# Zentiva SA

Financial statements

FOR THE YEAR ENDED
31 December 2022

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.**

## TABLE OF CONTENTS

*(amounts are expressed in RON, unless specified otherwise)*

| STATEMENT OF COMPREHENSIVE INCOME | Notes | 2022 RON | 2021 (restated)* RON |
|---|---|---|---|
| Revenue from sales of goods | 5.1 | 704,706,902 | 667,941,876 |
| Revenue from rendering of services | 5.1 | 54,923,968 | 42,986,086 |
| **Revenue** | **5.1** | **759,630,870** | **710,927,962** |
| Other operating income | 6.1 | 3,366,161 | 7,945,360 |
| Changes in inventories of finished goods and work in progress | | 9,170,800 | 14,624,923 |
| Raw material expenses, merchandise, consumables used and utilities | 5.2 | (370,732,616) | (331,309,506) |
| Employee benefits expenses | 6.5 | (135,032,946) | (112,431,460) |
| Depreciation, amortization and impairment | 9 - 11 | (30,296,757) | (25,449,842) |
| Marketing and advertising expenses | 6.6 | (5,968,891) | (2,856,152) |
| Reversal of/ (expenses with) provisions | 18,19 | (3,205,975) | 8,327,189 |
| Other operating expenses | 6.2 | (140,600,303) | (153,731,894) |
| **Operating profit** | | **86,330,344** | **116,046,580** |
| Financial Income | 6.4 | 35,258,118 | 7,147,694 |
| Financial Expenses | 6.3 | (6,603,544) | (3,983,908) |
| **Profit before income tax** | | **114,984,918** | **119,210,366** |
| Income Tax Expense | 7 | (15,519,714) | (13,464,812) |
| **Net profit for the year (A)** | | **99,465,204** | **105,745,554** |
| **Other comprehensive income:** | | | |
| Other comprehensive income that will not be reclassified to profit or loss in subsequent periods: | | | |
| Impact from revaluation of land and buildings | 9.1 | 10,884,283 | - |
| Deferred tax impact on revaluation recognized in equity | 7.2 | (1,741,485) | - |
| Other comprehensive income items | 19 | (26,037) | (337,035) |
| **Other comprehensive income net of tax (B)** | | **9,116,761** | **(337,035)** |
| **Comprehensive income for the year (A) + (B)** | | **108,581,965** | **105,408,519** |
| **Net earnings per share (RON/share)** | 8 | **0.14** | **0.15** |

**The comparative amounts on December 31, 2021 have been reclassified in accordance with the presentation adopted in 2022, more details in Note 2.3.*

The financial statements from page 3 to page 59 were approved by the Board of Directors and were authorized to be issued in accordance with the resolution of the Directors dated 27 March 2023.

