Zentiva S.A.

Financial statements

FOR THE YEAR ENDED

31 DECEMBER 2017

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.

Building a better
working world

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Zentiva S.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Zentiva S.A. (the Company), with official head office: 50, Theodor Pallady Blvd, District 3, Bucharest, identified by sole fiscal registration number RO336206, which comprise the statement of financial position as at December 31, 2017, 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, 2017, 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.
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.

Key Audit Matter	How our audit addressed the key audit matter
Provisions for tax exposures The Company was subject to a tax assessment in respect of claw back tax, income tax and value added taxes covering prior periods and is also part of a number of tax litigations in regards to the claw back tax which are not finalised at the end of the reporting period. In addition, the Company business operating model involves a significant number of transactions being concluded with related parties. Given the inherent uncertainties with respect to interpretation of tax regulations, complexities of transfer pricing, changes in tax laws over the few past years and uncertainties over the final outcome of pending tax litigations, judgement is applied by the management in estimating the final outcome of such litigations and estimates are applied in relation to determination of the tax provisions. Notes 3, 17 and 21 to the financial statements include disclosures made by the Company in regards to these matters. The Company recorded a tax provision of RON 12 million as at December 31, 2017 and disclosed the tax litigations in progress. Tax provisions were significant to our audit because the assessment process is complex and judgemental and amounts are material to the financial statements.	We assessed the recognition and measurement of tax provisions in the financial statements. Our audit procedures included, among others, assessment of latest correspondence of the Company with the tax authorities, obtained letters from the Company's external lawyers on the status of tax litigations in progress and evaluated their responses, involvement of our tax specialists to analyse and corroborate the assumptions used by management to determine the tax provisions and contingencies by considering the relevant tax law requirements and the tax authority assessment practices. In addition, we performed analysis on any material tax implications of related party transactions. Our audit procedures included, among others, involvement of our own tax specialists to assist us to evaluate the transfer pricing analysis available to the Company for the main related party transactions. We assessed the adequacy of the Company's disclosures in the financial statements in respect of the tax provisions and tax contingencies and litigations.

Other information

The other information comprises the Anual 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, on the other information obtained prior to the date of our auditor's report 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.

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 Anual report of the Board of Directors, we have read the Anual report of the Board of Directors and report that:

a) in the Anual 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, 2017;
b) the Anual 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, 2017, we have not identified information included in the Anual 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, 2017. 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 13 years, covering the financial periods end December 31, 2005 till December 31, 2017.

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 21, 2018.

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 notes to 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 with the Chamber of Financial Auditors in Romania
Nr. 77/15 August 2001

Camera Auditorilor Financiari din România
Sandu
Mihaela
Elena
Nr. 1610

Name of the Auditor/ Partner: Mihaela Sandu
Registered with the Chamber of Financial Auditors in Romania
No. 1610/16 August 2005

Bucharest, Romania
26 March 2018

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(amounts are expressed in RON, unless specified otherwise)

STATEMENT OF COMPREHENSIVE INCOME	Note	2017	2016
Sales of goods	5.1	426,814,358	387,798,794
Rendering of services	5.1	30,403,034	31,088,107
Other income		1,159,653	1,117,407
Turnover	5.1	**458,377,046**	**420,004,308**
Other operating income	6.1	5,209,947	5,440,103
Changes in inventories of finished goods and work in progress		3,848,785	1,672,107
Raw materials and consumables used	5.2	(196,642,714)	(167,175,858)
Employee benefits expenses	6.5	(59,063,423)	(50,517,563)
Depreciation, amortization and impairment		(21,416,471)	(14,091,815)
Marketing and advertising expenses	6.6	(23,010,539)	(19,729,003)
Rental expenses		(3,976,678)	(3,579,357)
Reversal of/ (expenses with) provisions	17	13,569,445	(1,782,408)
Other operating expenses	6.2	(70,833,877)	(80,294,202)
Operating profit		**106,061,521**	**89,946,312**
Financial Income	6.4	8,826,225	1,940,954
Financial Expenses	6.3	(7,961,716)	(2,425,172)
Profit before tax		**106,926,030**	**89,462,094**
Income Tax Expense	7.1	(17,283,274)	(16,323,448)
Profit after tax (A)		**89,642,756**	**73,138,646**
Other comprehensive income:			
Actuarial gains/losses in relation to employee benefits		(401,000)	(112,000)
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**	**(112,000)**
Total income after tax (A) + (B)		**127,332,257**	**73,026,646**
Number of shares		**416,961,150**	**416,961,150**
Earnings per share (RON/share)		**0.21499**	**0.17514**

The financial statements on pages 3 to 55 were approved by the Board of Administration and were authorized for issue according to the Administrators' Decision of 22 March 2018.

Administrator,
Name and surname:
Emmanuelle Valentin

Signature
Company stamp

Prepared by,
Name and surname: Georgeta Danu

Position: Chief Accountant

Signature
Registration number of professional organization

Ernst & Young Assurance Services S.R.L.
26. MAR. 2018
Signed for identification

ZENTIVA SA
STATEMENT OF FINANCIAL POSITION
As at 31 December 2017
(amounts are expressed in RON, unless specified otherwise)

STATEMENT OF FINANCIAL POSITION	Note	31 December 2017	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment	9	136,824,367	96,162,648
Intangible assets	10	768,975	759,528
		137,593,342	96,922,176
Current assets			
	12	40,549,376	42,093,203
Inventories			
Trade and other current receivables	13	158,176,809	173,143,655
Other financial assets		-	2,023
Cash and cash equivalents	14	160,792,774	127,910,418
		359,518,959	343,149,299
Total assets		497,112,301	440,071,475
Capital and reserves			
Share capital, including	15.1	**41,696,115**	**41,696,115**
Issued share capital		41,696,115	41,696,115
Share premium, including:	15.1	**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	15.2	112,745,368	104,718,721
Revaluation reserve		40,198,377	2,107,876
Retained earnings/(Accumulated Losses)	15.2	148,490,603	132,314,433
Total equity		368,094,969	305,801,651
Non-current liabilities			
Employee benefit liability	18	1,813,000	1,176,000
Other long - term liabilities		-	8,675
Deferred tax liability	7.2	6,494,406	922,288
Non-current provisions	17	5,091,012	9,364,556
Total non-current liabilities		13,398,418	11,471,519
Current liabilities			
Trade accounts payable	19	61,076,772	64,189,638
Income taxes payable		3,486,826	4,071,379
Other current liabilities	19	36,010,639	30,196,709
Short-term provisions	17	15,044,677	24,340,579
Total current liabilities		115,618,914	122,798,305
Total liabilities		129,017,332	134,269,824
Total liabilities and equity		497,112,301	440,071,475

The financial statements on pages 3 to 55 were approved by the Board of Administration and were authorized for issue according to the Administrators' Decision of 22 March 2018.

Administrator,
Name and surname:
Emmanuelle Valentin

Signature
Company stamp

Prepared by,
Name and surname: Georgeta Danu

Position: Chief Accountant

Signature
Registration number of professional organization

Ernst & Young Assurance Services S.R.L.
26. MAR. 2018
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(amounts are expressed in RON, unless specified otherwise)

2017

STATEMENT OF CHANGES IN EQUITY	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**
Profit appropriation	-	-	8,026,647	-	(8,026,647)	-
Dividends distribution	-	-	-	-	(65,000,000)	(65,000,000)
Correction of Retained Earnings	-	-	-	-	(38,939)	(38,939)
Closing balance	**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 21The Effects of Changes in Foreign Exchange Rates on the functional currency and prepares financial statements in accordance with these standards as of the transition date, i.e. 1 January 2011. On 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 on pages 3 to 55 were approved by the Board of Administration and were authorized for issue according to the Administrators' Decision of 22 March 2018.

Administrator,
Name and surname:
Emmanuelle Valentin

Signature
Company stamp

Prepared by,
Name and surname: Georgeta Danu

Position: Chief Accountant

Signature
Registration number of professional organization

Ernst & Young Assurance Services S.R.L.
26. MAR. 2018
Signed for identification

ZENTIVA SA
STATEMENT OF CHANGES IN EQUITY
for the financial year ended as at 31 December 2017
(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

2016

STATEMENT OF CHANGES IN EQUITY	Share capital	Share premium	Legal and other reserves	Revaluation reserve	Retained earnings	Total
Opening balance	41,696,115	24,964,506	98,513,760	2,107,876	105,476,271	272,758,528
Profit for the year	-	-	-	-	73,138,646	73,138,646
Other comprehensive income	-	-	-	-	(112,000)	(112,000)
Total other comprehensive income	-	-	-	-	(112,000)	(112,000)
Profit appropriation	-	-	6,204,961	-	(6,204,961)	-
Covering of hyper-inflation adjustment loss	-	-	-	-	-	-
Dividends distribution	-	-	-	-	(40,000,000)	(40,000,000)
Net impact from fixed asset revaluation	-	-	-	-	-	-
Deferred tax impact	-	-	-	-	16,477	16,477
Closing balance	41,696,115	24,964,506	104,718,721	2,107,876	132,314,433	305,801,651

As at 1 January 2016, the values of share capital and share premium include the effect of hyper-inflation adjustments, as required by application of IAS 29. The Company is a first-time adopter of the International Financial Reporting Standards (IFRS) as endorsed by the European Union, with the exception of the provisions of IAS 21 The Effects of Changes in Foreign Exchange Rates on the functional currency and prepares financial statements in accordance with these standards as of the transition date, i.e. 1 January 2011. On 28 April 2017, the Shareholders General Meeting decided to distribute dividends amounting to RON 40,000,000 from the profit for the year ended 31 December 2015 and the difference of RON 6,204,961 was included in reserves - for additional details, see Note 16 Dividends Paid and Proposed.

The financial statements on pages 3 to 56 were approved by the Board of Administration and were authorized for issue according to the Administrators' Decision of 22 March 2018.

Administrator,
Name and surname:
Emmanuelle Valentin

Signature
Company stamp

Prepared by,
Name and surname: Georgeta Danu

Position: Chief Accountant

Signature:
Registration number of professional organization

Ernst & Young Assurance Services S.R.L.
26. MAR. 2018
Signed for identification

ZENTIVA SA
STATEMENT OF CASH FLOWS
for the financial year ended 31 December 2017
(amounts are expressed in RON, unless specified otherwise)

STATEMENT OF CASH FLOWS	Note	31 December 2017	31 December 2016
Cash flows from operating activities:			
Profit before tax		106,926,030	89,462,094
Depreciation and amortization	9,10	21,416,471	14,091,815
Receivable allowance movement	13	(244,814)	(34,129)
Inventory allowance movement	12	626,453	2,293,970
Movements in provisions for risks and charges	17	(13,569,446)	1,782,408
(Gain)/loss on sale of property, plant and equipment	6.1	159,722	(37,288)
Pension liabilities expenses		236,000	(36,000)
Interest revenues	6.4	(910,643)	((289,497)
Operating profit before working capital changes		**114,639,773**	**107,233,373**
Change in inventories		917,375	5,688,999
Change in trade and other receivable		15,211,660	56,945,998
Change in trade and other payable		(1,226,754)	16,419,838
Cash generated from/ (used in) operations		**129,542,054**	**186,288,208**
Income tax paid	7.1	(19,456,074)	(16,720,713)
Employee benefits liabilities paid		(152,000)	(153,000)
Net cash from/ (used in) operating activities		**109,933,980**	**169,414,495**
Cash flows from investing activities			
Proceeds from sale of non-current assets		31,325	75,282
Purchase of property, plant and equipment	9,10	(16,828,959)	(11,547,122)
Interest received		910,643	289,497
Net cash used in investing activities		**(15,886,991)**	**(11,182,343)**
Cash flows from financing activities			
Dividends paid	16	(60,574,115)	(37,395,831)
Cash transferred for dividends payable to Central Depositary		(590,518)	(298,659)
Net cash from/ (used in) in financing activities		**(61,164,633)**	**(37,694,490)**
Net increase (decrease) in cash and cash equivalents		32,882,356	120,537,662
Cash and cash equivalents at the beginning of the period 1 January		**127,910,418**	**7,372,756**
Cash and cash equivalents at the end of the period 31 December		**160,792,774**	**127,910,418**

The financial statements on pages 3 to 55 were approved by the Board of Administration and were authorized for issue according to the Administrators' Decision of 22 March 2018.

