

***Annual Management Report
of the Board of Directors of Zentiva S.A.
for the year 2015***

Zentiva S.A.

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A. 1. Composition of the Board of Directors as at the 31st of December 2015

As at the 31st of December 2015, the Board of Directors had the following composition:

President: Christophe Gourlet

Members: Gabriel Ioan Prada, Margareta Tanase, Simona Cocos, Massimo Festa.

A. 2. Members of the Company's senior management as at the 31st of December 2015

General Manager: Simona Cocos

Industrial Operation Director: Margareta Tanase

1. Stocks and shareholders

ZENTIVA S.A. (hereinafter, the "Company") was established in 1962 under the name Intreprinderea de Medicamente Bucuresti (hereinafter, "IMB"). The Company's current registered office is located in 50, Theodor Pallady Blvd., Bucharest. In 1990, the Company absorbed and took over the entire patrimony of the former IMB in accordance with the Government's Decision. In November 1999, the majority shareholding was taken over by the group of institutional investors formed of the European Bank for Reconstruction and Development, the Post-Privatization Foundation, GED Eastern Fund, Euromerchant Balcan Fund, Black Sea Fund and Galenica North East via the Cypriot company Venoma Holdings Limited.

As at the 27th of June 2002, the Extraordinary General Shareholders' Meeting approved the increase in the share capital by the amount of old lei 277,974,100,000 (equivalent a 27,797,410 RON), respectively from the value of old lei 138,987,050,000 (equivalent of 13,898,705 RON) to the value of old lei 416,961,150,000 (equivalent of 41,696,115 RON), through the granting of 2 free stocks for each stock held by the shareholders registered with the Shareholders' Register as at the reference date 30/05/2002.

On the 12th of October 2005, Zentiva N.V., a Dutch company seated in Amsterdam, The Netherlands, with branches in several European countries, purchased the stocks of Venoma.

In October 2005, Zentiva NV made a public offer regarding the purchase of the stocks of the issuer Sicomed SA, denominated afterwards Zentiva SA, for the amount of RON/stock 1.3, during the period between the 09th of November 2005 and the 12th of January 2006.

In March 2009, Sanofi-Aventis Europe announced its having become the shareholder of Zentiva N.V., holding approximately 96.8% shares.

In August 2009, Sanofi-Aventis Europe made a public offer regarding the purchase of the stocks of the issuer Zentiva SA, for the amount of RON/stock 0.7, during the period between the 12th of August 2009 and the 22nd of September 2009.

The synthetic shareholding structure as at the 31st of December 2015, in comparison with the shareholding structure as at the 31st of December 2014 was the following:

Shareholding structure	31.12.2014	31.12.2015
Venoma Holdings Limited	50.981%	50.981%
ZENTIVA NV	23.928%	23.928%
Sanofi Aventis Europe	6.729%	6.729%
Other minority shareholders	18.362%	18.362%
Total	100%	100%

Source: Central Depository

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The Company's stocks have been listed on the Second Category of the Bucharest Stock Exchange starting from 1998.

Out of the total number of 416,961,150 stocks, 416,777,259 stocks are being traded on the capital market, the balance of 183,891 stocks being held by Zentiva S.A.

The Company did not trade its own stocks during the year 2012.

The market capitalization of the Zentiva S.A. stocks as at the 31st of December 2015 amounted to million RON 850.6.

