

***Annual Report of the Board of Directors
for the fiscal year 2018***

Reported date: 31/12/2018

- **ZENTIVA S.A.**
- **Registered office:** 50, Theodor Pallady Blvd., Bucharest
- **Phone / Fax:** 304.72.00, 304.75.00 / 345.40.04
- **No. and registration date with the Trade Register Office:** J40/363/1991
- **Tax Identification Number:** RO 336206
- **Class, type, no. and main characteristics of securities:** 416,961,150 dematerialized class I stocks;
- **Regulated market wherein trading is performed:** Bucharest Stock Exchange;
- **Market value:** RON / stock 3.7 representing the reference price on the last trading day in 2018;

Market capitalization as at the 31 December 2018: RON 1,542.76 million.

1. STOCKS AND SHAREHOLDERS

ZENTIVA SA (hereinafter, the “Company”) was established in 1962 under the name Intreprinderea de Medicamente Bucuresti (hereinafter “IMB”).

In 1990, the Company was incorporated, taking 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 See Fund and Galenica North East via the Cypriot company Venoma Holdings Limited.

In 27 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 RON 27,797,410), respectively from the value of old Lei 138,987,050,000 (equivalent of RON 13,898,705) to the value of old Lei 416,961,150,000 (equivalent of RON 41,696,115), 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 May 2002.

In 12 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 1.37, during the period between 9 November 2005 - 12 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 12 August 2009 and the 22 September 2009. Between 20 February 2018 and 5 April 2018, Sanofi-Aventis Europe, through Zentiva N.V., conducted a public purchase offer at a price of RON 3.50 per share, after which it acquired 48,216,352 shares, thus reaching a holding of 93.2295% of the share capital of the Company.

On 30 September 2018, the transfer of shares was finalized between Zentiva N.V. (100% owned and controlled by Sanofi Aventis Europe), as seller, and AI Sirona BidCo s.r.o. (100% owned and controlled by AI Sirona (Luxembourg) Acquisition S. à r.l., a company which is entirely owned by AI Sirona (Luxembourg) Subco S. à r.l. and ultimately controlled by Advent Funds GPE VIII, a fund managed by Advent International Corporation), as buyer, through which the control over Zentiva Group a.s. was transferred. On 31 December 2018, Zentiva Group a.s. held 388,730,877 shares, representing 93.2295% of the share capital of the Company.

Between 18 December 2018 – 11 January 2018, Zentiva Group a.s. conducted a mandatory public offer for buying at a price of RON 3.7472 per share, after which it acquired 200,333 shares, thus reaching a holding of 388,931,210 shares representing 93.2776% of the share capital of the Company.

1. STOCKS AND SHAREHOLDERS (continued)

The synthetic shareholding structure as of 31 December 2018, in comparison with the shareholding structure as of 31 December 2017 was the following:

| Shareholding structure | 31 December 2017 | 31 December 2018 |
|-----------------------------|------------------|------------------|
| | (%) | (%) |
| Venoma Holdings Limited | 50.981 | - |
| ZENTIVA NV | 23.928 | - |
| Sanofi Aventis Europe | 6.684 | - |
| Zentiva Group a.s. | - | 93.2295 |
| Other minority shareholders | 18.407 | 6.7705 |
| Total | 100 | 100 |

Source: Central Depository

The Company's stocks have been listed on the Standard 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 SA.

The Company did not trade its own stocks during the year 2018.

The market capitalization of the Zentiva SA stocks as at the 31 December 2018 amounted to million RON 1,542.76.

As at the 31 December 2018 the stock price amounted to RON / share 3.7.

As of 31 December 2018, the Company has net assets by RON 630,692,665 which represents more than 50% of share capital by RON 41,696,115 (as of 31 December 2017, the Company had net assets by RON 368,094,969 which represents more than 50% of share capital by RON 41,696,115) which is in compliance with the requirements of Romanian Company Law (Law 31/1990 and subsequent amendments).

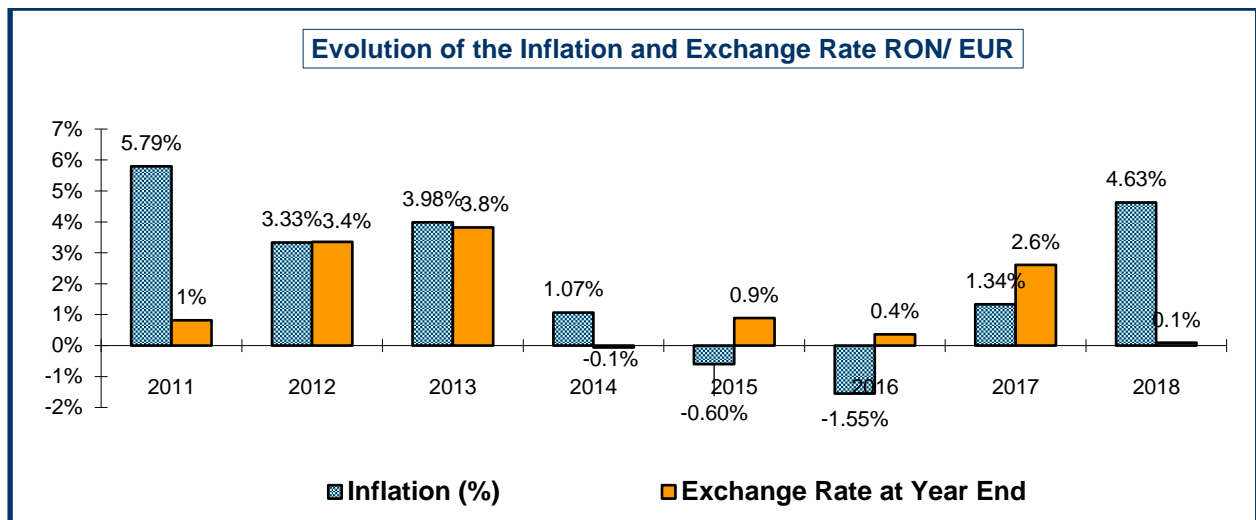
Company mergers and re-organizations

In 2018 the Company did not undergo any mergers or re-organizations.

2. ECONOMIC & FINANCIAL ENVIRONMENT

Evolution of the macroeconomic indicators in Romania

The inflation rate underwent significant fluctuations, from 5.8% in 2011, to 4.63% in 2018. In the year 2018, the national currency depreciated in relation to EUR by 0.1%, from RON / EUR 4.6597 at 31 December 2017 to RON / EUR 4.6639 at 31 December 2018:



Source: National Institute of Statistics and NBR

Pharmaceutical industry

Romanian pharmaceutical market, including both prescription and over-the-counter medicines, had in 2018 a double-digit growth rate of 13.4% versus previous year, reaching the level of EUR 3,374 million (Source: IMS Report from December 2018).

3. COMPANY'S ACTIVITY IN THE YEAR 2018

The results obtained by Zentiva SA during the year 2018 are owed both to the Company's industrial performance and to an adequate commercial strategy.

In 2018, the achieved production volume was higher with 11,22 million commercial units than the 2017 production realized, respectively higher with 12.5%.

The Company ended the year 2018 with a net profit of RON 262,620,976.

The most important achievements of the year 2018 were the following:

- Successfully finalizing the transfer of other 10 products to be locally manufactured;
- Exporting represented 55% of total 2017 production plan (55.55 million commercial units) for European market (Germany, France, Czech Republic, Slovakia, Russia, etc.) while compared to the level of sales achieved in the year they represent 53% of total turnover (RON 474,196 thousand turnover of which export sales represents RON 250,535 thousand);
- Investments in a total value of RON 20 thousand (equivalent of EUR 4.3 million) for new manufacturing equipment, upgrading the existing equipment.

3. COMPANY'S ACTIVITY IN THE YEAR 2018 (continued)

3.1. Reporting base

As at the 31 December 2018, Zentiva SA prepared financial statements in accordance with the Order of the Ministry of Finance no. 2844/2016 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.

a. Sales – Volumes and amounts

The net turnover amounts to RON 474,196,045 as of 31 December 2018 (2016: RON 458,377,045).

The average price per unit of goods sold (finished goods and goods for resale) was RON 4.37 in 2018 (RON 4.61 in 2017), the decrease is due to product mix and packing forms.

| | 2017 | 2018 |
|---------------------------------------|-------|-------|
| Sales of goods (million RON) | 426.8 | 425.8 |
| Sold quantity (million units) | 92.6 | 97.3 |
| Average sales price (RON / sold unit) | 4.61 | 4.37 |

Source: Zentiva, Financial Statements Report, note 5

The export activity in 2018 was 59% from total sales of goods (RON 250 million), comparing to 53% in 2018 (RON 213 million). The export sales were made through Sanofi Winthrop (part of Sanofi Group) and through Zentiva k.s. (part of Zentiva Group). They were mainly destined for European Union markets

The percentage of OTC products within Zentiva SA (over-the-counter medicines) from the total sales represented 11% in 2018 versus 14% in the previous year.

The sales by types of products 2016 - 2017 are presented below:

| Product type | 2017 | 2018 |
|--------------|------|------|
| | % | % |
| Ethical | 86 | 89 |
| OTC | 14 | 11 |

3. COMPANY'S ACTIVITY IN THE YEAR 2018 (continued)

b. Operating expenses

| | Million RON | | Variation | |
|--|---------------|--------------|-------------|--------------|
| | Previous year | Current year | % | Million RON |
| Operating expenses, out of which: | 357.5 | 415.0 | 16.9 | 57.5 |
| Raw materials, consumables and goods | 196.6 | 227.9 | 15.9 | 31.3 |
| Personnel expenses | 59.1 | 63.2 | 6.9 | 4.1 |
| Depreciation and provisions; adjustments for impairment losses | 21.4 | 12.1 | (43.5) | (9.3) |
| Other operating expenses | 80.4 | 111.7 | 38.9 | 31.3 |
| Turnover | 458.4 | 461.4 | 1 | 3.0 |
| Other operating revenues | 5.2 | 263.9 | 4966 | 258.7 |

Other operating revenues

As of 31 December 2018, under „Other operating revenues”, the Company included the income from the transfer of intellectual properties (IP) related to 5 product families of the type “CHC”. The local IPs, which are the subject of the transfer include files (the “know-how” about the production of the products, containing the formula, concentration and the Galenic units of the product), the associated commercial brands, the market authorizations (the official registering of the formula and of the concentration on the target market) and the domain names, based on the sales contract signed on the 1 September 2018 between Zentiva SA and Sanofi Group with the sum of RON 249,022,981 (representing the equivalent of the sum of EUR 53,485,466).

The expenses with raw materials, consumables and goods increase by 15.9 % in 2018 comparing to year 2017. This category contains mainly raw materials of RON 127 million (2017: RON 117 million), packaging materials RON 44 million (2017: RON 40.7 million) and trading goods of RON 28 million (2017: RON 14.5 million).

In 2018, the cost of raw materials was 30% from total value of sales of goods, comparing with 43% in 2017, and the increase coming mainly due to mix of goods produced / trading goods.

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 personnel expenses increased by 7% in 2018, respectively by RON 4.1 million; the number of employees counted 578 at the end of 2017 and 548 at the end of 2017. Increased labor costs were also influenced by the annual indexation of wages employees according to Company's policy.

The other operating expenses increased by RON 31.3 million comparing to year 2017. The main reasons for this increase are higher services costs invoiced by Zentiva Group following the separation from Sanofi, along with higher spending on external personnel related costs.

3. COMPANY'S ACTIVITY IN THE YEAR 2018 (continued)

The R&D expenses, represented by activities related to transfer of products, which were incurred in the year 2018 amounted RON 7.72 million (RON 6.13 million in 2017).

The Company's cash at bank at the end of 2018 amounted to RON 405.1 million while as of 31 December 2017 were RON 160.8 million consisting of: deposits- cash pooling – RON 368.9 million (2017: RON 154.4 million); advance for payment of dividends made toward to Central Depository in amount of RON 0.9 million (2017: RON 6.1 million) and cash at banks and cash on hand in amount of RON 35.3 million (2017: RON 0.2 million).

Starting with September 2013, the Company concluded a cash pooling agreement with Sanofi SA France (the parent entity). In accordance with the contractual terms, the interest rate applied is ROBOR + 15bp if the Company borrows and ROBOR - 5bp if it makes deposits, respectively.

On the 21 September 2018, before the signing of the contract between Sanofi and Advent International NV regarding the sale for the European Generics Business of Sanofi, the cashpooling agreement between Zentiva SA and Sanofi SA France was transferred to Zentiv Group a.s. All contractual terms remained unchanged.

The interest received in 2018 from cash pooling was RON 5,964,457, (2017 interest received was RON 910,643). Details are available in note 6.4 from the financial statements.

3.2. Portfolio of products and distribution market

The portfolio of products of Zentiva SA includes 130 products for human use, as solids (tablets, capsules, and pellets) and injectable solutions.

a. Up to 27 September 2018, the distribution activity on local market was ensured by Sanofi Romania SRL, the exclusive distributor of the Sanofi Group on Romanian market. After Zentiva went out from Sanofi Group, the distribution activity on local market was ensured by Romanian distribution companies.

b. The firm belongs to Zentiva Group, which has production facilities in the Czech Republic and Romania. The export sales were ensured by Sanofi Winthrop (part of Sanofi Group) up to 30 September 2018 and by Zentiva k.s. (part of Zentiva Group) after 1 October 2018.

For the year 2019, investments in tangible assets are envisaged, amounting to EUR 5.39 million related to increase of production capacity, upgrading of production equipment's and premises, quality and environmental compliance.

3.3. Selection policy for suppliers of raw materials

The policy of Zentiva SA involves the permanent search 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.

3. COMPANY'S ACTIVITY IN THE YEAR 2018 (continued)

3.4. The major competitors of Zentiva SA on the local market

Zentiva SA is one of the main producers of medicines on the local market.

According to the statistical data supplied by IMS, Zentiva had in 2018 an average producer price of RON 7.84 (+4% increase versus the average of RON 7.52 in 2017), ensuring patient accessibility to cost-effective medication.

As a reference, the average producer price for all medicines in local pharmaceutical market was of RON 25.9 in 2018 (+8% increase versus the average of RON 24 in 2017).

Other local manufacturers, well-established on the medicines market, are: Ranbaxy (Terapia) Cluj, Antibiotice Iasi, Labormed, Biofarm.

The main importers of pharmaceutical products are: Sanofi, Hoffmann la Roche, Novartis, Pfizer, Glaxo SmithKline.

3.5. Information about personnel

As of 31 December 2017, the number of employees working at Zentiva SA counted 548 (31 December 2016: 513 employees).

The employees' rights and other labor relationships are regulated by the Collective Labor Agreement. For 49% of the employees, such rights are defended by the Zentiva SA Trade Union.

3.6. Information about Company's environmental policy

The following regulatory documents related to environmental protection were applicable in 2017:

- Environmental Permit no. 234/7 May 2012, valid for 10 years;
- Wastewater Collection Agreement no. 1521/31 August 2012, valid for an undetermined period;
- Water management Authorization 83B /15 March 2016, valid up to 31 March 2021.

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

The environmental management system EN ISO 14001:2004 and management system for energy EN ISO 50001: 2011 are correctly maintained, as the surveillance audits of Lloyd's Register Romania proved.

3.7. Research and development activity

In relation to R&D activity, the budget for the year 2019 amounts to RON 6.48 million. The R&D expenses incurred in 2018 amounted to RON 7.72 million, consisting of activities pertaining to the transfer of products.

3.8. Investment activity

In 2018, the Company investment expenses amounted EUR 4.26 million. The objectives of the investment program, which will be continued in 2019, are the preservation of the Good Manufacturing Practice Guidelines and the updating of technologies in line with the international quality and environmental standards, together with the extension of the portfolio of products and of new forms of packaging.

In 2018, the financing of the investments programs was made from own sources.

4. COMPANY'S TANGIBLE ASSETS

4.1. The operating activity of Zentiva SA is carried out at the address located in 50, Theodor Pallady Blvd., on the Ducesti industrial platform, in the South-Eastern side of Bucharest Municipality. The manufacturing outputs are represented by the "Tableta" and "Fiola" Divisions.

4.2. The methods of calculating the depreciation of fixed assets used by the Company are the following:

- the straight-line method for buildings, fixed assets purchased through financial lease and for fixed assets operative as at the 31 December 1997;
- the accelerate method for fixed assets put in function as of the 1 January 1998.

The operating life and method of depreciation are subject to periodic revision, so as to ensure compliance with the expectations pertaining to the economic benefits of such assets.

Gross Value and depreciation on 2018 comparing to year 2017 is the following.

PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings | Machinery, tools and equipment | Constructions in progress | Total |
|---|-------------------|--------------------|--------------------------------|---------------------------|----------------------|
| Gross Value at 1 January 2017 | 11,421,897 | 47,575,975 | 154,451,495 | 12,408,382 | 225,857,749 |
| Additions | - | - | - | 16,828,276 | 16,828,276 |
| Disposals | (991,003) | - | (769,075) | (950,108) | (2,710,186) |
| Impact from reevaluation reserves | 32,072,782 | 12,349,217 | - | - | 45,250,864 |
| Impact from reevaluation in the profit and loss account | (43,661) | (8,982,716) | - | - | (9,026,317) |
| written-off of accumulated depreciation against to gross book value | (785,264) | (5,547,078) | - | - | (6,332,342) |
| Transfers from CIP | - | 2,082,203 | 11,283,745 | (13,365,948) | - |
| Gross value at 31 December 2017 | 42,503,676 | 47,477,601 | 164,966,165 | 14,921,285 | 269,868,727 |
| Depreciation and impairment at 1 January 2017 | (991,003) | (3,881,301) | (123,771,148) | (1,051,649) | (129,695,101) |
| Charge for the year | - | (2,438,066) | (9,794,197) | - | (12,232,263) |
| Disposals | (991,003) | - | (508,010) | (1,051,649) | (2,550,662) |
| Write-off depreciation after reevaluation | - | (6,332,342) | - | - | (6,332,342) |
| Depreciation and impairment at 31 December 2017 | - | (12,975) | (133,057,335) | - | (133,044,360) |
| Net book value 31 December 2017 | 42,503,676 | 47,490,576 | 31,908,830 | 14,921,285 | 136,824,367 |

4. COMPANY'S TANGIBLE ASSETS (continued)

| | Land | Buildings | Machinery, tools and equipment | Constructions in progress | Total |
|--|-------------------|--------------------|--------------------------------|---------------------------|----------------------|
| Gross Value la 1 January 2018 | 42,503,676 | 47,477,601 | 164,966,165 | 14,921,285 | 269,868,727 |
| Additions | - | - | - | 19,356,486 | 19,356,486 |
| Disposals | - | - | (439,022) | - | (439,022) |
| Transfers from CIP | - | - | 8,439,329 | (8,439,329) | - |
| Gross value at 31 December 2018 | 42,503,676 | 47,477,601 | 172,966,472 | 25,838,442 | 288,786,191 |
| Depreciation and impairment at 1 January 2018 | - | (12,975) | (133,057,335) | - | (133,044,360) |
| Depreciation charged in the year | - | (3,590,332) | (8,330,483) | - | (11,920,815) |
| Disposals | - | - | 439,022 | - | 439,022 |
| Depreciation and impairment at 31 December 2018 | - | (3,603,307) | (140,948,100) | - | (144,551,408) |
| Net book value 31 December 2018 | 42,503,676 | 43,874,294 | 32,018,372 | 25,838,442 | 288,786,191 |

The fixed assets of the Company are not pledged in favor of banks or of a financial institutions.

5. COMPANY'S MANAGEMENT

5.1. Board of Directors

As of 31 December 2018, the Board of Directors had the following composition:

Xavier Pierre Christian Lasserre
Chairman of the Board – Starting with September 2018

Born in 1972, Xavier Pierre Christian Lasserre graduated the Superior School of Commerce from Paris and has a post-graduate degree in Neuroscience.

Between 1998 and 2011, he held various positions within the Sanofi Group, then from 2011 to 2017 he held the position of Head of Retail Operations at Sandoz, and starting with 2017 he is Head of Commercial Operations within the Zentiva Group.

Simona Cocos
Member of the Board – Starting with April 2010

Born in 1967 she graduated Faculty of Chemistry in 1992. In 2006 she has obtained a Professional Diploma in Management at Open University (UK) / Codecs Romania and in 2008 an MBA certificate in Business / Economics at Open University (UK).

Starting 1995 she held several positions within Sanofi affiliate, the last ones being: Marketing Manager, respectively Marketing Director.

5. COMPANY'S MANAGEMENT (continued)

Margareta Tanase

Member of the Board – Starting with April 2010

Born in 1960 she graduated University of Chemical Technology – Polytechnic Institute Bucharest in 1989.

Starting 2000 she held several positions within Sicomed / Zentiva, the last ones being: Regulatory Affairs Manager, respectively Regulatory Affairs and Medical Director.

Carol Blery

Member of the Board – Starting with September 2018.

Born in 1963, Carol Blery graduated University of Paris - Institute of Technology in 1984, as well as the Institute for Business and Management from Paris in 1988.

Starting with 1988 he held several positions within Synthelabo group, and then within the Sanofi Group, the last ones being: CFO Sanofi Eurasia and then CFO of the Zentiva Group, starting with 2017.

Francois MARCHAND:

Independent Member of the Board – Starting February 20, 2017.

Francois holds a Diploma in Management at EDHEC Lille (France) and he is the Human Resources Director for Auchan Romania, a company with a turnover of EUR 1.1 billion, 33 stores and more than 10,000 employees.

Company does not have knowledge of any member of the Board of Directors holding shares issued by the Company during the relevant financial year.

The Board of Director members are appointed by the Ordinary General Shareholders Meeting based on shareholders' votes and in compliance with the statutory requirements relating to quorum and majority. Therefore, there are no specific agreements, understandings or family relations to be disclosed herein.

5.2. Senior management

Senior Management Members as of December 2018:

Simona Cocos - General Manager

She is in the General Manager position starting October 2009 and she is reporting to the Board of Directors and is responsible with the Company management.

Margareta Tanase - Industrial Affairs Director

She is in the Industrial Affairs Director position starting May 2008 and she is responsible with the management of the Company's Industrial Affairs and its corresponding departments.

Company does not have knowledge of any member of the executive senior management holding shares issued by the Company during the relevant financial year.

5. COMPANY'S MANAGEMENT (continued)

Company does not have knowledge specific agreements, understandings or family relations to be disclosed herein.

To the best of the Company's knowledge and belief, there are no litigations or administrative proceedings involving the members of the Board of Directors or of the senior management, related to their activity within the Company or their capacity to perform their attributions.

6. FINANCIAL POSITION

The comparative figures of the main indicators taken from the balance sheet and from the income statement for the last three years is the following:

| BALANCE SHEET (RON) | 31 December 2017 | 31 December 2018 |
|--|-------------------------|-------------------------|
| Total tangible and intangible assets | 137,593,342 | 148,129,916 |
| Total inventories | 40,549,376 | 96,353,320 |
| Total receivables | 158,176,809 | 199,832,571 |
| Petty cash and cash at banks | 160,792,774 | 405,115,315 |
| Current liabilities | (115,618,914) | (255,051,506) |
| Total assets less current liabilities | 381,493,387 | 643,149,627 |
| Total shareholders' equity | 368,094,969 | 630,692,665 |

| Income statement (RON) | 1 January - 31 December 2017 | 1 January - 31 December 2018 |
|---|-------------------------------------|-------------------------------------|
| Net turnover | 458,377,046 | 474,196,290 |
| Other operating income | 5,209,947 | 263,933,936 |
| Operating expenses - Total | 374,943,702 | 439,67,7572 |
| Operating profit / (loss) | 106,061,521 | 310,279,772 |
| Net profit / (loss) | 89,642,756 | 262,620,976 |
| Dividends declared for 2016 and paid in 2017 and dividends declared for 2017 and paid in 2018 | 65,000,000 | - |

The distribution of the profit for the financial year ended as of 31 December 2018 in the amount of RON 262,620,976 will be decided and approved in April 2019 when the General Meeting of Shareholders will take place.

7. 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 46% 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 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.

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 2018, the Company does not have short-term loans granted to the parent entity; in September 2013, the Company concluded a cash pooling agreement with Sanofi SA France at a floating interest rate, as presented in note 11, 14 in the statutory financial statements. In September 2018, this contract was transferred to Zentiva Group a.s.

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).

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.

7. COMPANY'S EXPOSURE TO RISKS (continued)

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 2018 and 2017.

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.

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 2018 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.

8. OBJECTIVES FOR THE YEAR 2019

For 2019, our objective is to maintain our leadership in the healthcare field, focusing on identifying growth opportunities and on diversifying our business within European quality standards; to ensure an efficient and profitable organization while remaining fully committed to delivering the best possible service to our customers and upholding our commitments towards Romanian patients' needs.

Our key priorities for 2019 are:

- To maintain the profitability of the local producer, considering an increase of costs for utilities, constant increase of costs for materials (raw materials, excipients, and packaging materials) and an increase in the clawback tax;
- To enhance the production capacity, by implementing the investment plan for 2019;
- To diversify and enhance Zentiva's presence on various markets through exports and transfer of new products that should be produced locally;
- To maintain the sales of products on the local market;
- To strengthen our product portfolio through new launches.

9. INTERNAL CONTROL

The internal control system is implemented by the Group and is designed to provide reasonable assurance regarding the achievement of objectives, in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial and management information / reporting;
- Compliance with applicable laws and regulations.

The objectives of internal control are authorization (all transactions are authorized), recording (all transactions are recorded), access (allow access to assets and data only for authorized purposes), asset accountability (ensure that accounting records describe only real assets), safeguarding of assets and prevention of fraud.

9. INTERNAL CONTROL (continued)

Some elements of the Internal Control system are key to ensure the system is effective and efficient. They include:

| | |
|---|---|
| Code of Ethics and adherence to laws | The pharmaceutical industry is also subject to regulatory constraints at both national and international levels. The company applies internal policies and standards derived from these external requirements in order to ensure compliance with laws and regulations. |
| Well defined system of policies and procedures | Well written policies and procedures increase organizational accountability and transparency and become fundamental to quality assurance and quality improvement programs. |
| Delegations of authority and powers | Operations are correctly managed when powers, delegations and limits are clearly defined, justified, known by all. |
| Segregation of duties | Segregation of duties helps ensuring that errors, irregularities or acts of fraud are prevented or detected early enough. Segregation of duties means that no single individual should have control over two or more key phases of a transaction or process. Effective segregation is achieved by: <ul style="list-style-type: none"> • Assigning responsibilities in a manner consistent with the organization; • Cross-checking and/or close supervision of sensitive tasks; • Implementing mitigation / compensating controls when conflicts exist. |
| Fraud prevention and detection | Fraud prevention is one of the priorities of internal control. |
| Training | All employees must have the relevant competencies to perform their role as well as understand the policies and procedures applicable to their responsibility. Trainings are developed in a way that also promotes the awareness of all employees on internal control. |
| Annual assessment and periodical monitoring | On an annual basis an assessment of risks and mitigating controls put in place by management is conducted in order to manage risks. Periodical monitoring is another tool used to test the effectiveness of the controls previously identified and assessed and following this action plans to close the eventual deficiencies are implemented. |

10. ANNUAL REPORT ON 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 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.

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, Shareholder rights and procedural rules related to GAM, the updated Articles of Incorporation.

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

General Shareholders Assembly

Main rules and procedures related to the General Shareholders Assembly are mentioned within the document called Shareholders' rights and procedural rules related to General Shareholders Assembly, published on the company website.

The General Shareholders Assembly is the supreme managing body of the Company having a general capacity to decide in respect to its activity and its economic, trade and development policy.

The Shareholders General Assemblies can be Ordinary and Extraordinary. The resolutions of the Shareholders General Assembly are adopted according to the law and the provisions of this Constitutive Act and they are mandatory for all the shareholders.

Convening of the General Assemblies of Shareholders

The General Shareholders Assemblies shall be convened by the Board of Directors, pursuant to the decision thereof and in observance of the law on date which may not, as per the law requirements, be within less than 30 (thirty) days after publishing the convening notice in the Official Gazette of Romania, part IV. Additionally, the Board of Directors has the obligation to convene the General Meeting of Shareholders upon the request of shareholders representing at least 10% of the share capital, upon the request of financial auditors or if, further to the occurrence of loss, the value of the net assets determined as the balance between the total assets and the total liabilities of the Company is less than half of the Company's share capital.

The General Shareholders Assemblies shall be called as provided under and in observance of the publicity conditions provided by NSC regulations and by Law 31/1990.