Administrator,
Name and surname:
Emmanuelle Valentin

Signature
Company stamp

Prepared by,
Name and surname: Georgeta Danu

Position: Chief Accountant

Signature
Registration number of professional organization

Ernst & Young Assurance Services S.R.L.
26. MAR. 2018
Signed for identification

1. CORPORATE INFORMATION

These financial statements of Zentiva SA (the "Company") for the year ended 31 December 2017 are authorized for issue in accordance with the Board of Administrators Decision dated 22 March 2018.

The Company, formerly named SICOMED S.A, Bucuresti ("Sicomed") was established in 1962 as Intreprinderea de Medicamente Bucuresti ("IMB") – "Bucharest Drug Company". The Company's current legal address is 50 Th. Pallady Blvd, Bucharest, The Company is registered with the Trade Register under number J40/363/1991.

In 1990 Sicomed became a joint-stock company, by incorporation and taking over of all assets and liabilities of the former Intreprinderea de Medicamente Bucuresti ("IMB") – "Bucharest Drug Company" in accordance with a Government Decision. The initial share capital was the result of the difference between the assets, including the specific revaluation of land and buildings contributed by the State to the Company, in accordance with the Government Decision, and the related liabilities.

In October 2005, a majority interest in the Company was acquired by Zentiva Group (a large pharmaceutical group operating in Central and Eastern Europe), through the acquisition of shares in Venoma Holdings Limited, Zentiva Group (through ownership of Venoma Holdings Limited Holding and Zentiva NV) has control over the Company's operations.

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

Starting with 11 March 2009 a change occurred in the shareholder's structure at the Group level (Sanofi Aventis has acquired 97% of Zentiva NV – Company parent – shares).

The main activity of the Company consists in the production and trade of human drugs and medication.

Since 2007, following a decision taken by Zentiva Group, the Company has been operating all its sales through the Romanian branch, i.e., Zentiva International (entity incorporated in Slovakia) ("ZIRO") and as a result, the Romanian market (i.e. distributors) has been supplied with the Company's products through ZIRO. Starting with 1 October 2011 the sales are realized directly through Sanofi Romania SRL and, after this date, Ziro became a dormant entity which is to be liquidated.

The Company is listed on the Bucharest Stock Exchange.

The Company has no investments in subsidiaries or associates as of 31 December 2017. The company is being consolidated in the financial statements of its ultimate Parent, Sanofi.

2. BASIS OF PREPARATION

Statement of Compliance

The financial statements of the Company have been prepared in accordance with the provisions of Order of the Minister of Public Finance no. 2844/2016 approving the accounting regulations compliant 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 aligned with the requirements of the International Financial Reporting Standards as endorsed by the European Union, with the exception of the provisions of IAS 21 The Effects of Changes in Foreign Exchange Rates regarding the functional currency. For the purposes of the preparation of these financial statements, in accordance to Romanian legislative requirements, the functional currency of the Company is deemed to be the Romanian Leu (RON).

For all periods up to and including the year ended 31 December 2011, the Company prepared its financial statements in accordance with Romanian generally accepted accounting practice (Romanian GAAP).

2. BASIS OF PREPARATION (continued)

2.1 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 2017 the net assets of the Company are higher than the net liabilities by RON 243,900,045 (as of 31 December 2016, the net assets are higher than the net liabilities by RON 220,350,994). At the same date, the Company has a comprehensive income RON 89,241,756 (2016: RON 73,026,646).

The Budget for the year 2018 prepared by the Company's Management and approved by the Board of Administrators indicates positive cash flows from the operating activities, an increase in sales and profitability.

At the end of October 2016, the Sanofi Group announced after the analysis of the all available options, the launch of segregation process of its generics division in Europe.

Zentiva S.A. it will be included in this segregation process. The main objective of Sanofi Group is to identify a potential buyer willing to guarantee the sustainable increase of this business on medium and long terms. As at the date of the approval of these financial statements, this process in on-going.

In the frame of the Sanofi European Generic divestment process that is expected to take place during the last part of 2018, Zentiva will continue to operate its business as usual, while upholding its commitment to offer affordable, high-quality, safe and effective medicines to our patients and customers.

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.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Company in preparing its financial statements:

a) Foreign currency translations

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

Transactions in foreign currencies are translated into RON by applying the exchange rates prevailing at the time of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are translated to RON at the exchange rates prevailing on that date. Realized and unrealized exchange gains and losses are charged to the income statement. The RON/ USD exchange rate as at 31 December 2017 and 31 December 2016 was RON 4.6597 RON/EUR and 4.3033 RON/EUR, respectively. The RON/ USD exchange rate as at 31 December 2017 and 31 December 2016 was RON 3.8915 RON/USD and RON 4.5411 RON/USD, respectively.

Exchange rate differences, favorable or unfavorable between the exchange rate used at recognition date of the receivables or payables in foreign currency or the rate at which the assets or liabilities have been previously reported in financial statements and the exchange rate at the date of current financial statements are recognized under income statement as income or financial expenses, as appropriate.

b) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made.

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2. BASIS OF PREPARATION (continued)

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty.

The Company assesses its revenue arrangements against specific criteria to determine whether it is acting as principal or agent. The Company has decided it acts as a principal in all of its revenue arrangements, excepting the ones below. Before the revenue is recognized the specific recognition criteria as detailed below must also be met.

The amounts collected by the Company on behalf of third parties and which are based on agreements for intermediation, agency, commercial mandate, concluded under the law, are not revenues from current activity because the gross economic benefit inflows include the amounts collected on behalf of the owner (beneficiary). Instead, only the applied commissions are revenues, because they are the actual revenues from current activity.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Rendering of services

Income from service rendering is recognized in the period in which they were delivered and according to the completion percentage. Revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Interest income

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate (EIR), EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

c) 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 provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

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2. BASIS OF PREPARATION (continued)

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

- Deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:
- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor 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 no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value added tax

Incomes, expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- When receivables and payables are stated at the amount of sales tax included.

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

d) Property, plant and equipment

Initial recognition

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

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2. BASIS OF PREPARATION (continued)

When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

The cost of an item of property, plant and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Deemed cost as of the transition date (1 January 2011)

As of the transition date (31 December 2010), the Company used previous revaluations recorded under Romanian GAAP as its deemed cost on those dates for land and buildings, while it used historical cost adjustments for hyper-inflation for equipment.

Subsequent measurement

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognized at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in the income statement, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold or written-off is transferred to retained earnings in the respective financial year.

The Company contracted an independent evaluator specialist to determine the fair value as of 31 December 2005, 31 December 2008, 31 December 2011, 31 December 2014 and respectively as of 31 December 2017.

The other tangibles are evaluated at historical cost from which the amortisation is deducted and any adjustments for depreciation of the value.

Depreciation method

Depreciation is calculated:

- On a straight-line basis for buildings, noncurrent assets purchased under a financial lease and noncurrent assets in use at 31 December 1997;
- On a reducing balance method for property plant and equipment acquired or put in function after 1 January 1998.

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2. BASIS OF PREPARATION (continued)

Useful lives

The economic useful life use is the period of time over which an asset is expected to be available for use by an entity. Economic useful lives for property, plant and equipment have been assessed by specialized employees. Depreciation is calculated on a straight-line basis or reducing balance, over the whole useful life of asset.

Land is not depreciated.

The average useful lives for the categories of Property, plant and equipment, are as follows:

- Buildings 30-50 years
- Production equipment 5-20 years
- Transport vehicles 5 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on unrecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Lease contracts

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Company as a 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.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

2. BASIS OF PREPARATION (continued)

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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 cost 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.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete the intangible assets and its ability to use or sell the asset;
- How the intangible asset will generate future economic benefits;
- The availability of resources to complete the intangible asset;
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

2. BASIS OF PREPARATION (continued)

Patents, licenses and trademarks

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

Financial instruments – initial recognition and subsequent measurement

1) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the income statement.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied. The Company has not designated any financial assets at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the EIR method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognized in the income statement in " Other operating expenses " .

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2. BASIS OF PREPARATION (continued)

Derecognition

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

- The rights to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.
- When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.
- Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

2) Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Company of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The carrying amount of the financial asset is decreased by the depreciation loss, directly for all financial assets, except for trade receivables, case in which the carrying amount is reduced by using an impairment adjustment account. If a receivable is considered non-recoverable, it is eliminated and deducted from the adjustment for impairment. Subsequent recoveries of the amounts eliminated previously are credited in the adjustment for impairment account. The changes of the carrying amount in the adjustment for impairment account are recognized in "Other operating expenses".

3) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, overdrafts, loans and borrowings.

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2. BASIS OF PREPARATION (continued)

Subsequent measurement

The measurement 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 upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the income statement.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the unrecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the income statement.

4) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is also an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

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2. BASIS OF PREPARATION (continued)

5) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

Inventories

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

The costs of inventories are comprised of all costs of purchase, costs of production (including all direct and indirect cost attributable to the operational activity of production) and other costs incurred in bringing the inventories to their present condition and location.

The value of work in progress and finished goods includes costs of raw materials, direct labor, direct production costs and indirect production overheads including depreciation. Financing costs are not included in stock valuation.

Inventories are measured at the lower of cost and net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale. The cost of inventories is determined on the weighted average basis.

The Company periodically analyses inventories to determine whether they are damaged, obsolete or slow-moving or if their net realizable value has declined, and makes allowance for such inventories.

Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the income statement in expense categories consistent with the function of the impaired asset, except for a property previously revalued when the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

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2. BASIS OF PREPARATION (continued)

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation 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 recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the income statement net of any reimbursement.

Provisions are reviewed and premeasured at each balance sheet date and adjusted in order to reflect the best estimate. If an outflow no longer probable, the provision is reversed and it is recognized revenue.

Restructuring provisions

Restructuring provisions are recognized only when the recognition criteria for provisions are fulfilled, when all the following conditions are met:

- The Company has an official restructuring plan which includes: details in regard to the segment it relates, the main locations affected, approximate number of employees which will receive compensation for ceasing their service, their positions, the costs for the plan and the restructuring plan date.
- The Company raised a reasonable expectation that the restructuring will be achieved by starting the implementation of the plan or by presenting its main characteristics to those affected.