**Administrator,**
Simona Cocos

Signature
Company stamp

SOCIETATEA COMERCIALA ZENTIVA S.A.
ZENTIVA
14
BUCURESTI

**Prepared by,**
Daniel Nitulescu
Chief Financial Officer

Signature

*(amounts are expressed in RON, unless specified otherwise)*

| **STATEMENT OF FINANCIAL POSITION** | **Notes** | **31 December 2022** | **31 December 2021** |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 9.1 | 212,594,512 | 194,771,621 |
| Advances for equipment | 9.1 | 5,907,878 | - |
| Right-of-use assets | 9.2 | 18,681,887 | 8,968,913 |
| Goodwill | 11 | 11,649,100 | 11,649,100 |
| Customer relationships | 11 | 20,374,470 | 23,823,680 |
| Other intangible assets | 10 | 3,114,287 | 4,652,969 |
| **Total Intangible assets** | | **35,137,857** | **40,125,749** |
| | | **272,322,135** | **243,866,284** |
| **Current assets** | | | |
| Inventories | 12 | 173,060,231 | 124,563,136 |
| Trade receivables and other receivables | 13 | 151,446,752 | 102,187,418 |
| Advances and prepayments | 13 | 13,642,385 | 2,687,016 |
| Cash pooling intercompany receivables | 15 | 583,511,187 | 513,704,034 |
| Cash and cash equivalents | 14 | 11,190,679 | 62,597,628 |
| | | **932,851,234** | **805,739,232** |
| **Total assets** | | **1,205,173,370** | **1,049,605,515** |
| **Equity** | | | |
| Issued share capital | 16 | 69,701,704 | 69,701,704 |
| Share premium | 16 | 24,964,506 | 24,964,506 |
| Legal and other reserves | 16 | 146,399,175 | 121,743,815 |
| Revaluation reserve | 16 | 67,069,892 | 57,927,094 |
| Retained earnings | 16 | 691,219,282 | 616,435,475 |
| **Total equity** | | **999,354,559** | **890,772,593** |
| **Non-current liabilities** | | | |
| Contract liability | 5.1 | 4,282,372 | - |
| Employee benefit liability | 19 | 5,947,909 | 3,323,943 |
| Deferred tax liability | 7.2 | 7,138,545 | 7,166,077 |
| Lease liabilities | 9.2 | 12,999,385 | 5,293,658 |
| Provisions | 18 | 1,265,568 | 1,477,177 |
| **Total non-current liabilities** | | **31,633,780** | **17,260,795** |
| **Current liabilities** | | | |
| Contract liability | 5.1 | 4,070,598 | - |
| Trade payables and other payables | 20 | 115,095,577 | 98,292,133 |
| Income taxes payable | 7.1 | 3,028,357 | 938,975 |
| Short-term lease liabilities | 9.2 | 5,811,596 | 4,060,128 |
| Other current liabilities | 20 | 41,593,377 | 34,697,081 |
| Short-term provisions | 18 | 4,585,527 | 3,583,810 |
| **Total current liabilities** | | **174,185,032** | **141,572,127** |
| **Total liabilities** | | **205,818,811** | **158,832,922** |
| **Total liabilities and equity** | | **1,205,173,370** | **1,049,605,515** |

The financial statements from page 3 to page 59 were approved by the Board of Directors and were authorized to be issued in accordance with the resolution of the Administrators dated 27 March 2023.

**Administrator,**
Simona Cocos

Signature

SOCIETATEA COMERCIALA ZENTIVA S.A.
ZENTIVA
14
BUCURESTI

**Prepared by,**
Daniel Nitulescu
Chief Financial Officer

Signature

*(amounts are expressed in RON, unless specified otherwise)*

## STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

**2022**

| | Share capital | Share premium | Legal and other reserves | Revaluation reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Opening balance at 1 January 2022** | **69,701,704** | **24,964,506** | **121,743,815** | **57,927,094** | **616,435,475** | **890,772,593** |
| Profit for the year | - | - | - | - | 99,465,204 | 99,465,204 |
| **Other comprehensive income:** | | | | | | |
| Increase in reevaluation reserve | - | - | - | 10,884,283 | - | 10,884,283 |
| Deferred tax impact on revaluation | - | - | - | (1,741,485) | - | (1,741,485) |
| Other comprehensive income | - | - | - | - | *(26,037)* | *(26,037)* |
| **Total other comprehensive income** | **-** | **-** | **-** | ***9,142,798*** | ***(26,037)*** | ***9,116,761*** |
| **Total comprehensive income** | - | - | - | ***9,142,798*** | ***99,439,167*** | ***108,581,965*** |
| Reserve for reinvested profit | - | - | 24,655,360 | - | (24,655,360) | - |
| **Closing balance at 31 December 2022** | **69,701,704** | **24,964,506** | **146,399,175** | **67,069,892** | **691,219,282** | **999,354,559** |

The financial statements from page 3 to page 59 were approved by the Board of Directors and were authorized to be issued in accordance with the resolution of the Directors dated 27 March 2023.

