Zentiva SA

Financial statements

FOR THE YEAR ENDED
31 December 2021

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, with subsequent amendments

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

ZENTIVA SA
FINANCIAL STATEMENTS
Prepared in accordance with
Minister of Public Finance Order 2844/2016
for the year ended 31 December 2021

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(amounts are expressed in RON, unless specified otherwise)

STATEMENT OF COMPREHENSIVE INCOME	**Notes**	**2021** RON	**2020** RON
Sales of goods	5.1	667,941,876	540,432,708
Rendering of services	5.1	14,614,557	17,251,046
Other income		1,308,831	277,186
Turnover	**5.1**	**683,865,264**	**557,960,940**
Other operating income	6.1	35,008,058	13,783,653
Changes in inventories of finished goods and work in progress		14,624,923	6,962,670
Raw material expenses, merchandise, consumables used and utilities	5.2	(331,309,506)	(284,458,719)
Employee benefits expenses	6.5	(112,431,460)	(98,960,629)
Depreciation, amortization and impairment	9 - 11	(25,449,842)	(17,289,894)
Marketing and advertising expenses	6.6	(2,856,152)	(5,788,437)
Reversal of/ (expenses with) provisions	18	8,327,189	1,088,337
Other operating expenses	6.2	(153,731,894)	(99,952,644)
Operating profit		**116,046,580**	**73,345,277**
Financial Income	6.4	7,147,694	11,247,342
Financial Expenses	6.3	(3,983,908)	(4,043,601)
Profit before income tax		**119,210,366**	**80,549,018**
Income Tax Expense	7	(13,464,812)	(14,913,578)
Net profit for the year (A)		**105,745,554**	**65,635,440**
Other comprehensive income:			
Impact from revaluation of land and buildings		-	21,227,460
Deferred tax impact on revaluation recognized in equity		-	(3,498,743)
Other comprehensive income items		(337,035)	-
Other comprehensive income net of tax (B)		**(337,035)**	**17,728,717**
Comprehensive income for the year (A) + (B)		**105,408,519**	**83,364,157**
Net earnings per share (RON/share)	8	**0.15**	**0.09**

The financial statements from page 3 to page 60 were approved by the Board of Directors and were authorized to be issued in accordance with the resolution of the Directors dated 28 March 2022.

Administrator,
Simona Cocos

Signature
Company stamp

SOCIETATEA COMERCIALA ZENTIVA S.A.
ZENTIVA
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Prepared by,
Daniel Nitulescu
Chief Financial Officer

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(amounts are expressed in RON, unless specified otherwise)

STATEMENT OF FINANCIAL POSITION	**Notes**	**31 December 2021**	**31 December 2020**
Assets			
Non-current assets			
Property, plant and equipment	9.1	194,771,621	189,815,571
Right-of-use assets	9.2	8,968,913	5,509,404
Goodwill	11	11,649,100	11,649,100
Customer relationships	11	23,823,680	27,560,325
Other intangible assets	10	4,652,969	3,928,779
Total Intangible assets		**40,125,749**	**43,138,204**
		243,866,284	**238,463,179**
Current assets			
Inventories	12	124,563,136	137,798,353
Trade receivables and other receivables	13	102,187,418	230,511,054
Advances and prepayments	13	2,687,016	19,777,899
Cash pooling intercompany receivables	15	513,704,034	-
Cash and cash equivalents	14	62,597,628	406,713,534
		805,739,232	**794,800,840**
Total assets		**1,049,605,515**	**1,033,264,019**
Equity			
Issued share capital	16.1	69,701,704	69,701,704
Share premium	16.1	24,964,506	24,964,506
Legal and other reserves	16.2	121,743,815	118,346,486
Revaluation reserve		57,927,094	57,927,094
Retained earnings	16.2	616,435,475	514,424,285
Total equity		**890,772,593**	**785,364,075**
Non-current liabilities			
Employee benefit liability	19	3,323,943	3,711,520
Deferred tax liability	7.2	7,166,077	7,627,122
Lease liabilities	9.2	5,293,658	2,009,943
Provisions	18	1,477,117	11,189,564
Total non-current liabilities		**17,260,795**	**24,538,149**
Current liabilities			
Trade payables and other payables	20	98,292,133	174,935,825
Income taxes payable	7.1	938,975	6,867,041
Short-term lease liabilities	9.2	4,060,128	3,753,882
Other current liabilities	20	34,697,081	35,508,527
Short-term provisions	18	3,583,810	2,296,520
Total current liabilities		**141,572,127**	**223,361,795**
Total liabilities		**158,832,922**	**247,899,944**
Total liabilities and equity		**1,049,605,515**	**1,033,264,019**

The financial statements from page 3 to page 60 were approved by the Board of Directors and were authorized to be issued in accordance with the resolution of the Administrators dated 28 March 2022.

Administrator,
Simona Cocos

Signature

Prepared by,
Daniel Nitulescu
Chief Financial Officer

Signature

(amounts are expressed in RON, unless specified otherwise)

STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

2021

	Share capital	Share premium	Legal and other reserves	Revaluation reserve	Retained earnings	Total
Opening balance at 1 January 2021	**69,701,704**	**24,964,506**	**118,346,486**	**57,927,094**	**514,424,285**	**785,364,075**
Profit for the year	-	-	-	-	105,745,554	105,745,554
Other comprehensive income	-	-	-	-	*(337,035)*	*(337,035)*
Total other comprehensive income	-	-	-	-	***(337,035)***	***(337,035)***
Total comprehensive income	-	-	-	-	**105,408,519**	**105,408,519**
Reserve for reinvested profit	-	-	3,397,329	-	(3,397,329)	-
Closing balance at 31 December 2021	**69,701,704**	**24,964,506**	**121,743,815**	**57,927,094**	**616,435,475**	**890,772,593**

The financial statements from page 3 to page 60 were approved by the Board of Directors and were authorized to be issued in accordance with the resolution of the Directors dated 28 March 2022.

Administrator,
Simona Cocos

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Company stamp

SOCIETATEA COMERCIALA ZENTIVA S.A.
ZENTIVA
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Prepared by
Daniel Nitulescu
Chief Financial Officer

Signature

Explanatory notes from 1 to 25 form an integral part of these financial statements.

(amounts are expressed in RON, unless specified otherwise)

STATEMENT OF CHANGES IN SHAREHOLDRES 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**
Other comprehensive income						
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)
Total Other comprehensive income	**-**	**-**	**-**	**17,728,717**	**-**	**17,728,717**
Total 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 60 were approved by the Board of Directors and were authorized to be issued in accordance with the resolution of the Directors dated 28 March 2022.

Administrator,
Simona Cocos

Cocos

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SOCIETATEA COMERCIALA ZENTIVA S.A.
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Prepared by
Daniel Nitulescu
Chief Financial Officer

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ZENTIVA SA
STATEMENT OF CASH FLOWS
for the financial year ended 31 December 2021
(amounts are expressed in RON, unless specified otherwise)

STATEMENT OF CASH FLOWS	**Note**	**31 December 2021**	**31 December 2020**
Cash flows from operating activities:			
Profit before tax		119,210,366	80,549,018
Depreciation and amortization	9,10,11	27,910,831	18,928,970
Impairment on property, plant and equipment	9.1	(2,460,989)	4,182,284
Impact of buildings revaluation reversal		-	(5,822,226)
Allowance for trade and other receivables, advances and prepayments	13	(1,928,553)	(1,548,706)
Inventory allowance movement	12	(384,788)	1,330,977
Movements in provisions for risks and charges	18	(8,327,189)	(1,088,338)
(Gain)/loss on sale of non-current assets	6.1	42,686	-
Write off of old advances paid to suppliers and trade payables, net		2,962,915	-
Write off of dividends	6.1	(6,276,644)	-
Interest revenues	6.4	(6,544,059)	(9,352,520)
Interest expenses	6.3	245,739	603,070
Operating profit before working capital changes		**124,450,315**	**87,782,529**
Change in inventories		13,620,006	(15,287,870)
Change in trade and other receivable		144,380,157	46,877,515
Change in trade and other payable		(71,631,105)	(62,176,773)
Interest paid		(245,739)	(603,070)
Cash generated from operating activities		**210,573,634**	**56,592,331**
Income tax paid	7.1	(19,935,360)	(13,735,323)
Net cash from operating activities		**190,638,274**	**42,857,008**
Cash flows from investing activities			
Proceeds from sale of non-current assets		2,272	681,857
Purchase of property, plant and equipment and intangible assets	9,10,11	(22,905,852)	(24,548,679)
Interest received		6,544,059	9,352,520
Net cash used in investing activities		**(16,359,521)**	**(14,514,302)**
Cash flows from financing activities			
Repayment of bank loans		-	(5,204,790)
Dividends paid		(5,110)	(29,636)
Lease payments	9.2	(4,685,515)	(4,868,567)
Net cash used in financing activities		**(4,690,625)**	**(10,102,993)**
Net increase (decrease) in cash and cash equivalents		169,588,128	18,239,713
Reclassification of cash pooling intercompany receivable	15	(513,704,034)	
Cash at the beginning of the period 1 January		**406,713,534**	**388,473,821**
Cash at the end of the period 31 December		**62,597,628**	**406,713,534**

The financial statements from page 3 to page 60 were approved by the Board of Directors and were authorized to be issued in accordance with the resolution of the Directors dated 28 March 2022.

Administrator,
Simona Cocos

Cocos

Signature
Company stamp

SOCIETATEA COMERCIALA ZENTIVA S.A. 14 BUCURESTI

Prepared by,
Daniel Nitulescu
Chief Financial Officer

Signature

Explanatory notes from 1 to 25 form an integral part of these financial statements.

1. INFORMATION ABOUT THE COMPANY

These financial statements of Zentiva SA (the "Company") for the year ended on 31 December 2021 are authorized for publication in accordance with the Board of Directors' Decision dated 28 March 2022.

The Company, previously named SICOMED SA 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 valuations of land and buildings donated by the State to the Company in accordance with the Government Decision, and liabilities held as of 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 held 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 was 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, as such, 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 Sanofi Romania SRL entity and after that date, ZIRO became an entity with no activity, and was 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 a percentage of 18.4067 % at a purchase price of RON 3.5 / share. The public purchase offer was concluded on 5 April 2018. The shares redeemed 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 Administered Pension Fund.

At the end of October 2016, Sanofi Group announced, after an analysis of all the available options, the initiation of its European generic medicine's division carve out.

As of that date, Zentiva SA was included in this separation process that was finalized on September 30, 2018, when Advent International NV purchased the European generic medicine division of Sanofi Group.

Starting with 1 September 2018, Sanofi Romania SRL, who was up until that time the distributor of generic medicine produced by Zentiva SA on the Romanian market, transferred its distribution activity to 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 in Romania of generic medicines both produced 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 comments included in Note 11 – Goodwill and Customer Relationship.

1. INFORMATION ABOUT THE COMPANY (continued)

The Company is listed on Bucharest Stock Exchange.

The Company has no investments in subsidiaries or associated companies as of 31 December 2021. The Company is part of a group and is at its turn consolidated in the Group's Financial Statements, the consolidated parent company being AI Sirona (Luxembourg) Acquisition S.a.r.l.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Statement of compliance

The Company's financial statements have been prepared in accordance with the provisions of Order No. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market with all subsequent amendments and clarifications. These provisions are in line with the provisions of the International Financial Reporting Standards endorsed by the European Union, except for the provisions of IAS 21 The Effects of Changes in Foreign Exchange Rates regarding the functional currency, of IAS 20 Accounting of Government Grants regarding the recognition of revenue form green certificates, with the exception of IFRS 15 - Revenue from Contracts with Customers regarding the revenue from distribution network connection charges and with the exception of interim distribution of dividends treatment. 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. To assess the applicability of this assumption, the management analyses the forecasts of future cash inflows.