A restructuring provision will only include direct costs related to the restructuring process, namely those expenses that are generated as such by the restructuring process but are not related to the Company's continuing business.

The Company has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected a detailed estimate of the associated costs, and an appropriate timeline. Furthermore, the employees affected have been notified of the plans main features.

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2. BASIS OF PREPARATION (continued)

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Environmental provision

Land and water contamination provisions are recognized as contamination occurs for any legal obligations of clean up, or for constructive obligations if the company's published policy is to clean up even if there is no legal requirement to do so (past event is the contamination and public expectation created by the company's policy).

The Company is planning to perform an ecological remediation which will lead to monitoring the soil and the underground water.

Litigation provision

Litigation provisions are recognized when management estimated that the possible future cash flow due to unfavorable litigations.

Employee benefit obligations

During the current activity the company makes payments to the Romanian State budget relating to its employees post-retirement benefits. All employees are included in Romanian state pension plan. The company does not operate any other pension scheme and, consequently, does not have any obligation related to pensions. In addition, the company has no legal obligation to provide additional benefits to former or current employees, other than what is described below:

According to the collective labor agreement, the company grants to its employees on retirement a variable number of salaries depending on length of service in the company. This is a defined post-employment benefit plan.

The retirees receive the benefit according to seniority level in the company, as follows:

- up to 20 years with the company, one average gross salary at the unit level;
- between 20-30 years with the company, 1 and ½ of the gross average salary at the unit level;
- Over 30 years with the company, 2 gross average salaries at the unit level.

In addition, when the employees reach the age 50, get a benefit according to seniority level in company, as follows (treated as another long-term employee benefit):

- 10-20 years with the company, ½ of the basic salary;
- Over 20 years with the company, one basic salary;

Provisions for post-employment benefits and other long-term employee benefits obligations are estimated based on the collective labor agreement of the Company, by a specialized external actuary.

The Company uses the actuarial valuation method of the projected credit factor for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality , rates of employee turnover, lay-off rate, etc.) as well as financial assumptions (discount rate, inflation rate, salary increase rate). In the event that further changes in the key assumptions are required, the future amounts of the post-employment benefit costs may be affected materially.

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2. BASIS OF PREPARATION (continued)

Actuarial gains and losses for the post-employment defined benefit plan are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are recognized in retained earnings and are not reclassified to profit or loss in subsequent periods.

The past service costs are recognized as an expense on a straight line basis over the average period until the benefits become vested. Past service costs are recognized immediately if the benefits have already vested immediately following the introduction of, or changes to, a pension plan.

The Company's policy for other long-term employee benefits is to recognize actuarial gains and losses in the period in which they occur in full in profit or loss.

Related parties

Parties are considered related when one party, either through ownership, contractual rights, family relationship or otherwise, has the ability to directly or indirectly control or significantly influence the other party. Related parties also include individuals that are principal owners, management and members of the Board of Administration and members of their families, parties with joint control over the Company's joint ventures in which the Company is a venture, post-employment benefit plans for the benefit of the employees of the Company.

Retained earnings

The remaining profit after the allocation of the 5% to the legal reserve up to the 20% of the share capital limit set by the law is recorded in the opening retained earnings of the following financial period, when the profit appropriation takes place.

The actual accounting for profit appropriation is therefore made in the next financial year; subsequent by the Shareholder's General Meeting approves the respective appropriation, i.e. the dividends approved and other reserves as per the law provisions.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

- The management of the company considers that the level of provisions recognized under previous GAAP reflect the level of ricks the company is exposed to;
- The management of the Company decided that its functional currency is the RON considering the following aspects:
  - The Company records costs mostly in the national currency RON;
  - The Company records revenues mostly in the national currency in RON, though, some revenues are based on EUR prices;
- The management exercised judgment in determining the nature of the claw back and considered that it would be appropriate to classify as a reduction of revenues; the alternative way it was to be considered as an operational expenses. Management has considered this is more similar to a rebate, or contingent adjustment on sales made.

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Taxes, charges 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 for taxes have been paid or accrued at the balance sheet date. The Romanian tax system undergoes a consolidation process and is being harmonized with the European legislation. Different interpretations may exist at the level of the tax authorities in relation to the tax legislation that may result in additional taxes and penalties payable. 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 each year end the Company makes an estimate of its potential tax risks and determines the potential risk level using their best estimation, and, as a result, recognizes a specific provision in the financial statements, if appropriate.

Environmental provision and litigation provisions

The Company recognizes environmental provision in relation to ecological rehabilitation and monitoring of soil and underground waters.

The Company recognizes litigation provisions for the risks identified in relation to several court cases, whose outcome is not certain.

Useful lives for elements of property, plant and equipment and depreciation method

The Company estimated useful lives of its elements of PPE in accordance with the expected consumption of the respective assets.
The Company considers and uses the following depreciation methods:

- Straight line for buildings and assets acquired and put in function before 1997;
- Accelerated/reducing balance for assets put in operation after 1997.

Allowance for bad debts

The Company estimates allowance for bad debts as a general allowance based on the age of the respective receivable:

- Above 360 days: 100%

Amounts deducted from sales for projected sales returns, rebates and price reductions

Returns, discounts, incentives and rebates are recognized in the period in which the underlying sales are recognized as a reduction of sales revenue. These include provisions for price reductions under Government and State programs, which are estimated on the basis of the specific terms of the relevant regulations and/or agreements, and accrued as each of the underlying sales transactions is recognized. The provisions are subject to continuous review and adjustment as appropriate based on the most recent information available to management.

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4. STANDARDS AND NEW AMENDMENTS AND INTERPRETATIONS TO STANDARDS

A) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2017:

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**

The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The amendments are not applicable for the Company.

- **IAS 7: Disclosure Initiative (Amendments)**

The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The amendments are not applicable for the Company.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. These annual improvements have not yet been endorsed by the EU. There is no impact on the financial statements of the Company.

- ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

B) Standards issued but not yet effective and not early adopted

- **IFRS 9 Financial Instruments: Classification and Measurement**

The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Company's Management assessed the impact of this standard and considers that there is no significant impact on the Company's financial statements.

- **IFRS 15 Revenue from Contracts with Customers**

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Company's Management assessed the impact of this standard and considers that there is no significant impact on the Company's financial statements.

4. STANDARDS AND NEW AMENDMENTS AND INTERPRETATIONS TO STANDARDS (continued)

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**

The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The Company's Management assessed the impact of this standard (including clarifications) and considers that there is no significant impact on the Company's financial statements.

- **IFRS 16: Leases**

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The standard has not been yet endorsed by the EU. The Company's Management assessed the impact of this standard and considers that there is no significant impact on the Company's financial statements.

- **IFRS 17: Insurance contracts**

The standard is effective for annual periods beginning on or after 1 January 2021 and earlier application is permitted if IFRS 15 "Revenue from Contracts with Customers"and IFRS 9 " Financial Instruments" applied.
IFRS 17 "Insurance contracts" sets out the principles for the recognition, measurement, presentation and disclosure of the issued insurance contracts. Also the standard sets out the application of the similar principles for the insurance and investment contract with discretionary participation. The objective is to ensure that the entities provide the accurate information in a relevant way, which represents fairly those contracts. This information provide the basis which enable to users of the financial statements to assess the effects of the contracts under IFRS 17 on the statements of the financial position, comprehensive income and cash flows. The standard had not been endorsed by the EU. The standard is not applicable to the Company.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Company's Management assessed the impact of this standard and considers that there is no significant impact on the Company's financial statements.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU. The Company's Management assessed the impact of this standard and considers that there is no significant impact on the Company's financial statements.

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4. STANDARDS AND NEW AMENDMENTS AND INTERPRETATIONS TO STANDARDS (continued)

- **IFRS 4:Application of IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts (amended)**

The amendment is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The amendment refers to the implication generated by the implementation of the new standard related to the Financial Instruments IFRS 9, before the implementation of the new standard regarding the insurance contracts developed for replacing the IFRS 4. The amendment introduce two options for the entities which issue the insurance contracts: the temporary exception from IFRS 9 application and an approach based on overlapping which would permit the entities issuing the insurance contracts under IFRS 4, to reclassify some revenues and expenses generated by the financial assets from income statement into other items from the Comprehensive income. The standard is not applicable to the Company.

- **IAS 40: Transfers to Investment Property (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. The Company's Management assessed the impact of this standard and considers that there is no significant impact on the Company's financial statements.

- **IFRS 9:Prepayment features with negative compensation (amended)**

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendment permit to the financial assets Prepayment features, which allow or need as a part of the contract either to pay or to receive a reasonable compensation for the earlier termination of the contract (such as that from the perspective of the owner of the qualified asset it is possible to exist a negative compensation) to be valued at amortized cost or the fair value through other items of the Comprehensive income. These Amendments have not yet been endorsed by the EU. The Company's Management assessed the impact of this standard and considers that there is no significant impact on the Company's financial statements.

- **IAS 28 Investments in Associates and Joint Ventures (amended)**

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendment sets out that the measurement and, especially the requirements related to the impairment of the investments in associates which, in fact are part of the net investment in the respective joint venture, it should be ruled by IFRS 9, IAS 28 or a combination of these two standards. The amendment clarified the fact that an entity applies IFRS9 Financial Instruments before applying IAS 28 to those investments in associates on which the equity method is not applicable. In the application of the IFRS 9 the entity does not take into consideration the adjustments on the accounting values of the Investments in associates, which are generated by IAS 28. These Amendments have not yet been endorsed by the EU. The Company's Management assessed the impact of this standard and considers that there is no significant impact on the Company's financial statements.

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. The Company's Management assessed the impact of this standard and considers that there is no significant impact on the Company's financial statements.

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4. STANDARDS AND NEW AMENDMENTS AND INTERPRETATIONS TO STANDARDS (continued)

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. The Company's management assessed the impact of improvements and considers that there is no significant impact on the Company's financial statements.

- *IFRS 1 First time adoption of IFRS*

This amendment eliminates the short term exception, related to the information to be provided in connection with the financial instruments, employee's benefits and investment entities, applicable to the entities which adopted the first time the IFRS.

- ***IAS 28 Investments in Associates and Joint Ventures:***

The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- **IFRIC 23 Uncertainty over income statement treatments**

The interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The interpretation approaches the accounting of income tax when the fiscal treatments imply an uncertainty degree which might affect the application of IAS12. The interpretation provides guidance related to the analyses of certain fiscal treatment at standalone level or combined, the fiscal authority's audits, the appropriate method which reflects the uncertainty and the accountability regarding the changes in environment. The interpretation has not been endorsed by the EU. The Company's Management assessed the impact of this standard and considers that there is no significant impact on the Company's financial statements.

The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The Company's management assessed the impact of improvements and considers that there is no significant impact on the Company's financial statements.

- **IFRS 3 Business combinations and IFRS 11 Joint arrangements:** The improvements on IFRS 3 clarify the situation when an entity holds the control on an enterprise, which is a joint venture, that entity revalues the interests held previously in that enterprise. The amendment on IFRS 11 clarifies the fact that, when the entity holds a common control on an enterprise which is a joint venture, the entity does not revalue the interests held previously in that enterprise.
- **IAS 12 Income taxes**: The improvements clarify the fact that the effects on the income taxes on the payments related to the financial instruments classified as equity should be recognized similarly with the recognition of the transactions and past events, which generated profit to be distributed.
- **IAS 23 Borrowing costs**: The improvements clarify the point 14 from this standard, which specifies when the asset is available either for usage or for sale and some specific borrowings related to this asset are outstanding at that moment, those borrowings should be considered into the amounts which the Company generally borrow.