**Administrator,**
Simona Cocos

Signature
Company stamp

SOCIETATEA COMERCIALA ZENTIVA S.A.
ZENTIVA
14
BUCURESTI

**Prepared by**
Daniel Nitulescu
Chief Financial Officer

Signature

*(amounts are expressed in RON, unless specified otherwise)*

## STATEMENT OF CHANGES IN SHAREHOLDRES 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 59 were approved by the Board of Directors and were authorized to be issued in accordance with the resolution of the Directors dated 27 March 2023.

**Administrator,**
Simona Cocos

Signature
Company stamp

SOCIETATEA COMERCIALA ZENTIVA S.A.
ZENTIVA
14
BUCURESTI

**Prepared by**
Daniel Nitulescu
Chief Financial Officer

Signature

ZENTIVA SA
STATEMENT OF CASH FLOWS
for the financial year ended 31 December 2022
*(amounts are expressed in RON, unless specified otherwise)*

| STATEMENT OF CASH FLOWS | Note | 31 December 2022 | 31 December 2021 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit before tax | | 114,984,918 | 119,210,366 |
| Depreciation and amortization | 9,10,11 | 30,893,505 | 27,910,831 |
| Impairment on property, plant and equipment | 9.1 | - | (2,460,989) |
| Reevaluation impact on property, plant and equipment | | (596,748) | - |
| Allowance for trade and other receivables, advances and prepayments | 13,15 | (1,823,546) | (1,928,553) |
| Inventory allowance movement | 12 | (9,351,919) | (384,788) |
| Movements in provisions for risks and charges | 18 | 790,168 | (8,327,189) |
| (Gain)/loss on sale of non-current assets | 6.1 | 28,423 | 42,686 |
| Write off of old advances paid to suppliers and trade payables, net | | (212,678) | 2,962,915 |
| Write off of dividends | 6.1 | - | (6,276,644) |
| Interest revenues | 6.4 | (31,614,121) | (6,544,059) |
| Interest expenses | 6.3 | 437,136 | 245,739 |
| **Operating profit before working capital changes** | | **103,535,137** | **124,450,315** |
| Change in inventories | | (39,145,176) | 13,620,006 |
| Change in trade, other receivable and advances | | (63,228,667) | 144,380,157 |
| Change in trade and other payable | | 35,066,115 | (71,631,105) |
| Interest paid | | (437,136) | (245,739) |
| **Cash generated from operating activities** | | **35,790,274** | **210,573,634** |
| Income tax paid | 7.1 | (15,199,349) | (19,935,360) |
| **Net cash from operating activities** | | **20,590,925** | **190,638,274** |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of non-current assets | | - | 2,272 |
| Purchase of property, plant and equipment and intangible assets | 9.1,10 | (27,415,096) | (22,905,852) |
| Cash pooling movement | | (70,877,522) | - |
| Interest received | | 31,614,121 | 6,544,059 |
| **Net cash used in investing activities** | | **(66,678,496)** | **(16,359,521)** |
| **Cash flows from financing activities** | | | |
| Dividends paid | | - | (5,110) |
| Lease payments | 9.2 | (5,319,378) | (4,865,515) |
| **Net cash used in financing activities** | | **(5,319,378)** | **(4,690,625)** |
| Net increase (decrease) in cash and cash equivalents | | (51,406,949) | 169,686,095 |
| Reclassification of cash pooling intercompany receivable | 15 | - | (513,704,034) |
| **Cash at the beginning of the period 1 January** | | **62,597,628** | **406,713,534** |
| **Cash at the end of the period 31 December** | | **11,190,679** | **62,597,628** |

The financial statements from page 3 to page 59 were approved by the Board of Directors and were authorized to be issued in accordance with the resolution of the Directors dated 27 March 2023.

**Administrator,**
Simona Cocos

Signature
Company stamp

SOCIETATEA COMERCIALA ZENTIVA S.A.
ZENTIVA
14
BUCURESTI

**Prepared by,**
Daniel Nitulescu
Chief Financial Officer

Signature

## 1. INFORMATION ABOUT THE COMPANY

These financial statements of Zentiva SA (the "Company") for the year ended on 31 December 2022 are authorized for publication in accordance with the Board of Directors' Decision dated 27 March 2023.