As of 31 December 2021, current assets of the Company exceed current liabilities by RON 664,167,105 (as of 31 December 2020 current assets exceeded current liabilities by RON 571,439,045). At the same date, the Company recorded a profit for the year of RON 105,745,554 (2020: RON 65,635,440).

The budget prepared by the management of the Company and approved by the Board of directors for the year 2022, indicates positive cash flows from the operating activities, an increase in sales and profitability from the direct distribution on the Romanian market of generic medicine produced locally as well as the ones imported from other entities of the Group to which the Company belongs.

The management considers that the Company will be able to continue its activity in the foreseeable future and therefore the application of the going concern principle in the preparation of the financial statements is reasonable.

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

2.2 Summary of significant accounting policies

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

➢ **Foreign currency translations**

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

Foreign currency transactions are translated into RON using the exchange rate prevailing at the transaction date. Monetary assets and liabilities expressed in foreign currency at the end of the period are assessed in RON using the exchange rate prevailing at the end of the financial year. The gains and losses realized or unrealized are charged to the profit or loss. The exchange rates as of 31 December 2021 were RON / EUR 4.9481 and RON / USD 4.3707. The exchange rates as of 31 December 2020 were RON / EUR 4.8694 and RON / USD 3.966.

The exchange rates differences, favourable or unfavourable, between the exchange rate at the recording date of the receivables and payables in foreign currency or the exchange rate at which they were reported in previous financial situations and the exchange rate at the end of the fiscal year, shall be recorded under financial income or expense, where appropriate.

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

IFRS 15 Revenue from Contracts with Customers establishes a five steps model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Sale of goods

In accordance with IFRS 15, the revenue is recognized when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The Company delivers goods (mainly generic medicines) under contractual conditions based on internationally accepted delivery conditions (INCOTERMS). The point in time when the customer obtains 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 revenue should be recognized at a point in time when asset control is transferred to the customer, generally on delivery of the goods.

Variable consideration

Some client contracts involve rebates for volume, financial discounts, price concessions, or the right of return for quality claims. Currently, the revenue from these sales is recognized based on the price specified in the contract, net of returns and allowances, trade discounts, and volume rebates booked on an accrual when a reasonable estimate of the revenue adjustments could be made.

In accordance with IFRS 15, it is necessary to estimate the variable consideration at the inception of the contract. The revenue is recognized to the extent that it is highly probable that a significant reversal of the amount of recognized cumulative revenue will not occur. Consequently, for those contracts for which the Company is not able to make a reasonable estimate of the discounts, revenue will be recognized earlier than when the return period lapses or when a reasonable estimate can be made. In order to estimate the variable consideration to which it would be entitled, the Company applied the expected value method. At the same time, cases of quality claims (rights of return) are isolated and insignificant, based on the information from past periods, so that the Company cannot make a reasonable estimate of such revenue reversals at the end of the year.

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

Principal versus agent considerations

In accordance with IFRS 15, the assessment is based on whether the Company controls specific goods before transferring them to the end customer, rather than whether they have exposure to significant risks and rewards associated with the sale of goods. The Company have concluded that they are the principal in most of the contractual sales arrangements because they are the primary obligor in all revenue arrangements, have pricing latitude and are exposed to inventory risks. In the specific cases of the contractual arrangements where the Company does not control the goods before being transferred to the end customer, it acts as an agent.

Recognition of revenue from distinct performance obligations

The Company have analyzed its contracts with the clients in order to determine all its performance obligations and they have not identified any new performance obligation that should be accounted for separately in accordance with IFRS 15.

The Company provides various services as secondary activity. The revenue is evaluated at the expected value of the consideration received or to be received. In accordance with IFRS 15, the total consideration in the services contracts is allocated to all services based on their standalone selling prices. The individual selling prices are set based on the list prices that the Company at which the Company sell the services in separate transactions. Based on the evaluation of the Company the value allocated based on to the relative individual selling prices of the services and the standalone selling prices of the services are broadly similar.

- **Other operating income**

The Company performs sundry services as a non core business, recognizing revenues from re-invoicing of certain services provided by Zentiva employees to the affiliated companies, which are generally services related to the commercial activity of the group to which the Company belongs, advertising of generic products and support services for the headquarter.

- **Interest income**

The income from the interest generated by a financial asset is recognized when it is probable that the Company will obtain economic benefits and when that revenue can be measured in a reliable way. The income from interest is accrued on a time basis, by reference to the principal and at the applicable effective interest rate, meaning the rate that exactly discounts future cash receipts estimated over the expected life of the financial assets to the net carrying amount of the financial assets at the date of its initial recognition. The income from interest is included in the profit or loss under financial income.

- **Taxes**

Current income tax

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

Current income tax relating to items recognized directly in equity is recognized in equity and not in the profit or loss 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.

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

Deferred tax

Deferred tax is provided using the liability method on 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 time of the transaction, does not affect either the accounting profit or the taxable profit or loss;
- Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses, can be utilized, except;
- When the deferred tax asset 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 time 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 no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and 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 apply in the period when the asset is realized or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

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

Value added tax

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

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

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

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

- **Property, plant and equipment**

Initial recognition

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

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

When significant parts of property, plant and equipment 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 or loss as incurred. The present value of expected costs for decommissioning an asset after its use is included in the cost of that asset if the criteria for recognizing a provision are met.

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

- its purchase price, including import 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 inventories during that period.

Subsequent measurement

Land and buildings are valued at fair value less accumulated depreciation on buildings and impairment losses recognized as at the valuation date. Valuations are performed with sufficient frequency to ensure that the fair value of the revalued assets does not differ significantly from their net book value.

A revaluation surplus is recorded in other comprehensive income and 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 or loss, the increase is recognized in the profit or loss. A revaluation deficit is recognized in the profit or loss if it does not offset an existing surplus on the same asset recognized in the assets revaluation reserve. Additionally, accumulated depreciation as 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 an asset being sold or discarded is transferred to retained earnings in that year.

The Company contracted an independent valuation specialist to determine the fair value as at 31 December 2020.

The other categories of property, plant and equipment are valued at historical cost, less any depreciation and any impairment adjustments.

Depreciation method

Depreciation is calculated using:

- the straight-line method for buildings and equipment not related to production capacity;
- the reducing balance for equipment related to the production capacity.

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

Useful lives

The economic useful life is the period of time over which an asset is expected to be used by a company. The economic useful life of property, plant and equipment was determined by specialized employees. The depreciation is calculated using the straight-line or reducing balance over the whole useful life of the asset.

The land is not depreciated.

The average useful life's by categories of property, plant and equipment are as follows:

Buildings	30 - 50 years
Production equipment	5 - 20 years
Vehicles	5 years

The Company estimates the useful life of the property, plant and equipment elements in line with the consumption/ usage rate for those assets. Residual values, useful lives and methods of depreciation methods of property, plant and equipment are reviewed at the end of each financial year and adjusted accordingly.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefit is expected from its use or at disposal. Any gain or loss arising on 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 or loss when the asset is derecognized.

- **Leases**

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

The Company as a lessee

The Company applies a single recognition and assessment approach for all leases, except for short-term leases and leases of low-value underlying assets. The Company recognizes lease liabilities for performance of 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 amortization and cumulated impairment losses and adjusted for any revaluation of lease liabilities. The cost of the right-of-use assets includes the amount of the initial valuation of 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
Machinery, tools and equipment	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 impairment, according to the policy for impairment of non-financial assets described below.

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

Lease liabilities

On the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the term of the lease. Lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments are based 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 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 are not based 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 loan rate at the commencement date of the lease agreement, if the implicit interest rate on the lease agreement cannot be easily determined. After the lease commencement date, the value of lease liabilities is increased to reflect the interest and decreased with the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a change, a change in the lease term, a change in lease payments (for example, changes in future payments resulting from a change in the index or rate used to determine those lease payments) or a change in the assessment of a purchase option for the underlying asset.

Short-term lease and leases of low-value assets

As at 31 December 2021, the Company does not have any short-term leases and leases of low-value underlying 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 or 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 profit or loss under the line "Depreciation, amortization and impairment" .

Software	3 years
Research and development costs	3 years
Customer relationship	10 years

Gains or losses arising from derecognition 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 profit or loss when the asset is derecognized.

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

Research and development costs

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

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

Following initial recognition of the development expenditures of an asset, the cost-based model is applied, under which the assets are carried at cost less any accumulated amortization and accumulated impairment losses. The amortization of the intangible begins when the development is complete and the asset is available for use. It is amortized over the period of the expected future benefit. The amortization is recognized in the profit or loss, under the line "Depreciation, amortization and impairment". During the development period, the asset is tested for impairment annually.

Patents, licenses, trademarks

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

Goodwill and customer relationships

The goodwill generated by a business combination is carried at cost as it was established at the acquisition date of the business less accumulated impairment losses, if any. For the purpose of impairment testing, the goodwill is allocated to each cash generating unit (or group of cash generating units) of the group that is expecting to benefit from the synergies of the combination. A cash generating unit that has been allocated goodwill is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than its carrying amount, impairment is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment for the goodwill is recognized directly in profit or loss in the statement of comprehensive income. The recognized impairment for goodwill is not reversed in subsequent periods. At the date of the disposal of the relevant cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The intangibles acquired in a business combination and recognized separately from the goodwill are initially recognized at their fair value at the acquisition date (which is considered their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are disclosed at cost less accumulated amortization and accumulated impairment losses on the same basis as intangible assets that are acquired separately.

The goodwill and customer relationships of the Company are related to transfer of distribution activity from Sanofi Romania as part of a carve-out process performed in 2018 by Sanofi Group, which included the transfer of the Generics distribution business from Sanofi Romania to Zentiva. The amortization period for customer relationships was determined to be 10 years.

Derecognition of intangible assets

An intangible asset is derecognized on disposal or when no future economic benefits are expected form its use or disposal. The gains or losses arising from the derecognition of an intangible asset, measured as the difference between the net proceeds from sales and the net carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

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

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

1) Financial assets

Initial recognition and measurement

Financial assets are classified, on their initial recognition, for the purpose of their subsequent measurement, at amortized cost, fair value through other comprehensive income and fair value through profit or loss.

The classification of financial assets on initial recognition depends on the characteristics of the financial assets contractual cash flows and the company's business model for managing them. Except for trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. The trade receivables that do not contain a significant financing component for which the Company applied the practical cost are measured at their transaction price determined according to the IFRS 15.

For the classification and measurement of a financial asset at amortized cost or at fair value through other comprehensive income, it needs to give rise to cash flows that are "solely payment of principal and interest (SPPI)" in relation to the principal amount outstanding. This assessment is referred to as the SSPI test and is carried out at instrument level.

The Company's business model for managing financial assets refers to how the Company manages its financial assets in order to generate cash flows. The business model determines whether the cash flows will arise from the collection of contractual cash flows, the sale of financial assets or from both.

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

Subsequent assessment

For the purposes of subsequent measurement, the assets are classified in four categories:

- ➢ Financial assets at amortized cost (debt securities);
- ➢ Financial assets measured at 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 upon derecognition (equity instruments);
- ➢ Financial assets at fair value through profit or loss.

