress increased by 336 thousand UAH;
- finished products **increased** by 23 484 thousand UAH;
- receivables **decreased** by 6 705 thousand UAH;
- cash balances **increased** by 1 425 thousand UAH;
- future expenses increased by 360 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 764 thousand UAH;
- the book value of fixed assets **increased** by 72 951 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 0.29 in 2018, 0.35 in 2019 with the QLR optimal value of 0.5.

In 2019, the quick liquidity ratio (QLR) increased compared to 2018, but was much lower than normal.

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

3.2. Liabilities

Liabilities of Kusum Pharm LLC are included in long-term and current liabilities and collateral.

Long-term and current liabilities in 2019 compared to 2018 decreased by 96 186 thousand UAH, or 26.63% and amounted to 264 991 thousand UAH.

Current liabilities and collateral for works, services and other current liabilities as of 31.12.2019 amounted to 238 471 thousand UAH, long-term liabilities (deferred tax liabilities) – 26 520 thousand UAH.

Below are the obligations of Kusum Pharm LLC for the remaining terms by 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					
		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	-	147 720	52 110		-	199 830
2	Current accounts payable on long-term liabilities	-	-	-	-	-	-
3	Accounts payable for goods, works, services	8 631	3 941	158	289	-	13 019
4	Accounts payable with the budget, on salaries	227	7020			-	7 247
5	Current collateral	7 697	8 552	-	-	-	16 249
6	Other current liabilities	435	100	120	1471	-	2 126
7	Totally	16 990	167 333	52 388	1 760		238 471

4. Ecological aspect

The economic activity of Kusum Pharm LLC 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 Kusum Pharm LLC 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 bathrooms 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 Kusum Pharm LLC 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 267 men and 322 women, which is 45% and 55% respectively. The structure of the company approved 64 management positions, including:

- women hold 35 positions, which is 5.9% of the total number of employees,
- men hold 29 positions, or 4.9%.

The structure of personnel within the age groups reflects that the majority of staff are employees in the age categories from 21 to 40 years (a total of 67% or 396 persons). 10% of staff, or 59 persons, are over 51 years old (including 15 employees over 61 years old), young professionals under 30 years old – 31% (184 persons).

The average age of employees in the company is 36 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 we conduct an independent survey of the Employer's Brand Index. In 2019, eNPS operational for Kusum Pharm LLC was: Extra Positive – 48.25.

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. In order 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

Kusum Pharm LLC 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.

Following safety rules is 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.

Kusum Pharm LLC 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 Kusum Pharm LLC.

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 use of financial instruments exposes Kusum Pharm LLC to credit as well as currency risk.

The risk management policy of Kusum Pharm LLC is aimed at identifying and analyzing the risks to which the company is exposed, setting 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 the company's operations.

Credit risk is the risk that an enterprise will incur a financial loss as a result of a buyer's or counterparty's default on its contractual obligations. This risk is mainly related to the company's trade and other receivables, as well as prepayment to suppliers.

Buyers mainly enter into agreements with the company with deferred payment settlements.

The carrying amount of financial assets reflects the maximum amount exposed to the credit risk of the company.

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 accounts payable, which arose in US dollars, as well as debt on loans obtained in foreign currency, taking into account market trends of exchange rate fluctuations, currency risk is still very relevant for the company.

7. 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 Kusum Pharm LLC 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 Kusum Pharm LLC are (according to the Charter):

The highest body of the company is the **General Meeting, consisting of Participants. Managing Director**, who is the sole executive body that manages the activities of the company.

The competence of the General Meeting of the Company's Participants includes:

- ✓ determination of the main directions of the Company's activity;
- ✓ making changes to the Company's charter, making a decision on the Company's activities on the basis of the model charter;
- ✓ change in the size of the Authorized Capital of the Company;
- ✓ approval of the monetary valuation of the non-monetary contribution of the Participant;
- ✓ redistribution of shares between the Participants of the Company in the cases provided by the Charter;
- ✓ election (appointment) and recall (dismissal) of the Managing Director of the Company, setting the amount of his remuneration;
- ✓ determination of forms of control and supervision over the activities of the Managing Director of the Company;
- ✓ creation of other bodies of the Company, determination of the order of their activity;
- ✓ decision-making on acquisition by the Company of a share (part of a share) of the Participant;
- ✓ approval of the results of the Company's activities, including its subsidiaries, for a year or another period, approval of reports and balance sheets, reports and conclusions of the audit;
- ✓ distribution of the Company's net profit, decision-making on dividend payment;
- ✓ making decisions on separation, merger, division, accession, liquidation and transformation of the Company, election of the commission on termination (liquidation commission), approval of the procedure of termination of the Company, procedure of distribution between the Company Participants

in case of liquidation of the property remaining after satisfaction of creditors liquidation balance of the Company;

