

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

Reported date: 31/12/2018

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

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

1. STOCKS AND SHAREHOLDERS

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

In 1990, the Company was incorporated, taking over the entire patrimony of the former IMB in accordance with the Government's Decision.

In November 1999, the majority shareholding was taken over by the group of institutional investors formed of the European Bank for Reconstruction and Development, the Post-Privatization Foundation, GED Eastern Fund, Euromerchant Balcan Fund, Black See Fund and Galenica North East via the Cypriot company Venoma Holdings Limited.

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

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

In October 2005, Zentiva NV made a public offer regarding the purchase of the stocks of the issuer Sicomed SA, denominated afterwards Zentiva SA, for the amount of RON / stock 1.37, during the period between 9 November 2005 - 12 January 2006.

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

In August 2009, Sanofi-Aventis Europe made a public offer regarding the purchase of the stocks of the issuer Zentiva SA, for the amount of RON/stock 0.7, during the period between the 12 August 2009 and the 22 September 2009. Between 20 February 2018 and 5 April 2018, Sanofi-Aventis Europe, through Zentiva N.V., conducted a public purchase offer at a price of RON 3.50 per share, after which it acquired 48,216,352 shares, thus reaching a holding of 93.2295% of the share capital of the Company.

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

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

1. STOCKS AND SHAREHOLDERS (continued)

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

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

Source: Central Depository

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

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

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

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

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

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

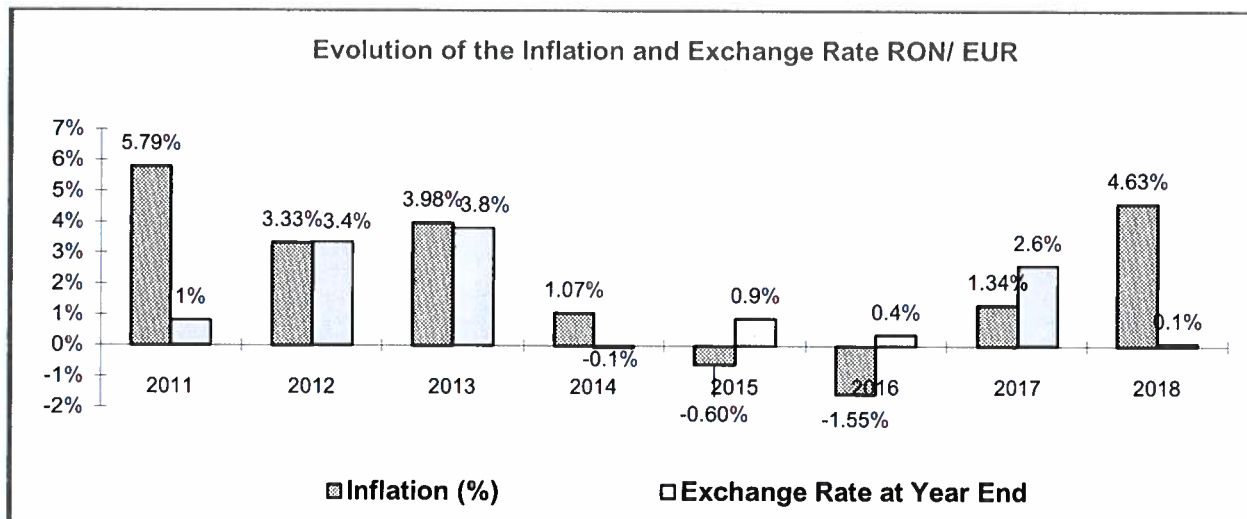
Company mergers and re-organizations

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

2. ECONOMIC & FINANCIAL ENVIRONMENT

Evolution of the macroeconomic indicators in Romania

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



Source: National Institute of Statistics and NBR

Pharmaceutical industry

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

3. COMPANY'S ACTIVITY IN THE YEAR 2018

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

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

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

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

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

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

3.1. Reporting base

As at the 31 December 2018, Zentiva SA prepared financial statements in accordance with the Order of the Ministry of Finance no. 2844/2016 approving the accounting regulations in line with the International Financial Reporting Standards, applicable for trade companies whose securities are accepted for trading on a regulated market, with all the subsequent amendments and supplements in force.

a. Sales – Volumes and amounts

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

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

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

Source: Zentiva, Financial Statements Report, note 5

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

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

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

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

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

b. Operating expenses

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

Other operating revenues

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

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

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

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

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

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

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

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

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

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

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

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

3.2. Portfolio of products and distribution market

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

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

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

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

3.3. Selection policy for suppliers of raw materials

The policy of Zentiva SA involves the permanent search for suppliers of high quality raw materials.

