Zentiva S.A.

Financial statements

FOR THE YEAR ENDED
31 December 2019

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

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

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Zentiva S.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Zentiva S.A. (the Company) with official head office in 50, Theodor Pallady Blvd, District 3, Bucharest, identified by sole fiscal registration number 336206, which comprise the statement of financial position as at December 31, 2019, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 ("Regulation (EU) No. 537/2014") and Law 162/2017 („Law 162/2017"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) as issued by the International Ethics Standards Board for Accountants (IESBA Code)together with the ethical requirements that are relevant to the audit of the financial statements in Romania, including Regulation (EU) No. 537/2014 and Law 162/2017 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements.

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The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Business combination and purchase price allocation During September 2018, the Company concluded a series of transactions with Sanofi France and Sanofi Romania, including the transfer of the generic distribution business from Sanofi Romania to Zentiva for a consideration of RON 46 million. At the end of the reporting period 2018 the purchase price allocation, through which the fair value of the identifiable assets acquired should be determined, was not finalized and in accordance with the IFRS 3 which allows a measurement period of maximum one year from acquisition date, the Company applied a provisional accounting and recorded on the financial statements the entire consideration as goodwill as at 31 December 2018. The fair value of the distribution of Generic's business transferred from Sanofi Romania to the Company was determined based on a valuation performed by an independent consultant using the income approach and discounted cash flows method which considered as main assumptions the generic's net sales growth rate, gross and net operating margins and discount rate. Following the purchase price allocation performed in 2019, through which identifiable assets of the Company were recognize at fair value, RON 11.6 million resulted as a goodwill and a restatement was made for comparative figures to reflect the retrospective adjustment of the provisional values of net assets acquired.	Our audit procedures focused on the accounting for the business combination, including involvement of our IFRS specialists to assist us in evaluating the application of IFRS 3- Business Combination- and related accounting treatment. We tested the journal entries and the supporting workings with the contract and valuation report. Our audit procedures with respect to the fair value of the business transferred included, but were not limited to, the following procedures: ➢ assessed the independence and the competence of the external valuation expert; ➢ analysed the methodology used by management and by the external valuation expert within the report issued to assess the fair value of transferred business, to determine its compliance with valuation standards; ➢ evaluated the key assumptions and estimates used in valuation such as growth sales rate, gross and net operating margins, discount rate by analysing their consistency with the general and industry-specific economic environment and relevant available market information and benchmarking against the historical financial performance and trends; we included our valuation specialists in our team to assist us in the evaluation of key assumptions and estimates used by the independent appraiser; ➢ tested the mathematical accuracy of the discounted cash flow computation; ➢ assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year.

<table>
<tr>
<td>We considered this area to be a key audit matter because of the judgement and estimates involved in the valuation of transferred business as well as in the purchase price allocation, the materiality of the transaction and the complexity of the associated accounting.

The Company disclosures about the business combination and purchase price allocation are included in Note 3 and Note 11 to the financial statements.</td>
<td>We obtained the report issued by the external valuation expert engaged by the Company and used to perform the purchase price allocation and to assist with the identification of identifiable assets in the business combination.

Our audit procedures included, but were not limited to, the following procedures:
➢ assessed the independence and the competence of the external valuation expert;
➢ analyzed on a sample basis the fair value of the identifiable assets supporting the purchase price allocation and the resulting goodwill; we involved our internal valuation specialists to assist us in the evaluation of the valuation methodologies used and tested the main assumptions used in the valuation;
➢ testing on a sample basis the mathematical accuracy of key computations observed within the valuation report prepared by the independent appraiser.

We further assessed the adequacy of the disclosures about the business combination, purchase price allocation and recognition of goodwill in the notes to the financial statements.</td>
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Other information

The other information comprises the Annual report of the Board of Directors but does not include the financial statements and our auditors' report thereon. We obtained the Annual Report of the Board of Directors, prior to the date of our auditor's report, and we expect to obtain the Non-Financial declaration, as part of a separate report, after the date of our auditor's report. Management is responsible for the other information.

Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Order of the Minister of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements

Reporting on Information Other than the Financial Statements and Our Auditors' Report Thereon

In addition to our reporting responsibilities according to ISAs described in section "Other information", with respect to the Annual report of the Board of Directors, we have read the Annual report of the Board of Directors and report that:

a) in the Annual report of the Board of Directors we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying financial statements as at December 31, 2019;
b) the Annual report of the Board of Directors identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 – 19;
c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the financial statements as at December 31, 2019, we have not identified information included in the Annual report of the Board of Directors that contains a material misstatement of fact.

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as auditors of the Company by the General Meeting of Shareholders on April 27, 2017 to audit the financial statements for the financial year end December 31, 2019. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 15 years, covering the financial periods end December 31, 2005 till December 31, 2019.

Consistency with Additional Report to the Audit Committee

Our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on March 26, 2020.

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Provision of Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and we remain independent from the Company in conducting the audit.

In addition to statutory audit services and services disclosed in the annual report and in the financial statements, no other services were provided by us to the Company, and its controlled undertakings.

On behalf of,
Ernst & Young Assurance Services SRL
15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania
Registered in the electronic Public Register under No. 77

Autoritatea pentru Supravegherea Publică a Activităţii de Audit Statutar (ASPAAS)
Firma de audit: ERNST & YOUNG ASSURANCE SERVICES S.R.L.
Registrul Public Electronic: FA77

Autoritatea pentru Supravegherea Publică a Activităţii de Audit Statutar (ASPAAS)
Auditor financiar: Sandu Mihaela Elena
Registrul Public Electronic: AF1610

Name of Auditor / Partner: Mihaela Sandu
Registered in the electronic Public Register under No. 1610
Bucharest, Romania

27 March 2020

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ZENTIVA SA
STATEMENT OF COMPRENHESIVE INCOME
for the financial year ended on 31 December 2019
(amounts are expressed in RON, unless specified otherwise)

STATEMENT OF COMPREHENSIVE INCOME	Notes	2019 RON	2018 RON
Sales of goods	5.1	541,170,804	425,797,246
Rendering of services	5.1	17,635,020	27,131,315
Other income	5.1	201,549	8,476,670
Turnover	**5.1**	**559,007,373**	**461,405,231**
Other operating income	6.1	1,799,337	263,933,936
Changes in inventories of finished goods and work in progress		10,660,835	22,087,218
Raw materials and consumables used	5.2	(284,420,935)	(227,949,377)
Employee benefits expenses	6.5	(82,792,664)	(63,250,448)
Depreciation, amortization and impairment	9,9.1, 10	(19,841,679)	(12,136,484)
Marketing and advertising expenses	6.6	(5,672,338)	(13,286,498)
Rental expenses		-	(3,493,873)
Reversal of/ (expenses with) provisions	17	3,030,307	2,530,960
Other operating expenses	6.2	(135,064,933)	(119,560,892)
Operating profit		**46,705,303**	**310,279,772**
Financial Income	6.4	11,658,688	23,377,817
Financial Expenses	6.3	(4,270,595)	(18,256,427)
Profit before tax		**54,093,396**	**315,401,161**
Income Tax Expense	7.1	(10,342,724)	(52,780,185)
Profit after tax (A)		**43,750,672**	**262,620,976**
Other comprehensive income:			
Actuarial gains/losses in relation to employee benefits		-	-
Other comprehensive income net of tax (B)		-	-
Total income after tax (A) + (B)		**43,750,672**	**262,620,976**
Number of shares	**15**	**697,017,040**	**416,961,150**
Earnings per share (RON/share)		**0.08**	**0.62**

The financial statements from page 3 to 74 were approved by the Board of Administration and were authorized to be issued in accordance with the resolution of the Administrators, date 27 March 2020.

Administrator,
Surname and name:
Simona Cocos

Signature Cocos
Company stamp

SOCIETATEA COMERCIALA ZENTIVA S.A. ZENTIVA 14 BUCURESTI

Prepared by,
Surname and name: Francisc Koos

Chief Financial Officer
Signature

(amounts are expressed in RON, unless specified otherwise)

STATEMENT OF THE FINANCIAL POSITION	Notes	31 December 2019	31 December 2018
Assets			
Fixed assets			
Property, plant and equipment	9.1	156,707,339	144,234,784
Right-of-use assets	9.2	7,352,556	
Goodwill	11	11,649,100	46,141,201
Customer relationships	11	30,722,101	
Intangible assets	10	3,544,971	3,895,132
		209,976,067	**194,271,117**
Current assets			
Inventories	13	123,841,461	98,982,129
Trade receivables and other current receivables	14	295,617,763	199,832,571
Cash and cash equivalents	15	388,473,821	405,115,315
		807,933,045	**703,930,016**
Total assets		**1,017,909,112**	**898,201,133**
Equity and debt			
Share capital, out of which	**16.1**	**69,701,704**	**41,696,115**
Issued share capital		69,701,704	41,696,115
Share premium, including:	16.1	24,964,506	24,964,506
Share premium at nominal value		9,863,684	9,863,684
Inflation related to share premium		15,100,822	15,100,822
Legal and other reserves	16.2	115,450,038	112,745,368
Revaluation reserve		40,198,377	40,198,377
Retained earnings / (Accumulated Losses)	16.2	451,685,293	411,088,300
Total equity		**701,999,918**	**630,692,665**
Non-current liabilities			
Employee benefit liability	19	3,114,000	2,479,000
Deferred tax liability	7.2	4,033,858	5,033,947
Lease liabilities		4,882,845	-
Non-current provisions	18	4,948,217	4,944,015
Total non-current liabilities		**16,978,920**	**12,456,962**
Current liabilities			
Trade accounts payable	20	241,189,632	205,337,404
Income taxes payable		4,934,319	8,236,848
Short-term loans	1514	5,204,790	-
Lease liabilities (current)		3,765,502	-
Other current liabilities	20	34,209,826	28,816,540
Short-term provisions	18	9,626,205	12,660,714
Total current liabilities		**298,930,274**	**255,051,506**
Total liabilities		**315,909,195**	**267,508,468**
Total liabilities and equity		**1,017,909,112**	**898,201,133**

The financial statements from page 3 to 74 were approved by the Board of Administration and were authorized to be issued in accordance with the resolution of the Administrators dated 27 March 2020.

Administrator,
Surname and name: Simona Cocos

Signature
Company stamp

Cocos

SOCIETATEA COMERCIALA ZENTIVA SA BUCURESTI 14

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

Explanatory notes from 1 to 24 form an integral part of these financial statements.

(amounts are expressed in RON, unless specified otherwise)

STATEMENT OF CHANGES IN EQUITY

2019

	Share capital	Share premium	Legal and other reserves	Revaluation reserve	Retained earnings	Total
Opening balance	**41,696,115**	**24,965,506**	**112,745,368**	**40,198,377**	**411,088,300**	**630,692,665**
Profit for the year	-	-	-	-	43,750,672	**43,750,672**
Share capital increase	28,005,589	-	-	-	-	**28,005,589**
Legal reserve	-	-	2,704,670	-	(2,704,670)	-
Other elements of the comprehensive income	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-
Correction of the retained earnings	-	-	-	-	(449,011)	**(449,011)**
Closing balance	**69,701,704**	**24,965,506**	**115,450,038**	**40,198,377**	**451,685,293**	**701,999,918**

On 1 January 2018, the amount of the share premium includes the effect of the hyperinflation adjustments as required by IAS 29. The Company adopted the International Financial Reporting Standards (IFRS) adopted by the European Union, except for the provisions of IAS 21 The Effects of Changes in Foreign Exchange Rates on the Functional Currency, and draws up the Financial Statements in accordance with these standards, from the transition date, 1 January 2011, as well as the provisions of IAS 20 The accounting of governmental subventions regarding the recognition of income form green certificates, with the exception of IFRS 15 - Income from contracts with clients regarding the income from distribution network charges and with the exception of interim distribution of dividends. The General Meeting of Shareholders held on April 30, 2019 decided to not distribute dividends from the profit for the financial year ended on December 31, 2018, in the amount of RON 262,620,976 and to allocate it to the reserve category - for more details see Note 16 Dividends proposed and paid. Furthermore, on this date, the decision to increase the share capital by the amount of RON 28,005,589 was also approved, increase which took place on 8 August 2019 – for more details about the share capital increase, see Note 15: Issued capital and reserves. On 31 December 2019, the Company set up a legal reserve in the amount of RON 2,704,670 from the comprehensive income related to the financial year ended on 31 December 2019, in accordance with the Companies Law, according to which 5% of the annual accounting profit before tax is transferred to legal reserves until their balance reaches 20% of the Company's share capital. Corrections related to the previous financial year are recorded in the "Correction of the retained earnings" category.