✓ making decisions about:

- receipt by the Company of credits, loans, issue of bonds of the Company and acceptance of other debt obligations;
- provision by the Company of guarantees and other collateral for third parties;
- creation of collateral and any other encumbrance of the Company's property;
- concluding agreements or making other transactions concerning the alienation in any way of real estate (buildings, structures, land plots, etc.), objects of unfinished construction, securities, corporate rights belonging to the Company regardless of their value (significant transactions);
- consent to the transaction if the value of property, works or services that are the subject of such transaction exceeds 50 percent of the value of the Company's net assets at the end of the previous quarter, as well as consent to transactions in which there is interest;
- determining the procedure for applying the name of the Company;
- making a decision on the conclusion by the Company of any contracts, transactions or transactions, if the price/value of property, works or services that are their subject, exceeds the equivalent in UAH 500,000.00 (five hundred thousand) US dollars according to the official the exchange rate set by the National Bank of Ukraine on the date of concluding such an agreement, making a transaction or carrying out a transaction;
- making a decision on the Company's conclusion of any agreements, actions or transactions with securities, promissory notes (excluding tax bills), as well as corporate rights (shares, units, stakes, etc.) in the authorized capital of other legal entities of any forms of property regardless of the price of the contract, the size of the transaction or operation that is their subject;
- exclusion of the Participant from the Company.
 - ✓ Creation, reorganization and liquidation of subsidiaries, branches and representative offices, approval of their statutes or regulations, determination of terms of remuneration of their officials;
 - ✓ Making decisions on bringing to property responsibility of officials of the Company's governing bodies;
 - ✓ Adoption of a decision on the establishment of capital (funds) at the Company, approval of regulations on them;
 - ✓ Making decisions on the Company's participation in the establishment of a joint venture, association, concern and other associations.

The competence of the Managing Director includes:

- ✓ ensuring proper implementation by the Company's employees of the requirements of the current legislation of Ukraine, decisions of the General Meeting of the Company's Participants, local regulations of the Company;
- ✓ the right to first sign financial documents, open and close accounts in banking institutions in national and foreign currency;
- ✓ appoint persons who have the right of the first and second signatures of financial documents;
- ✓ consideration of the results of work of individual divisions of the Company and their management for the reporting period (month, quarter, year) with the adoption of appropriate decisions;
- ✓ ensuring the proper conduct of financial and economic activities;
- ✓ development of the structure and number of employees (staffing), establishing the division of

- responsibilities between employees of the Company, approval of job descriptions;
- ✓ development, consideration and approval of local regulations and other documents governing the activities of the Company (within its competence), the issuance of mandatory for all employees of the Company orders, instructions and directives, both oral and written;
 - ✓ disposal of the Company's property within the limits and in the manner prescribed by the Articles of Association and laws;
 - ✓ preparation and submission for approval to the General Meeting of the Company's Participants of annual reports on the implementation of the Company's activity plans;
 - ✓ organization of proper record keeping, implementation of operational, accounting, tax accounting of the results of the Company's activities in accordance with the requirements of the legislation of Ukraine;
 - ✓ creating the necessary conditions for proper accounting, ensuring strict compliance by all departments, services and employees involved in accounting, the lawful requirements of the chief accountant to comply with the procedure for registration and submission of primary documents;
 - ✓ recruitment and dismissal of the Company's employees, application of incentives to them and imposition of penalties on them in accordance with the labor legislation of Ukraine;
 - ✓ issuance of powers of attorney and administrative documents. Powers of attorney for concluding and/or signing agreements, the conclusion of which requires the prior consent of the General Meeting of the Company, shall be issued by the General Director after the relevant decision of the General Meeting;
 - ✓ implementation of other actions arising from the statutory tasks of the Company.