The General Shareholders Assemblies will be chaired by the Chairman of the Meeting, who will be the Chairman of the Board of Directors or, in his absence, another member in the Board of Directors appointed by the latter. The Chairman of the Meeting will appoint a meeting secretary among the present shareholders and one or more technical secretaries.

The meeting secretary will make up a minutes mentioning the issues debated and the decisions made, a resume of the debates, and following the shareholders' request, their statements made during the meeting. The minutes will be signed by the Chairman of the Meeting and by the meeting secretary.

Rules and procedures related to the participation to the General Shareholders Assemblies

The shareholders registered at the reference date may attend and vote within the general meeting in person or may be represented by persons other than shareholders, save for the directors, based on special power of attorney.

The general or special power of attorney will be drafted in three original copies, one for the Company, the second copy will be handed over to the representative, the third copy remaining with the shareholder. Upon filing in and signing it, the copy of the special power of attorney intended for the Company, accompanied by a copy of the I.D. or of the registration certificate of the represented shareholder, will be submitted, in original, at the Company's seat not later than 48 hours before the meeting, under the sanction of losing the voting right within the meeting. The power of attorney may also be delivered in electronic format, via e-mail at the e-mail address mentioned in the convening, accompanied by a copy of the I.D. or of registration certificate of the represented shareholder, provided that the original is sent to the Company 48 hours before the meeting, the latest.

The powers-of-attorney shall be kept by the Company, which fact will be mentioned in the minutes.

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

The access of Individual Shareholders at the General Assembly is made based on the presentation of an ID and in the case of Corporate Shareholders and Representatives Individual Shareholders, the access is made based on special procurement and the ID of the representative.

The shareholders registered at the reference date in the shareholders' register may vote by correspondence before the date of the general meeting, by using the form for vote by correspondence. The form for vote by correspondence with signature notarization by a notary public together with a copy of the I.D. or registration certificate of the shareholder, will be delivered to the Company, in original, at its seat not later than 48 hours before the meeting, under the sanction of losing the voting right within the meeting.

The special power of attorney form, the form for vote by correspondence, the draft decision, as well as the information materials subject to approval on the Meeting's agenda, may be obtained both at the Company's seat, and from the Company's website, starting 30 days before the meeting.

One or more shareholders, holding individually or jointly at least 5% of the share capital, are entitled to enter new items on the agenda of the general meeting of shareholders, provided that each point is accompanied by a justification or by a draft decision proposed for approval by the general meeting, which will be delivered in written form at the Company's seat not later than 15 days before the meeting.

In case on the meeting agenda is the election of Board members, the applications for the position of members in the Company's Board of Directors may be submitted, according to Article 117¹ of Law no. 31/1990, republished, as subsequently amended and supplemented, at the Company's seat by the date mentioned in the convening, at the latest. A CV will be included for each nominated applicant, CV indicating at least the applicant's name, residence and professional qualification.

The list containing information in relation to the name, residence and professional qualification of the persons nominated for the position of director, may be consulted and supplemented by the shareholders under the aforesaid conditions.

All documents sent to the Company with respect to the general meeting of shareholders will be delivered in a closed envelope, with the following note written thereon: "For the General Meeting of Shareholders", mentioning the date / time and the type (Ordinary or Extraordinary) of the meeting.

The meeting will start at the time mentioned in the convening. The access of the shareholders will be done starting 30 minutes before the meeting start time.

Shareholders questions

The Company's shareholders may address written questions concerning the items on the agenda of the general meeting of shareholders and submit such questions at the Company's seat together with copies of the identification documents allowing for the identification of the shareholder (copy of I.D. in the case of shareholders – individuals and registration certificate accompanied by the official document attesting its capacity as legal representative of the shareholder, in the case of shareholders – legal entities), as well as the bank statement reflecting the capacity of shareholder and the number of shares held, by the date mentioned in the convening, at the latest.

The disclosure of commercially sensitive information that could result in a loss or competitive disadvantage for the Company will be avoided when providing the answers, in order to protect the interests of the Company and its shareholders.

The answers will be available on the Company's website in the FAQ section, in Q&A form. The Company may issue a general reply for questions having the same content.

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

The Shareholders General Assemblies main attributions

The Ordinary General Assembly will meet at least once a year, within at most 4 months after the end of the financial year for the following purposes:

- a) Debates, approves or modify the yearly financial statements approved by the Board of Directors, based on the Directors and Auditors reports and establishes the value of the dividends and the deadline for their distribution,
- b) Identification of the shareholders eligible to receive dividends,
- c) Electing and revoking the directors, establishing their remuneration and the minimal value of the amount insured by the professional civil liability insurance, as well as the general limits for the remuneration of directors and managers, subject to the delegation of prerogatives for managing the Company;
- d) Appointment of the financial auditor as well the authorized person to sign on behalf of the Company of the contract with the auditor;
- e) Approval of the directors report of activity;
- f) Approval and amendment of the business plan, the annual budget and the activity schedule of the Company, proposed for approval by the Directors.
- g) Setting up or de-allocation of the Company's subsidiaries, representative offices, agencies, or any other secondary establishments of the Company as well as the incorporation of the Company's branches;
- h) Any other issue pertaining to its decisional competence.

The Extraordinary General Assembly shall be convened whenever necessary to take a decision related to:

- a) The change of the share capital;
- b) The change of the line of business of the company;
- c) The change of the organization form of the company;
- d) The relocation of the registered headquarters of the company;
- e) Merger with other companies or the spin-off of the Company;
- f) The anticipated dissolution of the company;
- g) Issue of bonds;
- h) The undertaking of long or short term loans whose value exceeds half of the accounting value of the company assets as at the date of the execution of the relevant legal document;
- i) Approves all of the legal instruments in connection with acquisitions, sales, exchange or pledging some of the immovable assets of the Company, whose value exceeds 20% of the value of the total immovable assets of the Company, considered individually, for each legal instrument, or cumulatively, during a financial year, minus the value of the receivables at the date of the execution of the relevant legal instrument;
- j) Approves the leases of fixed assets of the Company for a period longer than 1 year, whose value exceeds 20% of the value of the total immovable assets of the Company, considered individually or cumulatively in relation to the same contracting party or to involved persons or to persons coordinating their actions, minus the receivables at the date of the execution of the relevant legal instrument;
- k) Approves the association agreements for a period longer than 1 year, whose value exceeds 20% of the value of the total immovable assets of the Company, considered individually or cumulatively in relation to the same contracting party or to involved persons or to persons coordinating their actions, minus the receivables at the date of the execution of the relevant legal instrument;
- l) Approves any amendment to the Company's Constitutive Deed. In this case, prior to call for the General Extraordinary Meeting of Shareholders to amend the Constitutive Deed, the draft of the proposed amendments to the Constitutive Deed shall be sent to FSA and to securities market where the Company's shares are traded;
- m) Pass any other resolution that needs the approval of the General Extraordinary Meeting of Shareholders in order to be enforced.

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

The resolutions of the General Meeting of Shareholders

The resolutions of the General Meeting of Shareholders are usually adopted by open vote.

Upon the proposal of the President of the General Meeting or of a group of attending shareholders (present whether personally or represented) holding at least $\frac{1}{4}$ of the registered share capital, secret voting may be decided upon.

The secret voting is mandatory for the election and revocation of the members of the Board of Directors and of the financial auditor and for taking the decisions related to the activity and liability of the Directors.

The decisions of the Ordinary General Meeting are validly passed under the following conditions:

- at the first convening: the shareholders representing at least $\frac{1}{2}$ of the Company's share capital need to be present and the decisions need to be made based on the favorable vote of the shareholders holding the absolute majority of the share capital present or represented in the meeting;
- upon the second convening: decisions can be made regardless of the share in the capital present/represented in the meeting, based on the favorable vote of the majority of the share capital present or represented in the meeting.

The decisions of the Extraordinary General Meeting of the Shareholders in the Company are validly made under the following conditions:

- at the first convening: shareholders representing at least $\frac{3}{4}$ of the share capital need to be present in the meeting, and decisions need to be made based on the favorable vote of the shareholders holding at least $\frac{1}{2}$ of the share capital, except for the case provided under Article 8.1.5. above;
- at the second convening: shareholders representing at least $\frac{1}{2}$ of the share capital need to be present and decisions need to be made based on the favorable vote of shareholders holding at least $\frac{1}{3}$ of the share capital, which, in the case of the decisions for the amendment of the company's main object of activity, for the decrease or increase of the share capital, for the change of the legal form, for merger, spin-off or dissolution of the Company, cannot be less than two thirds of the voting rights held by the shareholders present or represented in the Meeting.

The resolutions of the General Meetings of Shareholders adopted within the limits of the law and of the Constitutive Act, are mandatory even for the non-attending shareholders or those shareholders voting against them.

Board of Directors

The Board of Directors will hold a meeting at least once in three months or whenever necessary, at the Company headquarters or at another place provided in the convening notice.

The meetings will be held by means of the directors' physical presence at the place of the meeting, or by distance communication means (phone, teleconference, videoconference, telefax).

The Board of Directors will be convened by the Chairman, of his own accord or upon the grounded request of at least two directors or of the General Manager, by any communication means likely to prove the reception of the convening notice by the addressee: phone call followed by the written confirmation of the addressee, certified mail with confirmation of receipt, e-mail.

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

If all the members of the Board of Directors are present and agree to hold the meeting of the board and to pass decisions, the convening formalities are no longer needed.

The meetings of the Board of Directors are chaired by the Chairman of the Board and, in his absence, by a member of the Board of Directors appointed by him. The chairman appoints a secretary either among the members of the board or outside the board.

The Board of Directors can deliberate validly in the presence of at least three members and can pass decisions with a majority of at least half plus one of the present members. In case of a tie, the chairman of the Board of Directors will have the casting vote, except if he is also a manager of the Company.

The minutes shall be signed by the Chairman of the meeting, by at least one other director and by the meeting secretary and, upon request, by the other members in the Board of Directors who have participated in the debates.

The attributions of the Board of Directors

The Board of Directors has the following main prerogatives:

- a. Prepare and update the Company's registers according to the law provisions;
- b. Hire and dismiss the Company managers, to establish their rights and obligations;
- c. Appoint the Chairman of the Board;
- d. Contracts the Independent Registry which keeps the record of the Company's shares;
- e. Approve the accounting as costs of the unrecoverable debts amounting to up to 0.5% of the turnover;
- f. Approve the write-off of the fixed assets;
- g. Approve the calculation system of the fixed assets as required by law;
- h. Approve the research and development program and allocates the necessary financial resources;
- i. Approve the annual investment plan of the Company;
- j. Annually, within 4 months from the end of the financial (accounting) year, submits for approval of the Shareholders' General Meeting the Company activity report, the Company annual financial for the previous year in accordance with the regulations of the Ministry of Finance and FSA as well the draft of the Company's activity programme and the budget project for the current year;
- k. Perform the resolutions of the General Meeting of Shareholders Approve the acquisitions, transfers, exchanges or pledges of some assets from the immovable assets of the Company, subject to observance of the exclusive attribution of the General Meeting of Shareholders in this respect;
- l. Other prerogatives established by the law in its competency.

The Directors are compelled to immediately report to BSE / FSA, any legal act entered into by the Company and its Directors, employees, shareholders which controls the Company, or entered by the Company and the involved persons with the aforementioned, whose value represents at least the RON equivalent of EUR 50,000.

Under the supervision of the Board of Directors, it will be provided all the necessary facilities and information in order to allow the shareholders to exercise the right granted by their shares.

In this respect the Board of Directors has the obligation to:

1. inform the shareholders in connection to the call of the General Meeting of Shareholders, abiding to the provisions of this Constitutive Deed;
2. inform the public about the allocation and payment of the dividends, issuance of new shares, including the distribution, subscription, conversion operation;
3. appoint as payment agent of the Company a financial institution through which the shareholders will be able to exercise their financial rights, except the situation when the Company could provide for this services by itself.

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

The members of the Company's Board of Directors have four year mandates, in compliance with the legal regulations in force.

During 2018, the structure of the Company's Board of Directors included 1 independent director out of a total of 5 directors.

On 3 September 2018, the mandate of administrator of Ms. Emanuelle Valentin and Mr. Christophe Courcelle ceased, as a result of their resignation in the context of Zentiva's separation from the Sanofi Group, following the sale to Advent International, replacing them with Mr. Xavier Lasserre and Mr. Carol Blery.

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.

In 2018, the Board of Directors gathered in 7 meetings and 6 in 2019, in the presence of 3, 4 or 5 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.

Concerning the directors' remuneration policy, until September 2018, 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 with September 2018, executive directors have concluded management agreements, the remuneration established within the agreements will be subject to the approval of the Ordinary General Meeting of Shareholders convened for 30 April 2019. Their remuneration includes monthly salary and an annual bonus.

The remuneration of the independent member includes a fixed monthly component, without other fixed or variable elements or components.

In 2017 an Audit Committee has been established, in order to support the Board of Directors in overseeing the internal control system, particularly the efficacy of financial reporting. Until 3 September 2018, the Audit Committee had the following structure:

- François Marchand - Chairman of the Audit Committee (as independent member);
- Emmanuelle Valentin – Member of the Audit Committee;
- Christophe Courcelle – Member of the Audit Committee.

Starting with 14 January 2019, the Audit Committee has the following structure:

- François Marchand - Chairman of the Audit Committee (Independent Member);
- Xaviere Lasserre - Member of the Audit Committee;
- Carol Blery - Member of the Audit Committee.

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

Executive Management – General Manager

The Board of Directors entrusted the management of the Company to one Executive Manager, as such are defined under Article 143 of Law 31/1990, called General Manager of the Company.

The Company will be represented and validly bound in relations with third parties by the Board of Directors, through the Chairman thereof or/and by the General Manager.

The General Manager benefits from a general mandate for representing the Company before third parties.

The General Manager expressly delegated part of her prerogatives to technical managers, empowered to represent the Company based on special mandates in line with the internal policies applicable within the Company.

The General Manager operationally reports to the Board of Directors.

Starting with September 2018, the General Manager concluded a management agreement with the Company for a period of 4 years or until the dismissal from the position of member of the Board of Directors.

Executive Management - Manager of Industrial Operations

The Board of Directors entrusted the management of the industrial activity to a Manager of Industrial Operations, which is a member of the Board of Directors and reports to it.

Starting with September 2018, the Manager of Industrial Operations concluded a management agreement with the Company for a period of 4 years or until the dismissal from the position of member of the Board of Directors.

Shareholders' rights

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. Additionally, the Company's relationship with its investors is achieved through a dedicated internal resource to the investor's relation and intended for the briefing of shareholders depending on the questions asked in writing or over the phone.

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.

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.

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

The Company applied 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 2017 the Company disseminated a number of 6 current reports related to transactions with concerned parties (consisting of legal documents concluded with affiliated parties).

The Shareholders participate at the Company result based in their equity participation.

Social and Environmental Responsibility

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.

Corporate Governance Code

The Company first adhered to the Corporate Governance Code issued by the Bucharest Stock Exchange in 2010. In 2015, the Company continued to apply in large proportion the principles of corporate governance provided by the new Corporate Governance Code published by the Bucharest Stock Exchange on 22 September 2015, and where the Company deviates from the provisions of the Code, the "apply or explain" principle is applied, as shown below.

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.

More details about the compliance with the principles and recommendations stipulated under the Corporate Governance Code issued by the Bucharest Stock Exchange are presented in the corporate governance statement, which is a part of this annual report.

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

| Code provisions | Complies | Does not comply or partially complies | If NO, then EXPLAIN |
|--|----------|---------------------------------------|---|
| Section A - Responsibilities | | | |
| A1 All companies should have internal regulation of the Board which includes terms of reference/responsibilities for Board and key management functions of the company, applying, among others, the General Principles of Section A. | | X | The main aspects in relation to the Board of Directors functioning /attributions are identified within the Company Constitutive Deed published on the Company website in the dedicated Investor Relations section. |
| A2 Provisions for the management of conflict of interest should be included in Board regulation. In any event, members of the Board should notify the Board of any conflicts of interest which have arisen or may arise, and should refrain from taking part in the discussion (including by not being present where this does not render the meeting non-quate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest. | | X | The main aspects in relation to the conflict of interest's situations are identified and solved according to the current applicable local/group procedures (i.e. Conflict of Interest Policy, Code of Ethics). However the management of the conflict of interest process is overseen by the Compliance Officer function. |
| A3 The Board of Directors or the Supervisory Board should have at least five members. | X | | |
| A4 The majority of the members of the Board of Directors should be non-executive. At least one member of the Board of Directors or Supervisory Board should be independent, in the case of Standard Tier companies. Not less than two non-executive members of the Board of Directors or Supervisory Board should be independent, in the case of Premium Tier Companies. Each member of the Board of Directors or Supervisory Board, as the case may be, should submit a declaration that he/she is independent at the moment of his/her nomination for election or re-election as well as when any change in his/her status arises, by demonstrating the ground on which he/she is considered independent in character and judgmental practice | X | | |

| | | | |
|--|---|---|---|
| A5 A Board member's other relatively permanent professional commitments and engagements, including executive and non-executive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate. | X | | |
| A6 Any member of the Board should submit to the Board, information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights. This obligation concerns any kind of relationship which may affect the position of the member on issues decided by the Board. | X | | |
| A7 The company should appoint a Board secretary responsible for supporting the work of the Board. | X | | |
| A8 The corporate governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the chairman or the nomination committee and, if it has, summarize key action points and changes resulting from it. The company should have a policy/guidance regarding the evaluation of the Board containing the purpose, criteria and frequency of the evaluation process. | | X | Most of the members of the Board of Directors are currently occupying various management positions within the group proving solid skills and capabilities in their areas. Their performance is regularly assessed as per the internal rules/policies. |
| A9 The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities. | X | | |
| A10 The corporate governance statement should contain information on the precise number of the independent members of the Board of Directors. | X | | |
| A11 The Board of Premium Tier companies should set up a nomination committee formed of non-executives, which will lead the process for Board appointments and make recommendations to the Board. The majority of the members of the nomination committee should be independent. | | X | The company is in the standard category. |

| Section B – Risk Management and Internal Control System | | | |
|---|---|---|--|
| B1 The Board should set up an audit committee, and at least one member should be an independent non-executive. The majority of members, including the chairman, should have proven an adequate qualification relevant to the functions and responsibilities of the committee. At least one member of the audit committee should have proven and adequate auditing or accounting experience. In the case of Premium Tier companies, the audit committee should be composed of at least three members and the majority of the audit committee should be independent. | X | | |
| B2 The audit committee should be chaired by an independent non-executive member. | X | | The Audit Committee established in 2017, as well as the one established in January 2019 are chaired by the independent non-executive director. |
| B3 Among its responsibilities, the audit committee should undertake an annual assessment of the system of internal control. | | X | The annual assessment of the control system will be performed in the first half of 2019, after the implementation of new procedures. |
| B4 The assessment should consider the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the audit committee of the Board, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Board. | X | | All areas mentioned in the description of the recommendation are covered by the annual assessment performed by the Audit Committee and also by the dedicated country and group level internal control functions. |
| B5 The audit committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties. | | X | The evaluation of conflicts of interest in transactions between the Company and the related parties is taken into account within the related internal documentation. |
| B6 The audit committee should evaluate the efficiency of the internal control system and risk management system. | | X | The efficiency of the internal control and risk management systems is covered by the dedicated internal control function organized at group level. |
| B7 The audit committee should monitor the application of statutory and generally accepted standards of internal auditing. The audit committee should receive and evaluate the reports of the internal audit team. | X | | Application of statutory and generally accepted standards of internal auditing is monitored by the dedicated internal control function organized at group level. |

| | | | |
|--|---|---|--|
| <p>B8 Whenever the Code mentions reviews or analysis to be exercised by the Audit Committee, these should be followed by cyclical (at least annual), or ad-hoc reports to be submitted to the Board afterwards.</p> | X | | <p>As a rule, such reports/ analyses performed by the Audit Committee jointly with the relevant functions are communicated to the Board by the dedicated internal control function.</p> |
| <p>B9 No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related parties.</p> | X | | |
| <p>B10 The Board should adopt a policy ensuring that any transaction of the company with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of the company (as stated in the latest financial report), should be approved by the Board following an obligatory opinion of the Board's audit committee, and fairly disclosed to the shareholders and potential investors, to the extent that such transactions fall under the category of events subject to disclosure requirements.</p> | | X | <p>The Company applies transfer pricing policies in accordance with the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations and local Romanian legislation. All significant transactions are assessed by internal local and group experts to make sure that they are in line with external transfer pricing guidelines and regulations and internal transfer pricing policies. The advice/support from established external advisors is sought where necessary. The compliance with valid transfer pricing regulations ensures that the prices used in intercompany transactions are based on the arm's length principle. With respect to determining the appropriate arm's length return/margin for products and services, external databases are utilized to determine the return/margin earned by companies with similar functions, risks and assets. Transactions with affiliates are supported by documentation and recorded in the financial records of the Company. The Company prepares, in accordance with CNVM regulation 5/2018, reports regarding the significant transactions concluded during the relevant period. The six monthly report is subject to procedures undertaken by the Company external auditors on which a report is completed and submitted to ASF and is available on the Company website.</p> |

| | | | |
|---|---|---|--|
| <p>B11 The internal audits should be carried out by a separate structural division (internal audit department) within the company or by retaining an independent third-party entity.</p> | X | | The internal audits are carried out by the group level audit function. |
| <p>B12 To ensure the fulfillment of the core functions of the internal audit department, it should report functionally to the Board via the audit committee. For administrative purposes and in the scope related to the obligations of the management to monitor and mitigate risks, it should report directly to the chief executive officer.</p> | | X | The relevant functions are not formal integrated/ subordinate in the structure of Board of Directors, being separately organized at group level. |
| <p>Section C – Fair Rewards and Motivation</p> | | | |
| <p>C1 The company should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review. The remuneration policy should be formulated in such a way that allows stakeholders to understand the principles and rationale behind the remuneration of the members of the Board and the CEO, as well as of the members of the Management Board in two-tier board systems. It should describe the remuneration governance and decision-making process, detail the components of executive remuneration (i.e. salaries, annual bonus, long term stock-linked incentives, benefits in kind, pensions, and others) and describe each component's purpose, principles and assumptions (including the general performance criteria related to any form of variable remuneration). In addition, the remuneration policy should disclose the duration of the executive's contract and their notice period and eventual compensation for revocation without cause. The remuneration report should present the implementation of the remuneration policy vis-à-vis the persons identified in the remuneration policy during the annual period under review. Any essential change of the remuneration policy should be published on the corporate website in a timely fashion.</p> | | X | <p>The remuneration of the independent Board member is fixed. Two members of the Board of Directors have free mandates. The remuneration of the Independent Administrator, of the General Manager and of the Director of Industrial Operations (members of the Board of Directors) was established by the Board of Directors and is subject to the approval of the general meeting of the shareholders.</p> <p>The remuneration policy is being prepared and will be published on the company's website.</p> |

| Section D – Building value through investors’ relations | | | |
|--|---|---|---|
| D1 The company should have an Investor Relations function - indicated, by person (s) responsible or an organizational unit, to the general public. In addition to information required by legal provisions, the company should include on, both in Romanian and English, including: | X | | Only part of the relevant information published on the dedicated Investor Relations section is disseminated in English (i.e. the current reports, informative materials/ decisions related to General Assemblies). Dissemination in English of all related Investor Relations information will be considered. |
| D.1.1 Principal corporate regulations: the articles of association, general shareholders’ meeting procedures; general meetings, aiming at using electronic communication means through (a) live broadcast of general meetings and/or (b) live bilateral communication where shareholders may express themselves during a general meeting from a location other than that of the general meeting, as long as this is in line with legislation regarding data processing. A company should aim to provide for an electronic voting system at general meetings, including remote electronic voting. | X | | |
| D.1.2. Professional CVs of the members of its governing bodies, a Board member’s other professional commitments, including executive and non-executive Board positions in companies and not-for-profit institutions; | | X | Dissemination of the full professional CVs of the members and the Board member’s other professional commitments will be considered. |
| D.1.3. Current reports and periodic reports (quarterly, semi-annual and annual reports) – at least as provided at item D.8 – including current reports with detailed information related to non-compliance with the present Code; | X | | |
| D.1.4. Information related to general meetings of shareholders: the agenda and supporting materials; the procedure approved for the election of Board members; the rationale for the proposal of candidates for the election to the Board, together with their professional CVs; shareholders’ questions related to the agenda and the company’s answers, including the decisions taken; | X | | |

| | | | |
|---|---|---|--|
| D.1.5. Information on corporate events, such as payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles applied to such operations. Such information should be published within a timeframe that enables investors to make investment decisions; | X | | |
| D.1.6. The name and contact data of a person who should be able to provide knowledgeable information on request; | X | | |
| D.1.7. Corporate presentations (e.g. IR presentations, quarterly results presentations, etc.), financial statements (quarterly, semi-annual, annual), auditor reports and annual reports. | X | | |
| D2 A company should have an annual cash distribution or dividend policy, proposed by the CEO or the Management Board and adopted by the Board, as a set of directions the company intends to follow regarding the distribution of net profit. The annual cash distribution or dividend policy principles should be published on the corporate website. | | X | Adoption and dissemination of the principles related to the distribution of dividends or other benefits to the shareholders will be subject of further assessment. |
| D3 A company should have adopted a policy with respect to forecasts, whether they are distributed or not. Forecasts means the quantified conclusions of studies aimed at determining the total impact of a list of factors related to a future period (so called assumptions): by nature such a task is based upon a high level of uncertainty, with results sometimes significantly differing from forecasts initially presented. The policy should provide for the frequency, period envisaged, and content of forecasts. Forecasts, if published, may only be part of annual, semi-annual or quarterly reports. The forecast policy should be published on the corporate website. | | X | Adoption and dissemination of a policy with respect to forecasts will be subject of further assessment. |
| D4 The rules of general meetings of shareholders should not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules should take effect, at the earliest, as of the next general meeting of shareholders. | X | | |
| D5 The external auditors should attend the shareholders' meetings when their reports are presented there. | X | | |

| | | | |
|--|---|---|---|
| D6 The Board should present to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting. | X | | |
| D7 Any professional, consultant, expert or financial analyst may participate in the shareholders' meeting upon prior invitation from the Chairman of the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise. | X | | The accesses of consultants, experts, financial analysts or journalists in the Company shareholders' meeting will be allowed only upon prior invitation from the Chairman of the Board. |
| D8 The quarterly and semi-annual financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms. | X | | |
| D9 A company should organize at least two meetings/conference calls with analysts and investors each year. The information presented on these occasions should be published in the IR section of the company website at the time of the meetings/conference calls. | | X | Organizing of such events will be subject of the applicable local and group principles. |
| D10 If a company supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the company part of its business mission and development strategy, it should publish the policy guiding its activity in this area. | X | | |

11. COMMITMENTS AND CONTINGENCIES

Legal claims (including estimated value)

During 2018, the Company was involved in several disputes, of which the most significant are listed below:

- Litigation with the National Agency of Drugs that decided to sanction the Company as a result of identifying advertising materials, for which the advertising visa was expired, in an independent pharmacy. During 2017, the Company contested the respective decision and the first level court rejected the claim, while in 2018 the appeal declared by the Company was also rejected, the dispute being currently finally settled. The financial impact of this dispute is insignificant, the amount in question being RON 5,000 (the fine applied by the National Agency of Drugs to the Company);
- The Company is involved in several litigations with the National Health Insurance House following the challenging of the VAT paid, in relation to the claw-back tax for the period Q1 2012 - Q4 2012 in a total amount of RON 944,000 and, as well, in relation to the computation manner for the individual consumption communicated for the determination of the claw-back tax for the period Q1 2013 - Q3 2013, requesting the cancellation of the Notifications received from NHIH for the periods mentioned above. Currently, the Company has won in court the recovery of the VAT for the claw-back tax related to Q1 - Q4 2012 and Q3 2013 and is investigating the manners in which it may recover this amount or offset it against other tax obligations. The other litigations (i.e. for the period Q1 2013 and Q2 2013) are currently in progress;
- Litigation with the National Agency for Fiscal Administration for challenging the claw-back tax and the penalties computed for the reviewed period Q4 2009 – Q3 2011. During 2016, following a tax audit related to the claw back tax for the period Q4 2009 - Q3 2011, NAFA issued a decision to impose additional claw back tax and penalties amounting to RON 18,457,107, for which the Company constituted a provision for tax risks as of 31 December 2016. During 2016, as a result of the opposition submitted by the Company, NAFA cancelled the initial tax decision related to the payment of additional claw back tax and related penalties and initiated the procedures for re-audit in 2017 of this fiscal obligation for the period Q4 2009 - Q3 2011. Following the cancellation by NAFA of its own tax decision regarding the claw-back tax and the related penalties for the period Q4 2009 - Q3 2011, amounting to RON 18,457,107, during 2017 the Company was the subject of a new investigation regarding the claw-back tax for the period Q4 2009 - Q3 2011. Following this new investigation, NAFA issued a new tax decision and accessory decisions for a total amount of RON 8,355,860 (consisting of RON 3,672,966 principal debt and RON 4,682,894 penalties). The Company decided to challenge these decisions, but the opposition was rejected by NAFA. Following the rejection of the opposition, the Company filed an administrative claim for the annulment of the tax decision, of the decisions regarding the accessories and of the decision which rejected the opposition. The case is pending, the next hearing being set on 2 April 2019;
- During 2016, KJK Fund II, NN Active Optional Pension Fund, NN Optim Optional Pension Fund and NN Privately Managed Pension Fund, as shareholders of Zentiva SA, filed an application for an expert assessment to be made with regard to certain operations of the Company, pursuant to Article 136 of Company Law no. 31/1991. The plaintiffs' action was rejected by the Bucharest Tribunal. The plaintiffs filed an appeal, but the appeal was suspended by agreement of the parties at the hearing of 30 January 2018, in order to amicably settle the dispute. In reality, the dispute was no longer pursued, the sanction of obsolescence/expiration (*Romanian: perimare*) occurring after the lapse of 6 months from the suspension date if no procedural act is being carried on in that case (term that expired on 30 June 2018). In fact, the court has already established a hearing on 9 April 2019 in order to determine if the sanction of obsolescence/expiration is applicable;

11. COMMITMENTS AND CONTINGENCIES (continued)

- At the end of 2018, a legal action was filed against the Company, under the simplified procedure of injunction, by the plaintiff ELI LILLY and COMPANY, a company based in Indianapolis, Indiana 46285, USA. The Company was informed of the existence of this dispute through the citation of 10 January 2019. Through this legal action, the plaintiff claimed that the Company has infringed on its rights, which are resulting from the national patent no. RO 118374 B1, as extended by the certificate of additional protection no. c2007059, which, according to the plaintiff's arguments, confers upon it an exclusive right to use the chemical compound *atomoxetine* in pharmaceutical products used for the treatment of attention deficit hyperactivity disorder, until 27 May 2019. However, on 13 February 2019, the Company has concluded a settlement agreement with ELI LILLY and COMPANY, having as its object the parties' understanding that ELI LILLY and COMPANY will file a request for withdrawing the injunction, while the Company undertaking, inter alia, to recognize ELI LILLY and COMPANY's intellectual property rights resulting from the above-mentioned patent. Also, the Company has undertaken not to manufacture, market, distribute, promote, sell or offer to sell Zentiva products in Romania containing *atomoxetine* until 27 May 2019, when the patent will expire, to withdraw the selling price of these products and not to have another published price in Romania for these products until 27 May 2019. Consequently, on 21 February 2019, the court acknowledged the waiver of the case, requested by the plaintiff ELI LILLY and COMPANY, following the transaction concluded with the Company.