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

5.1 Turnover

For management purposes, the Company is organized into business units based on its products and services. The company has one reportable segments and namely production of drugs.

The management of the Company monitors the operating results of its business as a whole, for the purpose of making decisions about resource allocation and performance assessment. Performance is evaluated based on operating profit or loss, gross profit or loss and is measured consistently with operating profit or loss in the financial statements.

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

	01.01-31.12.2017	01.01-31.12.2016
Domestic sales	248,634,287	213,184,411
Sales abroad	209,742,758	206,819,897
Total	**458,377,045**	**420,004,308**
a) Rendering of services	**30,403,034**	**31,088,107**
b) Sales of goods, including:	**426,814,357**	**387,798,794**
Sales of finished goods	413,796,181	385,505,158
Sales of goods for resale	27,380,321	13,209,665
Residual products	167,942	161,289
Claw back tax expense	(14,530,086)	(11,077,317)
c) Other revenues	**1,159,653**	**1,117,407**

Claw back tax

Starting with the last quarter of the financial year ended 31 December 2009, within the pharmaceuticals business, for the companies that are Market Authorization Holders for certain drugs, a new tax has been introduced named the "claw-back tax".

For the purpose of financing the health expenses, holders of marketing authorizations of medicinal products included in national health programs are required to pay the claw-back tax on a quarterly basis for the concerned medicine sales related to the concerned quarter based on the notifications received by the Company from the National Health Insurance Fund (CNAS).

The contribution (the claw-back tax) must be paid by holders of the medicines marketing authorizations, or their legal representatives, if these medicines are:

- Prescribed within the Romanian healthcare system;
- Used in out-patient treatment (with or without a patient contribution) on the basis of a medical prescription and available through public pharmacies, in hospital treatment, or used as part of medical treatment offered in dialysis centers.

Starting with 2011, the method of claw back tax computation was explained by *Government Emergency Ordinance no, 77 as published in December 2011).* As a result, the quarterly contribution is calculated by applying **a percentage "p"** to the sales made by each Authorization holder (payer of the contribution), percentage p is determined by reference to actual level/value of the consumption of medicines, which are paid for by the National Health Insurance Fund and the budget of the Ministry of Health. The value of percentage "p" and the total consumption of medicines recorded in the statistics of the social health insurance system are communicated to the payers by CNAS by the end of the month which follows the end of the quarter.

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

Starting with 2012, the computation was changed by the *Government Emergency Ordinance no, 110 as published in September 2012.* The new computation method is performed based on the information about actual consumption in the market, which is quarterly received by the taxpayer from the National Health Insurance Fund.

The Company presented the claw back related to sales realized during the year as a reduction in Turnover realized during the year.

5.2. Raw material expenses

Raw materials and consumables used	Note	01.01-31.12.2017	01.01-31.12.2016
Raw materials	1	117,342,012	97,008,333
Cost of Goods for resale		14,565,544	8,610,654
Packaging materials	2	40,765,433	38,933,207
Auxiliary materials	3	8,439,359	7,730,145
Utilities	4	8,329,419	8,192,162
Other material expenses	5	7,200,947	6,701,357
Total		196,642,714	167,175,858

The amounts referenced in the above table at 1, 2, 3 comprise mainly expenses with raw materials and direct materials, packaging and auxiliary expenses used in production. The amounts referenced at 4 – utilities – comprise mainly expenses with energy and water.

5- This category mainly contains the expenses with materials not stored related to the certification department for the product manufactured in Turkey and India, which will be distributed on the European Union Member State markets and for the certification of the products existing in the Zentiva portfolio.

During 2017, the cost of raw materials increased compared to the prior year due to the changes in the structure of the sold products during the current year and also due to the increasing of the volume sold during the year 2017 compared with the previous year, which generated the overall increase of the turnover – for more details, see the Note 5.1 Turnover.

6. OTHER INCOME/OTHER EXPENSES AND ADJUSTMENTS

6.1 Other operating income

Other operating income	01.01-31.12.2017	01.01-31.12.2016
Gain/ (loss) from disposal of assets	(159,722)	37,288
Services to Sanofi Romania SRL	3,784,646	3,728,857
Other operating income	1,585,023	1,673,958
Total	**5,209,947**	**5,440,103**

The Company recognizes revenues from the reinvoicing of services provided by the employees of Zentiva to Sanofi Romania SRL (sister company) – MHR (Manhour employee fee/ hour).

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

Under "Other operating income" the Company recognizes as services to Sanofi Romania SRL certain services related to the marketing and promotion of certain services under the Sanofi Aventis brand.

6.2 Other operating expenses

Other expenses	01.01-31.12.2017	01.01-31.12.2016
Management service expenses	9,725,537	8,433,430
Promotion/MHR expenses from Sanofi Romania SRL	10,157,357	10,212,483
Repair expenses	6,234,767	7,081,525
Sponsorship	24,053	82,946
License – Zentiva trade mark	6,973,374	6,460,017
Travel expenses	1,637,044	1,451,734
Write-off of inventories	2,190,793	4,164,047
Taxes	728,538	5,305,491
Professional fees	728,745	694,693
Telecommunication expenses	659,331	800,166
Fines and penalties	41,839	154,766
Other expenses	31,304,951	33,193,063
Net allowance for inventories and receivables	427,547	2,259,841
Total	**70,833,876**	**80,294,202**

The management service expenses include a wide variety of support, such as:

Management support services representing the product portfolio management and its development (monitoring, support on transfers, projects to optimize production processes of the Company), for the procurement process (supplier monitoring, negotiations of the major contracts for raw materials), legal support (review and support for international/complex situations related to the Romanian business environment) and financial services (monitoring of sales, support for production cost planning and optimization, definition of production flows for the local production capacity).

Marketing and sale promotion services: support for the launches of new products, monitoring services and local market performance improvement, business plan reviews to support management decisions and the best practices and policies of the Group.

Production and logistics services: support for production flows, management and optimization of transport costs, monitoring and support the optimization of the local production capacity performance, sharing the best practices between the Group companies having production capacities.

IT support services: maintenance of IS systems (SAP and other common applications used by the all entities from the Group), operational and day-to-day support regarding the IT infrastructure and the used software, management and execution of IT projects relevant at local level.

Promotion expenses comprise mainly the equivalent value of the promotion services performed by the employees of Sanofi Romania SRL for the products existing in Zentiva' s portfolio and distributed by it on the local market. The services are paid based on Man/Hour rates agreed by the parties.

Taxes include other local taxes and the non-deductible VAT related to miscellaneous costs. The decrease in the current year as compared to the prior year is mainly due to the taxes paid by the Company to the state authorities (such as the National Agency for Medicines for registering new medicines produced by the Company).

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

Other expenses include: expenses for studies and research in the pharmaceutical field, expenses for obtaining the authorization for production, equipment maintenance and repairs, transportation, security, intranet services and other miscellaneous costs. This category also includes the personnel lease services from Lugera and the services reinvoiced by Sanofi Romania SRL depending on the man-hours rate of the employees who have provided services for Zentiva SA, other than the promotion ones presented above. These costs have grown in the current year as compared to the prior year, as they are directly linked to the Company's production activity which has increased in the current year as compared to the prior year.

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

The Company presents the amounts in relation to increase and use of allowance for inventories and receivables on a net basis under "Other operating expenses", if the net impact is an expense. As of 31 December 2017, the net value of the allowance for inventories and receivables amounting to RON 381,639 (2016: RON 2,259,841) is mainly represented by the decrease of the inventories allowance in amount of RON 626,561 and by the increase of the receivables allowance in amount of RON 244,814. Also, this line contains the impact of the written-off receivables, which were not provided initially, in amount of RON 45,910. – for further details please see the comments included in Note 12: Inventories and in Note 13: Trade and other receivables (current).

6.3 Finance costs

Financial expense	01.01-31.12.2017	01.01-31.12.2016
Foreign exchange loss expense	7,961,716	2,419,309
Interest expenses	-	5,863
Total	**7,961,716**	**2,425,172**

6.4 Finance income

Finance income	01.01-31.12.2017	01.01-31.12.2016
Foreign exchange gain income	7,915,581	1,651,457
Interest income	910,643	289,497
Total	**8,826,224**	**1,940,954**

6.5 Employee benefits expense

Employee benefits expense	01.01-31.12.2017	01.01-31.12.2016
Wages and salaries	46,411,780	39,860,880
Social security costs	10,875,288	9,602,556
Post-employment and other long-term employee benefits – net impact	236,000	(36,000)
Other short term benefits (*)	1,540,354	1,090,127
Total	**59,063,422**	**50,517,563**

(*) - the expense represents meal tickets granted to employees.

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

6.6 Marketing and advertising expenses

The Company recognized as expense for marketing and advertising the expenses incurred for TV promos and other types of media advertising.

The Company uses some local media suppliers for these advertising campaigns.

In 2017, the Company concluded advertising agreements mainly with the advertising agency Lion Communication Services for the TV promotion campaigns, the total value of these services being of RON 7,554,765 (2016: RON: 6,450,601), but also with other advertising agencies.

The main campaigns made in 2017 are for the following products:

- Antinevralgic si Antinevralgic Forte
- Dicarbocalm
- Ibalgin
- Modafen

7. INCOME TAX AND DEFERRED TAX

7.1 Income tax

The major components of income tax expense and the reconciliations between the expenses with the accounting and fiscal tax and profit for the years ended 31 December 2017 and 2016 are:

Income tax expense	**01.01-31.12.2017**	**01.01-31.12.2016**
Current income tax	18,871,520	16,982,707
Deferred tax (7.2 / expense (income))	(1,588,246)	(659,261)
Total	**17,283,274**	**16,323,446**

Tax reconciliation	**01.01-31.12.2017**	**01.01-31.12.2016**
Profit before income taxes	**106,926,030**	**89,462,094**
Income taxes calculated at the tax rate applicable in Romania of 16% (2015: 16%)	17,108,165	14,313,935
Non-taxable income	(2,403,231)	(156,488)
Non-deductible expenses	2,602,393	2,248,945
Fiscal credit	(24,053)	(82,946)
Income taxes reported in the income statement	**17,283,274**	**16,323,448**

Movement in the current income tax during the year	**31.12.2017**	**31.12.2016**
Balance as at 1 January	**4,071,379**	**3,809,385**
Income tax expenses for the current year	18,871,520	16,982,707
Income tax paid during the year	(19,456,074)	(16,720,713)
Balance as at 31 December	**3,486,825**	**4,071,379**

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7. INCOME TAX AND DEFERRED TAX (continued)

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.

