Zentiva S.A.

Financial statements

FOR THE YEAR ENDED
31 December 2020

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.

Ernst & Young Assurance Services SRL
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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, 2020, 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, 2020, 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.
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
Rebates and discounts related to sales The Company sells both products manufactured locally or abroad mainly to group companies or to local distributors, which can fall under certain commercial and reimbursement arrangements. These arrangements could result in deductions to gross sales in arriving at net sales and give rise to obligations for the Company to provide customers with rebates, discounts and returns, which for unsettled amounts are recognised as an accrual at the end of the financial year. We have focused on this area because the computation of rebates and discounts is complex, the determination of the accrual requires a continuous revising and adjusting process based on the most recent available known information by the Management. Given the complexity, manual inputs in the process and the multiple sources of information used for the calculation of the accrued discount and rebates, a significant part of the overall audit effort was concentrated in this area. We therefore consider that this area represents a key audit matter. The Company's disclosures about the rebates and discounts are included in Note 3 and Note 13 to the financial statements.	Our audit procedures focused on the Management's process for setting discounts and rebates accruals, including regular revising of initial estimates correlated with the provided supporting documents. Our audit procedures with respect to the accrued discounts and rebates included, but were not limited to, the following procedures: • A detailed understanding of the revenues processes, accounting policies and methodologies used by management in respect of revenue recognition, including rebates, discounts and returns; • Considered the appropriateness of the process adopted by management in assessing the values and accounting for rebates and other sales deductions and understood which are the key elements of the calculation in terms of product, portfolio, sales channel; • Obtained discounts calculations for the last three months of the year, reconciled the evidence received for completeness to the operational sales data base used for computation of discounts and to the accounting records; moreover, we assessed for reasonableness key assumptions against sales activity, customer arrangements and, on a samples basis, we tested data inputs of the calculation against multiple sources. • Circularized a sample of trade receivables balances at year end, including discounts and rebates offered throughout the year, reconciled with the Company's recorded amounts and obtained supporting evidence or explanations for any material unreconciled differences; • Checked subsequent settlement of discounts and rebates accrued at year end through the subsequent events period; • Undertaken an analysis of the historical accuracy of assumptions and revisions applied by management in setting the accruals by reference to actual rebates and discounts vs. accruals made in prior year. We also evaluated the presentation and disclosure of rebates and discounts within the Company's financial statements

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 on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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, 2020;

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, 2020, 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 27 April 2017 to audit the financial statements for the financial year end December 31, 2020. 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 16 years covering the financial periods end December 31,2005 till December 31, 2020.

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 26 March 2021.

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 which 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. FA77

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

Autoritatea pentru Supravegherea Publică a Activității de Audit Statutar (ASPAAS)
Auditor financiar: Gavrila Felicia Viorica
Registrul Public Electronic: AF1513

Name of the Auditor/ Partner: Felicia Viorica Gavrila
Registered in the electronic Public Register under No. AF1513

Bucharest, Romania
27 March 2021

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(amounts are expressed in RON, unless specified otherwise)

STATEMENT OF COMPREHENSIVE INCOME	Notes	2020 RON	2019 RON
Sales of goods	5.1	540.432.708	541.170.804
Rendering of services	5.1	17.251.046	17.635.020
Other income	5.1	277.186	201.549
Turnover	**5.1**	**557.960.940**	**559.007.373**
Other operating income	6.1	13.783.653	1.799.337
Changes in inventories of finished goods and work in progress		6.962.670	10.660.835
Raw materials and consumables used	5.2	(284.458.719)	(284.420.935)
Employee benefits expenses	6.5	(98.960.629)	(82.792.664)
Depreciation, amortization and impairment	9-11	(17.289.894)	(19.841.679)
Marketing and advertising expenses	6.6	(5.788.437)	(5.672.338)
Reversal of/ (expenses with) provisions	17	1.088.337	3.030.307
Other operating expenses	6.2	(99.952.644)	(135.064.933)
Operating profit		**73.345.277**	**46.705.303**
Financial Income	6.4	11.247.342	11.658.688
Financial Expenses	6.3	(4.043.601)	(4.270.595)
Profit before tax		**80.549.018**	**54.093.396**
Income Tax Expense	7	(14.913.578)	(10.342.724)
Net profit after tax (A)		**65.635.440**	**43.750.672**
Other comprehensive income:			
Other elements of comprehensive income not reclassified through Profit and Loss account		-	-
Revaluation of land and buildings impact		21.227.460	-
Deferred tax on revaluation of land and buildings impact recognised in equity		(3.498.743)	-
Other comprehensive income net of tax (B)		**17.728.717**	**-**
Total comprehensive income after tax (A) + (B)		**83.364.157**	**43.750.672**
Earnings per share (RON/share)	**8**	**0.09**	**0.06**

The financial statements from page 3 to page 63 were approved by the Board of Directors and were authorized to be issued in accordance with the resolution of the Administrators dated 26 March 2021.

Administrator,
Simona Cocos

Signature
Company stamp

SOCIETATEA COMERCIALA ZENTIVA S.A.
ZENTIVA
BUCURESTI
22

Prepared by,
Claudiu Manolescu
Chief Financial Officer

Signature

Ernst & Young Assurance Services S.R.L.
27. MAR. 2021
Signed for identification
Semnat pentru identificare

(amounts are expressed in RON, unless specified otherwise)

STATEMENT OF FINANCIAL POSITION	Notes	31 December 2020	31 December 2019
Assets			
Fixed assets			
Property, plant and equipment	9.1	189.815.571	156.707.339
Right-of-use assets	9.2	5.509.404	7.352.556
Goodwill	11	11.649.100	11.649.100
Customer relationships	11	27.560.325	30.722.101
Intangible assets	10	3.928.779	3.544.971
		238.463.179	**209.976.067**
Current assets			
Inventories	12	137.798.353	123.841.461
Trade receivables and other current receivables	13	250.288.953	295.617.763
Cash and cash equivalents	14	406.713.534	388.473.821
		794.800.840	**807.933.045**
Total assets		**1.033.264.019**	**1.017.909.112**
Equity and debt			
Share capital, out of which	**15.1**	**69.701.704**	**69.701.704**
Issued share capital		69.701.704	69.701.704
Share premium, including:	15.1	24.964.506	24.964.506
Share premium at nominal value		9.863.684	9.863.684
Hyperinflation related to share premium		15.100.822	15.100.822
Legal and other reserves	15.2	118.346.486	115.450.038
Revaluation reserve		57.927.094	40.198.377
Retained earnings	15.2	514.424.285	451.685.293
Total equity		**785.364.075**	**701.999.918**
Non-current liabilities			
Employee benefit liability	18	3.711.520	3.114.000
Deferred tax liability	7.2	7.627.122	4.882.845
Non-current lease liabilities	9.2	2.009.943	4.033.858
Non-current provisions	17	11.189.564	4.948.217
Total non-current liabilities		**24.538.149**	**16.978.920**
Current liabilities			
Trade accounts payable	19	174.935.825	241.189.632
Income taxes payable	7.1	6.867.041	4.934.319
Short-term loans	14	-	5.204.790
Short-term lease liability	9.2	3.753.882	3.765.502
Other current liabilities	19	35.508.527	34.209.826
Short-term provisions	17	2.296.520	9.626.205
Total current liabilities		**223.361.795**	**298.930.274**
Total liabilities		**247.899.944**	**315.909.195**
Total liabilities and equity		**1.033.264.019**	**1.017.909.112**

The financial statements from page 3 to page 63 were approved by the Board of Directors and were authorized to be issued in accordance with the resolution of the Administrators dated 26 March 2021.

Administrator,
Simona Cocos

Signature
Company stamp

Prepared by,
Claudiu Manolescu
Chief Financial Officer
Signature

Ernst & Young Assurance Services S.R.L.
27. MAR. 2021
Signed for identification
Semnat pentru identificare

(amounts are expressed in RON, unless specified otherwise)

STATEMENT OF CHANGES IN EQUITY

2020

	Share capital	Share premium	Legal and other reserves	Revaluation reserve	Retained earnings	Total
Opening balance at 1 January 2020	69.701.704	24.964.506	115.450.038	40.198.377	451.685.293	701.999.918
Profit for the year	-	-	-	-	65.635.440	**65.635.440**
Revaluation reserve increase (Note 15.2)	-	-	-	21.227.460	-	21.227.460
Deferred tax on revaluation reserve (Note 7)	-	-	-	(3.498.743)	-	(3.498.743)
Other elements of the comprehensive income	-	-	-	17.728.717	-	**17.728.717**
Total other comprehensive income	-	-	-	17.728.717	65.635.440	**83.364.157**
Legal reserve (Note 15)	-	-	2.896.448	-	(2.896.448)	-
Closing balance at 31 December 2020	69.701.704	24.964.506	118.346.486	57.927.094	514.424.285	785.364.075

The financial statements from page 3 to page 63 were approved by the Board of Directors and were authorized to be issued in accordance with the resolution of the Administrators dated 26 March 2021.

Administrator,
Surname and name: Simona Cocos
Signature
Cocos

Company stamp

ZENTIVA
SOCIETATEA COMERCIALA ZENTIVA S.A.
BUCURESTI
22

Ernst & Young Assurance Services S.R.L.
27. MAR. 2021
Signed for identification
Semnat pentru identificare

Prepared by
Surname and name:
Claudiu Manolescu

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 at 1 January 2019	**41.696.115**	**24.964.506**	**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 (Note 15)	28.005.589	-	-	-	-	**28.005.589**
Legal reserve (Note 15)	-		2.704.670		(2.704.670)	-
Other elements of the comprehensive income	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-
Correction of the reported result					(449.011)	**(449.011)**
Closing balance at 31 December 2019	**69.701.704**	**24.964.506**	**115.450.038**	**40.198.377**	**451.685.293**	**701.999.918**

The financial statements from page 3 to page 63 were approved by the Board of Directors and were authorized to be issued in accordance with the resolution of the Administrators dated 26 March 2021.

Administrator,
Surname and name: Simona Cocos
Signature

Company stamp

ZENTIVA S.A.
BUCURESTI

Ernst & Young Assurance Services S.R.L.
27. MAR. 2021
Signed for identification
Semnat pentru identificare

Prepared by
Surname and name:
Claudiu Manolescu

Chief Financial Officer
Signature

(amounts are expressed in RON, unless specified otherwise)

STATEMENT OF CASH FLOWS	Note	31 December 2020	31 December 2019
Cash flows from operating activities:			
Profit before tax		80.549.018	54.093.396
Impairment and depreciation	9,10	18.928.970	16.519.455
Depreciation on right-of-use assets		4.182.284	3.324.167
Impact of evaluation reversal for buildings		(5.822.226)	-
Receivable allowance movement	13	(1.548.706)	1.548.706
Inventory allowance movement	12	1.330.977	5.243.719
Movements in provisions for risks and charges	17	(1.088.338)	(3.030.307)
(Gain)/loss on sale of property, plant and equipment	6.1	-	(27.576)
Pension and similar liabilities expenses		923.871	635.000
Interest revenues	6.4	(9.352.520)	(11.150.271)
Interest expenses	6.3	603.070	734.682
Operating profit before working capital changes		**88.706.400**	**67.890.971**
Change in inventories		(15.287.870)	(30.103.050)
Change in trade and other receivable		46.877.515	(97.333.897)
Change in trade and other payable		(62.092.436)	52.706.244
Cash generated from/ (used in) operations		**58.203.609**	**(6.839.734)**
Income tax paid	7.1	(13.735.323)	(13.796.354)
Employee benefits liabilities paid		(326.351)	(238.000)
Net cash from/ (used in) operating activities		**44.141.935**	**(20.874.088)**
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	(24.548.679)	(35.572.937)
Interest received		9.352.520	11.150.271
Interest paid		(603.070)	(734.682)
Net cash used in investing activities		**(15.799.229)**	**(25.154.303)**
Cash flows from financing activities			
Share capital increase		-	28.005.589
Movements in bank loans		(5.204.790)	5.204.790
Dividends paid		(29.636)	(65.782)
Lease payments	9.2	(4.868.567)	(3.757.700)
Net cash from/ (used in) in financing activities		**(10.102.993)**	**29.386.897**
Net increase (decrease) in cash and cash equivalents		18.239.713	(16.641.644)
Cash and cash equivalents at the beginning of the period 1 January		**388.473.821**	**405.115.315**
Cash and cash equivalents at the end of the period 31 December		**406.713.534**	**388.473.821**

The financial statements from page 3 to page 63 were approved by the Board of Directors and were authorized to be issued in accordance with the resolution of the Administrators dated 26 March 2021.

Administrator,
Simona Cocos

Signature
Company stamp

Cocos

SOCIETATEA COMERCIALA ZENTIVA S.A.
ZENTIVA
22
BUCUREȘTI

Prepared by,
Claudiu Manolescu
Chief Financial Officer
Signature

Ernst & Young Assurance Services S.R.L.
27 MAR 2021
Signed for identification
Semnat pentru identificare

1. INFORMATION ABOUT THE COMPANY

These financial statements of Zentiva SA (the "Company") for the year ended on 31 December 2020 are authorized for publication in accordance with the Board of Directors' Decision dated 26 March 2021.

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. Zentiva Group has control over the Company's operations.

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

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

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

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

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

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

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

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

Following this, Zentiva started the direct distribution on the Romanian of products both manufactured in Romania, as well as imported from other entities from the Group. The local market distribution is done by local distributors - for more details please go to the commentaries included in Note 11 - intangible assets.

1. INFORMATION ABOUT THE COMPANY (continued)

The Company is listed on Bucharest Stock Exchange.

The Company has no investments in subsidiaries or affiliated companies on 31 December 2020. The company is part of a group and is at its turn consolidated in the Group's Financial Statements, the consolidated parent company being Al Sirona (Luxembourg) Acquisition S.a.r.l.

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).

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 2020, current assets of the Company exceed current liabilities by RON 571.439.045 (on 31 December 2019 current assets exceeded current liabilities by RON 509.002.771). At the same date, the Company recorded a net profit of RON 65.635.440 (2019: RON 43.750.672).

The budget prepared by the management of the Company and approved by the Board of directors for the year 2021, indicates positive cash flows from the operation activities, an increase in sales and profitability from 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.

Ernst & Young Assurance Services S.R.L.
27 MAR 2021
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2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENT (continued)

2.2 Principles, policies and accounting methods

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

- **Currency conversions**

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

Foreign currency transactions are converted into RON using the exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currency at the end of the period are assessed in RON using the exchange rate at the end of the financial year. The income and losses realized or unrealized are recorded in the profit and loss account. The RON – EUR and RON – USD exchange rates on 31 December 2020 were RON / EUR 4.8694 and RON / USD 3.966. The RON - EUR and RON – USD exchange rates on 31 December 2019 were 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.

Sale of goods

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.

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.

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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.

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 service 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.

Interest income

The income from the interest generated by a financial asset is recognized when it is probable that the Company 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.

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

> **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 be.
- Receivables and liabilities presented at a value including the sale tax.

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

- **Tangible assets**

Initial assessment

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

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

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

The cost of a tangible fixed asset consists of:

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

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.

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 December 2020.

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

Amortization of fixed assets

Amortization is calculated using:
- straight-line method for buildings, fixed assets purchased through financial lease and for fixed assets other than those used for the production process
- accelerated 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 life by categories of fixed assets is as follows:

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

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

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

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

- **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.

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	3 - 50 years
Vehicles	4 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, according to the policy for impairment of non-financial assets described below.

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, a change in leasing payments (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.

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

Short-term lease and leases of low-value assets

As at 31 December 2020, the Company does not have any short-term leases and leases of low-value assets.

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, if any. 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.

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

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 (finite – is amortized, indefinite – is tested for impairment).

Business combination

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

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

- Receivables regarding the deferred tax and debts corresponding to the commitments regarding employees' benefits are recognized and evaluated in accordance with IAS 12 Income tax, respectively IAS 19 Employees' benefits;
- Liabilities or equity instruments relating to 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 Company 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.

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

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 cannot 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 IFRS 9.

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

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.

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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.

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

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.

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

1) Financial assets

Initial recognition and valuation

Financial assets are classified, at their initial recognition, for the purpose of subsequent valuation at the amortization cost, fair value through Other Comprehensive Income result and cost variation through 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.

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.

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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

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

- The contractual terms of the financial asset give rise at the specified dates to cash flows that represent exclusively the payments of the principal and the interest on the principal amount in circulation (SPPI).

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

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

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.

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2) Impairment of financial assets

The Company recognizes a provision for expected credit losses (ECL) for all loans and other financial assets attached to liabilities that are not held at fair value through profit or loss. ECL is based on the difference between the contractual cash flows due under the contract and all cash flows that the Company expects to receive, updated with an approximation of the initial effective interest rate of the asset. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are an integral part of the contractual clauses.

The expected losses are recognized in two stages. For credit exposures (ie receivables from related parties under the cash pooling program) for which there has been no significant increase in credit risk since initial recognition, expected losses are recognized for credit losses resulting from possible default events in next 12 months (12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a provision is required for expected credit losses over the remaining term of the exposure, regardless of the time of default (expected full credit losses of life).

For trade receivables and contractual assets, the Company applies a simplified approach in calculating expected losses (ECL). Therefore, the Company does not track changes in credit risk, but instead recognizes a provision based on data of expected losses over their lifespan, at each reporting date. The company analyzes the receivables individually and takes into account the effect of the financial guarantees received from the insurers in the calculation of ECL.

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

3) Financial liabilities

Initial recognition 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:

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.

Letter of guarantes

A financial guarantee is an agreement that requires that the ssuer makes certain payments at due date, in accordance with a debt instrument. Letter of Guarantees are initially recognised as a liability at fair value, adjusted to transaction costs that are directly attributable to the issue of the guarantee. Subsequently, the liability is valuated at the highest value of the best estimate of the expense required to settle the present obligation at the reporting date and the amount recognized less the accumulated depreciation.

Derecognition

A financial liability is derecognized when the debt liability is extinguished, cancelled or expires. If a financial debt is replaced by another debt from the same creditor under substantially different conditions or if the terms of an existing debt change substantially, such exchange or change is dealt as a derecognition of the original liability and a recognition of the new debt. The difference between the related accounting values is recognised 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 recognised amounts and a settlement intention on a net basis or the capitalization of assets and settlement debt, simultaneously.

- **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 in the operating activity of the production) and other costs incurred in bringing inventories to their current status and location.

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

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.

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 etermining 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 recognised 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 recognised 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 recognised 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 a reversal is recognised in the profit and loss account unless the asset has been re-assessed, in which case the reversal is treated as a revaluation surplus.

- **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.

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

➢ **Provisions**

General Provisions

Provisions are recogised 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, being registered as an income.

Restructuring Provisions

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

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

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

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

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

Environment provision

Environmental provision is recognised when water and soil contamination occur and there is a legal obligation to decontaminate or is recognised 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.

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

➢ 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, the employees receive a bonus depending on their seniority within the Company as follows:

- ➢ Up to 20 years in the Company, 1 company average gross salary ;
- ➢ Between 20 - 30 years within the Company, 1 and ½ company average gross salary;
- ➢ Over 30 years within the Company, 2 company average gross salaries.

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

- ➢ Between 10 - 20 years in the Company, ½ from the employee salary;
- ➢ Over 20 years in the Company, one employee salary.

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

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

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

Past service costs are recognised using the linear expense over the remaining average period until the benefits become legitimate. Previous service costs are immediately recognised if the benefits have already been legally justified, due to the introduction or adjustment of the retirement plan.

The Company Policy for other long-term employee benefits is to recognise in full the actuarial profit and losses in the period they incur, in 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.