Financial assets at amortized cost (debt securities)

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

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

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

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

For more information on receivables, see Note 13 - Trade receivables and other receivables. Receivables due in a period of less than 12 months are not discounted.

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 an obligation to pay the cash flows received in full, without material delays, to a third party a pass-through arrangement; and (a) the Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has not transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.
- When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has not transferred nor retained substantially all the risks and rewards of the asset, nor has transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement 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 reflects the rights and obligations that the Company has retained. Continuing involvement in the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Company could be required to repay.

2) Impairment of financial assets

The Company recognizes a provision for expected credit losses (ECLs) for all loans and other debt instruments that are not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due under the contract and all cash flows that the Company expects to receive, discounted at an approximation of the original 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 (i.e., receivables to 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 arising from possible default events within the 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 lifetime of the exposure, regardless of the time of default (lifetime expected credit losses).

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

3) Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and credits

After initial recognition, interest-bearing loans are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized and as well as during the effective interest rate amortization.

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

Derecognition

A financial liability is derecognized when the debt liability is discharged, cancelled or expires. When an existing financial liability is replaced by another debt from the same lender on substantially different terms or the terms of an existing liability change substantially, such exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability. The difference in the respective carrying amounts is recognized in the profit or loss.

4) Offsetting of financial instruments

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

- **Inventories**

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

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

The value of finished goods and work in progress includes costs of raw materials, direct labor, direct production costs and production overheads, including depreciation. Financing costs (interest expense) are not included in the value of stocks.

The cost of inventory is determined based on the weighted average method.

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated sale price under normal operating conditions, less the estimated completion costs and sale costs. The Company periodically analyzes inventories to determine if they are damaged, obsolete, slow moving, or if the net realizable value has dropped, making the necessary adjustments.

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

➢ Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists or when annual impairment testing for an asset is required , the Company estimates the recoverable amount of the asset. The recoverable amount of an asset is the higher of the fair value of an asset (or a cash-generating unit) less the costs to sell 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 exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

Impairment loss of continuing operations is recognized in the profit or loss in the expense category consistent with the function of the impaired asset, except for a property that was previously revalued, and the revaluation was accounted for in other comprehensive income. In this case, impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

In each reporting period, an assessment is made to determine whether there are any indicators that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the Company estimates the recoverable amount of the asset or of the cash-generating unit. An impairment loss previously recognized 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 recognized in the profit or loss unless the asset has been revalued, in which case the reversal is treated as a revaluation increase.

➢ Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with an initial maturity of three months or less that are held to meet the cash commitments in the short term. Cash deposits with an initial maturity of three months or less that are not held to meet the Company's short-term cash commitments are not cash equivalents, but receivables.

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

➢ Provisions

General

Provisions are recognized when the Company has a present obligation (legal or constructive) 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 some or all of a provision to be reimbursed, for example, under an insurance agreement, the reimbursement is recognized as a separate asset, but only if the reimbursement is virtually certain. The expense related to any provision is presented in the profit or loss, net of any reimbursement.

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

Provisions are reviewed at each balance sheet date and adjusted to reflect the best current estimate of management in this respect. If an outflow of resources is no longer probable to be needed to settle the obligation, the provision is reversed and it is recognized as revenue.

If the effect of time value of money is material, provisions are discounted using a pre-tax rate that reflects, if applicable, the specific to the liability. When the discount is applied, the increase in the provision as a result of time passage is recognized as financing cost.

Restructuring provisions

Provisions for restructuring are recognized only when the general recognition for provisions are fulfilled 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 or communicating its main features to its people.

A restructuring provision will include only the direct restructuring costs, i.e. those that are necessarily generated by the restructuring process and are related to the entity's normal activities.

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

Environment provision

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

The Company plans to make ecological remediations that will have the effect of monitoring soil and underground water.

Litigation provisions

Litigation provisions are recognized when management estimates as probable cash outflows as a result of unfavorable disputes.

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

As part of its current activity, the Company makes payments to the Romanian State budget 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 except for the benefits on retirement presented below in this note 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 length of service within the company. This is a defined benefit post-employment scheme.

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

At the date of retirement, retraces receive a bonus depending on their length of service within the Company as follows:

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

In addition, when employees turn 50, they receive a bonus based on their length of service within the Company as follows (these being treated as other long-term employee benefits):

- 10 - 20 years in the Company, ½ of the basic employee salary;
- Over 20 years in the Company, one basic employee salary.

Provisions for post - employment benefits and other long-term employee benefits are estimated based on the Company's Collective Labor Agreement by external actuaries.

The Company uses the projected credit factor method actuarial assessment, 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 are eligible for these benefits (mortality rate, employee turnover 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 materially affected.

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

Past service costs are recognized as an expense on a straight-line basis over the remaining average period until the benefits vest. Past service costs are immediately recognized if the benefits have already vested, following the introduction or adjustment of the retirement plan. Interest expense is included in the profit or loss.

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

- **Related parties**

Parties are considered related when one party, either through ownership, contractual rights, family relationships, or otherwise, has the ability to significantly control / influence the other party. Related parties also include members of the management, members of the Board of Directors and members of their families, parties with joint control over other companies, post-employment benefit plans for Company employees.

- **Retained earnings**

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

The appropriation of the profit is therefore made in the following financial year, after approval of the appropriation by the Shareholders General Meeting, e.g.: the dividends approved and setting-up of other reserves according to legal provisions.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements of the Company requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the end of the reporting period. Nevertheless, uncertainty regarding these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or the liability affected in the future periods.

Judgements

In the course of the application of the Company's accounting policies, the management made the following judgements, which have the most significant effect on the amounts recognized in the financial statements:

- The Company's management has carried out an analysis on the presentation of the claw-back tax and decided that it would be more suitable to classify it as a revenue reduction; the alternative would have been for this tax to be considered as an operational expense. Management has considered that this is more similar to a rebate, or a contingent adjustment on the sales made.
- The Company has reassessed in 2021 the purpose of the cash pooling deposits held at Al Sirona (Luxembourg) Acquisition SARL and has concluded that no longer holds them for short term cash management and that is now held to generate an investment return. Consequently, the Company has reclassified in 2021 the cash pooling balance from cash and cash equivalents to cash pooling intercompany receivable (see Note 15). In accordance with the provisions of the cash pooling agreement at any time the Company may, by thirty days prior notice to the treasury group entity, request payment of the credit balance maintained and therefore the Company's management have assessed that the presentation as short term is appropriate. The reclassification out of cash and cash equivalents appears as a reconciling item in the cash flow statement.

Estimates and assumptions

The main assumptions regarding the future and other important sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities in the next financial year, are presented below:

Duties, taxes and tax provisions

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. All amounts due to State authorities have been paid or accrued at the balance sheet date. The Romanian fiscal system is undergoing a consolidation process and is being aligned with European legislation. Different interpretations may exist at the level of the fiscal authorities in relation to the fiscal legislation, which may result in additional taxes and penalties payable. Where the State authorities have findings from reviews relating to breaches of Romania's fiscal laws, and related regulations these may result in: confiscation of the concerned amounts; additional tax liabilities being payable; fines and penalties (that are applied on the total outstanding amount). As a result the fiscal penalties resulting from breaches of the legal provisions may result in a significant amount payable to the State. At the end of each financial year, the Company makes an estimate of the potential fiscal risks to which it may be subject and determines the potential risk level, using their best estimates possible, and, as a result, recognizes a specific provision in the financial statements if appropriate. Further details on taxes and tax provisions are disclosed in Notes 18 and 22.

Net realizable value of the inventories

The finished goods, merchandise and work in progress are recorded at the lower of their costs and their net realizable value. Management analyzes 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 issues and takes into consideration their implications for the purposes of establishing the net realizable value of old stocks. The net realizable value is the sale price under in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale, including marketing and distribution. For the products with an expiration date below 6 months, a provision is set for their entire value.

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

Management has analyzed monthly the net realizable value of the finished goods and work in progress, considering the market selling prices, as well as the regulations specific to the industry in which it operates. For raw materials, a specific analysis are made taking into consideration the age, expiration date, any potential quality problems of the recorded items. For the products with an expiration date below a year, or with quality issues, a provision is set for their entire value. All the assumptions are reviewed on an annual basis. Further details are included in Note 12.

Provisions for the environment and litigation

The Company recognizes provisions for the environment in relation to ecological rehabilitation, soil and underground water monitoring. In determining the carrying value of the provision, assumptions and estimates are made in relation to effective costs of works to be performed and the expected timing of these costs. Further details are included in Note 18.

The Company recognizes provisions for litigation related to the risk identified regarding certain trials going on in court, with uncertain results. Further details are included in Note 18.

Sales deductions for estimated sales returns, rebates and discounts

The sales returns, discounts, incentives and rebates related to sales are recognized as reductions of turnover in the same period when the related sales were recognized. These are recognized according to commercial offers containing monthly, quarterly and annual gross and net value targets (net targets are calculated after deducting from gross sales inclusively the discounts and clawback tax as communicated by State authorities 45 days after the end of the reference period) and which are estimated at the level of product, portfolio, sales channel (retail independent pharmacies, retail chain of pharmacies, hospitals) and according to concerned sales transactions. The estimated discounts accruals are subject to a continuous review and adjustment process based on the most recent available information.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The recoverable amount of the recognized goodwill and customer relationships is determined based on a discounted cash flow method within the income approach, using future cash flows estimated by the management and management's assumptions, namely: growth rate, perpetuity growth rate, operating margin and discount rate. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 11.

4. STANDARDS, AMENDMENTS AND NEW INTERPRETATIONS OF STANDARDS

4.1 New modifications brought in the accounting policies starting with 1 January 2021

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group/Company as of 1 January 2021:

- **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. 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. 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.

- **IFRS 16 Leases-Covid 19 Related Rent Concessions (Amendment)**

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application 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.

4.2 New standards, modifications and interpretations issued, but not yet effective for the financial exercise starting 1st of January 2021 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.

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

- **IFRS 17: Insurance Contracts**

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. In its March 2020 meeting the Board decided to defer the effective date to 2023. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. Management has assessed that the application of these changes has no impact on the Company's financial position or performance.

- **IFRS 17: Insurance Contracts (Amendments)**

The amendments to IFRS 17 are effective, retrospectively, for annual periods beginning on or after January 1, 2023, with earlier application permitted. The amendments aim at helping companies implement the Standard. In particular, the amendments are designed to reduce costs by simplifying some requirements in the Standard, make financial performance easier to explain and ease transition by deferring the effective date of the Standard to 2023 and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time. Management has assessed that the application of these changes has no impact on the Company's financial position or performance.

- **IFRS 17: Insurance contracts – Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments)**

The amendment is effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted respectively with IFRS 17. For entities that first apply IFRS 17 and IFRS 9 at the same time, the amendment adds a transition option for a "classification overlay", relating to comparative information of financial assets. An entity applying the classification overlay to a financial asset shall present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. Also, in applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of IFRS 9. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements. 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**

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.

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

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

The amendments were initially effective for annual reporting periods beginning on or after January 1, 2022 with earlier application 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.

In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the Board proposes narrow scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current, liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period, if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect. These Amendments, including ED proposals, 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 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 application 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.