The Quality Assurance Department carries out sustained assessments of prospect manufacturers, and also of the existing ones. The envisaged aspects are both the quality documentation supplied by them, which is necessary for authorization purposes and the quality of the supplied products, along with their behavior during the operating process.

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

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

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

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

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

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

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

3.5. Information about personnel

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

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

3.6. Information about Company's environmental policy

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

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

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

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

3.7. Research and development activity

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

3.8. Investment activity

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

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

4. COMPANY'S TANGIBLE ASSETS

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

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

4. COMPANY'S TANGIBLE ASSETS (continued)

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

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

5. COMPANY'S MANAGEMENT

5.1. Board of Directors

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

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

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

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

Simona Cocos
Member of the Board – Starting with April 2010

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

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

5. COMPANY'S MANAGEMENT (continued)

Margareta Tanase

Member of the Board – Starting with April 2010

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

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

Carol Blery

Member of the Board – Starting with September 2018.

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

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

Francois MARCHAND:

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

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

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

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

5.2. Senior management

Senior Management Members as of December 2018:

Simona Cocos - General Manager

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

Margareta Tanase - Industrial Affairs Director

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

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

5. COMPANY'S MANAGEMENT (continued)

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

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

6. FINANCIAL POSITION

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

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

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

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

7. COMPANY'S EXPOSURE TO RISKS (continued)

Capital management

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

Credit risk

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

Trade receivables

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

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

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

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Company's treasury department in accordance with the Company's policy, The Company's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2018 is the carrying amounts as illustrated in Note 14 of the statutory financial statements.

Liquidity risk

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

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

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

8. OBJECTIVES FOR THE YEAR 2019

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

Our key priorities for 2019 are:

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

9. INTERNAL CONTROL

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

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

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

9. INTERNAL CONTROL (continued)

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

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

10. ANNUAL REPORT ON CORPORATE GOVERNANCE

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

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

The Company displayed on its website information pertaining to its corporate governance structures, as well as the list of the BoD members, indicating the independent and / or the non-executive members, various reports and documents stipulated in the Governance Code – such as the Corporate Governance Regulation, Shareholder rights and procedural rules related to GAM, the updated Articles of Incorporation.

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

General Shareholders Assembly

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

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

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

Convening of the General Assemblies of Shareholders

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

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

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

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

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

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

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

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

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

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

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

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

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

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

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

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

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

Shareholders questions

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

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

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

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

The Shareholders General Assemblies main attributions

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

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

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

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

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

The resolutions of the General Meeting of Shareholders

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

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

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

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

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

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

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

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

Board of Directors

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

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

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

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

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

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

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

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

The attributions of the Board of Directors

The Board of Directors has the following main prerogatives:

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

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

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

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

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

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

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

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

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

The appointed structure of the Board of Directors allows an efficient coordination of the executive management along all the activity paths – general, financial, production management and business coordination.

In 2018, the Board of Directors gathered in 7 meetings and 6 in 2019, in the presence of 3, 4 or 5 of its members – and passed decisions which allowed it to efficiently fulfil its duties. Thus, on occasion of its meetings, the Board of Directors thoroughly analyzed the financial results obtained during the reporting period and the year-to-date results, as well as the economic performance taking into account the budget and the similar period of the previous year. Depending on the situation, the Board requested detailed explanations from the senior management with regard to the plans for increased production efficiency, investment plans, established provisions, write-off of expired inventories, liquidity management, operating and general profitability. Further to the thorough analysis of the results associated with such period, the Board decided on the approval thereof for publication and submission to BVB.

Concerning the directors' remuneration policy, until September 2018, the directors holding positions within the Group had free mandates, only the independent director receiving remuneration for his mandate, based on the propositions made by the Board of Directors and approved/validated by the Company's shareholders at the General Meetings.

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

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

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

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

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

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

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

Executive Management – General Manager

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

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

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

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

The General Manager operationally reports to the Board of Directors.

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

Executive Management - Manager of Industrial Operations

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

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

Shareholders' rights

In a special, easily identifiable and accessible section of its own website, the Company displayed current reports, releases, its financial calendar, as well as its annual, biannual and quarterly reports. Additionally, the Company's relationship with its investors is achieved through a dedicated internal resource to the investor's relation and intended for the briefing of shareholders depending on the questions asked in writing or over the phone.

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

Participation thereof at the General Shareholders' Meetings (GSMs), and the full exercising of their rights. The shareholders' participation at the GSM works is entirely encouraged, the shareholders who are not able to attend being provided with the possibility to exercise their voting right in absentia, based on a special power of attorney. Within GSMs, dialogue is encouraged between the shareholders and the members of the Board of Directors and/or of the management.