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

➢ Retained earnings

The accounting profit remaining 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 therefore carried out in the next financial year, after approval of the distribution in the General Meeting of Shareholders, as for example, the value of the dividends approved and setting-up of 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

In the course of 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 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; 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 11- 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. On that date, Management has concluded that this transaction represents a business combination in the sense in which assets and processes have been transferred and through it are created, results, economic benefits.

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 (see note 11 for more details).

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.

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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.

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

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

At the end of each financial year, the Company carries out an estimatation 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 monthly the net realisable value of the finished products and the semi-finished products, considering the market sale prices, as well as the market regulations 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 and underground waters monitoring.

The Company recognised provisions for litigation in relation with the risk identified regarding certain trials going on in court, with uncertain results.

Useful life for intangible assets and the depreciation method

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

The Company considers and uses the following depreciation methods:

- Linear method for buildings, fixed assets purchased under financial leasing and for equipment that is not related to production capacity;
- Accelerated/degressive method for fixed assets consisting of equipment that is related to production capacity.

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

Sales deductions for returns, rebates and discounts

The sales returns, rebates and discounts related to the sales incurred in a period are recognized as sales deductions in the same period when the related sales were recognised. The sales deductions are recognised according to commercial offers communicated to customers containing monthly, quarterly and annual gross and net value targets (i.e. net targets are calculated after deducting from gross sales the rebates and clawback tax which is communicated by state authorities in 45 days after the end of the reference quarter) and which are estimated at the level of product, portfolio, sales channel type (retail independent pharmacies, retail chain of pharmacies, hospitals) and according to respective sales transactions. The discounts accruals are subject of a continue revising and adjusting process based on the most recent available known information.

4. STANDARDS, AMENDMENTS AND NEW INTERPRETATIONS OF STANDARDS

4.1 New modifications brought in the accounting policies starting with 1 January 2020

Conceptual Framework in IFRS standards

IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

IFRS 3: Business Combinations (Amendments)

IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier adoption allowed. Management has assessed that the application of these changes has no impact on the Company's financial position or performance.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)

The Amendments clarify the definition of 'material' and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of 'material' is consistent across all IFRS Standards. Changes are effective for annual periods starting on, or after January 1st 2020, and early adoption is allowed. Management has assessed that the application of these changes has no impact on the Company's financial position or performance.

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

Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provide temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable 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 regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Phase two (ED) focuses on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). Management has assessed that the application of these changes has no impact on the Company's financial position or performance.

4.2 New standards, modifications and interpretations issued, but not yet effective for the financial exercise starting 1st of January 2020 and not early adopted

The standards and interpretations that are issued, but are not effective, up to the date of issuance of the Company's financial statements, are described below. The company intends to adopt these standards, as appropriate, when they enter into force.

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. Management has assessed that the application of these changes has no impact on the Company's financial position or performance.

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

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

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

IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier adoption permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

- **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.

- **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

The amendments have not yet been endorsed by the EU. Management has assessed that the application of these changes has no impact on the Company's financial position or performance.

IFRS 16 Leases-Covid 19 Related Rent Concessions (Amendments)

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier adoption is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

Management has assessed that the application of these changes has no impact on the Company's financial position or performance.

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

Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9.

There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier adoption allowed. While application is retrospective, an entity is not required to restate prior periods.

Management has assessed that the application of these changes has no impact on the Company's financial position or performance.

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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 decisions making regarding the allocation 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 external sales.

	1 January - 31 December 2020	**1 January - 31 December 2019**
Sales - domestic	316.857.274	340.072.834
Sales – external*	241,103,666	218.934.539
Total turnover	**557.960.940**	**559.007.373**
a) Rendering of services	**17.251.046**	**17.635.020**
b) Sales of goods, including:	**540.432.708**	**541.170.804**
Sales of finished goods	466.529.423	390.484.119**
Sales of goods for resale	117.739.121	198.216.251**
Residual products	(1.230.833)	1.402.996
Claw back tax expense	(42.605.003)	(8.932.562)
c) Other revenues	**277.186**	**201,549**

*External sales are represented mainly by exports to Cehia.
**The amount of RON 135.730.611 was reclassified between Sales of goods for resale and Sales of finished goods.

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.

(amounts are expressed in RON, unless specified otherwise)

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

The value of the clawback tax was influenced in 2020 by amendments brought by Law 53/2020 on the approval of Ordinance no. 85/2019 by introducing the differentiated clawback contribution by types of medicines starting with the first quarter of 2020 (the corresponding declaration and payment deadline being applied after the law enforcement), on three types of categories, respectively type I (medicines innovative), type II (medicines manufactured in Romania, both innovative and generic) and type III (generic medicines / any other medicines that do not fall into type I or II.

Specifically, for type I medicines the quarterly contribution will be calculated by applying a percentage of 25% on the value related to their centralized consumption (communicated by the National Health Insurance House, after VAT deduction), while for type II medicines and type III clawback contribution will be calculated by applying the percentage of 15% and 20% respectively. Thus, through the above-mentioned amendments to the same Ordinance, starting with the first quarter of 2020, provisions regarding the value of the "p" percentage are modified by applying differentiated values for the types of medicines (25%, 15%, respectively 20%) and waiving the previous "p" percentage of 27.65%.

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 within the Company's Group as well as the revenues from certain production services provided to third parties.

5.2. Raw material expenses and consumables used

Raw materials and consumables used	Notes	1 January - 31 December 2020	1 January - 31 December 2019
Raw materials	1	129.437.189	129.298.461
Goods for resale		82.326.771	80.762.968
Packaging materials	2	42.784.241	45.698.461
Auxiliary materials	3	9.130.303	7.862.264
Utilities	4	10.404.755	9.888.204
Other material expenses	5	10.375.460	10.910.577
Total		**284.458.719**	**284.420.935**

The amounts mentioned in the above table on the reference lines 1, 2, 3 represent mainly expenses with raw materials and the direct materials, the 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 consumables used by the department in charge with the certification of the products produced in Turkey and India, which are going to be distributed on the EU market, as well as with the certification of the products existing in the Zentiva SA portfolio.

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6. OTHER INCOME / OTHER EXPENSES AND ADJUSTMENTS

6.1 Other operating income

Other operating income	1 January – 31 December 2020	1 January – 31 December 2019
Gain/ (loss) from disposal of assets	-	27.576
Services to Solacium Pharma SRL/ Group entities	13.774.539	1.137.753
Other operating income	9.114	634.008
Total	**13.783.653**	**1.799.337**

The Company recognized revenues from re-invoicing of some services offered by the Zentiva employees to the following companies within the Group: Zentiva Group A.S, Labormed Pharma Trading SRL (previous Alvogen Romania S.R.L.), Labormed Pharma S.A.si Solacium Pharma S.R.L., which are generally services related to the commercial activity of Group, the advertising of generic products and assistance services to the Headquarter.

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6.2 Other operating expenses

Other expenses	1 January – 31 December 2020	1 January – 31 December 2019
Management service received from Zentiva Group	41.447.855	50.867.264
Maintenance - repairs	5.246.506	9.400.857
License – Zentiva trademark	4.086.061	2.744.790
Travel expenses	369.847	2.391.059
Write-off of inventories	8.543.527	2.072.799
Registration fees to ANM	5.538.756	5.440.197
Professional fees	950.970	1.920.260
Postage and telecommunication	578.907	648.476
Other expenses	28.730.251	52.786.806
Net allowance for inventories and receivables	4.459.964	6.792.425
Total	**99.952.644**	**135.064.933**

Management service expenses: the costs with services from the group include a large variety of services (see below) and have decreased in 2020 compared to the previous year.

This category comprise 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).

In addition to services mentioned above in this category are also included IT support services (SAP and other apps used by all entities within the group), operational services and support for daily activities regarding the IT infrastructure and software used, and IT project management and execution relevant on a local level.

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

(amounts are expressed in RON, unless specified otherwise)

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

Other expenses include: expenses for R&D in 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 personnel leasing services of Lugera & Makler Romania SRL; these costs have evolved differently in 2020 compared to the previous year, being affected by the restrictions imposed during the COVID pandemic19.

6.3 Finance cost

Financial expenses	1 January - 31 December 2020	1 January - 31 December 2019
Foreign exchange loss expense	3.440.531	3.535.913
Interest expenses	603.070	734.682
Total	**4.043.601**	**4.270.595**

6.4 Finance Income

Finance Income	1 January - 31 December 2020	1 January - 31 December 2019
Foreign exchange gain income	1.894.822	508.417
Interest income	9.352.520	11.150.271
Total	**11.247.342**	**11.658.688**

Interest income is the interest earned on the cash pooling account - for more details see Note 14.

6.5 Employee benefits expense

Employee benefits expense	1 January - 31 December 2020	1 January - 31 December 2019
Wages and salaries	89.914.600	74.622.131
Social security costs	3.958.612	3.007.653
Post-employment benefits and other long-term benefits - net impact (Note 18)	923.871	1.367.146
Other short-term benefits (*)	4.163.546	3.795.734
Total	**98.960.629**	**82.792.664**

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

6.6 Marketing and Advertising and Protocol Expense

The Company recognizes the expenses with TV advertising campaigns and other media advertising as marketing and advertising expenses.

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

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7. INCOME TAX AND DEFERRED TAX

Income tax expense	1 January - 31 December 2020	1 January - 31 December 2019
Current income tax	15.668.044	10.493.826
Deferred tax (7.2 / expense (income))	(754.466)	(151.102)
Total	**14.913.578**	**10.342.724**

7.1 Income tax - current

The main components of corporation tax expense and the reconciliation between tax expense, accounting and tax revenue for the year ended 31 December 2020 and 2019 are:

Tax reconciliation	1 January - 31 December 2020	1 January - 31 December 2019
Profit before income taxes	**80.549.018**	**54.093.396**
Income taxes calculated at the tax rate applicable in Romania of 16% (2019: 16%)	12.887.843	8.654.943
Non-taxable incomes	-	(79.400)
Non-deductible expenses for tax calculation	2.639.470	1.767.181
Fiscal credit	(613.735)	-
Income taxes reported in the income statement	**14.913.578**	**10.342.724**

Movement in the current income tax during the year	1 January - 31 December 2020	1 January - 31 December 2019
Balance on 1 January	**4.934.319**	**8.236.848**
Income tax expenses for the current year	15.668.044	10.493.826
Income tax paid during the year	(13.735.322)	(13.796.354)
Balance at 31 December	**6.867.041**	**4.934.319**

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.

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7. CURRENT INCOME TAX AND DEFERRED (continued)

Deferred tax refers to the following:

Deferred income tax	31 December 2020	31 December 2019	Income statement and equity movement/Retained earnings 2020	2019
- Deferred income tax assets				
Employee benefit liability	593.843	498.240	95.603	101.600
Provisions, including depreciation for tangible assets (Note 12,17)	3.404.582	2.629.830	774.752	(460.256)
Intangibles	3.742	3.742	-	3.742
Estimate of the provision for employee's management and for leaves not taken (Note 18, 6.5)	1.894.782	1.439.970	454.810	214.492
Total (a)	**5.896.949**	**4.571.782**	**1.325.167**	**(140.422)**
- Deferred income tax liabilities				
Property, plant and equipment- recognized in the income statement	(2.447.930)	(1.877.229)	(570.701)	291.524
Property, plant and equipment- recognized in equity	(11.076.141)	(7.577.398)	(3.498.743)	-
Total (b)	**(13.524.071)**	**(9.454.627)**	**(4.069.444)**	**291.524**
Net deferred tax income (a) - (b)	**(7.627.122)**	**(4.882.845)**	**(2.744.277)**	**151.102**

The deferred tax-liabilities related to property, plant and equipment are generated by the temporary difference between fiscal and accounting base of the carrying value, as the Company uses different useful lives and depreciation methods in the accounting register than the fiscal one, as well as due to revaluation.

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

	2020	2019
Deferred tax		-
Recognized in profit and loss (7.1)	(754.466)	(151.102)
Recognized in equity	3.498.743	-
Total	**2.744.277**	**(151.102)**

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8. EARNINGS PER SHARE

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

The weighted average number of ordinary shares during the period is the number of ordinary shares existing at the beginning of the period, adjusted by the number of ordinary shares repurchased or issued during the period multiplied by a time weighting factor. The time weighting factor is the number of days in which the shares existed as a proportion of the total number of days in the period.

The number of shares related to the period ended on December 31, 2020 is 697,017,040, which generated 0.09 RON / share (2019:0.06 RON/share).

The following data were used to calculate the weighted average number of shares.

Date	Event	Number of issued shares
1 January 2020	**Shares at the beginning of the year**	**697.017.040**
Increases / (decreases) within a year	New shares	-
31 December 2020	**Shares at the end of the year**	**697.017.040**

Date	Event	Number of issued shares	% period	Weighted average number of shares
1 January 2019	**Shares at the beginning of the year**	**416.961.150**		**416.961.150**
August 2019	New shares	280.055.890	42	116.946.416
31 December 2019	**Shares at the end of the year**	**697.017.040**		**533.907.566**

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

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9.1 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery, tools and equipment	Constructions in progress	Total
Gross value 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 31 December 2019	**42.503.676**	**49.099.050**	**186.638.148**	**33.209.323**	**311.450.197**
Depreciation 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 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**

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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 2020	**42.503.676**	**49.099.050**	**186.638.148**	**33.209.323**	**311.450.197**
Additions	-	109.737	-	21.592.080	**21.701.817**
Reevaluation	10.425.682	10.801.777	-	-	**21.227.459**
Impact of revaluation reserve in P&L	173.435	5.648.791	-	-	**5.822.226**
Cancelled depreciation after revaluation	(402)	(10.233.197)			**(10.233.599)**
Disposals	-	-	(174.128)	-	**(174.128)**
Transfers	-	-	46.731.012	(46.731.012)	**-**
Gross value at 31 December 2020	**53.102.391**	**55.426.158**	**233.195.032**	**8.070.391**	**349.793.972**
Depreciation and impairment on 1 January 2020	**-**	**(7.210.248)**	**(145.478.823)**	**(2.053.787)**	**(154.742.858)**
Depreciation in the year	-	(3.022.949)	(11.603.241)	(1.017.080)	**(15.643.270)**
Cancelled depreciation after revaluation	402	10.233.197	-	-	**10.233.599**
Disposals	-	-	174.128	-	**174.128**
Depreciation and impairment on 31 December 2020	**402**	**0**	**(156.907.936)**	**(3.070.867)**	**(159.978.401)**
Net book value 31 December 2020	**53.102.793**	**55.426.158**	**76.287.096**	**4.999.524**	**189.815.571**

The value of fully depreciated assets at 31 December 2020 is RON 130.347.693 (2019: 122.131.604).

Revaluation of land and buildings

As of 31 December 2020, the Company carried out the revaluation of the existing land and buildings in the Company's patrimony. The revaluation was made by an independent evaluator in accordance with the International Valuation Standards.

The net impact following the revaluation was in the amount of RON 27,049,685, of which in the revaluation reserve it was registered the amount of RON 21,227,460 (see Note on "Statement of Changes in Equity"). Also, in 2020, as a result of the revaluation, the amount of RON 5,822,225 was recorded as an impact on the profit for the year - in the line of "Depreciation, amortization and impairment losses", representing the resumption of impairment losses related to buildings resulting from the revaluation from December 31, 2017.

Fair value was determined by reference to market information, using the cost approach as the main approach in valuing buildings and special constructions in valuation and the market approach (direct comparison method), as a method for land valuation. The income approach (direct capitalization method) was also applied as a secondary valuation method and the external impairment testing method in the cost approach.

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 3 data in the fair value measurement hierarchy.

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

The data used in the evaluation were:

a. For special buildings and constructions
   - ➢ level 3 input data representing replacement costs, historical costs, historical cost update indices, depreciation adjustments - most derived based on publicly available technical studies, respectively IROVAL Catalogues and the National Institute of Statistics (as opposed to data taken directly from the market), with depreciations estimated by the evaluator.

b. For land
   - ➢ level 3 input data which represent sale prices taken from sale offers for similar lands, publicly available, with adjustments made by the evaluator depending on their comparability with the evaluated lands

The result of the evaluation is influenced by the main market data used, these being mainly: market value per square meter for land (estimated at 145 EUR / sqm), estimation of gross replacement costs (which were estimated using IROVAL cost catalogues - recognized local and the method of updating historical costs) in the range of 350-800 Euro / sqm built area (depending on the construction system of buildings) and estimating physical depreciation (which were based on the physical condition of assets at the valuation date, their life effective age) and external (estimated by capitalizing the loss of income).

The fair value of the company's land in a size of 74.475 sqm was established by the evaluator at the value of 145 Eur/sqm.

Estimating fair values through the income approach and allocating values based on the net replacement costs of constructions and respecting the valuation standard specific to valuation for accounting purposes would have led to values similar to those estimated by the cost approach. The total fair value of the valuation assets is RON 108,782,830. Sensitivity analysis of the global value of the valued asset base, performed by using the main input data in the income approach in the range - / + 1% for the capitalization rate and -3% / + 5% in the degree of vacancy (cumulative sensitivity of the two basic indicators), indicates an interval of RON 99.5m - RON 117.6m.

The Company did not disclose the net accounting value of land 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 2020 amounting to RON de 4.999.524 (2019: 31.155.536) include mainly acquisitions of production equipment.

On December 31, 2020, the Company recorded a provision for ongoing investments in the amount of RON 3.070.861 for investments made in the periods 2016 - 2017 that were not completed by this date (2019: the Company had registered a provision in the amount of 2.053 .787 RON for investments made in the periods 2016 - 2017 that have not been completed by this date).

During 2020 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 46,731,021 (2019: 17.569.091).

As of December 31, 2020, the investments in progress of RON 8.070.385 (value before depreciation provision) consist of equipments amounting to RON 7.570.920, expenses regarding the redesign of a building amounting to RON 324,480 and IT equipment amounting to RON 174,985.

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

9.2 RIGHT-OF-USE ASSETS

	Buildings	Machinery Tools and Equipment	Total
Gross value on 1 January 2020	**3,794,345**	**6,879,089**	**10,673,434**
Additions throughout the year	138,802	2,200,329	2,339,131
Disposals	-	-	-
Gross value on 31 December 2020	**3,933,147**	**9,079,418**	**13,012,565**
Depreciation and impairment on 1 January 2020	**(1,264,782)**	**(2,056,096)**	**(3,320,878)**
Depreciation in the year	(1,319,653)	(2,862,630)	(4,182,283)
Disposals			
Depreciation and impairment on 31 December 2020	**(2,584,435)**	**(4,918,726)**	**(7,503,161)**
Net book value 31 December 2020	**1,348,712**	**4,160,692**	**5,509,404**

	Buildings	Machinery Tools and Equipment	Total
Gross value on 1 January 2020	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 2020	**3.794.345**	**6.879.089**	**10.673.434**
Depreciation and impairment on 1 January 2020	**-**	**-**	**-**
Depreciation in the year	(1.264.782)	(2.059.385)	**(3.324.167)**
Disposals	-	3.289	**3.289**
Depreciation and impairment on 31 December 2020	**(1.264.782)**	**(2.056.096)**	**(3.320.878)**
Net book value 31 December 2020	**2.529.563**	**4.822.993**	**7.352.556**

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

- Car leasing for the Company's personnel
- The lease of a packing line
- The lease contract for the storage premises held by FM Logistic.

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.

The Company has a lease for a warehouse for storage of the medicines, that includes the option of term extension and the termination option. 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.