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

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

- **IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**

The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. 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 IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**

The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. Management has assessed that the application of these changes has no impact on the Company's financial position or performance.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. Management has assessed that the application of these changes has no impact on the Company's financial position or performance.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**

The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. 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.

(amounts are expressed in RON, unless specified otherwise)

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

5.1 Turnover

For management purposes, the Company is organized in business units based on its products and services. The Company has a single reportable segment, namely the production of medicines.

The Company's management monitors the operating results of the business for the purpose of making decisions regarding the allocation of resources and the assessment of performance. Performance is assessed based on the operating profit or loss, the profit before tax 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 2021	1 January - 31 December 2020
Sales – domestic	393,640,062	316,857,274
Sales – external*	290,225,202	241,103,666
Total turnover	**683,865,264**	**557,960,940**
Sales of goods, including:	**667,941,876**	**540,432,708**
Sales of finished goods	378,049,244	466,529,423
Sales of merchandise	329,200,195	117,739,121
Residual products	2,460,583	(1,230,833)
Claw back tax	(42,768,146)	(42,605,003)
Rendering of services	**14,614,557**	**17,251,046**
Other income	**1,308,831**	**277,186**
Total turnover	**683,865,264**	**557,960,940**

*External sales are represented mainly by exports to Czech Republic.

All revenue is revenue from contracts with customers and refers to sales of goods and services transferred at a point in time.

Clawback tax

Starting the last quarter of the financial year ended 31 December 2009, in the pharmaceutical industry, for the companies holding Marketing Authorizations (MA) for certain medicines, a new tax was introduced and referred to as" claw-back tax". For the purpose of funding the public health expenses, MA holders included in the national health programs have the obligation to pay the claw-back tax quarterly for the concerned sales of medicines related to the concerned quarter based on the notifications received by the Company from the National Health Insurance House Fund (CNAS).

The contribution (the claw-back tax) is paid by the MA holders or by their legal representatives, if these medicines are:

- Prescribed within the healthcare system in Romania.
- Used in the ambulatory treatment (with or without a patient's contribution) based on a medical prescription and are available in pharmacies, hospitals or used as part of the medical treatment in 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 claw-back tax was influenced in 2020 by several legal amendments such as the introduction of the differentiated claw-back tax payable in instalments starting 1 April 2020 and the decrease in the single 27.65% percentage, which were brought by Law 53/2020 approving Ordinance no. 85/2019, introducing the differentiated claw-back contribution by types of medicines starting with the Q1 2020 (the filing and payment timeframe being applied subsequent to the law enforcement), for three types of categories, i.e.: type I (innovative medicines\), type II (medicines produced in Romania, both innovative and generic) and type III (generic medicines / any other medicines not classified as type I or II).

Specifically, for type I medicines, the quarterly contribution is calculated by applying 25% on the value related to their centralized consumption (as communicated by the National Health Insurance Fund, after VAT deduction), while for type II and type III medicines, the contribution is calculated by applying 15% and 20%, respectively. As such, following the above-mentioned amendments to the same Ordinance, starting Q1 2020, provisions regarding the value of the "p" percentage are amended by applying differentiated values by the types of medicines (25%, 15%, and 20%, respectively) and waiving the previous "p" percentage of 27.65%.

The category "**Rendering of services**" includes the revenues from the rendering of quality review services in relation to the products from outside the European Union that are to be sold on EU markets by partners within the Company's Group, as well as the revenues from certain production services provided to third parties.

5.2. Raw material expenses, merchandise, consumables used and utilities

	~~Notes~~	1 January - 31 December 2021	1 January - 31 December 2020
Raw materials	a	168,446,434	129,437,189
Merchandise		77,080,113	82,326,771
Packaging materials	b	53,976,186	42,784,241
Auxiliary materials	c	11,998,682	9,130,303
Utilities	d	12,034,010	10,404,755
Other material expenses	e	7,774,081	10,375,460
Total		**331,309,506**	**284,458,719**

The amounts mentioned in the above table on the reference lines a, b, c represent mainly expenses with raw materials and direct materials, packaging and auxiliary materials, used in the production activity.

The amounts mentioned on reference line d – utilities - refer mainly to the expenses with energy, gas and water.

e – this category includes mainly the expenses with materials not on stock used by the department in charge with the certification of the products originating from 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.

(amounts are expressed in RON, unless specified otherwise)

6. OTHER INCOME / OTHER EXPENSES AND ADJUSTMENTS

6.1 Other operating income

Other operating income	1 January – 31 December 2021	1 January – 31 December 2020
Gain/ (loss) from disposal of non-current assets	2,272	-
Services reinvoiced to Group entities	27,062,698	13,774,539
Other operating income	7,943,088	9,114
Total	**35,008,058**	**13,783,653**

The Company recognized revenues from re-invoicing of certain services provided by Zentiva employees to the Group companies, mainly to: Labormed Pharma Trading SRL (former Alvogen Romania SRL), Zentiva Group AS, and Solacium Pharma SRL, which are generally services related to the commercial activity of the Group, advertising of generic products and support services for the Headquarter.

Other operating income - contains prescribed dividends in amount of RON 6,276,644, registered following the Decision of the Ordinary General Meeting of Zentiva Shareholders of 28.04.2021 which established the prescription of the right to request the payment of dividends for the years 2015 - 2016.

6.2 Other operating expenses

Other operating expenses	1 January – 31 December 2021	1 January – 31 December 2020
Management service received from Zentiva Group	72,506,575	41,447,855
Repairs	8,885,341	5,246,506
Royalties – Zentiva trademark	3,736,397	4,086,061
Travel expenses	1,197,601	369,847
Write-off of inventories	15,776,629	8,543,527
Product registration fees with National Agency for Medicines ('ANM")	4,778,292	5,538,756
Professional fees	689,022	950,970
Postage and telecommunication	617,882	578,907
Other expenses	47,857,497	28,730,251
Net allowance for inventories, receivables and other receivables	(2,313,341)	4,459,964
Total	**153,731,894**	**99,952,644**

The expenses with management service from the Group include a large variety of services (see below) and have increased in 2021 compared to the previous year:

- Management and development of the products portfolio (monitoring, assistance regarding transfers, projects for Company production process optimization), for the procurement process (suppliers monitoring, negotiating the main contracts for raw material), legal support (international review and support / complex situations related to the business environment in Romania) and financial services (sales monitoring, support in production cost planning and optimization, 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.

(amounts are expressed in RON, unless specified otherwise)

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

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

Other expenses include: expenses for R&D studies in the pharmaceutical field, transport, security, intranet services, factoring commissions and other miscellaneous costs. In this category, there are included also the personnel leasing services from Lugera & Makler Romania SRL; these costs have evolved differently in 2021 compared to the previous year when they were influenced by the restrictions imposed during the COVID 19 pandemic; the increase in the current year is also directly linked to the increase in the business.

6.3 Financial expenses

Financial expenses	1 January - 31 December 2021	1 January - 31 December 2020
Foreign exchange differences expense	3,738,169	3,440,531
Interest expenses	245,739	603,070
Total	**3,983,908**	**4,043,601**

6.4 Finance Income

Financial Income	1 January - 31 December 2021	1 January - 31 December 2020
Foreign exchange differences gain	603,635	1,894,822
Interest income	6,544,059	9,352,520
Total	**7,147,694**	**11,247,342**

Interest income is the interest earned on the cash pooling account - for more details see Note 15.

6.5 Employee benefits expenses

Employee benefits expenses	1 January - 31 December 2021	1 January - 31 December 2020
Wages and salaries	102,946,103	89,914,600
Social security costs	4,268,083	3,958,612
Post-employment benefits and other long-term benefits - net impact (Note 19)	224,421	923,871
Other short-term benefits (*)	4,992,853	4,163,546
Total	**112,431,460**	**98,960,629**

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

(amounts are expressed in RON, unless specified otherwise)

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

6.6 Marketing and advertising 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 only expenses for promotional activities for the Company products in pharmacy chains and other expenses for this activity.

7. CURRENT TAX AND DEFERRED TAX

Income tax expense	1 January - 31 December 2021	1 January - 31 December 2020
Current income tax	14,007,295	15,668,044
Deferred tax (7.2 / expense (income))	(542,483)	(754,466)
Total	**13,464,812**	**14,913,578**

7.1 Income tax - current

The main components of corporate tax expense and the reconciliation between tax expense, accounting profit and tax profit for the year ended 31 December 2021 and 2020 are:

Tax reconciliation	1 January - 31 December 2021	1 January - 31 December 2020
Profit before income taxes	**115,537,400**	**80,549,018**
Income tax calculated at the tax rate applicable in Romania of 16%	18,485,984	12,887,843
Non-taxable income	(1,403,832)	-
Non-deductible expenses for tax calculation	1,319,330	2,639,470
Fiscal credit	(4,936,470)	(613,735)
Income tax expenses reported in profit or loss	**13,464,812**	**14,913,578**

In 2021, the fiscal credit includes amounts from sponsorships, reinvested profit as well as capital adjustment incentive calculated according to Government Ordinance no. 153/2020.

Movement in the current income tax during the year	1 January – 31 December 2021	1 January – 31 December 2020
Balance on 1 January	**6,867,041**	**4,934,319**
Income tax expenses for the current year	14,007,295	15,668,044
Income tax paid during the year	(19,935,359)	(13,735,322)
Balance at 31 December	**938,975**	**6,867,041**

(amounts are expressed in RON, unless specified otherwise)

7. CURRENT INCOME TAX AND DEFERRED (continued)

7.2 Deferred tax

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

Deferred tax relates to the following:

Deferred income tax	31 December 2021	31 December 2020	Movement in profit or loss / other comprehensive income 2021	2020
Deferred tax assets				
Employee benefit liabilities	531,831	593,843	(62,013)	95,603
Allowances and provisions	2,813,961	3,404,582	(590,621)	774,752
Other intangible assets	-	3,742	(3,742)	-
Accrual for employee bonuses and for leaves not taken	1,796,973	1,894,782	(97,809)	454,810
Total (a)	**5,142,765**	**5,896,949**	**(754,184)**	**1,325,167**
Deferred tax liabilities				
Property, plant and equipment and intangible assets	(12,308,841)	(13,524,071)	1,215,230	(4,069,444)
Total (b)	**(12,308,841)**	**(13,524,071)**	**1,215,230**	**(4,069,444)**
Net deferred tax (a) - (b)	**(7,166,076)**	**(7,627,122)**	**461,045**	**(2,744,277)**

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, because the Company uses different useful lives and impairment methods in the accounting ledger than the fiscal one, and because of revaluations.

The Company recognizes tax items in Statement of Comprehensive Income, as follows:

	2021	2020
Deferred tax		
Recognized in profit or loss (7.1)	(542,483)	(754,466)
Recognized in other comprehensive income	81,438	3,498,743
Total	**(461,045)**	**2,744,277**

8. EARNINGS PER SHARE

The number of shares related to the period ended on 31 December 2021 and 31 December 2020 is 697,017,040 which generated 0.15 RON / share (2020: 0.09 RON / share).