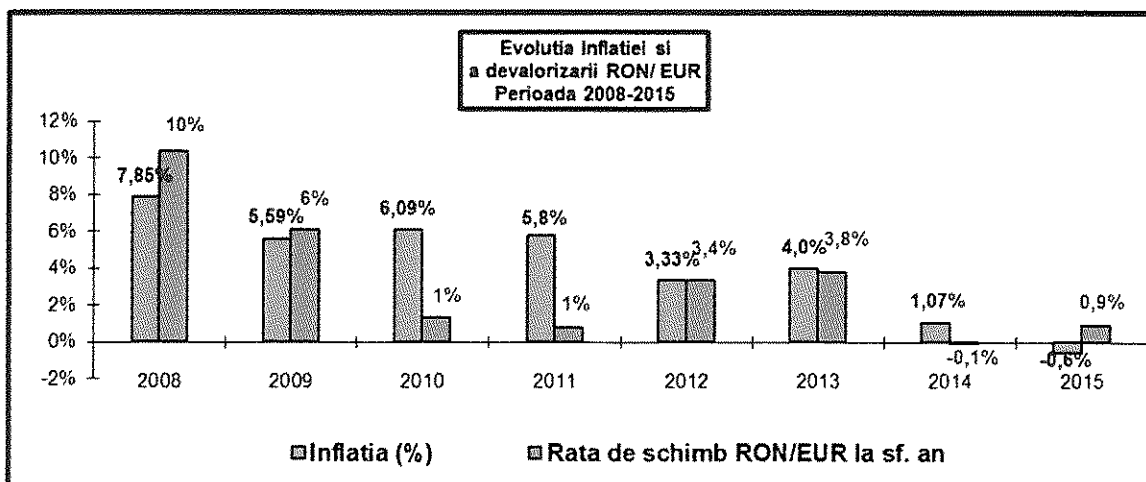
As at the 31st of December 2015, the stock price amounted to RON/stock 2.04.

As of 31 December 2015, the Company has net assets by RON 272,758,528 which represents more than 50% of share capital by RON 41,696,115 (as of 31 December 2014, the Company has net assets by RON 296,673,494 which represents more than 50% of share capital by RON 301,304,302) which is in compliance with the requirements of Romanian Company Law (Law 31/1990 and subsequent amendments (art 153.24)). As at 31 December 2014, the values of share capital and share premium include the effect of hyper-inflation adjustments, as required by application of IAS 29. The Company is a first-time adopter of the International Financial Reporting Standards (IFRS) as endorsed by the European Union, with the exception of the provisions of IAS 21 the Effects of Changes in Foreign Exchange Rates on the functional currency and prepares financial statements in accordance with these standards as of the transition date, i.e. 1 January 2011. On 29 April 2015, the Shareholders General Meeting decided to cover the losses from hyper-inflation adjustments related to the share capital in an amount 259,608,187 from the retained earnings.

2. Economic & financial environment

Evolution of the macroeconomic indicators in Romania

The inflation rate underwent significant fluctuations, from 7.85% in 2008, to 1.07% in 2014 and to a negative rate of -0.6% in 2015. In the year 2015, the national currency depreciated in relation to EUR by 0.9%, from RON/EUR 4.4821 as at the 31st of December 2014, to RON/EUR 4.5245 as at the 31st of December 2015.



Source: National Institute of Statistics and NBR

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Pharmaceutical industry

The Romanian pharmaceutical market has reached in 2015 the value of 2,609 million EUR (at producers price level), decreasing with -2.5% versus 2014 (IMS data, December 2015)

3. Company's activity in the year 2015

The results obtained by Zentiva S.A. during the year 2015 are owed both to the Company's industrial performance and to an adequate commercial strategy.

In 2015, the achieved production volume was higher with 11.5 million commercial units than the 2014 production realized, respectively higher with 18.7%, due to increasing of the export activity.

The Company ended the year 2015 with a net profit of RON 46,204.96

The most important achievements of the year 2015 were the following:

- Successfully finalizing the transfer of other 16 products to be locally manufactured.
- Exporting represented 49% of total 2015 production plan (36.64 million commercial units) for European market (Germany, France, UK, Italy, Portugal, Bulgaria, Czech Republic, Slovakia, Hungary, etc.).
- Investments in a total value of 2.65 million EUR for new manufacturing equipment, upgrading the existing equipment.

3.1. Reporting base

As at the 31st of December 2015, Zentiva SA prepared financial statements in accordance with the Order of the Ministry of Finance no. 1286/2012 approving the accounting regulations in line with the International Financial Reporting Standards, applicable for trade companies whose securities are accepted for trading on a regulated market, with all the subsequent amendments and supplements in force.

Sales – Volumes and amounts

The average price per unit of goods sold (finished goods and goods for resale) increased to RON 4.88 in 2015 (RON 4.84 in 2014) due to product mix.

The sales of goods increased by 3.2%, from million RON 346.8 in 2014 to million RON 358 in 2015; the Company's sales volume increased by 2.2%, from 71.7 mill. units in 2014 to 73.3 mill. units in 2015.