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

The table below shows the carrying amount of the recognized right-of-use assets and the movements over the period:

1 January 2020	**7,799,361**
Adititons	2,339,132
Interest	535,161
Early termination	-
Leasing payments	(4,856,947)
Revaluations	(52,882)
La 31 decembrie 2020	**5,763,825**

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

2020

Depreciation on the right-of-use assets	4.182.284
Interest expense on the lease liability	535.162
Total expenses recognized in the profit and loss account	**4.717.446**

10. INTANGIBLE ASSETS

	Development costs	Other intangible assets	Fixed assets and advances	Total
Costs on 1 January 2019	**63,532**	**7,307,244**	**625,700**	**7,996,476**
Additions		-		-
Disposals		-	(43,760)	**(43,760)**
Transfers		-		
Costs at 31 December 2019	**63,532**	**7,307,244**	**581,940**	**7.952.716**
Depreciation and impairment on 1 January 2019	**(63,532)**	**(4,037,812)**	-	**(4,101,344)**
Depreciation in the year	-	(306,401)	-	**(306,401)**
Disposals	-		-	-
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**
Costs on 1 January 2020	**63.532**	**7.307.244**	**581.940**	**7.952.716**
Additions	-	716.930	681.856	**1.398.786**
Disposals	-	-	-	-
Transfers	-	-	(716.930)	**(716.930)**
Costs at 31 December 2020	**63.532**	**8.024.174**	**546.866**	**8.634.572**
Depreciation and impairment on 1 January 2020	**(63.532)**	**(4.344.213)**	-	**(4.407.745)**
Depreciation in the year	-	(298.048)	-	**(298.048)**
Disposals	-	-	-	-
Depreciation and impairment on 31 December 2020	**(63.532)**	**(4.642.261)**	-	**(4.705.793)**
Net value at 31 December 2020	-	**3.381.913**	**546.866**	**3.928.779**

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11. GOODWILL AND CUSTOMER RELATIONSHIPS

	Goodwill	Customer relationships	Total
Gross value on 31 December 2019	**11,649,100**	**34,492,101**	**46,141,201**
Gross value on 1 January 2020	11,649,100	34,492,101	46,141,201
Additions	-	-	-
Disposals	-	-	-
Transfers	-	-	-
Gross value on 31 December 2020	**11,649,100**	**34,492,101**	**46,141,201**
Depreciation and impairment on 1 January 2020	-	(3,770,000)	(3,770,000)
Depreciation in the year		(3,161,776)	(3,161,776)
Disposals	-	-	-
Depreciation and impairment on 31 December 2020	-	(6,931,776)	(6,931,776)
Net value on 31 December 2020	**11,649,100**	**27,560,325**	**39,209,425**

	Goodwill	Customer relatioships	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	-	-	-
Disposals	-	-	
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)	**(3.770.000)**
Disposals	-	-	-
Depreciation and impairment on 31 December 2019	-	**(3.770.000)**	**(3.770.000)**
Net value on 31 December 2019	**11.649.100**	**30.722.101**	**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.

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, Pharmapharm) 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.

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11. GOODWILL AND CUSTOMER RELATIONSHIPS (continued)

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.
Also, according to IFRS, the Company did an impairment test of the goodwill and customer relationships on 31 December 2020 in accordance with IAS 36 and no impairment was identified.

The recovery value of these assets (goodwill and customer relationships) 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 (2021 – 2029) determined with a sales CAGR of 7.9% (confirmed also by Finch Report Solution – Health and Pharma Q1 2021 Report, expectations for market growth of 7.5% in the period of 2021 – 2024), a perpetuity growth rate of 2%, operational margin of 4.5% and an average 9.5% annual update ratio.

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

Millions -RON	**Decrease in operational margin**	**Decrease in net sales growth**	**Increase in update ratio**
	(1)%	(3%)	+1%
Recoverable value of Goodwill and customer relationship	49,96	92,22	81,45
Net book value	39,21	39,21	39,21
Difference	**10,75**	**53,01**	**42,24**

12. INVENTORIES

Inventories	**31 December 2020**	**31 December 2019**
Merchandise	55.059.700	58.038.776
Finished products and semi-finished products	43.077.003	40.200.652
Raw materials	54.917.434	42.669.668
Package materials	13.045.838	9.903.010
Minus:		
Allowance for obsolete inventories	(28.301.622)	(26.970.645)
Total	**137.798.353**	**123.841.461**

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Changes in inventory provison	**31 December 2020**	**31 December 2019**
Balance on 1 January	**(26.970.645)**	**(21.726.925)**
Additions	(1.330.977)	(5.243.719)
Balance at 31 December	**(28.301.622)**	**(26.970.645)**

Impairment per inventory category	**31 December 2020**	**31 December 2019**
Finished products, semi-finished goods and merchandise	(16.757.912)	(15.427.428)
Raw materials	(10.171.424)	(10.171.424)
Package materials	(1.371.286)	(1.371.793)
Total	**(28.301.622)**	**(26.970.645)**

The Company does not hold mortgaged stocks in favour of third parties on 31 December 2020 and 31 December 2019 respectively.

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13. TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade receivables and other receivables	31 December 2020	31 December 2019
Total trade receivables, net, out of which:	**227.958.536**	**274.339.648**
Trade receivables *	14.832.400	21.539.705
Trade receivables from related parties	213.752.691	254.975.210
Less		
Allowance for doubtful trade accounts receivable	(626.561)	(2.175.267)
Total other receivables:	**22.330.417**	**21,278.114**
Advances paid	18.139.131	5.426.870
Recoverable taxes	2.247.051	14.202.396
Sundry debtors	305.467	283.905
Prepaid expenses	1.638.768	1.364.943
Total	**250.288.953**	**295.617.762**

*as at 31 December 2020 and 31 December 2019, trade receivables include the amounts that were not disbursed by the factor

Starting with January 2019, the Company signed with Factofrance SA a non-recourse factoring contract being agreed to finance the local receivables with the main nine Romanian distributors through buying without recourse of all the available receivables in the maximum covered limit by the Euler Hermes insurer.

Trade receivables are not interest-bearing and are generally due between 60 - 120 days (2019: maturing between 60 - 120 days).

The trade receivables presented above include commercial discounts not offered yet until 31 December 2020 amounting 42 mil RON (2019: 14 mil RON).

See below for the movements in allowance:

Value adjustments	31 December 2020	31 December 2019
Balance at 1 January	**(2,175,267)**	**(626,561)**
Settings	-	(1,548,706)
Provision used	-	-
Reversal of previous years provision	1,548,706	-
Balance at 31 December	**(626.561)**	**(2,175,267)**

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13. TRADE RECEIVABLES AND OTHER RECEIVABLES (continued)

Year 2020

In estimating the expected credit losses ("ECL") related to the receivables from the Group companies, the Company took into account the rating of the parent company, Advent International, respectively the probability of default returned by Bloomberg, namely 0.072%.

The Company has trade receivables to be recovered from Group companies, but also has trade payables to those companies, therefore a provision on credit losses was not considered as necessary. Compensation of the amounts is planned to be done on a regular basis.

Trade receivables from third parties in the amount of RON 15.463.428 are insured against the risk of non-payment by Credendo, a company with an AA rating according to S&P.

The company estimates the impairment of trade receivables from third parties following an analysis of credit risk of borrowers based on analyses published by international rating agencies (S&P, Moody's, etc.) or Bloomberg.

Year 2019:

In 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.

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.

14. CASH AND SHORT-TERM DEPOSITS

	31 December 2020	31 December 2019
Cash at banks and on hand	62,590,738	7,583,742
Advance for payment of dividends	824,507	854,142
Deposits – cash pooling	343,298,289	380,035,937
Total	**406,713,534**	**388,473,821**

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 2020, the Company issued warranty letters in favour of third parties for which it had collateral deposits amounting to RON 8.355.901 (2019: RON 8.355.901).

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14. CASH AND SHORT-TERM DEPOSITS (continued)

The amount of RON 824,507 included on the line "Advances for dividends payment" refers to a transfer to the Central Depository for the payment of dividends to minority shareholders (2019: RON 854,142).

Starting with September 2013, the Company signed a cash pooling contract with Sanofi SA France (the parent company until September 30, 2018).

On September 21, 2018, before signing the contract for the sale of the generic division of the Sanofi Group to Advent International NV, the cash pooling contract concluded with Sanofi SA France was transferred to Zentiva Group a.s. According to the contractual provisions, the applied interest level represents ROBOR + 15 bp in case the Company borrows and ROBOR - 5 bp, respectively, in case it makes deposits.

In 2020, the cash pooling contract was transferred, and a new contract was signed between Zentiva Group a.s., Zentiva S.A. and AI Sirona (Luxembourg) Aquisition S.A.R.L. The cash subject to the cash pooling agreement bears an interest at the following rates: - 3M ROBOR + 0% for the deposit, -3M ROBOR + 4.03% for loans.

The total interest collected for cash-pooling transactions during the year is in the amount of RON 9,352,520 (2019: interest collected in the amount of RON 11.150.271) and is presented in Note 6.4 Financial income.

In estimating the expected credit losses ("ECL") related to the debit balance related to the cash pooling contract, the Company took into account the rating of the parent company, Advent International, respectively the probability of default estimated by Bloomberg, namely 0.072%. The company used in the expected losses estimation given by the non-fulfilment of obligations ("LGD") a percentage of 65%, which represents the management's estimate for losses in case of a situation of non-fulfilment of payment obligations, being similar with the estimation range applied on the local market.

At 31 December 2020 and 31 December 2019 respectively, the Company has a credit facility of RON 10.000.000 at BNP Paribas which was not used at the end of the current year and in 2019 it was 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.

15. ISSUED CAPITAL AND RESERVES

Authorised shares	**31 December 2020**	**31 December 2019**
Ordinary shares of RON 0.1 each	697,017,040	697,017,040

Ordinary shares issued and fully paid	**Number**	**Value**
On 31 December 2020	697,017,040	69,701,704
On 31 December 2019	697,017,040	69,701,704

Share capital	**31 December 2020**	**31 December 2019**
Issued share Capital	69,701,704	69.701.704
Total share capital	**69,701,704**	**69.701.704**

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15. ISSUED CAPITAL AND RESERVES (continued)

Share premium	31 December 2020	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.

On 1 January 2018, the value of the share premium includes the effect of the adjustments for hyperinflation, as requested by IAS 29. The Company first adopted the International Financial Reporting Standards (IFRS), adopted by the European Union, except IAS 21 (The Effect of Changes in Foreign Exchange Rates) for its functional currency and prepares financial statements in accordance with these standards since the transition date, 1 January 2011, except IAS 20 Accounting for Government Grants in relation with the revenue recognition from green certificates, except IFRS 15 Revenue Recognition in relation with revenues from taxes from connection at the distribution network and with the exception of the interim dividend distribution.

Redeemable shares: The Company has no redeemable shares on 31 December 2020 (2019: 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.

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 cancelled.

As of December 31, 2020, Zentiva Group a.s. held 95,9486% of the Company's shares (December 31, 2019: 95,9486%), the rest of the shares being held by other minority shareholders.

Reserves

Total other reserves included in the capital components:	Notes	31 December 2020	31 December 2019
Legal reserves	B	13.940.341	11.043.893
Other reserves (other funds)	D	104.406.145	104.406.145
Revaluation reserves	C	57.927.094	40.198.377
Retained earnings	A	514.424.285	451.685.293
Total other reserves		**690.697.865**	**607.333.708**

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15. ISSUED CAPITAL AND RESERVES (continued)

A) Retained earnings include the following:

	2020	2019
Reclassification of distributable reserves to retained earnings	45.837.619	45.837.619
Fiscal facilities (accumulated profit)	917.664	917.664
Retained earnings	400.776.290	359.730.288
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*	62.738.992	41.046.002
Other equity elements	(1.601.704)	(1.601.704)
Total	**514.424.285**	**451.685.293**

**the profit/loss for the financial year ended on 31 December 2020 also includes the impact of the establishment of the legal reserve in amount of RON 2.896.488.*

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 2020, the company has reached the maximum threshold of 20% from the share capital, with a legal reserve in amount of RON 2.896.448 (2019: RON 2.704.670).

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 2020, the Company registered the amount of RON 57.097.887 (2019: RON 40.198.377) as reserve of revaluation, related to an increase in value of lands and facilities existing in Company's assets – for further details see Note 9:1 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.

16. DIVIDENDS DISTRIBUTED AND PAID

Throughout the year 2020, the Company did not distribute dividends (2019: the Company did not distribute dividends). The result for the financial year ending on 31 December 2020 in the amount of RON 65.635.440 (2019: RON 43.750.670) shall be distributed as retained earnings – or further details see **The Status of Share Capital Changes**.

Payments in the amount of RON 29.636 were made throughout the year 2020 to the minority shareholders of the Company representing dividends approved to be distributed but related to previous fiscal years (2019: dividend payments in amount of RON 65.782 were made throughout the fiscal year 2019).

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17. PROVISIONS

Other provisions	31 December 2020	31 December 2019
Provisions for litigations	(211.549)	(211.549)
Provisions for taxes	(7.256,776)	(7.264.922)
Other provisions	(377.249)	(1.457.441)
Environmental provision	(5.640.510)	(5.640.510)
Total	**(13.486.084)**	**(14.574.422)**

	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

	Provisions for litigations	Provisions for taxes	Environmental provision	Other provisions	Total
On 1 January 2020	**211.549**	**7.264.922**	**5.640.510**	**1.457.441**	**14.574.422**
Increase	-	-	-	-	-
Reversal	-	(8.146)	-	(1.080.192)	**(1.088.338)**
On 31 December 2020	**211.549**	**7.256.776**	**5.640.510**	**377.249**	**13.486.084**
Current	-	2.296.520	-	-	2.296.520
On long term	211.549	4.960.256	5.640.510	377.249	11.189.564

Tax provisions

On 31 December 2020, 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 7.256.776 (in 2019: RON 7.264,922).

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.

Environmental provisions

Environmental provisions were set at RON 5.640.510 as of December 31, 2020 (2019: RON 5.640.510), representing costs related to ecological remediation and soil and groundwater monitoring. These provisions are calculated by specialists.

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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, 1 company gross average salary;
- between 20-30 years within the Company, 1 and ½ company gross average salary;
- over 30 years within the Company, 2 company gross average salaries.

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 employee salary;
- Over 20 years within the Company, one employee salary;

Pension provisions and other similar obligations are estimated based on the provisions of the Collective Labor Agreement of the Company by an actuary independent specialist.

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

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

Post-employment benefits	**31.12.2020 Post-employment benefits (P1)**	**31.12.2020 Jubilee Plan (P2)**	**Total**	**31.12.2019 Post-employment benefits (P1)**	**31.12.2019 Jubilee Plan (P2)**	**Total**
Benefit obligation at the beginning of the year	**2.413.000**	**701.000**	**3.114.000**	**1.977.000**	**501.000**	**2.478.000**
The cost of the current service	412.000	74.000	486.000	106.000	60.000	166.000
Financial cost - interest (on the benefit)	103.000	27.000	130.000	70.000	20.000	90.000
Paid benefits	(263.000)	(63.000)	(326.000)	(130.000)	(108.000)	(238.000)
The cost of the previous service	-	(17.000)	(17.000)	-	-	-
Additions / Modifications to the Plan	-	-	-	-	-	-
Actuarial gain / loss – experience	53.000	-	53.000	292.000	223.000	515.000
Actuarial gain / loss - variation of demographic assumptions	272.000	-	272.000	-	-	-
Actuarial gain / loss - variation of financial assumptions	-	-	-	98.000	5.000	103.000
Obligation of benefits at the end of the year	**2.990.000**	**722.000**	**3.712.000**	**2.413.000**	**701.000**	**3.114.000**
The net benefit liability recognized in the Financial Position Statement	**2.990.000**	**722.000**	**3.712.000**	**2.413.000**	**701.000**	**3.114.000**

Movements in the shareholder incomes	**31.12.2020 Retirement allowances plan (P1)**	**31.12.2020 Jubilee benefit plan (P2)**	**Total**	**31.12.2019 Retirement allowances plan (P1)**	**31.12.2019 Jubilee benefit plan (P2)**	**Total**
Actuarial gains / losses accumulated at the beginning of the year	**1.202.000**	**371.000**	**1.573.000**	**910.000**	**148.000**	**1.058.000**
Actuarial (gain) / losses following employee experiences	53.000	-	53.000	292.000	223.000	515.000
Actuarial (gain) / losses following hypotheses changes	272.000	-	**272.000**	-	-	-
Actuarial gains / losses accumulated at the end of the year	**1.527.000**	**371.000**	**1.898.000**	**1.202.000**	**371.000**	**1.573.000**
Hypotheses to determine the defined benefit obligation						
Discount rate	3.38%	3.38%		4,25%	4,25%	
Compensation increase rate	3,50%	3,50%		3,50%	3,50%	

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19. TRADE PAYABLES AND OTHER PAYABLES

Trade payables and other payables	31 December 2020	31 December 2019
Trade payables	64.337.936	59.772.994
Trade payables to affiliated companies at the end of the year	110.195.174	181.110.529
Received advances and other payables	402.715	306.109
Total	**174.935.825**	**241.189.632**

Trade payables decreased compared to the previous year as a result of offsetting the debt to AI Sirona Acquisitions SRL related to the distribution transfer of the generic activity from Sanofi Romania in the amount of RON 46 million (see Note 11) starting with September 2018 as well as the compensations made with Zentiva KS.

Other current liabilities	31 December 2020	31 December 2019
Wages and salaries payable	12.747.492	9.681.695
Social security contributions for salaries	2.632.247	2.122.208
Claw back tax (*)	10.249.248	12.397.433
Other taxes	494.418	408.699
Dividends payable	6.281.754	6.311.390
Other liabilities	3.103.368	3.288.401
Total	**35.508.527**	**34.209.826**

(*) **Claw back**	31 December 2020	31 December 2019
Initial estimate of the tax liability to the state budget related to the last quarter	11.233.651	17.065.278
Regularization of the clawback tax related to the last quarter, according to the notification received from the CNAS	(984.403)	(4.667.845)
Total	**10.249.248**	**12.397.433**

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 affiliates and 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.

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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
Al Sirona (Luxembourg) Acquisition S.à.r.l	Company under joint control	Holds cash pooling	Luxemburg	Luxemburg
Labormed Pharma Trading SRL (previous Alvogen Romania SRL)	Company under joint control	Provision of services	Romania	Bucharest
Labormed Pharma SA	Company under joint control	Provision of services	Romania	Bucharest
SOLACIUM PHARMA S.R.L	Company under joint control	Provision of services	Romania	Bucharest
Zentiva as Hlohovec	Company under joint control	Procurement of services	Slovakia	Bratislava
ZENTIVA GROUP A.S.	Company under joint control	Procurement of /income from services	Czech Republic	Prague
Zentiva Italia	Company under joint control	Procurement of goods	Italy	Milan
ZENTIVA, K.S.	Company under joint control	Procurement/ Sale of goods and provision of services	Czech Republic	Prague
Zentiva Pharma gmbh	Company under joint control	Procurement/ Sale of goods and provision of services	Germany	Frankfurt
Zentiva Private ltd	Company under joint control	Procurement of goods	India	Mumbai
Helvepharm AG	Company under joint control	Provision of services	Switzerland	Frauenfeld

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20. RELATED PARTY DISCLOSURES (continued)

Up to 31 December 2019, the following entities have also represented 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
Al Sirona Acquisition S.à.r.l	Company under joint control	Cash pooling	Luxemburg	Luxemburg
Solacium Pharma SRL	Company under joint control	Provision of services	Romania	Bucharest

On October 25, 2019, Zentiva Group, of which Zentiva SA is a part, announced the signing of the agreement for the acquisition of the production and sales activity of the Central and Eastern European division of the Alvogen Group, including its operations in Romania. The transaction, subject to approval by the Competition Council, became effective on April 6, 2020 and since then Labormed Pharma SA and Alvogen Romania S.R.L. they have become affiliated entities. Subsequently, in February 2021 Alvogen Romania S.R.L. changed its name to Labormed Pharma Trading SRL.