(amounts are expressed in RON, unless specified otherwise)

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

9.1 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery, tools and equipment	Constructions in progress	Total
Gross value 1 as of January 2021	**53,102,391**	**55,426,158**	**233,195,032**	**8,070,391**	**349,793,972**
Additions	-	-	-	20,920,339	**20,920,339**
Disposals	(436)	-	(6,818,983)		**(6,819,419)**
Transfers	-	3,163,070	20,018,275	(23,181,345)	**-**
Gross value as of 31 December 2021	**53,101,955**	**58,589,228**	**246,394,324**	**5,809,384**	**363,894,891**
Depreciation as of 1 January 2021	**402**	**-**	**(156,907,936)**	**(3,070,867)**	**(159,978,401)**
Depreciation in the year	(14,593)	(2,668,781)	(15,721,465)		**(18,424,839)**
Reversal of impairment				2,460,989	**2,460,989**
Disposals	-	-	6,818,983	-	**9,279,972**
Depreciation as of 31 December 2021	**(14,191)**	**(2,668,781)**	**(165,810,418)**	**(609,878)**	**(169,123,268)**
Net book value as of 31 December 2021	**53,087,764**	**55,900,447**	**80,583,906**	**5,199,506**	**194,771,623**

	Land	Buildings	Machinery, tools and equipment	Constructions in progress	Total
Gross value as of 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**
Revaluation	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 revaluati	(402)	(10,233,197)			**(10,233,599)**
Disposals	-	-	(174,128)	-	**(174,128)**
Transfers	-	-	46,731,012	(46,731,012)	**-**
Gross value as of 31 December 2020	**53,102,391**	**55,426,158**	**233,195,032**	**8,070,391**	**349,793,972**
Depreciation and impairment as of 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 as of 31 December 2020	**402**	**-**	**(156,907,936)**	**(3,070,867)**	**(159,978,401)**
Net book value as of 31 December 2020	**53,102,793**	**55,426,158**	**76,287,096**	**4,999,524**	**189,815,571**

The value of fully depreciated assets as of 31 December 2021 is RON 129,267,821 (2020: RON 130,347,693).

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

Revaluation of land and buildings

As of 31 December 2020, the Company revalued the existing land and buildings in the Company's patrimony. The revaluation was made by an independent valuer 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 shareholders 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 - on the line of "Depreciation and impairment", representing the reversal of impairment losses related to buildings resulting from the revaluation from 31 December 2017.

Fair value was determined by reference to market information, using the cost approach as the main approach in valuing buildings and special constructions 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 an external impairment testing method as part of the cost approach.

Valuation techniques are selected by the independent valuer 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 inputs on level 3 of the fair value measurement hierarchy.

The inputs used in the valuation were:

a. *For buildings and special constructions*
- ➢ level 3 inputs representing replacement costs, historic costs, historic cost update indexes, impairment adjustments - most of these being 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 impairment estimated by the valuer.

b. *For land*
- ➢ level 3 inputs representing sale prices taken from sale offers for similar pieces of land, publicly available, with adjustments made by the valuer depending on their comparability with the measured pieces of land.

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

The fair value of the Company's land of 74.475 sqm was determined by the valuer to be EUR 145/sqm.

Estimating fair values using the income approach and allocating values based on the net replacement costs of constructions and in accordance with the valuation standard specific to valuation for accounting purposes would have resulted in values similar to those estimated using the cost approach. The total fair value of the measured assets is RON 108,782,830. The sensitivity analysis of the overall value of the valued asset base, performed by using the main inputs under 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.

(amounts are expressed in RON, unless specified otherwise)

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

Construction in progress

Construction in progress as of 31 December 2021 are in amount of RON 5,199,506 (2020: RON 4,999,524) and include mainly equipment which is related to the production capacity.

At 31 December 2021, the Company recorded an accumulated impairment allowance for construction in progress in amount of RON 609,878 for old items that were not completed by this date (at 31 December 2020 the Company recorded an accumulated impairment allowance in amount of RON 3,070,861 for investments made in the periods 2016 - 2017 that had not been completed by that date).

During 2021 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 23,181,345 (2020: RON 46,731,021).

9.2 RIGHT-OF-USE ASSETS

	Buildings	Machinery Tools and Equipment	Total
Cost as of 1 January 2021	**3,933,147**	**9,079,418**	**13,012,565**
Additions during the year	902,229	7,089,822	**7,992,051**
Disposals	-	(44,518)	**(44,518)**
Cost as of 31 December 2021	**4,835,376**	**16,124,722**	**20,960,098**
Depreciation and impairment as of 1 January 2021	**(2,584,435)**	**(4,918,726)**	**(7,503,161)**
Depreciation in the year	(1,466,294)	(3,021,729)	**(4,488,023)**
Disposals	-	-	-
Depreciation and impairment as of 31 December 2021	**(4,050,729)**	**(7,940,455)**	**(11,991,185)**
Net value as of 31 December 2021	**784,647**	**8,184,266**	**8,968,913**

	Buildings	Machinery Tools and Equipment	Total
Cost as of 1 January 2020	**3,794,345**	**6,879,089**	**10,673,434**
Additions during the year	138,802	2,200,329	2,339,131
Disposals	-	-	-
Cost as of 31 December 2020	**3,933,147**	**9,079,418**	**13,012,565**
Depreciation and impairment as of 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 as of 31 December 2020	**(2,584,435)**	**(4,918,726)**	**(7,503,161)**
Net value as of 31 December 2020	**1,348,712**	**4,160,692**	**5,509,404**

(amounts are expressed in RON, unless specified otherwise)

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

The Company recognized as "Right-of-use assets" the following categories:
- Car leasing for the Company's personnel;
- The lease of a packing line;
- The lease contract for the storage premises owned by FM Logistic.

The leases for vehicles have a lease term of 48 months. The Company's obligations under the lease contracts are secured by the lessor's title to the leased assets.

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

The table below shows the carrying amount of the lease liability and movements in this category during the financial year 2021 and respectively 2020:

	2021	2020
As of 1 January	**5,763,825**	**7,799,361**
Additions during the period	7,992,051	2,239,132
Interest on the lease liability	89,947	535,161
Early termination of car leases	(46,794)	-
Lease payments	(4,685,515)	(4,856,947)
Interest paid	(89,847)	(535,161)
Forex impact	300,119	482,279
As of 31 December	**9,323,786**	**5,663,825**

Out of which:		
Long term lease liability	5,293,658	2,009,943
Short term lease liability	4,060,128	3,753,882

The following expenses represent the amounts recognized in the Statement of Comprehensive Income in relation to leases in 2021 and respectively in 2020:

	2021	2020
Depreciation of right-of-use assets	4,488,023	4,182,283
Interest expense on the lease liability	89,947	535,161
Total expenses recognized in the Statement of Comprehensive Income	**4,577,970**	**4,717,444**

(amounts are expressed in RON, unless specified otherwise)

10. INTANGIBLE ASSETS

	Development costs	Other intangible assets	Intangibles in progress	Total
Costs at 1 January 2021	**63,532**	**8,024,174**	**546,866**	**8,634,572**
Additions	-	-	1,985,513	**1,985,513**
Disposals	(63,532)	-	-	**(63,532)**
Transfers	-	2,486,880	(2,486,880)	**-**
Costs at 31 December 2021	**-**	**10,511,054**	**45,499**	**10,556,553**
Amortization and impairment at 1 January 2021	**(63,532)**	**(4,642,261)**	**-**	**(4,705,793)**
Amortization in the year	-	(1,261,323)	-	**(1,261,323)**
Disposals	63,532	-	-	**63,532**
Amortization and impairment at 31 December 2021	**-**	**(5,903,584)**	**-**	**(5,903,584)**
Net value at 31 December 2021	**-**	**4,607,470**	**45,499**	**4,652,969**

	Development costs	Other intangible assets	Intangible in progress	Total
Costs at 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**
Amortization and impairment at 1 January 2020	**(63,532)**	**(4,344,213)**	**-**	**(4,407,745)**
Amortization in the year	-	(298,048)	-	**(298,048)**
Disposals	-	-	-	**-**
Amortization and impairment at 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**

(amounts are expressed in RON, unless specified otherwise)

11. GOODWILL AND CUSTOMER RELATIONSHIPS

	Goodwill	Customer relationships	Total
Cost at 1 January 2021	**11,649,100**	**34,492,101**	**46,141,201**
Additions	-	-	-
Disposals	-	-	-
Transfers	-	-	-
Cost at 31 December 2021	**11,649,100**	**34,492,101**	**46,141,201**
Amortization and impairment at 1 January 2021	**-**	**(6,931,776)**	**(6,931,776)**
Amortization in the year		(3,736,645)	**(3,736,645)**
Disposals	-	-	-
Amortization and impairment at 31 December 2021	**-**	**(10,668,421)**	**(10,668,421)**
Net value at 31 December 2021	**11,649,100**	**23,823,680**	**35,472,780**

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

The goodwill and customer relationships of the Company are related to transfer of distribution activity from Sanofi Romania as part of a carve-out process performed in 2018 by Sanofi Group, which included the transfer of the Generics distribution business from Sanofi Romania to Zentiva.

The Company performed an impairment testing on goodwill and customer relationships as of 31 December 2021 and respectively as of 31 December 2020 in accordance with IAS 36. The recoverable value was significantly higher than the carrying value, so no impairment adjustments were identified. No reasonably possible change in the key assumptions on which management has based its determination of the recoverable value would cause the assets' carrying amount to exceed their recoverable amount.

The recoverable value of these assets (goodwill and customer relationships) was determined based on the market value following the application of the discounted cash flow method within the income approach, using management's assumptions, namely: future cash flows estimated by the management for 9 years (2022 – 2030) determined taking into account an average annual growth rate of net sales of 3.7%, a perpetuity growth rate of 2.5%, operating margin of 4.5% and an average WACC of 10%.

11. GOODWILL AND CUSTOMER RELATIONSHIPS (continued)

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

Amounts in RON million	Decrease in operational margin	Decrease in net sales growth	Increase in update ratio
	(0.50%)	(3%)	+1%
Recoverable value of goodwill and customer relationships	53.36	65.20	56.34
Net carrying amount	35.47	35.47	35.47
Difference	**17.89**	**29.73**	**20.87**

12. INVENTORIES

Inventories	31 December 2021	31 December 2020
Merchandise	36,656,462	55,059,700
Finished goods and semi-finished goods	52,290,420	43,077,003
Raw materials	52,741,194	54,917,434
Packaging materials	10,791,894	13,045,838
Minus:		
Allowance of inventories	(27,916,834)	(28,301,622)
Total	**124,563,136**	**137,798,353**

Changes in allowance per inventory category	31 December 2021	31 December 2020
Balance on 1 January	**(28,301,622)**	**(26,970,645)**
Net movement	384,788	(1,330,977)
Balance at 31 December	**(27,916,834)**	**(28,301,622)**

Allowance per inventory category	31 December 2021	31 December 2020
Finished goods, semi-finished goods and merchandise	(16,321,689)	(16,757,912)
Raw materials	(10,949,154)	(10,171,424)
Packaging materials	(645,991)	(1,372,286)
Total	**(27,916,834)**	**(28,301,622)**

The Company has no inventories pledged in favor of third parties as of 31 December 2021 and 31 December 2020 respectively.