	Previous year	Current year
Sales of goods (million RON)	346.8	358
Sold quantity (million units)	71.7	73.3
Average sales price (RON / sold unit)	4.84	4.88

Source: Zentiva, Financial Statements Report, note 5

According to the statistical data supplied by IMS, the average price of the Zentiva products, upon the purchase thereof from pharmacies, is much lower than the price of other manufacturers, in 2015 its value amounting to RON 8.28 (2014: RON 6.35). Comparatively, the average price valid for the entire pharmaceutical market in Romania was RON 27.68 (2014: RON 23.66).

The percentage of OTC products within Zentiva SA (over-the-counter medicines) from the total sales represented 14% in 2015 versus 13% in the previous year.

Operating expenses

	Million RON		Variation	
	Previous year	Current year	%	Million Lei
Operating expenses, out of which:	332,6	345,1	3,8%	12,5
Raw materials, consumables and goods	184.1	183.4	-0,38%	-0,7
Personnel expenses	48.2	48,9	1.45%	0,7
Depreciation and provisions; adjustments for impairment losses	8,8	10,6	20,45%	1,8
Other operating expenses	91,5	102,2	11,7%	10,7
Turnover	394,1	396,8	0,7%	2,7

The expenses with raw materials, consumables and goods decreased by 0,38% comparing to year 2014.

Zentiva's policy is to permanently look for suppliers of high quality raw materials. The Quality Assurance Department carries out sustained assessments of prospect manufacturers, and also of the existing ones. The envisaged aspects are both the quality documentation supplied by them, which is necessary for authorization purposes and the quality of the supplied products, along with their behavior during the operating process.

The variation is mainly 24.8 million RON increase from raw materials, 6.6 million RON increase from packaging materials, increase of other materials expenses 1.1 million RON and 33.2 million RON decrease from trading goods.

The expenses with utilities increased by 17.9% in 2015, while the volume produced increased with 18.7% versus previous year.

The personnel expenses increased by 1,45 % in 2015, respectively by million 0.7 RON; the number of employees counted 507 at the end of 2014 and 517 at the end of 2015.

The other operating expenses increased by million RON 10.7 comparing to year 2014 mainly due to claw back tax.

The R&D expenses, represented by activities related to products repatriated within the Group, which were incurred in the year 2015 amounted to million RON 7.19.

3.2. Related result

The Company ended the year 2015 with a net profit amounting to RON 46,204,961

3.3. Environmental protection

The following regulatory documents related to environmental protection were applicable in 2015:

- Environmental Permit no. 234/07th of May 2012, valid for 10 years.
- Wastewater Collection Agreement no. 1521/31st of August 2012, valid for an undetermined period.
- Water management Authorization 351 B / 25.11.2013, valid up to 30.11.2015.

The performance of the waste management process was maintained by applying solutions for waste elimination.

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The environmental management system EN ISO 14001:2004 was re-certified by Lloyd's Register Romania.

In 2015 Zentiva implemented management system for energy EN ISO 50001: 2011, which was certified by Lloyd's Register Romania.

3.4. Company's exposure to risks

Price risk: Ethical products from local portfolio which are sold on local market based on prescriptions and which price is regulated by the Ministry of Health represent 39.7% from the total value of sales of goods; the price of over-the-counter products is established by supply and demand.

No potential risks were identified that are likely to affect the Company's liquidity. The Company's cash at bank at the end of 2015 amounted to million RON 7.3.

The Company did not purchase own stocks.

The Company did not issue any bonds or other debt securities.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise the following types of risk: interest rate risk and currency risk. Financial instruments affected by market risk include loans and borrowings, deposits and trade payables.

The Company prepared the sensitivity analyses on the basis that the amount of net debt which is presented in the financial statements. The ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies.

Interest rate risk

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. The Company's exposure to the risk of changes in market interest rates is not significant, as the Company does not have loans as sources of finance.

As of 31 December 2015, the Company does not have short-term loans granted to the parent entity; in September 2013, the Company concluded a cash pooling agreement with the parent entity at a floating interest rate, as presented in note 11, 14 in the statutory financial statements. The Company's exposure to the interest rate risk changes on the market is not significant.