20.2 Payables and receivables from affiliated entities and other related parties

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

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	Balance as of 31 December 2020	Balance as of 31 December 2019
Alvogen Romania S.R.L.	7.506.893	-
Labormed Pharma S.A.	440.662	-
Zentiva Pharma UK Limited	-	9.505
Solacium Pharma S.R.L.	217.659	1.029.403
Helvepaharm AG	32.109	-
Zentiva ks	198.831.011	243.065.482
Zentiva Group a.s	6.724.357	49.960
Zentiva Pharma GMBH	-	10.640.860
Total	**213.752.691**	**254.975.210**

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20. RELATED PARTY DISCLOSURES (continued)

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

	Balance as of 31 December 2020	Balance as of 31 December 2019
Alvogen Romania S.R.L.	6.024.138	-
Labormed Pharma S.A.	891.065	-
Solacium Pharma S.R.L.	1.317.551	-
Zentiva Pharma GMBH	4.307.160	-
Zentiva KS Praga	38.455.744	71.600.675
Zentiva Group	58.000.408	63.305.408
Zentiva Italia	345.151	63.244
Zentiva Private LTD	853.958	-
Al Sirona Acquisition SRL	-	46.141.201
Total	**110.195.174**	**181.110.528**

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

➤ **Sales of goods and services**

	Financial year ended at 31 December 2020	Financial year ended at 31 December 2019
Zentiva kS Praga	205.553.521	217.905.136
Solacium Pharma SRL	3.091.905	1.137.653
Alvogen Romania S.R.L.	6.311.931	-
Labormed Pharma S.A.	440.662	-
Helvepaharm AG	32.127	-
Zentiva Group AS	16.313.591	-
Zenitva Italia SRL	9.351	-
Total	**231.753.088**	**218.934.539**

From the total sales to the group for the year 2020 are eliminated and are not included in the table above 39,607,632 RON (2019: 75,545,666 RON) representing sales to Zentiva KS and Zentiva Pharma GMBH respectively of goods produced in Turkey and certified for export to the Union European for which the Company acts as an agent. Sales are offset by the cost of the related goods.

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

As part of the intercompany transactions there is also a cash pooling contract. In 2020, the cash pooling contract was transferred from Sanofi following the separation, and a new contract was signed between Zentiva Group a.s., Zentiva S.A. and Al Sirona (Luxembourg) Aquisition S.A.R.L. The amounts in the current account bear interest at the following rates: - 3M ROBOR + 0% for the deposit, -3M ROBOR + 4.03% for loans.

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20. RELATED PARTY DISCLOSURES (continued)

➢ **Purchase of goods and services**

	Financial year ended at 31 December 2020	Financial year ended at 31 December 2019
Zentiva Group a.s.	39.336.473	51.503.800
Labormed Pharma SA	891.065	-
Solacium Pharma SRL	1.305.427	-
Alvogen Romania SRL	5.701.147	-
Zentiva Pharma GMBH	366.618	-
Zentiva Private LTD	853.958	-
Zentiva Italia SRL	173.527	2.204.013
Zentiva k.s.	83.458.763	85.181.626
Total	**132.086.978**	**138.889.439**

From the total group acquisitions for 2020 are eliminated and are not included in the table above 39,607,632 RON (2019: 75,545,666 RON) representing sales to Zenitva KS of goods produced in Turkey and certified for export to the European Union for which The company acts as an agent. Sales are offset by the cost of the related goods.

Information about the Company's transactions with related parties can also be found in:
Note 6.1 "Other operating income",
Note 6.2 "Other operating expenses",
Note 6.4 "Financial income" related to cash pooling account interest.

The ultimate parent company

The ultimate parent company of the company is AI Sirona (Luxemburg) Acquisition S.a.r.l with the registered office in rue de Capucins 5, L13-13 Luxemburg.

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

The last shareholder of the holding company of Zentiva SA is represented by multiple investment funds controlled by Advent International.

There are no other transactions from the ones described between the Company and the Zentiva Group during the financial years 2020 and 2019.

Compensations granted to the key management personnel within the company

Directors, managers and the supervisory committee

In 2020 the Company paid the following amounts to the members of the Board of directors which include fixed remuneration and bonuses :

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	Financial year ended at 31 December 2020	Financial year ended at 31 December 2019
Members of the Board of directors	1,928,866	1,555,329
Total	**1,928,866**	**1,555,329**

20. RELATED PARTY DISCLOSURES (continued)

The Board of Directors consists of 5 people of which only 3 people are remunerated.
Two persons are part of the executive management, and their remuneration is included in the above amounts. The audit committee consists of the other 3 non-executives members.

As of 31 December 2019 and 2020, 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

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.

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21. COMMITMENTS AND CONTINGENCIES (continued)

Legal claims (including the estimated value)

During 2020, the Company was involved in several litigations, of which the most significant are listed below:

- The company was involved in several disputes with the National Health Insurance House ("CNAS") as a result of contesting the VAT paid, related to the clawback tax for the period Q1 2012 - Q4 2012, as well as the method of calculating the individual consumption communicated for determination of the clawback tax for the period Q1 2013 - Q3 2013, requesting the cancellation of the Notifications received from CNAS related to the previously mentioned periods. Currently, the Company is involved in a single litigation in - file no. 1651/2/2014 * - for Q2 2013 which is ongoing with CNAS, while another 5 disputes were definitively resolved at the date of this Report, and have final decisions. Appeals filed by the Company in this case will be resolved by the High Court which established the first hearing on February 25, 2022. At the date of this report it is difficult to estimate the decision of the High Court, which depends of a multitude of factors depending on the evolution of jurisprudence. A new case no. 7592/2/2020 was initiated regarding the recovery of the clawback tax related to the first quarter of 2020. A new recovery law was in force starting with the first quarter of 2020, but CNAS calculated the tax according to the old recovery law (in force in the fourth quarter of 2019). The first hearing in the Bucharest Court of Appeal is to be scheduled.

- The dispute with ANAF for contesting the clawback tax, as well as the penalties calculated for the verified period Q4 2009 - Q3 2011. In 2016, following a fiscal control having as object the clawback tax for the period Q4 2009 - Q3 2011, ANAF issued a decision of tax in the amount of RON 18,457,107 RON ("Initial Decision"), representing the difference clawback and related penalties. During 2016, as a result of the appeal filed by the Company, ANAF annulled the Initial Decision and ordered the re-verification, during 2017, of this fiscal obligation for the period Q4 2009 - Q3 2011. Following this new investigation, ANAF issued a new taxation decision and decisions regarding the accessories, in total amount of RON 8,355,860 (consisting of RON 3,672,966 main debt and RON 4,682,894 penalties) ("Second Decision"). The company also challenged the Second Decision. The appeal was rejected by ANAF, and the Company filed an action in administrative litigation for the annulment of the Second Decision (respectively of the last taxation decision and the decisions regarding the accessories) and of the decision to reject the appeal. On May 28, 2019, following an initial postponement of the ruling, the court of first instance partially admitted the action filed by the Company, in the sense that the 3 heads of application regarding the additionally established clawback contribution and the related accessories were admitted. Specifically, the court admitted the action (i) regarding the main debt in the amount of RON 3,672,966 and (ii) regarding the penalties requested for the total amount of RON 4,494,934 (the end of the request regarding the penalties in the amount of RON 187,960 being rejected). This decision of the court is not, however, final, being appealed by both the Company and ANAF. The first deadline for resolving the appeals was set on January 25, 2022.

- In August 2019, ALPHA TRANSCORD SRL filed, through its judicial administrator, a lawsuit against the Company. The cause, respectively the file no. 25005/3/2019 *, has as object the obligation to make consisting in the obligation of the defendants, among which the Company, to pay the amount of RON 2,262,332.27 and is in the procedural phase of the fund. The Claimant supports the non-payment by the Company of certain due invoices related to the road transport services provided by the Claimant. Thus, the Claimant requests the court to oblige the defendants, including the Company, (i) to pay the amount of RON 2,262,332.27 representing the value of the due invoices related to the road transport services provided under the contract between the parties and (ii) to pay the Applicant's expenses related to the case. The case is ongoing, the next deadline being set for April 27, 2021.

- In 2019, the Company, as plaintiff, filed a lawsuit against the company Laboratoarele Fares Bio Vital SRL and the State Office for Inventions and Trademarks, as defendants. The company requested the cancellation of the trademark "Fares 1929 Distonoplant" on the grounds that this trademark is

21. COMMITMENTS AND CONTINGENCIES (continued)

similar and targets goods identical or similar to the previous trademark "Distonocalm", owned by the Company, which may cause confusion for consumers. Also, considering the reputation of the previous trademark "Distonocalm", by the subsequent registration of the trademark "Fares 1929 Distonoplant" the defendant takes advantage of an incorrect advantage and harms this reputation. The case is ongoing.

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

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to 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 four 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 2020 and 2019.

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 has no loans as of December 31, 2020.

On 31 December 2019, the company does not have loans received and has concluded a cash polling contract with the parent company, a contract which has a variable interest rate (it is presented under note 11, 14 and it has a balance due on 31 December 2020 and 2019).

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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 amounts are presented in RON, unless otherwise stated)

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 2020	EUR	USD	RON	CZK	GBP	Total
Trade receivables	10.522.461	875.586	238.885.616	1.854	3.435	**250.288.953**
Other financial assets	-	-	-	-	-	**-**
Cash and cash equivalents	4.239.089	994.372	401.480.072	-	-	**406.713.534**
Total assets (1)	**14.761.550**	**1.869.958**	**640.365.688**	**1.854**	**3.435**	**657.002.487**
Trade payables - suppliers	65.766.978	6.703.406	102.460.052	3.658	1.733	**174.935.827**
Short-term loans	-	-	-	-	-	**-**
Leasing debts	5.763.825	-	-	-	-	**5.763.825**
Other current payables	-	-	35.508.527	-	-	**35.508.527**
Total debts (2)	**71.530.803**	**6.703.406**	**137.956.836**	**3.658**	**1.733**	**216.208.179**
Difference (1)- (2)	**(56.769.253)**	**(4.833.448)**	**502.408.852**	**(1.804)**	**1.702**	**440.794.308**

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**

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
2020	(5.676.925)	(483.345)	-
2019	(6.475.871)	10.066	-

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 and Note 14.

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.

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.

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22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

As of 31 December 2020	<30 days	30 – 60 days	60 - 180 days	180 – 365 days	Total
Trade receivables and other receivables	76,951,621	22,478,351	70,884,795	79.974.186	**250.288.953**
Cash and cash equivalents	62,590,739	344,122,795	-	-	**406.713.534**
Total assets	**139.542.360**	**366.601.146**	**70.884.795**	**79.974.186**	**657.002.487**
Trade payables – suppliers	54.387.911	31.293.760	39.443.995	49.810.160	**174.935.826**
Leasing debts	814,991	1.469.445	1.469.446	2.009.943	**5.763.825**
Total debts	**55.202.902**	**32.763.205**	**40.913.441**	**51.820.103**	**180.699.651**

As of 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 datorii	**72.073.375**	**23.161.868**	**35.101.123**	**119.475.963**	**249.812.329**

*out of total leasing debts presented within 180-365 days, the amount of 4.426.079 represents receivables over 360 days

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 2020 and 2019.

23. EXPENSES FOR THE STATUTORY AUDITOR

In 2020 the statutory Ernst & Young Assurance Services SRL. Auditor had a contractual fee for the statutory audit of 75.000 EUR for the statutory audit of the individual annual financial statements of the company, and 4.000 EUR for other reports required by the regulations in place.

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24. EVENTS OCCURRING AFTER THE REPORTING PERIOD

COVID-19

In the context of the spread of new Covid – 19 strains and the increased number of cases, despite the start of the vaccination campaign, Zentiva SA has continued the following measures to maintain the supply of medicines on the market and ensure the safety of all its employees:

- All the non-essential business travel are still stopped;
- The additional cleaning and disinfection are carried out within all Zentiva premises;
- All the employees that have this possibility, have to work from home
- the production of paracetamol remains increased, this being one of the basic medicines used for the treatment of Covid-19.

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

- Delays and blockages in ensuring raw materials and other goods necessary for the manufacturing process;
- Dysfunctions in ensuring the continuity of the production process due to the limited availability of the labour force
- 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 orders 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 page 63 were approved by the Board of Directors and were authorized to be issued in accordance with the resolution of the Administrators, date 26 March 2021.

Administrator,
Simona Cocos

Signature
Company stamp

SOCIETATEA COMERCIALA ZENTIVA S.A.
ZENTIVA
22
BUCURESTI

Prepared by,
Claudiu Manolescu
Chief Financial Officer

Signature

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Annual Report of the Board of Directors
for the fiscal year 2020

Reported date: 31/12/2020

- **ZENTIVA S.A.**
- **Registered office:** 50, Theodor Pallady Blvd., Bucharest
- **Phone / Fax:** 021.304.72.00, 021.304.75.00 / 021.345.40.04
- **No. and registration date with the Trade Register Office:** J40/363/1991
- **Tax Identification Number:** RO 336206
- **Class, type, no. and main characteristics of securities:** 697,017,040 dematerialized class I stocks;
- **Regulated market wherein trading is performed:** Bucharest Stock Exchange;
- **Market value:** RON / stock 2.9 representing the reference price on the last trading day in 2020;

Market capitalization as at the 31 December 2020: RON 2,021,349,416.

ZENTIVA

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1. STOCKS AND SHAREHOLDERS

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

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

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

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

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

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

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

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

On 31 August 2018 it was registered the transfer of shares from Venoma Holdings Limited, ZENTIVA NV and Sanofi Aventis Europe to Zentiva Group a.s. Therefore, Zentiva Group a.s became shareholder of Zentiva SA (holding of 93.2295% of the share capital).

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

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

Between July 5, 2019 – August 5, 2019 (subscription period), the Company carried out the operation of share capital increase by granting preferential rights, by issuing a number of 300,000,000 new shares, with a nominal value of 0.1 RON / share, which were offered for subscription to the shareholders registered in the shareholders' register of the Company held by Depozitarul Central SA, on the registration date of May 16, 2019. Following the subscriptions made, out of the total number of 300,000,000 new shares, 19,944,110 shares were not subscribed and were canceled in accordance with the provisions of the decision of the extraordinary general meeting of the shareholders of the Company dated April 30, 2019.

1. STOCKS AND SHAREHOLDERS (continued)

After the share capital increase, the share capital of the Company is RON 69,701,704 (compared with RON 41,696,115 prior to the increase), being divided into 697,017,040 nominal shares with a value of 0,1 RON each, and is held as follows:

- the shareholder Zentiva Group a.s. owns 668,778,101 shares, representing 95.9486% of the Company's share capital;
- other natural and legal persons hold 28,238,939 shares, representing 4.0514% of the Company's share capital.

The synthetic shareholding structure as of 31 December 2020 remained identical to the one as of December 31, 2019, respectively:

Shareholding structure	31 December 2019 (%)	31 December 2020 (%)
Zentiva Group a.s.*	95.9486	95.9486
Other minority shareholders	4.0514	4.0514
Total	**100**	**100**

Source: Central Depository

** On December 31, 2019, the company Zentiva Group a.s. merged with the company AI Sirona Bidco s.r.o., the latter being the sole shareholder of Zentiva Group a.s. Following the merger, the company Zentiva Group a.s. ceased to exist, its entire assets being transferred to the company AI Sirona Bidco s.r.o., which, as of December 31st, 2019, also changed its legal form from a limited liability company ("s.r.o.") to a joint stock company ("a.s."), as well as the name from AI Sirona Bidco s.r.o. to Zentiva Group a.s.*

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

Out of the total number of 697,017,040 shares, 696,833,149 shares are being traded on the capital market, the rest of 183,891 shares being held by Zentiva SA.

The Company did not trade its own stocks during the year 2020.

The market capitalization of the Zentiva SA stocks as at the 31 December 2020 amounted to RON 2,021,349,416.

As of 31 December 2020 the stock price amounted to RON / share 2.9.

As of 31 December 2020, the Company has net assets of RON 785,364,075 which represents more than 50% of the share capital of RON 69,701,704 (as of 31 December 2019, the Company had net assets of RON 701.999.918 which represented more than 50% of the share capital of RON 69,701,704) which is in compliance with the requirements of Romanian Company Law no. 31/1990, as amended and supplemented (the "**Company Law**"). As of 31 December 2020, the Company has a set aside as legal reserve RON 2,896,448 from the 2020 profit since it is a legal requirement to transfer 5% of the yearly profits to the legal reserve until their balance equals at least 20% of the share capital.

Company mergers and re-organizations

In 2020 the Company did not undergo any mergers or re-organizations.

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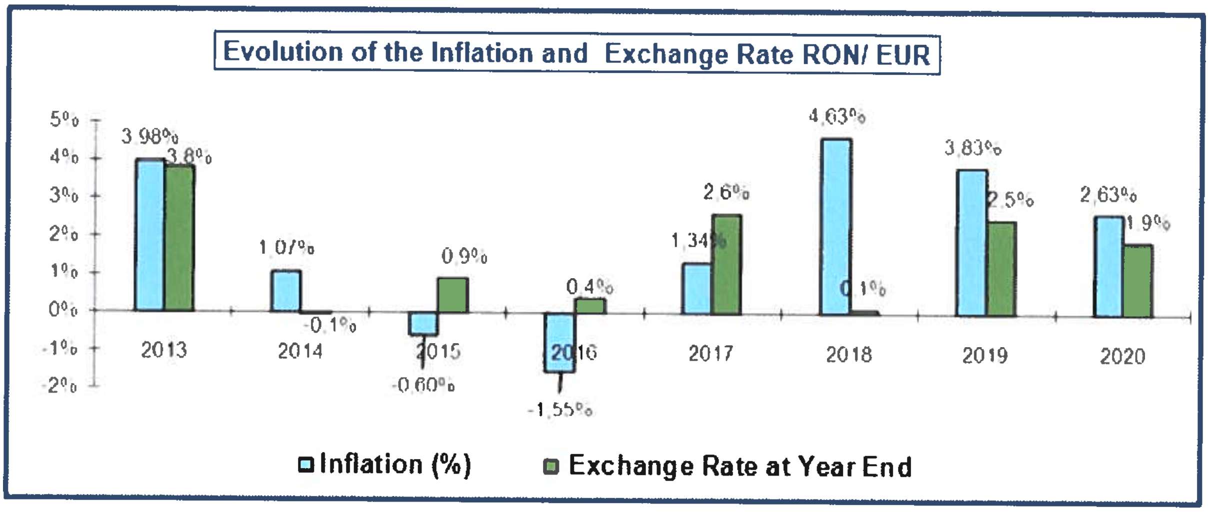
2. ECONOMIC & FINANCIAL ENVIRONMENT

Evolution of the macroeconomic indicators in Romania

The inflation rate had significant fluctuations, from 3.98% in 2013, to 2.63% in 2020. In 2020, the national currency depreciated in relation to EUR by 1.9%, from RON / EUR 4.7793 at 31 December 2019 to RON / EUR 4.8694 at 31 December 2020:



Source: National Institute of Statistics and NBR

Pharmaceutical industry

The Romanian pharmaceutical market, including prescription and over-the-counter medicines, had in 2020 a growth rate of 3.0% (in value) versus the previous year, reaching the level of EUR 4.150 million (Source: IQVIA Report from December 2020).