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 2022. 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. 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 2022, current assets of the Company exceed current liabilities by RON 758,666,203 (as of 31 December 2021 current assets exceeded current liabilities by RON 664,167,105). At the same date, the Company recorded a profit for the year of RON 99,465,204 (2021: RON 105,745,554).

The budget prepared by the management of the Company for the year 2023, 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 ongoing war in Ukraine and the related sanctions targeted against the Russian Federation have a continuous impact on the European economies and globally. The entity does not have any significant direct exposure to Ukraine, Russia or Belarus. However, the impact on the general economic situation may require timely revisions of certain assumptions and estimates (cost of energy, cost of raw materials and the overall impact of inflation pressure)

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 2022 were RON / EUR 4,9474 and RON / USD 4,6346. The exchange rates as of 31 December 2021 were RON / EUR 4.9481 and RON / USD 4.3707.

The exchange rates differences, favorable or unfavorable, 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.

**Revenue from sales 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 basis 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 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.

- **Revenue from Rendering of services**

The Company is engaged in providing certain support function services to its affiliated companies (i.e. its customers).Revenue from these contracts is recognized when control of services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

The Company recognises revenue from these services over time, as it progresses towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Company. If the contracts include fees for various activities performed, revenue is recognised in the amount to which the Company has a right to invoice. Revenues related to services rendered are recognised in the period in which the services were rendered based on statements of work performed, regardless of when paid or received, in accordance with the accrual basis.

- **Other operating income**

Other operating income includes income/gains from all other operating activities which are not related to the ordinary activities of the Company, such as gains/losses from sales of assets, return of dividends, etc.

- **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.

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

- **Taxes**

**Current income tax**

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

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

**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.

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

### 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.

### 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.

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

The Company contracted an independent valuation specialist to determine the fair value as at 31 December 2022.

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.

**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:

| | Years |
|---|---|
| Buildings | 30 - 50 |
| Production equipment | 5 - 20 |
| Vehicles | 5 |

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.

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

### Recognition of the right-of-use assets

The Company recognizes the right-of-use assets at the commencement date of the lease (i.e., the date on which the underlying asset is available for use). The right-of-use assets are measured at cost, less any accumulated 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:

| | Years |
|---|---|
| Buildings | 3 – 50 |
| Machinery, tools and equipment | 4 |

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.

### 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 borrowing 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 2022, the Company does not have any short-term leases and leases of low-value underlying assets.

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

### ➢ Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, 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" .

| | Years |
|---|---|
| Software | 3 |
| Research and development costs | 3 |
| Customer relationship | 10 |

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.

**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).

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

### 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.

➢ **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.

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

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.

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. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

### 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.

**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.

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

### 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.

- **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 classification 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.

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

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.

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.

**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.

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

### ➢ 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.

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

- Up to 10 years in the Company, ½ average gross salary at company level;
- 10 - 20 years within the Company, 1 average gross salary at company level;
- 20 - 30 years within the Company, 2 average gross salary at company level;
- Over 30 years within the Company, 3 average gross salaries at company level.

In addition, when employees turn 50, in case the employees have completed 5 years of continuous service in the company, they receive a bonus based on their length of service within the Company as follows (these being treated as other long-term employee benefits):

- 5 - 15 years in the Company, ½ average gross employee salary;
- Over 15 years in the Company, one average gross employee salary.

At the same time, depending on the length of service at the Company, the employees receive some benefits in fixed amounts, which start with 400 RON upon completion of 2 years in the Company and reach 3,800 RON upon completion of 36 years in the Company.

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, in the Financial Expenses category.

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.

*(amounts are expressed in RON, unless specified otherwise)*

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

- **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.