The amount of the write-down of inventories recognised as an expense in the period is presented in Note 6.2

(amounts are expressed in RON, unless specified otherwise)

13. TRADE RECEIVABLES AND OTHER RECEIVABLES; ADVANCES AND PREPAYMENTS

Trade receivables and other receivables	31 December 2021	31 December 2020
Total trade receivables, net, out of which:	**99,909,501**	**227,958,536**
Trade receivables	24,208,297	15,463,428
Trade receivables from related parties	77,649,742	213,121,669
Less		
Allowance for doubtful foreseen losses from receivables	(1,948,538)	(626,561)
Total other receivables- net, out of which:	**2,277,917**	**2,552,518**
Recoverable taxes	3,580,171	2,247,051
Sundry debtors	124,909	305,467
Less		
Allowance for doubtful foreseen losses from other receivables	(1,427,162)	-
Total Trade receivables and other receivables*	**102,187,418**	**230,511,054**

Advances and prepayments	31 December 2021	31 December 2020
Advances paid	1,208,629	22,816,823
Prepayments	1,478,387	1,638,768
Less		
Allowance for doubtful foreseen losses from advances and prepayments	-	(4,677,692)
Total advances and prepayments*	**2,687,016**	**19,777,899**

* The comparative figures as of 31 December 2020 were reclassified in accordance with the presentation adopted in 2021. The amount of RON 19,777,899 representing advances and prepayments which were reported at 31 December 2020 under the category Trade and other receivables are now included separately under Advances and prepayments in the Statement of Financial Position.

Starting with January 2019, the Company signed with Factofrance SA a non-recourse factoring contract to finance the local receivables with the main nine Romanian distributors by buying on a non-recourse basis all the available receivables subject to the maximum limit covered by the Credento insurer. The risks and rewards related to the receivables are substantially transferred to a factor and as a result the transferred amount at the transfer date is derecognized, and the factoring fees and related finance costs are recognized at the payment date.

Trade receivables are not interest-bearing and are generally on 60 - 120 days terms (2020: 60 - 120 days terms).

The trade receivables are presented net of the accrual for commercial discounts amounting RON 24 million at year end 31 December 2021 (2020: RON 42 million), for which the Company issued credit notes in 2022.

(amounts are expressed in RON, unless specified otherwise)

13. TRADE RECEIVABLES AND OTHER RECEIVABLES; ADVANCES AND PREPAYMENTS (continued)

See below for the movements in the allowance for trade, other receivables and advances and prepayments:

Value adjustments	31 December 2021	31 December 2020 *
Balance as of 1 January	**(5,304,253)**	**(2,175,267)**
Set-up	(2,749,139)	(4,677,692)
Uses	4,677,692	1,548,706
Reversals	-	-
Balance as of 31 December	**(3,375,700)**	**(5,304,253)**

Year 2021

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 0.0718%.

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

Trade receivables from third parties in the amount of RON 27,420,444 are insured against the default risk by Coface and Credendo, companies with an AA rating according to S&P.

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

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, i.e., the probability of default returned by Bloomberg, namely 0.072%.

The Company has trade receivables to be received from Group companies, and payables to those companies, therefore a provision for credit losses was not considered to be necessary. Offsetting 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 default risk by Credendo, a company with an AA rating according to S&P.

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

(amounts are expressed in RON, unless specified otherwise)

14. CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Cash at banks and on hand	62,597,628	62,590,738
Advance for payment of dividends	-	824,507
Deposits – cash pooling	-	343,298,289
Total	**62,597,628**	**406,713,534**

Cash in the bank is interest-bearing at the daily interest rate when the deposits are set. 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.

In 2021, the cash-pooling balance in amount of RON 513,704,034 was reclassified as cash pooling intercompany receivable - for details see Note 15.

As of 31 December 2021, the Company had letters of guarantee issued in favor of third parties amounting to RON 8,355,901 (2020: RON 8,355,901).

The amount of RON 824,507 included on the line "Advances for payment of dividends" in 2020 relates to a transfer to the Central Depository for the payment of dividends to minority shareholders. In 2021, following the Decision of the Ordinary General Meeting of Zentiva Shareholders of 28 April 2021, which acknowledged the prescription of the right to request payment of the dividends for the years 2015 - 2016, the Central Depositary reimbursed the remaining amount in the balance of RON 819,396.

As of 31 December 2021 and 31 December 2020 respectively, the Company has an unused credit facility of RON 10,000,000 at BNP Paribas. The interest rate is 1-month ROBOR + 1.30% pa.

15. CASH POOLING INTERCOMPANY RECEIVABLE

Prior to 2020 the Company participated in cash pooling arrangement with Zentiva Group, a.s. The cash pooling arrangement was transferred in December 2020 to AI Sirona (Luxembourg) Acquisition SARL (the ultimate parent entity of Zentiva Group) via a new contract signed between Zentiva Group, a.s., the Company and AI Sirona (Luxembourg) Acquisition SARL. Through the cash pooling arrangements AI Sirona (Luxembourg) Acquisition SARL manages centrally the surplus cash and the short-term liquidity needs of the subsidiaries. The cash deposits/drawdowns under the cash pooling agreement are subject to interest rates based on 3M ROBOR rate and applicable mark-up based on valid Group transfer pricing policy.

In 2021 the Company has reassessed the purpose of the cash pooling deposits held at AI Sirona (Luxembourg) Acquisition SARL and has concluded that no longer holds them for short term cash management and that is now held to generate an investment return. Consequently, the Company has reclassified in 2021 the cash pooling balance from cash and cash equivalents to cash pooling intercompany receivable.

The total interest income for cash-pooling transactions during the year is in the amount of RON 6,544,059 (2020: interest income in the amount of RON 9,352,520) and is presented in Note 6.4 Financial income.

In estimating the expected credit losses ("ECL") related to the cash pooling contract and ability of the ultimate parent company to be able to repay the cash deposits on demand, if required by the Company within its local business, the Company took into account the rating of the Zentiva Group as well as its sufficient liquidity from a) RCF facilities and b) cash balance and concluded that no significant credit risk exists for this financial instrument.

(amounts are expressed in RON, unless specified otherwise)

16. ISSUED CAPITAL AND RESERVES

Authorised shares	31 December 2021	31 December 2020
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 2021	697,017,040	69,701,704

Redeemable shares: The Company has no redeemable shares on 31 December 2021 (2020: no redeemable shares).

Share capital	31 December 2021	31 December 2020
Issued share Capital	69,701,704	69,701,704
Total share capital	**69,701,704**	**69,701,704**

As of December 31, 2021, Zentiva Group a.s. held 95,9486% of the Company's shares (31 December 2020: 95,9486%), the reminder of the shares being held by other minority shareholders.

Share premium	31 December 2021	31 December 2020
Inflated share premiums		
Share premiums (nominal value)	9,863,684	9,863,684
hyperinflation adjustment on share premiums*	15,100,822	15,100,822
Total share premiums	**24,964,506**	**24,964,506**

* For conversion to IFRS in 2011 , the Company recorded a hyperinflation adjustment for the share premiums for the period 1992 - 2003 when Romania was considered to be a hyperinflationary economy.

Revaluation reserves

The revaluation reserve is considered to be realized when the correspondent asset is disposed of or sold. Once the revaluation reserve becomes realized, it can be distributed. As at 31 December 2021, the Company has revaluation reserves in amount of RON 57,527,094 (2020: RON 57,527,094).

Legal and other reserves

Total other reserves included in the capital components:	31 December 2021	31 December 2020
Legal reserves (i)	13,940,341	13,940,341
Other reserves (other funds) (ii)	107,803,474	104,406,145
Total other reserves	**121,743,815**	**118,346,486**

(i) The company sets its legal reserves under the Companies Law, which requires that 5% of the annual accounting profit before taxes is transferred to „Legal Reserves" until the balance of this reserve reaches the threshold of 20% of share capital. Legal reserves are not distributable. On 31 December 2020, the legal reserves of the company reach the threshold of 20% from the share capital. In 2020, the legal reserve set up was in amount of RON 2,896,448.

(ii) Other reserves include undistributed profits from the years 2004 - 2008, 2012 – 2013, 2015-2016 and 2021, respectively. Such reserves are available for distribution as dividends. In 2021 other reserves were increased with an amount of RON 3,397,329 representing reserve for reinvested profit for which a tax credit was obtained in 2021.

(amounts are expressed in RON, unless specified otherwise)

17. DIVIDENDS DISTRIBUTED AND PAID

During 2021, the Company did not distribute dividends (2020: the Company did not distribute dividends).

In 2021, the Company made payments in the amount of RON 5,110 representing dividends paid to the minority shareholders of the Company representing dividends approved to be distributed but related to previous financial years (2020: dividend payments in amount of RON 29,636 were made also to the minority shareholders).

18. PROVISIONS

Other provisions	31 December 2021	31 December 2020
Provisions for litigations	(211,549)	(211,549)
Provisions for taxes	(3,583,810)	(7,256,776)
Other provisions	-	(377,249)
Environmental provision	(1,256,568)	(5,640,510)
Total	**(5,051,927)**	**(13,486,084)**

	Provisions for litigations	Provisions for taxes	Environmental provision	Other provisions	Total
On 1 January 2021	**211,549**	**7,256,776**	**5,640,510**	**377,249**	**13,486,084**
Increase	-	-	-	-	-
Reversal	-	(3,672,966)	(4,374,942)	(377,249)	**(8,425,156)**
On 31 December 2021	**211,549**	**3,583,810**	**1,265,568**	-	**5,051,927**
Current	-	3,583,810	-	-	**3,583,810**
Long term	211,549	-	1,265,568	-	**1,477,117**

	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**
Long term	211,549	4,960,256	5,640,510	377,249	**11,189,564**

Provisions for taxes

As at 31 December 2020, the Company had a provision set in the past for the potential taxes and charges differences which might be determined by the tax authorities following a full tax check, in the context of multiple legislative changes, in the amount of RON 7,256,776 (in 2020: RON 7,256,776) out of which RON 3,672,966 was related to the claw back tax for which a litigation was in progress with the Tax Authorities (see Note 22). As of 31 December 2021 the Company revesed the provision for claw back tax as a result of the favourable final decision obtained in the dispute with Tax Authorities – refer to Note 22 Commitments and contingencies - Legal claims. The decision was issued in 2022 after the balance sheet date but before the financial statements were approved for issue and therefore were considered an adjusting event.

The provisions for taxes are set for the amounts payable to the State Budget, provided that the respective amounts do not appear as a liability in relation to the State.

18. PROVISIONS (continued)

Environmental provisions

The environmental liabilities were reassessed by specialists during the year 2021 and the balance of the provision as of 31 December 2021 has reduced up to RON 1,265,568 (2020: RON 5,640,510). This represents expenses related to ecological rehabilitation and soil and underground water monitoring.

19. PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

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

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

Benefits granted upon retirement:

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

According to P1 Plan, upon retirement, retirees receive a bonus depending on their length of service within the Company as follows:

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

In addition, according to P2 Plan, when employees turn 50, they receive a bonus according to their length of service within the Company as follows:

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

Provisions for pensions and other similar obligations are estimated based on the collective labor agreement of the Company by a third-party specialist.