Deferred tax refers to:

Deferred income tax	31.12.2017	31.12.2016	Income statement and equity movement/Retained earnings 2017	2016
- Deferred income tax assets				
Employee benefit liability	290,080	188,160	101,920	12,160
Provisions, including depreciation for tangible assets	2,055,085	2,275,673	(220,588)	476,052
Intangibles	-	8,551	(8,551)	7,516
Estimate of the provision for employee's management and for leaves not taken	1,173,079	1,022,404	150,675	1,022,404
Total (a)	**3,518,244**	**3,494,788**	**23,456**	**1,518,133**
- Deferred income tax liabilities				
Property, plant and equipment- recognized in the income statement	(2,435,252)	(4,000,042)	1,564,790	(858,872)
Property, plant and equipment- recognized in equity	(7,577,398)	(417,034)	(7,160,364)	16,477
Total (b)	**(10,012,650)**	**(4,417,076)**	**(5,975,574)**	**(842,395)**
Net deferred tax income (a) - (b)	**(6,494,406)**	**(922,288)**	**(5,952,118)**	**(675,738)**

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:

	2017	2016
Deferred tax		
Recognized in profit and loss (7.1)	(1,588,246)	(659,261)
Recognized in equity	7,160,364	(16,477)
Total	5,572,118	(675,738)

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.

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9. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery, tools and equipment	Constructions in progress	Total
Gross Value at 1 January 2016	**11,421,897**	**47,575,975**	**147,791,637**	**7,898,683**	**214,688,192**
Additions	-	-	-	11,480,257	11,480,257
Disposals	-	-	(310,700)	-	(310,700)
Transfers from CIP	-	-	6,970,558	(6,970,558)	-
Gross value at 31 December 2016	**11,421,897**	**47,575,975**	**154,451,495**	**12,408,382**	**225,857,749**
Depreciation and impairment at 1 January 2016	**(991,003)**	**(2,070,059)**	**(111,920,178)**	**(1,051,649)**	**(116,032,889)**
Charge for the year	-	(1,811,242)	(12,123,677)	-	(13,934,919)
Disposals	-	-	272,707	-	272,707
Depreciation and impairment at 31 December 2016	**(991,003)**	**(3,881,301)**	**(123,771,148)**	**(1,051,649)**	**(129,695,101)**
Net book value 31 December 2016	**10,430,894**	**43,694,674**	**30,680,346**	**11,356,734**	**96,162,648**

	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 on revaluation reserve	32,072,782	12,349,217	-	-	**45,250,864**
Reevaluation Impact in the income statement	(43,661)	(8,982,716)	-	-	**(9,026,317)**
Depreciations written-off after reevaluation	(785,264)	(5,547,078)	-	-	**(6,332,342)**
Transfers	-	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)**
Depreciation written-off 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**

The value of fully depreciated non-current assets as at 31 December 2017 is RON 113,044,360 (2016: RON 94,645,636).

Reevaluation of land and buildings

As at 31 December, 2017 the Company revalued the existing land and buildings. The valuation was performed by an independent appraiser in accordance with the International Valuation Standards.

The net impact of the valuation was in amount of RON 36,224,547 and it was recorded as following: RON 45,250,864 representing the increase of the reevaluation reserve (please see the Note related the Shareholders' Equity Statement), and RON 9,026,317, representing the impact in the income statement, under the line "Depreciation, amortization and impairment" representing the loss in the carrying value of the specific buildings as a result of the reevaluation of these as of 31 December 2017.

9. PROPERTY, PLANT AND EQUIPMENT (continued)

The fair value was determined by reference to market-based evidence, using cost approach as primary valuation approach, market approach (direct comparison method) for land valuation and income approach (direct capitalization method) as secondary valuation method. The valuation techniques are selected by the independent appraiser in accordance with International Valuation Standards, property type and valuation purpose. Valuation techniques and methods applied are in line with the common practice for the type of assets valued.

The fair value is overall determined to be Level 2 and 3 in the fair value measurement hierarchy. The inputs used in the valuation were either:

- Level 2 inputs based on the IFRS 13 classification (e.g. current rents, prices per sqm, yields, occupancy rates, etc. publicly available on the market for similar assets and other market-corroborated inputs)

or

- Level 3 (unobservable) inputs representing for example assumptions in respect to operational costs, replacement costs, depreciation adjustments - most of them derived based on publicly available technical studies (rather than direct inputs from the market), with orderly adjustments performed by the appraiser.

The valuation is sensitive to its main inputs, being the market value per square meter for land (which was estimated at 120 Euro/square meter). gross replacement costs estimation (which were estimated using local cost catalogues) and depreciation estimation (which were based on the physical condition of the assets as at valuation date).

The estimation of fair values using income approach and allocation techniques based on the net replacement costs of the constructions and the recommendations of the specific valuation standard for the accounting purposes valuation, would have resulted in a similar value allocated to the constructions and a residual value allocated to the land by approx. 5% higher.

The Company did not presented the carrying value of land and buildings at original cost because this information is not available.

Investments in progress

Included in investments in progress at 31 December 2017 was an amount of RON 14,921,285 (2016: 12,408,382 RON) representing mainly expenditure for the acquisition of production equipment.

As at 31 December, 2016, the Company recorded an impairment provision amounting to RON 1,051,649 (2016: RON 1,051,649) relates to several investments made for SMB Laboratories and a syrup production line, which were not finalized as at that date.

During the year 2017, the Company's Management decided to dispose these investments and reversed the provision related to them and existed as at 31 December 2016, the impact being recognized in the Category "Gain/(loss) from the disposal of assets" – for further details, please see the Note 6.1 Other operating revenues.

During the year 2017, a part of the investments started during the year and in the prior periods have been completed, being transferred from the category of investment in progress into the buildings and machines and equipment. Their total value amounted to RON 13,365,948 (2016: RON 6,970,558). In January 2018, the Company has put into operation equipment's in amount of RON 5,669,505 from the construction in progress existing as of 31 December 2017.

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10. INTANGIBLE ASSETS

	Development cost	Other intangible assets	Intangibles in progress and advance payments	Total
Costs as at 1 January 2016	**63,532**	**3,885,411**	**902,091**	**4,851,034**
Additions	-	-	66,865	66,865
Disposals	-	-	-	-
Transfers	-	242,491	(242,491)	-
Costs as at 31 December 2016	**63,532**	**4,127,902**	**726,465**	**4,917,899**
Amortization and impairment at 1 January 2016	**63,532**	**3,507,377**	**430,583**	**4,001,492**
Amortization during the year	-	156,879	-	156,879
Disposals	-	-	-	-
Amortization and impairment at 31 December 2016	**63,532**	**3,664,256**	**430,583**	**4,158,371**
Net amount as at 31 December 2016	**-**	**463,646**	**295,882**	**759,528**
Costs as at 1 January 2017	**63,532**	**4,127,902**	**726,465**	**4,917,899**
Additions	-	-	178,618	178,618
Disposals	-	(11,280)	-	(11,280)
Transfer	-	-	-	-
Costs as at 31 December 2017	**63,532**	**4,116,622**	**905,081**	**5,085,235**
Amortization and impairment at 1 January 2017	**63,532**	**3,664,256**	**430,583**	**4,158,371**
Amortization during the year	-	169,169	-	169,169
Disposals	-	(11,280)	-	(11,280)
Amortization and impairment at 31 December 2017	**63,532**	**3,822,145**	**430,583**	**-**
Net amount as at 31 December 2017	**-**	**294,477**	**474,498**	**768,975**

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11. OTHER FINANCIAL ASSETS

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 - 5 bp if the Company makes deposits, respectively.

As of 31 December 2017, the cash pooling account has a debit balance of RON 154,410,514 (2016: 121,358,219 RON).

The debit balance as at 31 December 2017 and 31 December 2016 is presented under the line "Deposits" in Note 14" Cash and short term deposits".

12. INVENTORIES

Inventories	31.12.2017	31.12.2016
Merchandise	5,713,379	6,744,607
Finished and semi-finished products	10,162,250	16,737,416
Raw materials and supplies	29,263,929	20,661,901
Package materials	7,867,036	9,780,044
Less:		
Allowance for obsolete inventories	(12,457,218)	(11,830,765)
Total	**40,549,376**	**42,093,203**

Changes in inventory impairment	31.12.2017	31.12.2016
Balance at 1 January	**(11,830,765)**	**(9,536,795)**
Additions	(626,453)	(2,293,970)
Provision used	-	-
Release of provisions	-	-
Balance at 31 December	**(12,457,218)**	**(11,830,765)**

Impairment per inventory category	31.12.2017	31.12.2016
Finished and semi - finished products	(7,594,157)	(8,167,605)
Raw materials and supplies	(3,062,254)	(2,497,015)
Package materials	(1,800,807)	(1,166,145)
Total	**(12,457,218)**	**(11,830,765)**

The Company recognizes an allowance for slow moving inventories, according to the Company policy. Therefore, as of 31 December 2017, from the total provision of RON 12,457,218, the amount of RON 5,855,595 relates to slow moving items. The difference of RON 7,371,621 represents a specific provision recorded by the Company as of 31 December 2017 for the pilot series of medicines that are still in the stage of being approved for commercialization, in amount of RON 6,601,621 and as well, a specific provision for packaging in amount of RON 770,000 (2016: from the total provision of RON 11,830,765, the amount of RON 5,376,943 represents a provision for slow moving inventories and the RON 6,453,822 difference represents a specific provision for the pilot series of medicines that are still in the stage of being approved for commercialization)

The Company does not have any inventories pledged in favor of third parties as of 31 December 2017 and 31 December 2016, respectively.

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13. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade and other accounts receivable	31.12.2017	31.12.2016
Trade receivables (see aging below)	2,427,390	2,534,658
Trade receivables from related parties (see aging below)	119,655,160	141,263,498
Advances paid	9,187,612	4,328,072
Recoverable taxes	26,927,473	24,896,261
Sundry debtors	306,897	579,464
Prepaid expenses	298,838	413,077
Less:		
Allowance for doubtful trade accounts receivable	(626,561)	(626,561)
Allowance for sundry debtors	-	(244,814)
Total	**158,176,809**	**173,143,655**

The trade receivables do not carry any interest on them and are due mainly between 60-120 days, starting from 1 December, 2015 (2015: the due date was between 60-240 days).

See below for the movements in allowance:

Allowance	31.12.2017	31.12.2016
Balance at 1 January	**(871,375)**	**(905,504)**
Settings	-	-
Provision used	-	-
Reversal of previous years provision	244,814	34,129
Balance at 31 December	**(626,561)**	**(871,375)**

As of 31 December 2017, trade receivables amounting to RON 626,561 RON (2016: 871,375 RON) were provisioned in full.

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

The net movement in the provision 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-of 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:

Receivables		Receivables due, but not provisioned				
	Receivables not due	1-30 days	30-60 days	60-180 days	>180 days	Total
2017	118,423,274	2,907,671	34,865	72,774	17,405	**121,455,989**
2016	139,482,205	3,014,674	243,114	324,712	106,890	**143,171,595**

See **Note 22** on credit risk of trade receivables, which discusses how the Company manages and measures credit quality of trade receivables that are neither past due nor impaired.

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14. CASH AND SHORT TERM DEPOSITS

	31.12.2017	31.12.2016
Cash at banks and on hand	285,773	1,046,230
Advance for payment of dividends	6,096,487	5,505,969
Deposits – cash pooling	154,410,514	121,358,219
Total	**160,792,774**	**127,910,418**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of time between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

As of 31 December 2017, the Company had issued letters of guarantees in favor of third parties for which it had collateral cash amounting to EUR 3.311 and RON 3.557.

As of 31 December 2017, the Company has restricted cash in amount of RON 45,991 (2016: RON 45,834 RON), representing warehouse keeper guarantees.