The Company's management considers that the respective litigations will not significantly impact the Company's operations and financial position and that it set sufficient provisions where there was significant risk.

12. NON-FINANCIAL DECLARATION

In accordance with the legal provisions on disclosure of non-financial information, the Company will prepare a separate report that includes the information required to be included in the non-financial statement. This report will be published on the Company's website on 30 June 2019.

13. GOING CONCERN

These financial statements have been prepared on a going concern basis which assumes that the Company will continue in the foreseeable future. To evaluate the applicability of this assumption, the local management analyzed the forecasts of the future cash inflows.

As of 31 December 2018 the net assets of the Company are higher than the net liabilities by RON 448,878,510 (as of 31 December 2017, the net assets are higher than the net liabilities by RON 243,900,045). At the same date, the Company has a comprehensive income RON 262,620,976 (2016: RON 89,241,756).

The Budget for the year 2019 prepared by the Company's Management and approved by the Board of Administration indicates positive cash flows from the operating activities, an increase in sales and profitability.

The Management consider that the Company will continue the activity in the next predictable period and therefore the going concern principle is applicable on the preparation of these financial statements.

14. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

On 25 March 2019, the Company's Board of Directors proposed to the General Meeting of Shareholders to approve the Company's share capital increase with the maximum amount of RON 30,000,000, through share capital contribution, from the amount of RON 41,696,115 to the maximum amount of RON 71,695,115 through the issuance of 300,000,000 new shares (the "New Shares"), having a nominal value of RON 0.1/share (the "Share Capital Increase"), which will be offered for subscription to the shareholders registered in the Company's shareholders register kept by Depozitarul Central S.A., at the registration date of 16 May 2019.

The shares that remain unsubscribed at the end of the right of preference's exercise period for the New Shares will be canceled through the Decision of the Board of Directors finding the actual results of the Share Capital Increase.

The number of preference rights will be equal to the number of shares issued by the Company registered in the Company's shareholder register kept by Depozitarul Central S.A., at the registration date of 16 May 2019; each shareholder registered in the Company's shareholder register kept by Depozitarul Central S.A. at the registration date of 16 May 2019 will be distributed a number of rights of preference equal to the number of shares held.

14. EVENTS SUBSEQUENT TO THE REPORTING PERIOD (continued)

On 12 March 2019, the Company's major shareholder, i.e. Zentiva Group a.s., has signed the purchase contract for a local producer of medicine and nutritional supplements – Solacium Pharma SRL and its subsidiary – Be Well Pharma. The transaction is being analyzed by the Competition Council.

We cannot estimate the extent in which this matter will impact the Company's activity.

On 19 March 2019, the Company has adhered to and became a party as Seller to a Pan-European Initial Factoring Framework Agreement dated 24 January 2019 concluded, among others, between Zentiva France and Zentiva K.S., as initial sellers, AI Sirona (Luxembourg) Acquisition S.À R.L., as parent entity, and Factofrance SA (the „Factor”), company established according to the French legislation as a société anonyme and authorized as établissement de crédit, as factor (the “Framework Agreement”).

As a consequence of having adhered to and becoming a party to the Framework Agreement, the Company, as Romanian assignor and seller, signed with the Factor, as assignee, a receivables purchase contract, filling in the Framework Agreement (the “Romanian Receivables Purchase Contract” and, together with the Framework Agreement , the “Factoring Contracts”).

In order to guarantee the liabilities owed or which could be or become in the future owed by the Company based on the Factoring Contract and on the other Financing Documents (as defined in the Factoring Contracts) the Company is party to, the Company has concluded a mortgage contract over real estate assets that will represent a guarantee in the Factor's favor in relation to the Factoring Contracts.

The factoring documents were approved by the Board of Directors within the limits of its powers provided by the law, namely 50% of the book value of the Company's assets, on 14 March 2019, and the factoring contract and the other documents were signed on 19 March 2019 and they will be in effect within the limits of the above-mentioned approval.

Because the value of the assets that will be obtained, alienated, exchanged or pledged by the Company following the conclusion by the Company of the Factoring Documents may exceed 50% of the book value of the Company's assets, in the understanding of Art. 153²² of the Law on Companies, the Company's Board of Directors subjected to the approval by the EGMS of 30 April 2019 the conclusion, signing and performance by the Company of the Factoring Documents.

Simona Cocos
General Manager

Francisc Koos
Chief Financial Officer

Zentiva S.A.

Financial statements

FOR THE YEAR ENDED
31 December 2018

Prepared in accordance with Order of the Minister of Public Finance no.
2844/2016 approving the accounting regulations compliant with the
International Financial Reporting Standards

Translation of the Company's financial statements and management report
issued in the Romanian language.

TABLE OF CONTENTS

| | |
|--|----|
| STATEMENT OF COMPREHENSIVE INCOME | 4 |
| STATEMENT OF THE FINANCIAL POSITION | 5 |
| STATEMENT OF CHANGES IN EQUITY | 6 |
| STATEMENT OF CASH FLOWS..... | 8 |
| 1. INFORMATION ABOUT THE COMPANY..... | 9 |
| 1. INFORMATION ABOUT THE COMPANY (continued)..... | 10 |
| 2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENT | 10 |
| 3. SIGNIFICANT ACCOUNTING ARGUMENTATION, ESTIMATES AND ASSUMPTIONS..... | 26 |
| 3. SIGNIFICANT ACCOUNTING ARGUMENTATION, ESTIMATES AND ASSUMPTIONS (continued)..... | 27 |
| 3. SIGNIFICANT ACCOUNTING ARGUMENTATION, ESTIMATES AND ASSUMPTIONS (continued)..... | 28 |
| 4. STANDARDS, AMENDMENTS AND NEW INTERPRETATIONS OF STANDARDS | 28 |
| 4. STANDARDS, AMENDMENTS AND NEW INTERPRETATIONS OF STANDARDS (continued)..... | 29 |
| 4. STANDARDS, AMENDMENTS AND NEW INTERPRETATIONS OF STANDARDS (continued)..... | 30 |
| 4. STANDARDS, AMENDMENTS AND NEW INTERPRETATIONS OF STANDARDS (continued)..... | 31 |
| 4. STANDARDS, AMENDMENTS AND NEW INTERPRETATIONS OF STANDARDS (continued)..... | 32 |
| 4. STANDARDS, AMENDMENTS AND NEW INTERPRETATIONS OF STANDARDS (continued)..... | 33 |
| 5. SALES OF GOODS AND RENDERING OF SERVICES AND RAW MATERIAL AND CONSUMABLES EXPENSES | 34 |
| 5. SALES OF GOODS AND RENDERING OF SERVICES AND RAW MATERIAL AND CONSUMABLES EXPENSES (continued)..... | 35 |
| 6. OTHER INCOME / OTHER EXPENSES AND ADJUSTMENTS | 36 |
| 6. OTHER INCOME / OTHER EXPENSES AND ADJUSTMENTS (continued) | 37 |
| 6. OTHER INCOME / OTHER EXPENSES AND ADJUSTMENTS (continued) | 38 |
| 6. OTHER INCOME / OTHER EXPENSES AND ADJUSTMENTS (continued) | 39 |
| 7. INCOME TAX AND DEFERRED TAX | 40 |
| 7. CURRENT INCOME TAX AND DEFERRED (continued)..... | 41 |
| 8 EARNINGS PER SHARE..... | 42 |
| 9. PROPERTY, PLANT AND EQUIPMENT | 42 |
| 9. PROPERTY, PLANT AND EQUIPMENT (continued)..... | 43 |
| 9. PROPERTY, PLANT AND EQUIPMENT (continued)..... | 44 |
| 10. INTANGIBLE ASSETS..... | 45 |
| 11. GOODWILL - PROVISIONAL ALLOCATION | 45 |
| 11. GOODWILL - PROVISIONAL ALLOCATION (continued) | 46 |
| 12. INVENTORIES | 46 |
| 12. INVENTORIES (continued)..... | 47 |
| 13. TRADE RECEIVABLES AND OTHER RECEIVABLES | 47 |
| 13. TRADE RECEIVABLES AND OTHER RECEIVABLES (continued) | 48 |
| 14. CASH AND SHORT TERM DEPOSITS | 49 |
| 15. ISSUED CAPITAL AND RESERVES..... | 50 |

ZENTIVA SA
FINANCIAL STATEMENTS
Prepared in accordance with
Minister of Public Finance Order 2844/2016
for the year ended 31 December 2018

| | |
|---|----|
| 15. CAPITAL ISSUED AND RESERVES (continued)..... | 51 |
| 16. STOCK AND PAID DIVIDENDS | 51 |
| 17. PROVISIONS | 52 |
| 17. PROVISIONS (continued) | 53 |
| 17. PROVISIONS (continued) | 54 |
| 18. PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS | 54 |
| 18. PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (continued)..... | 55 |
| 19. TRADE PAYABLES AND OTHER PAYABLES (CURRENT)..... | 56 |
| 20. RELATED PARTY DISCLOSURES | 57 |
| 20. RELATED PARTY DISCLOSURES (continued) | 58 |
| 20. RELATED PARTY DISCLOSURES (continued) | 59 |
| 20. RELATED PARTY DISCLOSURES (continued) | 60 |
| 20. RELATED PARTY DISCLOSURES (continued) | 61 |
| 21. COMMITMENTS AND CONTINGENCIES..... | 62 |
| 21. COMMITMENTS AND CONTINGENCIES (continued)..... | 63 |
| 21. COMMITMENTS AND CONTINGENCIES (continued)..... | 64 |
| 22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES | 64 |
| 22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued) | 65 |
| 22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued) | 66 |
| 22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued) | 67 |
| 22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued) | 68 |
| 23. EXPENSES FOR THE STATUTORY AUDITOR | 68 |
| 24. EVENTS OCCURRING AFTER THE REPORTING PERIOD..... | 68 |
| 24. EVENTS OCCURRING AFTER THE REPORTING PERIOD (continued)..... | 69 |

ZENTIVA SA
STATEMENT OF COMPRENHESIVE INCOME
for the financial year concluded on 31 December 2018
(amounts are expressed in RON, unless specified otherwise)

| STATEMENT OF COMPREHENSIVE INCOME | Notes | 2018 RON | 2017 RON |
|---|--------------|---------------------|---------------------|
| Sales of goods | 5.1 | 425,797,246 | 426,814,358 |
| Rendering of services | 5.1 | 27,131,315 | 30,403,034 |
| Other income | 5.1 | 8,476,670 | 1,159,653 |
| Turnover | 5.1 | 461,405,231 | 458,377,045 |
| Other operating income | 6.1 | 263,933,936 | 5,209,947 |
| Changes in inventories of finished goods and work in progress | | 22,087,218 | 3,848,785 |
| Raw materials and consumables used | 5.2 | (227,949,377) | (196,642,714) |
| Employee benefits expenses | 6.5 | (63,250,448) | (59,063,423) |
| Depreciation, amortization and impairment | | (12,136,484) | (21,416,471) |
| Marketing and advertising expenses | 6.6 | (13,286,498) | (23,010,539) |
| Rental expenses | | (3,493,873) | (3,976,678) |
| Reversal of/ (expenses with) provisions | 17 | 2,530,960 | 13,569,445 |
| Other operating expenses | 6.2 | (119,560,892) | (70,833,877) |
| Operating profit | | 310,279,772 | 106,061,521 |
| Financial Income | 6.4 | 23,377,817 | 8,826,225 |
| Financial Expenses | 6.3 | (18,256,427) | (7,961,716) |
| Profit before tax | | 315,401,161 | 106,926,030 |
| Income Tax Expense | 7.1 | (52,780,185) | (17,283,274) |
| Profit after tax (A) | | 262,620,976 | 89,642,756 |
| Other comprehensive income: | | | |
| Actuarial gains/losses in relation to employee benefits | | - | (401,000) |
| Impact from reevaluation of land and buildings | | - | 45,250,865 |
| Impact of deferred tax related to reevaluation recognized in equity | | | (7,160,364) |
| Other comprehensive income net of tax (B) | | - | 37,689,501 |
| Total income after tax (A) + (B) | | 262,620,976 | 127,332,257 |
| Number of shares | | 416,961,150 | 416,961,150 |
| Earnings per share (RON/share) | | 0,62985 | 0,21499 |

The financial statements from page 3 to 69 were approved by the Board of Administration and were authorized to be issued in accordance with the resolution of the Administrators, date 29 March 2019

Administrator,
Surname and name:
Simona Cocos

Signature
Company stamp

Prepared by,
Surname and name: Francisc Koos

Chief Financial Officer
Signature
Company stamp

ZENTIVA SA
STATEMENT OF FINANCIAL POSITION
As at 31 December 2018
(amounts are expressed in RON, unless specified otherwise)

| STATEMENT OF THE FINANCIAL POSITION | Notes | 31 December 2018 | 31 December 2017 |
|---|--------------|-----------------------------|-----------------------------|
| Assets | | | |
| Fixed assets | | | |
| Property, plant and equipment | 9 | 144,234,784 | 136,824,367 |
| Goodwill | 11 | 46,141,201 | - |
| Intangible assets | 10 | 3,895,132 | 768,975 |
| | | 194,271,117 | 137,593,342 |
| Current assets | | | |
| Inventories | 13 | 98,982,129 | 40,549,376 |
| Trade receivables and other current receivables | 14 | 199,832,571 | 158,176,809 |
| Cash and cash equivalents | 15 | 405,115,315 | 160,792,774 |
| | | 703,930,016 | 359,518,959 |
| Total assets | | 898,201,133 | 497,112,301 |
| Equity and debt | | | |
| Share capital, out of which | 16.1 | 41,696,115 | 41,696,115 |
| Issued share capital | | 41,696,115 | 41,696,115 |
| Share premium, including: | 16.1 | 24,964,506 | 24,964,506 |
| Share premium at nominal value | | 9,863,684 | 9,863,684 |
| Inflation related to share premium | | 15,100,822 | 15,100,822 |
| Legal and other reserves | 16.2 | 112,745,368 | 112,745,368 |
| Revaluation reserve | | 40,198,377 | 40,198,377 |
| Retained earnings/(Accumulated Losses) | 16.2 | 411,088,300 | 148,490,603 |
| Total equity | | 630,692,665 | 368,094,969 |
| Non-current liabilities | | | |
| Employee benefit liability | 19 | 2,479,000 | 1,813,000 |
| Deferred tax liability | 7.2 | 5,033,947 | 6,494,406 |
| Non-current provisions | 18 | 4,944,015 | 5,091,012 |
| Total non-current liabilities | | 12,456,962 | 13,398,418 |
| Current liabilities | | | |
| Trade accounts payable | 20 | 205,337,404 | 61,076,772 |
| Income taxes payable | | 8,236,848 | 3,486,826 |
| Other current liabilities | 20 | 28,816,540 | 36,010,639 |
| Short-term provisions | 18 | 12,660,714 | 15,044,677 |
| Total current liabilities | | 255,051,506 | 115,618,914 |
| Total liabilities | | 267,508,468 | 129,017,332 |
| Total liabilities and equity | | 898,201,133 | 497,112,301 |

The financial statements from page 3 to 69 were approved by the Board of Administration and were authorized to be issued in accordance with the resolution of the Administrators, date 29 March 2019

Administrator,
Surname and name: Simona Cocos

Signature
Company stamp

Prepared by,
Surname and name: Francisc Koos
Chief Financial Officer
Signature
Company stamp

ZENTIVA SA
STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 December 2018
(amounts are expressed in RON, unless specified otherwise)

STATEMENT OF CHANGES IN EQUITY

2018

| | Share capital | Share premium | Legal and other reserves | Revaluation reserve | Retained earnings | Total |
|--|----------------------|----------------------|---------------------------------|----------------------------|--------------------------|--------------------|
| Opening balance | 41,696,115 | 24,964,506 | 112,745,368 | 40,198,377 | 148,490,603 | 368,094,969 |
| Profit for the year | - | - | - | - | 262,620,976 | 262,620,976 |
| Other elements of the comprehensive income | - | - | - | - | - | - |
| Total other comprehensive income | - | - | - | - | - | - |
| The impact of the deferred tax | - | - | - | - | - | - |
| Correction of the reported result | - | - | - | - | (23,279) | (23,279) |
| Closing balance | 41,696,115 | 24,965,506 | 112,745,368 | 40,198,377 | 411,088,300 | 630,692,665 |

On 1 January 2018, the amount of the share premium includes the effect of the hyperinflation adjustments as required by IAS 29. The Company adopted the International Financial Reporting Standards (IFRS) adopted by the European Union, except for the provisions of IAS 21 The Effects of Changes in Foreign Exchange Rates on the Functional Currency and draws up the Financial Statements in accordance with these Standards, from the Transition Date, 1 January 2011, as well as the provisions of IAS 20 The accounting of governmental subventions regarding the recognition of income from green certificates, with the exception of IFRS 15 - Income from contracts with clients regarding the income from distribution network charges and with the exception of interim distribution of dividends. The General Meeting of Shareholders held on April 26, 2018 decided to not distribute dividends from the profit for the financial year ended on December 31, 2017, in the amount of RON 89,642,756 as well allocated to the reserve category - for more details see **Note 16 Dividends proposed and paid**.

The financial statements from page 3 to 69 were approved by the Board of Administration and were authorized to be issued in accordance with the resolution of the Administrators, date 29 March 2019

Administrator,
Surname and name: Simona Cocos
Signature

Company stamp

Prepared by
Surname and name: Francisc Koos

Chief Financial Officer
Company stamp

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

STATEMENT OF EQUITY AMENDMENT

2017

| | Share capital | Share premium | Legal and other reserves | Revaluation reserve | Retained earnings | Total |
|---|----------------------|----------------------|---------------------------------|----------------------------|--------------------------|--------------------|
| Opening balance | 41,696,115 | 24,964,506 | 104,718,721 | 2,107,876 | 132,314,433 | 305,801,651 |
| Profit for the year | - | - | - | - | 89,642,756 | 89,642,756 |
| Other comprehensive income | - | - | - | - | (401,000) | (401,000) |
| Impact from reevaluation of land and buildings | - | - | - | 45,250,865 | - | 45,250,865 |
| Impact of deferred tax related to reevaluation recognized in equity | - | - | - | (7,160,364) | - | (7,160,364) |
| Total other comprehensive income | - | - | - | 38,090,501 | (401,000) | 37,689,501 |
| | - | - | 8,026,647 | - | (8,026,647) | - |
| Profit appropriation | - | - | - | - | (65,000,000) | (65,000,000) |
| Covering of hyper-inflation adjustment loss | - | - | - | - | (38,939) | (38,939) |
| Dividends distribution | 41,696,115 | 24,964,506 | 112,745,368 | 40,198,377 | 148,490,603 | 368,094,969 |

As at 1 January 2017, 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 as well as the provisions of IAS 20 The accounting of governmental subventions regarding the recognition of income from green certificates, with the exception of IFRS 15 - Income from contracts with clients regarding the income from distribution network charges and with the exception of interim distribution of dividends. On 27 April 2017, the Shareholders General Meeting decided to distribute dividends amounting to RON 65,000,000 from the profit for the year ended 31 December 2016 and the difference of RON 8,026,646 was included in reserves - for additional details, see Note 16 Dividends Paid and Proposed. As at 31 December 31, 2017, the Company revalued the land and buildings, which generated a revaluation surplus in amount of RON 45,250,864 - for additional details regarding the impact of the revaluation of the land and buildings, see Note 9 *Property, Plant and Equipment*.

The financial statements from page 3 to 69 were approved by the Administration Board and were authorized to be issued in accordance with the resolution of the Administrators, date 29 March 2019.

Administrator,
Surname and name: Simona Cocos

Company's stamp

Drawn-up,
Surname and name: Francisc Koos
Chief Financial Officer
Company's stamp

ZENTIVA SA
STATEMENT OF CASH FLOWS
for the financial year ended 31 December 2018
(amounts are expressed in RON, unless specified otherwise)

| STATEMENT OF CASH FLOWS | Note | 31 December 2018 | 31 December 2017 |
|---|-------------|-----------------------------|-----------------------------|
| Cash flows from operating activities: | | | |
| Profit before tax | | 315,401,161 | 106,926,030 |
| Depreciation and amortization | 9,10 | 12,136,484 | 21,416,471 |
| Receivable allowance movement | 13 | - | (244,814) |
| Inventory allowance movement | 12 | 9,269,212 | 626,453 |
| Movements in provisions for risks and charges | 17 | (2,530,960) | (13,569,446) |
| (Gain)/loss on sale of property, plant and equipment | 6.1 | - | 159,722 |
| Movement in impairment provision for intangibles | | (430,583) | - |
| Pension liabilities expenses | | 817,000 | 236,000 |
| Income from dividends written-off | 16 | (12,791,059) | - |
| Interest revenues | 6.4 | (5,946,457) | (910,643) |
| | | 315,924,798 | 114,639,773 |
| Operating profit before working capital changes | | 315,924,798 | 114,639,773 |
| Change in inventories | | (67,701,966) | 917,375 |
| Change in trade and other receivable | | (41,655,762) | 15,211,660 |
| Change in trade and other payable | | 109,632,465 | (1,226,754) |
| Cash generated from/ (used in) operations | | 316,199,535 | 129,542,054 |
| Income tax paid | 7.1 | (54,260,644) | (19,456,074) |
| Employee benefits liabilities paid | | (151,000) | (152,000) |
| Net cash from/ (used in) operating activities | | 261,807,890 | 109,933,980 |
| Cash flows from investing activities | | | |
| Proceeds from sale of non-current assets | | - | 31,325 |
| Purchase of property, plant and equipment | 9.10 | (22,242,474) | (16,828,959) |
| Interest received | | 5,946,457 | 910,643 |
| Net cash used in investing activities | | (16,296,017) | (15,886,991) |
| Cash flows from financing activities | | | |
| Dividends paid | | (1,189,331) | (60,574,115) |
| Cash transferred for dividends payable to Central Depository | | - | (590,518) |
| Net cash from/ (used in) in financing activities | | (1,189,331) | (61,164,633) |
| Net increase (decrease) in cash and cash equivalents | | 244,322,542 | 32,882,356 |
| Cash and cash equivalents at the beginning of the period 1 January | | 160,792,774 | 127,910,418 |
| Cash and cash equivalents at the end of the period 31 December | | 405,115,315 | 160,792,774 |

The financial statements from page 3 to 69 were approved by the Board of Administration and were authorized to be issued in accordance with the resolution of the Administrators, date 29 March 2019

Administrator,
Surname and name: Simona Cocos

Signature
Company's stamp

Drawn-up,
Surname and name : Francisc Koos
Chief Financial Officer
Signature
Company's stamp

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

1. INFORMATION ABOUT THE COMPANY

These financial statements of Zentiva SA (the "Company") for the year ended on 31 December 2018 are authorized for publication in accordance with the Board of Directors' Decision dated 29 March 2019.

The company, previously named SICOMED S.A. Bucharest ("Sicomed") was founded in 1962 as Intreprinderea de Medicamente BUCURESTI ("IMB"). The current registered office of the Company is located in B-dul Theodor Pallady nr.50, Bucharest. The Company is registered with the Trade Register under no. J40/363/1991.

In 1990, Sicomed became a joint stock company by incorporating and taking over all the assets of the former IMB in accordance with the Government Decision. The initial share capital was the result of the difference between assets, including specific assessments of land and buildings donated by the State to the Company in accordance with the Government Decision and liabilities held on the same date.

In October 2005, the majority stake in the company was acquired by Zentiva Group (a group in the pharmaceutical industry operating in Central and Eastern Europe) by acquiring shares in Venoma Holdings Limited. The Zentiva Group has control over the Company's operations.

Starting with 24 January 2006, the Company changed its name from Sicomed SA to Zentiva SA.

Starting with 11 March 2009, there was a change in the shareholding structure at the group level (Sanofi Aventis acquired 97% of Zentiva NV shares - parent of the Company).

The main activity of the Company is the production and marketing of preparations and medicines for human use.

Starting with 2007, a decision has been taken at the Zentiva Group level, and as a result the Company started its trading operations through its subsidiary in Romania, namely Zentiva International (incorporated in Slovakia) ("ZIRO") and the Romanian market (i.e. distributors) was supplied with the Company's products through ZIRO. Starting with 1 October 2011, sales are made directly through the Sanofi Romania SRL entity and after that date, Ziro became an entity with no activity to be liquidated.

On 20 February 2018, Zentiva SA launched the public purchase offer by Zentiva NV of the shares owed by minority shareholders in the percent of 18.4067 % at buying price of RON 3.5 / share. The public purchase offer was concluded on 5 April 2018. The shares purchased through this offer were primarily the ones owned by KJK Fund II, the NN Optional Active Pension Fund, the NN Optional Optimal Pension Fund and the NN Privately Administrated Pension Fund.

At the end of October 2016, Sanofi Group announced, after an analysis of all the available options, to sell its Europe generic business

Zentiva SA was involved in this separation process that was finalized on the 30th of September 2018, when Advent International NV purchased the Europe generic medicine division of Sanofi Group.

Starting with 1st of September 2018, Sanofi Romania SRL, who was up until that time the distributor on the Romanian market of generic medicine manufactured by Zentiva SA, transferred its distribution activity towards Zentiva SA, based on the distribution activity transfer contract, which was approved on 7 March 2019 by the General Meeting of the Shareholders of Zentiva SA.

Following this, Zentiva started the direct distribution on the Romanian of products both manufactured in Romania, as well as imported from other entities from the Group. The local market distribution is done by local distributors - for more details please go to the commentaries included in Note 10 - intangible assets.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

1. INFORMATION ABOUT THE COMPANY (continued)

In September 2018, various selling agreements were concluded pertaining to manufacturing dossiers for several "CHC" products existing in the Zentiva portfolio which were sold to the Sanofi Group - for more details please go to the commentaries included in Note 6.1 Other income from operating activities. The Company is listed on Bucharest Stock Exchange.