### 2.3 Changes in presentation

The following changes in presentation are included in the current year's financial statements due to more accurate presentation in accordance with IFRS requirements, as well as being more relevant information about the statement of comprehensive income given the completion of business restructuring and integration process completed by Zentiva Group including in relation with Zentiva Romania. Due to completion of the business restructuring, the Company considers that presentation of the services under Revenues from rendering of services line reflects better their nature going forward. For comparison purposes, a reclassification was made for previous year`s amounts.

Change in statement of **Statement of comprehensive income** presentation:

| | | **Reported as of** | **Change in presentation** | **Impact** |
|---|---|---|---|---|
| | **Note** | **31-Dec-2021** | **31-Dec-2021** | **2021 changed Vs previous reported** |
| Revenue from rendering of services | **5.1** | 14,614,557 | 42,986,086 | 28.371.529 |
| Other income | **5.1** | 1,308,831 | - | (1,308,831) |
| Other operating income | **6.1** | 35,008,058 | 7,945,360 | (27,062,698) |

## 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 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 (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 in 2021 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.

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

*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, blocked or with quality issues, a provision is set for their entire value, for the products with expiring date between 6 - 12 months a provision of 75% of their value is set, for the products with expiring date between 12 – 18 months a provision of 25% of their value is set.

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 is 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 revenue 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 claw back 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 and negotiations.

*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 2022

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2022:

- **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 previous version of the IASB's Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly 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 any proceeds from the sale of items produced while bringing the asset to the location and condition necessary for it be capable of operating in the manner intended by management. Instead, a company recognizes 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. The amendments clarify, the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.
  - **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 statements or performance.

- **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.

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

### 4.2 New standards, modifications and interpretations issued, but not yet effective for the financial exercise starting 1st of January 2022 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.

- **IFRS 17: Insurance Contracts**
  The standard is effective for annual periods beginning on or after 1 January 2023 with earlier application permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretional participation contracts. The company/group does not issue contracts in scope of IFRS 17; therefore its application does not have an impact on the company's/ financial performance, financial position or cash flows.

- **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, if they do not result from a correction of prior period error. 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. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. 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. 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 are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The amendments have not yet been endorsed by the EU. Management has assessed that the application of these changes has no impact on the Company's financial position or performance.

- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. 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.

- **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.

*(amounts are expressed in RON, unless specified otherwise)*

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

### 5.1 Revenues

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 2022 | 1 January - 31 December 2021 |
|---|---|---|
| Sales – domestic | 447,289,671 | 420,702,760 |
| Sales – external* | 312,341,199 | 290,225,202 |
| **Total revenue** | **759,630,870** | **710,927,962** |
| | | |
| **Sales of goods, including:** | **704,706,902** | **667,941,876** |
| Sales of finished goods | 638,559,594 | 601,119,607 |
| Sales of merchandise** | 112,140,202 | 106,129,832 |
| Residual products | 2,506,862 | 2,460,583 |
| Claw back tax | (48,499,755) | (42,768,146) |
| | | |
| **Revenue from rendering of services** | **54,923,968** | **42,986,086** |
| | | |
| **Total revenue** | **759,630,870** | **710,927,962** |

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

** In 2021 the amount of RON 223,070,363 was reclassified from sales of merchandise into sales of finished goods

### 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)

Starting 2020, following several legal amendments brought by Law 53/2020 approving Ordinance no. 85/2019, differentiated claw-back contribution by types of medicines was introduced.

Specifically, for type I medicines (innovative 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 (medicines produced in Romania, both innovative and generic) and type III medicines (generic medicines / any other medicines not classified as type I or II), the contribution is calculated by applying 15% and 20%, respectively.

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.

This category includes also revenues from support 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, that were presented in 2021 in "Other operating income".- see paragraph 2.3 Change in presentation

Contract liabilities in amount of RON 8,352,970 represent non-cash consideration in the form of a manufacturing equipment received from a client ("Biotehnos SA"). The contract liability was measured at the fair value of the equipment received. The Company will recognize the revenue as products are delivered to the client, which is expected to occur over a period of three years.