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

The Company applied rules with regard to the internal circuit and to the disclosure to third parties of documents and information regarding the issuer, granting special importance to the information capable of influencing the evolution of the market price of securities issued by it. The Company adopted procedures for the purpose of ensuring procedural correctness (identification criteria of transactions with significant impact, transparency, objectiveness, non-competition criteria etc.) with the view to identifying transactions with concerned parties. In 2017 the Company disseminated a number of 6 current reports related to transactions with concerned parties (consisting of legal documents concluded with affiliated parties).

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

Social and Environmental Responsibility

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

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

Corporate Governance Code

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

The Company has taken and will continue to take the professional, legal and administrative steps necessary for ensuring compliance with the provisions of the Code.

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

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

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

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

Section B – Risk Management and Internal Control System

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

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

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

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

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

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

11. COMMITMENTS AND CONTINGENCIES

Legal claims (including estimated value)

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

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

11. COMMITMENTS AND CONTINGENCIES (continued)

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

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

12. NON-FINANCIAL DECLARATION

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

13. GOING CONCERN

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

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

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

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

14. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

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

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

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

14. EVENTS SUBSEQUENT TO THE REPORTING PERIOD (continued)

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

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

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

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

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

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

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

Simona Cocos
General Manager



Francisc Koos
Chief Financial Officer





To: *Board of Directors of Zentiva S.A*
50 Bd. Theodor Pallady Sector 3 74585 Bucharest Romania

Attn: *Mr. Simona Cocos, General Manager and Member of the Board of Directors*
Mr. Marius Neagu, Secretary of the Board of Directors

Subject: *Resignation from my position as Chairman and member of the Board of Directors of Zentiva S.A.*

August 27, 2018

I, the undersigned **Emmanuelle Valentin** hereby resign, effective as of **September 3, 2018**, as a member and chairman of the Board of Directors of Zentiva S.A., a joint stock company admitted to trading on the Bucharest Stock Exchange, established and operating in accordance with Romanian laws, having its headquarters at 50, Theodor Pallady Blvd., sector 3, Bucharest, Romania, sole registration code no. 336206, registered with the Bucharest Commercial Registry with No. J40/363/1991 (the "**Company**").

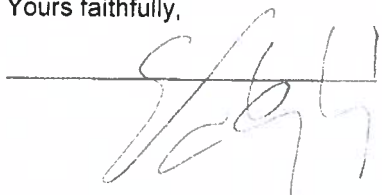
I acknowledge and warrant that as of the date hereof and on the basis of the information in my possession, I have no claim against the Company, or any of its subsidiaries or associated companies or firms arising out of my directorship, its termination, or otherwise.

I would appreciate it if you could kindly request that the shareholders of the Company, within the first General Assembly or within the Annual General Assembly related to 2018, grant full discharge to me in connection with the carrying out of my duties as administrator of the Company up to the end of my directorship with the Company.

I hereby authorise the Company to take all legal actions required or necessary to file this resignation with the Bucharest Trade Registry or any other authority with which such filing is required.

This resignation shall be effective on **September 3, 2018**.

Yours faithfully,



To: *Board of Directors of Zentiva S.A*
50 Bd. Theodor Pallady Sector 3 74585 Bucharest Romania

Attn: *Mr. Simona Cocos, General Manager and Member of the Board of Directors*
Mr. Marius Neagu, Secretary of the Board of Directors

Subject: *Resignation from my position as Member of the Board of Directors of Zentiva S.A.*

August 27, 2018

I, the undersigned **Christophe Courcelle** hereby resign, effective as of **September 3, 2018**, as a Member of the Board of Directors of Zentiva S.A., a joint stock company admitted to trading on the Bucharest Stock Exchange, established and operating in accordance with Romanian laws, having its headquarters at 50, Theodor Pallady Blvd., sector 3, Bucharest, Romania, sole registration code no. 336206, registered with the Bucharest Commercial Registry with No. J40/363/1991 (the "**Company**").

I acknowledge and warrant that as of the date hereof and on the basis of the information in my possession, I have no claim against the Company, or any of its subsidiaries or associated companies or firms arising out of my directorship, its termination, or otherwise.

I would appreciate it if you could kindly request that the shareholders of the Company, within the first General Assembly or within the Annual General Assembly related to 2018, grant full discharge to me in connection with the carrying out of my duties as administrator of the Company up to the end of my directorship with the Company.

I hereby authorise the Company to take all legal actions required or necessary to file this resignation with the Bucharest Trade Registry or any other authority with which such filing is required.

This resignation shall be effective on **September 3, 2018**.

Yours faithfully,