The Company has no investments in subsidiaries or affiliated companies on 31 December 2017. The company is part of a group and is at its turn consolidated in the Group's Financial Statements, the consolidated parent company being Zentiva Group a.s..

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENT

Statement of compliance

The Company's financial statements have been prepared in accordance with the provisions of Order No. 2844/2016 for the approval of the Accounting Regulations in accordance with the International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market with all subsequent modifications and clarifications. These provisions are in line with the provisions of the International Financial Reporting Standards adopted by the European Union, except for the provisions of IAS 21 The Effects of Changes in Foreign Exchange Rates on the Functional Currency IAS 20 The accounting of governmental subventions regarding the recognition of income from green certificates, with the exception of IFRS 15 - Income from contracts with clients regarding the income from distribution network charges and with the exception of interim distribution of dividends. In order to prepare these financial statements, in accordance with the Romanian legal provisions, the functional currency of the Company is considered to be the Romanian Leu (RON).

For all periods up to and including the year ended on 31 December 2011, the Company prepared the financial statements in accordance with the Romanian accounting standards (local GAAP).

2.1 Going Concern

These financial statements have been prepared on a going concern basis, which assumes that the Company will continue its activity in the foreseeable future. In order to assess the applicability of this assumption, the management analyses the forecasts of future cash inflows.

On 31 December 2018, current assets of the Company exceed current liabilities by RON 448,878,510 (on 31 December 2017 current assets exceeded current liabilities by RON 243,900,045). At the same date, the Company recorded a comprehensive income of RON 262,620,976 (2017: RON 89.241.756).

The budget prepared by the management of the Company and approved by the Board of directors for the year 2019, indicates positive cash flows from the operation activities, an increase in sales and profitability, including synergies resulted from the purchase by the Advent International NV as well as the direct distribution on the Romanian market of generic medicine manufactures locally as well as the ones imported from other entities of the Group to which the Company belongs to.

The management deems that the Company will be able to continue its activity in the foreseeable future and therefore the application of the principle of continuity of activity in the drawing up of the financial statements is justified.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENT (continued)

2.2 Principles, policies and accounting methods

Below, we describe the significant accounting policies applied by the Company in drawing up its financial statements:

➤ Currency conversions

The Company's financial statements are presented in RON, which is also the functional currency.

Foreign currency transactions are converted into RON using the exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currency at the end of the period are assessed in RON using the exchange rate at the end of the financial year. The income and losses realized or unrealized are recorded in the profit and loss account. The RON - EUR exchange rate on 31 December 2018 and 31 December 2017 was RON / EUR 4.6639 and RON / EUR 4.6597. The RON - USD exchange rate on 31 December 2018 and 31 December 2017 was RON / USD 4.0736 and RON / USD 3.8915.

The exchange rates differences, favourable or unfavourable, between the exchange rate on the date of registration of the claims or debts in foreign currency or the exchange rate in which they have been reported in previous financial situations and the exchange rate on the end of the fiscal year, shall be registered, on incomes or financial expenditures, where appropriate.

➤ IFRS 15 Income from contracts with clients

IFRS 15 Income from contracts with clients establishes a five steps model to recognise and record the income from contracts with clients. In accordance with IFRS 15, the income is recognized in the amount that reflects the counter performance to which expects to have the right to in the transfer of goods or services to a client.

The company adopted the new standard at the time of mandatory entry using the cumulative effect method that requires the original application effect of the standard to be recognized at the date of initial application (meaning 1 January 2018).

Also, the adoption of IFRS 15 by the cumulative effect method implies that the Company does not need to apply the IFRS 15 requirements during the comparative period presented. If the Company continued to apply the IFRS 18 standard for 2018, its income would have been the same as before IFRS 15 since the Company estimated and recorded income reductions (which mainly consisted in discounts to clients) at the end of the financial year.

Sale of goods

Until 31st December 2017, income was assessed at the fair value of the consideration received or the receivable. The income was reduced with estimated returns from clients, rebates and other similar discounts.

Specifically, income from the sale of goods was recognized when the goods were delivered and the title of ownership was transferred. In accordance with IFRS 15, the income is recognized when a client acquires control over the goods. The company delivers goods (mainly generic medicines) under contractual conditions based on internationally accepted delivery conditions (INCOTERMS). The moment the client acquires control over the goods is considered to be substantially the same for most of the Company's contracts under IFRS 15, as well as IAS 18.

The company concluded that income should be recognized at a time when asset control is transferred to the client, generally at the delivery of the goods.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENT (continued)

Variable consideration

Some client contracts involve rebates for volume, financial rebates, price discounts, or the right of return for quality defects. Currently, the income from these sales is recognized on the basis of the price specified in the contract, net of returns and income reductions, trade discounts, and volume discounts recorded on the basis of the commitments accounting when a reasonable estimate income adjustments can be made.

In accordance with IFRS 15, it is necessary to estimate the variable consideration at the beginning of the contract. The income is recognized to the extent that it is probable that a significant reversal of the amount of recognized cumulative income will not occur. Consequently, for those contracts for which the Company is not in a position to make a reasonable estimate of the rebates, income will be recognized earlier than when the return period is past or when a reasonable estimate can be made. In order to estimate the variable income to which it would be entitled, the Company applied the expected value method. At the same time, complaints about quality (return rights) are isolated and insignificant, based on the information from past periods, so that the Company cannot make a reasonable estimate of such income reversals at the end of the year. The impact on the earnings carried forward on 1 January 2018 from the treatment of variable income as a result of the adoption of IFRS 15 is immaterial.

Considerations relating to the action on its own behalf and that as an intermediary

In accordance with IFRS 15, the assessment is based on whether the Company controls specific goods before transferring them to the final client, rather than having exposure to significant risks and rewards associated with the sale of goods.

The company concluded that it acts in its own behalf in all contractual sales relationships because it is the main provider in all income contracts, it has the right to set the price and is exposed to the risks associated with the stocks. In the specific cases when the Company does not controls the goods before being transferred to the final customer, it acts as an intermediary.

Recognition of income from separate provision obligations

The Company analysed its contracts with the clients in order to determine all its provision obligations and did not identify any new provision obligation that should be accounted for separately in accordance with IFRS 15.

The company provides various services as secondary activity. The income is evaluated at the estimated value of the received or to be received counter performances. In accordance with IFRS 15, the total counter value from the services contracts is allocated to all services based on their individual selling prices. The individual selling prices are set based on the price list that the Company transactions. Base on the evaluation of the Group and the Company the value allocated to the relative individual selling prices of the services and the individual selling prices of the services are mainly similar. As a consequence, the application of the IFRS 15 does not have as a result significant differences regarding the moment of income recognition for these services.

The IFRS 15 recognition and evaluation requirements are also applicable for the recognition and assessment of any gain or loss resulted from the disposal of non-financial assets (such as tangible assets and intangible assets), when this disposal is not in the ordinary course of the business. With that being said, in transition, the effect of these changes is not significant for the Company.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENT (continued)

Interest income

The income from the interest generated by a financial asset is recognized when it is probable that the Group shall obtain economic benefits and when that income can be measured in a reliable way. The income from interest is cumulated in time, by reporting to the principal and to the applicable effective interest, meaning the rate that exactly updates future cash flows estimated during the anticipated period of the financial assets at the net accounting value of the assets at the date of its initial recognition. The income from interest is included in the profit and loss account under financial income.

➤ **Taxes**

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in Romania.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is presented using the variable ratio method of temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, unless:

- The deferred tax liability arises from the initial recognition of the goodwill or an asset or a net liability in a transaction that is not a business combination and, at the date of the transaction, does not affect either the accounting profit or the taxable profit or loss.
- Deferred tax liabilities are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent a taxable profit may be available against which there can be used deductible temporary differences and that deferral of unused tax credits and any unused tax losses, unless:
- When the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the date of the transaction, does not affect either the accounting profit or the taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is unlikely to have sufficient taxable profit in order to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are assessed at the tax rates that are expected to be applied for the period in which the asset is achieved or the liability is settled based on the tax rates (and tax regulations) that have been adopted or largely adopted up to the reporting date.

Deferred tax on elements recognized outside profit and loss is recognized outside profit and loss. Deferred tax items are recognized in relation to the underlying transaction in other items of the global result or directly in equity.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENT (continued)

Deferred tax assets and liabilities are offset if there is a legal entitlement to offset current tax receivables with current income tax liabilities and deferred tax relates to the same taxable entity and to the same tax authority.

Value added tax

Income, expenses and assets are recognized at net value with the exception of:

- Where the sales tax applicable to a purchase of assets or services is not recoverable from the tax authority, in which case the sales tax is recognized as part of the cost of acquiring the asset or as part of the expenditure item, as the case may be.
- Receivables and liabilities presented at a value including the sale tax.

The net amount of the sales tax recoverable from or payable to the tax authority is included as part of the receivables and payables in the statement of the financial position.

- **Tangible assets**

Initial assessment

Tangible assets are stated at cost, net of accumulated amortization and / or accumulated depreciation losses, if any.

This cost includes the cost of replacing the respective tangible assets at the time of replacement and the cost of indebtedness for long-term construction projects if the recognition criteria are met.

When significant parts of tangible assets have to be replaced at certain intervals, the Company recognizes those parts as individual assets with a specific useful life and depreciates them accordingly. Also, when carrying out a general inspection, its cost is recognized in the carrying amount of the tangible assets as a replacement if the recognition criteria are met. All other repair and maintenance costs are recognized in the profit and loss account when incurred. The current value of expected costs for discarding the asset after its use is included in the cost of that asset if the criteria for recognizing a provision are met.

The cost of a tangible fixed asset consists of:

- its purchase price, including customs duties and non-refundable purchase taxes, after deduction of trade discounts and rebates.
- any costs that can be attributed directly to bringing the asset to the location and condition necessary to enable it to function as intended by the management.
- the initial estimate of the costs of dismantling and moving the item and restoring the site where it is located, the obligation of the entity when acquiring the item or as a consequence of using the item for a specified period for purposes other than producing inventory during that period.

Cost assumed at the date of transition according to IFRS (1 January 2011)

The Company used as assumed cost at the date of transition (31 December 2010), previous reassessments recorded in accordance with the Romanian accounting standards at that time for land and buildings. For equipment a historical cost adjusted for hyperinflation was used.

Subsequent assessment

Land and buildings are assessed at fair value less depreciation and impairment as at the assessment date. Assessments are performed periodically to ensure that the fair value of the assets under assessment does not differ significantly from net book value.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENT (continued)

A revaluation surplus is recorded in other comprehensive income and therefore credited to the assets revaluation reserve, in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in the profit and loss account, the increase is recognized in the profit and loss account. A revaluation deficit is recognized in the profit and loss if it does not offset an existing previously recorded surplus for the same asset recognized in the revaluation reserve. Additionally, cumulative amortization at the revaluation date is eliminated from the carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation reserve that relates to a sold or discarded asset is transferred to retained earnings in that year.

The Company contracted independent assessment specialists to establish the fair value on 31 October 2005, 31 December 2008, 31 December 2011, 31 December 2014 and 31 December 2017.

The other fixed assets are assessed at historical cost, deducting amortization and any depreciation adjustments.

Amortization of fixed assets

Amortization is calculated using:

- the linear method for buildings, fixed assets acquired in financial leasing and fixed assets existing on 31 December 1997;
- on a reducing balance method for fixed assets put into operation as of 1 January 1998, with the exception of buildings that are depreciated linearly.

Useful lives

The economic useful life is the amount of time that an asset is expected to be used by a company. The economic useful life of tangible assets was determined by specialized employees. The amortization is calculated using the linear or reducing balance over the life of the asset.

The land is not depreciated.

The average life spans by categories of fixed assets is as follows:

- Buildings 30 - 50 years
- Production machines 5 - 20 years
- Means of transport 5 years

An item of property, plant and equipment is derecognized when no future economic benefit is expected from its use or at disposal. Any gain or loss resulting from the derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss account when the asset is derecognised.

Residual values, life spans and depreciation methods of fixed assets are reviewed at the end of each financial year and adjusted accordingly.

➤ **Leasing agreements**

Determining the extent to which a commitment is or contains a lease is based on the economic substance of the commitment at the date of its commencement. The commitment is assessed to determine whether the fulfilment of the commitment depends on the use of a particular asset or assets, or whether the commitment gives the right to use the asset or assets, even if that right is not explicitly stated in a commitment.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENT (continued)

The company as lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Company, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the income statement on a straight-line basis over the lease term.

The company as lessor

Leases that do not transfer significantly to the Company all the risks and benefits of ownership over an asset are classified as operational leases. Initial direct costs incurred for the negotiation of an operational lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the lease income. Contingent rents are recognized as income in the period in which they are obtained.

The payments made within the operational leasing are linearly recognized in the profit and loss accounts, during the leasing agreement. The received leasing incentives are recognized as an integral part, being part of the total leasing expenditure, during the leasing agreement.

The minimum leasing payments made under the financial leasing agreement are allocated between the financing expenditures and the reduction of the outstanding liability. The financial expenditure is allocated to each period within the duration of the leasing contract, thus obtaining a constant rate of the interest on the remaining liability balance.

➤ **Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit and loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement as the expense category that is consistent with the function of the intangible assets.

- **Software 3 years**
- **Research and development 3 years**

Gains or losses arising from unrecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENT (continued)

Research and development expenditures

When incurred, the research and development expenditures are recognized as expenditures. The expenditures of an individual development project are recognized as intangible assets when the Company can prove:

- The technical feasibility of the intangible asset finalization, thus being available for use or sale;
- Its intention to finalize the intangible asset and its capacity to use it or sell it;
- The way in which the intangible asset shall generate future economic benefits;
- The availability of resources for the intangible finalization;
- Its capacity to reliably evaluate the expenditure during the development of the intangible.

After the initial recognition of the expenditures with the development of an asset, the cost-based model is applied, that provides recording the assets at a minimal price of any accumulated amortization and any cumulative depreciation from loss. The amortization of the intangible starts when the development is finalized and the asset is available for use. It is amortized on the period of the expected future benefit. The amortization is recognized in the costs of the sold goods. During the development period, the asset is tested annually for depreciation.

Patents, licenses, trademarks

Patents, licenses, trademarks are recognized as intangible assets and are evaluated according to the useful life cycle (determined – is amortized, not determined period – is tested for depreciation).

Patents, licenses and trademarks are recognized as intangible assets and measured according to the useful life (finite – amortized, indefinite – tested for impairment).

Business combination

The business combinations are recorded using the purchase method. The counter value transferred in a business combination is evaluated at its fair value, which is calculated by adding up the fair value at the purchase date of the assets transferred by the Company, the debts registered by the Company towards former owners of the acquired entity and contribution in equity issued by the Company in exchange for control of the acquired entity. The costs related to the purchase are generally recognized in the profit or loss when they take place.

At the purchase date, the purchased identifiable assets and assumed liabilities are recognized at their fair value with the exception of:

- Receivables regarding the deferred tax and debts corresponding to the commitments regarding employees' benefits are recognized and evaluated in accordance with IAS 12 Income tax, respectively IAS 19 Employees' benefits;
- Liabilities or equity instruments relating to to the payment commitments bases on the shares concluded by the Company to replace the payment commitments based on the shares of the acquired entity are evaluated in accordance with IFRS 2: The payment based on shares at the purchase date; and
- Assets (or groups destined to be disposed), that are classified as being held for selling according to IFRS 5 Intangible assets held for sale and interrupted activities, are evaluated in accordance with the respective standard.

The goodwill is evaluated as the positive difference between the transferred counter performance, the value of any of the interest that do not control in the acquired entity and the fair value from the purchase date of the equity contributions previously owed by the acquirer in the acquired entity (if it exists) and the net value from the purchase date of the purchased identifiable assets and the assumed debt. If the difference mentioned above is negative, it is recognized in profit or loss as a gain from buying in advantageous conditions.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENT (continued)

The interests that do not control and that represent equity contributions and give right to the owners to a contribution proportional in the net assets of the company in case of liquidation, can be evaluated either by its fair value or according to the contribution proportional with the interests that do not control and the recognised values of the net assets of the acquired entity. Choosing the evaluation base is done from transaction to transaction. Other type of interests that do not control are evaluated at their fair value, or, if appropriate, according to the base specified in other IFRS standards. When the counter value transferred by the Group in a business combination includes assets or obligations resulted from a commitment in a contingent counter performance, the contingent counter performance is evaluated at its fair value at its purchase date and is included as part of transferred the counter performance in a business combination. The modifications of the fair value of the contingent counter performance that is qualified as adjusted to the evaluation period are retroactively adjusted based on the goodwill. The adjustments to the evaluation period are adjustment that arise from additional information during the "evaluation period" (that can surpass a year from the purchase date) regarding the existing facts and circumstances at the purchase date.

The subsequent reporting of the fair value of contingent counter performance that does not fall within the adjustment of the evaluation period depend of the way it is classified. The contingent counter performance classified as equity shall not be re-evaluated at the subsequent reporting date, and its subsequent deduction in recorded within the equity. The contingent counter performance classified as asset or debt is re-evaluated at the subsequent reporting date in accordance with IAS 39 financial instruments:

The recognition and evaluation of IAS 37 Provisions, contingent liabilities and contingent assets, the corresponding profit or loss being recognized in profit or loss.

When a business combination is done in stages, the equity contribution previously owned by the Company in the acquired entity is re-evaluated at its fair value at the purchase date (if the Group acquires the control) and the resulted profit or loss, if it exists, is recognized in the profit or loss. The values that result from the interest in the acquired entity prior to the purchase date that was previously recognized in other comprehensive income are reclassified as profit or loss, on the base that would be imposed if the acquirer would directly dispose of the contribution previously held in equity.

If the initial reporting of a business combination is incomplete at the end of the reporting period in which the combination takes place, the Company reports provisional values for the elements for which the reporting is incomplete. These provisional values are adjusted during the evaluation period (see above), or the additional assets or liabilities are recognized, in order to reflect new obtained information regarding the existing facts and circumstances at the purchase date, that, if would have been know, would have affected the recognized values at the respective date.

Goodwill

The goodwill generated by a business combination is recorded at cost as it was established at the purchase date of the business minus the loses from the cumulated depreciation, if it exists.

For the purpose of the depreciation test, the goodwill shall be allocated to each cash generating establishment (or cash generating establishments' groups) that are expecting to benefit from the synergies of the combination. A cash generating establishment that was allocated goodwill is tested annually for depreciation or more often when there is a clue that the establishment could be depreciated. If the recoverable amount of the cash generating establishment is smaller than its reported amount, depreciation is allocated primarily to reduce the carrying amount of any goodwill allocated to the establishment and then the other assets of the establishment in proportion to the reported amount of each asset in the establishment. Any depreciation for the goodwill is directly recognized in the consolidated statement of the profit and loss account of the global result. The recognized depreciation for the goodwill cannot be reverted in the following periods.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENT (continued)

At the date of the selling of the relevant cash generating establishment, the value attributed to the goodwill is included in the determination of the selling profit or loss.

Intangible assets purchased in a business combination

The intangibles purchased as a business combination and recognized separately from the goodwill are initially recognized at their fair value at the purchase date (that is considered their cost). Subsequent to the initial recognition, intangible assets acquired as part of a business combination are stated at cost minus cumulative amortization and cumulative depreciation loss on the same base as intangible assets that are acquired separately.

The derecognition of intangible assets

An intangible asset is derecognized at disposal or when there is no foreseeable future economic benefits from its use or disposal. The earning or losses that result from the derecognition of an intangible asset are calculated as the difference from the net proceeds from sales and the net accounting value of the assets, are recognized in the profit and loss when the asset is derecognized.

➤ **Financial instruments – initial recognition and subsequent evaluation**

1) Financial assets

Initial recognition and evaluation

Financial assets are classified, at their initial recognition, as being evaluated later at the amortization cost, its fair value by global result and its fair value by the profit and loss account.

The classification of the financial assets at the initial recognition depends of the characteristic of the contractual cash flows of the financial assets and the company's business model regarding their management. With the exception of trade receivables that do not have a significant financing component or for which the Company has applied the practical approach, the Company initially evaluates a financial asset at its plus fair value, in the case of a financial asset that is not measured at its fair value through the profit or loss transaction costs. The trade receivables that do not have a significant financing component for which the Company applied the practical approach are evaluated at their transaction price determined according to the IFRS 15.

For the classification and evaluation of a financial asset at its amortization cost or its fair value through other elements of the comprehensive income, it needs to generate cash flows that are not "only payment of principal and interest (SPPI)" in relation to the principal sum. This assessment is named SSPI test and is carried out at the level of the instrument.

The Company's business model regarding the management of the financial assets is linked to the way in which the Company manages its financial assets in order to generate cash flow. The business model determines whether the cash flows shall arise from the collection of contractual cash flows, from the sale of financial assets or from both activities.

The selling and buying of financial assets that require delivery in a period provided in a regulation or market convention (standard transaction) are recognized at the date of the transaction, namely, the date the Group undertakes to buy or sell the asset.

In the financial statements of the Company, the investments in branches are evaluated as cost, in accordance with the IAS 27 "Separate financial statements".

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENT (continued)

Subsequent assessment

In the purpose of subsequent assessment, the assets are classified in four categories:

- Financial assets at amortized cost (debt security);
- Financial assets measured at their fair value through other comprehensive income with recognition of cumulative gains and losses (debt securities);
- Financial assets designated at fair value through OCI, without recycling cumulative gains and losses on derecognition (equity instruments);
- Financial assets evaluated at their fair value through the profit and loss account.

Financial assets at amortized cost

This category is the most relevant for the Company. The Company measures financial assets at amortized cost if both conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets to collect the contractual treasury flows; and
- The contractual terms of the financial asset give rise at the specified dates to cash flows that represent exclusively the payments of the principal and the interest on the principal amount in circulation (SPPI).

Financial assets at amortized cost are subsequently assessed using the effective interest rate (EIR) and are subject to depreciation. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or depreciated. The financial assets of the Company are represented by loans, trade receivables and other receivables, cash and cash equivalents.

For more information on receivables, see note 13 - Trade receivables and other receivables / current receivables. Receivables due for less than 12 months are not updated.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted on an active market. After initial recognition, these financial assets are subsequently assessed at amortized cost using the effective interest rate method less depreciation. The amortized cost is calculated taking into account any discount or premium on acquisition and any commissions and costs that form an integral part of the effective interest rate. Amortization based on the effective interest rate is included in the profit and loss account under financial income. Depreciation losses are recognized in the profit and loss account under "Other operating expenses".

Derecognition

A financial asset (or, if applicable, part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive the cash flows arising from the asset have expired.
- The Company has transferred its rights to receive cash flows arising from the asset or has assumed a liability to pay the cash flows fully cashed, without significant delays, to a third party under identical flows commitment ("pass-through"); and (a) the Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has not transferred and substantially retained all the risks and rewards of the asset but transferred the control over the asset.
- When the Company has transferred its rights to receive cash flows from an asset or has entered into a commitment with identical flows, and has not transferred or substantially retained all the risks and rewards of the asset, nor has it transferred control over the asset, the asset is recognized proportionally to the continued involvement of the Company in that asset. In this case, the Company also recognizes an associated liability.
- The asset transferred and associated debt are measured on a basis that points out the rights and obligations that the Company has retained. Continuing involvement in the form of a guarantee on the asset transferred is measured at the lowest of the initial carrying amount of the asset and the maximum of the amount that the Company may be required to reimburse.

2. THE BASIS FOR DRAWING UP FINANCIAL STATEMENTS (continued)

2) Impairment of financial assets

The Company assesses at each reporting date the extent to which there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is considered impaired if and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an "event causing loss") and whether the event that is causing loss has an impact on the future estimated treasury flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of depreciation may contain indications that the debtor or a group of borrowers are facing significant financial difficulties, non-compliance with the obligation to pay interest or principal, probability of bankruptcy or other form of financial reorganization and observable data indicates that there is a quantifiable decrease in estimated treasury flows, such as payment delays or variations in economic conditions associated with non-payment.

The carrying amount of the financial asset is reduced by impairment losses directly for all financial assets, except for trade receivables, in which case the carrying amount is reduced by using an impairment adjustment account. If a bad debt is considered to be irrecoverable, it is deleted and deducted from the impairment adjustment. Subsequent recoveries of previously deleted amounts are credited to the impairment adjustment account. Adjustments in the carrying amount of the impairment adjustment account are presented in "Other operating expenses".

3) Financial liabilities

Initial acknowledgement and assessment

Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and credits or as hedging instruments against risks under effective risk hedging, as appropriate. The Company determines the classification of its financial liabilities at initial acknowledgement.

Future assessment

The assessment of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at initial acknowledgement at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling them within the shortest period of time. This category includes derivative financial instruments concluded by the Company, that are not designated as hedging instruments in a hedging relationship as defined in IAS 39. Separately derivative incorporated instruments are also classified as held for trading if they are not designated as effective hedging instruments.

Profit or losses on debt held for trading are acknowledged in the profit and loss account.

Financial liabilities designated at initial acknowledgement at fair value through profit or loss are designated at their initial acknowledgement date and only if the criteria in IAS 39 are met.

The Company did not designate financial liabilities at fair value through profit or loss.

2. THE BASIS FOR DRAWING UP FINANCIAL STATEMENTS (continued)

Loans and credits

After initial acknowledgement, interest-bearing loans are subsequently measured at amortised cost using the effective interest rate method. Profit and losses are recognized in the profit and loss account when the liabilities are derecognized and during the amortization process at the effective interest rate.

Amortized cost is calculated taking into account any discount or premium on acquisition and any fees and costs that form an integral part of the effective interest rate. Depreciation at the effective interest rate is included in the profit and loss account under financing costs.

Derivative Agreements

The Derivative Agreements issued by the Company are agreements that require payments to be made to indemnify the owner for a loss because a particular debtor makes a payment under the terms of a debt instrument. Derivative Agreements are initially acknowledged as a liability at fair value, adjusted to transaction costs that are directly attributable to the issue of the guarantee. Subsequently, the liability is assessed at the highest value of the best estimate of the expense required to settle the present obligation at the reporting date and the amount recognized less the accumulated depreciation.

Derecognition

A financial liability is derecognized when the debt liability is extinguished, cancelled or expires. If a financial debt is replaced by another debt from the same creditor under substantially different conditions or if the terms of an existing debt change substantially, such exchange or change is dealt as a derecognition of the original liability and a recognition of the new debt. The difference between the related accounting values is acknowledged in the Profit and Loss account.

4) Clearing of financial instruments

Financial assets and financial liabilities are cleared, and the net amount reported in the statement of financial position only if there is currently a legal right to clear the acknowledged amounts and a settlement intention on a net basis or the capitalization of assets and settlement debt, simultaneously.

5) Fair value of financial instruments

The fair value of financial instruments that are traded on active markets at each reporting date is determined by reference to quoted market prices or the price determined by the broker (for a long term, the price is bidding, and the required price is given in the short term), without any deduction for transaction costs.

➤ Inventories

The main categories of inventories are raw materials, work in progress, semi-finished products, finished products, goods, spare parts, consumables and packaging.

The cost of inventories includes all purchase costs, production costs (including all direct and indirect costs attributable to the operating activity of the production) and other costs incurred in bringing inventories to their current status and location.

The value of finished and work in progress products includes raw material cost, direct labor, direct production costs and indirect production costs, including depreciation. Funding costs (interest expense) are not included in the value of inventories.

Inventories are valued at the lowest value of cost and net realisable value. Net realisable value is the estimated sales price under normal business conditions, less the estimated completion costs and sales costs.

2. THE BASIS FOR DRAWING UP FINANCIAL STATEMENTS (continued)

Upon inventory outflow, inventories are valued on a weighted average cost basis.

The Company periodically analyses inventories to determine if they are damaged, outdated, have slow movement, or if the net realizable value has dropped, making the necessary adjustments.

➤ **Impairment of non-financial assets**

The company assesses at each reporting date whether there are indications of impairment of an asset. If there are hints or if an annual testing is required for the impairment of an asset, the Company estimates the recoverable amount of the asset. The recoverable amount of an asset is the largest of the fair value of an asset (or a cash-generating unit) less the costs associated with the sale and its value in use. This is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those of other assets or groups of assets. When the carrying amount of an asset or a cash-generating unit is greater than its recoverable amount, the asset is considered impaired and its carrying amount is lowered to its recoverable amount.

When assessing the amount of use, estimated future cash flows are updated to their present value using a pre-tax rate that reflects current market assessments of time value of money and asset specific risks. When determining the fair value less the costs associated with the sale, recent market transactions are considered, if any. If such transactions cannot be identified, an appropriate assessment template is used. These calculations are corroborated by multiples of assessment, quoted share prices for listed subsidiaries or other available fair value indicators.