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

| | Notes | 1 January - 31 December 2022 | 1 January - 31 December 2021 |
|---|---|---|---|
| Raw materials | a | 187,153,558 | 168,446,434 |
| Merchandise | | 78,835,616 | 77,080,113 |
| Packaging materials | b | 56,476,312 | 53,976,186 |
| Auxiliary materials | c | 15,340,124 | 11,998,682 |
| Utilities | d | 24,655,006 | 12,034,010 |
| Other material expenses | e | 8,272,000 | 7,774,081 |
| **Total** | | **370,732,616** | **331,309,506** |

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 2022 | 1 January – 31 December 2021 |
|---|---|---|
| Gain/ (loss) from disposal of non-current assets | 28,423 | 2,272 |
| Other operating income | 3,337,738 | 7,943,088 |
| **Total** | **3,366,161** | **7,945,360** |

In 2021, 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 April 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 2022 | 1 January – 31 December 2021 |
|---|---|---|
| Support services received from Zentiva Group | 61,158,451 | 72,506,575 |
| Repairs | 8,586,843 | 8,885,341 |
| Royalties – Zentiva trademark | 5,551,218 | 3,736,397 |
| Travel expenses | 2,033,818 | 1,197,601 |
| Write-off of inventories | 15,839,464 | 15,776,629 |
| Taxes, registration fees | 4,020,059 | 4,778,292 |
| Professional fees | 1,485,909 | 689,022 |
| Other expenses | 53,100,005 | 48,475,378 |
| Net allowance for inventories | (9,351,919) | (384,788) |
| Net allowance for receivables and other receivables | (1,823,546) | (1,928,553) |
| **Total** | **140,600,303** | **153,731,894** |

**The expenses with support services from the Group** include a large variety of services (see below) and have decreased in 2022 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)

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

Other Expenses include:

| **Other expenses** | **1 January – 31 December 2022** | **1 January – 31 December 2021** |
|---|---|---|
| Freight costs on sales | 6,623,228 | 6,885,899 |
| External salesforce | 5,114,707 | 8,810,258 |
| Distribution and external storage costs | 2,361,793 | 971,335 |
| Telecommunication expenses | 483,416 | 617,881 |
| Cleaning expenses | 1,991,874 | 1,854,582 |
| IT projects consultant fees | 3,964,108 | 2,651,554 |
| Intercompany technical support expenses | 1,425,913 | 844,881 |
| Events – travel and accommodation | 3,573,837 | 1,962,912 |
| Speaker fees | 2,074,888 | 1,825,509 |
| Site facility management & services | 1,185,888 | 1,350,409 |
| Fines and penalties | 717,352 | 265,296 |
| Write-off expenses | (212,678) | 2,962,915 |
| Other expenses | 9,729,336 | 11,290,730 |
| Bank commissions - factoring | 14,066,344 | 6,181,218 |
| **Total Other Expenses** | **53,100,005** | **48,475,378** |

### 6.3 Financial expenses

| **Financial expenses** | **1 January - 31 December 2022** | **1 January - 31 December 2021** |
|---|---|---|
| Foreign exchange differences expense | 6,166,409 | 3,738,169 |
| Interest expenses | 437,136 | 245,739 |
| **Total** | **6,603,544** | **3,983,908** |

### 6.4 Finance Income

| **Financial Income** | **1 January - 31 December 2022** | **1 January - 31 December 2021** |
|---|---|---|
| Foreign exchange differences gain | 3,643,997 | 603,635 |
| Interest income | 31,614,121 | 6,544,059 |
| **Total** | **35,258,118** | **7,147,694** |