The financial statements from page 3 to 74 were approved by the Board of Administration and were authorized to be issued in accordance with the resolution of the Administrators dated 27 March 2020.

Administrator,
Surname and name: Simona Cocos
Signature

Company stamp

SOCIETATEA COMERCIALA ZENTIVA S.A. BUCURESTI 14 ZENTIVA

Prepared by
Surname and name: Francisc Koos

Chief Financial Officer
Signature

(amounts are expressed in RON, unless specified otherwise)

STATEMENT OF CHANGES IN EQUITY

2018

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

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

The financial statements from page 3 to 74 were approved by the Board of Administration and were authorized to be issued in accordance with the resolution of the Administrators dated 27 March 2020.

Administrator,
Surname and name: Simona Cocoş
Signature

Company stamp

SOCIETATEA COMERCIALA ZENTIVA S.A. BUCURESTI 14 ZENTIVA

Prepared by
Surname and name: Francisc Koos

Chief Financial Officer
Signature

(amounts are expressed in RON, unless specified otherwise)

STATEMENT OF CASH FLOWS	Note	31 December 2019	31 December 2018
Cash flows from operating activities:			
Profit before tax		54,093,396	315,401,161
Impairment and depreciation	9,10	16,519,455	12,136,484
Impairment on right-of-use assets		3,324,167	-
Receivable allowance movement	13	1,548,706	-
Inventory allowance movement	12	5,243,719	9,269,212
Movements in provisions for risks and charges	17	(3,030,307)	(2,530,960)
(Gain)/loss on sale of property, plant and equipment	6.1	(27,576)	-
Movement in impairment provision for intangibles		-	(430,583)
Pension liabilities expenses		635,000	817,000
Income from dividends written-off	16		(12,791,059)
Interest revenues	6.4	(11,150,271)	(5,946,457)
Interest expenses	6.4	734,682	-
Operating profit before working capital changes		**67,890,971**	**315,924,798**
Change in inventories		(30,103,050)	(67,701,966)
Change in trade and other receivable		(97,333,897)	(41,655,762)
Change in trade and other payable		52,706,244	109,632,465
Cash generated from / (used in) operations		**(6,839,734)**	**316,199,535**
Income tax paid	7.1	(13,796,354)	(54,260,644)
Employee benefits liabilities paid		(238,000)	(151,000)
Net cash from/ (used in) operating activities		**(20,874,088)**	**261,807,890**
Cash flows from investing activities			
Proceeds from sale of non-current assets		3,045	-
Purchase of property, plant and equipment and intangible assets	9.10	(35,572,937)	(22,242,474)
Interest received		11,150,271	5,946,457
Interest paid		(734,682)	-
Net cash used in investing activities		**(25,154,303)**	**(16,296,017)**
Cash flows from financing activities			
Share capital increase		28,005,589	-
Movements in bank loans		5,204,790	-
Dividends paid		(65,782)	(1,189,331)
Lease payments	9.2	(3,757,700)	-
Net cash from / (used in) in financing activities		**29,386,897**	**(1,189,331)**
Net increase (decrease) in cash and cash equivalents		(16,641,644)	244,322,542
Cash and cash equivalents at the beginning of the period 1 January		**405,115,315**	**160,792,774**
Cash and cash equivalents at the end of the period 31 December		**388,473,821**	**405,115,315**

The financial statements from page 3 to 74 were approved by the Board of Administration and were authorized to be issued in accordance with the resolution of the Administrators dated 27 March 2020.

Administrator,
Surname and name: Simona Cocos

Signature
Company stamp

SOCIETATEA COMERCIALA ZENTIVA S.A. BUCUREȘTI 14

Drawn up,
Surname and name: Francisc Koos
Chief Financial Officer
Signature

1. INFORMATION ABOUT THE COMPANY

These financial statements of Zentiva SA (the "Company") for the year ended on 31 December 2019 are authorized for publication in accordance with the Board of Directors' Decision dated 27 March 2020.

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

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

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

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

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

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

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

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

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

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

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

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

1. INFORMATION ABOUT THE COMPANY (continued)

In September 2018, various selling agreements were concluded pertaining to manufacturing dossiers for several “CHC” products existing in the Zentiva portfolio which were sold to the Sanofi Group - for more details please go to the commentaries included in Note 6.1 Other income from operating activities.

The Company is listed on Bucharest Stock Exchange.

The Company has no investments in subsidiaries or affiliated companies on 31 December 2019. The company is part of a group and is at its turn consolidated in the Group's Financial Statements, the consolidated parent company being Zentiva Group a.s.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENT

Statement of compliance

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

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

2.1 Going Concern

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

On 31 December 2019, current assets of the Company exceed current liabilities by RON 509,002,771 (on 31 December 2018 current assets exceeded current liabilities by RON 448,878,510). At the same date, the Company recorded a comprehensive income of RON 43,750,672 (2018: RON 262,620,976).

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

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

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

2.2 Principles, policies and accounting methods

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

- **Currency conversions**

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

Foreign currency transactions are converted into RON using the exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currency at the end of the period are assessed in RON using the exchange rate at the end of the financial year. The income and losses realized or unrealized are recorded in the profit and loss account. The RON - USD exchange rate on 31 December 2019 and 31 December 2018 was RON / EUR 4.6639 and RON / USD 4.6597. The RON - EUR exchange rate on 31 December 2019 and 31 December 2018 was RON / EUR 4.7739 and RON / USD 4.2608.

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

- **IFRS 15 Income from contracts with clients**

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

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

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

Sale of goods

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

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

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

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

Variable consideration

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

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

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

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

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

Recognition of income from separate provision obligations

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

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

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

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

Interest income

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

- **Taxes**

Current income tax

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

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

Deferred tax

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

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

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

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

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

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

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

Value added tax

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

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

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

- **Tangible assets**

Initial assessment

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

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

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

The cost of a tangible fixed asset consists of:

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

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

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

Subsequent assessment

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

(amounts are expressed in RON, unless specified otherwise)

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

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

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

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

Amortization of fixed assets

Amortization is calculated using:

- the straight-line method for buildings, fixed assets purchased through financial lease and for fixed assets other than those used for the production process;
- the accelerate method for fixed assets used for the production process.

Useful lives

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

The land is not depreciated.

The average useful lives by categories of fixed assets is as follows:

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

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

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

➢ **Leases**

The Company assesses at the beginning of the contract whether the contract is or contains a lease, i.e. if the contract gives the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company as lessee

The Company applies a unique recognition and assessment approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities for making lease payments and the right-of-use assets which represent its right to use the underlying assets.

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

Recognition of the right-of-use assets

The Company recognizes the right-of-use assets at the commencement date of the lease (i.e. the date on which the underlying asset is available for use). The right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of the right-of-use assets includes the value of the recognized lease liabilities, the initial direct costs incurred and the lease payments made at or before the commencement date, less any lease incentives received.

The right-of-use assets are depreciated over the shorter of the lease term or the estimated useful life of the assets, as follows:

- Buildings 30 - 50 years;
- Vehicles 5 years.

If the ownership right over the leased asset is transferred to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, the amortization is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to depreciation.

Lease liability

On the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made throughout the term of the lease. Lease payments include fixed payments (including in-substance fixed payments) less any lease incentives received, variable lease payments that depend on an index or rate and amounts expected to be paid under residual value guarantees. Lease payments also include the exercise price of a purchase option, if the Company is reasonably certain to exercise that option and the payment of penalties for terminating the lease, if the lease term reflects the Company exercising an option to terminate the lease. Variable lease payments that do not depend on an index or rate are recognized as expenses in the period in which the event or condition triggering the payment takes place.

When calculating the present value of the lease payments, the Company uses the incremental borrowing rate at the commencement date of the lease, if the interest rate implicit in the lease cannot be easily determined. After the commencement date, the value of lease liabilities is increased to reflect the deferral of interest and reduced for the payments made in the lease. In addition, the carrying amount of lease liabilities is remeasured if there is a change, a change in the lease term (for example, changes in future payments resulting from a change in the index or rate used to determine lease payments) or a change in the assessment for the purchase of the underlying asset.

Short-term lease and leases of low-value assets

As at 31 December 2019, the Company does not have any short-term leases and leases of low-value assets.

The company as lessee

Leases whereby the Company does not transfer significantly all the risks and benefits of ownership over an asset are classified as operating leases. Lease income is accounted for on a straight-line basis under the lease terms and is included in the income of the profit or loss statement due to its operating nature.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as income during the period in which they are earned.

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

- **Intangible assets**

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

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

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

- **Software 3 years**
- **Research and development 3 years**
- **Customer Relationship 10 years**

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

Research and development expenditures

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

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

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

Patents, licenses, trademarks

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

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

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

Business combination

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

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

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

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

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

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

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

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

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

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

Goodwill

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

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

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

Intangible assets purchased in a business combination

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

In 2019 the Company performed the Purchase Price Allocation for the Generics Distribution Business acquisition, identifying assets in the form of contractual relationships amounting to RON 34,492,101 (10 main wholesalers: Mediplus, Farmexper, Farmexim, Fildas, Pharmafarm, RoPharma, Bioeel, Dona Logistics, Europharm, Geiser. The difference of RON 11,649,100 was recongnized as goodwill. The amotization period of the identified customers relationships has been evaluated at 10 years.

The derecognition of intangible assets

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

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

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

1) Financial assets

Initial recognition and evaluation

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

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

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

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

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

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

Subsequent assessment

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

Financial assets at amortized cost

This category is the most relevant for the Company. The Company measures financial assets at amortized cost if both conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets to collect the contractual treasury flows; and
- The contractual terms of the financial asset give rise at the specified dates to cash flows that represent exclusively the payments of the principal and the interest on the principal amount in circulation (SPPI).

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

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

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

Loans and receivables

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

Derecognition

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

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

2) Impairment of financial assets

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

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

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

3) Financial liabilities

Initial acknowledgement and assessment

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

Future assessment

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

Financial liabilities at fair value through profit or loss

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

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

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

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

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

Loans and credits

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

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

Derivative Agreements

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

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

Derecognition

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

4) Clearing of financial instruments

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

5) Fair value of financial instruments

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

- **Inventories**

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

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

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

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

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

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

- **Impairment of non-financial assets**

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

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

When assessing the amount of use, estimated future cash flows are updated to their present value using a pre-tax rate that reflects current market assessments of time value of money and asset specific risks. When determining the fair value less the costs associated with the sale, recent market transactions are considered, if any. If such transactions cannot be identified, an appropriate assessment template is used.

These calculations are corroborated by multiples of assessment, quoted share prices for listed subsidiaries or other available fair value indicators.