(amounts are expressed in RON, unless specified otherwise)

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

Below we summarize the components of the net benefit recognized in the Statement of Comprehensive Income:

Post-employment benefits	31 December 2021 Post-employment benefits (P1)	31 December 2021 Jubilee Plan (P2)	Total	31 December 2020 Post-employment benefits (P1)	31 December 2020 Jubilee Plan (P2)	Total
Benefit obligation at the beginning of the year	**2,990,000**	**722,000**	**3,712,000**	**2,413,000**	**701,000**	**3,114,000**
Current service cost	214,000	93,000	307,000	412,000	74,000	486,000
Financial cost - interest (on the benefit)	101,000	23,000	124,000	103,000	27,000	130,000
Paid benefits	(26,000)	(155,000)	(181,000)	(263,000)	(63,000)	(326,000)
Past service cost	-	-	-	-	(17,000)	(17,000)
Additions / Amendments to the plan	-	-	-	-	-	-
Actuarial gain / loss – experience	(115,000)	38,000	(77,000)	53,000	-	53,000
Actuarial gain / loss – changes in demographic assumptions	-	-	-	272,000	-	272,000
Actuarial gain / loss – changes in financial assumptions	(495,000)	(66,000)	(561,000)	-	-	-
Benefit obligation at the end of the year	**2,669,000**	**655,000**	**3,324,000**	**2,990,000**	**722,000**	**3,712,000**
The net benefit liability recognized in the statement of financial position	**2,669,000**	**655,000**	**3,324,000**	**2,990,000**	**722,000**	**3,712,000**

Changes in actuarial gains	31 December 2021 Retirement benefit plan (P1)	31 December 2021 Jubilee bonus plan (P2)	Total	31 December 2021 Retirement benefit plan (P1)	31 December 2021 Jubilee bonus plan (P2)	Total
Actuarial gains / losses accumulated at the beginning of the year	**1,527,000**	**371,000**	**1,898,000**	**1,202,000**	**371,000**	**1,573,000**
Actuarial (gain) / losses following changes in employee experience	(115,000)	38,000	(77,000)	53,000	-	53,000
Actuarial (gain) / losses following changes in assumptions	(495,000)	(66,000)	(561,000)	272,000	-	**272,000**
Actuarial gains / losses accumulated at the end of the year	**917,000**	**343,000**	**1,260,000**	**1,527,000**	**371,000**	**1,898,000**
Assumptions to determine the defined benefit obligation						
Discount rate	5.60%	5.60%		3.38%	3.38%	
Compensation increase rate	4.00%	4.00%		3.50%	3.50%	

(all amounts are presented in RON, unless otherwise stated)

20. TRADE PAYABLES AND OTHER PAYABLES

Trade payables and other payables	31 December 2021	31 December 2020
Trade payables	75,887,576	64,337,936
Trade payables to related parties at the end of year	22,391,059	110,195,174
Other liabilities	13,498	402,715
Total	**98,292,133**	**174,935,825**

Trade payables to related companies decreased compared to the previous year as a result of payments and offsets made at the end of the year between related parties – see also Note 13 – Receivables from affiliated entities.

Other current liabilities	31 December 2021	31 December 2020
Wages and salaries payable	12,847,369	12,747,492
Social security contributions and salary taxes	4,474,104	2,632,247
Claw-back tax (*)	11,252,312	10,249,248
Other taxes	2,755,264	494,418
Dividends payable	-	6,281,754
Other liabilities	3,368,032	3,103,368
Total	**34,697,081**	**35,508,527**

In 2021, the Company paid dividends to minority shareholders in amount of RON 5,110 and the difference in amount of RON 6,276,644 has been written off based on the General Shareholder Decision from 24 April 2021- please also refer to Note 6.1.

(*) Claw-back	31 December 2021	31 December 2020
Initial estimate of the tax liability to the State Budget for the last quarter	12,215,704	11,233,651
Regularization of the claw-back tax for the last quarter, according to the notification received from the CNAS	(963,392)	(984,403)
Total	**11,252,312**	**10,249,248**

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 21.

For explanations regarding the Company's liquidity risk management processes, see Note 23.

21. RELATED PARTY DISCLOSURES

21.1 Nature of the transactions with related parties ("affiliated entities and other related parties")

An entity is "connected" 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 it is subject to the joint control of the other entity (including the parent companies, the subsidiaries or member subsidiaries);
   - it has an interest in the respective entity, which gives a significant influence on it; or
   - it holds joint control on the other entity;

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

➢ **Details about other affiliated parties:**

Company name	Nature of relation	Transaction type	Country of origin	Registered office
Al Sirona (Luxembourg) Acquisition S.à.r.l	Parent of Zentiva Group AS	Holds cash pooling	Luxemburg	Luxemburg
Labormed Pharma Trading SRL (former Alvogen Romania SRL)	Company under commor control	Provision of services	Romania	Bucharest
Labormed Pharma SA	Company under common control	Provision of services	Romania	Bucharest
Solacium Pharma SRL	Company under common control	Provision of services	Romania	Bucharest
Zentiva as Hlohovec	Company under common control	Purchases of services	Slovakia	Bratislava
Zentiva Group AS	Majority shareholder	Purchases /revenue from services	Czech Republic	Prague
Zentiva Italia	Company under common control	Purchases of goods	Italy	Milan
Zentiva K.S.	Company under common control	Purchases/ Sale of goods and provision of services	Czech Republic	Prague
Zentiva Pharma GMBH	Company under common control	Purchases/ Sale of goods and provision of services	Germany	Frankfurt
Zentiva Private LTD	Company under common control	Purchases of goods	India	Mumbai
Helvepharm AG	Company under common control	Provision of services	Switzerland	Frauenfeld

On 25 October 2019, Zentiva Group, which Zentiva SA is a part of, announced the signing of the agreement for the acquisition of the production and marketing 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 6 April 2020 and since then, Labormed Pharma SA and Alvogen Romania SRL became affiliated entities. Subsequently, in February 2021 Alvogen Romania SRL changed its name to Labormed Pharma Trading SRL.

(all amounts are presented in RON, unless otherwise stated)

21. RELATED PARTY DISCLOSURES (continued)

21.2 Payables and receivables from affiliated entities and other related parties

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

	Balance as of 31 December 2021	Balance as of 31 December 2020
Labormed Pharma Trading SRL (Alvogen Romania SRL)	12,522,480	7,506,893
Labormed Pharma SA	670,363	440,662
Solacium Pharma SRL	3,388,029	217,659
Zentiva KS	47,463,597	198,831,011
Zentiva Group AS	13,605,273	6,724,357
Helvepaharm AG	-	32,109
Total	**77,649,742**	**213,752,691**
Al Sirona (Luxembourg) Acquisition S.à.r.l – cash pooling	**513,704,034**	**388,787,771**

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

	Balance as of 31 December 2021	Balance as of 31 December 2020
Labormed Pharma Trading SRL (Alvogen Romania SRL)	5,964,175	6,024,138
Labormed Pharma SA	710,727	891,065
Solacium Pharma SRL	1,379,723	1,317,551
Zentiva K.S.	605,242	38,455,744
Zentiva Group A.S.	13,168,245	58,000,408
Zentiva Pharma GMBH	366,618	4,307,160
Zentiva Italia	196,329	345,151
Zentiva Private LTD	-	853,958
Total	**22,391,059**	**110,195,174**

(all amounts are presented in RON, unless otherwise stated)

21. RELATED PARTY DISCLOSURES (continued)

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

➢ **Sales of goods and services**

	Financial year ended at 31 December 2021	Financial year ended at 31 December 2020
Labormed Pharma Trading SRL (Alvogen Romania SRL)*	20,506,826	6,311,931
Labormed Pharma SA*	1,614,966	440,662
Solacium Pharma SRL	4,893,841	3,091,905
Zentiva K.S.	262,817,685	205,553,521
Zentiva Group AS	7,634,325	16,313,591
Helvepaharm AG	-	32,127
Zenitva Italia	-	9,351
Total	**297,467,643**	**231,753,088**

**in 2020 there are presented only the transactions related to the period after 6 April 2020.*

From the total sales to the group for the year 2021 are eliminated and are not included in the table above 39,427,052 RON (2020: RON 39,607,632) representing sales to Zentiva KS of goods originating in Turkey and certified for export to the European Union for which the Company acts as an agent. Sales are offset against the cost of the related goods.

The sales disclosed above do not include the claw-back tax impact, as presented under note 5.1 Turnover.

➢ **Purchase of goods and services**

	Financial year ended at 31 December 2021	Financial year ended at 31 December 2020
Labormed Pharma Trading SRL (Alvogen Romania SRL)*	19,685,775	5,701,147
Labormed Pharma SA*	3,271,402	891,065
Solacium Pharma SRL	2,700,865	1,305,427
Zentiva K.S.	70,160,126	83,458,763
Zentiva Group A.S.	59,551,903	39,336,473
Zentiva Pharma GMBH	-	366,618
Zentiva Private LTD	2,115,858	853,958
Zentiva Italia	297,469	173,527
Total	**157,783,398**	**132,086,978**

**in 2020 there are presented only the transactions related to the period after 6 April 2020.*

From the total group purchases for 2021 are eliminated and are not included in the table above RON 39,427,052 (2020: RON 39,607,632) representing sales to Zenitva KS of goods originating from Turkey and certified for export to the European Union for which the Company acts as an agent. The purchases are offset against the sales 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.

(all amounts are presented in RON, unless otherwise stated)

21. RELATED PARTY DISCLOSURES (continued)

The ultimate parent of the Company

The Company is part of the AI Sirona (Luxemburg) Acquisition S.a.r.l group, with the registered office in rue des Capucins 5, L-1313 Luxemburg.

AI Sirona (Luxemburg) Acquisition S.a.r.l has as ultimate shareholder multiple investment funds controlled by Advent International.

There are no transactions, other than those described between the Company and the Zentiva Group during the financial years 2021 and 2020.

Compensations granted to the key management of the Company

Directors, managers and the supervisory body

In 2021 the Company granted the following amounts to the members of the Board of Directors which include fixed remuneration and bonuses :

	Financial year ended at 31 December 2021	Financial year ended at 31 December 2020
Members of the Board of Directors	2,173,837	1,928,866
Total	**2,173,837**	**1,928,866**

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 amounts above. The audit committee consists of the other 3 non-executives members.

As of 31 December 2021 and 2020, the Company had no obligations related to pension payments to the former members of the Board of Directors, executive management and to the members of the supervisory body.

There are no guarantees or future obligations undertaken by the Company on behalf of the directors or the managers at the end of the financial year.

22. COMMITMENTS AND CONTINGENCIES

Taxation

All the amounts owed to the State for taxes and charges have been paid or accrued at the balance sheet date. The tax system in Romania undergoes a consolidation process and is being harmonized with the European legislation. Different interpretations may exist at the level of the tax authorities regarding the tax legislation, which may result in additional taxes and penalties payable. Where the State authorities have findings from reviews relating to breaches of Romania's tax laws, these may result in: seizure of the amounts involved 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 significant amounts payable to the State budget.

The Company believes to have paid in due time and in full all applicable taxes, penalties and penalty interests, in the applicable extent.

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

In Romania, a financial year remains open to further verification for 5 years.

Transfer price

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

In 2017, the tax authorities in Romania performed two tax reviews of transactions with the related parties as follows:

(i) During the period March 2017 - April 2017, the tax authorities reviewed the transactions with the related parties performed during the period 2011 - 2016 and a report was issued in April 2017, without mentioning issues linked to these transactions;

(ii) During the period 17 May 2017 - March 2018, the tax authorities performed a tax review of the fees covering value added tax, corporate tax and the transfer pricing file for the period 2011 - 2016 and a report was issued in March 2018 without mentioning issues linked to the transactions with the related parties.

It is likely that transfer pricing reviews will be undertaken in the future in order to assess whether the transfer pricing policy observes the "arm's length principle" and therefore no distortion exists that may affect the taxable base of the Romanian tax payer.