At the same time, the Romanian generics market grew by 3.1% in value reaching the level of EUR 759 million.

3. COMPANY'S ACTIVITY IN THE YEAR 2020

For 2020, ZENTIVA S.A. reports a turnover of 558.0 MRON being slightly lower than previous year and an operating profit of 65.6 MRON higher by 50.0% vs. 2019, being explained by the increase of operational efficiency and decrease of expenses.

In 2020, the achieved production volume was higher by 2.1 million commercial units than the production of 2019, representing a growth of 2%.

The Company closed the year 2020 with a net profit of RON 65,635,440.

The most important achievements in 2020 were the following:

- Successfully finalizing the transfer of another 8 products to be locally manufactured;
- Exports represented 52 % of the 2020 production plan (56.2 million commercial units). Goods were primarily exported to European market (Germany, France, Czech Republic, Slovakia, Russia etc.).
- Investments totaling RON 21.6 million (EUR 4.4 million) for new manufacturing equipment, upgrading the existing equipment.

3. COMPANY'S ACTIVITY IN THE YEAR 2020 (continued)

3.1. Reporting base

As at the 31 December 2020, Zentiva SA prepared financial statements in accordance to the Order of the Ministry of Finance no. 2844/2016 approving the accounting regulations in line with the International Financial Reporting Standards, applicable for trade companies whose securities are accepted for trading on a regulated market, with all the subsequent amendments and supplements in force.

a. Sales – Volumes and amounts

The net turnover amounts to RON 557,960,940 as of 31 December 2020 (2019: RON 559,007,373).

The Zentiva's average selling price (finished goods and goods for resale) was RON 4.16 in 2020 and RON 4.42 in 2019. The decrease in price is explained by the different mix of products, the weight of products for hospitals and chronic diseases significantly decreased in total sales. However the negative impact was partially mitigated by the reference price indexation for disbursed medicines regulated by the authorities starting with 1st of July 2020 and by the decrease in claw back tax from 1st April 2020 through implementation of the differentiated clawback tax mechanism according to type and origin of the traded medicines.

	2019	2020
Sales of goods (million RON)	541.2	540.4
Sold quantity (million units)	122.4	129.8
Average selling price (RON / sold unit)	4.42	4.16

Source: Zentiva, Financial Statements Report, note 5

Exports represented 43.2% out of total 2020 turnover (RON 241.1 million), compared to 40% in 2019 (RON 219.0 million). The export sales were made through Zentiva k.s. (part of Zentiva Group). They were mainly destined for European Union markets.

The percentage of OTC products within Zentiva SA (over-the-counter medicines) from the total sales represented 4.5% in 2020 versus 5% in the previous year.

The sales by types of products 2019 – 2020 are presented below:

Product type	2019	2020
Ethical (Rx)	95%	95.5%
OTC	5%	4.5%

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3. COMPANY'S ACTIVITY IN THE YEAR 2020 (continued)

b. Operating expenses

Description	Million RON		Variation	
	2019	2020	%	Mil RON
Operating expenses, out of which:	**514.1**	**498.4**	**-3%**	**-15.7**
Raw materials, consumables and goods	284.4	284.5	0%	0.1
Personnel expenses	82.8	99.0	20%	16.2
Depreciation and provisions; adjustments for impairment losses	19.8	17.3	-13%	-2.6
Other operating expenses (including marketing expenses and inventory movement)	127.0	97.7	-23%	-29.4
Turnover	**559.0**	**558.0**	**0%**	**-1.0**
Other operating revenues	**1.8**	**13.8**	**666%**	**12.0**

Expenses for raw materials, consumables and goods are in line with 2019, although the quantity produced increased by 2%, overall this category remain flat in value due to different mix of produced products and trading goods purchased.

Personnel expenses increased by 20% in 2020, respectively by RON 16.2 million; the number of employees was 770 at the end of 2020 and 751 at the end of 2019. The increase in labor costs was influenced by the internalization of employees from an external workforce supplier, but also by the increase of employee number and by the annual indexation of wages according to Company's policy.

Other operating expenses decreased by RON 29.4 million compared to 2019. The decrease is mainly explained by the reduction of cost with staff rental due to partially internalization, lower level of travel cost in the context of traffic restriction due to the pandemic and regularization of administrative expenses in 2019 from previous year.

Other operating revenues are higher by RON 12,0 million than previous year thanks to the increase if reinvoicing to the Group companies, as a result of the new businesses that joined Zentiva Group. Reinvoices refer to the administrative support services and to the commercial team services.

c. Cash available

The Company's cash available at the end of 2020 amounted RON 406.7 million while as of 31 December 2019 were RON 388,5 million consisting of: deposits in cash pooling – RON 343.3 million (2019: RON 380,0 million); advance for payment of dividends made toward to Central Depositary in amount of RON 0.8 million (2019: RON 0.9 million) and cash in banks and cash on hand in amount of RON 62.6 million (2019: RON 7,6 million).

Starting with September 2013, the Company concluded a cash pooling agreement with Sanofi SA France.

On the 21st of 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 cash pooling agreement between Zentiva SA and Sanofi SA France was transferred to Zentiv Group a.s.
In November 2020, the Company cash pooling contract was transferred from Zentiva Group a.s. to Ai Sirona (Luxembourg) Acquisition SARL, in the same time the debt of RON 45,977,508 of ZENTIVA SA to the AI Sirona was compensated.
According to the contractual provisions, the interest rate applied is ROBOR3M+4.03% if the Company borrows, ROBOR3M+0% if it makes deposits.

The interest received in 2020 from cash pooling was RON 9,352,520 (2019 interest received was RON 11,150,271). Details are available in note 6.4 from the financial statements.

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3. COMPANY'S ACTIVITY IN THE YEAR 2020 (continued)

3.2. Portfolio of products and distribution market

The product portfolio of Zentiva SA includes 150 products for human use, as solids (tablets, capsules, and pellets) and injectable solutions.

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

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

3.3. Selection policy for suppliers of raw materials

The policy of Zentiva SA involves the permanent search for suppliers which deliver high quality raw materials.
The Quality Department assesses the potential suppliers and the existing ones on regular basis. Their focus is on the quality of documentation provided by the suppliers, which is necessary for authorization purposes and the quality of the supplied products, as well as the products behavior during the operating process.

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

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

According to the statistical data supplied by IQVIA, Zentiva had in 2020 an average producer price of RON 8.78* (+7.3% increase versus the average of RON 8.18 in 2019), ensuring patient accessibility to cost-effective medication.

* the average price is computed based on IQVIA consumption data base (sales on the Romanian market from pharmacy to the patients)

As a reference, the average producer price for all medicines in local pharmaceutical market was of RON 29.01 in 2020 (+3.4% increase versus the average of RON 28.06 in 2019).

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

The main importers of pharmaceutical products are: Sanofi, Novartis, Pfizer, MSD, Johnson&Johnson

3.5. Information about personnel

As of 31 December 2020, Zentiva SA had 770 employees (31 December 2019: 751 employees).

The employees' rights and other labor relationships are regulated by the Collective Labor Agreement. For 40% of the employees, such rights are defended by the Zentiva SA Trade Union.

3.6. Information about Company's environmental policy

The following regulatory documents related to environmental protection were applicable in 2020:

- Environmental Permit no. 234/7 May 2012, valid for 10 years;
- Wastewater Collection Agreement no. 1521/31 August 2012, valid for an unlimited period;
- Water management Authorization 517/B/2-Nov-2018, valid up to 30-Nov-2021.

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

The audits performed by Lloyd's Register Romania confirmed that the Environmental Management Systems, which was implemented according to EN ISO 14001:2004, and the Energy Management Systems are properly maintained.

3.7. Research and development activity

The R&D expenses for 2020 were RON 7.9 million vs. RON 9.3 million in 2019, and consist in activities linked to the transfer of products. For 2021, R&D expenses are forecasted at RON 7.2 million.

3.8. Investment activity

In 2020, the Company investment expenses amounted EUR 4.4 million. The objectives of the investment program, which will be continued in 2021 are the preservation of the Good Manufacturing Practice Guidelines and the updating of technologies in line with the international quality and environmental standards, together with the extension of the product portfolio and of the new forms of packaging. The investment level foreseen in budget 2021 is EUR 2.7 million

In 2020, the financing of the investments programs was made from own sources.

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4. COMPANY'S TANGIBLE ASSETS

4.1. The operating activity of Zentiva SA is located at 50, Theodor Pallady Blvd., on the Dudesti industrial platform, in the South-Eastern of Bucharest Municipality.

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

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

The useful life and depreciation method are subject to periodic revision, in order to ensure the expectations relating to the economic benefits of the assets.

At the end of 2020 the lands and buildings were revalued which lead to a surplus reserve from reevaluation of RON 21,227,460 and a total increase in assets of RON 27,049,685.

Gross Value and depreciation on 2020 comparing to year 2019 is the following.

PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery, Tools & Equipment	Construction in Progress	Total
Gross Value 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 31 December 2019	**42,503,676**	**49,099,050**	**186,638,148**	**33,209,323**	**311,450,197**
Depreciation 1 January 2019	**-**	**-3,603,307**	**140,948,100**	**-**	**-144,551,408**
Change for the year	-	-3,607,111	-6,782,158	-2,035,787	**-12,443,056**
Disposals	-	170	2,251,435		**2,251,605**
Depreciation 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**

	Land	Buildings	Machinery, Tools & Equipment	Construction in Progress	Total
Gross Value 1 January 2020	**42.503.676**	**49.099.050**	**186.638.148**	**33.209.323**	**311.450.197**
Additions	-	109.737	-	21.592.080	**21.701.817**
Impact from Reevaluation reserve	10.425.682	10.801.777	-	-	**21.227.459**
Impact from reevaluation in profit and loss	173.435	5.648.791	-	-	**5.822.226**
Cancelled depreciation after reevaluation	(402)	(10.233.197)			**(10.233.599)**
Disposals	-	-	(174.128)	-	**(174.128)**
Transfers	-	-	46.731.012	(46.731.012)	**-**
Gross Value 31 December 2020	**53.102.391**	**55.426.158**	**233.195.032**	**8.070.391**	**349.793.972**
Depreciation 1 January 2020	**-**	**(7.210.248)**	**(145.478.823)**	**(2.053.787)**	**(154.742.858)**
Change for the year	-	(3.022.949)	(11.603.241)	(1.017.080)	**(15.643.270)**
Cancelled depreciation after reevaluation	402	10.233.197	-	-	**10.233.599**
Disposals	-	-	174.128	-	**174.128**
Depreciation 31 December 2020	**402**	**0**	**(156.907.936)**	**(3.070.867)**	**(159.978.401)**
Net Book Value 31 December 2020	**53.102.793**	**55.426.158**	**76.287.096**	**4.999.524**	**189.815.571**

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5. COMPANY'S MANAGEMENT

5.1. Board of Directors

As of 31 December 2020, the Board of Directors had the following composition:

Nicholas Robert Haggar *Chairman of the Board – Starting with December 2019*

Born in 1965, Nick Haggar graduated from the Faculty of Industrial and Manufacturing Engineering and holds an MBA from Cranfield Business School.

Nick has been working in the pharmaceutical and healthcare industry for more than 30 years. After starting his career in technical operations at Baxter Healthcare, he held leadership positions in Ranbaxy and GlaxoSmithKline. Later, he was the Region Head responsible for Western Europe, the Middle East and Africa at Sandoz (Novartis), and before Zentiva he worked at InsudPharma where he was CEO during 2016-2019.

He was also President of the organization Medicines for Europe (former EGA) during 2014-2015.

Nick Haggar is also part of the governing bodies of several entities from Zentiva group, including being a member of the Board of Directors of the company Zentiva Group as.

Simona Cocos
Member of the Board – Starting with April 2010

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

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

Margareta Tanase
Member of the Board – Starting with April 2010

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

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

Kenneth Lynard
Member of the Board – Starting with October 2019

Born in 1968, Kenneth holds a MSc in Auditing & Accounting from Copenhagen Business School (Denmark) and an Executive MBA from IMD, Lausanne (Switzerland).

Earlier in his career, Kenneth was the CFO for Europe, the Middle East, Africa and Canada at Medtronic, one of the world's largest medical device companies, and he has also held multiple senior positions in other regional healthcare and financial services companies.

During 2012-2016, Kenneth was the CFO for Commercial Operations of Gilead Sciences, a large California (USA) based biopharmaceutical company, and Group CFO at Affidea during 2017-2019, a privately held advanced diagnostics imaging company.

5. COMPANY'S MANAGEMENT (continued)

Kenneth Lynard is also part of the governing bodies of several other entities from Zentiva group, including being a member of the Board of Directors and Chief Financial Officer of the company Zentiva Group as.

Francois Noel MARCHAND:
Independent Member of the Board – Starting February 2017

Born in 1971, Francois holds a Diploma in Management at EDHEC Lille (France) and he is the Human Resources Director for Auchan Romania, a company with a turnover of EUR 1.1 billion, 33 stores and more than 10,000 employees.

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

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

5.2. Executive management

Executive Management Members as of December 31, 2020:

Simona Cocos - General Manager

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

Margareta Tanase - Industrial Affairs Director

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

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

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

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

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6. FINANCIAL POSITION

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

BALANCE SHEET (RON)	31st of December 2019	31st of December 2020
Total tangible and intangible assets	**209,976,067**	**238,463,179**
Total inventories	**123,841,461**	**137,798,353**
Total receivables	**295,617,763**	**250,288,953**
Cash and cash equivalent	**388,473,821**	**406,713,534**
Current liabilities	**(298,930,274)**	**(223,361,795)**
Total assets less current liabilities	**718,978,835**	**809,902,223**
Total shareholders' equity	**701,999,918**	**785,364,075**

Income statement (RON)	1st of January 31st of December 2019	1st of January 31st of December 2020
Net turnover	**559,007,373**	**557,960,940**
Other operating income	**1,799,337**	**13,783,653**
Operating expenses - Total	**514,101,407**	**498,399,316**
Operating profit / (loss)	**46,705,303**	**73,345,277**
Net profit / (loss)	**43,750,672**	**65,635,440**

The distribution of the profit for the financial year closed as of 31 December 2020 in the amount of RON 65,635,440 will be decided and approved in April 2021, when the General Meeting of Shareholders will take place.

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7. COMPANY'S EXPOSURE TO RISKS

Price risk

Ethical products from local portfolio, which are sold on local market based on prescriptions and for which the price is regulated by the Ministry of Health represent around 95% of the total value of sales of goods on the local market. The price of over-the-counter products is established by supply and demand.

No potential risks were identified that are likely to affect the Company's liquidity.

The Company did not purchase own stocks.

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

Market risk

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates, The Company's exposure to the risk of changes in market interest rates is not significant, since as of 31st of December 2020, the Company only has an overdraft of RON 10 million, that was not used at the end of the year.
At 31st December 2020 the Company did not have any loans received. It does have a cash pooling contract with the parent company and it has a variable interest, as detailed in Note 14 the end balance as of 31st of December 2020 and 2019 is balance due.
The Company's exposure to the interest rate risk changes on the market is not significant.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a different currency from the Company's presentation currency).

The Company has transactions in a currency other than its functional currency (RON), mainly in EUR and USD. In 2020, the Company did not use any financial instruments to mitigate this risk.

Capital management

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

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7. COMPANY'S EXPOSURE TO RISKS (continued)

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is rather not exposed to credit risk from its operating activities, as most of its trade receivables are from related parties.

The exposure to credit risk from its financing activities, including deposits with banks is not significant, as such deposits are usually overnight.

Trade receivables

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

Trade receivables are monitored at the end of each period and any shipments for a major customers are analyzed. Furthermore, a significant part of the third party trade receivables are insured by EULER HERMES.

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

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Company's treasury department in accordance with the Company's policy, The Company's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2018 is the carrying amounts as illustrated in Note 22 of the statutory financial statements.

Liquidity risk

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

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

All of the company's debt will become mature in less than one year, with the exception of deferred tax, provisions and lease contract under IFRS16.

8. OBJECTIVES FOR THE YEAR 2021

For 2021, our objective is to maintain our leadership in the healthcare field, focusing on identifying growth opportunities and on diversifying our business within European quality standards; to ensure an efficient and profitable organization while remaining fully committed to delivering the best possible service to our customers and upholding our commitments towards Romanian patients' needs.

Our key priorities for 2021 are:

- To maintain the profitability of the local producer, considering an increase of costs for utilities, constant increase of costs for materials, higher due also to pandemic situation (raw materials, excipients, and packaging materials),
- To enhance the production capacity, by implementing the investment plan for 2021;
- To diversify and enhance Zentiva's presence on various markets through exports and transfer of new products that should be produced locally;
- To maintain the sales of products on the local market;
- To strengthen our product portfolio through new launches.

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9. INTERNAL CONTROL

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

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

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

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

Code of Ethics and adherence to laws	**The pharmaceutical industry is also subject to regulatory constraints at both national and international levels. The company applies internal policies and standards derived from these external requirements in order to ensure compliance with laws and regulations.**
Well defined system of policies and procedures	Well written policies and procedures increase organizational accountability and transparency and become fundamental to quality assurance and quality improvement programs.
Delegations of authority and powers	Operations are correctly managed when powers, delegations and limits are clearly defined, justified, known by all.
Segregation of duties	Segregation of duties helps ensuring that errors, irregularities or acts of fraud are prevented or detected early enough. Segregation of duties means that no single individual should have control over two or more key phases of a transaction or process. Effective segregation is achieved by: • Assigning responsibilities in a manner consistent with the organization; • Cross-checking and/or close supervision of sensitive tasks; • Implementing mitigation / compensating controls when conflicts exist.
Fraud prevention and detection	Fraud prevention is one of the priorities of internal control.
Training	All employees must have the relevant competencies to perform their role as well as understand the policies and procedures applicable to their responsibility. Trainings are developed in a way that also promotes the awareness of all employees on internal control.
Annual assessment and periodical monitoring	On an annual basis an assessment of risks and mitigating controls put in place by management is conducted in order to manage risks. Periodical monitoring is another tool used to test the effectiveness of the controls previously identified and assessed and following this action plans to close the eventual deficiencies are implemented.

10. ANNUAL REPORT ON CORPORATE GOVERNANCE

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

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

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

General Shareholders Assembly

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

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

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

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

Convening of the General Assemblies of Shareholders

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

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

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

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

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

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

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

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

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

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

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

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

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

In case on the meeting agenda is the election of Board members, the applications for the position of members in the Company's Board of Directors may be submitted, according to Article 117^1 of Law no. 31/1990, republished, as subsequently amended and supplemented, at the Company's seat by the date mentioned in the convening, at the latest. A CV will be included for each nominated applicant, CV indicating at least the applicant's name, residence and professional qualification.

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

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

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

Shareholders questions

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

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

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

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

The Shareholders General Assemblies main attributions

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

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

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

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

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10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

The resolutions of the General Meeting of Shareholders

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

Upon the proposal of the President of the General Meeting or of a group of attending shareholders (present whether personally or represented) holding at least ¼ of the registered share capital, secret voting may be decided upon.

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

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

- at the first convening: the shareholders representing at least ½ of the Company's share capital need to be present and the decisions need to be made based on the favorable vote of the shareholders holding the absolute majority of the share capital present or represented in the meeting;
- upon the second convening: decisions can be made regardless of the share in the capital present/represented in the meeting, based on the favorable vote of the majority of the share capital present or represented in the meeting.