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

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

- **Cash and short-term deposits**

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

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

- **Provisions**

General

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

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

Provisions for restructuring

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

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

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

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

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

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

Environment provision

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

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

Litigation provisions

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

- **Pensions and other post-employment benefits**

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

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

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

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

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

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

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

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

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

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

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

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

- **Related Parties**

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

- **Retained earnings**

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

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

- Company management has determined that the level of the provisions recognized reflects the level of risk the Company is exposed to;
- Company management has decided for the functional currency to be RON, considering the following aspects:
    - The costs of the company are mostly expressed in RON;
    - Th revenues of the company are mostly expressed in RON, even though some revenues are based on prices expressed in EUR;
- Company management has carried out an analysis on the presentation of nature of the claw back tax and decided that it would be more suitable to classify it as a revenues reduction as well; the alternative would have been for this tax to be considered as an operational expense. Management has considered that this can be assimilated as a discount or a contingent adjustment on the sales carried out.
- Starting with 1 September 2018, as mentioned under Note 10- Intangible assets, Sanofi Romania has transferred to Zentiva SA the activity of distribution of generic medicines, based on the transfer contract approved on 7 March 2019 by the General Meeting of the Shareholders of Zentiva SA.
- Management has analysed from an IFRS perspective, the recognition of this transaction considering the IFRS 3 indications and concluded that this transaction represents a business combination in the sense in which assets and processes have been transferred and through it, results, economic benefits are created. Basically, the contracts existing at the moment with local retailers for the distribution of generic medicines have been transferred (closed and concluded again on behalf of Zentiva), contractual relationships, as well as a certain number of employees with experience and knowledge in this activity.

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

Estimates and assumptions

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

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

Duties, taxes and tax provisions

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

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

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

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

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

Inventories

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

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

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

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

All the assumptions are revised on an annual basis.

Provisions for the environment and litigation

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

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

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

The useful lives for the tangible assets and the depreciation method

The Company estimates the useful lives for the tangible assets elements in line with the consumption/usage rate for those assets.

The Company considers and uses the following depreciation methods:
- the straight-line method for buildings, fixed assets purchased through financial lease and for fixed assets other than those used for the production process
- the accelerate method for fixed assets used for the production process

Allowances for uncertain clients:

The Company estimates allowances for uncertain clients (except for the clients within the Group or for associated parties) as a general depreciation, considering and analysing the due date and exceeding the due date for that claim:
- Over 360 days: 100%

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

Discounts from sales from estimated returns, discounts, price discounts

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

(amounts are expressed in RON, unless specified otherwise)

4. STANDARDS, AMENDMENTS AND NEW INTERPRETATIONS OF STANDARDS

4.1 New modifications brought in the accounting policies starting with 1 January 2019

Adopted accounting policies are in line with those from the previous financial year, with the exception of the IFRS changes, which have been adopted by the Company starting with January 1, 2019. These new standards and amendments do not have a significant impact on the consolidated financial statements of the Company. The Company has not adopted earlier any other standards, interpretations or amendments published but not in force

Changes in accounting policies
IFRS 16 Lease
IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases - incentives and SIC-27 Evaluating the substance of transactions involving the legal form of a lease. The standard establishes the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to take into account all leases based on a single form of balance sheet.

Lessors' accounting in accordance with IFRS 16 remains substantially unchanged from IAS 17. Lessors will continue to classify leases as either finance or operating leases, using principles similar to those laid down in IAS 17. Therefore, IFRS 16 did not have an impact for the leases in which the Company acts as a lessee.

The Company adopted IFRS 16 using the modified retrospective approach of adoption, its date of initial application being 1 January 2019. Under this approach, the standard is applied retroactively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company chose to use the practical transition environment in order not to reassess whether a contract is or contains a lease on 1 January 2019, instead the Company applied the standard only to the contracts that were previously identified as leases that apply IAS 7 and IFRIC 4 at the date of initial application.

The effect of adopting IFRS 16 as at 1 January 2019 is presented in the table below:

	1 January 2019
Assets	
Right of use assets	9,232,391
Total assets	**9,232,391**
Lease liabilities	9,232,391
Total liabilities	**9,232,391**

Nature of the effect of adopting IFRS 16

The Company has leases for buildings and vehicles. Before adopting IFRS 16, the Company classified each of its leases (as lessee) on the commencement date as finance lease contract or operating lease contract. A lease was classified as a finance lease if it transferred substantially all the risks and rewards incident to the ownership over the asset leased to the company; otherwise, it was classified as an operating lease. The finance lease was recognized at the beginning of the lease on the justification date at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments were allocated between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not used, and the lease payments were recognized as rent expenses in the profit or loss statement on a straight-line basis over the lease term.

(amounts are expressed in RON, unless specified otherwise)

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

As at 1 January 2019, the Company does not have any finance leases.

When adopting IFRS 16, the Company applied a unique recognition and measurement approach to all leases. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

Lease previously accounted for as operating lease

The Company rightfully recognized the lease assets and liabilities for those leases previously classified as operating leases, except for the short-term leases and the leases of low-value assets. The right-of-use assets for the majority of leases were recognized based on the carrying amount as if the standard had always been applied, except for the use of the incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any prepaid and accrued lease payments previously recognized. The lease liabilities were recognized based on the present value of the outstanding lease payments, updated using the incremental borrowing rate at the date of initial application.

The company also applied the available expedients where:
- it used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- It relied on its assessment of whether leases are onerous immediately before the date of initial application;
- It applied the short-term lease exemptions to the leases for which the lease term ends within 12 months of the date of initial application;
- The initial direct costs were excluded from the measurement of the right-of-use asset at the date of initial application.
- It used hindsight to determine the lease term if the contract contained options to extend or terminate the lease.

Based on the above, as at 1 January 2019:
- Right-of-use assets amounting to RON 9,232,391 were recognised and presented separately in the financial statement.

Lease liabilities as at 1 January 2019 may be reconciled with the operating lease commitments as at 31 December 2018 as follows:

Operating lease commitments as at 31 December 2018	**12,129,646**
Weighted-average incremental borrowing rate as at 1 January 2019	8.34%
Operating lease commitments updated as at 1 January 2019	9,232,391
Lease liability as at 1 January 2019	**9,232,391**

IFRS 9: Prepayment features with negative compensation (Amendment)

The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The management has assessed that the application of these amendments does not have any impact on the Company's financial position or performance.

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

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

The amendments refer to the fact whether the measurement, in particular relating to impairment, of long-term interests in associates and joint ventures that, in substance, form part of the "net investment" in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The amendments clarify the fact that an entity implements IFRS 9 Financial instruments before it implements IAS 28 to those long-term interests to which the equity method does not apply. When applying IFRS 9, the entity does not take into account the adjustments to the accounting value of the long-term interests generated by implementing IAS 28. The management has assessed that the application of these amendments does not have any impact on the Company's financial position or performance.

Interpretation of IFRIC 23: Uncertainty regarding the treatments applied to the corporate tax

The interpretation approaches the accounting of corporate taxes when tax treatments entail an uncertainty degree that affects the implementation of the IAS 12 standard. The interpretation offers guidance regarding the analysis of certain individual or joined tax treatments, the inspections carried out by the tax authorities, the adequate method that would reflect the uncertainty and the accounting of the modification of events and circumstances. The management has assessed that the application of these changes does not have any impact on the Company's financial position or performance.

IAS 19: Plan amendment, curtailment or settlement (Amendments)

The amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects the implementation of the asset ceiling requirements. The management has assessed that the application of these changes does not have any impact on the Company's financial position or performance.

IASB has issued the Annual Improvements to IFRS – 2015 – 2017 cycle, which include a collection of amendments brought to IFRS. The management has assessed that the application of these changes does not have any impact on the Company's financial position or performance.

- IFRS 3 Business combinations and IFRS 11 Joint commitments: The amendments brought to IFRS 3 clarify that, when an entity gains control over an enterprise that is a jointly controlled operation, it shall revaluate the interests previously owned in the enterprise in question. The amendments brought by IFRS 11 clarify that, when an entity gains joint control over an enterprise that is a jointly controlled operation, the entity does not revaluate the interests previously owned in the enterprise in question.

- IAS 12 Corporate tax: The amendments clarify that the effects on the corporate tax for the payments regarding financial instruments classified as equity, must be recognized according to the manner in which the past transactions or events that have generated distributable profit have been recognized.
- IAS 23 Indebtedness costs: The amendments clarify point 14 of the standard, according to which, when a qualifiable asset is available for its desired use or for sale and some of the specific loans afferent to the qualifiable asset in question remain outstanding at that time, the loan in question must be included in the funds borrowed by an entity, in general.

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

4.2 New standards, modifications and interpretations issued, but which are not in force for the tax year beginning on 1 January 2019 and which have not been adopted early

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

The conceptual framework in the IFRS standards

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

IAS 1 Presentation of the financial statements and IAS 8 Accounting policies, modifications of the accounting estimates and errors: definition of the term "significant" (Amendments)

The amendments are effective for the annual periods beginning on or after 1 January 2020, and early application is allowed. The amendments clarify the definition of the term "significant" and the manner in which it must be implemented. The new definition mentions that "The information is significant if the omissions, erroneous statements or its hiding would reasonably lead to influencing the decisions that the primary users of the general purpose financial statements take based on those financial statements, which provide financial information regarding a certain reporting entity". The explanations accompanying the definition have also been improved. The amendments also ensure that the definition of the term "significant" is preserved throughout the IFRS Standards. The management has assessed that the implementation of these amendments will not have any impact on the Company's financial position or performance.

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

Interest rate benchmark reform: IFRS 9, IAS 39, and IFRS 7 (Amendments)

The amendments are effective for the annual periods beginning on or after 1 January 2020 and must be applied retroactively. Early application is allowed. In September 2019, IASB published amendments to IFRS 9, IAS 39 and IFRS 7, which closes the first stage of its activity, to respond to the effects of the reform of the Interbank Offered Rates (IBOR) on financial reporting. The second stage will focus on the issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (RFR). The published amendments address issues that affect financial reporting in the period prior to the replacement of an existing interest rate benchmark value with an alternative interest rate and address the implications for the specific hedge accounting requirements of IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require prospective analysis. The amendments provide for temporary exceptions, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which allow hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative, nearly risk-free interest rate. There are also amendments to IFRS 7 Financial instruments: Disclosures in relation to additional information regarding the uncertainty arising from the interest rate benchmark reform. The amendments are effective for the annual periods beginning on or after 1 January 2020 and must be applied retroactively. Early application is allowed. In September 2019, IASB published amendments to IFRS 9, IAS 39 and IFRS 7, which closes the first stage of its activity, to respond to the effects of the reform of the Interbank Offered Rates (IBOR) on financial reporting. The second stage will focus on the issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (RFR). The published amendments address issues that affect financial reporting in the period prior to the replacement of an existing interest rate benchmark value with an alternative interest rate and address the implications for the specific hedge accounting requirements of IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require prospective analysis. The amendments provide for temporary exceptions, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which allow hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative, nearly risk-free interest rate. There are also amendments to IFRS 7 Financial instruments: Disclosures in relation to additional information regarding the uncertainty arising from the interest rate benchmark reform. The management has assessed that the implementation of these amendments will not have any impact on the Company's financial position or performance.

IAS 1 Presentation of financial statements: Classification of Liabilities as Current Liabilities or Non-current Liabilities (Amendments)

The amendments are effective for the annual periods beginning on or after 1 January 2022, and early application is allowed. The amendments concern the promotion of consistency in applying the requirements, helping the companies to establish whether within the statement of financial position, the liabilities and other liabilities with an uncertain disbursement date should be classified as current or non-current. The amendments affect the presentation of liabilities within the statement of financial position and do not change the existing requirements concerning the assessment or recognition of any asset, liability, income or expenses, nor the information that the entities publish in relation to such elements. Moreover, the amendments clarify the classification requirements of liabilities that may be disbursed by the company that issues equity instruments. These amendments have not been adopted by the EU. The management has assessed that the implementation of these amendments will not have any impact on the Company's financial position or performance.

