

POLICY ON FORECASTS, PROGNOSSES AND FINANCIAL RISKS

FORECASTS

The **forecasting policy** aims to specify the economic and financial policy of the company through the objectives of future activities. In this way, the proportions in the operating activity are established, the strategy and financial policy of the enterprise are concretized, with positive influence on the development of operational activities and economic-financial phenomena.

In the financial field, the forecasting policy appears as an activity of probabilistic evaluation of the future evolution of certain phenomena. Thus, the anticipation of positive and negative flows, over short and medium-term periods, provides a reasonable assurance on financial management and the maintenance of financial equilibrium, before immobilizing important capitals.

1. Functions and objectives of financial forecasting

Foresight is a process by which organizations try to anticipate change and adapt in a way that ensures the achievement of societal goals. Financial forecasting should facilitate current management as well as the development of the company.

Foresight is a future-oriented activity and is the process of setting goals and what needs to be done to achieve those goals.

The challenge in the planning/forecasting process is to make decisions that successfully secure the organization's future. Planning is a process that does not end with the creation of a plan, but continues with its implementation, bearing in mind that in the implementation and monitoring phase the plan may require improvements or changes to make it more effective.

The beneficiaries of financial forecasts are:

- Shareholders;
- Management;
- Creditors / Financiers (suppliers of goods / banks);
- Environment / Business Partners.

When elaborating the financial forecast, the rational organization of the sales and marketing activities (wholesale and retail, procurement, logistics, transport, investments, service provision, the fullest possible use of the technical, material and financial potential, the timely payment of contractual and financial obligations in relation to business partners, the state and banks, the legal regulations specific to the pharmaceutical market and the external context are taken into account.

The financial forecasting process is based on the correlation between the economic and social objectives, on the one hand, and the financial ones, on the other hand, on the increase of the activity's operativeness, on the identification and immobilization of internal reserves, on the strengthening of the company's functioning on efficiency and profitability criteria, on the increase of initiative, autonomy and responsibility in the use of the assets and of own and borrowed funds.

Within the financial management of the company, the forecasting instruments fulfill several functions such as: planning, control, ensuring profitability, liquidity, financial balance and optimal capital management.

2. Financial forecasting tools. Types of budgets

The financial forecast is presented in the following forms:

- medium and long-term strategic forecasting;
- short-term forecasting.

Medium and long-term forecasting refers to the competitive, technological and strategic aspects of the company's management and involves a longer time horizon. It refers to issues such as the company's mission or setting organizational goals. Medium and long-term strategic plans are made by managers at the top hierarchical levels in the company.

Strategic forecasting is an ongoing operation involving all departments of the company.

It materializes in annually reviewed strategic objectives. The main objectives refer to the company's position in the pharmaceutical market, plans to launch new products and diversify services for both partners and end customers, finding alternative suppliers for the main products and raw materials involved in the sales process, etc.

Short-term forecasting consists of budgeting. Budgets can be classified into two main categories: operating budgets and financial budgets.

The operating budgets include in their structure: the plan for the sale of goods, the plan for the supply of pharmaceutical products and raw materials and materials involved in the distribution of pharmaceutical products, the plan for services related to the core business.

Financial budgets are presented in the following main forms:

- a) the general budget of a company or the budget of income and expenditure;
- b) investment and financing budget;
- c) cash flow.

a) Income and expenditure budget: reflects summary indicators for all categories of activities, income, expenditure and financial results. This budget is drawn up annually on the basis of the information provided by the departments of the company and is intended as a general management tool.

The income and expenditure budget is submitted to the General Meeting of Shareholders for approval.

In order to achieve the annual target, the budgeted amounts are monitored on a monthly basis and adjustments are made to income and expenditure in order to achieve the annual targets..

b) Investment and financing budget: reflects the investment and financing plan.

The investment budget is submitted to the approval of the General Meeting of Shareholders and its execution is monitored on a monthly basis by the departments concerned and the finance department.

c) The cash budget or cash flow forecast shows the inflows or outflows of cash and cash equivalents during the period under review.