Interest rate sensitivity

Considering that the Company has only loans receivables, short term, the exposure to interest rate fluctuation would not generate a significant impact.

Foreign currency risk

Foreign 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. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a different currency from the Company's presentation currency).

ZENTIVA

The Company has transactions in a currency other than its functional currency (RON).

The risk exposure to other currencies (mainly EUR and USD) is not though very significant and therefore the Company does not hedge this risk through derivative instruments.

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is rather not exposed to credit risk from its operating activities, as most of its trade receivables are from related parties; the exposure to credit risk from its financing activities, including deposits with banks is not significant, as such deposits are usually overnight, or under 3 months.

Trade receivables

Customer credit risk is managed by the Company subject to its established policy; however the Company considers that the credit risk on trade receivables is low (mainly intercompany receivables).

Outstanding customer receivables are monitored and any shipments to major customers are analyzed.

The requirement for an impairment is analyzed at each reporting date on intervals to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 13. The Company evaluates the concentration of risk with respect to trade receivables as low.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Company's treasury department in accordance with the Company's policy. The Company's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2014 is the carrying amounts as illustrated in Note 14 of the statutory financial statements.

Liquidity risk

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool.

The Company does not have long term financing (neither trade, nor finance liabilities).

All of the company's debt will mature in less than one year.

Capital management

Capital includes equity attributable to the equity holders. The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximize the shareholder's value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 2014.

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3.5. Important events

During the period between the 1st of January 2015 and the 31st of December 2015, the following important events occurred in the Company's activity:

- January 28, 2015 – Current report regarding changes implemented in relation to dividends distribution ;
- February 12, 2015 – Current report having as object the Convening of the Shareholders Annual General Assembly for March 18, 2015;
- - March 18, 2015 – Current report having as object the Decision of the Shareholders Annual General Assembly from March 18, 2015; March 25, 2015 – Current report regarding decisions of the Board of Directors: granting of dividends; approval of the investments plan for 2015; convening of the Shareholders Annual General Assembly on April 29, 2015;
- April 29, 2015 – Current report having as object the Decision of the Shareholders Annual General Assembly;
- June 8, 2015 - Current report having as object a transaction with affiliates;
- July 6, 2015: Press release having as object the dividends distribution procedure as per the Decision of the Shareholders Annual General Assembly from April 29, 2015;
- July 30, 2015: Biannual report prepared by the external auditor with regard to the transactions reported in the 1st semester of 2015;
- December 14, 2015 – Current Report having as object decision of the Board of Directors;
- December 14, 2015 – Press Release appointment of the Chairman of the Board of Directors;

4. Corporate governance

The company Zentiva SA is a one-tier company managed by the General Manager under the supervision of the Board of Directors.

The corporate governance elements are implemented within the Company according to the Corporate Governance Code adopted by the Bucharest Stock Exchange Board (BVB) in December 2007, the deadline for implementation thereof starting with the 2010 Annual Report.

The manner of adoption of the provisions of the CGC – BVB by the Company was voluntary and self-imposed, the Company reporting to BVB with regard to its compliance with the 19 principles and 41 recommendations – all having equal power and significance – through the Declaration regarding compliance or non-compliance with the provisions of the Corporate Governance Code (the "Apply or Explain" Declaration- please refer to Appendix 1). The Company has taken and will continue to take the professional, legal and administrative steps necessary for ensuring compliance with the provisions of the Code and for the transparent presentation of such results.

However for 2015 the Company has published as a current report a Code compliance statement that lists only provisions of the new Corporate Governance Code that is not (fully) complied with, together with brief explanations for the provisions that are not fully met. The compliance statement was submitted to the Bucharest Stock Exchange on January 4, 2016 and it is attached to this Board Report.

All situations where the Company does not observe the "provisions to comply with" will be reported to the market via the form of a current report.

Thus, the main aspects concerning corporate governance are included within certain documents/policies issued both at local and at Group level. They ensure the internal framework necessary for defining the corporate governance structures, the activity principles and rules, the responsibilities and competencies of the Board of Directors and of the Company's senior management.