(amounts are expressed in RON, unless specified otherwise)

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

5.1 Turnover

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

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

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

	1 January - 31 December 2019	**1 January - 31 December 2018**
Domestic sales	340,072,834	209,155,998
Sales abroad	218,934,539	252,249,233
Total turnover	**559,007,373**	**461,405,231**
a) Rendering of services	**17,635,020**	**27,131,315**
b) Sales of goods, including:	**541,170,804**	**425,797,246**
Sales of finished goods	254,753,508	335,022,857
Sales of goods for resale*	333,946,862	120,995,336
Residual products	1,402,996	167,050
Claw back tax expense	(8,932,562)	(30,387,997)
c) Other revenues	**201,549**	**8,467,670**

**The amount included on this line for 2018 has been influenced by certain non-recurring transactions as a result of the process of separating from the Sanofi Group.*

Clawback tax

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

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

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

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

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

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

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

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

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

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

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

The category "**Rendering of services**" includes the revenues resulted from the rendering of quality verification services in relation to the products manufactured outside the European Union that are to be sold on the EU markets by the partners in the Company's Group as well as the revenues from the provision of certain production services by third parties; these revenues have currently dropped as compared to 2018, due to the evolution of the activity after the integration in Zentiva Group.

(amounts are expressed in RON, unless specified otherwise)

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

5.2. Raw material expenses

Raw materials and consumables used	Notes	1 January - 31 December 2019	1 January - 31 December 2018
Raw materials	1	129,298,461	126,946,245
Cost of Goods for resale		80,762,968	28,133,164
Packaging materials	2	45,698,461	44,156,390
Auxiliary materials	3	7,862,264	9,056,169
Utilities	4	9,888,204	9,008,388
Other material expenses	5	10,910,577	10,649,021
Total		**284,420,935**	**227,949,377**

The amounts mentioned in the above table on the reference lines 1, 2, 3 represent mainly expenses with raw materials and the direct materials (2018: the amount mentioned at line 2 was reduced by RON 4.8 million representing a discount received by the Company for certain products purchased as occasioned by the separation transaction from the Sanofi group), the packages and auxiliary materials, used in the production activity. The amounts mentioned at reference number 4 – utilities - refer mainly to the expenses with energy and water.

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

6. OTHER INCOME / OTHER EXPENSES AND ADJUSTMENTS

6.1 Other operating income

Other operating income	1 January – 31 December 2019	1 January – 31 December 2018
Gain / (loss) from disposal of assets	27,576	-
Services to Solacium Farma SRL / Sanofi Romania SRL	1,137,753	225,969
Other operating income	634,008	263,707,967
Total	**1,799,337**	**263,933,936**

Until 1 April 2018, the Company recognized revenues from re-invoicing of some services offered by the Zentiva employees to Sanofi Romania SRL (sister company at that time) – MHR (Manhour) because starting with this date, the Zentiva SA employees, which had been generally providing services for the commercial activity of the Sanofi Group, were transferred to Sanofi Romania SRL and not for the production and advertisement of generic products.

As of June 2019, the Company recognizes revenues from re-invoicing of some services offered by the Zentiva employees to Solacium Farma SRL (sister company) – MHR (Manhour).

(amounts are expressed in RON, unless specified otherwise)

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

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

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

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

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

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

6.2 Other operating expenses

Other expenses	1 January – 31 December 2019	1 January - 31 December 2018
Management service expenses from Zentiva Group	50,867,264	30,374,379
Promotion / MHR expenses from Sanofi Romania SRL	-	7,245,229
Repair expenses	9,400,857	9,966,583
Sponsorship	-	59,920
License – Zentiva trademark	2,744,790	5,684,517
Travel expenses	2,391,059	2,105,985
Write-off of inventories	2,072,799	2,011,055
Registration fees to ANM	5,440,197	3,655,102
Professional fees	1,920,260	1,517,411
Telecommunication expenses	648,476	518,715
Fines and penalties	569,447	1,696,105
Other expenses	52,217,359	47,756,681
Net allowance for inventories and receivables	6,792,425	9,269,212
Total	**135,064,933**	**119,560,893**

The costs with services from the group include a large variety of services (see below) and have increased in 2019 compared to the previous year, especially after the acquisition of the Company by Advent International NV on 30 September 2018, when the Company received support from the Group for implementing the new procedures and integrating in the new activity model of the Group to which it currently belongs.

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

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

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

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

IT support services: maintaining IT systems (SAP and other common apps used by all entities within the group), operational services and support for daily activities regarding the IT infrastructure and software being used, of IT project management and execution relevant on a local level.

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

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

Other expenses include: expenses for studies and research for the pharmaceutical field, expenses for production authorization, equipment maintenance and repair, transport, security, Intranet and other miscellaneous costs. In this category, there are included also the leasing services of Lugera & Makler Romania SRL and the services re-invoiced by Sanofi Romania SRL according to the hourly rate of the employees who have provided services for Zentiva SA other than the promotional ones that are presented above (these services were invoiced until 30 September 2018 when both companies were part of the same Sanofi Group); these costs have evolved in the same rate as the increase of activity in the current year compared to the previous year.

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

The Company presents the amounts in relation to the increase and use for impairment for inventories and receivables under "Other operating expenses" if the net impact is expense. At 31 December 2019, the net value of impairment for inventories and receivables in the amount of RON 6,792,425 (2018: RON 9,269,212) and is represented only by the increase in the provision for inventories and is represented by the increase in the provision for the inventories with the amount of RON 5,243,719, as well as by the increase in the provision for clients with the amount of RON 1,548,706.

(amounts are expressed in RON, unless specified otherwise)

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

6.3 Finance cost

Financial expenses	1 January - 31 December 2019	1 January - 31 December 2018
Foreign exchange loss expense	3,535,913	18,256,427
Interest expenses	(734,682)	-
Total	**4,270,595**	**18,256,427**

6.4 Finance Income

Finance Income	1 January - 31 December 2019	1 January - 31 December 2018
Foreign exchange gain income	508,417	17,431,360
Interest income	11,150,271	5,946,457
Total	**11,658,688**	**23,377,817**

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

6.5 Employee benefits expense

Employee benefits expense	1 January - 31 December 2019	1 January - 31 December 2018
Wages and salaries	74,622,131	58,031,663
Social security costs	3,007,653	2,398,536
Post-employment benefits and other long-term benefits - net impact	1,367,146	748,526
Other short-term benefits (*)	3,795,734	2,071,724
Total	**82,792,664**	**63,250,448**

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

6.6 Marketing and Advertising and Protocol Expense

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

In 2018, for advertising campaigns, advertising contracts were concluded especially with the advertising agency Mindshare Media, the total value of these services being RON 3,858,526 as well as with other advertisers.

(amounts are expressed in RON, unless specified otherwise)

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

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

- Antinevralgic and Antinevralgic Forte
- Dicarbocalm
- Ibalgin
- Modafen

For the products mentioned above, the Company did not conduct marketing activities in 2019 because these products are no longer part of the current portfolio of products.

During the current year, the main expense types recorded under this line represent promotion expenses in pharmacy chains and other such expenses.

7. INCOME TAX AND DEFERRED TAX

Income tax expense	1 January - 31 December 2019	1 January 31 December 2018
Current income tax	10,493,826	54,240,644
Deferred tax (7.2 / expense (income))	(151,102)	(1,460,459)
Total	**10,342,724**	**52,780,185**

7.1 Income tax - current

The main components of corporation tax expense and reconciliation between tax expense and accounting and tax revenue for the year ended 31 December 2019 and 2018 are:

Tax reconciliation	1 January - 31 December 2019	1 January - 31 December 2018
Profit before income taxes	**54,093,396**	**315,401,161**
Income taxes calculated at the tax rate applicable in Romania of 16% (2018: 16%)	8,654,943	50,464,186
Non-taxable incomes	(79,400)	(918,477)
Non-deductible expenses for tax calculation	1,767,181	3,234,476
Fiscal credit	-	-
Income taxes reported in the income statement	**10,342,724**	**52,780,185**

Movement in the current income tax during the year	1 January – 31 December 2019	1 January – 31 December 2018
Balance on 1 January	**8,236,848**	**3,486,825**
Income tax expenses for the current year	10,493,826	54,240,644
Income tax paid during the year	(13,796,354)	(49,490,622)
Balance at 31 December	**4,934,319**	**8,236,848**

(amounts are expressed in RON, unless specified otherwise)

7. CURRENT INCOME TAX AND DEFERRED (continued)

7.2 Deferred tax

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

Deferred tax refers to the following:

			Income statement and equity movement/Retained earnings	
Deferred income tax	**31 December 2019**	**31 December 2018**	**2019**	**2018**
- Deferred income tax assets				
Employee benefit liability	498,240	396,640	101,600	106,560
Provisions, including depreciation for tangible assets (Note 12,17)	2,629,830	3,090,086	(460,256)	1,035,001
Intangibles	3,742	-	3,742	-
Estimate of the provision for employee's management and for leaves not taken (Note 18, 6.5)	1,439,970	1,225,478	214,492	52,399
Total (a)	**4,581,782**	**4,712,203**	**(140,422)**	**1,193,960**
- Deferred income tax liabilities				
Property, plant and equipment- recognized in the income statement	(1,977,229)	(2,168,753)	291,524	266,499
Property, plant and equipment- recognized in equity	(7,577,398)	(7,577,398)	-	-
Total (b)	**(9,454,627)**	**(9,746,151)**	**(291,524)**	**266,499**
Net deferred tax income (a) - (b)	**(4,882,845)**	**(5,033,947**	**151,102**	**1,460,459**

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

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

	2019	**2018**
Deferred tax	-	-
Recognized in profit and loss (7.1)	(151,102)	(1,460,459)
Recognized in equity	-	-
Total	**(151,102)**	**(1,460,459)**

(amounts are expressed in RON, unless specified otherwise)

8 EARNINGS PER SHARE

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

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

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

Therefore, using this method, the weighted average number of ordinary shares related to the period ended as of 31 December 2019 is 533,651,104 which is generated an earnings per share by 0.008 RON / share.

The following figures have been taken into account in the calculation of the weighted average number of shares:

Date	Event	Number of issued shares	% of time	weighted average number of shares
January 2019	**Ordinary shares at beginning of the year**	**416,961,150**		**416,961,150**
August 2019	Issuance of new ordinary shares	280,055,890	42	116,946,416
31 December 2019	**Ordinary shares at the end of the year**	**697,017,040**		**533,907,566**

9. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

9.1 PROPERTY, PLANT AND EQUIPMENT

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

(amounts are expressed in RON, unless specified otherwise)

9. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (continued)

	Land	Buildings	Machinery, tools and equipment	Constructions in progress	Total
Gross value on 1 January 2019	**42,503,676**	**47,477,601**	**172,966,472**	**25,838,442**	**288,786,191**
Additions	-	-	-	24,939,972	**24,939,972**
Disposals	-	-	(2,275,966)		**(2,275,966)**
Transfers	-	1,621,449	15,947,642	(17,569,091)	**-**
Gross value at 31 December 2019	**42,503,676**	**47,477,601**	**186,638,148**	**33,209,323**	**311,450,197**
Depreciation and impairment on 1 January 2019	**-**	**(3,603,307)**	**(140,948,100)**	**-**	**(144,551,408)**
Depreciation in the year	-	(3,607,111)	(6,782,158)	(2,035,787)	**(12,443,056)**
Disposals	-	170	2,251,435		**2,251,605**
Depreciation and impairment on 31 December 2019	**-**	**(7,210,248)**	**(145,478,823)**	**(2,053,787)**	**(154,742,858)**
Net book value 31 December 2019	**42,503,676**	**41,888,802**	**41,159,325**	**31,155,536**	**156,707,339**

The value of fully depreciated assets at 31 December 2019 is RON 122,131,604 (2018: RON 118,680,154).

Revaluation of land and buildings

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

9.1 PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

The data used in the evaluation were:

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

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

(amounts are expressed in RON, unless specified otherwise)

9. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (continued)

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

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

Investments in progress

Investments in progress as at 31 December 2019 amounting to RON 31,155,536 (2017: RON 25,838,442) include mainly acquisitions of production equipment.

On 31 December 2019, the Company recorded a provision for the current investments of RON 2,053,787 for investments made during the period 2016 - 2017 that were not finalized by this date.

During 2019 some of the investments started during the year and in the previous periods were completed, being transferred from the category of tangible assets under construction into machines, machinery and equipment. Their total value was RON 17,569,091 (2018: RON 8,439,329) In the first months of 2020, the Company put into operation equipment and machinery amounting to RON 5.5 million from those existing on 31 December 2019 in the category of investments under execution.