The amount of RON 6,096,487 included on the "Advance for payment of dividends" line relates to a transfer to the Central Depository for the dividend payment to the minority shareholders (2016: RON 5,505,969).

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. The interest received and paid for the cash-pooling transactions during the year amount to RON 910,643 and RON 5.863, respectively nil (2016: the interest received amounts to RON 288,927 and the interest paid amounts to RON 5.863 RON) and they are presented in Note 6.3 Financial expenses and Nota 6.4 Financial revenues, respectively.

As of 31 December 2017, the cash pooling account has a debit balance of RON 154,410,514 (2016: RON 121,358,219).

As of 31 December 2017 and 31 December 2016, respectively, the Company has a credit facility in amount of RON 10,000,000 at BNP Paribas Bank which is not used; the interest rate is ROBOR 1M + 1.30% pa.

15. ISSUED CAPITAL AND RESERVES

Authorized shares	31.12.2017	31.12.2016
Ordinary shares of RON 0.1 each	416,961,150	416,961,150

Ordinary shares issued and fully paid	Number	Amount
At 31 December 2016	416,961,150	41,696,115
At 31 December 2017	416,961,150	41,696,115

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15. ISSUED CAPITAL AND RESERVES (continued)

Share capital	31 December 2017	31 December 2016
Issued share Capital	41,696,115	41,696,115
Total share capital	**41,696,115**	**41,696,115**

Share premium

	31 December 2017	31 December 2016
Inflated share premium		
Share premium (nominal value)	9,863,684	9,863,684
Inflation related to share premium	15,100,822	15,100,822
Total inflated share premium	**24,964,506**	**24,964,506**

For the conversion to IFRS in accordance with Order 1286/2012, the Company recorded a hyperinflation adjustment for the period 1992 - 2003 when Romania was considered a hyperinflationary economy in relation to both share capital and share premium.

Redeemable shares: The Company has no redeemable shares as at 31 December 2017 (2016: no redeemable shares).

Reserves

Reserves and other components of equity	31.12.2017	31.12.2016
Retained earnings/(Accumulated Losses)	**148,907,638**	**132,314,433**
out of this an amount relating to hyperinflation adjustment	-	-
Retained earnings, excluding hyperinflation adjustment	**148,907,638**	**132,314,433**

Total other reserves included in components of equity comprise of:	Note	31.12.2017	31.12.2016
Legal reserves	B	8,339,223	8,339,223
Other reserves (other funds)	D	104,406,145	96,379,499
Revaluation reserve	C	40,198,377	2,107,876
Retained earnings, excluding hyperinflation adjustment	A	148,490,603	132,314,433
Total Other Reserves		**301,434,348**	**239,141,031**

A) Retained earnings (excluding hyperinflation adjustment) are made up of the following:

	31.12.2017	31.12.2016
Reclassification of distributable reserves to retained earnings	45,837,619	48,854,083
Fiscal facilities (accumulated profit)	917,664	917,664
Retained earnings	7,489,835	4,024,530
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	89,642,756	73,138,646
Other equity elements	(1,152,695)	(375,914)
Total Retained earnings	**148,490,603**	**132,314,433**

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B) Legal reserves

The Company set its legal reserve in accordance with the Company Law, which requires that 5% of the annual accounting profit before tax is transferred to "Legal reserve" until the balance of this reserve reaches 20% of the share capital of the Company. Legal reserves are not distributable. As at 31 December 2017 and 31 December 2016, respectively, the Company reached the threshold of 20% of the share capital.

C) Revaluation reserve

A revaluation reserve is considered to be realized when the corresponding asset is disposed of or sold. Once the revaluation reserve becomes realized, it can then be distributed. As of 31 December 2017, the Company recorded the amount RON 42,250,864 (2016: RON 2,107,876) related to the increase of the value of land and buildings – for further details, please Note 9 Property, plant and equipment.

D) Other reserves

Other reserves comprise of profit appropriation for the periods: 2004-2008, 2012-2013 and 2015, respectively. These reserves are available for distribution as dividends.

E) Fiscal facilities

During the year 2002, the Company benefited from fiscal facilities for the exports performed in an amount of RON 25,280 and for investments done from reinvested profit in value of RON 892,384.

16. DIVIDENDS PAID AND PROPOSED

During 2017, the Company distributed dividends in amount RON 65,000,000 (2016: RON 40,000,000), approved by the decision of the General Shareholders' Meeting on 27 April 2017. These dividends were distributed from the result of the financial year ended as of 31 December 2016. For details, see **Note – Statement of Changes in Equity.**

Payments were performed during the financial year 2017 in amount RON 61,164,633 (2016: RON 37,694,490), out of which, the amount RON 52,846,204 (2016: RON 32,637,320) was paid to the majority shareholders.

The 2017 dividends will be proposed and declared in the financial year 2018 according to the General Meeting of Shareholders approval and will decrease the retained earnings in 2018.

17. PROVISIONS

Other provisions	31.12.2017	31.12.2016
Provisions for litigations	(211,549)	(411,549)
Provisions for taxes	(11,752,670)	(24,353,670)
Other provisions	(2,245,983)	(3,014,429)
Environmental provision	(5,925,487)	(5,925,487)
Total	**(20,135,689)**	**(33,705,135)**

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17. PROVISIONS (continued)

	Provisions for litigations	Provisions for restructuring	Provisions for taxes	Environmental provisions	Other provisions	Total
As of 1 January 2016	**1,452,665**	**-**	**23,053,670**	**5,925,487**	**1,490,905**	**31,922,727**
Additions	-	-	1,300,000	-	2,164,874	3,464,874
Reversals	(1,041,116)	-	-	-	(641,350)	(1,682,466)
As of 31 December 2016	**411,549**	**-**	**24,353,670**	**5,925,487**	**3,014,429**	**33,705,135**
Current	-	-	18,457,150	2,869,000	3,014,429	24,340,579
Long term	411,549	-	5,896,520	3,056,487	-	9,364,556

	Provision for litigations	Provision for restructuring	Provision for taxes	Environmental provision	Other provisions	Total
As of 1 January 2017	**411,549**	**-**	**24,353,670**	**5,925,487**	**3,014,429**	**33,705,135**
Additions	-	-	-	-	2,245,984	2,245,984
Reversals	(200,000)	-	(12,601,000)	-	(768,446)	(13,569,446)
As of 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
Long term	211,549	-	1,822,976	3,056,487	-	7,832,556

Provisions for litigations

Movements in provisions for litigations refer to the change in the estimates during the year concerning the Company's litigations in progress and which mainly refer to:

As of 31 December 2016, the Company has other provisions set for litigations amounting to RON 411,549, relating to:

- a provision in an amount RON 200,000 for the litigation with the Territorial Labor Inspectorate, which was unfavorable settled for the Company during the year 2017. The provision was reversed and the impact of it being reflected in the Comprehensive income in the line "Income/ Expenses with provisions".
- a provision in an amount RON 154,461 for the litigation of the Company with the owner of a piece of land located in the neighborhood of the Zentiva's office representing the costs it should incur for transferring some pipelines crossing its land. During the year 2017, there are no changes in the status of this litigation compared to 31 December 2016.
- a provision in an amount RON 57,088 representing the indemnity to be paid by the Company to the widow of a former employee following a work accident that happened in 1994. During the year 2017, there are no changes in the status of this litigation compared to 31 December 2016.

Provisions for taxes

As at 31 December 2016, the Company has set a provision for possible additional taxes and charges which might be identified by the Romanian Fiscal Authorities in case of an inspection on the substance, in the framework of the multiple legislative changes, amounting to RON 24,353,670, out of which RON 18,457,150 representing a provision for the claw back tax.

During 2016, upon the challenge filed by the Company, ANAF has cancelled the Taxation Decision F-MC 2370/12.22.2015 and has ordered a new review of the claw-back tax for the period Q4 2009-Q3 2011, performed during the year 2017. ANAF issued a new Taxation Decision in amount of RON 8,356,150. The Company decided to challenge the Decision, but this was rejected. Subsequently, the Company decided to challenge the decision on the Administrative Court of Justice.

Until the date of preparation of these financial statements, this litigation was not settled and therefore, the Company decided to reverse during the year 2017, the amount of RON 10,101,000 from the provision for the fiscal risk and charges related to the claw back tax recorded as at 31 December, 2016 (this amount being the difference between the provision recorded previously and the amount from the fiscal audit report issued by ANAF in 2017).

17. PROVISIONS (continued)

During the year 2017,starting with 22 May 2017,Romanian Fiscal Authorities made a fiscal control for period 2011-2016 covering the follow fiscal obligation: corporate tax income, withholding tax, VAT and transfer prices file.

On 9 of March 2018 was issued the Final Tax Audit no.122224 where is mentioned an additional corporate tax in an amount of RON 743,874 RON and an additional payable VAT in amount of 80,522 RON. We mentioned that these amounts does not included penalties and interest related to penalties which will be subsequently communicated by the Romanian Fiscal Authorities, being estimated by the local management of the Company to be in amount of RON 749,438.

The local management of the Company taken the decision to not challenge from a legal point of view, the additional total debts of RON 1,573,834 imposed by Romanian Fiscal Authorities and these will be paid in April 2018.

Following to the completion of this tax audit, the Company decided to reverse the amount of RON 2,500,000 from the initial provision recorded for the possible tax differences which might be contested by the fiscal authorities in case of a general fiscal audit and therefore as of 31 December 2017 the provision recorded in this respect is in amount of RON 3,396,520. This provision includes in addition to the debts in amount of RON 1,573,834 imposed by the Romanian Tax Authorities an additional provision for possible fiscal risks related to the financial year ended as of 31 December 2017 in amount of RON 1,822,696.

The movement in the provision for taxes in amount of RON 12,601,000 representing the reversal of the tax provision constituted for the claw-back tax in the amount of RON 10,101,000 and respectively by the reversal of the provision in amount of RON 2,500,000 for the fiscal risks is reflected in the statement of comprehensive income under the line of "Income /expenses with provisions".

The provisions for taxes are set for the amounts owed to the State Budget, provided that the respective amounts are not reflected as liability in relation with the State.

Provisions for restructuring

As of 31 December 2017 and 31 December 2016, respectively, the Company has no provisions for restructuring.

Environmental provisions

Environment provisions recorded in amount of RON 5,925,487 for the financial year ended as of 31 December 2017 and respectively as of 31 December 2016, representing the expenses related to ecological repair/rehabilitation and monitoring of soil and underground waters. These provisions are computed by specialists.

Other provisions

Under this category, the Company recorded other provisions for risks and charges related to the Company's activity in amount of RON 2,245,984 (2016: RON 3,014,429), mainly consisting in the provision set for the first series of products issued and which have been exported on other European Union markets and for which the management estimates a major risk of withdrawal in relation to such series.

18. PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS

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

The Company, in the normal course of business, makes payments to the Romanian State on behalf of its employees. All employees of the Company are members of the Romanian State pension plan. The Company does not operate any other pension plan or post-retirement benefit plan and, consequently, it has no obligation concerning pensions. In addition, the Company is not under the obligation to provide additional benefits to its former or current employees.

Benefits granted at retirement:

According to the collective labor agreement, the Company grants to its employees on retirement a variable number of salaries depending on length of service in the Company.