Loss from impairment of continuing operations, including depreciation of inventories, is acknowledged in the profit and loss account in the expense category consistent with the function of the depreciated asset, except for a property that was previously re-assessed, and the re-assessment was accounted for in other comprehensive income. In this case, impairment is also acknowledged in other comprehensive income to the amount of any previous re-assessment.

In each reporting period, an assessment is made to determine whether there are any indicators that previously acknowledged impairment losses or are no longer available or have decreased. If such an indication exists, the Company estimates the recoverable amount of the asset or of the treasury unit. An impairment loss previously acknowledged is reversed only if there has been a change in the assumptions used to determine the recoverable amount of the asset. The reversal is limited so that the asset's carrying amount does not exceed its recoverable amount and does not exceed the carrying amount of the asset if it had not been previously impaired. Such reversal is acknowledged in the profit and loss account unless the asset has been re-assessed, in which case the reversal is treated as a re-assessment increase.

➤ **Cash and short-term deposits**

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

➤ **Provisions**

General

Provisions are acknowledged when the Company has a current (legal or constructive) obligation arising from a prior event, it is probable that an outflow of resources embodying economic benefits is required to settle the obligation and the amount of the liability can be reliably estimated. If the Company expects a provision to be reimbursed in full or in part, for example under an insurance agreement, repayment is recognized as a separate asset, but only if the reimbursement is almost certain. The expense related to any provision is presented in the profit and loss account, distinguishable of any reimbursement.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

2. THE BASIS FOR DRAWING UP FINANCIAL STATEMENTS (continued)

Provisions are reviewed at each balance sheet date and adjusted to reflect the best current estimate of management in this respect. If an outflow of resources is no longer likely to be needed for the dissolution of an obligation, the provision shall be cancelled by resuming income.

Provisions for restructuring

Provisions for restructuring are recognized only when the general recognition criteria are met:

- The Company follows a detailed official plan that includes: the activity or part of the activity concerned, the place and number of affected employees, a detailed estimate of associated costs, and a corresponding timetable.
- The Company has created expectations that will carry out the reorganizing, starting to implement the plan in question or communicating to its people its main features.

A restructuring provision should include only the direct costs of reorganization, i.e. those that are necessarily generated by the restructuring process and are not associated with the entity's normal activities.

The Company has an implicit obligation when there is a formal detailed plan that identifies affected parties, locations, number of employees, a detailed estimation of associated costs, and appropriate planning. Moreover, the employees affected by the reorganizing were notified of it.

If the effect of time value of money is significant, provisions are updated using a pre-tax rate that reflects, if applicable, the specific debt risks. When the update is applied, the increase in the provision as a result of time passage is recognized as financing cost.

Environment provision

Environmental provision is acknowledged when water and soil contamination occur and there is a legal obligation to decontaminate or is acknowledged when there is an implicit obligation if the Company's policy is to carry out decontamination works, even if there is no legal obligation (past event is contamination, and public expectations are created by the Society's policy).

The company plans to make ecological remedies that will have the effect of monitoring soil and groundwater.

Litigation provisions

Litigation provisions are acknowledged when management estimates as probable cash outflows as a result of unfavourable disputes.

➤ Pensions and other post-employment benefits

As part of its current activity, the Company makes payments to the Romanian State on behalf of its employees for post-employment benefits (retirement). All employees of the Company are included in the pension scheme of the Romanian State. The Company does not operate any other pension scheme and, consequently, has no obligation regarding pensions. In addition, the Company is not required to provide additional benefits to existing or current employees other than those described below:

According to the collective labor agreement, the company grants employees a variable number of salaries according to their seniority within the company. This is a defined post-employment benefit scheme.

At the date of retirement, employees receive a bonus depending on their seniority within the Company as follows:

- Up to 20 years in the Society, a gross average wage at unit level;
- Between 20 - 30 years within the Company, 1 and ½ of the gross average wage at unit level;
- Over 30 years in the Company, 2 average gross wages at unit level.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

2. THE BASIS FOR DRAWING UP FINANCIAL STATEMENTS (continued)

Additionally, when employees are 50 years old, they receive a bonus based on seniority in the Company as follows (these being treated as other long-term employee benefits):

- 10-20 years in the Company, ½ of the basic salary;
- Over 20 years in the Society, a basic salary;

Provisions for employee post - employment benefits and other long-term employee benefits are estimated on the basis of the Company's collective labor agreement by external actuaries.

The Company uses the actuarial assessment method of the credit factor designed to assess the post-employment benefits and the cost of the related current services. This implies the use of demographic assumptions about future employees, current employees, and former employees who can benefit of these benefits (mortality rate, company departure rate, etc.), as well as financial assumptions (inflation rate, salary growth rate). If adjustments to key assumptions are required, the amounts of post-employment benefits may be significantly affected.

Actuarial profit and losses related to the post-employment benefit scheme are fully acknowledged in the period in which they arise in other comprehensive income. These actuarial profit and losses are acknowledged in the retained earnings and are not reclassified to profit or loss in subsequent periods.

Past service costs are acknowledged at linear expense over the remaining average until the benefits become legal. Previous service costs are immediately acknowledged if the benefits have already been legally due to the introduction or adjustment of the retirement plan.

The Company Policy for other long-term employee benefits is to acknowledge the full actuarial profit and losses in the period in which they arise within the profit and loss account.

➤ **Related Parties**

Parties are considered related when one of them has the ability to significantly control / influence the other party by ownership, contractual rights, family relationships, or otherwise. Related parties also include the Company's main owners, members of the management, members of the Board of Directors and members of their families, parties with which they jointly control other companies, post-employment benefit schemes for Company employees, members of the board of directors and the members of their families, the parties with whom they jointly control other companies, benefit plans following employment for Company employees.

➤ **Retained earnings**

The accounting profit left after the distribution of the 5% quota to the legal reserve, within the limit of 20% of the share capital, will be considered within the result reported at the beginning of the financial year following the one for which the annual financial statements are drafted, from where they will be distributed to the other legal destinations.

The distribution of the profit is carried out in consequence in the next financial year, after approving the distribution in the General Meeting of Shareholders, for example, the value of the dividends approved and other reserves according to legal regulations.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The drafting of the financial statements of the Company imposes the management to submit argumentation, estimates and assumptions that affect the values reported for revenues, expenditure, assets and liabilities, as well as the presented information that accompany them and to present the contingent liabilities at the end of the reporting period. Nevertheless, the existing uncertainty regarding these assumptions and estimates might result into a significant future adjustment of the accounting value of the asset or the liability impacted in the future periods.

Judgements

Throughout the application of the Company's accounting policies, the management has carried out the following judgements, which have the biggest impact on the amounts recognized in the financial statements:

- Company management has determined that the level of the provisions recognized reflects the level of risk the Company is exposed to;
- Company management has decided for the functional currency to be RON, considering the following aspects:
 - The costs of the company are mostly expressed in RON;
 - The revenues of the company are mostly expressed in RON, even though some revenues are based on prices expressed in EUR;
- Company management has carried out an analysis on the presentation of nature of the claw back tax and decided that it would be more suitable to classify it as a revenues reduction as well; the alternative would have been for this tax to be considered as an operational expense. Management has considered that this can be assimilated as a discount or a contingent adjustment on the sales carried out.
- Starting with 1 September 2018, as mentioned under Note 10- Intangible assets, Sanofi Romania has transferred to Zentiva SA the activity of distribution of generic medicines, based on the transfer contract approved on 7 March 2019 by the General Meeting of the Shareholders of Zentiva SA.

Management has analysed from an IFRS perspective, the recognition of this transaction considering the IFRS 3 indications and concluded that this transaction represents a business combination in the sense in which assets and processes have been transferred and through it, results, economic benefits are created. Basically, the contracts existing at the moment with local retailers for the distribution of generic medicines have been transferred (closed and concluded again on behalf of Zentiva), contractual relationships, as well as a certain number of employees with experience and knowledge in this activity.

From a fiscal point of view, the Company, as well as the seller, has analysed this transaction and it was considered as being a transaction that does not enter in the applicability area of VAT, qualifying as a transfer of activity under the terms of Article 270(7) of the Fiscal Code. Considering the fact that, until the approval of these financial statements, the Company has not yet carried out the allocation of the price on the individual transferred assets, in conformity with the IFRS 3 provisions, being possible to do this within a year from the transaction date, this allocation will be carried out in the financial year of 2019. So, the Company has continued with the registration of the price of this contract as Goodwill, reflected in the balance sheet as at 31 December 2018.

Estimates and assumptions

The main assumptions regarding the future and other important clauses of the uncertainty of the estimates at the reporting date, which present a significant risk to provoke an important adjustment of the accounting values of the assets and liabilities in the following financial year, are presented below.

Duties, taxes and tax provisions

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income.

All amounts due to state authorities have been paid or accrued at the balance sheet date. The Romanian fiscal system is undergoing a consolidation process and is being aligned with European legislation.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Different interpretations may be encountered at the level of the fiscal authorities in relation with the fiscal legislation, which may lead to additional taxes and penalties.

Where the State authorities have findings from reviews relating to breaches of Romania's tax laws, and related regulations these may result in: confiscation of the amounts in case; additional tax liabilities being payable; fines and penalties (that are applied on the total outstanding amount). As a result the fiscal penalties resulting from breaches of the legal provisions may result in a significant amount payable to the State.

At the end of each financial year, the Company makes an estimates of the potential fiscal risks to which it may be subject and determines the potential risk level, using the best estimates possible, and, in consequence, if the case, recognises a specific provision in the financial statements.

Inventories

The finished goods, merchandise and work in progress are recorded at the lowest of their costs and their net realizable value. Management analyses the age of the stocks, the expiration date of the products, the quality of the products and any potential nonconformity issues, products that cannot be sold afterwards or can be rejected based on quality problems, and considers their implications in establishing the net realizable value of old stocks.

The net realizable value is the sale price under normal business operation conditions, less the cost for the completion, marketing and distribution, considering the future evolution of sale prices. For the products with an expiration date smaller than 6 months, their entire value will be provisioned.

Management has analysed the net attainable value of the end products and the products being manufactured monthly, considering the sale prices of the market, as well as the regulation specific to the industry in which it operates.

For raw materials, a specific analysis considering the maturity, the expiration date, any potential quality problems of the elements in the balance is carried out. For the products with an expiration date shorter than a year, or with quality problems, their entire value will be provisioned

All the assumptions are revised on an annual basis.

Provisions for the environment and litigation

The Company recognised provisions for the environment in relation with ecological rehabilitation, soil monitoring and underground waters.

The Company recognised provisions for litigation in relation with the risk identified regarding certain trials going on in court, whose result is not sure.

The life span for the intangible assets and the depreciation method

The Company estimates the life span for the intangible assets elements in line with the consumption/usage rate for those assets.

The Company considers and uses the following depreciation methods:

- Linear, for the buildings and the assets purchased and commissioned before 1997;
- Accelerated/degressive for the assets purchased and commissioned after 1997.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)***Allowances for uncertain clients:***

The Company estimates allowances for uncertain clients (except for the clients within the Group or for associated parties) as a general depreciation, considering and analysing the due date and exceeding the due date for that claim:

- Over 360 days: 100%

For trade receivable and contractual assets, the Company applies a simplified approach when calculating the ECL (estimated credit loss) indicators. As a consequence, the Company does not track the modifications of the credit risk, but admit an adjustment based on ECL data for the entire life span at every reporting date. The Company has established a calculation matrix of the provisions which is based on the historical experience of credit losses, adjusted for the perspective factors specific to the debtors and the economic environment.

Discounts from sales from estimated returns, discounts, price discounts

Returns, discounts, stimulants and discounts related to some sales are recognised as sales discounts, in the period in which those sales have been recognised. These include provisions for price discounts within Governmental State Programs, which are estimated on the basis of specific terms and suitable legislation provisions and estimated according to those sales transactions. The provisions are subject to the continuous review and corresponding adjustment, based on the most recent information available.

4. STANDARDS, AMENDMENTS AND NEW INTERPRETATIONS OF STANDARDS**4.1 New modifications brought in the accounting policies starting with 1 January 2018**

Adopted accounting policies are in line with those from the previous financial year, with the exception of the IFRS changes, which have been adopted by the Company starting with January 1, 2018. These new standards and amendments do not have a significant impact on the consolidated financial statements of the Company. The Company has not adopted earlier any other standards, interpretations or amendments published but not in force.

IFRS 15 Revenues from contracts with clients and clarifications

IFRS 15 establishes a model in five phases which will be applied to the revenues coming from a contract concluded with a client (with limited exceptions), no matter the type of the transaction or the industry. Furthermore, the requirements of the standard will be applied for the recognition and evaluation of the gains and losses from the sale of certain assets of another nature than financial, which are not the result of the usual activity of the entity (for example, sale of tangible and intangible assets). It is necessary to present extended information, including the desegregation of the total revenues, information on the enforcement obligations, modifications of the assets and liabilities related to the contract between the periods and argument and key estimates.

The object of the clarifications is to clarify the intentions of the IASB when drafting the requirements of the IFRS 15 standard, especially in the accounting of the identification of enforcement obligations, modifying the formulation of the assets principle "identifiable in a distinct manner", of the considerations on the trustee or principal, as well as the application of the principle of control and of licensing, providing additional guidance on the accounting of the intellectual property and the royalties. In addition, the clarifications provide additional practical solutions available to entities which either apply IFRS 15 retroactively, or choose to apply the modified retrospective approach.

The Company has adopted the IFRS 15 using the modified retrospective method, by reflecting the cumulated effect of the initial application of this standard in equities at the date of the initial application (namely 1 January 2018). At the date of the transaction, the Company has not applied any derogation allowed by the standard.

4. STANDARDS, AMENDMENTS AND NEW INTERPRETATIONS OF STANDARDS (continued)

As a consequence, the information reported for 2017, including the notes, have not been retreated, being presented as it has been reported previously, in line with the IFRS standards and interpretations in force at the moment of the reporting.

The application of this standard (including the clarifications) starting with 1 January 2018 does not have a significant impact on the financial performance of the Company (revenues from contracts with clients) or on its financial position.

IFRS 9 Financial instruments: classification and evaluation

The final version of IFRS 9 Financial instruments reflects all the phases of the project on the financial instruments and replaces IAS 39 Financial Instruments: recognition and evaluation and all the previous versions of IFRS 9. The standard introduces new requirements on the classification and evaluation, depreciation and coverage accounting against risk.

The evaluation of the Company's business model has been carried out at the date of the initial application, January 1, 2018 and then applied retroactively for those financial assets that have not been recognised until January 1, 2018. Evaluation whether the treasury flows represent exclusively the payments of the principal and the interest related to the value of the principal own has been done on the basis of the existing facts and circumstances at the date of the initial recognition of the assets.

The application of this standard does not have a significant impact on the financial position or performance of the Company, mainly:

- Evaluation of the financial assets and liabilities (including the depreciation of financial assets) does not significantly modify;
- The operational treasury flows, those of investment and the financial ones and the result per share are not affected;
- The Company does not own coverage instruments against the currency risk.

a) Classification and assessment

IFRS 9 requirements on the classification and the measurement of financial instruments did not have a significant impact on the Company.

Modifications on the classification of the financial assets of the Company are the following:

- The trade receivables owned for the collecting of contractual cash flows and which create treasury flows represent exclusively principal and interest payments. These are classified and evaluated as receivable titles and continue to be evaluated at amortised cost (so that there is no modification regarding the evaluation of the trade receivables, except for the requirement to calculate the depreciation losses anticipated presented in the following);
- The company has no financial debts at fair value listed in their profit and loss account. There were no modifications in the classification and measuring of the Company's financial debts.

b) Impairment

In what regards the Company, the adoption of IFRS 9 has replaced the accounting for the expected credit losses based on a model of recognition of actual losses as per IAS 39 with a new anticipative model based on recognizing the impairment adjustments based on the expected credit losses. IFRS 9 requires the Company to recognize impairment adjustments for the expected credit losses for all its debt securities, others than those evaluated at fair value in the profit and loss account, and the contractual assets.

Upon the adoption of IFRS 9, taking into account that the impact has not been significant, the Company has not recognised additional impairments for its trade receivables.

4. STANDARDS, AMENDMENTS AND NEW INTERPRETATIONS OF STANDARDS (continued)**IFRS 2: Classification and evaluation of transactions with share-based payment (modifications)**

The modifications establish accounting requirements for the effects of the necessary vesting conditions and for the effects of the revocable vesting conditions on the evaluation of cash-settled share-based payments, of share-based transactions characterised by net settlement of the withholding tax, as well as for the modifications brought to the terms and conditions applicable to a share-based payment that changes the classification of a transaction from a cash-settled transaction to a transaction settled by issuing equity instruments. The management has evaluated that the implementation of such modifications has no impact on the Company's status or financial performance.

Interpretation of IFRIC 22: Foreign currency transactions and advance payments

The interpretation clarifies the manner of accounting for the transactions that include receiving or making foreign currency advance payments. The interpretation covers foreign currency transactions for which the entity acknowledges a non-monetary asset or a non-monetary debt derived from making or receiving an advance payment before the entity acknowledged the respective asset, expense or income. The interpretation stipulates that, in order to determine the exchange rate, the date of transaction is the date when the initial non-monetary asset paid in advance or the debt derived from the deferred income is recognised. Should there be several advance payments made or received, the entity must determine a transaction date for each advanced payment made or received. This interpretation has not yet been adopted by the EU. The management has assessed that the enforcement of these modifications have no impact on the Company's status or financial performance, since the company has already aligned its approach with these requirements.

IAS 40: Transfers made to Real estate investments (modification)

The modifications clarify the moment in which an entity must transfer real estates, including real estates under construction or development, to or from real estate investments. The modifications stipulate that a modification in use takes place when the real estate meets or no longer meets the definition for real estate investments and there is proof regarding the modification in use. A simple change in the management's intention regarding the use of a real estate is not proof of a modification in use. The Company does not currently own any real estate investments.

IASB has issued the Annual Improvements to IFRS – 2014 – 2016 cycle, which include a collection of modifications brought to IFRS. Early implementation is allowed for IAS 28 Long-term interests in associates and joint ventures. The modification has had no effect on the Company's financial statements.

IAS 28: Long-term interests in associates and joint ventures: The modifications clarify the fact that the choice to evaluate at fair value through the profit and loss account an investment in an associate or a joint venture owned by an entity representing a joint venture or by another entity that qualifies is available for each investment made in an associate or a joint venture for each investment, upon its initial recognition.

The standards and interpretations issued, but not in force, by the date of issue of the Company's financial statements, are listed below. The Company intends to adopt these standards, as the case may be, when they enter into force.

4.2 New standards, modifications and interpretations issued, but which are not in force for the tax year beginning on 1 January 2018 and which have not been adopted early

The standards and interpretations issued, but not in force, by the date of issue of the Company's financial statements, are listed below. The Company intends to adopt these standards, as the case may be, when they enter into force.

4. STANDARDS, AMENDMENTS AND NEW INTERPRETATIONS OF STANDARDS (continued)**IFRS 16: Leasing contracts**

The standard enters into force for annual periods beginning on or after 1 January 2019. IFRS 16 sets forth the principles for recognizing, evaluating, presenting and providing the leasing contract information of both contracting parties, that is the client ("the lessee") and the provider ("the lessor"). The new standard stipulates that all lessees must recognize the majority of the leasing contracts in their financial statements. The lessees shall have a single accounting model for all contracts, with certain exceptions. The lessor's accounting remains significantly unchanged. The management has assessed the impact of this standard on the financial statements.

The company has calculated an impact through the increase of assets representing usage rights and through the increase of lease obligations as of 1 January 2019 amounting to RON 5.66 million, an amortisation charge for the usage right of RON 1.79 million for 2019 and an interest charge of RON 0.34 million.

Modification to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures: asset sale or contribution between an investor and its associate or joint venture

The modifications refer to an inconsistency identified between the requirements of IFRS 10 and those of IAS 28, regarding the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the modifications is that a total gain or loss is recognized when the transaction involves an enterprise (regardless of whether or not it is a subsidiary). A partial gain or loss is recognized when the transaction involves assets that do not represent an enterprise, even if they are subsidiaries. In December 2015, IASB has deferred indefinitely the date of enforcement of this modification while waiting for the results of a research project regarding the equity method based accounting. The management has assessed that the implementation of the modifications will have no impact on the Company's status or financial performance.

IFRS 9: Features of negative offset advance payments (Modifications)

The modification enters into force for the annual periods beginning on or after January 1st 2019 and early implementation is allowed. The modification allows for the financial assets with advance payment features that allow for or require that a contracting party pay or receive a reasonable compensation for early contract cancellation (so that, from the asset owner's perspective, there may be a "negative offset") to be evaluated at amortised cost or at fair value through other elements of global outcome. These modifications have not yet been implemented by the EU. The Company does not currently own financial assets with advance payment features.

IAS 28: Long-term interests in associates and joint ventures (Modifications)

The modifications enter into force for the annual periods beginning on or after 1 January 2019 and their early implementation is allowed. The modifications refer to whether the evaluations and especially the requirements regarding the impairment of long-term interests in associates and joint ventures which, in the end, are part of the "net investment" in the associate or joint venture in question should be governed by IFRS 9, IAS 28 or a combination of these two standards. The modifications clarify the fact that an entity implements IFRS 9 Financial instruments before it implements IAS 28 to those long-term interests to which the equity method does not apply. When applying IFRS 9, the entity does not take into account the adjustments to the accounting value of the long-term interests generated by implementing IAS 28. These modifications have not yet been adopted by the EU. The Company does not currently own long-term interests in associates and joint ventures.

4. STANDARDS, AMENDMENTS AND NEW INTERPRETATIONS OF STANDARDS (continued)**Interpretation of IFRIC 23: Uncertainty regarding the treatments applied to the corporate tax**

The interpretation enters into force for the annual periods beginning on or after 1 January 2019 and early implementation is allowed. The interpretation approaches the accounting of corporate taxes when tax treatments entail an uncertainty degree that affects the implementation of the IAS 12 standard. The interpretation offers guidance regarding the analysing of certain individual or joined tax treatments, the inspections carried out by the tax authorities, the adequate method that would reflect the uncertainty and the accounting of the modification of events and circumstances. This interpretation has not yet been adopted by the EU. The management has assessed that the implementation of these improvements will have no impact on the Company's status or financial performance.

IAS 19: Modification, curtailment and settlement of the plan (Modifications)

The modifications enter into force for the annual periods beginning on or after 1 January 2019 and early implementation is allowed. The modifications require companies to use updated actuarial calculation hypotheses in order to determine the actual cost of the service and the net interest for the rest of the reporting period left after the modification, curtailment or settlement of the plan. The modifications also clarify the manner in which the accounting of the modification, curtailment or settlement of the plan affects the implementation of the requirements regarding the asset threshold. These modifications have not yet been adopted by the EU. The Company does not currently have any plans falling under the scope of these modifications.

The conceptual framework in the IFRS standards

IASB has issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets forth a set of comprehensive concepts for financial reporting, establishment of the standards, guidance for those who draft financial statements in drafting consistent accounting policies and assistance for the users in understanding and interpreting the standards. IASB has also issued a separate attached document, Modifications of the References to the Conceptual Framework in the IFRS standards, that sets forth the modifications brought to the affected standards in order to update the references for the revised Conceptual Framework. The objective of the document is to support the transition to the revised Conceptual Framework for the entities that develop accounting policies using the Conceptual Framework when no IFRS standard applies to a certain transaction. For those drafting financial statements and developing accounting policies based on the Conceptual Framework, the document enters into force for annual periods beginning on or after 1 January 2020.

IFRS 3 Business combinations (Modifications)

IASB has issued modifications regarding the Definition of an enterprise (Modifications brought to IFRS 3) in order to solve the difficulties occurring when an entity determines whether it has purchased an enterprise or a group of assets. The modifications are in force for the business combinations whose purchase date falls within the first annual reporting period beginning on or after 1 January 2020 and for the purchases of assets occurring at or after the beginning of that period, and early implementation is allowed. The management has estimated that the implementation of these amendments will not have any impact on the Company's status or financial performance.

4. STANDARDS, AMENDMENTS AND NEW INTERPRETATIONS OF STANDARDS (continued)

IAS 1 Presentation of the financial statements and IAS 8 Accounting policies, modifications of the accounting estimates and errors: Definition of the term “significant” (modifications)

The modifications are in force for the annual periods beginning on or after January 2020, and early implementation is allowed. The modifications clarify the definition of the term “significant” and the manner in which it must be implemented. The new definition mentions that “The information is significant if the omissions, erroneous statements or its hiding would reasonably lead to influencing the decisions that the primary users of the general purpose financial statements take based on those financial statements, which provide financial information regarding a certain reporting entity”. The explanations accompanying the definition have also been improved. The modifications also ensure that the definition of the term “significant” is preserved throughout the IFRS Standards. The management has estimated that the implementation of these amendments will not have an impact on the Company’s status or financial performance.

IASB has issued the Annual Improvements to IFRS – 2015 – 2017 cycle, which represent a collection of modifications brought to the IFRS. The modifications enter into force for annual periods beginning on or after January 1st 2019, early implementation being allowed. These annual improvements have not yet been adopted by the EU. The management has evaluated that the implementation of these improvements will not have an impact on the Company’s status or financial performance:

- **IFRS 3 Business combinations and IFRS 11 Joint commitments:** The modifications brought to IFRS 3 clarify that, when an entity gains control over an enterprise that is a jointly controlled operation, it shall reevaluate the interests previously owned in the enterprise in question. The modifications brought to IFRS 11 clarify that, when an entity gains joint control over an enterprise that is a jointly controlled operation, the entity does not reevaluate the interests previously owned in the enterprise in question.
- **IAS 12 Corporate tax:** The modifications clarify that the effects on the corporate tax for the payments regarding financial instruments classified as equity, must be recognized according to the manner in which the past transactions or events that have generated distributable profit have been recognized.
- **IAS 23 Indebtedness costs:** The modifications clarify point 14 of the standard, according to which, when a qualifiable asset is available for its desired use or for sale and some of the specific loans afferent to the qualifiable asset in question remain outstanding at that time, the loan in question must be included in the funds borrowed by an entity, in general.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

5. SALES OF GOODS AND RENDERING OF SERVICES AND RAW MATERIAL AND CONSUMABLES EXPENSES

5.1 Turnover

For management purposes, the company is organised in business units function of its products and services. The company has a single reportable segment, namely the production of drugs.

The Company's management monitors the operating results of the unit as a whole for the purpose of making decisions regarding the allotment of resources and the assessment of performance. Performance is assessed based on the operating profit or loss, the gross profit or loss and it is quantified consistently with the operating profit or the loss in the financial statements.

The Company monitors the sales transactions, considering the domestic and the foreign sales.

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--------------------------------------|---|---|
| Domestic sales | 209,155,998 | 248,634,287 |
| Sales abroad | 252,249,233 | 209,742,758 |
| Total turnover | 461,495,231 | 458,377,045 |
| a) Rendering of services | 27,131,315 | 30,403,034 |
| b) Sales of goods, including: | 425,797,246 | 426,814,357 |
| Sales of finished goods | 335,022,857 | 413,796,181 |
| Sales of goods for resale* | 120,995,336 | 27,380,321 |
| Residual products | 167,050 | 167,942 |
| Claw back tax expense | (30,387,997) | (14,530,086) |
| c) Other revenues | 8,467,670 | 1,159,653 |

**The amount included on this line has been influenced by certain non-recurring transactions as a result of the process of separating from the Sanofi Group.*

Clawback tax

Starting on the last quarter of the financial year ending on 31 December 2009, within the pharmaceutical industry, for the companies which held Marketing Authorisations (MA) for certain medicinal products, a new tax was introduced and this was called the `clawback tax`.

For the purpose of funding the public health expenses, the MA holders included in the national health programs have the obligation to pay the clawback tax quarterly for the respective sales of medicinal products corresponding to the respective quarter based on the notifications received by the company from the National Health Insurance House Fund (CNAS).

The contribution (the clawback tax) should be paid by the MA holders or by their legal representatives, if these medicinal products are:

- Prescribed within the health system in Romania;
- Used in the ambulatory treatment (with or without the patient's contribution) based on the doctor's prescription and available in pharmacies, hospitals or used as part of the medical treatment within the dialysis clinics.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

5. SALES OF GOODS AND RENDERING OF SERVICES AND RAW MATERIAL AND CONSUMABLES EXPENSES (continued)

Starting with 2011 the calculation method is detailed in the Government Emergency Ordinance 77 (*published in December 2011*). As a result, the quarterly contribution is calculated by applying to a percentage “p” on the sales made by each of the APP holders (the taxpayers), the percentage „p” being determined by referring to the actual level/ the value of the medication consumption, which is financed by the National Health Insurance Fund (CNAS) by the budget of the Ministry of Health. The value of the percentage “p” and the total medication consumption registered in statistics in the public healthcare system is communicated to the taxpayers by the National Health Insurance Fund CNAS at the end of the trimester the following month.