9.2 RIGHT-OF-USE ASSETS

	Buildings	Machinery Tools and Equipment	Total
Gross value on 1 January 2019	**-**	**-**	**-**
Additions – due to the passing of IFRS 16	3,794,345	5,438,047	9,232,392
Additions throughout the year	-	1,471,740	1,471,740
Disposals	-	(30,698)	(30,698)
Gross value on 31 December 2019	**3,749,345**	**6,879,089**	**10,673,434**
Depreciation and impairment on 1 January 2019	**-**	**-**	**-**
Depreciation in the year	(1,264,782)	(2,059,385)	(3,324,167)
Disposals		3,289	3,289
Depreciation and impairment on 31 December 2019	**(1,264,782)**	**(2,056,096)**	**(3,320,878)**
Net book value 31 December 2019	**2,529,563**	**4,822,993**	**7,332,556**

Due to the implementation of the IFRS 16 standard, the Company recorded under the “Asset transfer rights” the amount of RON 9,232,392 representing the accounting value of the assets purchased based on operating lease contracts upon the adoption of this standard – 1 January 2019.

The Company recognized in the category “Asset transfer rights” the following categories of operating leases:

- Car leasing for the Company’s personnel
- The lease contract for the storage premises held by FM Logistic.

(amounts are expressed in RON, unless specified otherwise)

9. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (continued)

The Company has leases for various buildings and vehicles items used in its operations. The leases for vehicles have a lease term of 48 months. The Company's obligations under the leases are secured by the lessor's title to the leased assets.

In general, the Company is restricted to assign or sublet leased assets, and some contracts require the Company to maintain certain financial reports. There are no lease contracts that include extension and termination options and variable payments for leased vehicles.

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

1 January 2019	**9,332,391**
Additions	1,471,740
Accretion of interest	689,932
Early termination of cars agreements	27,409
Payments	3,757,500
FX rate	190,205
At 31 December 2019	**7,799,361**

The following expenses represent the amounts recognized in the profit or loss in relation to leases:

2019

Depreciation on the right-of-use assets	3,324,167
Interest expense on the lease liability	689,932
Total expenses recognized in the profit and loss account	**4,014,099**

The Company had total cash outflows for leases of RON 3,757,500. The Company also had non-cash additions to the right-of-use assets and lease liabilities of RON 1,471,740.

The Company has a lease for a warehouse that includes extension and termination options. These options are negotiated by the Company's management in order to provide flexibility in the management of the portfolio of leased assets and comply with the Company's business needs. The Company's management applies significant judgement to determine whether it is reasonably certain to exercise these extensions or terminations.

(amounts are expressed in RON, unless specified otherwise)

10. INTANGIBLE ASSETS

	Development costs	Other intangible assets	Construction in progress and advances	Total
Costs on 1 January 2018	**63,532**	**4,116,622**	**905,081**	**5,085,235**
Additions	-	2,911,242	-	**2,911,242**
Outputs	-	-	-	**-**
Transfers	-	279,381	(279,381)	**-**
Costs at 31 December 2018	**63,532**	**7,307,244**	**625,700**	**7,996,476**
Depreciation and impairment on 1 January 2018	**(63,532)**	**(3,822,145)**	**(430,583)**	**(4,316,259)**
Depreciation in the year	-	(215,668)	-	**(215,688)**
Outputs	-	-	430,583	**430,583**
Depreciation and impairment on 31 December 2018	**(63,532)**	**(4,037,812)**	**-**	**(4,101,344)**
Net value at 31 December 2018	**-**	**3,269,432**	**625,700**	**3,895,132**
Costs on 1 January 2019	**63,532**	**7,307,244**	**625,700**	**7,996,476**
Additions	-	-		**-**
Outputs	-	-	(43,760)	**(43,760)**
Transfers	-	-		
Costs at 31 December 2019	**63,532**	**7,307,244**	**581,940**	**7,968,052**
Depreciation and impairment on 1 January 2019	**(63,532)**	**(4,037,812)**	**-**	**(4,101,344)**
Depreciation in the year	-	(306,401)	-	**(306,401)**
Outputs	-	-	-	**-**
Depreciation and impairment on 31 December 2019	**(63,532)**	**(4,344,213)**	**-**	**(4,407,745)**
Net value at 31 December 2019	**-**	**2,963,031**	**581,940**	**3,544,971**

Under the “Construction in progress and advances” advance payments are recorded for the acquisition of software licenses.

(amounts are expressed in RON, unless specified otherwise)

11. GOODWILL AND CUSTOMER RELATIONSHIPS

	Goodwill	Customer relationships	Total
Gross value on 31 December 2018	**46,141,201**	**-**	**46,141,201**
Revised gross value on 31 December 2018	**11,649,100**	**34,492,101**	**46,141,201**
Gross value on 1 January 2019	**11,649,100**	**34,492,101**	**46,141,201**
Additions	-	-	-
Outputs	-	-	
Transfers	-	-	-
Gross value on 31 December 2019	**11,649,100**	**34,492,101**	**46,141,201**
Depreciation and impairment on 1 January 2019	**-**	**-**	**-**
Depreciation in the year	-	(3,770,000)	-
Outputs	-	-	-
Depreciation and impairment on 31 December 2019	**-**	**(3,770,000)**	**(3,770,000)**
Net value on 31 December 2019	**11,649,100**	**-**	**42,371,201**

In 2018, the Sanofi Group sold the generics division in Europe, which resulted in more operations within the group.

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

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

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

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

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

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

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

(amounts are expressed in RON, unless specified otherwise)

11. GOODWILL AND CUSTOMER RELATIONSHIPS (continued)

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

In 2019, the Company carried out the assignment of the acquisition price recording individually identifiable assets such as contractual customer relationships in amount of RON 34,492,101 (10 main distributors: Mediplus, Farmexpert, Europharm, Fildas, Farmexim, Dona Logistica, Geiser, Ropharma, Bioeel, Parmapharm) and the balance of RON 11,649,100 was recognized as goodwill. It was been determined that the amotizatiation period for the customer relationship is 10 years.

Thus, in accordance with the IFRS requirements, the Company restated the initial balances and presented the specific identifiable assets pursuant to the table above.

The market value of the recognized individual assets was determined further to the application of the updated cash flow, within the income approach, using the management's hypothesis and namely: each contractual relation with the main distributors (10 main distributors) was individually evaluated considering a return rate of 1% (the balance between the rate of return obtained by taking over these agreements and the rate of return that the Company would have obtained if it negotiated the distribution agreements by itself), an updating rate of 9.6% adjusted with a 3% premium.

Furthermore, the Company conducted the impairment test for these assets and for the goodwill as at 31 December 2019 in accordance with the IAS 36 requirements and no impairment adjustments have been identified in relation to these assets, existing a margin of approximately RON 98.8 million between the recovery value and the net book value of these assets. (recovery value of RON 141.2 million compared to the net book value of RON 42.4 million).

The recovery value of these assets was determined based on the market value following the application of the discounted cash flow method, using management assumptions: cash flow estimated by the management for 9 years (2020 – 2028) determined with a sales CAGR of 7.6% (confirmed also by CEGEDIM expectations for market growth of 7.8% in the period of 2020 – 2023, a perpetuity growth rate of 1.8%, operational margin of 4.5% and an average 4.3% annual update ratio.

A sensitivity analysis of the market value was performed, as shown below:

Milion -RON	**Decline in operational margin**	**Decline in sales growth**	**Increase in update ratio**
	(1,5)%	(1,5%)	+1,5%
Recoverable value	71,49	131,45	109,49
Net book value	42,37	42,37	42,37
Difference	**29,12**	**89,09**	**67,13**

(amounts are expressed in RON, unless specified otherwise)

12. INVENTORIES

Inventories	31 December 2019	31 December 2018
Merchandise	58,038,776	41,035,626
Finished products and semi-finished products	40,200,652	31,170,814
Raw materials	42,669,668	41,089,731
Package materials	9,903,010	7,412,883
Minus:	-	-
Allowance for obsolete inventories	(26,970,645)	(21,726,925)
Total	**123,841,461**	**98,982,129**

Changes in inventory impairment	31 December 2019	31 December 2018
Balance on 1 January	**(21,726,925)**	**(12,457,713)**
Additions	(5,243,719)	(9,269,212)
Provision used	-	-
Release of provisions	-	-
Balance at 31 December	**(26,970,645)**	**(21,726,925)**

Impairment per inventory category	31 December 2019	31 December 2018
Finished products, semi-finished goods and merchandise	(15,427,428)	(11,618,023)
Raw materials	(10,171,424)	(9,240,680)
Package materials	(1,371,793)	(868,239)
Total	**(26,970,645)**	**(21,726,925)**

The Company recognizes a depreciation of value for slow moving stocks in accordance with the Company's policy. Thus, on 31 December 2019 of the total provision of RON 26,970,645, the amount of RON 18,311,410 corresponds to the slow-moving stocks as well as for the net realizable value. The balance of RON 8,659,235 represents a specific provision recorded by the Company at 31 December 2019 for the pilot series of medicines which are in the marketing authorization phase in amount of RON 7,287,442 provision for quality issues and a specific provision for packaging materials in the amount of RON 1,371,793 (2018: of the total provision of RON 21,726,925, RON 9,607,025 is related to slow moving stocks; the difference of RON 12,119,405 represents the specific provision recorded for the pilot series of medicinal products that are in the marketing authorization phase in the amount of RON 6,960,121, RON 3,210,309 provision for net realizable value, RON 1,081,231 provision for quality issues and a specific provision for packaging materials in the amount of RON 867,744.

The Company does not hold mortgaged stocks in favour of third parties on 31 December 2019 and 31 December 2018 respectively.

(amounts are expressed in RON, unless specified otherwise)

13. TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade receivables and other receivables	**31 December 2019**	**31 December 2018**
Trade receivables (see aging below)	21,539,705	125,626,695
Trade receivables from related parties (see aging below)*	254,975,210	48,206,862
Advances paid	5,426,870	20,928,547
Recoverable taxes	14,202,396	3,603,105
Sundry debtors	283,905	190,143
Prepaid expenses	1,364,943	1,019,119
Other receivables	-	812,662
Less:		
Allowance for doubtful trade accounts receivable	(2,175,267)	(626,561)
Allowance for sundry debtors	-	-
Total	**295,617,762**	**199,832,571**

*as at 31 December 2019, trade receivables include the amounts that were not disbursed by the factor

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

See below for the movements in allowance:

Value adjustments	**31 December 2019**	**31 December 2018**
Balance at 1 January	**(626,561)**	**(871,375)**
Settings	(1,548,706)	-
Provision used	-	-
Reversal of previous years provision	-	244,814
Balance at 31 December	**(2,175,267)**	**(626,561)**

As at 31 December 2019, trade receivables totalling RON 2,175,267 (2018: RON 626,561) were provisioned in full (from receivables older than 181 days). The adjustment growth resulted from the application of the IFRS 9 requirements on seniority intervals.