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

- at the first convening: shareholders representing at least ¾ of the share capital need to be present in the meeting, and decisions need to be made based on the favorable vote of the shareholders holding at least ½ of the share capital, except for the case provided under Article 8.1.5. from the Constitutive Act of the Company;
- at the second convening: shareholders representing at least ½ of the share capital need to be present and decisions need to be made based on the favorable vote of shareholders holding at least 1/3 of the share capital, which, in the case of the decisions for the amendment of the company's main object of activity, for the decrease or increase of the share capital, for the change of the legal form, for merger, spin-off or dissolution of the Company, cannot be less than two thirds of the voting rights held by the shareholders present or represented in the Meeting.

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

Board of Directors

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

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

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

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

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10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

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

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

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

The attributions of the Board of Directors

The Board of Directors has the following main prerogatives:

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

The Company publicly announces, in accordance with the law, by drafting and publishing a report, the significant transactions with affiliated parties, after their approval and no later than at the time of their conclusion. "Significant transaction" shall mean any transfer of resources, services or obligations whether or not it involves the payment of a price, the individual or aggregate value of which represents more than 5% of the Company's net assets, according to the latest individual financial statements published by the Company.

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

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

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

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

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

During 2020, the structure of the Company's Board of Directors included 1 independent director out of a total of 5 directors.

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

In 2020, the Board of Directors gathered in 7 meetings, with the participation of 4 or 5 of its members – and passed decisions which allowed it to efficiently fulfil its duties. Thus, on occasion of its meetings, the Board of Directors thoroughly analyzed the financial results obtained during the reporting period and the year-to-date results, as well as the economic performance taking into account the budget and the similar period of the previous year. Depending on the situation, the Board requested detailed explanations from the senior management with regard to the plans for increased production efficiency, investment plans, established provisions, write-off of expired inventories, liquidity management, operating and general profitability. Further to the thorough analysis of the results associated with such period, the Board decided on the approval thereof for publication and submission to BVB.

Concerning the directors' remuneration policy, the remuneration of the members of the Board of Directors for the 2020 financial year was subject to the approval of the ordinary general meeting of shareholders convened for April 29, 2020, and it was fixed at an aggregate maximum level. The renumeration for the Board of Directors was RON 1,928,866 in 2020 and RON 1,555,329 in 2019.

The remuneration of the executive directors comprises a fixed monthly component and an annual bonus, while the remuneration of the independent director includes only a fixed monthly component, without other fixed or variable elements or components.
Non-executive directors (except the independent director) have a free mandate.

In 2017 an Audit Committee has been established, in order to support the Board of Directors in overseeing the internal control system, particularly the efficacy of financial reporting.

During 2020, the composition of the Audit Committee did not change, the following persons still appearing in the structure of the Audit Committee:

- Marchand Francois Noel - Chairman of the Audit Committee (Independent Member);
- Nicholas Robert Haggar - Member of the Audit Committee;
- Kenneth Lynard - Member of the Audit Committee.

<u>Executive Management – General Manager</u>

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

The Company will be represented and validly bound in relations with third parties by the General Manager.

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

10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

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

The General Manager operationally reports to the Board of Directors.

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

Executive Management - Manager of Industrial Operations

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

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

Shareholders' rights

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

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

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

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

Social and Environmental Responsibility

The Company has constant concerns with regard to Social and Environmental Responsibility, including multiple components, among which a major position is occupied by the briefing and education of the public and of patients. The Company participated and got continuously involved in programs and campaigns whose emphasis was placed on the vital importance of being aware of the risk factors and of regularly undergoing medical investigations.

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10. ANNUAL REPORT ON CORPORATE GOVERNANCE (continued)

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

Corporate Governance Code

The Company first adhered to the Corporate Governance Code issued by the Bucharest Stock Exchange in 2010. In 2020, the Company continued to apply in large proportion the principles of corporate governance provided by the Corporate Governance Code published by the Bucharest Stock Exchange on 22 September 2015, and where the Company deviates from the provisions of the Code, the "apply or explain" principle is applied, as shown below.

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

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

Code provisions	Complies	Does not comply or partially complies	If NO, then EXPLAIN
Section A - Responsibilities			
A1 All companies should have internal regulation of the Board which includes terms of reference/responsibilities for Board and key management functions of the company, applying, among others, the General Principles of Section A.		X	The main aspects in relation to the Board of Directors functioning /attributions are identified within the Company Constitutive Deed published on the Company website in the dedicated Investor Relations section.
A2 Provisions for the management of conflict of interest should be included in Board regulation. In any event, members of the Board should notify the Board of any conflicts of interest which have arisen or may arise, and should refrain from taking part in the discussion (including by not being present where this does not render the meeting non-quorate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest.		X	The main aspects in relation to the conflict of interest's situations are identified and solved according to the current applicable local/group procedures (i.e. Conflict of Interest Policy, Code of Ethics). However the management of the conflict of interest process is overseen by the Compliance Officer function.
A3 The Board of Directors or the Supervisory Board should have at least five members.	X		
A4 The majority of the members of the Board of Directors should be non-executive. At least one member of the Board of Directors or Supervisory Board should be independent, in the case of Standard Tier companies. Not less than two non-executive members of the Board of Directors or Supervisory Board should be independent, in the case of Premium Tier Companies. Each member of the Board of Directors or Supervisory Board, as the case may be, should submit a declaration that he/she is independent at the moment of his/her nomination for election or re-election as well as when any change in his/her status arises, by demonstrating the ground on which he/she is considered independent in character and judgment.	X		
A5 A Board member's other relatively permanent professional commitments and engagements, including executive and non-executive Board positions	X		

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Code provisions	Complies	Does not comply or partially complies	If NO, then EXPLAIN
in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate.			
A6 Any member of the Board should submit to the Board, information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights. This obligation concerns any kind of relationship which may affect the position of the member on issues decided by the Board.	X		
A7 The company should appoint a Board secretary responsible for supporting the work of the Board.	X		
A8 The corporate governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the chairman or the nomination committee and, if it has, summarize key action points and changes resulting from it. The company should have a policy/guidance regarding the evaluation of the Board containing the purpose, criteria and frequency of the evaluation process.		X	Most of the members of the Board of Directors are currently occupying various management positions within the group proving solid skills and capabilities in their areas. Their performance is regularly assessed as per the internal rules/policies.
A9 The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities.	X		
A10 The corporate governance statement should contain information on the precise number of the independent members of the Board of Directors.	X		
A11 The Board of Premium Tier companies should set up a nomination committee formed of non-executives, which will lead the process for Board appointments and make recommendations to the Board. The majority of the members of the nomination committee should be independent.		X	The company is in the standard category.
Section B – Risk Management and Internal Control System			
B1 The Board should set up an audit committee, and at least one member should be an independent non-executive. The majority of members, including the chairman, should have proven an adequate qualification relevant to the functions and responsibilities of the committee. At least one member of the audit committee should have proven and adequate auditing or accounting experience. In the case of Premium Tier companies, the audit committee should be composed of at least three members and the majority of the audit committee should be independent.	X		
B2 The audit committee should be chaired by an independent non-executive member.	X		The Audit Committee, regardless of its structure, is chaired by the independent non-executive director.
B3 Among its responsibilities, the audit committee should undertake an annual assessment of the system of internal control.		X	The assessment of the internal control system is performed at Zentiva group level, based on the policies implemented at group level.
B4 The assessment should consider the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the audit committee of the Board, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Board.		X	All areas mentioned in the description of the recommendation are covered by the annual assessment performed by the dedicated country and group level internal control functions.
B5 The audit committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties.		X	The evaluation of conflicts of interest in transactions between the Company and the related parties is taken into account within the related internal documentation.
B6 The audit committee should evaluate the efficiency of the internal control system and risk management system.		X	The efficiency of the internal control and risk management systems is covered by the dedicated internal

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Code provisions	Complies	Does not comply or partially complies	If NO, then EXPLAIN
			control function organized at group level.
B7 The audit committee should monitor the application of statutory and generally accepted standards of internal auditing. The audit committee should receive and evaluate the reports of the internal audit team.		X	Application of statutory and generally accepted standards of internal auditing is monitored by the dedicated internal control function organized at group level.
B8 Whenever the Code mentions reviews or analysis to be exercised by the Audit Committee, these should be followed by cyclical (at least annual), or ad-hoc reports to be submitted to the Board afterwards.		X	As a rule, such reports/ analyses performed by the relevant functions are communicated to the Board by the dedicated internal control function.
B9 No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related parties.	X		
B10 The Board should adopt a policy ensuring that any transaction of the company with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of the company (as stated in the latest financial report), should be approved by the Board following an obligatory opinion of the Board's audit committee, and fairly disclosed to the shareholders and potential investors, to the extent that such transactions fall under the category of events subject to disclosure requirements.		X	The Company applies transfer pricing policies in accordance with the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations and local Romanian legislation. All significant transactions are assessed by internal local and group experts to make sure that they are in line with external transfer pricing guidelines and regulations and internal transfer pricing policies. The advice/support from established external advisors is sought where necessary. The compliance with valid transfer pricing regulations ensures that the prices used in intercompany transactions are based on the arm's length principle. With respect to determining the appropriate arm's length return/margin for products and services, external databases are utilized to determine the return/margin earned by companies with similar functions, risks and assets. Transactions with affiliates are supported by documentation and recorded in the financial records of the Company. The Company prepares, in accordance with Law no. 24/2017 and regulation no. 5/2018, reports regarding the significant transactions concluded during the relevant period. The six monthly report is subject to procedures undertaken by the Company external auditors on which a report is completed and submitted to FSA and is available on the Company website.
B11 The internal audits should be carried out by a separate structural division (internal audit department) within the company or by retaining an independent third-party entity.	X		The internal audits are carried out by the group level audit function, i.e. the Internal Audit Department.
B12 To ensure the fulfillment of the core functions of the internal audit department, it should report functionally to the Board via the audit committee. For administrative purposes and in the scope related to the obligations of the management to monitor and mitigate risks, it should report directly to the chief executive officer.		X	The relevant functions are not formal integrated/ subordinate in the structure of Board of Directors, being separately organized at group level.

Code provisions	Complies	Does not comply or partially complies	If NO, then EXPLAIN
Section C – Fair Rewards and Motivation			
C1 The company should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review. The remuneration policy should be formulated in such a way that allows stakeholders to understand the principles and rationale behind the remuneration of the members of the Board and the CEO, as well as of the members of the Management Board in two-tier board systems. It should describe the remuneration governance and decision-making process, detail the components of executive remuneration (i.e. salaries, annual bonus, long term stock-linked incentives, benefits in kind, pensions, and others) and describe each component's purpose, principles and assumptions (including the general performance criteria related to any form of variable remuneration). In addition, the remuneration policy should disclose the duration of the executive's contract and their notice period and eventual compensation for revocation without cause. The remuneration report should present the implementation of the remuneration policy vis-à-vis the persons identified in the remuneration policy during the annual period under review. Any essential change of the remuneration policy should be published on the corporate website in a timely fashion.		X	The remuneration of the members of the Board of Directors is subject to the approval of the ordinary general meeting of shareholders, being fixed at an aggregate maximum level. The remuneration of the executive directors comprises a fixed monthly component and an annual bonus, while the remuneration of the independent director includes only a fixed monthly component, without other fixed or variable elements or components. The remuneration policy is being prepared and will be published on the Company's website.
Section D – Building value through investors' relations			
D1 The company should have an Investor Relations function – indicating to the general public the person (s) responsible or the organizational unit. In addition to information required by legal provisions, the company should include on its website a section dedicated to Investor Relations, both in Romanian and English, with all relevant information of interest to investors, including:	X		Only part of the relevant information published on the dedicated Investor Relations section is disseminated in English (i.e. the current reports, informative materials/ decisions related to General Assemblies). Dissemination in English of all related Investor Relations information will be considered. There is a designated person for investor relations.
D.1.1. Principal corporate regulations: the articles of association, general shareholders' meeting procedures.	X		
D.1.2. Professional CVs of the members of its governing bodies, a Board member's other professional commitments, including executive and non-executive Board positions in companies and not-for-profit institutions.		X	Information about the professional activity of the members of the Board is presented in the annual report and at their nomination.
D.1.3. Current reports and periodic reports (quarterly, semi-annual and annual reports).	X		
D.1.4. Information related to general meetings of shareholders.	X		
D.1.5. Information on corporate events.	X		
D.1.6. The name and contact data of a person who should be able to provide knowledgeable information on request.	X		
D.1.7. Corporate presentations (e.g. IR presentations, quarterly results presentations, etc.), financial statements (quarterly, semi-annual, annual), auditor reports and annual reports.	X		
D2 A company should have an annual cash distribution or dividend policy, proposed by the CEO or the Management Board and adopted by the Board, as a set of directions the company intends to follow regarding the distribution of net profit. The annual cash distribution or dividend policy principles should be published on the corporate website.		X	Adoption and dissemination of the principles related to the distribution of dividends or other benefits to the shareholders will be subject of further assessment.

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Code provisions	Complies	Does not comply or partially complies	If NO, then EXPLAIN
D3 A company should have adopted a policy with respect to forecasts, whether they are distributed or not. Forecasts means the quantified conclusions of studies aimed at determining the total impact of a list of factors related to a future period (so called assumptions): by nature such a task is based upon a high level of uncertainty, with results sometimes significantly differing from forecasts initially presented. The policy should provide for the frequency, period envisaged, and content of forecasts. Forecasts, if published, may only be part of annual, semi-annual or quarterly reports. The forecast policy should be published on the corporate website.		X	Adoption and dissemination of a policy with respect to forecasts will be subject of further assessment.
D4 The rules of general meetings of shareholders should not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules should take effect, at the earliest, as of the next general meeting of shareholders.	X		
D5 The external auditors should attend the shareholders' meetings when their reports are presented there.	X		
D6 The Board should present to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.	X		
D7 Any professional, consultant, expert or financial analyst may participate in the shareholders' meeting upon prior invitation from the Chairman of the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise.		X	The accesses of consultants, experts, financial analysts or journalists in the Company shareholders' meeting will be allowed only upon prior invitation from the Chairman of the Board.
D8 The quarterly and semi-annual financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms.	X		
D9 A company should organize at least two meetings/conference calls with analysts and investors each year. The information presented on these occasions should be published in the IR section of the company website at the time of the meetings/conference calls.		X	Organizing of such events will be subject of the applicable local and group principles.
D10 If a company supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the company part of its business mission and development strategy, it should publish the policy guiding its activity in this area.	X		

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11. COMMITMENTS AND CONTINGENCIES

Legal claims

During 2020, the Company was involved in several disputes, of which the most significant are listed below:

- The Company was involved in several litigations with the National Health Insurance House ("**NHIH**") following the challenging of the VAT paid, in relation to the claw-back tax for the period Q1 2012 - Q4 2012 and, as well, in relation to the computation manner for the individual consumption communicated for the determination of the claw-back tax for the periods of Q1 2013 - Q3 2013 and Q1 2020 requesting the cancellation of the Notifications received from NHIH for the periods mentioned above. Currently, the Company is involved in only two more pending litigations with the NHIH, while 5 other litigations being finally settled at the date of this Report, as follows:

    - in relation to the clawback tax for the period Q1 2012 - Q4 2012, all 3 case files regarding this period are finally settled, namely: (a) case file no. 5009/2/2013* - action Q1 and Q2 2012; (b) case file no. 4859/2/2013 – action Q3 2012; (c) case file no. 5843/2/2013 – action Q4 2012;

    - in relation to the computation manner for the individual consumption communicated for the determination of the clawback tax for the period Q1 2013 - Q3 2013, requesting the cancellation of the notifications received from the NHIH for the periods mentioned above, there are 3 case files from which only one is still pending (two being finally settled), namely: (a) case file no. 7950/2/2013* – action Q1 2013, finally settled; (b) case file no. 1651/2/2014* – action Q2 2013, pending; (c) case file no. 3718/2/2014 - action Q3 2013, finally settled.

  Therefore, the Company has won in court the recovery of the VAT for the clawback tax related to Q1 - Q4 2012 and to Q3 2013 (for Q1 2013 the Company's legal action was fully dismissed) and is investigating the manners in which it may recover these amounts or offset them against other tax obligations. For all these case files the decisions issued by the court are final.

  The only litigations with NHIH that are currently ongoing are the case file no. 1651/2/2014* – action Q2 2013 and, respectively, the case file no. 7592/2/2020 – action Q1 2020

- Litigation with the National Agency for Fiscal Administration ("**NAFA**") for challenging the clawback tax and the penalties computed for the reviewed period Q4 2009 – Q3 2011. During 2016, following a tax audit related to the clawback tax for the period Q4 2009 - Q3 2011, NAFA issued a decision to impose additional clawback tax and penalties amounting to RON 18,457,107 (the "Initial Decision"). During 2016, as a result of the opposition submitted by the Company, NAFA cancelled the Initial Decision and initiated the procedures for re-audit in 2017 of this fiscal obligation for the period Q4 2009 - Q3 2011. Following this new investigation, NAFA issued a new tax decision and accessory decisions for a total amount of RON 8,355,860 (consisting of RON 3,672,966 principal debt and RON 4,682,894 penalties) (the "Second Decision"). The Company challenged the Second Decision as well. The opposition was rejected by NAFA and the Company filed an administrative claim for the annulment of the Second Decision (i.e. of the last tax decision and the decisions regarding the accessories) and of the decision which rejected the opposition.

  On May 28, 2019, following an initial adjournment of the delivery of the decision, the court of first instance partially admitted the legal action submitted by the Company, meaning that the three causes of action regarding the additional clawback contribution and the related penalties were admitted. Specifically, the court admitted the legal action (i) regarding the main debt amounting to RON 3,672,966 and (ii) regarding the penalties requested for the total amount of RON 4,494,934 (the cause of action for penalties amounting to RON 187,960 being rejected).

  This court decision is not final and binding, being appealed by both the Company and NAFA. The first hearing for the appeals was established on January 25, 2022.

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- In August 2019, the company ALPHA TRANSCORD SRL filed, through its official receiver, a legal action against the Company. The case, respectively the file no. 25005/3/2019 *, has as subject matter the affirmative covenant consisting in ordering the defendants, including the Company, to pay the amount of LEI 2,262,332.27 and is pending before the court in the first phase of the proceedings.

  The Claimant alleges that the Company didn't pay certain invoices due for the road transport services provided by the Claimant. Consequently, the Claimant has requested in court an injunction to determine the defendants, including the Company, (i) to pay the amount of LEI 2,262,332.27 representing the value of the due invoices related to the road transport services provided under the agreement between the parties and (ii) to pay the Claimant the relevant trial expenses. The case is ongoing, the next hearing being set on April 27, 2021.

- In 2019, the Company, as plaintiff, filed a legal action, registered with the Bucharest Tribunal, under no. 16905/3/2019, against the company Laboratoarele Fares Bio Vital S.R.L. and the State Office for Inventions and Trademarks, as defendants. The Company has requested the cancellation of the trademark "Fares 1929 Distonoplant" on the grounds that this trademark is similar and covers identical or similar goods as the previous trademark "Distonocalm", owned by the Company, which can create confusion for consumers. Also, given the reputation of the previous trademark "Distonocalm", the later registration of the trademark "Fares 1929 Distonoplant" takes unfair advantage for the defendant and causes detriment to said reputation. However, on 25.02.2021 the Company concluded a transaction with Fares Bio Vital Laboratories S.R.L. by which the parties agreed to settle this dispute amicably. Consequently, on 03 March 2021, the court took note of the statements of waiver submitted by each of the parties following the transaction.