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The Company displayed on its website information pertaining to its corporate governance structures, as well as the list of the BoD members, indicating the independent and/or the non-executive members, various reports and documents stipulated in the Governance Code – such as the Corporate Governance Regulation, the updated Articles of Incorporation or the “Apply or Explain” Declaration. Moreover, depending on what the future context will be, the Company will analyse the opportunity of posting on its website other documents/regulations and information laid down in the rules and principles pertaining to corporate governance.

The aforementioned will supplement the information, releases and financial statements currently and systematically provided to the Company's shareholders. Thus, the Company displayed in a dedicated section of its website details regarding the General Shareholders' Meeting (GSM), respectively the notice to attend such GSM, the materials/documents associated with the agenda, the special power of attorney forms, the mail voting forms, the draft decisions.

Furthermore, the Company ensures the briefing of all shareholders immediately after the end of each GSM, through a dedicated section of its own website, in relation to the decisions made during such GSM and with the detailed voting results. In a special, easily identifiable and accessible section of its own website, the Company displayed current reports, releases, its financial calendar, as well as its annual, biannual and quarterly reports. The Company's relationship with its investors is achieved through a specialized internal structure intended for the briefing of shareholders depending on the questions asked in writing or over the phone.

The members of the Company's Board of Directors have four year mandates, in compliance with the legal regulations in force. The structure of the Board of Directors provides a balance between the executive and the non-executive members thereof (and particularly independent non-executive directors), so that no individual or limited group of individuals may generally dominate the decision-making process of the Board of Directors. As at the 31st of December 2015, the structure of the Company's Board of Directors included 1 independent director out of a total of 5 directors, therefore duly ensuring the objectiveness of the decision-making process. The Company adhered to the independence assessment criteria laid down by the legislation in force and by CGC – BVB, the director from outside the Company fulfilling all the above mentioned independence conditions.

The number of Company directors, as well as the individual competencies thereof, fully satisfies principles VI and VII of CGC-BVB. The appointed structure of the Board of Directors allows an efficient coordination of the executive management along all the activity paths – general, financial, production management and business coordination. The members of the Board of Directors are not proposed or elected in other boards of directors or in similar positions within domestic or foreign trade companies outside the group.

In 2015, the Board of Directors gathered in 6 meetings, in the presence of 3-4 of its members – and passed decisions which allowed it to efficiently fulfil its duties. Thus, on occasion of its meetings, the Board of Directors thoroughly analyzed the financial results obtained during the reporting period and the year-to-date results, as well as the economic performance taking into account the budget and the similar period of the previous year. Depending on the situation, the Board requested detailed explanations from the senior management with regard to the plans for increased production efficiency, investment plans, established provisions, write-off of expired inventories, liquidity management, operating and general profitability. Further to the thorough analysis of the results associated with such period, the Board decided on the approval thereof for publication and submission to BVB.

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The following criteria have been applied until now with regard to the directors' remuneration policy:

- until 2010 inclusively, the directors holding positions within the Group had free mandates, only the independent director receiving remuneration for his mandate, based on the propositions made by the Board of Directors and approved/validated by the Company's shareholders at the General Meetings;
- starting from 2011, the directors holding positions within the Group have received (quasi)symbolic remunerations for their mandates. Conversely, the mandate of the independent director has been remunerated at market level, based on the propositions made by the Board of Directors and approved/validated by the Company's shareholders at the General Meetings;
- starting 2014, the initial remuneration policy has been applied, the directors holding positions within the

Group had free mandates, only the independent director receiving remuneration for his mandate, based on the propositions made by the Board of Directors and approved/validated by the Company's shareholders at the General Meetings.

The remuneration of the independent member includes a fixed monthly component, without other fixed or variable elements or components. The application of these principles did not require the establishment of a Remuneration Committee, the duties pertaining to the proposition of remuneration being fulfilled by the Board of Directors.

The Company will analyse the appropriateness of establishing certain advisory boards/committees for the examination of the important matters brought forward by corporate governance and for supporting the Board of Directors' activity.