According to plan P1, the retirees receive the benefit according to seniority level in the Company, as follows:

a) up to 20 years within the Company, one average gross salary at the unit level;
b) between 20-30 years within the Company, 1 and ½ of the gross average salary at the unit level;
c) over 30 years within the Company, 2 gross average salary at the unit level.

In addition, according to plan P2, when the employees reach the age 50, they receive a benefit according to seniority level in the Company, as follows:

1. 10-20 years within the Company, ½ of the basic salary;
2. Over 20 years within the Company, one basic salary;

Provisions for pensions and similar obligations are estimated based on the collective labor agreement of the Company, by a specialized appraiser – an actuarial expert.

The following tables summarize the components of net benefit expense recognized in the income statement and the funded status and amounts recognized in the statement of financial position for the respective plan:

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Staff retirement indemnities	31.12.2017 Retirement Indemnity Plan (P1)	31.12.2017 Jubilee Awards Plan (P2)	Total 2017	31.12.2016 Retirement Indemnity Plan (P1)	31.12.2016 Jubilee Awards Plan (P2)	Total 2016
Benefit obligation at beginning of year	743,000	433,000	1,176,000	680,000	420,000	1,100,000
Current service cost	37,000	27,000	64,000	32,000	25,000	57,000
Financial cost - interest (on benefit obligation)	26,000	15,000	41,000	29,000	17,000	46,000
Benefits paid	(57,000)	(95,000)	(152,000)	(110,000)	(43,000)	(153,000)
Plan curtailments	-	-	-	-	-	-
Plan amendments	148,000	163,000	311,000	-	-	-
Actuarial loss (gain) - change in demographic assumptions	369,000	146,000	515,000	112,000	14,000	126,000
Actuarial loss (gain) - change in financial assumptions	(117,000)	(25,000)	(142,000)			
Benefit obligation at end of year	1,149,000	664,000	1,813,000	743,000	433,000	1,176,000
Net Defined Benefit Liability recognized in the statement of financial position	1,149,000	664,000	1,813,000	743,000	433,000	1,176,000

Movements in actuarial gain	P1 31.12.2017 Retirement Indemnity Plan (P1)	P2 31.12.2017 Jubilee Awards Plan (P2)	Total 2017	P1 31.12.2016 Retirement Indemnity Plan (P1)	P2 31.12.2016 Jubilee Awards Plan (P2)	Total 2016
Accumulated actuarial gains/losses at the beginning of the year	502,000	221,000	723,000	390,000	207,000	597,000
Actuarial (Gains)/Losses due to change in employees experience	-	-	-	-	-	-
Actuarial (Gains)/Losses due to changes in assumptions	369 000	146,000	515,000	112 000	14,000	126,000
Accumulated actuarial gains/losses at the end of the year	871,000	367,000	1,238,000	502,000	221,000	723,000
Assumptions to determine defined benefit obligations:						
Discount rate	4.25%	4.25%		3.50%	3.50%	
Rate of compensation increase	3.50%	3.50%		3.50%	3.50%	

Recognized in the financial statements, according to actuarial report	31.12.2017	Total 2017	31.12.2016	Total 2016
In profit and loss account	(236,000)	(236,000)	(36,000)	(36,000)
In SOCI (as other components of equity, included in Retained earnings)	401,000	112,000	112 000	112,000

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19. TRADE AND OTHER ACCOUNTS PAYABLES (CURRENT)

Trade accounts payable	31.12.2017	31.12.2016
Trade payables	39,802,237	47,484,167
Trade payables related parties	21,150,824	16,581,571
Advances received	123,711	123,900
Total	**61,076,772**	**64,189,638**

Other current liabilities	31.12.2017	31.12.2016
Wages and salaries payable	7,806,345	7,126,500
Social security contributions for salaries	1,285,002	1,233,582
Claw back tax (*)	4,032,072	3,270,392
Other taxes	458,906	454,432
Dividends payable	20,357,563	16,522,196
Other liabilities	2,070,751	1,589,607
Total	**36,010,639**	**30,196,709**

(*) Claw back	31.12.2017	31.12.2016
Initial estimate of the tax liability to the state budget related to the last quarter	4,604,503	3,489,813
Regularization of the clawback tax related to the last quarter, according to the notification received from the CNAS	(572,431)	(547,345)
Total	**4,032,072**	**3,270,392**

The terms and conditions of the financial liabilities mentioned above:

Trade payables are non-interest bearing and are normally settled between 30-90 day terms.

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

For explanations on the Company's liquidity risk management processes, see Note 22.

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20. RELATED PARTY DISCLOSURES

20.1 Nature of the relationships with related parties ("affiliated entities and other related parties")

An entity is "related" to another entity if:

a) directly or indirectly, through one or more entities:
- it controls or is controlled by the other entity or it is subject to the joint control of the other entity (including the - - parent companies, the subsidiaries or the member subsidiaries);
- it has an interest in the respective entity, which gives a significant influence on it; or
- it holds joint control on the other entity;

b) it represents an entity associated to the other entity;
c) it represents a joint venture in which other entity is an associate;
d) it represents a member of the entity or the parent company key management;
e) it represents a close family member of the person mentioned at points a) or d);
f) it represents an entity which is controlled, jointly controlled or significantly influenced or for which the significant voting right in such entity is granted, directly or indirectly, by any of the persons mentioned at points d) or e); or
g) the entity represents a post-employment benefits plan for the other entity employees or for the employees of any other entity related to such entity.

- **Details of other related parties:**

Company name	Nature of relationship	Types of transactions	Country of origin	Headquarter
Zentiva k.s., Praha	Company under joint control	Goods and services purchase/Revenue from services	Czech Republic	Praga
Zentiva Group Praha a.s.	Company under joint control	Services purchase/Revenue from services	Czech Republic	Praga
Zentiva International, a.s.	Company under joint control	Services purchase	Slovakia	Bratislava
Zentiva International, a.s. - Sucursala Bucuresti	Subsidiary of Zentiva International a.s. which is a company under joint control	Goods sale and services rendering	Slovakia	Romania
Zentiva a.s., Hlohovec	Company under joint control	Goods and services purchase/Services rendering	Slovakia	Hlohovec
Zentiva Saglik Urunleri	Company under joint control	Goods and services purchase/Services rendering	Turkey	Istanbul
Sanofi Romania SRL	Company under joint control	Goods sales and services rendering	Romania	Bucharest
Sanofi Winthrop Industries	Company under joint control	Goods and services purchase/Services rendering	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	Services rendering	Bulgaria	Sofia
Sanofi-Aventis Private Co. Ltd.	Company under joint control	Services rendering	Hungary	Budapest
Sanofi Aventis Groupe	Company under joint control	Services rendering and purchase	France	Antony
Sanofi Aventis Spa	Company under joint control	Services purchase	Italia	Milano
sanofi-aventis Deutshland	Company under joint control	Services purchase	Germania	Frankfurt
Sanofi India Limited	Company under joint control	Services rendering	India	Mumbai
Sanofi Chimie	Company under joint control	Services purchase	France	Sisteron Cedex
Sanofi Aventis S.p.z.o	Company under joint control	Services purchase	Poland	Varsovia
FRM Merial S.A.S	Company under joint control	Goods purchase	France	Lyon
Sanofi Aventis S.A.U	Company under joint control	Services purchase	Spain	Barcelona
Francopia	Company under joint control	Goods purchase	France	Antony Cedex
Sanofi Synthelabo LTD.	Company under joint control	Equipment purchases	Anglia	Fawdon Newcastel
Chinoin Private Co. LTD	Company under joint control	Goods sales, Goods purchase	Hungary	Budapest

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20. RELATED PARTY DISCLOSURES (continued)

20.2 Related parties ("affiliated entities and other related parties") receivables and payables

- **Receivables from related parties ("affiliated entities and other related parties"):**

	Balance at 31 December 2017	Balance at 31 December 2016
Zentiva a.s Bratislava	175,043	-
Zentiva Saglik Urunleri	117,908	641,785
Sanofi Romania SRL	86,608,181	94,149,100
Sanofi India Limited	-	134,210
Sanofi Winthrop Industrie	32,263,648	45,537,216
Zentiva ks	-	170,053
Sanofi Aventis Groupe	490,380	631,134
Total	**119,655,160**	**141,263,498**

- **Payables to related parties ("affiliated entities and other related parties"):**

	Balance at 31 December 2017	Balance at 31 December 2016
Zentiva A.S. Bratislava	-	1,076,017
Zentiva KS Praga	29,412	299
Zentiva Group	3,871,519	3,211,481
Sanofi-Aventis Deutschland	36,617	4,519
Sanofi Winthrop Industries	11,325,220	9,362,666
Sanofi Romania SRL	6,458,108	2,749,545
Zentiva Saglik Urunleri	2,000	2,000
Sanofi Aventis Spa	27,951	166,286
Sanofi Aventis Private Co	-	8,758
Total	**21,750,827**	**16,581,571**

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20. RELATED PARTY DISCLOSURES (continued)

20.3 Details regarding transactions with related parties ("affiliated entities and other related parties")

- Sales of goods and services and/or non-current assets

	Financial year ended as at 31 December 2017	Financial year ended as at 31 December 2016
Zentiva kS Praga	52,903	722,026
Zentiva AS Hlohovec	796,265	2,103,993
Zentiva Saglik Urunleri	3,459,334	3,698,710
Sanofi Romania SRL	259,606,687	218,350,517
Sanofi Winthrop Industrie	195,864,824	194,819,148
Sanofi India Limited	1,585,436	1,710,018
Zentiva Group	79,262	114,940
Sanofi Aventis Groupe	1,832,182	1,665,234
Chinoin Private Co Ltd	-	20,907
Sanofi-Aventis Deutschland	90,852	-
Total	463,367,745	423,205,493

The amount of RON 34,588,474 (2016: RON 48,761,696) representing the sales to Sanofi Winthrop Industrie which are related to merchandise produced in Turkey and certified for export within European Union and eliminated from the total sales by the Group due to the fact the Company acted as agent for this type of transactions. The respective sales are offset with the cost of related merchandise.

The sales presented above do not include the impact of the claw-back tax, as presented in Note 5.1 Turnover.

- **Purchases of goods and services**

	Financial year ended as at 31 December 2017	Financial year ended as at 31 December 2016
Zentiva AS Hlohovec	51,247	55,680
Zentiva Group	16,678,258	14,893,447
Sanofi Romania SRL	12,540,070	13,025,448
Sanofi Winthrop Industrie	42,350,968	40,795,720
Carraig	260,228	177,559
Sanofi Chimie	11,104	4,952
sanofi-aventis Deutshland	151,478	113,740
Zentiva k.s.	33,119	17,817
Sanofi Aventis Spa	170,429	80,263
Chinoin Private Co Ltd	-	75,898
Sanofi Aventis Private Co	-	190,091
Total	**72,246,901**	**69,430,615**

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20. RELATED PARTY DISCLOSURES (continued)

The amount of RON 34,588,474 (2016: RON 48,761,696) representing the acquisitions from Sanofi Winthrop Industrie which are related to merchandise produced in Turkey and certified for export within European Union and eliminated from the total sales by the Group due to the fact the Company acted as agent for this type of transactions. The respective sales are offset with the cost of related merchandise.

The ultimate parent

The ultimate parent of the Company is Sanofi and is based and listed in France.