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

12. NON-FINANCIAL DECLARATION

In accordance with the legal provisions on disclosure of non-financial information, the Company will prepare a separate report that includes the information required to be included in the non-financial statement. This report will be published on the Company's website on 30 June 2021.

13. GOING CONCERN

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

As of 31 December 2020 the net assets of the Company are higher than the net liabilities by RON 571,439,043 (as of 31 December 2019, the net assets are higher than the net liabilities by RON 509,002,771).

At the same date, the Company has a net profit of RON 65,635,440 (2019: RON 43,750,672).

The Budget for the year 2021 prepared by the Company's Management and approved by the Board of Administration indicates positive cash flows from the operating activities, an increase in sales and profitability.

Mil RON	**B2021**
Revenues	680.6
Expenses	579.2
Income from Operations	**101.4**

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

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14. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

COVID-19

Bear in mind the spreading of new genetic mutation of the virus and the rapidly increase of the number of cases despite of vaccination campaign that have started, Zentiva SA has continued with the following measures aimed to maintain the supply of medicines in the market and ensuring the safety of all of its employees:

- All non-essential business travel are still stopped
- Additional cleaning and disinfection is taking place in the entire Zentiva premises
- All employees which have the possibility are required to work from home
- Production of paracetamol remain at high level being used in COVID treatment

It is impossible to estimate the full impact that this situation will have on the Zentiva business. Possible implications which might occur are:

- Delays or blockings in in supplying raw materials and other goods requested in the production process
- Dysfunctions in the production process continuity due to the limited availability of the labor force
- Increased in prices for certain raw materials and other goods needed in the production process
- Delays in securing imported finished goods due to transportation restrictions
- Higher than usual orders and sales for certain pharmaceutical products, especially those linked with the treatment of COVID symptoms, such as paracetamol or metamizole sodic

Simona Cocos
General Manager

Claudiu-Nicolae Manolescu
Chief Financial Officer

SOCIETATEA COMERCIALA ZENTIVA S.A.
ZENTIVA
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BUCURESTI

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STATEMENT

The undersigned hereby declare that, to the best of their knowledge, the financial statement for 2020 has been prepared in accordance with applicable accounting standards and provides an accurate and compliant representation of the company's assets, liabilities, financial position, profit and loss statement.

The report of the Board of Directors presents in an accurate and complete manner information about the company's activity and includes a fair assessment of its development and performances, as well as a description of the main risks and uncertainties specific to its activities.

The undersigned assume responsibility for the preparation of the financial statements for the year 2020 and confirm that:

a) the accounting methods used in preparing the annual financial statements are in accordance with the applicable accounting standards;

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

c) the legal entity carries out its activity in conditions of continuity.

General Manager

SIMONA COCOS

CFO

CLAUDIU NICOLAE MANOLESCU

SC ZENTIVA SA
50 Th. Pallady Blvd., 3rd district
Registration number J40/363/1991
CUI 336206
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Updated on 29 April 2020

ARTICLES OF INCORPORATION
of the Trade Company
ZENTIVA S.A.
("The Company")

***Preamble*:**

We, the Shareholders of S.C. ZENTIVA S.A., *have agreed to conclude these ARTICLES OF INCORPORATION, as a sole written document and as the deed issued for the updating of the ARTICLES OF INCORPORATION of S.C. ZENTIVA S.A., without thus creating a new trade company. As result, we have agreed that the initial ARTICLES OF INCORPORATION of the Company and the addenda concluded and registered to-date with the Trade Register Office near Bucharest Tribunal will be replaced by these ARTICLES OF INCORPORATION, made up of ten chapters and setting forth the following provisions:*

Definitions:
*The concepts of "**involved parties**", "**persons acting jointly**" and "**significant shareholder**", as well as any other specific concepts used hereunder shall be considered to have the meaning provided by Capital Market Law 297/2004, as further amended ("**Law 297/2004**"), by the regulations of the National Securities Commission ("**NSC**"), by Company Law 31/1990, republished, as further amended and completed ("**Law 31/1990**") and the other applicable legal provisions, except if otherwise provided hereunder.*
Any references in the ARTICLES OF INCORPORATION to Capital Market Law 297/2004 and to Company Law 31/1990, republished, shall be replaced by the abbreviations defined in the Preamble.

CHAPTER I

NAME, LEGAL ORGANIZATION, REGISTERED OFFICE, TERM OF THE COMPANY

Art. 1 The name and emblem of the Company

1.1. The name of the Company is "ZENTIVA" S.A (according to the proof of name reservation no. 759216 as of 15.12.2005).

1.2. All documents, invoices, advertisements, publications as well any other documents issued by the Company, shall contain the name of the Company, legal form, headquarters, sole registration code and the fiscal attribute, as well as the share capital, mentioning the actual paid up capital, according to the last approved financial statement.

1.3. The Company has an emblem consisting in the name "ZENTIVA", as reserved at the Bucharest's Trade Registry Office under the number 11.043 from 13.01.2006.

Art. 2 <u>The legal form of the Company</u>

The trade company "ZENTIVA" S.A. is a Romanian legal entity, being legally organized as a joint stock company admitted to trading on a regulated market according to the legal effectual provisions. The Company operates in accordance with the Romanian legal provisions regarding the issuers of securities, in accordance with the provisions of the Law 31/1990 and the provisions of these ARTICLES OF INCORPORATION.

Art. 3 <u>The registered headquarters of the Company</u>

3.1. The registered headquarters of the Company are located in Romania, Bucharest, 50 Theodor Pallady Str.., 3rd district. The registered headquarters of the Company can be relocated to any address in Romania, based on the decision of the General Meeting of Shareholders, according to the legal provisions.

3.2. The Company, based on the resolutions of the General Meeting of Shareholders can establish branches, representative offices, agencies located in Romania and/or abroad.

Art. 4 <u>The term of the Company</u>

The term of the Company is unlimited, as of the date of the registration thereof with the Bucharest Trade Registry Office.

CHAPTER II

COMPANY'S OBJECT OF ACTIVITY

Art.5 Company's object of activity is:

5.1.The main field of activity of the Company is:
NACE 211 – Manufacture of basic pharmaceutical products.

5.2.The main activity of the Company is:

NACE 2120- Manufacture of Pharmaceutical Preparations.

5.3. The secondary activities of the Company are:
NACE 1089 – Manufacture of other food products n.e.c.
NACE 0240 - Support services to forestry
NACE 1721 – Manufacture of corrugated paper and paperboard and of containers of paper and paperboard
NACE 1729 - Manufacture of other articles of paper and paperboard
NACE 1812 – Other printing
NACE 1813 - Pre-press and pre-media services
NACE 2059 – Manufacture of other chemical products n.e.c.
NACE 2110 - Manufacture of basic pharmaceutical products
NACE 2319 – Manufacture and processing of other glass, including technical glassware
NACE 2611 - Manufacture of electronic components
NACE 3250 – Manufacture of medical and dental instruments and supplies
NACE 3312 - Repair of machinery
NACE 3319 - Repair of other equipment
NACE 3320 - Installation of industrial machinery and equipment
NACE 3521 - Manufacture of gas
NACE 3522 - Distribution of gaseous fuels through mains
NACE 3523 Trade of gas through mains
NACE 3831 Dismantling of wrecks
NACE 3832 Recovery of sorted materials

NACE 4321 Electrical installation
NACE 4322 Plumbing, heat and air-conditioning installation
NACE 4329 Other construction installation

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NACE 4511 Sale of cars and light motor vehicles
NACE 4519 Sale of other motor vehicles
NACE 4520 Maintenance and repair of motor vehicles
NACE 4618 Agents specialised in the sale of other particular products
NACE 4619 Agents involved in the sale of a variety of goods
NACE 4636 Wholesale of sugar and chocolate and sugar confectionery
NACE 4638 Wholesale of other food, including fish, crustaceans and molluscs
NACE 4639 Non-specialised wholesale of food, beverages and tobacco
NACE 4645 Wholesale of perfume and cosmetics
NACE 4646 Wholesale of pharmaceutical goods
NACE 4675 Wholesale of chemical products
NACE 4676 Wholesale of other intermediate products
NACE 4741 Retail sale of computers, peripheral units and software in specialised stores
NACE 4742 Retail sale of telecommunications equipment in specialised stores
NACE 4753 Retail sale of carpets, rugs, wall and floor coverings in specialised stores
NACE 4759 Retail sale of furniture, lighting equipment and other household articles in specialised stores
NACE 4764 Retail sale of sporting equipment in specialised stores
NACE 4765 Retail sale of games and toys in specialised stores
NACE 4771 Retail sale of clothing in specialised stores
NACE 4773 Dispensing chemist in specialised stores
NACE 4774 Retail sale of medical and orthopaedic goods in specialised stores
NACE 4776 Retail sale of flowers, plants, seeds, fertilisers, pet animals and pet food in specialised stores
NACE 4777 Retail sale of watches and jewellery in specialised stores
NACE 4778 Other retail sale of new goods in specialised stores
NACE 4779 Retail sale of second-hand goods in stores
NACE 4939 Other passenger land transport n.e.c.
NACE 4941 Freight transport by road
NACE 4942 Removal services
NACE 5210 Warehousing and storage
NACE 5221 Service activities incidental to land transportation
NACE 5224 Cargo handling
NACE 5229 Other transportation support activities
NACE 5320 Other postal and courier activities
NACE 5811 Book publishing
NACE 5812 Publishing of directories and mailing lists

NACE 5813 Publishing of newspapers
NACE 5814 Publishing of journals and periodicals
NACE 5819 Other publishing activities
NACE 5821 Publishing of computer games
NACE 5829 Other software publishing
NACE 5920 Sound recording and music publishing activities
NACE 6010 Radio broadcasting
NACE 6020 Television programming and broadcasting activities
NACE 6190 Other telecommunications activities
NACE 6201 Computer programming activities
NACE 6202 Computer consultancy activities
NACE 6203 Computer facilities management activities
NACE 6209 Other information technology and computer service activities
NACE 6311 Data processing, hosting and related activities
NACE 6312 Web portals
NACE 6420 Activities of holding companies
NACE 6820 Renting and operating of own or leased real estate
NACE 6920 Accounting, bookkeeping and auditing activities; tax consultancy
NACE 7010 Activities of head offices
NACE 7021 Public relations and communication activities
NACE 7022 Business and other management consultancy activities
NACE 7111 Architectural activities
NACE 7112 Engineering activities and related technical consultancy
NACE 7120 Technical testing and analysis
NACE 7311 Advertising agencies
NACE 7312 Media representation
NACE 7320 Market research and public opinion polling
NACE 7490 Other professional, scientific and technical activities n.e.c.
NACE 7711 Renting and leasing of cars and light motor vehicles
NACE 7733 Renting and leasing of office machinery and equipment (including computers)
NACE 7820 Temporary employment agency activities
NACE 7830 Other human resources provision
NACE 8020 Security systems service activities
NACE 8110 Combined facilities support activities
NACE 8211 Combined office administrative service activities
NACE 8219 Photocopying, document preparation and other specialised office support activities
NACE 8220 Activities of call centres
NACE 8230 Organisation of conventions and trade shows
NACE 8291 Activities of collection agencies and credit bureaus

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NACE 8299 Other business support service activities n.e.c.
NACE 8560 Educational support activities
NACE 9101 Library and archives activities
NACE 9511 Repair of computers and peripheral equipment

CHAPTER III

REGISTERED SHARE CAPITAL, SHARES

Art. 6 The registered share capital

6.1. The registered capital of the company ZENTIVA S.A. is of RON 69,701,704 and it consists of in kind and cash contributions.
6.2. The Company's share capital is divided into 697,017,040 nominal shares of RON 0.1 each.
6.3. The new structure of the fully subscribed and paid up share capital of the Company is the following:

- the shareholder Zentiva Group a.s., headquartered in Czech Republic, Prague 10, Dolní Měcholupy, U Kabelovny 130, postal code 10237, holds 668,778,101 shares totalling RON 66,877,810.1 representing 95.9486% of Company's share capital;
- other natural and legal persons holding 28,238,939 shares, totalling RON 2,823,893.9, representing 4.0514% of Company's share capital.

Art. 7 The shares

The shares issued by the Company are nominal, indivisible, equal in value, dematerialised, freely negotiable and fully subscribed and paid up and shall be numbered by the Independent Registry company contracted by the Company for the purpose to maintain the shares evidence in the Shareholder's Registry.

Art. 8 The increase and the decrease of share capital

8.1 The increase of the share capital

8.1.1. Company's share capital can be increased based on the decision of the General Extraordinary Meeting of Shareholders, in accordance with the legal provisions in force and of the present ARTICLES OF INCORPORATION.

8.1.2 The Company can increase its share capital, under the provisions of these ARTICLES OF INCORPORATION and of the legal provisions in force, by issuing new shares or increasing the nominal value (par value) of the existing shares in exchange of new contributions in cash or in kind or by incorporating the reserves (except for the legal reserves), as well as the benefits or issue premiums. The increase of the Share Capital can also be carried out by any other methods allowed by the law.

8.1.3 Company's share capital can include only the competitive assets necessary for the performance of Company's object of activity. If the share capital increase is done by contributions in kind, the General Extraordinary Meeting of Shareholders shall appoint one or several independent experts to assess these contributions, in accordance with the legal provisions.

The number of shares to be allocated following the contribution in kind to the share capital will be determined as a ratio between the value of the contribution in kind, according to the above mentioned expertise report and the highest of the market value for one share, the value per share computed based on the accounting net assets or the nominal value (par value) of a share, according to the law.

8.1.4. The shareholders benefit from the right of first refusal for the subscription of the new shares issued for the increase of the share capital, within the limits of their contribution to Company's share capital.

8.1.5 The General Extraordinary Meeting of the Shareholders can bar the pre-emption right of the shareholders to the subscription of the new shares, if the following conditions are cumulatively met:

- in the presence of at least ¾ of the holders of the share capital;
- by the vote of the shareholders owning at least 75% of the rights to vote within the meeting.

Art 8.2 The decrease of the share capital

8.2.1 The General Extraordinary Meeting of the Shareholders shall decide on the decrease of the share capital of the Company. The share capital can be decreased due to well-grounded reasons and only up to the minimum limit stipulated by the law.

8.2.2. The decrease of the Share capital can be performed only after the elapse of two months as of the date when the resolution of the General Extraordinary Meeting is published in the Official Gazette of Romania.

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Art. 9 The rights and obligations deriving from shares

9.1. Each subscribed and paid up share grants to its holder a voting right during the General Meeting of the Shareholders, the right to elect and to be elected in the management bodies of the Company, the right to participate to the distribution of the Company's profits, according to the provisions of these ARTICLES OF INCORPORATION and the legal provisions, as well as any other rights forthcoming from the ownership over the shares within the limits set forth by these ARTICLES OF INCORPORATION and as provided by the law.

9.2 The rights, benefits and obligations that result from any or all shares owned by a shareholder, shall be transferred in the same time with the transfer of the ownership right over the shares, according to the law.

9.3 Each shareholder undertakes to observe the provisions of these ARTICLES OF INCORPORATION.

9.4. Company's obligations are secured by the assets thereof and Company's shareholders will be held liable for the performance of Company's obligations only within the limits of the share capital subscribed.

9.5.The Company's patrimony may not be encumbered by debts or other personal liabilities of the shareholders.

9.6 A creditor of a shareholder can formulate claims over that part of Company's profit distributed as dividends by the General Meeting of Shareholders or over the shareholder quota from the Company's assets following the liquidation procedure performed in accordance with the provisions of these ARTICLES OF INCORPORATION and the legal effectual provisions.

9.7 The shareholders must exercise their rights deriving from the shares in good faith and by observing the rights and legitimate interest of the other shareholders and the priority interest of the Company, otherwise being held liable for the inflicted damages.

9.8 The abusive use of the capacity of shareholder, following performance of unfair or fraudulent deeds (determined in accordance with the applicable law), which results in the restriction of the rights granted by the shares or damages inflicted to other shareholders is prohibited by the law and triggers the personal liability of the shareholders in accordance with the law.

Art. 10 <u>Transfer of shares</u>

10.1.Company's shares are indivisible.

10.2.When a nominal share falls into the indivisible ownership of several persons, the Independent Register Company in charge for the evidence of Company's shares is not obliged to register the ownership transfer until those persons appoint a sole representative for the purpose of exercising the right deriving from such nominal share.

As long as a share is indivisibly owned by several persons, those persons are jointly liable for the payment of such a share.

10.3. The partial or total assignment of the shares between shareholders or third parties shall be performed accordance with the Law no. 297/2004.

10.4.Company's shares may be traded according to the law, only on a regulated market designated by the General Meeting of Shareholders.

CHAPTER IV

GENERAL MEETING OF SHAREHOLDERS

Art 11. The General Meeting of Shareholders

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

11.2 The General Meeting of Shareholders can be Ordinary and Extraordinary. The resolutions of the General Meeting of Shareholders are adopted according to the law and the provisions of these ARTICLES OF INCORPORATION and are mandatory for all shareholders.

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

a) Debate, approve or modify the yearly financial statements approved by the Board of Directors, based on Directors' and Auditors' reports and establishes the value of the dividends and the deadline for their distribution,

b) Identification of the shareholders eligible to receive dividends,

ZENTIVA

c) Electing and revoking the directors, establishing their remuneration and the minimum value of the amount insured by the professional civil liability insurance, as well as the general limits for the remuneration of directors and managers, subject to the delegation of prerogatives for managing the Company;

d) Appointment of the financial auditor as well of the authorised person to sign the services contract concluded with the auditor on behalf of the Company;

e) Approval of directors' management report;

f) Approval and amendment of the business plan, of the annual budget and the activity schedule of the Company, proposed for approval by the Directors ,

g) Incorporation or dissolution of one or several of Company's subsidiaries, representative offices, agencies, or any other secondary establishments of the Company as well as the incorporation of Company's branches;

h) Any other issue pertaining to its decisional competence.

11.4. **The General Extraordinary Meeting** shall be convened whenever necessary to make a decision related to:

a. The change of Company's share capital
b. The change of Company's object of activity
c. The change of Company's organization form
d. The relocation of Company's registered headquarters
e. Merger with other companies or the division of the Company
f. The anticipated dissolution of the company
g. Issue of bonds
h. The undertaking of long or short term loans whose value exceeds half of the accounting value of Company's assets as at the date of the execution of the relevant legal document;
i. The approval of all legal instruments in connection with the acquisition, alienation, exchange or pledge of some of the immovable assets of the Company, whose value exceeds 20% of the value of the total immovable assets of the Company, considered individually, for each legal instrument, or cumulatively, during a financial year, minus the value of the receivables at the date of the execution of the relevant legal instrument;
j. The approval of legal deeds concerning the rental of fixed assets of the Company for a period longer than 1 year, whose individual value exceeds 20% of the value of the total immovable assets of the Company, considered individually or cumulatively in relation to the same contracting party or to involved persons or to persons coordinating their actions, minus the receivables at the date of the execution of the relevant legal instrument.
k. The approval of the association agreements concluded by the Company if they are concluded for a period longer than 1 year, whose value exceeds 20% of the value of the total immovable assets of the Company, considered individually or

cumulatively in relation to the same contracting party or to involved persons or to persons coordinating their actions, minus the receivables at the date of the execution of the relevant legal instrument.

l. The approval of any amendment to Company's ARTICLES OF INCORPORATION. In this case, prior to convening the General Extraordinary Meeting of Shareholders for the amendment of the ARTICLES OF INCORPORATION, the draft of the proposed amendments shall be sent to NSC and to securities market where the Company's shares are traded.

m. Pass any other resolution that needs the approval of the General Extraordinary Meeting of Shareholders in order to be enforced.