Starting with the year 2012, the calculation was modified by Emergency Ordinance 110, *published in September 2012*. The new calculation method is based on information about the actual consumption from the market, which is received by each taxpayer from the National Health Insurance Fund.

The company recognized this tax as a reduction of the value of the Company sales which were made during the year.

Starting with the 1 September 2018, as part of the process of separation of the generic medication division, Zentiva has become the holder of the marketing authorization in Romania for these products and as a result also the taxpayer of the claw - back tax for these products deducted by the National Health Insurance Fund („CNAS”) for the 3rd trimester of the current year (including for the products sold by Sanofi Romania SRL and deducted by CNAS between July - August 2018).

The claw back tax relative to the year 2018 in the amount of RON 30,387,997, includes the claw back tax relative to the July - August 2018 timeframe in the amount of RON 7,593,117 relative to the generic medication for which initially Sanofi Romania SRL (entity from the same Group as Zentiva SA up to the date of 30 September 2018) was the holder of the marketing authorization on the Romanian market for these products.

The invoiced income from the claw back tax relative to Sanofi Romania SRL sales deducted by The National Insurance Fund CNAS during July - August 2018 (in the amount of RON 7,593,117) is presented in the category „Other revenues” – see the above table.

5.2. Raw material expenses

| Raw materials and consumables used | Notes | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---|--------------|---|---|
| Raw materials | 1 | 126,946,245 | 117,342,012 |
| Cost of Goods for resale | | 28,133,164 | 14,565,544 |
| Packaging materials | 2 | 44,156,390 | 40,765,433 |
| Auxiliary materials | 3 | 9,056,169 | 8,439,359 |
| Utilities | 4 | 9,008,388 | 8,329,419 |
| Other material expenses | 5 | 10,649,021 | 7,200,947 |
| Total | | <u>227,949,377</u> | <u>196,642,714</u> |

The amounts mentioned in the above table on the reference lines 1, 2, 3 represent mainly expenses with raw materials and the direct materials (the amount mentioned at line 2 was reduced by RON 4.8 million representing a discount received by the Company for certain products purchased as occasioned by the separation transaction from the Sanofi group), the packages and auxiliary materials, used in the production activity. The amounts mentioned at reference number 4 – utilities - refer mainly to the expenses with energy and water.

5 – in this category are registered mainly the expenses with unstocked material relative to the section of certification of the products produced in Turkey and India, which are going to be distributed on the market of the EU member states, as well as for the certification of the products existing in the Zentiva SA portfolio.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

6. OTHER INCOME / OTHER EXPENSES AND ADJUSTMENTS

6.1 Other operating income

| Other operating income | 1 January – 31 December 2018 | 1 January – 31 December 2017 |
|--------------------------------------|---|---|
| Gain/ (loss) from disposal of assets | - | (159,722) |
| Services to Sanofi Romania SRL | 225,969 | 3,784,646 |
| Other operating income | 263,707,967 | 1,585,023 |
| Total | 263,933,936 | 5,209,947 |

The Company recognize revenues from re-invoicing of some services offered by the Zentiva employees to Sanofi Romania SRL (sister company) – MHR (Manhour) which decreased during the current year in comparison to last year because starting with the 1 April 2018, the Zentiva SA employees, which had been generally providing services for the commercial activity of the Sanofi Group, were transferred to Sanofi Romania SRL and not for the production and advertisement of generic products.

On the 31 December 2017, within “Other operating income”, the Company acknowledged as services towards Sanofi Romania SRL, some services referring to the marketing and advertisement of some products under the brand Sanofi Romania.

On the 31 December 2018, within “Other operating income”, the Company acknowledged the following income categories:

- income from the transfer of intellectual properties (IP) related to 5 product families of the type “CHC”. The local IPs, which are the subject of the transfer include files (the “know-how” about the production of the products, containing the formula, concentration and the Galenic units of the product), the associated commercial brands, the market authorizations (the official registering of the formula and of the concentration on the target market) and the domain names, based on the sales contract signed on the 1 September 2018 between Zentiva SA and Sanofi Group with the sum of RON 249,022,981 (representing the equivalent of the sum of EUR 53,485,466).

This transaction took place as a part of the transfer of the generic division from Sanofi Group to Advent International NV and was determined based on the evaluation report prepared by an independent external consultant.

The main hypothesis taken into account for determining the value of the sale price were:

- The weighted average cost of the capital for the division of CHC from Romania was estimated at 8.9%.
- For 4 products, the average annual growth rate of 3,6% during the prognosis period was taken into account, for another product the average growth rate was of 10.9%.
- Income from granting a license for a market release for a number of 9 production files for some generic products based on the sales contract signed on the 1 September 2018 between Zentiva SA and Sanofi Group in the sum of RON 1,479,356 (representing the equivalent of the sum of EUR 317,738).

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

6. OTHER INCOME / OTHER EXPENSES AND ADJUSTMENTS (continued)

6.2 Other operating expenses

| Other expenses | 1 January – 31 December 2018 | 1 January - 31 December 2017 |
|--|---|---|
| Management service expenses from Zentiva Group | 30,374,379 | 9,725,537 |
| Promotion/MHR expenses from Sanofi Romania SRL | 7,245,229 | 10,157,357 |
| Repair expenses | 9,966,583 | 6,234,767 |
| Sponsorship | 59,920 | 24,053 |
| License – Zentiva trade mark | 5,684,517 | 6,973,374 |
| Travel expenses | 2,105,985 | 1,637,044 |
| Write-off of inventories | 2,011,055 | 2,190,793 |
| Registration fees to ANM | 3,655,102 | 728,538 |
| Professional fees | 1,517,411 | 728,745 |
| Telecommunication expenses | 518,715 | 659,331 |
| Fines and penalties | 1,696,105 | 41,839 |
| Other expenses | 47,756,681 | 31,304,951 |
| Net allowance for inventories and receivables | 9,269,212 | 427,547 |
| Total | 119,560,893 | 70,833,876 |

The costs with services from the group include a large variety of services (see below) and have increased significantly in 2018 compared to the previous year, especially in the last months of the current year after the acquisition of the Company by Advent International NV, when the Company received support from the Group for implementing the new procedures and integrating in the new activity model of the Group to which it currently belongs.

Management support services representing the product portfolio management and its development (monitoring, assistance regarding transfers, projects for production process optimization of the Company), for the acquisition process (monitoring suppliers, negotiating the main contracts for raw material), legal support (international reviewing and supporting/complex situations linked to the business environment in Romania) and financial services (monitoring sales, support for planning and optimizing the production cost, defining the production flow for the local production capacity).

Sales marketing and advertisement services: support for the launch of new products, monitoring services and improving performance on the local market, reviewing the business plan based on the decisions of the management and in accordance with the best practices and policies of Zentiva Group.

Production and logistic services: support for the production flow, of managing and optimizing transport costs, of monitoring and support for the local production capacity performance optimization, exchange of good practices between the companies with production capacity of Zentiva Group.

IT support services: maintaining IT systems (SAP and other common apps used by all entities within the group), operational services and support for daily activities regarding the IT infrastructure and software being used, of IT project management and execution relevant on a local level. These costs have risen significantly in 2018 compared to 2017, especially because the fact that starting with the 1 August 2018 the Company uses a new ERP and other apps.

Advertising costs mainly cover the equivalent value of advertising services carried out by the employees of Sanofi Romania SRL for the existing products in the Zentiva portfolio and shared by it on the local market (until the 30 September 2018). These services were paid based on an hourly tariff (man / hour).

ZENTIVA SA**NOTES TO THE FINANCIAL STATEMENTS****for the financial year ended on 31 December 2018**

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

6. OTHER INCOME / OTHER EXPENSES AND ADJUSTMENTS (continued)

ANM product registration fees - this year's increase compared to the previous year is mainly due to taxes paid by the Company to state authorities (e.g. the National Medicines Agency for the registration of new drugs produced by the Company).

Other expenses include: expenses for studies and research for the pharmaceutical field, expenses for production authorization, equipment maintenance and repair, transport, security, Intranet and other miscellaneous costs. In this category, there are included also the leasing services of Lugera & Makler Romania SRL and the services re-invoiced by Sanofi Romania SRL according to the hourly rate of the employees who have provided services for Zentiva SA other than the promotional ones that are presented above. These costs increased in 2018 compared to 2017 as they are directly related to the Company's production activity that increased in the current year compared to the previous year.

Repair services include: repair services related to the production equipment and repairs related to the fleet.

The Company presents the amounts in relation to the increase and use for impairment for inventories and receivables under "Other operating expenses" if the net impact is expense. At 31 December 2018, the net value of impairment for inventories and receivables in the amount of RON 9,269,212 (2017: RON 427,547) and is represented only by the increase in the provision for inventories. Also, in 2017, this line also presented the impact of receivables that were carried at the expense and for which the Company had not recorded a provision for depreciation of the value of these receivables in the amount of RON 45,910, for more details see the comments included in **Note 12: Inventories** as well as in **Note 13: Trade receivables and other receivables / currents**.

6.3 Finance cost

| Financial expenses | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|-------------------------------|---|---|
| Foreign exchange loss expense | 18,256,427 | 7,961,716 |
| Interest expenses | - | - |
| Total | <u>18,256,427</u> | <u>7,961,716</u> |

Expenses on exchange rate fluctuations increased significantly during the year 2018 compared to the previous year, due to the unfavourable evolution of RON / EUR and RON / USD respectively and in the same trend as the exchange rate gains - for further details please see comments from the note **6.4**

Financial Income.**6.4 Finance Income**

| Finance Income | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|------------------------------|---|---|
| Foreign exchange gain income | 17,431,360 | 7,915,581 |
| Interest income | 5,946,457 | 910,644 |
| Total | <u>23,377,817</u> | <u>8,826,225</u> |

Interest income is accrued interest earned on the cash pooling account - for more details see the notes included in **Note 11. Other Financial Assets**.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

6. OTHER INCOME / OTHER EXPENSES AND ADJUSTMENTS (continued)

6.5 Employee benefits expense

| Employee benefits expense | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|---|---|
| Wages and salaries | 58,031,663 | 46,411,780 |
| Social security costs | 2,398,536 | 10,875,289 |
| Post-employment benefits and other long-term benefits - net impact | 748,526 | 236,000 |
| Other short-term benefits (*) | 2,071,724 | 1,540,354 |
| Total | <u>63,250,448</u> | <u>59,063,423</u> |

() this expense is the equivalent of the meal vouchers granted.*

6.6 Marketing and Advertising Expense

The Company recognizes the expenses generated by TV promotion campaigns and other media advertising as marketing and advertising expenses.

The Company collaborates with local media production companies for these campaigns.

In 2018, for advertising campaigns, advertising contracts were concluded especially with the advertising agency Mindshare Media, the total value of these services being RON 3,858,526 (2017: RON 7,554,765 representing the value of the advertising contracts concluded with the agency Lion Communication) as well as with other advertisers.

The products for which there were advertising campaigns in 2018 are:

- Antinevralgic and Antinevralgic Forte
- Dicarbocalm
- Ibalgin
- Modafen

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

7. INCOME TAX AND DEFERRED TAX

| Income tax expense | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---------------------------------------|---|---|
| Current income tax | 54,240,644 | 18,871,520 |
| Deferred tax (7.2 / expense (income)) | <u>(1,460,459)</u> | <u>(1,588,246)</u> |
| Total | <u>52,780,185</u> | <u>17,283,274</u> |

7.1 Income tax - current

The main components of corporation tax expense and reconciliation between tax expense and accounting and tax revenue for the year ended 31 December 2018 and 2017 are:

| Tax reconciliation | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|--|---|---|
| Profit before income taxes | <u>315,401,161</u> | <u>106,926,030</u> |
| Income taxes calculated at the tax rate applicable in Romania of 16% (2017: 16%) | 50,464,186 | 17,108,165 |
| Non-taxable incomes | (918,477) | (2,403,231) |
| Non-deductible expenses for tax calculation | 3,234,476 | 2,602,393 |
| Fiscal credit | - | (24,053) |
| Income taxes reported in the income statement | <u>52,780,185</u> | <u>17,283,274</u> |

| Movement in the current income tax during the year | 31 December 2018 | 31 December 2017 |
|---|-----------------------------|---------------------------------|
| Balance on 1 January | <u>3,486,825</u> | <u>4,071,379</u> |
| Income tax expenses for the current year | 54,240,644 | 18,871,520 |
| Income tax paid during the year | <u>(49,490,622)</u> | <u>(19,456,074)</u> |
| Balance at 31 December | <u>8,236,848</u> | <u>3,486,825</u> |

7.2 Deferred tax

The Company offsets deferred tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities and relate to income taxes levied by the same tax authority.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

7. CURRENT INCOME TAX AND DEFERRED (continued)

Deferred tax refers to the following:

| Deferred income tax | | | Income statement and equity movement/Retained earnings | |
|---|--------------------|---------------------|--|--------------------|
| | 31 December 2018 | 31 December 2017 | 2018 | 2017 |
| - Deferred income tax assets | | | | |
| Employee benefit liability | 396,640 | 290,080 | 106,560 | 101,920 |
| Provisions, including depreciation for tangible assets (Note 12,17) | 3,090,086 | 2,055,085 | 1,035,001 | (220,588) |
| Intangibles | - | - | - | (8,551) |
| Estimate of the provision for employee's management and for leaves not taken (Note 18, 6.5) | 1,225,478 | 1,173,079 | 52,399 | 150,675 |
| Total (a) | 4,712,203 | 3,518,244 | 1,193,960 | 23,456 |
| - Deferred income tax liabilities | | | | |
| Property, plant and equipment- recognized in the income statement | (2,168,753) | (2,435,252) | 575,580 | 1,564,790 |
| Property, plant and equipment- recognized in equity | (7,577,398) | (7,577,398) | - | (7,160,364) |
| | | | | (5,595,574) |
| Total (b) | (9,746,151) | (10,012,650) | 575,580 | 4 |
| Net deferred tax income (a) - (b) | (5,033,947) | (6,494,406) | 2,359,262 | (5,572,118) |

The deferred tax – liabilities related to property, plant and equipment is generated by the temporary difference between fiscal and accounting based of the carrying value of the property, plant and equipment and is mainly related to different useful life and depreciation method.

The Company recognizes items in profit and loss account and equity, as follows:

| | 2018 | 2017 |
|-------------------------------------|--------------------|------------------|
| Deferred tax | - | - |
| Recognized in profit and loss (7.1) | (1,460,459) | (1,588,246) |
| Recognized in equity | - | 7,160,364 |
| Total | (1,460,459) | 5,572,118 |

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

8 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these financial statements.

9. PROPERTY, PLANT AND EQUIPMENT

| | <u>Land</u> | <u>Buildings</u> | <u>Machinery, tools and equipment</u> | <u>Constructio ns in progress</u> | <u>Total</u> |
|--|-------------------|--------------------|---|---|----------------------|
| Gross Value at 1 January 2017 | 11,421,897 | 47,575,975 | 154,451,495 | 12,408,382 | 225,857,749 |
| Additions | - | - | - | 16,828,276 | 16,828,276 |
| Disposals | (991,003) | - | (769,075) | (950,108) | (2,710,186) |
| | | 12,349,217 | | | |
| Impact on revaluation reserve | 32,072,782 | 7 | - | - | 45,250,864 |
| | (43,661) | (8,982,716) | - | - | (9,026,317) |
| Reevaluation Impact in the income statement | (785,264) | (5,547,078) | - | - | (6,332,342) |
| Depreciations written-off after reevaluation | - | 2,082,203 | 11,283,745 | (13,365,948) | - |
| | | 47,477,601 | | | |
| Transfers | 42,503,676 | 1 | 164,966,165 | 14,921,285 | 269,868,727 |
| Gross value at 31 December 2017 | | | | | |
| Depreciation and impairment at 1 January 2017 | (991,003) | (3,881,301) | (123,771,148) | (1,051,649) | (129,695,101) |
| | | (2,438,066) | | | |
| Charge for the year | - | 6 | (9,794,197) | - | (12,232,263) |
| Disposals | (991,003) | - | (508,010) | (1,051,649) | (2,550,662) |
| Depreciation written-off after reevaluation | - | (6,332,342) | - | - | (6,332,342) |
| | | 2 | | | |
| Depreciation and impairment at 31 December 2017 | - | (12,975) | (133,057,335) | - | (133,044,360) |
| Net book value 31 December 2017 | 42,503,676 | 47,490,576 | 31,908,830 | 14,921,285 | 136,824,367 |

ZENTIVA SA**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

9. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Land | Buildings | Machinery, tools and equipment | Constructio ns in progress | Total |
|--|-------------------|--------------------|--------------------------------------|----------------------------------|----------------------|
| Gross value on 1 January 2018 | 42,503,676 | 47,477,601 | 164,966,165 | 14,921,285 | 269,868,727 |
| Additions | - | - | - | 19,356,486 | 19,356,486 |
| Disposals | - | - | (439,022) | - | (439,022) |
| Transfers | - | - | 8,439,329 | (8,439,329) | - |
| Gross value at 31 December 2018 | 42,503,676 | 47,477,601 | 172,966,472 | 25,838,442 | 288,786,191 |
| Depreciation and impairment on 1 January 2018 | - | (12,975) | (133,057,335) | - | (133,069,614) |
| | | (3,590,332) | | | |
| Depreciation in the year | - | 2) | (8,330,483) | - | (11,920,815) |
| Disposals | - | - | 439,022 | - | 439,022 |
| Depreciation and impairment on 31 December 2018 | - | (3,603,307) | (140,948,100) | - | (144,551,408) |
| Net book value 31 December 2018 | 42,503,676 | 43,874,294 | 32,018,372 | 25,838,442 | 144,234,783 |

The value of fully depreciated assets at 31 December 2018 is RON 118,680,154 (2017: RON 113,223,625).

Revaluation of fields and buildings

As of 31 December 2017, the Company carried out the revaluation of the existing field and buildings in the Company's patrimony. The reassessment was made by an independent evaluator in accordance with the International Valuation Standards.

The net impact of the revaluation was in the amount of RON 36,224,547 and was recorded as follows: RON 45,250,864 as a revaluation reserve increase (see Note on the "Statement of Changes in Equity") and 9,026,317 RON respectively impact of the Global Result in the " Depreciation, amortization and impairment " line representing the loss in value of the buildings resulting from their revaluation as at 31 December 2017.

Fair value was determined by reference to market information, using the cost approach as the primary approach in the Market Approach (Direct Comparison Method) for land valuation and Income Approach (direct capitalization method) as a secondary valuation method.

Valuation techniques are selected by the independent evaluator in accordance with the International Valuation Standards, the type of property and the purpose of the valuation. Applying techniques and methods of measurement are in line with common practice for the type of asset valued.

Fair value is generally determined by using level 2 and 3 data in the fair value measurement hierarchy.

The data used in the evaluation were:

- Level 2 entry data based on the IFRS 13 classification (e.g. current rents, prices per sqm, returns, occupancy etc. available on the market for similar assets and other market related data), or
- Level 3 (unobservable) input data that represents, for example, assumptions about operating costs, replacement costs, depreciation adjustments - mostly derived from publicly available technical studies (as opposed to data taken directly from the market), with adjustments made by the evaluator.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

9. PROPERTY, PLANT AND EQUIPMENT (continued)

The outcome of the valuation is influenced by the main market data used, such as the market value per square meter for field (estimated at 120 EUR / sqm), the estimation of the gross replacement costs (which were estimated using locally recognized cost catalogues) and estimation of depreciations (which were based on the physical condition of assets at the time of valuation).

Estimating fair values through income approach and allocation of values based on net replacement costs of construction and observance of the valuation standard specific to the accounting purposes would have resulted in an identical value allocated to the constructions and a residual value allocated to the land by approx. 5% higher.

The Company did not disclose the net account value of field and buildings if they were accounted for using historical cost method as this information is not available.

Investments in progress

Investments in progress as at 31 December 2018 amounting to RON 23,906,689 (2017: 14,921,285 RON) include mainly acquisitions of production equipment.

On 31 December 2016, the Company recorded a provision for the current investments of RON 1,051,649 for investments made in previous periods for SMB Laboratories and the production line for syrups that were not finalized by that date.

During 2017, the management of the Company decided to cancel these investments and reversed the provision for impairment of current investments as at 31 December 2016, the impact being recorded in the category "Gain / (loss) from the sale of assets" - for more details see Note 6.1. "Other operating income".

During 2018 some of the investments started during the year and in the previous periods were completed, being transferred from the category of tangible assets under construction into machines, machinery and equipment. Their total value was RON 8,439,329 (2017: RON 13,365,948) In the first two months of 2019, the Company put into operation equipment's and equipment amounting to RON 13,905,338 from those existing on 31 December 2018 in the category of investments under execution.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018
(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

10. INTANGIBLE ASSETS

| | Developmen t costs | Other intangibl e assets | Fixed assets and advances | Total |
|--|-----------------------|--------------------------------|------------------------------------|--------------------|
| Costs on 1 January 2017 | 63,532 | 4,127,902 | 726,465 | 4,917,899 |
| Additions | - | - | 178,618 | 178,618 |
| Outputs | - | (11,280) | - | (11,280) |
| Transfers | - | - | - | - |
| Costs at 31 December 2017 | 63,532 | 4,116,622 | 905,081 | 5,085,235 |
| Depreciation and impairment on 1 January 2017 | 63,532 | 3,664,256 | 430,583 | 4,158,371 |
| Depreciation in the year | - | 169,169 | - | 169,169 |
| Outputs | - | (11,280) | - | (11,280) |
| Depreciation and impairment on 31 December 2017 | 63,532 | 3,822,145 | 430,583 | - |
| Net value at 31 December 2017 | - | 294,477 | 474,498 | 768,975 |
| Costs on 1 January 2018 | 63,532 | 4,116,622 | 905,081 | 5,085,235 |
| Additions | - | 2,911,242 | - | 2,911,242 |
| Outputs | - | - | - | - |
| Transfers | - | 279,381 | (279,381) | - |
| Costs at 31 December 2018 | 63,532 | 7,307,244 | 625,700 | 7,996,476 |
| Depreciation and impairment on 1 January 2018 | (63,532) | (3,822,145) | (430,583) | (4,316,259) |
| Depreciation in the year | - | (215,668) | - | (215,688) |
| Outputs | - | - | 430,583 | 430,583 |
| Depreciation and impairment on 31 December 2018 | (63,532) | (4,037,812) | - | (4,101,344) |
| Net value at 31 December 2018 | - | 3,269,432 | 625,700 | 3,895,132 |

11. GOODWILL - PROVISIONAL ALLOCATION

The Sanofi Group sold the generics division in Europe and, as a result, resulted in more operations within the group.

Zentiva SA was included in this separation process, which was completed at the end of September 2018, when Advent International NV acquired the Sanofi Group Generic Medicines Division in Europe.

Starting with September 2018, Sanofi Romania SRL, which was the distributor on the Romanian market of generic's drugs produced by Zentiva SA up to this date, transferred the distribution activity to Zentiva SA, based on the transfer contract of the distribution activity, contract which was approved on 7 March 2019 by the General Shareholders' Meeting of Zentiva SA.

Starting this time, Zentiva has begun direct distribution on the Romanian market of generic 's drugs produced in Romania and imported from other entities in the Group through local distributors.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

11. GOODWILL - PROVISIONAL ALLOCATION (continued)

The price for generic distribution transfer was determined by applying the updated cash flow , the income approach, using the management's assumptions, namely: with an update rate of 9.2%, the average annual growth rate of 7.4% net sales growth over the forecast period (up to 31 December 2022) of 7.4%, mainly in line with the projected evolution of the pharmaceutical market from Romania. The forecast of the profit and loss account for the Generics division was presented by management based on the source of local production (produced by Zentiva in Romania) and imports from other Sanofi entities.

Total operating profit generated by the Generics division is projected to increase in absolute terms with an average annual rate of 4.3%.

A market value sensitivity analysis was performed, taking into account variations in the discount rate, perpetuity growth rate and distribution margin.

Thus, taking into account the assumptions and valuation methods used in the valuation analysis and the results of the sensitivity analysis, the indicative market value of the Distribution Division of Indicative Generic's products was estimated at RON 46,141,201. This value was determined on the basis of an evaluation report prepared by an independent external consultant Deloitte Consultanta SRL.

Considering that until the date of approval of these financial statements, the Company has not yet carried out the assignment of the price on the transferred individual assets in accordance with the provisions of IFRS 3, this may be done within one year of the transaction date, this will be done this allocation in the financial year 2019. Thus, the Company recorded the price of this contract as a Goodwill, reflected in the balance sheet as at 31 December 2018.

12. INVENTORIES

| Inventories | 31 December 2018 | 31 December 2017 |
|--|-----------------------------|-----------------------------|
| Merchandise | 41,035,626 | 5,713,379 |
| Finished products and semi-finished products | 31,170,814 | 10,162,250 |
| Raw materials | 41,089,731 | 29,263,929 |
| Package materials | 7,412,388 | 7,867,036 |
| Minus: | | |
| Allowance for obsolete inventories | (21,726,430) | (12,457,218) |
| Total | 98,982,129 | 40,549,376 |
| | 31 December 2018 | 31 December 2017 |
| Changes in inventory impairment | | |
| Balance on 1 January | (12,457,218) | (11,830,765) |
| Additions | (9,269,212) | (626,453) |
| Provision used | - | - |
| Release of provisions | - | - |
| Balance at 31 December | (21,726,430) | (12,457,218) |
| | 31 December 2018 | 31 December 2017 |
| Impairment per inventory category | | |
| Finished products, semi-finished goods and merchandise | (11,618,023) | (7,594,157) |
| Raw materials | (9,240,680) | (3,062,254) |
| Package materials | (867,728) | (1,800,807) |
| Total | (21,726,430) | (12,457,218) |

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

12. INVENTORIES (continued)

The Company recognizes a depreciation of value for slow moving stocks in accordance with the Company's policy. Thus, on 31 December 2018 of the total provision of RON 21,726,430, RON 9,607,025 is related to slow moving stocks. The difference of RON 12,119,405 represents the specific provision recorded by the Company as at 31 December 2018 for the pilot series of medicinal products that are in the marketing authorization phase in the amount of RON 6,960,121, RON 3,210,309 provision for net realizable value, RON 1,081,231 provision for quality issues and a specific provision for packaging materials in the amount of RON 867,744 (2017: RON 12,457,218, the amount of RON 5,085,597 is related to slow moving stocks. The difference of RON 7,371,621 represents the specific provision registered by the Company on 31 December 2017 for the pilot series of medicinal products that are in the marketing approval phase in the amount of RON 6,601,621 and a specific provision for packaging in the amount of RON 770,000).

The Company does not hold mortgaged stocks in favour of third parties on 31 December 2018 and 31 December 2017 respectively.

13. TRADE RECEIVABLES AND OTHER RECEIVABLES

| | 31 December 2018 | 31 December 2017 |
|--|-----------------------------|-----------------------------|
| Trade receivables and other receivables | | |
| Trade receivables (see aging below) | 125,626,695 | 2,427,390 |
| Trade receivables from related parties (see aging below) | 48,206,862 | 119,655,160 |
| Advances paid | 20,928,547 | 9,187,612 |
| Recoverable taxes | 3,603,105 | 26,927,473 |
| Sundry debtors | 190,143 | 306,897 |
| Prepaid expenses | 1,019,119 | 298,838 |
| Other receivables | 812,662 | - |
| Less: | | |
| Allowance for doubtful trade accounts receivable | - | - |
| Allowance for sundry debtors | (626,561) | (626,561) |
| Total | - | - |
| Trade receivables (see aging below) | <u>199,832,571</u> | <u>158,176,809</u> |

Trade receivables are not interest-bearing and are generally due between 60 - 120 days (2015: maturing between 60 - 240 days).

See below for the movements in allowance:

| | 31 December 2018 | 31 December 2017 |
|--------------------------------------|-----------------------------|-----------------------------|
| Value adjustments | | |
| Balance at 1 January | (626,561) | (871,375) |
| Settings | - | - |
| Provision used | - | - |
| Reversal of previous years provision | - | 244,814 |
| Balance at 31 December | <u>(626,561)</u> | <u>(626,561)</u> |

As at 31 December 2018, trade receivables totalling RON 626,561 (2017: RON 626,561) were provisioned in full (from receivables older than 181 days).