There were no transactions other than those already disclosed between the Company and Sanofi during the financial years 2017 and 2016.

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured and settlement occurs in cash. There have been no guarantees granted or received for any related party receivables or payables.

Each financial year, an assessment is undertaken through examining the financial position of the related party and the market in which the related party operates.

20.4 Compensation of key management personnel of the Company

Administrators, directors and supervisory body

In 2016, the Company paid the following amounts to the members of the Board of Administration ("B.A.") for attendance of regular board meetings:

	Financial year ended as at 31 December 2017	Financial year ended as at 31 December 2016
B.A. Members	54,000	173,250
Total	**54,000**	**173,250**

The Company does not have any obligations regarding pension payments to former C.A. members, executive management and members of the supervisory body as at 31 December 2017.

At year end there were no guarantees or other future obligations undertaken by the Company on behalf of the administrators or directors.

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21. COMMITMENTS AND CONTINGENCIES

Rent and leasing expenses – future obligations:

Commitments (RON)	Less than 1 year	Between 1-5 years
ALD Automobile – leasing operational auto	355,738	5,234,417

Commitments

The Company has a rent contract for the office located in Gara Herastrau street, for the following 5 years starting with 1 June 2016. The expenses related to future payments amounts to RON 243,987.

The company has letter of guarantees and cash collateral (Note 14).

Taxation

All amounts due to State authorities for taxes have been paid or accrued at the balance sheet date. The Romanian tax system undergoes a consolidation process and is being harmonized with the European legislation. Different interpretations may exist at the level of the tax authorities in relation to the tax legislation that may result in additional taxes and penalties payable. 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.

The Company believes that it has paid in due time and in full all applicable taxes, penalties and penalty interests in the applicable extent.

Romanian tax authorities have completed reviews of corporate tax up and VAT up to December 2016.

In Romania, the tax position is open to further verification for 5 years.

Transfer pricing

According to the applicable relevant Romanian tax legislation, the tax assessment of related party transactions is based on the concept of market value for the respective transfers. Following this concept, the transfer prices should be adjusted so that they reflect the market prices that would have been set between unrelated companies acting independently (i.e. based on the "arm's length principle").

During the year 2017, the Romanian Fiscal Authorities performed two fiscal inspections for review of related party transactions as following:

(i) In the period March 2017 –April 2017, the fiscal authorities reviewed the related parties transactions occurred in the period 2011-2016 and a report has been issued in April 2017 and no issues were mentioned in relation with these related parties transactions;
(ii) In the period 17 May 2017- March 2018 the fiscal authorities reviewed the related parties transactions occurred in the period 2011-2016 and a report has been issued in April 2017 and no issues were mentioned in relation with these related parties transactions;

It is likely that transfer pricing reviews will be undertaken in the future in order to assess whether the transfer pricing policy observes the "arm's length principle" and therefore no distortion exists that may affect the taxable base of the Romanian tax payer. The Company could not estimate the potential impact of a transfer pricing review.

21. COMMITMENTS AND CONTINGENCIES (continued)

Legal claims (including the estimated value)

As at 31 December 2017, the Company is involved in several litigations, of which the most significant are described below:

- Litigation with ANM (National Agency of Drugs) which imposed a penalty to the Company due to the fact in one independent pharmacy store has been identified advertising materials for which the advertising visa was expired. During 2017, the Company contested the respective decision and the litigation is currently in the appeal phase. The financial impact is not material, the amount being RON 5,000 (representing penalty imposed by ANDM to the Company);

- Litigation with ANAF for challenging the claw-back tax and the penalties computed for the reviewed period Q4 2009-Q3 2011. During 2016, following to the fiscal audit related to the claw back for the period Q4 2009-Q3 2011, ANAF issued a decision to impose additional claw back tax and penalties in amount of RON 18,457,107 for which the Company recorded a provision for tax risks as of 31 December 2016. During 2016, as a result of the contestation submitted by the Company, ANAF canceled the initial tax decision related to the payment of additional claw back taxes and related penalties and initiated the procedures for re-audit in 2017 of this fiscal obligation for the period Q4 2009-Q3 2011. During 2017, a new tax audit was started and a new tax decision was issued for the amount of RON 8,356,150 representing additional claw back and penalties and interest related to penalties. The Company decided to challenge back this decision issued by ANAF. This action initiated by the Company has been rejected by ANAF. The Company will challenge the decision into the Administrative Court of Justice – for more details in relation with this litigation please refer to the comments included in the Note 17 Provisions.

- The Company is also 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 an amount RON 944 thousand 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. To date, the Company has won in the Court the recovery of the VAT for the claw-back tax related to Q4 2012 in amount of RON 164 thousand and will investigate in the future the manners in which it may recover this amount or offset it against other tax obligations. The other litigations are in progress at the date of preparation of these financial statements.

- During 2016, KJK Fund II, Fondul de pensii facultative NN Activ, Fondul de pensii facultative NN Optim and Fondul de pensii Administrat Privat NN as shareholders of Zentiva SA brought an application to carry out an expertise on certain operations of Company, application based on Article 136 of Law 31/1991 to commercial companies. The applicant's action was dismissed by the Bucharest Tribunal. Subsequently to this decision, the plaintiffs have appealed. As at the date of these financial statements, the litigation was suspended for an undetermined period of time.

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.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to credit risk, liquidity risk and market risk (especially to foreign currency risk).

The Company's senior management oversees the management of these risks. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken. The Board of Administration reviews and agrees policies for managing each of these risks which are summarized below.

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22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk

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

The sensitivity analyses in the following sections relate to the position as at 31 December in 2017 and 2016.

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 2017, the Company does not have received loans; starting with September 2013, the Company concluded a cash pooling agreement with the parent entity at a floating interest rate, as presented in Note 11, 14 and it has debt balance as of 31 December 2017 and respectively as of 31 December 2016. The Company's exposure to the interest rate risk changes on the market is not significant.

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.

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22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The detail of financial instruments in foreign currencies is presented as follows (amounts are RON equivalents):

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 accounts payable	15,782,997	2,031,122	43,259,505	-	3,148	61,076,772
Other current liabilities	-	-	36,010,639	-	-	36,010,639
Total liabilities (2)	**15,782,997**	**2,031,122**	**79,270,144**	**-**	**3,148**	**97,087,411**
Gap (1)- (2)	**(14,397,873)**	**(2,031,122)**	**238,143,315**	**171,000**	**(3,148)**	**221,882,172**

31 December 2016	EUR	USD	RON	MDL	GBP	Total
Trade receivables	2,483,494	-	141,022,751	-	-	143,506,245
Other financial assets	-	-	-	-	-	-
Cash and cash equivalents	-	-	127,810,575	99,843	-	127,910,418
Total assets (1)	**2,483,494**	**-**	**268,833,326**	**99,843**	**-**	**271,416,663**
Trade accounts payable	12,482,276	1,835,771	49,868,090	-	3,501	64,189,638
Other current liabilities	-	-	30,196,709	-	-	30,196,709
Total liabilities (2)	**12,482,276**	**1,835,771**	**80,064,799**	**-**	**3,501**	**94,386,347**
Gap (1)- (2)	**(9,998,782)**	**(1,835,771)**	**188,768,527**	**99,843**	**(3,501)**	**177,030,316**

Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar and EUR exchange rates, with all other variables held constant. The impact on the Company's profit before tax is due to changes in the value of monetary assets and liabilities. The Company's exposure to foreign currency changes for all other currencies is not material.

	Change in EUR rate (+10%)- Effect in profit before tax	**Change in USD rate (+10%)- Effect in profit before tax**
2017	(1,729,855)	(202,505)
2016	(999,878)	(183,577)

Credit risk

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

Trade receivables

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

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

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22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The indicators for impairment are analyzed at each reporting date. The Company's credit risk is primarily attributed to receivables from related parties, for which the probability of losses is considered remote.

The maximum exposure to credit risk at the reporting date represents the carrying value of each financial assets which are presented in the Note 13.

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 2016 is the carrying amounts as illustrated in Note 14.

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).

The all liabilities of the Company will be mature in a period less than 1 year except for the deferred tax liability and provisions.

The table below summarizes the maturity profile of the Company's trade receivables based on contractual terms and conditions and of the Company's financial liabilities.

31 December 2017	<30 days	30-60 days	60-180 days	180-365 days	Total
Trade receivables	123,045,237	27,568,073*	4,995,833	2,567,666	**158,176,809**
Cash and cash equivalents	155,007,064	-	5,785,710	-	**160,792,774**
Total assets (1)	**278.052.301**	**27,568,073**	**10,781,543**	**2,567,666**	**318,969,583**
Trade accounts payable	51,170,241	6,572,218	1,010,310	2,324,003	**61,076,772**
Total liabilities (2)	**51,170,241**	**6,572,218**	**1,010,310**	**2,324,003**	**61,076,772**

31 December 2016	<30 days	30-60 days	60-180 days	180-365 days	Total
Trade receivables	142,805,917	243,113	324,712	132,503	**143,506,245**
Other current financial assets	-	-	-	-	-
Cash and cash equivalents	122,367,309	-	5,543,111	-	**127,910,418**
Total assets (1)	**265.173.226**	**243,113**	**5,867,823**	**132,503**	**271,416,663**
Trade accounts payable	47,695,046	5,345,225	6,035,187	4,093,843	**63,169,301**
Total liabilities (2)	**47,695,046**	**5,345,225**	**6,035,187**	**4,093,843**	**63,169,301**

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 2017 and 2016.

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23. EXPENSES WITH THE STATUTORY AUDITOR

During 2017, the auditor, Ernst & Young Assurance Services SRL, had a contractual fee fin amount of EUR 52,500 for the statutory audit of the annual individual financial statements. The services contracted by the statutory auditor, other than the statutory audit were in amount of EUR 25,500 representing other assurance services related to other compulsory reports. There were not provided or paid other non-audit services than the assurance services mentioned above.

24. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

Based on the performance of the market survey, Zentiva NV received the sales commitments of the shares held by the minority shareholders into Zentiva S.A.'s share capital representing 10.4478% of the total share capital of Zentiva S.A. The announcement was published on 14 December 2017 by Zentiva S.A.

The main details of these sales commitments of the shares are the follows:

i) The subscription within the public offer for acquisition of the property rights on the shares held by the minorities on Zentiva S.A. on the entire, exclusive and unencumbered basis, with the condition that the purchase price offered within the public subscription to be RON 3.5/share, and the public subscription to be launched in maximum 60 working days since 14 December 2017 ("Engagement Period");
ii) To hold back from the transfer and set up the cumbers or any other rights of the third parties on the Zentiva S.A. shares of the Zentiva S.A. during the engagement period.

Also, Zentiva S.A. was informed by Zentiva NV regarding the following aspects:

i) Intention to start the preliminary actions before the launching of the public subscription;
ii) Launching of the public subscription by Zentiva NV and/or other person, who acts together or individually with Zentiva NV is conditioned by the fulfillment of some certain, preliminary conditions; part of these conditions are out of the Zentiva NV control;
iii) The fact that the purchasing price offered within the public subscription will be set up in accordance with the statutory law into the force.

The public offer was launched on 20 February 2018 and it will end up on 5 April 2018.

Also, on 9 March 2018, the Romanian fiscal authorities finalized the tax audit for the period 2011-2016, the outcome of this being presented in Note 17 Provisions.

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