22. COMMITMENTS AND CONTINGENCIES (continued)

Legal claims (including the estimated value)

During 2021, the Company was involved in several disputes, of which the most significant are listed below:

- The company was involved in several disputes with the National Health Insurance House ("CNAS") following a challenge filled on the VAT paid, related to the clawback tax for the period Q1 2012 - Q4 2012, as well as on the method of calculating the individual consumption communicated for determining the clawback tax for the period Q1 2013 - Q3 2013 and Q1 2020, requesting the cancellation of the Notifications received from CNAS related to the previously mentioned periods. Currently, the Company is involved in a single litigation, which is ongoing against CNAS, namely- case file no. 7592/2/2020 - for Q2 2020, while the other 6 disputes in which the Company has been involved in the past were definitively settled.

  Thus, so far, the Company has won in court the recovery of the VAT related to the clawback tax for the period Q1 2012 - Q4 2012 and for Q2 2013 - Q3 2013 (for Q1 2013, the Company's action was rejected in its entirety) and is investigating the possibilities of recovery or compensation with other tax obligations of the amounts thus recovered. For all these cases, the decisions of the court are final.

- The dispute with ANAF challenging the clawback tax, as well as the penalties calculated for the reviewed period Q4 2009 - Q3 2011. In 2016, following a tax review of the clawback tax for the period Q4 2009 - Q3 2011, ANAF issued a taxation decision in the amount of RON 18,457,107 RON ("Initial Decision"), representing the clawback difference and related penalties. During 2016, following the appeal filed by the Company, ANAF annulled the Initial Decision and ordered a review, 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 accessory payments, in a total amount of RON 8,355,860 (consisting of RON 3,672,966 as main debt and RON 4,682,894 as penalties) ("Second Decision"). The company also challenged the Second Decision. The appeal was dismissed by ANAF, and the Company filed an action in administrative court for the annulment of the Second Decision (respectively of the last taxation decision and the decisions regarding the accessory payments) and of the decision dismissing the appeal. On May 28, 2019, following an initial adjournment of the ruling, the court of first instance partially allowed the action filed by the Company, namely, the 3 heads of claim regarding the additionally determined clawback contribution and the related accessory payments were allowed by the court. Specifically, the court allowed 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 head of claim regarding the penalties in the amount of RON 187,960 being dismissed).

  This decision of the court has been appealed by both the Company and ANAF.

  On February 21, 2022, the High Court of Cassation and Justice allowed the appeal of the Company, annulling the decision regarding the accessories payment in amount of RON 187,960, which was the object of the head of the claim dismissed by the court of first instance. At the same time, the High Court also dismissed the appeals filed by ANAF. The decision of the High Court is final. Therefore, as of 31 December 2021, the Company considered this decision an adjusting subsequent event and reversed the remaining provision for claw back tax in amount of RON 3,672,966 – refer to Note 18.

22. COMMITMENTS AND CONTINGENCIES (continued)

- In August 2019, ALPHA TRANSCORD SRL filed, through its judicial administrator, a summons against the Company. The case, i.e., the file no. 25005/3/2019 has as subject matter a contractual obligation consisting in the binding of the Defendants, including the Company, to pay the amount of RON 2,262,332.27 and is in the procedural phase on the substance.

  The Claimant alleges the non-payment by the Company of certain due invoices related to the road transport services provided by the Claimant. As such, the Claimant requests the court to bind the Defendants, including the Company, (i) to pay the amount of RON 2,262,332.27 representing the amount of the invoices due related to the road transport services provided under the agreement signed between the parties and (ii) to pay the Claimant's expenses related to the case.

  On 9 November 2021 the court allowed the action in part and ordered the Defendant to pay the Claimant the amount of EUR 21,928.70 (excluding VAT), representing the value of the unpaid invoices. Also, the court ordered ALPHA TRANSCORD SRL to pay the amount of RON 72,655 as court costs to the Defendant.

  The court's solution is not final, it can be appealed within 30 days from the communication.

The Company's management considers that the respective litigations will not significantly impact the Company's operations and financial position.

(all amounts are presented in RON, unless otherwise stated)

23. 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 Company management oversees the management of these risks.

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

Market risk

The market risk is the risk that the fair value of the future cash flows of an instrument will fluctuate because of the changes of the market prices. The market prices have four types of risks: interest rate risk, currency risk, commodity price risk and other price risk , such as the equity price risk. The financial instruments affected by the market risk include credits and loans, deposits, trade receivables and payables.

The sensitivity analyses in the following sections relate to the position as of 31 December 2021 and 2020.

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, because the Company has no loans as of 31 December 2021.

On 31 December 2021, the Company has no loans received and has a cash pooling agreement with the parent company, at a variable interest rate (as detailed in Note 14, 15 and it has a debit balance as at 31 December 2021 and 2020).

The Company's exposure to the risk of changes in market interest rates is not material.

Interest rate risk sensitivity

The following table demonstrates the sensitivity to a reasonable potential change in the ROBOR 3M interest rate by +/- 10%, with all other variables held constant, of the Company's profit before tax. The Company's exposure to changes in other interest rates is not material.

	Change in ROBOR rate (+/-10%) Effect on profit before tax
2021	1,078,778

Currency risk

The currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The Company's exposure to the risk of the changes in foreign exchange rate mainly refers to the operating activities of the Company (when the revenues or expenses are expressed in a 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 foreign exchange risk (due mainly to the EUR and USD currencies) is not material, and the company does not use hedging instruments.

(all amounts are presented in RON, unless otherwise stated)

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

31 December 2021	EUR	USD	RON	CZK	GBP	Total
Trade receivables and other receivables	13,828,149	-	86,081,352	-	-	**99,909,501**
Cash pooling intercompany receivable			513,704,034			**513,704,034**
Cash and cash equivalents	7,810,292	129,763	54,657,574	-	-	**62,597,628**
Total assets (1)	**21,638,441**	**129,763**	**654,442,960**	**-**	**-**	**672,211,163**
Trade payables – suppliers	42,308,695	13,884,915	42,094,725	1,631	2,166	**98,292,133**
Lease liabilities	9,353,786	-	-	-	-	**9,353,786**
Total liabilities (2)	**51,662,481**	**13,884,915**	**42,094,725**	**1,631**	**2,166**	**107,645,917**
Difference (1)- (2)	**(30,024,040)**	**(13,755,152)**	**612,348,235**	**(1,631)**	**(2,166)**	**564,565,246**

31 December 2020	EUR	USD	RON	CZK	GBP	Total
Trade receivables and other receivables	10,522,461	875,586	216,555,199	1,854	3,435	**227,958,536**
Cash and cash equivalents	4,239,089	994,372	401,480,072	-	-	**406,713,534**
Total assets (1)	**14,761,550**	**1,869,958**	**618,035,271**	**1,854**	**3,435**	**634,672,070**
Trade payables – suppliers	65,766,978	6,703,406	102,460,052	3,658	1,733	**174,935,827**
Short-term loans	-	-	-	-	-	**-**
Lease liabilities	5,763,825	-	-	-	-	**5,763,825**
Total liabilities (2)	**71,530,803**	**6,703,406**	**102,460,052**	**3,658**	**1,733**	**169,172,002**
Difference (1)- (2)	**(56,769,253)**	**(4,833,448)**	**515,575,219**	**(1,804)**	**1,702**	**465,500,068**

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonable potential change in the exchange rate for US dollar and EUR, with all other variables held constant, of the Company's profit before tax and equity (due to changes in the values of monetary assets and liabilities). The Company's exposure to foreign currency changes for all other currencies is not material.

	Change in EUR rate (+10%) - Effect on profit before tax and equity	**Change in USD rate (+10%) - Effect on profit before tax and equity**	**Change in CZK rate (+10%) - Effect on profit before tax and equity**
2021	(2,965,537)	(1,374,609)	-
2020	(5,676,925)	(483,345)	-

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (mainly for trade receivables) and from its financing activities, including deposits with banks and financial institutions and cash pooling intercompany receivable, foreign exchange transactions and other financial instruments.

(all amounts are presented in RON, unless otherwise stated)

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Trade receivables

Customer credit risk is managed by the Company, subject to the established policy; nonetheless, the Company considers that the credit risk on receivables is low (mainly intra-Group receivables).

Outstanding customer receivables are monitored at the end of each reporting period and any subsequent collections are analyzed.

The impairment indicators are analyzed at each reporting date.

The Company credit risk mainly relates to the receivables from related parties, for which the impairment probability is considered low. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 13, 14 and Note 15.

The Company assesses the concentration of the risk with respect to trade receivables as low due to the fact most of third party receivables are insured.

Financial instruments and cash deposits

The credit risk from the balances with banks and financial institutions is managed by the treasury department of the Company, in accordance with the Company's policies. The maximum exposure of the Company to the credit risk for the components of the statement of financial position is the carrying amounts as illustrated in Note 14 and 15.

Liquidity risk

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

The Company has no long-term financing (neither trade, nor finance liabilities).

The Company's liabilities with maturities over 1 year are represented by lease liabilities.

The table below details the maturity profile of Company's trade receivables and financial liabilities:

As of 31 December 2021	<30 days	30 – 60 days	60 - 180 days	180 – 360 days	>1 year	Total
Trade payables	81,486,601	12,644,660	4,160,872	-	-	**98,292,133**
Lease liabilities	265,396	389,020	1,557,640	1,848,073	5,293,658	**9,353,786**
Total liabilities	**81,751,997**	**13,033,680**	**5,718,512**	**1,848,073**	**5,293,658**	**107,645,919**

As of 31 December 2020	<30 days	30 – 60 days	60 – 180 days	180 - 360 days	>1 year	Total
Trade payables	54,387,911	31,293,760	39,443,995	49,810,160	-	**174,935,826**
Lease liabilities	814,991	1,469,445	1,469,446	-	2,009,943	**5,763,825**
Total liabilities	**55,202,902**	**32,763,205**	**40,913,441**	**49,810,160**	**2,009,943**	**180,699,651**

*out of total lease liabilities presented within >180 days interval, the amount of RON 5,293,658 represents liabilities over 360 days (2020: RON 2,009,943).

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

Capital includes shares and equity attributable to shareholders. The primary objective of the Group'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 of managing capital during the financial years ended 31 December 2021 and 2020.

24. STATUTORY AUDITOR EXPENSES

In 2021, the statutory auditor Ernst & Young Assurance Services SRL. Auditor had a contractual fee of EUR 92,600 for the statutory audit of the individual annual financial statements of the company, and EUR 8,000 for other reports required by the regulations in place.

25. EVENTS OCCURRING AFTER THE REPORTING PERIOD

The military invasion of the Ukraine on February 24th, 2022, has taken place after the end of reporting period. Extraordinary geopolitical tensions, escalating energy prices, international sanctions imposed on Russia and numerous adjacent uncertainties may adversely affect various sectors of the economy. The Company does not have direct exposures to related parties and/or key customers or suppliers from countries involved in the military conflict. The Company regards these events as non-adjusting events after the reporting period the quantitative effect of which cannot be estimated at the moment with a sufficient degree of confidence. Although neither the Company's performance and going concern nor operations, at the date of this report, have been significantly impacted by the above, the Company's management continues to monitor the evolving situation and is analyzing the possible impact on the financial position and results of the Company.

The financial statements from page 3 to page 60 were approved by the Board of Directors and were authorized to be issued in accordance with the resolution of the Directors, dated 28 March 2022.

Administrator,
Simona Cocos

Signature
Company stamp

SOCIETATEA COMERCIALA ZENTIVA S.A.
ZENTIVA
14
BUCURESTI

Prepared by,
Daniel Nitulescu
Chief Financial Officer

Signature