As of 31 December 2017, other receivables related to sundry debtors amounting to RON 244,814 were adjusted in full (2016: RON 34,129).

ZENTIVA SA**NOTES TO THE FINANCIAL STATEMENTS****for the financial year ended on 31 December 2018**

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

13. TRADE RECEIVABLES AND OTHER RECEIVABLES (continued)

The net movement in the allowances for receivables amounting to RON 244,814 representing the expenses as of 31 December 2017 is presented in Note 6.2: Other operating expenses (2016: RON 2,259,841). In the same time, during the year 2017, the Company wrote-off receivables in amount of RON 45,910, which were not provided previously – for further details regarding the impact in the current year result, please see Note 6.2 Other operating expenses

The detail of trade receivables based on contractual terms as of 31 December 2017 and as of 31 December 2016, respectively:

| 31 December 2018 | Total | Receivables not due | Receivables | | | |
|--|--------------------|------------------------|-----------------------------------|---------------|----------------|------------|
| | | | Outstanding after the age in days | | | |
| | | | 1- 30 days | 31-60 days | 61-180 days | >181 days |
| Estimating the percentage of loss due to credit risk | - | 0% | 0% | 0% | 0% | 0% |
| Gross total value | 173,833,457 | 145,756,889 | 24,596,985 | 981,194 | 1,422,646 | 1,075,844. |
| Estimated total loss due to credit risk | - | - | - | - | - | - |

| 31 December 2017 | Total | Receivables not due | Receivables | | | |
|--|--------------------|------------------------|-----------------------------------|---------------|----------------|-----------|
| | | | Outstanding after the age in days | | | |
| | | | 1- 30 days | 31-60 days | 61-180 days | >181 days |
| Estimating the percentage of loss due to credit risk | - | 0% | 0% | 0% | 0% | 0% |
| Gross total value | 121,455,989 | 118,423,274 | 2,907,671 | 34,865 | 72,774 | 17,405 |
| Estimated total loss due to credit risk | - | - | - | - | - | - |

Year 2018:

From the balance of receivables amounting to RON 981,194, having a maturity of 31 - 60 days, the amount of RON 973,731 was collected during the year 2019, until the date of the financial statements.

Of the total receivables older than 61 days, only the amount of RON 649 thousand is related to receivables from third parties, the rest being related to receivables with the group where the risk of non-inaction is very low.

For the receivables presented above, the Company considers the probability of loss as being low.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

14. CASH AND SHORT TERM DEPOSITS

| | <u>31 December 2018</u> | <u>31 December 2017</u> |
|----------------------------------|-----------------------------|-----------------------------|
| Cash at banks and on hand | 35,309,724 | 285,773 |
| Advance for payment of dividends | 919,925 | 6,096,487 |
| Deposits – cash pooling | <u>368,885,666</u> | <u>154,410,514</u> |
| Total | <u>405,115,315</u> | <u>160,792,774</u> |

Cash in the bank is interest-bearing at the daily interest rate when the deposits are constituted. Short-term deposits are made for different periods of time between 1 day and 3 months, depending on the company's cash requirements and accrues interest at the appropriate interest rates.

As of 31 December 2018, the Company issued warranty letters in favour of third parties for which it had collateral deposits amounting to RON 8,355,901 (2017: RON 8,359,458).

As of 31 December 2018, the Company has cash restricted in the amount of RON 11,716 (2017: RON 45,991) representing the guarantees of the managers.

The amount of RON 919,925 included on the line "Advances for dividends payment" refers to a transfer to the Central Depository for the payment of dividends to minority shareholders (2017: RON 6,096,487).

Starting with September 2013, the Company has entered into a cash pooling contract with Sanofi SA France (Mother Company). According to the contractual provisions, the interest rate applied is ROBOR + 15bp if the Company borrows ROBOR - 5bp respectively, if it makes deposits.

On 21 September 2018, before the signing of the Sanofi Group's generic division contract to Advent International NV, the transfer of the cash pooling agreement was signed with Sanofi SA Franata to Zentiva Group as, the contractual terms of the cash pooling contract remain the same. On the transfer date, Zentiva SA's cash pooling account had a debtor balance in the amount of RON 154,410,753 (the interest for the period 1 January – 21 September 2018 amounted to RON 2,2675,388).

The total interest earned for the cash-pooling transactions during the year is RON 5,946,457 (2016: interest accrued in the amount of RON 910,643) and are presented Note 6.4 Financial Income.

The cash pooling account at 31 December 2018 shows a debtor balance of RON 368,885,666 (2017: RON 154,410,514).

At 31 December 2018 and 31 December 2017 respectively, the Company has a credit facility of RON 10,000,000 at BNP Paribas which is unused. The interest rate is 1-month ROBOR + 1.30% pa.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

15. ISSUED CAPITAL AND RESERVES

| | <u>31 December 2018</u> | <u>31 December 2017</u> |
|--|-----------------------------|-----------------------------|
| Authorised shares | | |
| Ordinary shares of RON 0.1 each | 416,961,150 | 416,961,150 |
| Ordinary shares issued and fully paid | <u>Number</u> | <u>Value</u> |
| On 31 December 2017 | 416,961,150 | 41,696,115 |
| On 31 December 2018 | - | - |
| Share capital | <u>31 December 2018</u> | <u>31 December 2017</u> |
| Issued share Capital | 416,961,150 | 41,696,115 |
| Total share capital | <u>41,696,115</u> | <u>41,696,115</u> |
| Share premiums | | |
| | <u>31 December 2018</u> | <u>31 December 2017</u> |
| Inflated share premiums | - | - |
| Share premiums (nominal value) | 9,863,684 | 9,863,684 |
| Inflation of share premiums | 15,100,822 | 15,100,822 |
| Total inflated share premiums | <u>24,964,506</u> | <u>24,964,506</u> |

For conversion to IFRS according to order 1286/2012, the Company recorded an adjustment for hyperinflation both for share capital and share premiums for the period 1992 - 2003 when Romania was considered to be a state with a hyperinflationary economy.

Redeemable shares: The Company has no redeemable shares on 31 December 2018 (2017: it has no redeemable shares).

Reserves

| | | <u>31 December 2018</u> | <u>31 December 2017</u> |
|---|--------------|------------------------------------|------------------------------------|
| Reserves and other capital items | | | |
| Retained earnings / (Cumulative loss) | | 411,088,300 | 148,490,603 |
| Total other reserves included in the capital components: | Notes | <u>31 December 2018</u> | <u>31 December 2017</u> |
| Legal reserves | B | 8,339,223 | 8,339,223 |
| Other reserves (other funds) | D | 104,406,145 | 104,406,145 |
| Revaluation reserves | C | 40,198,377 | 40,198,377 |
| Retained earnings | A | 411,088,300 | 148,490,603 |
| Total other reserves | | <u>564,032,045</u> | <u>301,434,348</u> |

15. CAPITAL ISSUED AND RESERVES (continued)

A) Retained earnings include the following:

| | <u>2018</u> | <u>2017</u> |
|---|---------------------------|---------------------------|
| Reclassification of distributable reserves to retained earnings | 45,837,619 | 45,837,619 |
| Fiscal facilities (accumulated profit) | 917,664 | 917,664 |
| Retained earnings | 97,109,312 | 7,489,835 |
| Adjustments to IFRS | (2,059,066) | (2,059,066) |
| Revaluation of fixed assets used as deemed cost and reclassified to retained earnings | 7,814,490 | 7,814,490 |
| Profit/loss for the year | 262,620,976 | 89,642,756 |
| Other equity elements | (1,175,974) | (1,152,695) |
| Total | <u>411,088,300</u> | <u>148,490,603</u> |

B) Legal reserves

The company set up legal reserves under the Company Act, which states that 5% of the annual profit before taxes shall be transferred to „Legal Reserves” until the reserve shall reach the threshold of 20% of share capital. The legal reserves are not distributable. On 31 December 2018 and 31 December 2017 respectively, the Company reached the threshold of 20% of share capital.

C) Revaluation reserves

The revaluation reserve shall be considered established when the correspondent asset is sold or scrapped. Once the reserve of revaluation becomes complete, it can be distributed. On 31 December, the Company registered the amount of RON 40,198,377 as reserve of revaluation (2017: RON 40,198,377) related to an increase in value of lands and facilities existing in Company's assets – for further details see Memo 9: Tangible assets.

D) Other reserves

Other reserves include profit distribution for the years 2004 - 2008, 2012 - 2013 and 2015 respective and 2016. Such reserves are available to be distributed as dividends.

E) Tax relief

In 2002, the Company benefited of tax relief in the amount of RON 25,280 for the exports undertaken as well as for the investments made of reinvested profits in the amount of RON 892,384.

16. STOCK AND PAID DIVIDENDS

Throughout 2018, the Company did not distribute dividends (2017: RON 65,000,000), whereas the General Meeting of Shareholders of 27 April 2018 decided that the result related to the financial year ended on 31 December 2017 in the amount of RON 89,642,756 shall be distributed as retained earnings – for further details see **The Status of Share Capital Changes**.

Payments in the amount of RON 1,189,331 were made throughout the year 2018 by the minority shareholders of the Company representing dividends approved to be distributed but related to previous fiscal years (2017: RON 61,164,633 were made throughout the fiscal year 2017 of which, to the majority shareholders the amount of RON 52,846,204 was paid).

Throughout the year 2018, the General Meeting of Shareholders approved underwriting dividends related to previous fiscal years of the fiscal year ended on 31 December 2013 in the amount of RON 12,791,059, the effects of such being described in the section “Other income” – for further details see Memo 5.1 Turnover.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

17. PROVISIONS

| Other provisions | 31 December 2018 | 31 December 2017 |
|----------------------------|-----------------------------|-----------------------------|
| Provisions for litigations | (211,549) | (211,549) |
| Provisions for taxes | (11,752,670) | (11,752,670) |
| Other provisions | - | (2,245,983) |
| Environmental provision | (5,640,510) | (5,925,487) |
| Total | (17,604,729) | (20,135,689) |

| | Provisions for litigations | Provisions for taxes | Environme ntal provision | Other provision s | Total |
|----------------------------|---|---------------------------------|---|----------------------------------|-------------------|
| On 1 January 2017 | 411,549 | 24,353,670 | 5,925,487 | 3,014,429 | 33,705,135 |
| Increase | - | - | - | - | - |
| Reversal | (200,000) | (12,601,000) | - | (768,446) | (13,569,446) |
| On 31 December 2017 | 211,549 | 11,752,670 | 5,925,487 | 2,245,983 | 20,135,689 |
| Current | - | 9,929,694 | 2,869,000 | 2,245,983 | 12,303,134 |
| On long term | 211,549 | 1,822,976 | 3,056,487 | - | 7,832,556 |

| | Provisions for litigations | Provisions for taxes | Environme ntal provision | Other provision s | Total |
|----------------------------|---|---------------------------------|---|----------------------------------|-------------------|
| On 1 January 2018 | 211,549 | 11,752,670 | 5,925,487 | 2,245,983 | 20,135,689 |
| Increase | - | - | - | - | - |
| Reversal | - | - | (284,977) | (2,245,983) | (2,530,960) |
| On 31 December 2018 | 211,549 | 11,752,670 | 5,640,510 | - | 17,604,729 |
| Current | - | 9,929,694 | 2,731,020 | - | 12,660,714 |
| On long term | 211,549 | 1,822,976 | 3,056,487 | - | 4,944,015 |

Litigation provisions

On 31 December 2018 the Company has litigation provisions in the amount of RON 211,549 that referred mainly to:

- Provision in the amount of RON 154,461 for litigation that the Company carries out with the owner of a land positioned near the Zentiva headquarters representing the costs it should incur for moving a sewage pipe that crosses his land. Throughout the year 2017, there have been no changes regarding the development of this litigation that the Company had on 31 December 2017.
- Provision in the amount of RON 57,088 representing the indemnity rights that are to be paid by the Company to the widow of a former employee as a result of a work accident that took place in the year 1994. Throughout the year 2017, there have been no changes regarding the development of this litigation that the company had on 31 December 2017.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

17. PROVISIONS (continued)

Throughout the year 2017, the provision in the amount of RON 200,000 was reversed for the litigation that the Company had with the Labour Regional Inspectorate was settled unfavourable for the Company, the effect being registered under the Global Result Status, the line "Provisions Income / Expenses".

Tax provisions

On 31 December 2016, the company created a provision for the potential differences in taxes and fees which might be noticed by the control bodies following a review on the merits, in the framework of a series of legislative changes, in the amount of RON 24,353,670 of which RON 18,457,150 represented a provision for the clawback tax.

In 2016, to the challenge filed by the company, NAFA cancelled the taxation decision F-MC 2370/22.12.2015 and decided to recheck the clawback tax for the period of quarter 4 of 2019 - quarter 3 of 2011. Following this new investigation performed during year 2017, NAFA issued a new taxation decision amounting to RON. 8,356,150 Thus, during 2017, it decided the reversal of the amount of RON 10,101,000 from the provision created on 31 December 2016 for the provision for the tax risks corresponding to the clawback tax.

Further on, the company decided to challenge the newly imposed amount of 8 million with NAFA, but the challenge was rejected. After this decision, the company initiated the procedures for challenging before the administrative court this amount imposed by the tax authorities in Romania.

During 2018, no changes regarding the evolution of this litigation took place.

During 2017, starting on 22 May 2017, the tax authorities in Romania performed a tax check for the period 2011 - 2016 which covered the following tax obligations: profit tax and non-resident tax, value added tax and the file of the transfer prices.

On 9 March 2018, the Final Inspection Report no. 122224 was issued, and this mentioned an additional profit tax amounting to RON 743,874 and respectively an additional value added tax amounting to RON 80,522. We are stating that these amounts did not include the penalties and the penalty interests which have been communicated subsequently by the tax authorities in Romania and which have been estimated by the local management team of the company as amounting to RON 749,438 on the date of 31 December 2017. Consequently, following the completion of this fiscal check, the company's management team decided the reversal of the amount of RON 2,500,000, on 31 December 2017, from the provision created for the potential differences in taxes and fees which might be noticed by the control bodies.

The amounts imposed by the tax authorities have been paid by the company in April 2018.

On 31 December 2018, the company had one provision registered for the potential general tax risks corresponding to the periods not covered by the check, in the amount of RON 1,822,686.

The provisions for taxes are created for the amounts owed to the state budget, provided that the respective amounts do not appear as a debt in relation to the state.

Restructuring provisions

On 31 December 2018 and respectively 31 December 2017, the company did not register restructuring provisions.

Environmental provisions

Environmental provisions were set at RON 5,640,510 as of December 31, 2018 (2017: RON 5,925,487), representing costs related to ecological remediation and soil and groundwater monitoring. These provisions are calculated by specialists.

17. PROVISIONS (continued)

Other provisions

In this category, the Company had other provisions for risks and expenses related to the Company's activity in the amount of RON 2,245,983, represented mainly by the provision made for the first series of manufactured products, products that were exported to other European Union markets and for which the management estimates a major risk of withdrawal of those series. As at 31 December 2018, the Company did not record such a provision.

18. PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

As detailed in the accounting policy, the Company applies an employees' defined benefit plan. The plan requires the Company to pay social security contributions for the employees in the public pension fund.

In the current activity, the Company makes payments to the Romanian State for its employees' benefit. All Company employees are included in the Romanian State's pension plan. The Company does not operate any other pension scheme or post-retirement benefit plan and, consequently, has no obligation regarding pensions. In addition, the Company is not required to provide additional benefits to former or current employees.

Benefits granted upon retirement:

According to the Collective Labor Agreement, the Company grants its employees a variable number of salaries depending on seniority within the Company.

According to the P1 plan, upon retirement, employees receive a premium depending on seniority within the Company as follows:

- up to 20 years within the Company, a gross average wage within the unit;
- between 20-30 years within the Company, 1 and ½ gross average wage within the unit;
- over 30 years within the Company, 2 gross average wages within the unit .

According to the P2 plan, in addition, at the date when employees reach the age of 50, they receive a premium according to his/her seniority within the Company as follows:

- 10-20 years within the Company, ½ of the basic wage;
- Over 20 years within the Company, one basic wage;

Pension provisions and other similar obligations are estimated based on the provisions of the Collective Labor Agreement of the Company by a third person in the field.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

18. PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

As follows, we summarize the components of the net benefit recognized in the profit and loss statement:

| Post-employment benefits | 31.12.2018 | 31.12.2018 | Total 2018 | 31.12.2017 | 31.12.2017 | Total 2017 |
|--|--|----------------------------------|-------------------|--|----------------------------------|-------------------|
| | Post-employment benefits (P1) | Jubilee Plan (P2) | | Post-employment benefits (P1) | Jubilee Plan (P2) | |
| Benefit obligation at the beginning of the year | 1,149,000 | 664,000 | 1,813,000 | 743,000 | 433,000 | 1,176,000 |
| The cost of the current service | 62,000 | 42,000 | 104,000 | 37,000 | 27,000 | 64,000 |
| Financial cost - interest (on the benefit) | 49,000 | 25,000 | 74,000 | 26,000 | 15,000 | 41,000 |
| Paid benefits | (86,000) | (65,000) | (151,000) | (57,000) | (95,000) | (152,000) |
| The cost of the previous service | 873,000 | 58,000 | 931,000 | - | - | - |
| Additions / Modifications to the Plan | - | - | - | - | - | - |
| Actuarial gain / loss - experience | 18,000 | (232,000) | (214,000) | 148,000 | 163,000 | 311,000 |
| Actuarial gain / loss - variation of demographic assumptions | 21,000 | 13,000 | 34,000 | 369,000 | 146,000 | 515,000 |
| Actuarial gain / loss - variation of financial assumptions | (109,000) | (4,000) | (113,000) | (117,000) | (25,000) | (142,000) |
| Obligation of benefits at the end of the year | 1,978,000 | 501,000 | 2,479,000 | 1,149,000 | 664,000 | 1,813,000 |
| The net benefit liability recognized in the Financial Position Statement | 1,978,000 | 501,000 | 2,479,000 | 1,149,000 | 664,000 | 1,813,000 |
| | P1 | P2 | | P1 | P2 | |
| | 31.12.2018 | 31.12.2018 | Total 2018 | 31.12.2017 | 31.12.2017 | Total 2017 |
| Movements in the shareholder incomes | Retirement allowances plan (P1) | Jubilee benefit plan (P2) | | Retirement allowances plan (P1) | Jubilee benefit plan (P2) | |
| | 871,000 | 367,000 | 1,238,000 | 502,000 | 221,000 | 723,000 |
| Actuarial gains / losses accumulated at the beginning of the year | - | - | - | - | - | - |
| Actuarial (gain) / losses following employee experiences | 21,000 | 13,000 | 34,000 | 369,000 | 146,000 | 515,000 |
| Actuarial (gain) / losses following hypotheses changes | 892,000 | 380,000 | 1,272,000 | 871,000 | 367,000 | 1,238,000 |
| Actuarial gains / losses accumulated at the end of the year | | | | | | |
| Hypotheses to determine the defined benefit obligation | | | | | | |
| Discount rate | 4,25% | 4,25% | - | 4,25% | 4,25% | - |
| Compensation increase rate | 3,50% | 3,50% | - | 3,50% | 3,50% | - |
| Recognized in the financial statements, according to the actuarial report | | | 31.12.2018 | Total 2018 | 31.12.2017 | Total 2017 |
| In the results account | | | 666,000 | 666,000 | (236,000) | (236,000) |
| In the comprehensive income statement (as another equity item recognized in the retained earnings) | | | - | - | 401,000 | 112,000 |

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

19. TRADE PAYABLES AND OTHER PAYABLES (CURRENT)

| Trade payables and other payables | 31 December 2018 | 31 December 2017 |
|---|-----------------------------|-----------------------------|
| Trade payables | 170,242,614 | 39,802,237 |
| Trade payables to affiliated companies at the end of the year | 34,944,915 | 21,150,824 |
| Received advances | 149,875 | 123,711 |
| Total | 205,337,404 | 61,076,772 |

Trade payables increased compared to prio year mainly as a result of the increase in the activity (refer to Nota 12 movement in the merchandise and raw materails inventories) as well as result of the transfer of the generics distribution business from Sanofi Romania of RON 46 million (refer to Note 11).

| Other current liabilities | 31 December 2018 | 31 December 2017 |
|--|-----------------------------|-----------------------------|
| Wages and salaries payable | 6,100,707 | 7,806,345 |
| Social security contributions for salaries | 1,854,504 | 1,285,002 |
| Claw back tax (*) | 11,971,146 | 4,032,072 |
| Other taxes | 327,598 | 458,906 |
| Dividends payable | 6,377,173 | 20,357,563 |
| Other liabilities | 2,185,413 | 2,070,751 |
| Total | 28,816,540 | 36,010,639 |

| (*) Claw back | 31 December 2018 | 31 December 2017 |
|--|-----------------------------|-----------------------------|
| Initial estimate of the tax liability to the state budget related to the last quarter | 13,697,334 | 4,604,503 |
| Regularization of the clawback tax related to the last quarter, according to the notification received from the CNAS | (1,726,188) | (572,431) |
| Total | 11,971,146 | 4,032,072 |

The terms and conditions of the trade payables mentioned above:

Trade payables are not interest-bearing and are usually settled within 30 - 90 days.

For the terms and conditions regarding joint ventures and other related parties, see Note 20.

For explanations regarding the Company's liquidity risk management processes, see note 22.

| Commercial debts and other debts | 31 December 2018 | 31 December 2017 |
|--|-----------------------------|-----------------------------|
| Commercial debts | 132,716,641 | 39,802,237 |
| Commercial debts towards affiliated companies at the end of the year | 69,842,079 | 21,150,824 |
| Received Sums in Advance | 149,875 | 123,711 |
| Total | 202,708,595 | 61,076,772 |

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

20. RELATED PARTY DISCLOSURES

20.1 Nature of the transactions with the affiliated entities and the related parties

An entity is “tied” to another entity if:

- a) directly or indirectly, through one or more entities:
 - it controls or it is controlled by the other entity or it is under the common control of the other entity (including the parent companies, the subsidiaries or the member subsidiaries);
 - it has an interest in the respective entity, which offers a significant influence on it; or
 - it holds the common control on the other entity;
- b) it is associated to the other entity;
- c) it represents a joint venture with the other entity as shareholder;
- d) it represents a member of the key management personnel of the entity or of its parent company;
- e) it represents a close family member of the person mentioned in letter a) or d);
- f) it represents an entity controlled, jointly controlled or significantly influenced or for which the significant voting power is, directly or indirectly, given by the person mentioned in letter d) or e) or
- g) the entity represents a post-employment benefits plan for the benefit of the other entity’s employees or for the employees of any other entity connected to such a company.

➤ **Details about other affiliated parties:**

| Company denomination | Nature of relation | Transaction type | Country of origin | Registered office |
|--|---|---|--------------------------|--------------------------|
| Zentiva k.s., Praha | Company under joint control | Procurement of goods and services/income from services | Czech Republic | Prague |
| Zentiva Group Praha a.s. | Company under joint control | Procurement of services/income from services | Czech Republic | Prague |
| Zentiva International, a.s. | Company under joint control | Purchase of services | Slovakia | Bratislava |
| Zentiva International, a.s. - Bucharest Subsidiary | Subsidiary of Zentiva International a.s. Which is a company under joint control | Sale of goods and provision of services | Slovakia | Romania |
| Zentiva a.s., Hlohovec | Company under joint control | Procurement of goods and services/provision of services | Slovakia | Hlohovec |
| Zentiva Saglik Urunleri | Company under joint control | Procurement of goods and services/provision of services | Turkey | Istanbul |

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

20. RELATED PARTY DISCLOSURES (continued)

20.1 Nature of the transactions with the affiliated entities and the related parties (continued)

Up to the date of 30 September 2018, the following companies also represented affiliated parties

| Company denomination | Nature of relation | Transaction type | Country of origin | Registered office |
|---------------------------------|-----------------------------|---|--------------------------|--------------------------|
| Sanofi Romania SRL | Company under joint control | Sale of goods and provision of services | Romania | Bucharest |
| Sanofi Winthrop Industries | Company under joint control | Procurement of goods and services/provision of services | France | Gentilly Cedex |
| Carraig Insurance Limited | Company under joint control | Insurance | Ireland | Dublin |
| Sanofi SA | Company under joint control | Loan | France | Paris |
| Sanofi Aventis Bulgaria eood | Company under joint control | Service provision | Bulgaria | Sofia |
| Sanofi-Aventis Private Co. Ltd. | Company under joint control | Service provision | Hungary | Budapest |
| Sanofi Aventis Groupe | Company under joint control | Service provision and procurement | France | Antony |
| Sanofi Aventis Spa | Company under joint control | Purchase of services | Italy | Milan |
| sanofi-aventis Deutschland | Company under joint control | Purchase of services | Germany | Frankfurt |
| Sanofi India Limited | Company under joint control | Service provision | India | Mumbai |
| Sanofi Chimie | Company under joint control | Purchase of services | France | Sisteron Cedex |
| Sanofi Aventis S.p.z.o | Company under joint control | Purchase of services | Poland | Warsaw |
| FRM Merial S.A.S | Company under joint control | Sale of goods | France | Lyon |
| Sanofi Aventis S.A.U | Company under joint control | Purchase of services | Spain | Barcelona |
| Francopia | Company under joint control | Purchase of goods | France | Antony Cedex |
| Sanofi Synthelabo LTD | Company under joint control | Purchase of equipment | England | Fawdon Newcastle |
| Chinoin Private Co. LTD | Company under joint control | Sale of goods, purchase of goods | Hungary | Budapest |

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

20. RELATED PARTY DISCLOSURES (continued)

20.2 Payables and receivables from affiliated entities and other related parties

➤ **Receivables from affiliated entities / other related parties**

| | Balance as of 31 December 2018 | Balance as of 31 December 2017 |
|----------------------------|---|---|
| Zentiva a.s Bratislava* | - | 175,043 |
| Zentiva Saglik Urunleri* | - | 117,908 |
| Sanofi Romania SRL* | - | 86,608,181 |
| Sanofi India Limited* | - | - |
| Sanofi Winthrop Industrie* | - | 32,263,648 |
| Zentiva ks* | 46,303,433 | - |
| Zentiva Group a.s | 474 | - |
| Zentiva Pharma GMBH | 1,902,955 | 490,380 |
| Total | <u>48,206,862</u> | <u>119,655,160</u> |

**representing entities which are part of Sanofi Group and from which Zentiva SA was part of the Group until 30 September 2018; therefore, as of 31 December 2018 there are presented only the receivables from affiliated parties with Zentiva SA starting with 1 October 2018 when the entity has been acquired by Advent International NV.*

➤ **Payables to the affiliated entities / other related parties**

| | Balance as of 31 December 2018 | Balance as of 31 December 2017 |
|------------------------------|---|---|
| Zentiva KS Prague | 28,022,463 | 29,412 |
| Zentiva Group | 6,922,452 | 3,871,519 |
| Sanofi-Aventis Deutschland * | - | 36,617 |
| Sanofi Winthrop Industries* | - | 11,325,220 |
| Sanofi Romania SRL* | - | 6,458,108 |
| Zentiva Saglik Urunleri* | - | 2,000 |
| Sanofi Aventis Spa* | - | 27,951 |
| Sanofi Aventis Private Co* | - | - |
| Total | <u>34,944,915</u> | <u>21,750,827</u> |

**representing entities which are part of Sanofi Group and from which Zentiva SA was part of the Group until 30 September 2018; therefore, as of 31 December 2018 there are presented only the payables from affiliated parties with Zentiva SA starting with 1 October 2018 when the entity has been acquired by Advent International NV.*

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

20. RELATED PARTY DISCLOSURES (continued)

20.3 Information regarding the transactions with the affiliated entities and other related parties

➤ **Sales of goods and services and/or fixed assets**

| | Financial year ended on 31 December 2018 | Financial year ended on 31 December 2017 |
|-----------------------------|---|---|
| Zentiva kS Prague | 66,915,693 | 52,903 |
| Zentiva AS Hlohovec | - | 796,265 |
| Zentiva Saglik Urunleri* | 5,504,624 | 3,459,334 |
| Sanofi Romania SRL* | 124,712,000 | 259,606,687 |
| Sanofi Winthrop Industrie* | 139,943,744 | 195,864,824 |
| Sanofi India Limited* | 2,713,713 | 1,585,436 |
| Zentiva Group a.s. | 93,013 | 79,262 |
| Sanofi-Aventis Deutschland* | - | 90,852 |
| Sanofi Aventis Groupe* | 294,422 | 1,832,182 |
| Sanofi France* | 250,502,338 | |
| Zentiva Pharma GMBH | 1,902,955 | - |
| Total | 592,582,501 | 463,367,745 |

**representing entities which are part of Sanofi Group and from which Zentiva SA was part of the Group until 30 September 2018; therefore, as of 31 December 2018 there are presented Sales of goods and services and/or fixed assets from affiliated parties with Zentiva only for the period 1 January – 30 September 2018 when these entities were part of Sanofi Group*

From the total sales to the group, RON 43,534,718 (2017: RON 34,588,474) are excluded, representing sales to Sanofi Winthrop Industrie (related to the period 1 January- 30 September 2018) as well Zentiva KS of the products manufactured in Turkey and certified for export in the European Union for which the company acts as an agent. The sales are compensated with the cost of the corresponding goods.