The Company has permanently undertaken the obligation to comply with the rights of the holders of financial instruments issued by it and to ensure the fair treatment of its shareholders. The Company makes efforts to achieve an active and efficient communication with its shareholders and to facilitate the participation thereof at the General Shareholders' Meetings (GSMs), and the full exercising of their rights. The shareholders' participation at the GSM works is entirely encouraged, the shareholders who are not able to attend being provided with the possibility to exercise their voting right in absentia, based on a special power of attorney. Within GSMs, dialogue is encouraged between the shareholders and the members of the Board of Directors and/or of the management.

The Company adopted rules with regard to the internal circuit and to the disclosure to third parties of documents and information regarding the issuer, granting special importance to the information capable of influencing the evolution of the market price of securities issued by it. The Company adopted procedures for the purpose of ensuring procedural correctness (identification criteria of transactions with significant impact, transparency, objectiveness, non-competition criteria etc.) with the view to identifying transactions with concerned parties. In 2015, the Company reported a number of two transactions with concerned parties.

The Company has constant concerns with regard to Social and Environmental Responsibility, including multiple components, among which a major position is occupied by the briefing and education of the public and of patients. The Company participated and got continuously involved in programs and campaigns whose emphasis was placed on the vital importance of being aware of the risk factors and of regularly undergoing medical investigations. Thus, Zentiva developed campaigns and programs designed for cardiovascular, hypertension and osteoporosis prevention, directly addressing patients through free tests and interpretation of results by specialized medical staff.

At the same time, the Company granted special importance to other components of the Social and Environmental Responsibility, such as pharmacovigilance, ethical conduct in performing the activity and in the relationships with professionals and organizations from the medical field, social dialogue and social welfare of employees, protection at work, acknowledgment of the diversity of values and opinions, fair professional assessment and career development, concern for industrial risk control, soil and natural resource protection, environmental and biodiversity protection. Additionally, the Company grants special importance to the transparency obligations, being fully committed to comply with applicable legal provisions and disclose the interactions with the healthcare professionals and healthcare organizations.

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5. Internal Control system

The Company's internal control framework has the following main components:

- Clear process owners definition;
- Clear definition of responsibilities;
- Working procedures;
- Risk-based analysis and outcome used to set priorities;
- Implementation and monitoring of controls for each process.

Internal control is based on the implementation of internal control principles, at all the hierarchical and functional levels: approval, authorization, verification, operating performance assessment, asset securitization, segregation of duties, and delegation of authority. A risk-based approach is followed and consequently the processes are analyzed and prioritized according to the risk exposure and also taking into account the alignment with business strategies and objectives.

Internal control is concerned with continuous optimization having in view the following:

- Rationalization – ensuring that only relevant controls are implemented and removing not significant or duplicative controls
- Standardization and automation of processes
- Achievement of operational efficiency and effectiveness.

Internal control scope expands on all relevant processes and departments and systems used. Internal control agenda includes the following activities: - working procedures exist, are accurate and up to date for each department;

- compliance with accounting and fiscal legislation;
- Identification and remediation of issues following the risk-analysis;
- Process optimization to gain more efficiency and effectiveness and reduce risks to acceptable level;
- Oversight over incorporation of internal control principles in all IT systems and applications used;
- monitoring of compliance with procedures, legislation and controls set by periodical testing and reporting to management;

6. Objectives for the year 2016

Our ambition for the year 2016 is to remain a healthcare leader, focusing on the identification of growth opportunities and on diversifying our activities at the highest quality standards; to adapt structure for future challenges and opportunities, to maintain an efficient and profitable organization.

For the year 2016 the main priorities are:

- Sustaining the profitability of the local site, by maintaining the manufacturing costs, having in view the increasing trends of the expenses with utilities for industrial consumers, the inflation etc.;
- Developing our production capacity by implementing the investment plan for the year 2016
- To diversify our presence on various markets through exports and transfer of other products to be manufactured in local site;
- Maintaining the level of sales for the domestic market;
- Increase our portfolio of products through new product launches.

B. Final note

Considering the aforementioned, the Board of Directors hereby requests the General Shareholders' Meeting to approve the following:

- The Annual Directors' Report;
- The Financial Statements as at the 31st of December 2015 prepared in accordance with OMF 1286/2012, together with the Independent Auditor's Report;
- The profit appropriation.

President of the Board of Directors,
Emmanuelle Valentin