Art 12. Convening of the General Assemblies

12.1. The General Meeting of Shareholders shall be convened by the Board of Directors, pursuant to the decision thereof and in observance of the law.

12.2. The Ordinary General Meeting is held at least once a year, according to the provisions stipulated at art. 11.3, as well as whenever is necessary to approve a resolution of its own competence, according to the legal provisions in force and of these ARTICLES OF INCORPORATION.

12.3. The Board of Directors has the obligation to convene the General Extraordinary Meeting of Shareholders upon the request of shareholders representing at least 10% of the share capital, upon the request of financial auditors or if, further to the occurrence of loss, the value of the net assets determined as the balance between the total assets and the total liabilities of the Company is less than half of Company's share capital.

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

Art 13. The organization of the General Meeting

13.1. Shareholders can attend and vote during the General Meeting in person or through a representative appointed based on a power-of-attorney granted for the purpose of that General Meeting as a written document given under private signature. The shareholders who do not hold the capacity of exercise as well as legal entities can be represented by their legal representatives who, in their turn, can grant a power-of-attorney to other persons for that general meeting. The company will make available to the shareholders the standard form of the power-of-attorney at least 5 days before the first convening of the General Meeting and the shareholders will submit the original powers-of-attorney at least 48 hours before the Meeting, under the sanction of losing the right to vote within that Meeting. The powers-of-attorneys shall be kept by the Company, which will be mentioned in the minutes.

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

13.3. The meeting secretary will draft a minute mentioning the issues debated and the decisions made, which minute will be signed by the Chairman of the Meeting and by the Secretary and will be kept in a special register the pages of which are marked by serial numbers, kept by the Board of Directors.

Art 14. The exercise of the voting right during the General Meeting of Shareholders

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

14.2. Upon the proposal of the President of the General Meeting or of a group of attending shareholders (present whether personally or by representatives) holding at least ¼ of the registered share capital, secret voting may be decided upon.

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

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

- at the first convening: the shareholders representing at least ½ of Company's share capital need to be present and the decisions need to be made based on the favourable vote of the shareholders holding the absolute majority of the share capital present or represented within the meeting;
- upon the second convening: decisions can be made regardless of the share capital present/represented within the meeting, based on the favourable vote of the majority of the share capital present or represented within the meeting.

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

- at the first convening: shareholders representing at least ¾ of the share capital need to be present at the meeting, and decisions need to be made based on the favourable vote of the shareholders holding at least ½ of the share capital, except for the case provided under Article 8.1.5. above;
- at the second convening: shareholders representing at least ½ of the share capital need to be present and decisions need to be made based on the favourable vote of shareholders holding at least 1/3 of the share capital, which, in the case of the decisions for the amendment of company's main object of activity, for the decrease or increase of the share capital, for the change of the legal form, for merger, spin-off or dissolution of the Company, cannot be less than two thirds of the voting rights held by the shareholders present or represented within the Meeting.

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

CHAPTER V

THE BOARD OF DIRECTORS

Art 15. Organization of the Board of Directors

15.1. The company is managed by the Board of Directors consisting of 5 (five) directors, Romanian or/and foreign citizens, elected by the General Meeting of Shareholders. The members of the Board of Directors may also hold the position of Company shareholders.

15.2. Directors are elected for a 4 years' mandate and can be re-elected for new 4 years' mandates. The duration of directors' mandate can be changed by the decision of the General Meeting of Shareholders.

15.3. In case of vacancy of mandate of one or several directors, the Board of Directors will proceed to appointing provisional directors, until the Ordinary General Meeting of Shareholders which will appoint a final director for a duration equal to the period of time remaining until the expiry of the vacant mandate.

15.4. The members of the Board of Directors can be elected by cumulative vote procedure. Upon the request of a significant shareholder of the Company, the election of the Directors through the said procedure will become mandatory.

15.5. The Board of Directors is managed by a Chairman, a Romanian or foreign citizen, elected by the directors based on the majority vote of the directors.

15.6. The obligations and liabilities of the Directors are regulated by the rules applicable to mandates and, in addition, by the special rules applicable to the liabilities of the joint stock companies' Directors.

15.7. Directors will conclude a professional liability insurance policy for an insured amount whose minimum value whereof will be approved by the General Meeting

Art.16 Board of Directors' Meetings

16.1. The Board of Directors will hold an Ordinary meeting at least once every three months and an Extraordinary meeting whenever necessary, at the Company headquarters or at another place provided in the notice to attend.

The meetings will be held by the physical presence of the directors at the place of the meeting or may be carried out by means of remote communication (e-mail, telephone, teleconferencing, videoconferencing, telefax).
16.2. The Board of Directors will be convened by the Chairman, unsolicited or upon the grounded request of at least two directors or of the General Manager, by any communication means likely to prove the reception of the notice to attend by the addressee: phone call followed by the written confirmation of the addressee, fax with confirmation of receipt, certified mail with confirmation of receipt, e-mail.

The notice to attend will indicate: the date, time and place of the meeting of the Board of Directors, the method of holding the meeting (physical presence or by distance communication means), as well as the agenda thereof.

If at least two of the directors oppose to holding the meeting of the Board of Directors by distance communication means, the meeting will be held by means of the physical participation of the directors. The opposition will be submitted within at most 2 business days as of the convening.

If the notice to attend to the meeting of the Board of Directors is sent, in accordance to this paragraph, less than 5 business days before the date established for holding the meeting, the documentation related to the issues registered on the agenda of board's meeting will be attached to the notice to attend, in full or excerpts thereof; in the other cases, the documents and information related to the issues on the agenda of the meeting shall be made available to the directors at least 5 business days before the date established for the meeting of the board.

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

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

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

16.5. At the meetings of the Board of Directors, its members can only be represented by another member of the Board of Directors, based on a power-of-attorney given as a written document under private signature. A member of the Board of Directors can only represent anoother member of the Board of Directors.

16.6. The members of the Board participating to the meeting by any means of communication allowing their identification: phone, teleconference, videoconference, telefax, are also considered as present at Board's meeting.

16.7. The debates of the Board of Directors are registered in the special register of minutes of the meetings of the Board of Directors, drafted in accordance with the legal provisions. The minutes shall be signed by the Chairman of the meeting, by at least one other director and by the meeting secretary and, upon request, by the other members of the Board of Directors who have participated to the debates.

16.8. The Board of Directors can delegate to one or more of its members some of its prerogatives granting them a special power of attorney for one or more specific operations. The Board of Directors will delegate the management of the Company, in accordance with the applicable legal provisions, to one or more managers appointed from among the members of the Board or outside it, who will hold the capacity of managers commissioned for management as provided under Article 143 of Law 31/1990, hereinafter referred to as Executive Managers. One of them will be appointed General Manager. If the managers are appointed from among the directors, they will be executive directors, while the other members of the Board will be non-executive directors. The number of non-executive directors will always exceed the number of executive directors in the Board.

16.9. The Company will be represented and validly bound in relations with third parties by the Board of Directors, through the Chairman thereof. The power of representation will be delegated by the Board of Directors, by observing the legal provisions.

16.10. The Board of Directors has the obligation to make available to the shareholders and to the financial auditor, upon their request, Company's registers drafted according to the law and to issue, upon their request and at their expense, excerpts from such registers.

16.11.The Chairman and the members of the Board of Directors shall be jointly or severally liable, as the case may be, towards the company, for the damages resulting as a consequence of committing offences or of deviating from the legal provisions and/or from the provisions of these ARTICLES OF INCORPORATION,, as well as for the errors in the management of the Company. In such situations, the Directors could be dismissed by the resolution of the General Meeting of Shareholders.

16.12. The Company's trade union representatives can be invited to the meetings of the Board of Directors, where issues of professional, social or cultural interest for the employees are debated.

Art.17 <u>Tasks of the Board of Directors</u>

17.1 The Board of Directors has the following main tasks:

a. Prepares and updates Company's registers according to the legal provisions;
b. Hires and dismisses Company managers, establishing their rights and obligations;
c. Appoints the Chairman of the Board;
d. Contracts the Independent Registry which keeps the record of Company's shares;
e. Approves the accounting as costs of the unrecoverable debts amounting to up to 0.5% of the turnover;
f. Approves the write-off of the fixed assets;
g. Approves the calculation system of fixed assets' depreciaiton as required by the law,

h. Approves the research and development program and allocates the necessary financial resources;
i. Approves the annual investment plan of the Company;
j. Annually, within 4 months as of the end of the financial (accounting) year, submits for approval of the General Meeting of Shareholders Company's activity report, Company's annual financial statement drafted for the previous year in accordance with the specific regulations of the Ministry of Finance and NSC as well the draft of Company's activity programme and the budget project for the current year;
k. Approves the conclusion of association agreements by the Company, by observing the exclusive competencies of the General Meeting of Shareholders in this respect.
l. Other tasks established by the law in its competency.

17.2 The Directors are obliged to immediately report to NSC any legal document entered into by the Company and its Directors, employees, shareholders which control the Company, or entered by the Company and the persons related to the aforementioned, whose value represents at least the RON equivalent of 50,000 Euro.

The reports drafted according to this paragraph should mention any other information deemed necessary to identify the legal effects of such acts in respect to the financial situation of the Company.

17.3. Under the supervision of the Board of Directors, the Company will ensure all the necessary facilities and information in order to allow the shareholders to exercise the right granted by the shares held.
In this respect the Board of Directors has the obligation, according to the law, to:

- inform the shareholders on the call of the General Meeting of Shareholders, by observing the provisions of these ARTICLES OF INCORPORATION;
- inform the public on the distribution and payment of dividends, on the issuance of new shares, including on the distribution, subscription, conversion waiving operation;
- appoint a financial institution as payment agent of the Company, through which the shareholders may exercise their financial rights, except for the situation when the Company could provide these services by itself.

17.4. The Company, through its General Manager, will ensure that the reports provided under the law are drafted and sent to NSC and to the regulated market on which Company's shares are traded.

ZENTIVA

CHAPTER VI

EXECUTIVE MANAGERS. TECHNICAL MANAGERS. MANAGEMENT COMPANY

Art.18 Executive Managers. Technical Managers. Management Company

18.1. The Board of Directors entrusts the management of the Company to one or several Executive Managers, according to Article 143 of Law 31/1990, among which one is appointed General Manager of the Company. The Executive Managers are granted the possibility to expressly mandate a part of such prerogatives to technical managers empowered as per the policies applicable at Company level. The performance of Company's operations can also be entrusted to a management company, upon the proposal of the General Manager, subject to the approval of the Board of Directors.

18.2. The General Manager and the other Executive Managers benefit from a general mandate for representing the Company in front of third parties observing the "Levels of Authority" internal procedure.

The Executive Managers can, in their turn, expressly delegate such prerogatives, within the limit of the next two levels of authority, observing the "Levels of Authority" internal procedure.

Company's technical managers will not be considered managers in the sense of Article 143 of Law 31/1990, but are only in charge with the performance of the activities. The technical managers are appointed based on the decision of the General Manager.

18.3. By concluding the Consultancy and Management Service Agreement with the Management Company, the latter and its representative or, as the case may be, the representatives appointed by the Management Company will acquire the capacity of manager within the Company. The relations between the Company and the management company and the representative thereof will be governed by the provisions of the consultancy and management service agreement and by the legal provisions.

CHAPTER VII

MANAGEMENT OF THE COMPANY

Art. 19 Financial auditor

19.1. The annual financial statements of the Company shall be audited by an external auditor, appointed by the General Meeting of Shareholders, according to the regulations regarding the financial audit.

19.2. The rights and obligations of the auditor shall be established by a services contract concluded between the Company and the auditor.

CHAPTER VIII

ACTIVITY OF THE COMPANY

Art.20 The economic-financial year

The economic-financial year starts on January 1st and ends on December 31st of each year. The first financial year starts at the date the Company is registered and ends on the 31st of December of the same year.

Art.21 Financial records

The Company shall keep its accounting records in RON, shall annually draw up the financial statements according to the Romanian legislation in force.

Art.22 Calculation and distribution of profit

22.1. The profit or the loss of the Company shall be determined based on the annual financial statements drafted in accordance with the legal provisions and approved by the General Meeting of Shareholders. The Company shall annually allocate at least 5% of its profits for the reserve fund, up to a level equal with minimum 20% of the share capital. The General Meeting of Shareholders may decide to establish other reserve funds.

22.2. Out of the profit, the Company can establish funds allocated to modernization, research and development of new products, investments, repairs, and other destinations established by the General Meeting of Shareholders.

22.3. The distribution of the net profit shall be made in accordance with the legal regulations, subject to the approval of the General Meeting of Shareholders.

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Bank Citibank Romania
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IBAN RO13CITI 0000 0008 2476 6029 for USD
IBAN RO 88CITI 0000 0008 2476 6037 for EUR

22.4. The shareholders entitled to collect dividends and other rights, subject to the resolutions of the General Meeting of Shareholders shall be identified by the General Meeting of Shareholders according to the legal provisions in force. This date should be at least 10 working days further to the date of the General Meeting of Shareholders.

Once the dividends are settled, the General Meeting of Shareholders will settle the date for their payment to the shareholders, which can not be more than 6 months since the date of the General Meeting of Shareholders.

Chapter IX

CHANGE OF THE LEGAL FORM, DISSOLUTION, LIQUIDATION, DISPUTES

Art.23 Change of the legal form

The legal form of the Company may be changed subject to the decision of the General Meeting of Shareholders.

Art. 24 The dissolution of the Company

24.1. The Company will be dissolved in the following cases:

a) The Incapacity to fulfil the main object of activity of the Company
b) The cancellation (annulment) of the Company
c) The bankruptcy and insolvency of the Company
d) The decrease of the number of shareholders below the legal minimum number, if the remaining shareholders do not decide on the change of Company's legal form;
e) As a consequence of a final, irrevocable and enforceable court decision;
f) In any other circumstances according to the Law or the resolution of the General Meeting of Shareholders.

Art.25 The liquidation of the Company

25.1 As a result of the dissolution, the Company will enter into the liquidation procedure.

25.2 One or more liquidators will perform the liquidation of the Company. At the date the liquidators are appointed, Directors' mandates cease thus no longer being entitled to act in the name of the Company.

25.3 The General Meeting of Shareholders appoints the Liquidators. The Court may appoint the liquidators if the shareholders do not agree upon their appointment.

25.4 Liquidators' activity is supervised by financial auditors.

25.5 Liquidators undertake all Directors' responsibilities. As soon as they are appointed, the liquidators along-side with the Directors, have to draw up an inventory, evaluate the assets of the Company, to draw up a balance sheet reflecting the exact status of Company's rights and obligations and sign all documents mentioned above.

25.6 The liquidators have the obligation to receive and to keep all records and assets of the Company, entrusted to them by the Directors and to keep a record containing all the liquidation operations in chronological order.

25.7 In order to fulfil the mandate entrusted by the General Meeting of Shareholders, the liquidators will take all the necessary steps in order to keep the pending activities of the Company in progress, will cash in all of Company's receivables, and shall pay Company's debts and will undertake any operations needed to liquidate the Company.
25.8 Liquidators can represent the Company in front of the Court and may conclude transactions with the creditors.

25.9 The amounts of money obtained from liquidation shall be used with priority to pay privileged creditors and consequently the other creditors. The liquidators shall draw up the liquidation balance sheet and shall forward proposals for the distribution of the financial results (profits and losses) between the shareholders proportionally to their contribution to the Share capital.

25.10 After the liquidation process is concluded, the liquidators shall take all the measures in order to cancel the Company from the Trade Registry.

Art.26 <u>Disputes</u>

26.1. The Disputes generated by the contractual relationships of the Company with third parties, legal or natural persons, shall be settled, as the case may be, by the Arbitration Courts or the Courts mentioned in the contracts the dispute is related to or by competent Romanian Courts.

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26.2. Solving of the labour conflicts between the Company and its employees, related to the conclusion, performance, amendment, suspension and termination of the individual employment agreements or, if the case may be, related to the collective labour agreements will be settled by the competent jurisdiction according to the Labour Code provisions.

Chapter X

FINAL PROVISIONS

Art. 27 The provisions of these ARTICLES OF INCORPORATION shall be supplemented by the provisions of: the Romanian Commercial Code, the Law 31/1990, the Law 297/2004 regarding capital markets, and the regulations issued by NSC as well as by any other current legal applicable provisions.

These up-dated ARTICLES OF INCORPORATION was drawn up in 4 counterparts, today, 29 April 2020.

SC ZENTIVA SA
by Roxana Diaconu
Attorney-in-fact

ZENTIVA

LIST of Company's Affiliates (entities within Zentiva group)

As of December 31, 2020

Company Name	
AL	Zentiva Pharma Albania sh.p.k
AT	Zentiva GmbH
	HERBST Trading GmbH
BA	Zentiva Pharma d.o.o.
BG	Zentiva Bulgaria EOOD
	Alvogen Pharma Bulgaria EOOD
	Alvogen Pharma Trading Europe EOOD
CY	ALVOGEN CYPRUS LIMITED
	RUTENGO INVESTMENTS LIMITED
CZ	Zentiva Group, a.s.
	Zentiva, k.s.
	Theramex Czech Republic s.r.o.
D	Zentiva Pharma GmbH
	Winthrop Arzneimittel GmbH
DK	Zentiva Denmark ApS
F	Zentiva France
HR	Zentiva d.o.o.
HU	Zentiva HU Kft.
	Rutengo Hungary Investments Kft.
	Aramis Pharma Kft
CH	Helvepharm AG
IN	Zentiva Private Limited

IT	Zentiva Italia S.r.l.
LT	UAB Alvogen Baltics
LU	Al Sirona (Luxembourg) Acquisition S.à r.l.
	Al Excalibur (Luxembourg) S.à r.l.
	Alvogen IPco S.à r.l. *(in liquidation)*
	Alvogen Balkans Luxembourg S.à r.l.
M	Alvogen Malta Operations ROW Holdings Ltd.
	Alvogen Malta Operations (ROW) Ltd.
MK	Zentiva Pharma Macedonia DOOEL Skopje
NL	EuroGenerics Holding B.V.
PL	Zentiva Polska Sp.z.o.o.
	Alvogen Pharma Sp.z.o.o.
	Alvogen Poland Sp.z.o.o.
PT	Zentiva Portugal, Lda
RO	SOLACIUM PHARMA S.R.L.
	BE WELL PHARMA S.R.L.
	LaborMed-Pharma SA
	Alvogen Romania SRL (actuala Labormed Pharma Trading SRL)
RS	Zentiva Pharma d.o.o
RU	Alvogen Pharma LLC
	Bittner Pharma LLC
SK	Zentiva, a.s.
	Zentiva International a.s.
UA	Zentiva Ukraine LLC
UK	Zentiva Pharma UK Limited
	Creo Pharma Holdings Limited
	Creo Pharma Limited
XK	ALVOGEN PHARMA KOSOVO SH.P.K.

LIST of entities that control the Company

Company Name
Zentiva Group, a.s.
AI Sirona (Luxembourg) Acquisition S.à r.l.
AI Sirona(Luxembourg) Subco S.àr.l.
AI Sirona (Luxembourg) Parent S.àr.l.
AI Sirona & Cy S.C.A.
AI Sirona Midco & Cy S.C.A.
AI Sirona (Luxembourg) S.àr.l.
AI Global Investments II & Cy S.C.A.
AI Sirona (Luxembourg) Holdings II S.à r.l.
AI Sirona (Luxembourg) Top Holding II S.àr.l.
AI Sirona (Cayman) Limited
Advent Funds GPE VIII

The Company has no subsidiaries or entities under its controls.