The net movement in the allowances for receivables amounting to RON 244,814 representing the expenses as of 31 December 2018 is presented in **Note 6.2: Other operating expenses**. In the same time, during the year 2017, the Company wrote-of receivables in amount of RON 45,910, which were not provided previously – for further details regarding the impact in the current year result, please see **Note 6.2 Other operating expenses.**

(amounts are expressed in RON, unless specified otherwise)

13. TRADE RECEIVABLES AND OTHER RECEIVABLES (continued)

The detail of trade receivables based on contractual terms as of 31 December 2019 and as of 31 December 2018 respectively:

	Receivables					
			Outstanding according to the age in days			
31 December 2019	**Total**	**Receivables not due**	**1 - 30 days**	**31 – 60 days**	**61 – 180 days**	**>181 days**
Estimating the percentage of loss due to credit risk	0.64%	0.64%	0.64%	0.64%	0.64%	0.64%
Gross net value	**243,065,482**	**82,698,914**	**17,627,982**	**11,103,155**	**87,514,832**	**44,120,600**
Excluded receivables	**(33,449,433)**	(24,144,812)	(1,964,139)	(239,990)	(812,165)	(6,288,327)
Total gross value	**276,514,915**	**106,843,726**	**19,592,121**	**11,343,145**	**88,326,996**	**50,408,927**
Estimated total loss due to credit risk	**1,548,327**	**526,792**	**112,290**	**70,727**	**557,469**	**281,048**

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

Year 2019

In the forecast of the estimated credit losses ("ECL") related to the mother-company receivables, the Company considered the S&P rating of Zentiva, namely B. Based on the analysis of the historical default rates published by S&P Global Fixed Income Research, the Company considered in its calculation a 0.98% probability of default ("PD") – which is based on the payment default values observed during 2018. A 65% loss given default ("LGD") was used, which represents the management's loss estimation in case a default situation occurs, being included in the similar estimation interval applied on the local market. Additionally, the Company already recovered almost 25% of the balance between 31 December 2019 and the date of this report.

An analysis of the credit losses sensitivity forecasted both in relation to the PD as well in relation to the LGD is presented below:
- a 3.44% PD – the long-term average of the payment defaults – would increase the ECL by RON 0.24 million,
- a 75% LGD – maximum possible given the subsequent collections up to the date of this report – would increase the ECL by RON 3.9 million,
- the application of both a 3.44% PD and a 75% LGD would increase the ECL by RON 4.7 million.

Besides those above, for the entities in Zentiva Group in which the receivables at 31 December 2019 were fully collected until the date of the report no ECL was reserved.

(amounts are expressed in RON, unless specified otherwise)

13. TRADE RECEIVABLES AND OTHER RECEIVABLES (continued)

Year 2018:

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

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

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

	31 December 2019	31 December 2018
Cash at banks and on hand	7,583,742	35,309,724
Advance for payment of dividends	854,142	919,925
Deposits – cash pooling	380,035,937	368,885,666
Total	**388,473,821**	**405,115,315**

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

As of 31 December 2019, the Company issued warranty letters in favour of third parties for which it had collateral deposits amounting to RON 8,355,901 (2018: RON 8,355,901).

As of 31 December 2019, the Company has cash restricted in the amount of RON 11,716 (2018: RON 11,716) representing the guarantees of the managers.

The amount of RON 854,142 included on the line "Advances for dividends payment" refers to a transfer to the Central Depository for the payment of dividends to minority shareholders (2018: RON 919,925).

Starting with September 2013, the Company concluded a cash pooling agreement with Sanofi SA France. (mother Company until 30 September 2018).

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. According to the contractual provisions, the interest rate applied is ROBOR + 15bp if the Company borrows ROBOR - 5bp respectively, if it makes deposits.

At the transfer date, the cash pooling account showed a debit position of RON 154,410,753 (the interest for the period 1 January – 21 September 2018 was RON 2,765,388)

The total interest earned for the cash-pooling transactions during the year is RON 11,150,271 (2018: interest accrued in the amount of RON 5,946,457) and are presented Note 6.4 Financial Income.

The cash pooling account at 31 December 2019 shows a debtor balance of RON 380,035,937 (2018: RON 368,885,666).

At 31 December 2019 and 31 December 2018 respectively, the Company has a credit facility of RON 10,000,000 at BNP Parribas which was not used in amount of RON 5,204,790. The interest rate is 1-month ROBOR + 1.30% pa. The amount used by the Company at 31 December 2019 is presented in the line "Short-term Loans" in the financial position statement.

(amounts are expressed in RON, unless specified otherwise)

15. ISSUED CAPITAL AND RESERVES

Authorised shares	31 December 2019	31 December 2018
Ordinary shares of RON 0.1 each	697,017,040	416,961,150

Ordinary shares issued and fully paid	Number	Value
On 31 December 2019	697,017,040	69,701,704
On 31 December 2018	416,961,150	41,696,115

Share capital	31 December 2019	31 December 2018
Issued share Capital	69,701,704	41,696,115
Total share capital	**69,701,704**	**41,696,115**

Share premiums

	31 December 2019	31 December 2019
Inflated share premiums	-	-
Share premiums (nominal value)	9,863,684	9,863,684
Inflation of share premiums	15,100,822	15,100,822
Total inflated share premiums	**24,964,506**	**24,964,506**

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

Redeemable shares: The Company has no redeemable shares on 31 December 2019 (2018: it has no redeemable shares).

On 30 April 2019, the General Meeting of Shareholders approved 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 cancelled 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.

(amounts are expressed in RON, unless specified otherwise)

15. ISSUED CAPITAL AND RESERVES (continued)

On 8 August 2019, the share capital increase with a number of 280,055,890 shares having a nominal value of RON 0.1 was completed; at the same date a number of 19,944,110 shares that had remained unsubscribed were annulled.

Reserves

Reserves and other capital items	31 December 2019	31 December 2018
Retained earnings / (Cumulative loss)	**451,685,293**	**411,088,300**

Total other reserves included in the capital components:	Notes	31 December 2019	31 December 2018
Legal reserves	B	11,043,893	8,339,223
Other reserves (other funds)	D	104,406,145	104,406,145
Revaluation reserves	C	40,198,377	40,198,377
Retained earnings	A	451,685,293	411,088,300
Total other reserves		**607,333,708**	**564,032,045**

A) Retained earnings include the following:

	2019	2018
Reclassification of distributable reserves to retained earnings	45,837,619	45,837,619
Fiscal facilities (accumulated profit)	917,664	917,664
Retained earnings	359,730,288	97,109,312
Adjustments to IFRS	(2,059,066)	(2,059,066)
Revaluation of fixed assets used as deemed cost and reclassified to retained earnings	7,814,490	7,814,490
Profit / loss for the year*	41,046,002	262,620,976
Other equity elements	(1,601,704)	(1,175,974)
Total	**451,685,293**	**411,088,300**

**the profit / loss for the financial year ended on 31 December 2019 also includes the impact of the establishment of the legal reserve in amount of RON 2,704,670.*

B) Legal reserves

The company sets up legal reserves under the Companies Law, which states that 5% of the annual profit before taxes shall be transferred to „Legal Reserves” until the reserve shall reach the threshold of 20% of share capital. Legal reserves are not distributable. On 31 December 2019, although a legal reserve in amount of RON 2,704,670 was established, the Company did not reach the threshold of 20% of share capital, as a consequence of the share capital increase in 2019 in amount of RON 28,005,589 (2018: at this date, the Company had reached the 20% of the share capital threshold).

15. CAPITAL ISSUED AND RESERVES (continued)

C) Revaluation reserves

The revaluation reserve shall be considered established when the correspondent asset is sold or scrapped. Once the reserve of revaluation becomes complete, it can be distributed. On 31 December 2019, the Company registered the amount of RON 40,198,377 as reserve of revaluation (2018: RON 40,198,377) related to an increase in value of lands and facilities existing in Company's assets – for further details see Note 9: Tangible assets.

D) Other reserves

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

E) Tax relief

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

F) Result per share

The weighted average number of ordinary outstanding shares within the analysed year is the number or ordinary shares existing at the beginning of the period, adjusted with the number of shares bought back or issued during the period, multiplied by a time-weighting factor. The time-weighting factor is the number of days for which the shares existed as a proportion of the total number of days in the period; a reasonable approximation of the weighted average is adequate in many circumstances. Thus, using this method, the number of shares corresponding to the period ending at 31 December 2019 is 533,651,104.

16. STOCK AND PAID DIVIDENDS

Throughout 2019, the Company did not distribute dividends (2018: the Company did not distribute dividends), whereas the General Meeting of Shareholders of 30 April 2019 decided that the result related to the financial year ended on 31 December 2018 in the amount of RON 262,620,976 (2018: RON 89,642,756 the result for the financial year ending on 31 December 2017) shall be distributed as retained earnings – for further details see **The Status of Share Capital Changes**.

Payments in the amount of RON 65,782 were made throughout the year 2019 by the minority shareholders of the Company representing dividends approved to be distributed but related to previous fiscal years (2018: dividend payments in amount of RON 1,189,331 were made throughout the fiscal year 2018).

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

(amounts are expressed in RON, unless specified otherwise)

17. PROVISIONS

Other provisions	31 December 2019	31 December 2018
Provisions for litigations	(211,549)	(211,549)
Provisions for taxes	(7,264,922)	(11,752,670)
Other provisions	(1,457,441)	-
Environmental provision	(5,640,510)	(5,640,510)
Total	**(14,574,422)**	**(17,604,729)**

	Provisions for litigations	Provisions for taxes	Environmental provision	Other provisions	Total
On 1 January 2018	**211,549**	**11,752,670**	**5,925,487**	**2,245,983**	**20,135,689**
Increase	-	-	-	-	**-**
Reversal	-	-	(284,977)	(2,245,983)	**(2,530,960)**
On 31 December 2018	**211,549**	**11,752,670**	**5,640,510**	**-**	**17,604,729**
Current	-	9,929,694	2,731,020	-	**12,660,714**
On long term	211,549	1,822,976	2,909,490	-	**4,944,015**

	Provisions for litigations	Provisions for taxes	Environmental provision	Other provisions	Total
On 1 January 2019	**211,549**	**11,752,670**	**5,640,510**	**-**	**17,604,729**
Increase	-	-	-	1,457,441	**1,457,441**
Reversal	-	(4,487,748)	-	-	**(4,487,748)**
On 31 December 2019	**211,549**	**7,264,922**	**5,640,510**	**1,457,441**	**14,574,422**
Current		5,411,946	2,276,818	1,457,441	9,626,205
On long term	211,549	1,822,976	2,913,692	-	4,948,217

Litigation provisions

On 31 December 2019 and on 31 December 2018, respectively, the Company has litigation provisions in the amount of RON 211,549 that referred mainly to:

- Provision in the amount of RON 154,461 for litigation that the Company carries out with the owner of a land positioned near the Zentiva headquarters representing the costs it should incur for moving a sewage pipe that crosses his land. Throughout the year 2019, there have been no changes regarding the development of this litigation that the Company had on 31 December 2018.
- Provision in the amount of RON 57,088 representing the indemnity rights that are to be paid by the Company to the widow of a former employee as a result of a work accident that took place in the year 1994. Throughout the year 2019, there have been no changes regarding the development of this litigation that the company had on 31 December 2018.

Tax provisions

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

17. PROVISIONS (continued)

In 2016, to the challenge filed by the company, NAFA cancelled the taxation decision F-MC 2370/22.12.2015 and decided to recheck the clawback tax for the period of quarter 4 of 2019 - quarter 3 of 2011. Following this new investigation performed during year 2017, NAFA issued a new taxation decision amounting to RON. 8,356,150 (of which RON 3,888,402 as principal and the balance of RON 4,487,748 representing penalties and default interest)Thus, during 2017, it decided the reversal of the amount of RON 10,101,000 from the provision created on 31 December 2016 for the provision for the tax risks corresponding to the clawback tax.

Further on, the company decided to challenge the newly imposed amount of 8,356,150 with NAFA, but the challenge was rejected. After this decision, the company initiated the procedures for challenging before the administrative court this amount imposed by the tax authorities in Romania and won in the first instance. In 2019, due to the favourable evolution of the litigation with ANAF, the Company's management, after consulting with the Company's lawyers, decided to reverse the clawback provision established for penalties and penalty interests in amount of RON 4,487,748.

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

On 9 March 2018, the Final Inspection Report no. 122224 was issued, and this mentioned an additional profit tax amounting to RON 743,874 and respectively an additional value added tax amounting to RON 80,522. We are stating that these amounts did not include the penalties and the penalty interests which have been communicated subsequently by the tax authorities in Romania and which have been estimated by the local management team of the company as amounting to RON 749,438 on the date of 31 December 2017. Consequently, following the completion of this fiscal check, the company's management team decided the reversal of part of the provision created for the potential differences in taxes and fees which might be noticed by the control bodies, so that on 31 December 2019 and respectively on 31 December 2018, the company had one provision registered for the potential general tax risks corresponding to the periods not covered by the check, in the amount of RON 3,396,810.