The forecast cash flow is prepared based on the operating budget and investment plan and is influenced by the inventory policy and the expected timing of cash receipts and payments.

In conclusion, the treasury budget has a particularly important role in the optimal management of the enterprise's own and borrowed financial resources, and the financial flows of cash inflows and outflows must ensure the financial equilibrium of the activity.

Realistic forecasting and meeting the proposed objectives are essential for the development of the company and its maintenance in a competitive market.

RISKS

Risk is any event, action/inaction, situation or behavior with unfavorable impact on the company.

Categories of risks identified in Farmaceutica REMEDIA SA with impact on the company's forecasts:

- operational risks: customers becoming insolvent, supplier credit limits, deviations from performance standards in stocktaking and procurement processes generated by the lack of traceability of drug price regulation in line with macroeconomic developments;
- financial risks: devalorization,
- risks generated by legislative changes in drug price regulation, with direct influence on stock;
- risks generated by staff fluctuation: with an impact on ensuring the continuity of the efficient running of both wholesale and retail activities
- risks generated by the functioning of IT systems and ensuring cybersecurity in compliance with legal regulations and strategic objectives approved by the company: with impact on ensuring the implementation of mechanisms for efficient functioning of the company's current activities.

Components of risk:

- probability of occurrence;
- level of impact (i.e. severity and duration of consequences).

Purpose and steps of risk analysis

Purpose:

- a) to identify hazards in the firm
- b) to identify whether internal controls or the way the business is conducted can prevent, eliminate or minimize hazards;
- c) evaluate the structure/evolution of internal control within the firm

Steps:

- analyzing the structure's activity

- Identification and assessment of significant risks with impact on the financial activity;
- verification of the existence of internal controls, internal control procedures and their evaluation
- assessing weaknesses, quantifying and dividing them into risk classes;

On each occasion, significant risks identified in previous years will be taken into account, as appropriate.

Risk measurement

Risk measurement depends on the probability of occurrence and the severity of the consequences. Measurement tools are the assessment criteria.

Probability measurement, assessment criteria

The likelihood of risk occurrence is expressed as follows:

- low probability,
- medium probability,
- high probability.

ASSESSMENT CRITERIA

a) Vulnerability assessment (qualitative assessment)

Consider all factors having an impact on vulnerability such as:

- human potential;
- complexity of the works;
- existing technical means

Vulnerability is assessed on a scale of values as :

- low (level 1)
- medium (level 2)
- high (level 3)

b) Organization of internal control

The result of the analysis of the quality of the internal control can be expressed as follows

- adequate internal control (level 1)
- insufficient internal control (level 2)
- internal control with serious deficiencies (level 3)

c) Measuring the severity of the consequences of the event - impact level (quantitative assessment):

The impact level represents the effects of the risk, especially financial, if it occurs and can be expressed as follows:

- low impact (level 1)
- moderate impact (level 2)
- high impact (level 3)

d) Concrete risk assessment

The risk analysis is a centralized list of objectives defined in terms of specific elements and associated risks. Depending on priorities and frequency, the characteristic elements used in the risk analysis will be given different levels of importance as follows:

Characteristic features:

Organizational elements	Characteristic elements (domain-specific)
Financial system	1.Value of transactions 2.Volume of transactions 3.Value of expenses/income
The overall system	1. System complexity 2. Stability of the system, potentially the opportunity to change it 3. System characteristic factors 4. Areas where fraud is possible 5. Workforce in running the scheme/staff rotation 6. Computerization of the system
Impact on the system	1.Effect on other systems 2.Effect of future events and decisions on the system
Management and control	1. Quality of internal control within the system 2. Employees' ethics 3. Management stability 4. Number of new, inexperienced staff 5. Effectiveness of subordinate departments 6 Effectiveness of personnel dealing with income management, organization of cultural actions and events, etc.

Chairman of the Board of Administrators,

„TARUS“ – Valentin Norbert TARUS e.U.

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