The sales presented above do not include the impact from the clawback tax, as presented under note 5.1 Turnover.

➤ **Purchase of goods and services**

| | Financial year ended on 31 December 2018 | Financial year ended on 31 December 2017 |
|-----------------------------|---|---|
| Zentiva AS Hlohovec | - | 51,247 |
| Zentiva Group a.s. | 36,285,939 | 16,678,258 |
| Sanofi Romania SRL* | 26,799,000 | 12,540,070 |
| Sanofi Winthrop Industrie* | 36,621,926 | 42,350,968 |
| Carraig Insurance Limited * | - | 260,228 |
| Sanofi Chimie* | 29,256 | 11,104 |
| Sanofi-Aventis Deutschland* | 94,058 | 151,478 |
| Zentiva k.s. | 22,166,029 | 33,119 |
| Sanofi Aventis Spa* | 137,886 | 170,429 |
| Sanofi Franta * | 2,828,078 | - |
| Sanofi Aventis Group* | 3,147,096 | - |
| Total | 128,109,266 | 72,246,901 |

**representing entities which are part of Sanofi Group and from which Zentiva SA was part of the Group until 30 September 2018; therefore, as of 31 December 2018 there are presented purchased of goods and services from affiliated parties with Zentiva only for the period 1 January – 30 September 2018 when these entities were part of Sanofi Group*

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

20. RELATED PARTY DISCLOSURES (continued)

From the total purchases of the group, RON 43,534,718 (2017: RON 34,588,474) are excluded, representing purchases from Sanofi Winthrop Industrie (related to the period 1 January- 30 September 2018) as well Zentiva KS of the products manufactured in Turkey and certified for export in the European Union for which the company acts as an agent. The sales are compensated with the cost of the corresponding goods.

The ultimate parent company

The ultimate parent company of the company is Zentiva Group a.s. and has its registered office in U Kabelovny 130-102, 37, Prague 10- Czech Republic.

There are no other transactions from the ones described between the company and the Zentiva Group (the Sanofi Group up to 30 September 2018) during the financial years 2018 and 2017.

Terms and conditions of the transactions with the affiliated parties

The balances due at the end of the financial year are not insured and do not bear interest. There are no granted or received guarantees for any receivable regarding the affiliated entities or for the debts to such.

An assessment is performed in every financial year by checking the financial position of the affiliated parties and of the market in which the affiliated party operates.

20.4 Compensations granted to the key management personnel within the company

Directors, managers and the supervisory committee

In 2018 the company paid the following amounts to the members of the Board of directors for taking part in the regular meetings of the board:

| | Financial year Concluded on 31 December 2018 | Financial year Concluded on 31 December 2017 |
|-----------------------------------|---|---|
| Members of the Board of directors | 54,000 | 54,000 |
| Total | 54,000 | 54,000 |

As of 31 December 2018, the Company did not have any obligations related to pension payment to the former members of the Board of directors and executive management and the members of the supervisory committee.

There are no warranties or future liabilities taken over by the Company on behalf of the directors or the managers at the end of the financial year.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

21. COMMITMENTS AND CONTINGENCIES

Expenses for rents and leasing

| Commitments (RON) | Less than 1 year | Between 1 and 5 years |
|---|-----------------------------|----------------------------------|
| ALD Automobile – operational leasing for vehicles | 1,974,199 | 3,546,804 |

Commitments

The Company has letter of bank guarantees and collateral deposits (note 14).

Taxation

All the amounts owed to the State for taxes and fees have been paid or registered on the date of the balance sheet. The tax system in Romania is under consolidation and harmonization with the European legislation, and there may be Different interpretations of the authorities regarding the tax legislation, which may result in taxes, fees and additional penalties. If the State authorities discover violations of the legal provisions in force in Romania, the following measures may be taken, as applicable: seizure of the amounts involved, introduction of supplementary fiscal obligations, fines, delay penalties (calculated from the remaining amounts payable). Hence, fiscal penalties following violation of the legal provisions may determine significant amounts payable to the State budget.

The Company states to have paid all its taxes, penalties and penalty interests, if applicable, fully and in due time.

The Romanian fiscal authorities have performed check regarding the calculation of the tax profit and VAT up to December 2016.

In Romania, a financial years remains open for controls for a period of 5 years.

Transfer price

According to the relevant fiscal legislation, the fiscal evaluation of a transaction performed by affiliated parties has as basis the concept of market price associated to the respective transaction. Based on this concept, the transfer prices must be adjusted so that they should reflect the market prices set forth between the entities with no affiliation relationship and acting independently, based on the “arm’s length” principle.

During year 2017, the tax authorities in Romania have performed two tax checks for the review of the transactions with the affiliated parties as follows:

- (i) During the period March 2017 - April 2017, the tax authorities have reviewed the transactions with the affiliated parties which were performed during the period 2011 - 2016 and a report was issued in April 2017, without mentioning the issues linked to these transactions;
- (ii) During the period 17 May 2017 - March 2018, the tax authorities performed a tax check of the fees covering the value added tax, the profit tax and the file of the transfer prices for the period 2011-2016 and a report was issued in March 2018 without mentioning the issues linked to the transactions with the affiliated parties.

The transfer prices audits are likely to be achieved in the future by the fiscal authorities in order to determine whether the respective prices comply with the “arm’s length” principle and if the taxable basis of the Romanian tax payer is not distorted.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

21. COMMITMENTS AND CONTINGENCIES (continued)

Legal claims (including the estimated value)

The company is involved in multiple litigations, among which the most significant ones are presented below:

- The litigation with the National Agency for Medicines which decided to sanction the company after identifying in an independent pharmacy several promotional materials having their advertising approval expired. During 2017, the company's challenge has been rejected on the merits, and during 2018, the appeal declared by the company has also been rejected, the litigation being currently settled definitively. The financial impact of this litigation is not significant, the respective amount being RON 5,000 (the fine applied to the company by NAMMD).
- The company is involved in multiple litigations with the National Health Insurance House following the challenge of the VAT paid corresponding to the clawback tax for the period Q1 2012 - Q4 2012 in a total amount of RON 944,000, and the manner of calculating the individual consumption communicated for determining the clawback tax for the period Q1 2013 - Q3 2013, asking for the cancellation of the notifications received from the National Health Insurance House corresponding to the periods mentioned previously. Currently the company has won in court the recovery of the VAT corresponding to the clawback tax for the period Q1 - Q4 2012 and Q3 2013, and it analyses the possibilities of recovery or compensation with other fiscal obligations of the amounts thus recovered. The other litigations (respectively the ones corresponding to Q1 2013 and Q2 2013) are pending currently;
- The litigation with NAFA for challenging the clawback tax, as well as the penalties calculated for the checked period Q4 2009 – Q3 2011. During the year 2016, following a check whose subject was represented by the clawback tax for the period Q4 2009 - Q3 2011, NAFA issued a taxation decision in the amount of RON 18,457,107, representing the difference between the clawback and the corresponding penalties, for which the company has created a provision for the entire amount on the date of 31 December 2016. During the year 2016, regarding the challenge submitted by the company, NAFA has cancelled the taxation decision regarding the payment of the additional clawback tax and the corresponding penalties and decided to recheck during 2017 this fiscal obligation for the period Q4 2009 - Q3 2011. Following the cancellation by NAFA of its own taxation decision regarding the clawback tax and the corresponding penalties corresponding to the period Q4 2009 - Q3 2011, amounting to RON 18,457,107, during 2017 the company was subject to a new investigation whose object was the clawback tax for the period Q4 2009 - Q3 2011. Following this new investigation, NAFA issued a new taxation decision and decisions regarding the accessories for the total amount of RON 8,355,860 (made up of RON 3,672,966 main debt and RON 4,682,894 penalties). The company has decided to challenge such with NAFA, but the challenge was rejected. Following the rejection of the challenge, the company has brought an action before the administrative court in order to cancel the taxation decision, the decisions regarding the accessories and the decision to reject the challenge. The case is pending settlement, the following hearing being set on 2 April 2019;
- During 2016, the KJK Found II, the NN Activ voluntary pension fund, the NN Optim voluntary pension fund and the NN privately administered pension fund, as shareholders of Zentiva SA, have filed an application for the performance of an expert appraisal regarding certain operations of the company, an application based on article 136 of the companies' law no. 31/1991. The action of the claimants has been rejected by the Bucharest court of law. The claimants have filed an appeal but the appeal was suspended through the agreement of the parties on the hearing of 30 January 2018, for the purpose of amicably settling the litigation. Actually, the claimants did not want to continue the litigation anymore, the obsolescence sanction occurring, and this occurs after the expiry of the 6 month term from the date of the suspension if no procedural steps are performed in the case (term completed on 30.06.2018). At the same time, the court of law already granted a hearing term for acknowledging obsolescence on 09.04.2019;

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

21. COMMITMENTS AND CONTINGENCIES (continued)

- At the end of the year 2018, an action has been filed against the company in the court of law, under the form of the simplified procedure of the presidential ordinance, by the claimant ELI LILLY and COMPANY, a company with its registered office in Indianapolis, Indiana 46285, USA. The company was informed regarding the existence of this litigation through the subpoena of 10 January 2019. Through this action, the claimant stated that the company infringed upon the rights resulting from the national invention patent no. RO 118374 B1, extended through the additional protection certificate no. c2007059, which according to the statements of the claimant would give it an exclusive right to use the chemical substance *atomoxetine* in pharmaceutical products meant for the treatment of the attention deficit hyperactivity disorder up to the date of 27 May 2019. But on 13 February 2019, the company concluded a transaction contract with ELI LILLY and COMPANY, whose subject has been the agreement between the parties that ELI LILLY and COMPANY gives up the trial, the company committing itself among others to acknowledge the intellectual property rights of ELI LILLY and COMPANY, which result from the patent mentioned previously. At the same time, the company has committed itself not to produce, sell, distribute, promote or offer for sale in Romania Zentiva products which contain *atomoxetine* up to the date of 27 May 2019, when the patent will expire, to withdraw the price of trading these products and not to obtain another trade price in Romania for these products prior to the date of 27 May 2019. Consequently, on 21 February 2019, the court of law became acquainted with the fact that the claimant ELI LILLY and COMPANY has given up the trial, and this renunciation was communicated to the court of law by ELI LILLY and COMPANY, following the transaction concluded with the company.

The Company's management team considers that these litigations will not have a significant impact upon the operations and the financial position of the company and that it created sufficient provisions where there was a significant risk.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to the credit risk, the liquidity risk and the market risk (mainly, foreign exchange risk). The senior management team of the company oversees the management of these risks. All the operations regarding derived financial instruments having the purpose of managing risks are performed by teams of specialists who have the appropriate skills, experience and surveillance. The company's policy is not to perform transactions with derived financial instruments for speculative purposes.

The Board of Directors reviews and agrees to the policies of managing each of these risks which are briefly presented below.

Market risk

The market risk is the risk that the fair value of the future cash flows of an instrument may vary due to the changes of the market prices. The market prices have for types of risks: interest rate risk, currency risk, merchandise price risk and risk of other prices, such as the risk of the price of equity. The financial instruments affected by the market risk include credits and loans, deposits, investments available for sale.

The sensitivity analyses in the following sections refer to the position of 31 December 2018 and 2017.

Interest risk

The risk regarding the interest rate is the risk that the fair value or the future cash flows of a financial instrument may vary due to the changes in the interest rates on the market. The company's exposure to the risk of changing the interest rates on the market is not significant, because the company does not use loans as a funding source.

On 31 December 2018, the company does not have loans received and has concluded a cash polling contract with the parent company, a contract which has a variable interest rate (it is presented under note 11, 14 and it has a balance due on 31 December 2018 and 2017).

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The company's exposure to the risk of changing the interest rate on the market is not significant.

Currency risk

The currency risk is the risk that the fair value or the future cash flows of a financial instrument may vary due to the changes in the exchange rates of currencies. The company's exposure to the risk of the changes in the exchange rate mainly refers to the operational activities of the company (when the incomes or the expenses are expressed in another currency different from the functional currency of the company).

The company has transactions in currencies other than its functional currency (RON).

The exposure to the currency risk (due mainly to the EUR and USD currencies) is not significant, thus the company does not use risk covering instruments.

The detail regarding the financial instruments in foreign currencies is presented as follows (the amounts are expressed in the RON equivalent):

| 31 December 2018 | EUR | USD | RON | CZK | GBP | TOTAL |
|----------------------------|-------------------|--------------------|--------------------|---------------------|----------------|--------------------|
| Trade receivables | 59,999,599 | - | 139,832,972 | - | - | 199,832,571 |
| Other financial assets | - | - | - | - | - | - |
| Cash and cash equivalents | 114,844 | 4,209,966 | 400,790,506 | - | - | 405,115,316 |
| Total assets (1) | 60,114,443 | 4,209,966 | 540,623,476 | - | - | 604,947,887 |
| Trade payables - suppliers | 8,301,079 | 6,988,869 | 168,803,888 | 21,502,203 | 2,116 | 205,337,405 |
| Other current payables | - | - | 28,186,540 | - | - | 28,816,540 |
| Total debts (2) | 8,301,079 | 6,988,869 | 197,619,628 | 21,502,203 | 2,116 | 234,153,945 |
| Difference (1)- (2) | 52,083,364 | (2,788,903) | 343,003,850 | (21,502,203) | (2,166) | 370,793,942 |

| 31 December 2017 | EUR | USD | RON | MDL | GBP | TOTAL |
|----------------------------|---------------------|--------------------|--------------------|----------------|----------------|--------------------|
| Trade receivables | 1,385,124 | - | 156,791,685 | - | - | 158,176,809 |
| Other financial assets | - | - | - | - | - | - |
| Cash and cash equivalents | - | - | 160,621,774 | 171,000 | - | 160,792,774 |
| Total assets (1) | 1,385,124 | - | 317,413,459 | 171,000 | - | 318,969,583 |
| Trade payables - suppliers | 15,782,997 | 2,031,122 | 43,259,505 | - | 3,148 | 61,076,772 |
| Other current payables | - | - | 36,010,639 | - | - | 36,010,639 |
| Total debts (2) | 15,782,997 | 2,031,122 | 79,270,144 | - | 3,148 | 97,087,411 |
| Difference (1)- (2) | (14,397,873) | (2,031,122) | 238,143,315 | 171,000 | (3,148) | 221,882,172 |

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign exchange risk sensitivity

The following table proves the sensitivity to a reasonable potential change in the exchange rate of the US dollar and EUR, all the other variables being maintained constant, of the company's profile prior to taxation (due to the changes of the values of the assets and monetary debts). The company's exposure to the currency changes of any other currencies is not significant.

| | Exchange rate variation EUR (+10%) - Effect upon the profit prior to taxation | Exchange rate variation USD (+10%) - Effect upon the profit prior to taxation | Exchange rate variation CZK (+10%) - Effect upon the profit prior to taxation |
|------|--|--|--|
| 2018 | 5,208,336 | (278,890) | (2,150,120) |
| 2017 | (1,729,855) | (202,505) | - |

Credit risk

Credit risk is the risk that a counterparty cannot fulfill its obligations according to a financial instrument or according to a client contract, leading thus to a financial loss. The company is exposed to credit risk from its operating activities (mainly for trade receivables) and from its financial activities, including the deposits with banks and financial institutions, exchange rate transactions and other financial instruments.

Trade receivables

The credit risk of the clients is managed by the company, being subject to the set policy; nonetheless, the company considers that the credit risk upon receivables is small (mainly intra-Group receivables).

The receivables balance is monitored at the end of each reporting period and any major delivery to the client is analysed.

The depreciation indicators are analysed on each reporting date.

The credit risk of the company is mainly granted to the receivables from the affiliated parties, for which the likelihood of their depreciation is considered reduced. The maximum exposure to credit risk on the reporting date represents the accounting value of each category of financial assets presented under note 13.

The company assesses the concentration of the risk regarding trade receivables as reduced.

Financial instruments and cash deposits

The credit risk resulted from the balances with banks and financial institutions is managed by the treasury department of the company, according to the company's policies. The maximum exposure of the company to the credit risk for the components of the status of the financial position is represented by the accounting values represented under Note 14.

ZENTIVA SA
NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended on 31 December 2018

(All the amounts are presented in RON, except for the cases in which it is mentioned otherwise)

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The company monitors its risk of having a lack of funds using a recurring instrument of planning liquidity.

The company does not have long-term financing (either from the commercial partners or debts to the financial institutions).

All the company's debts will become due in less than one year, except for the delayed tax and provisions.

The table below describes in detail the profile of the due dates of the trade receivables based on the contractual clauses and the financial debts of the company:

| As of 31 December 2018 | <30 days | 30-60 days | 60-180 days | 180-365 days | Total |
|---|--------------------|--------------------|--------------------|---------------------|--------------------|
| Trade receivables and other receivables | 170,353,874 | 5,865,561 | 22,537,292 | 1,075,844 | 199,832,571 |
| Cash and cash equivalents | - | 404,195,391 | - | 919,925 | 405,115,316 |
| Total assets | 170,353,874 | 410,060,952 | 22,537,292 | 1,995,769 | 604,947,887 |
| | - | - | - | - | - |
| Trade payables – suppliers | 89,566,995 | 19,879,860 | 84,943,519 | 10,947,031 | 205,337,404 |
| Total debts | 89,566,995 | 19,879,860 | 84,943,519 | 10,947,031 | 205,337,404 |

*As described in Note 13: Commercial receivables and other receivables, the company has VAT to recover in the amount of RON 26,169,848 which is presented in the table below in the category of trade receivables due within a period of 30 - 60 days.

| As of 31 December 2017 | <30 days | 30-60 days | 60-180 days | 180-365 days | Total |
|---|--------------------|-------------------|--------------------|---------------------|--------------------|
| Trade receivables and other receivables | 123,045,237 | 27,568,073* | 4,995,833 | 2,567,666 | 158,176,809 |
| Cash and cash equivalents | 155,007,064 | - | 5,787,710 | - | 160,792,774 |
| Total assets | 278,052,301 | 27,568,073 | 10,781,543 | 2,567,666 | 318,969,583 |
| | | | | | |
| Trade payables – suppliers | 51,170,241 | 6,572,218 | 1,010,310 | 2,324,003 | 61,076,772 |
| Total debts | 51,170,241 | 6,572,218 | 1,010,310 | 2,324,003 | 61,076,772 |

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Management of capital

Capital includes shares and equities which can be attributed to shareholders. The main goal of managing the capital of the Group is that of ensuring the maintaining of a powerful credit rating and a normal capital proportions in order to supports its business and to maximize the value of the shareholders.

The company manages its capital structure and makes changes upon such according to the changes in the economic conditions. No changes have been performed regarding the goals, policies or processes of managing capital during the financial years concluded on 31 December 2018 and 2017.

23. EXPENSES FOR THE STATUTORY AUDITOR

In 2018 the statutory Ernst & Young Assurance Services SRL. Auditor had a contractual fee for the statutory audit of EUR 98,500 (for the statutory audit of the individual annual financial statements of the company).

24. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 25 March 2019, the Company's Board of Directors proposed to the General Meeting of Shareholders to approve the Company's share capital increase with the maximum amount of RON 30,000,000, through share capital contribution, from the amount of RON 41,696,115 to the maximum amount of RON 71,695,115 through the issuance of 300,000,000 new shares (the "New Shares"), having a nominal value of RON 0.1/share (the "Share Capital Increase"), which will be offered for subscription to the shareholders registered in the Company's shareholders register kept by Depozitarul Central S.A., at the registration date of 16 May 2019.

The shares that remain unsubscribed at the end of the right of preference's exercise period for the New Shares will be canceled through the Decision of the Board of Directors finding the actual results of the Share Capital Increase.

The number of preference rights will be equal to the number of shares issued by the Company registered in the Company's shareholder register kept by Depozitarul Central S.A., at the registration date of 16 May 2019; each shareholder registered in the Company's shareholder register kept by Depozitarul Central S.A. at the registration date of 16 May 2019 will be distributed a number of rights of preference equal to the number of shares held.

On 12 March 2019, the Company's major shareholder, i.e. Zentiva Group a.s., has signed the purchase contract for a local producer of medicine and nutritional supplements – Solacium Pharma SRL and its subsidiary – Be Well Pharma. The transaction is being analyzed by the Competition Council.

We cannot estimate the extent in which this matter will impact the Company's activity.

24. EVENTS OCCURRING AFTER THE REPORTING PERIOD (continued)

Zentiva SA considers that the value of the receivables to be assigned by the Company on the grounds of the Factoring Agreements will reach a total value higher than 10% of the net turnover reflected in the most recent annual financial statements (namely as of 31 December 2018).

On 19 March 2019, the Company has adhered to and became a party as Seller to a Pan-European Initial Factoring Framework Agreement dated 24 January 2019 concluded, among others, between Zentiva France and Zentiva K.S., as initial sellers, Al Sirona (Luxembourg) Acquisition S.À R.L., as parent entity, and Factofrance SA (the „Factor”), company established according to the French legislation as a société anonyme and authorized as établissement de crédit, as factor (the “Framework Agreement”).

As a consequence of having adhered to and becoming a party to the Framework Agreement, the Company, as Romanian assignor and seller, signed with the Factor, as assignee, a receivables purchase contract, filling in the Framework Agreement (the “Romanian Receivables Purchase Contract” and, together with the Framework Agreement, the “Factoring Contracts”).

In order to guarantee the liabilities owed or which could be or become in the future owed by the Company based on the Factoring Contract and on the other Financing Documents (as defined in the Factoring Contracts) the Company is party to, the Company has concluded a mortgage contract over real estate assets that will represent a guarantee in the Factor’s favor in relation to the Factoring Contracts.

The factoring documents were approved by the Board of Directors within the limits of its powers provided by the law, namely 50% of the book value of the Company’s assets, on 14.03.2019, and the factoring contract and the other documents were signed on 19.03.2019 and they will be in effect within the limits of the above-mentioned approval.

Because the value of the assets that will be obtained, alienated, exchanged or pledged by the Company following the conclusion by the Company of the Factoring Documents may exceed 50% of the book value of the Company’s assets, in the understanding of Art. 153²² of the Law on Companies, the Company’s Board of Directors subjected to the approval by the EGMS of 30 April 2019 the conclusion, signing and performance by the Company of the Factoring Documents.

The financial statements from page 3 to 69 were approved by the Board of Administration and were authorized to be issued in accordance with the resolution of the Administrators, date 29 March 2019.

Administrator,
Surname and name:
Simona Cocos

Signature
Company stamp

Prepared by,
Surname and name: Francisc Koos

Chief Financial Officer
Signature
Company stamp

According to the provisions of article 30 of the Accounting Law no. 82/1991

The annual financial statements on December 31, 2018 were drafted for:

Entity: ZENTIVA SA

County: 40-BUCHAREST MUNICIPALITY

Address: BUCHAREST, 3rd District, 50 THEODOR PALLADY Blvd.

Phone: 021.31 73.136

Trade Register number: J40/363/1991

Ownership type; 34-Joint-stock companies

Main activity (NACE code and classification): 2120 - Manufacture of pharmaceutical preparations

Sole registration code: 336206

The Company's Administrator, SIMONA COCOS, takes responsibility for drafting the financial statements on December 31, 2018 and confirms that:

- a) The accounting policies used for drafting the annual financial statements are in accordance with the applicable accounting regulations
- b) The annual financial statements provide a true image of the financial position, the financial performance and of the other information related to the activity carried on.
- c) The activity of the legal entity is carried on as a going concern.

Signature

Cocos





**Building a better
working world**

Ernst & Young Assurance Services SRL
Bucharest Tower Center Building, 21st Floor
15-17 Ion Mihalache Blvd., District 1
011171 Bucharest, Romania

Tel: +40 21 402 4000
Fax: +40 21 310 7193
office@ro.ey.com
ey.com

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Zentiva S.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Zentiva S.A. (the Company) with official head office in 50, Theodor Pallady Blvd, District 3, Bucharest, identified by sole fiscal registration number 336206, which comprise the statement of financial position as at December 31, 2018, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 ("Regulation (EU) No. 537/2014") and Law 162/2017 („Law 162/2017”). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, including Regulation (EU) No. 537/2014 and Law 162/2017 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements.

The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.



Building a better
working world

| Key Audit Matter | How our audit addressed the key audit matter |
|---|--|
| <p><i>Business combination and provisional accounting</i></p> <p>During September 2018, the Company concluded a serie of transactions with Sanofi France and Sanofi Romania, including the transfer of the generics distribution business from Sanofi Romania to Zentiva for a consideration of RON 46 million.</p> <p>At the end of the reporting period the purchase price allocation, through which the fair value of the identifiable assets acquired should be determined, was not finalized and in accordance with the IFRS 3 which allows a measurement period of maximum one year from acquisition date, the Company applied a provisional accounting and recorded on the financial statements the entire consideration as goodwill as at 31 December 2018.</p> <p>The fair value of the distribution of Generic's business transferred from Sanofi Romania to the Company was determined based on a valuation performed by an independent consultant using the income approach and discounted cash flows method which considered as main assumptions the generic's net sales growth rate, gross and net operating margins and discount rate.</p> <p>We considered this area to be a key audit matter because of the judgement and estimates involved in the valuation of transferred business, the materiality of the transaction and the complexity of the associated accounting.</p> <p>The Company disclosures about the business combination and provisional accounting are included in Note 3 and Note 11 to the financial statements.</p> | <p>Our audit procedures focused on the accounting for the business combination, including involvement of our IFRS specialists to assist us in evaluating the application of IFRS 3- Business Combination- and related accounting treatment. We tested the journal entries and the supporting workings with the contract and valuation report.</p> <p>Our audit procedures with respect to the fair value of the business transferred included, but were not limited to, the following procedures:</p> <ul style="list-style-type: none"> • assessed the independence and the competence of the external valuation expert; • analysed the methodology used by management and by the external valuation expert within the report issued to assess the fair value of transferred business, to determine its compliance with valuation standards; • evaluated the key assumptions and estimates used in valuation such as growth sales rate, gross and net operating margins, discount rate by analysing their consistency with the general and industry-specific economic environment and relevant available market information and benchmarking against the historical financial performance and trends; we included our valuation specialists in our team to assist us in the evaluation of key assumptions and estimates used by the independent appraiser; • tested the mathematical accuracy of the discounted cash flow computation; • assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year; <p>We further assessed the adequacy of the disclosures about the business combination, provisional accounting and recognition of goodwill in the notes to the financial statements.</p> |



**Building a better
working world**

Other information

The other information comprises the Annual report of the Board of Directors but does not include the financial statements and our auditors' report thereon. We obtained the Annual Report of the Board of Directors, prior to the date of our auditor's report, and we expect to obtain the Non-Financial declaration, as part of a separate report, after the date of our auditor's report. Management is responsible for the other information.

Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Order of the Minister of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Building a better
working world

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements

Reporting on Information Other than the Financial Statements and Our Auditors' Report Thereon

In addition to our reporting responsibilities according to ISAs described in section "Other information", with respect to the Annual report of the Board of Directors, we have read the Annual report of the Board of Directors and report that:

- a) in the Annual report of the Board of Directors we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying financial statements as at December 31, 2018;



Building a better
working world

- b) the Annual report of the Board of Directors identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 - 19;
- c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the financial statements as at December 31, 2018, we have not identified information included in the Annual report of the Board of Directors that contains a material misstatement of fact.

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as auditors of the Company by the General Meeting of Shareholders on April 27, 2017 to audit the financial statements for the financial year end December 31, 2018. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 14 years, covering the financial periods end December 31, 2005 till December 31, 2018.

Consistency with Additional Report to the Audit Committee

Our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on March 28, 2019.

Provision of Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and we remain independent from the Company in conducting the audit.

In addition to statutory audit services and services disclosed in the annual report and in the financial statements, no other services were provided by us to the Company, and its controlled undertakings.

On behalf of,
Ernst & Young Assurance Services SRL
15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania
Registered in the electronic Public Register under No. 77



Name of Auditor / Partner: Mihaela Sandu
Registered in the electronic Public Register under No. 1610
Bucharest, Romania

29 March 2019