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

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

Restructuring provisions

On 31 December 2019 and respectively 31 December 2018, the company did not register restructuring provisions.

Environmental provisions

Environmental provisions were set at RON 5,640,510 as of December 31, 2019 (2018: RON 5,640,510), representing costs related to ecological remediation and soil and groundwater monitoring. These provisions are calculated by specialists.

Other provisions

In this category, the Company has other provisions for risks and expenses related to the Company's activity in the amount of RON 1,457,441 registered at 31 December 2019, represented by the provision made for the first series of manufactured products and for which the management estimates a major risk of withdrawal of those series. As at 31 December 2018, the Company did not record such a provision.

18. PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

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

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

Benefits granted upon retirement:

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

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

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

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

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

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

(amounts are expressed in RON, unless specified otherwise)

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

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

Post-employment benefits	**31 December 2019**	**31 December 2019**	**Total**	**31 December 2018**	**31 December 2018**	**Total**
	Post-employment benefits (P1)	**Jubilee Plan (P2)**		**Post-employment benefits (P1)**	**Jubilee Plan (P2)**	
Benefit obligation at the beginning of the year	**1,977,000**	**501,000**	**2,478,000**	**1,149,000**	**664,000**	**1,813,000**
The cost of the current service	106,000	60,000	166,000	62,000	42,000	104,000
Financial cost - interest (on the benefit)	70,000	20,000	90,000	49,000	25,000	74,000
Paid benefits	(130,000)	(108,000)	(238,000)	(86,000)	(65,000)	(151,000)
The cost of the previous service				873,000	58,000	931,000
Additions / Modifications to the Plan				-	-	-
Actuarial gain / loss - experience	292,000	223,000	515,000	18,000	(232,000)	(214,000)
Actuarial gain / loss - variation of demographic assumptions				21,000	13,000	34,000
Actuarial gain / loss - variation of financial assumptions	98,000	5,000	103,000	(109,000)	(3,000)	(112,000)
Obligation of benefits at the end of the year	**2,413,000**	**701,000**	**3,114,000**	**1,977,000**	**502,000**	**2,479,000**
The net benefit liability recognized in the Financial Position Statement	**2,413,000**	**701,000**	**3,114,000**	**1,977,000**	**502,000**	**2,479,000**

Movements in the shareholder incomes	**P1 31 December 2019**	**P2 31 December 2019**	**Total**	**P1 31 December 2018**	**P2 31 December 2018**	**Total**
	Retirement allowances plan (P1)	**Jubilee benefit plan (P2)**		**Retirement allowances plan (P1)**	**Jubilee benefit plan (P2)**	
Actuarial gains / losses accumulated at the beginning of the year	**910,000**	**148,000**	**1,058,000**	**871,000**	**367,000**	**1,238,000**
Actuarial (gain) / losses following employee experiences	292,000	223,000	515,000	18,000	(232,000)	(214,000)
Actuarial (gain) / losses following hypotheses changes			-	21,000	13,000	34,000
Actuarial gains / losses accumulated at the end of the year	**1,202,000**	**371,000**	**1,573,000**	**910,000**	**148,000**	**1,058,000**
Hypotheses to determine the defined benefit obligation				-	-	-
Discount rate	4.25%	4.25%		4.25%	4.25%	
Compensation increase rate	3.50%	3.50%		3.50%	3.50%	

Recognized in the financial statements, according to the actuarial report	**31 December 2019**	**Total**	**31 December 2018**	**Total**
In the results account	635,000	**635,000**	666,000	**666,000**
In the comprehensive income statement (as another equity item recognized in the retained earnings)	-	**-**	-	**-**

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

19. TRADE PAYABLES AND OTHER PAYABLES (CURRENT)

Trade payables and other payables	31 December 2019	31 December 2018
Trade payables	59,772,994	170,242,614
Trade payables to affiliated companies at the end of the year	181,110,529	34,944,915
Received advances and other payables	306,109	149,875
Total	**241,189,632**	**205,337,404**

Trade payables increased compared to the previous year mainly as a result of the increase in the activity (refer to Nota 12 movement in the merchandise and raw materials inventories) as well as result of the transfer of the generics distribution business from Sanofi Romania of RON 46 million (refer to Note 11) as of September 2018.

Other current liabilities	31 December 2019	31 December 2018
Wages and salaries payable	9,681,695	6,100,707
Social security contributions for salaries	2,122,208	1,854,504
Claw back tax (*)	12,397,433	11,971,146
Other taxes	408,699	327,598
Dividends payable	6,311,390	6,377,173
Other liabilities	3,288,401	2,185,413
Total	**34,209,826**	**28,816,540**

(*) **Claw back**	31 December 2019	31 December 2018
Initial estimate of the tax liability to the state budget related to the last quarter	17,065,278	13,697,334
Regularization of the clawback tax related to the last quarter, according to the notification received from the CNAS	(4,667,845)	(1,726,188)
Total	**12,397,433**	**11,971,146**

The terms and conditions of the trade payables mentioned above:

- Trade payables are not interest-bearing and are usually settled within 30 - 90 days.
- For the terms and conditions regarding joint ventures and other related parties, see Note 20.
- For explanations regarding the Company's liquidity risk management processes, see note 22.

On 31 December 2019, the line "Regulation of clawback tax for the last quarter as per the notice received from CNAS" also includes the clawback tax that will be recovered by the Company pursuant to the notice received from ANAF on January 6 2020 representing the clawback balance following the challenge submitted by the Company.

20. RELATED PARTY DISCLOSURES

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

An entity is "tied" to another entity if:

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

b) it is associated to the other entity;
c) it represents a joint venture with the other entity as shareholder;
d) it represents a member of the key management personnel of the entity or of its parent company;
e) it represents a close family member of the person mentioned in letter a) or d);
f) it represents an entity controlled, jointly controlled or significantly influenced or for which the significant voting power is, directly or indirectly, given by the person mentioned in letter d) or e) or
g) the entity represents a post-employment benefits plan for the benefit of the other entity's employees or for the employees of any other entity connected to such a company.

➢ **Details about other affiliated parties:**

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

20. RELATED PARTY DISCLOSURES (continued)

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

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

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

20. RELATED PARTY DISCLOSURES (continued)

20.2 Payables and receivables from affiliated entities and other related parties

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

	Balance as of 31 December 2019	Balance as of 31 December 2018
Zentiva Pharma UK Limited	9,505	-
Solacium Pharma SRL	1,029,403	-
Zentiva ks*	243,065,482	46,303,433
Zentiva Group a.s	49,960	474
Zentiva Pharma GMBH	10,640,860	1,902,955
Total	**254,975,210**	**48,206,862**

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

	Balance as of 31 December 2019	Balance as of 31 December 2018
Zentiva KS Praga	71,600,675	28,022,463
Zentiva Group	63,305,408	6,922,452
Zentiva Italia	63,244	-
Al Sirona Acquisition SRL	46,141,201	-
Total	**181,110,528**	**34,944,915**

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

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

	Financial year ended on 31 December 2019	Financial year ended on 31 December 2018
Zentiva kS Prague	217,905,136	66,915,693
Solacium Pharma SRL	1,137,653	-
Zentiva Saglik Urunleri*	-	5,504,624
Sanofi Romania SRL*	-	124,712,000
Sanofi Winthrop Industrie*	-	139,943,744
Sanofi India Limited*	-	2,713,713
Zentiva Group a.s.	-	93,013
Sanofi Aventis Groupe*	-	294,422
Sanofi France*	-	250,502,338
Zentiva Pharma GMBH	-	1,902,955
Total	**218,934,539**	**592,582,501**

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

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

20. RELATED PARTY DISCLOSURES (continued)

From the total sales to the group corresponding to 2019 the following are excluded: RON 75,545,666 representing sales to Zenitva KS and respectively to Zenitva Pharma GMBH of the products manufactured in Turkey and certified for export in the European Union for which the Company acts as an agent. The sales are compensated with the cost of the corresponding goods.

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

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

- **Purchase of goods and services**

	Financial year ended on 31 December 2019	**Financial year ended on 31 December 2018**
Zentiva AS Hlohovec		-
Zentiva Group a.s.	51,503,800	36,285,939
Sanofi Romania SRL*	-	26,799,000
Sanofi Winthrop Industrie*	-	36,621,926
Al Sirona Luxembourg Acquisition SRL	-	-
Zentiva Italy	2,204,013	
Sanofi Chimie*	-	29,256
Sanofi-Aventis Deutshland*	-	94,058
Zentiva k.s.	85,181,626	22,166,029
Sanofi Aventis Spa*	-	137,886
Sanofi Franta *	-	2,828,078
Sanofi Aventis Group*	-	3,147,096
Total	**138,889,449**	**128,109,266**

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

From the total sales to the group corresponding to 2019 the following are excluded: RON 75,545,666 representing sales to Zenitva KS of the products manufactured in Turkey and certified for export in the European Union for which the Company acts as an agent. The sales are compensated with the cost of the corresponding goods.

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

The ultimate parent company

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

There are no other transactions from the ones described between the company and the Zentiva Group (the Sanofi Group up to 30 September 2018) during the financial years 2019 and 2018.

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

20. RELATED PARTY DISCLOSURES (continued)

Terms and conditions of the transactions with the affiliated parties

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

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

20.4 Compensations granted to the key management personnel within the company

Directors, managers and the supervisory committee

In 2019 the company paid the following amounts to the members of the Board of directors for taking part in the regular meetings of the board:

	Financial year Concluded on 31 December 2019	**Financial year Concluded on 31 December 2018**
Members of the Board of directors	55,212	54,000
Total	**55,212**	**54,000**

As of 31 December 2019, the Company did not have any obligations related to pension payment to the former members of the Board of directors and executive management and the members of the supervisory committee.

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

21. COMMITMENTS AND CONTINGENCIES

Expenses for rents and leasing- comparative figures as at 31 December 2018

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

Starting with 1 January 2019 the Company applies IFRS 16.

Commitments

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

21. COMMITMENTS AND CONTINGENCIES (continued)

Taxation

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

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

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

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

Transfer price

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

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

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

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

21. COMMITMENTS AND CONTINGENCIES (continued)

Legal claims (including the estimated value)

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

In 2019, the Company was involved in multiple litigations, among which the most significant ones are presented below:

The Company was

- involved in multiple litigations with the National Health Insurance House ("**CNAS**") following the challenge of the VAT paid corresponding to the clawback tax for the period Q1 2012 - Q4 2012, and the manner of calculating the individual consumption communicated for determining the clawback tax for the period Q1 2013 - Q3 2013, asking for the cancellation of the notifications received from the National Health Insurance House corresponding to the periods mentioned previously. Currently the company is involved in a single pending litigation with CNAS, while other 5 litigations have had a final settlement at the date of this Report, as follows:
  - In relation to the clawback tax for the period Q1 2012 - Q4 2012, all the three cases regarding this period have been settled definitively, respectively: (a) case no. 5009/2/2013* - regarding Q1 2012 and Q2 2012; (b) case no. 4859/2/2013 – regarding Q3 2012; (c) case no. 5843/2/2013 – regarding Q4 2012;
  - In what concerns the calculation of the individual consumption communicated for the determination of the clawback tax for the period Q1 2013 - Q3 2013, claiming the annulment of the notifications received from CNAS for the aforementioned periods, there are 3 case files of which only one is still pending (two being settled definitively), respectively: (a) case no. 7950/2/2013* - regarding Q1 2013, settled definitively; (b) case no. 1651/2/2014* - regarding Q2 2013, pending; (c) case no. 3718/2/2014 - regarding Q3 2013, settled definitively.

  Thus, the Company won before the court the recovery of the VAT corresponding to the clawback tax for the period Q1 2012 - Q4 2012 and for Q3 2013 (for Q1 2013 the Company's claim was dismissed in its entirety) and is investigating the possibility to recover or compensate with other tax liabilities the amounts thus recovered. For all these cases, the decisions rendered by the court are definitive.
  The only currently pending litigation with CNAS is case no. 1651/2/2014* – for Q2 2013.
- The litigation with NAFA for challenging the clawback tax, as well as the penalties calculated for the checked period Q4 2009 – Q3 2011. During the year 2016, following a fiscal check whose subject was represented by the clawback tax for the period Q4 2009 - Q3 2011, NAFA issued a taxation decision in the amount of RON 18,457,107 ("Initial Decision"), representing the difference between the clawback and the corresponding penalties. During the year 2016, as a consequence of the claim submitted by the Company, NAFA cancelled the Initial Decision and decided to recheck during 2017 this fiscal obligation for the period Q4 2009 - Q3 2011. Following this new investigation, NAFA issued a new taxation decision and decisions regarding the accessories in total amount of RON 8,355,860 (made up of RON 3,672,966 main debt and RON 4,682,894 penalties) (the "Second Decision"). The Company also challenged the Second Decision. The Challenge was dismissed by NAFA, and the Company has brought an action before the administrative court in order to cancel the Second Decision (respectively the last decision regarding the accessories) and the decision to reject the challenge.
  In 28 May 2019, following an initial postponement of the decision, the first court admitted in part the claim filed by the Company, in the sense that it admitted the 3 heads of claim regarding the clawback contribution established supplementary and the related accessories. Concretely, the court admitted the claim (i) in relation to the main debt in amount of RON 3,672,966 and (ii) in relation to the penalties requested for the total amount of RON 4,494,934 (the claim concerning the penalties in amount of RON 187,960 being entirely dismissed).
  However, this court decision is not final and was appealed against by the Company as well as by NAFA. The first hearing for the settlement of the appeals (*in Romanian* recurs) was set for 25.01.2022.

21. COMMITMENTS AND CONTINGENCIES (continued)

- During 2016, the KJK Found II, the NN Activ voluntary pension fund, the NN Optim voluntary pension fund and the NN privately administered pension fund, as shareholders of Zentiva SA, have filed an application for the performance of an expert appraisal regarding certain operations of the company, an application based on article 136 of the companies' law no. 31/1991.
  The action of the claimants has been rejected by the Bucharest court of law. The claimants have filed an appeal, but the appeal was suspended through the agreement of the parties that aimed to settle the litigation amiably. The claimants abandoned the litigation, and on 9 April 2019 the Bucharest Court of Appeal ascertained the obsolescence. The decision of the Bucharest Court of Appeal is final due to the fact that the claimants failed to challenge this decision and the time limit for filing the appeal has expired.
- At the end of the year 2018, an action has been filed against the company in the court of law, under the form of the simplified procedure of the presidential ordinance, by the claimant ELI LILLY and COMPANY, a company with its registered office in Indianapolis, Indiana 46285, USA. The company was informed regarding the existence of this litigation through the subpoena of 10 January 2019. Through this action, the claimant stated that the company infringed upon the rights resulting from the national invention patent no. RO 118374 B1, extended through the additional protection certificate no. c2007059, which according to the statements of the claimant would give it an exclusive right to use the chemical substance *atomoxetinum* in pharmaceutical products meant for the treatment of the attention deficit hyperactivity disorder up to the date of 27 May 2019.
  But on 13 February 2019, the company concluded a transaction contract with ELI LILLY and COMPANY, whose subject has been the agreement between the parties that ELI LILLY and COMPANY gives up the trial, the company committing itself among others to acknowledge the intellectual property rights of ELI LILLY and COMPANY, which result from the patent mentioned previously. At the same time, the company has committed itself not to produce, sell, distribute, promote or offer for sale in Romania Zentiva products which contain *atomoxetinum* up to the date of 27 May 2019, when the patent will expire, to withdraw the price of trading these products and not to obtain another trade price in Romania for these products prior to the date of 27 May 2019. Consequently, on 21 February2019, the court of law became acquainted with the fact that the claimant ELI LILLY and COMPANY has given up the trial, and this renunciation was communicated to the court of law by ELI LILLY and COMPANY, following the transaction concluded with the company.
- In August 2019, the company ALPHA TRANSCORD SRL filed, by means of its official receiver, a court claim against the Company. The object of case at hand (namely case no. 25005/3/2019) is an obligation to do that consists of compelling the defendants, among which the Company, to pay the amount of RON 2,262,332.27 and is currently in the procedural stage where the merits of the case are being examined.
  The plaintiff claims that the Company did not pay certain due invoices for car transport services provided by the plaintiff. Thus, the plaintiff asked the court to order the defendants, among which the Company, (i) to pay the amount of RON 2,262,332.27 representing the value of the due invoices for the car transport services provided pursuant to the agreement between the parties and (ii) to pay the plaintiff the trial expenses related to this case. The case is currently pending, the following hearing term being set for 28. April 2020.
- In 2019, the Company, as plaintiff, filed a court claim against the company Laboratoarele Fares Bio Vital S.R.L. and the State Office for Inventions and Trademarks, as defendants. The Company claimed the annulment of the trademark "Fares 1929 Distonoplant" arguing that this trademark is similar to and regards identical or similar goods to the previous trademark "Distonocalm", held by the Company, which may generate confusion among consumers. Furthermore, considering the reputation of the previous trademark "Distonocalm", by the subsequent registration of the trademark "Fares 1929 Distonoplant" the defendant profits of an unfair advantage and affects this reputation. The case is pending and the next hearing term is set for 8 April 2020.

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

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Market risk

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

The sensitivity analyses in the following sections refer to the position of 31 December 2019 and 2018.

Interest risk

The risk regarding the interest rate is the risk that the fair value or the future cash flows of a financial instrument may vary due to the changes in the interest rates on the market. The company's exposure to the risk of changing the interest rates on the market is not significant, because the Company only has an overdraft in amount of RON 5.2 million.

On 31 December 2019, the company does not have loans received, except for the short term loan (overdraft with variable interest) in amount of RON 5.2 million and has concluded a cash polling contract with the parent company, a contract which has a variable interest rate (it is presented under note 11, 14 and it has a balance due on 31 December 2019 and 2018).

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

Currency risk

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

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

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

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

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

31 December 2019	EUR	USD	RON	CZK	GBP	TOTAL
Trade receivables	12,269,032	-	283,348,730	-	-	295,617,762
Other financial assets	-	-	-	-	-	-
Cash and cash equivalents	2,107,706	100,659	386,265,455	-	-	388,473,820
Total assets (1)	**14,376,738**	**100,659**	**669,614,185**	**-**	**-**	**684,091,582**
Trade payables - suppliers	71,336,090	-	169,853,542	-	-	241,189,632
Short-term loans	-	-	5,204,790	-	-	5,204,790
Leasing debts	7,799,361	-	-	-	-	7,799,361
Other current payables	-	-	34,209,826	-	-	34,209,826
Total debts (2)	**79,135,450**	**-**	**200,268,158**	**-**	**-**	**288,403,608**
Difference (1)- (2)	**(65,758,712)**	**-**	**460,346,027**	**-**	**-**	**395,687,974**

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

Foreign exchange risk sensitivity

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

	Exchange rate variation EUR (+10%) - Effect upon the profit prior to taxation	Exchange rate variation USD (+10%) - Effect upon the profit prior to taxation	Exchange rate variation CZK (+10%) - Effect upon the profit prior to taxation
2019	(6,475,871)	10,066	-
2018	5,208,336	(278,890)	(2,150,120)

Credit risk

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

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Trade receivables

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

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

The depreciation indicators are analysed on each reporting date.

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

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

Financial instruments and cash deposits

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

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

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

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

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

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

La 31 December 2019	<30 days	30 - 60 days	60 - 180 days	180 - 365 days	Total
Trade receivables and other receivables	126,435,847	11,343,145	95,402,715	48,233,600	**281,415,366**
Cash and cash equivalents	7,534,256	380,939,565	-	-	**388,473,821**
Total assets	**133,970,103**	**392,282,709**	**95,402,715**	**48,233,660**	**669,889,187**
Trade payables – suppliers	71,475,898	22,936,029	33,826,130	112,951,575	**241,189,632**
Leasing	597,477	225,839	1,274,993	6,524,388	**8,622,697**
Total debts	**72,073,375**	**23,161,868**	**35,101,123**	**119,475,963**	**249,812,329**

Out of leading liabilities over 365 days, RON 4,426,079 represents payables over 360 days

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

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Management of capital

Capital includes shares and equities which can be attributed to shareholders. The main goal of managing the capital of the Group is that of ensuring the maintaining of a powerful credit rating and a normal capital proportions in order to supports its business and to maximize the value of the shareholders.

The company manages its capital structure and makes changes upon such according to the changes in the economic conditions. No changes have been performed regarding the goals, policies or processes of managing capital during the financial years concluded on 31 December 2019 and 2018.

23. EXPENSES FOR THE STATUTORY AUDITOR

In 2019 the statutory Ernst & Young Assurance Services SRL. Auditor had a contractual fee for the statutory audit of EUR 90,000 (for the statutory audit of the individual annual financial statements of the company). EUR 10,000 for the additional procedures carried out for the auditing of the reporting package towards the Group as well as EUR 4,000 corresponding to other reports required by the statutory legislation.

24. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Alvogen Acquisition

On 25 October 2019, Zentiva Group, of which Zentiva SA is a part, has announced the signing of the production and marketing acquisition agreement in relation to the CEE division of Alvogen Group, including its operations in Romania. The transaction is subject to the approval by the Competition Office and until the issuance date of these financial statements the decision was not provided by the local authorities,

We cannot estimate the extent to which this acquisition made at Zentiva Group level will impact the Company's activity.

COVID-19

In what concerns the COVID-19 pandemic, Zentiva SA has taken the following measures to maintain the supply of medicines on the local market and to ensure the safety of all its employees:

- All the unessential business has been stopped;
- The additional cleaning and disinfection are carried out within all Zentiva headquarters;
- All the employees that have this possibility, must work from home;
- The increase in the production of paracetamol, this being one of the basic medicines used for the treatment of this disease.

It is difficult to estimate the exact impact that this event will have on Zentiva business. Nevertheless, we estimate that it might have an impact represented by:

- Delays in ensuring raw materials and other goods necessary for the manufacturing process;
- The increasing of the price of certain raw materials and of other goods necessary for the manufacturing process;
- Delays in ensuring the imported finite merchandise due to transport restrictions;
- Higher than usual order and sales for certain pharmaceutical products, especially those related to the treatment of COVID symptoms, such as paracetamol or sodium metamizole.

Given the aspects indicated above and the nature of its activity, the Company deems that the preparation of the financial statements as a going concern is not affected.

The financial statements from page 3 to 74 were approved by the Board of Administration and were authorized to be issued in accordance with the resolution of the Administrators, date 27 March 2020.

Administrator,
Surname and name:
Simona Cocos

Signature
Company stamp

SOCIETATEA COMERCIALA ZENTIVA S.A. BUCURESTI
ZENTIVA

Prepared by,
Surname and name: Francisc Koos

Chief Financial Officer
Signature
Company stamp

ZENTIVA

DECLARATION

We confirm that to the best of our knowledge the financial statements for the year 2019 are prepared in compliance with the applicable accounting standards and that they are an accurate representation of the company's assets, liabilties, financial position and profit and loss statement.

The Board Report presents in an accurate and complete manner information about the company's activitiy and includes a fair assessment of its performance and evolution along with a description of the main risks and uncertainties specific to its activitities

We take responsibility for the preparation of the financial statements for the year 2019 and confirm that:

a) The accounting methods used in their preparation are in compliance with the applicable accounting standards

b) The financial statements are an accurate representation of the company's financial position, its performance and all other information related to its activity

c) These financial statements have been prepared on a going concern basis

General Manager

SIMONA COCOS

Cocos

CFO

FRANCISC KOOS

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