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

*(amounts are expressed in RON, unless specified otherwise)*

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

### 6.5 Employee benefits expenses

| Employee benefits expenses | 1 January - 31 December 2022 | 1 January - 31 December 2021 |
|---|---|---|
| Wages and salaries | 123,672,296 | 102,946,103 |
| Social security costs | 5,831,991 | 4,268,083 |
| Post-employment benefits and other long-term benefits - net impact (Note 19) | 174,393 | 224,421 |
| Other short-term benefits (*) | 5,354,266 | 4,992,853 |
| **Total** | **135,032,946** | **112,431,460** |

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

### 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 2022 | 1 January - 31 December 2021 |
|---|---|---|
| Current income tax | 17,288,731 | 14,007,295 |
| Deferred tax (7.2 / expense (income) | (1,769,017) | (542,483) |
| **Total** | **15,519,714** | **13,464,812** |

### 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 2022 and 2021 are:

| Tax reconciliation | 1 January - 31 December 2022 | 1 January - 31 December 2021 |
|---|---|---|
| **Profit before income taxes** | **114,984,918** | **119,210,366** |
| Income tax calculated at the tax rate applicable in Romania of 16% | 18,397,587 | 19,073,659 |
| Non-taxable income | (818,083) | (1,403,832) |
| Non-deductible expenses for tax calculation | 1,510,601 | 731,455 |
| Fiscal credit | (3,570,390) | (4,936,470) |
| **Income tax expenses reported in profit or loss** | **15,519,714** | **13,464,812** |

(amounts are expressed in RON, unless specified otherwise)

## 7. CURRENT INCOME TAX AND DEFERRED (continued)

In 2022, 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 2022 | 1 January – 31 December 2021 |
|---|---|---|
| **Balance on 1 January** | **938,975** | **6,867,041** |
| Income tax expenses for the current year | 17,288,731 | 14,007,295 |
| Income tax paid during the year | (15,199,349) | (19,935,359) |
| **Balance at 31 December** | **3,028,357** | **938,975** |

### 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 2022 | 31 December 2021 | Movement in profit or loss / other comprehensive income 2022 | 2021 |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Employee benefit liabilities | 951,655 | 531,831 | 419,835 | (62,013) |
| Allowances and provisions | 1,924,272 | 2,813,961 | (889,689) | (590,621) |
| Other intangible assets | - | - | - | (3,742) |
| Accrual for employee bonuses and for leaves not taken | 2,339,358 | 1,796,973 | 542,385 | (97,809) |
| **Total (a)** | **5,215,295** | **5,142,765** | **72,530** | **(754,184)** |
| **Deferred tax liabilities** | | | | |
| Property, plant and equipment and intangible assets | (10,612,354) | (12,308,841) | 1,696,486 | 1,215,230 |
| Current year increase of revaluation – land and buildings | (1,741,485) | - | (1,741,485) | - |
| **Total (b)** | **(12,353,840)** | **(12,308,841)** | **(44,999)** | **1,215,230** |
| **Net deferred tax (a) - (b)** | **(7,138,544)** | **(7,166,076)** | **27,532** | **461,045** |

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:

| | 2022 | 2021 |
|---|---|---|
| **Deferred tax** | | |
| Recognized in profit or loss (7.1) | (1,769,017) | (542,483) |
| Recognized in other comprehensive income | 1,741,485 | 81,438 |
| **Total** | **(27,532)** | **(461,045)** |

*(amounts are expressed in RON, unless specified otherwise)*

## 8. EARNINGS PER SHARE

The number of shares related to the period ended on 31 December 2022 and 31 December 2021 is 697,017,040 which generated 0.14 RON / share (2021: 0.15 RON / share).

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Profit attributable to ordinary equity holders | 99,465,204 | 105,745,554 |
| Number of ordinary shares | 697,017,040 | 697,017,040 |
| **Earnings per share, basic and diluted (RON/share)** | **0.14** | **0.15** |

## 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 2022** | **53,101,955** | **58,589,228** | **246,394,324** | **5,809,384** | **363,894,891** |
| Additions | - | - | - | 27,109,730 | **27,109,730** |
| Impact through revaluation reserve | 5,137,903 | 5,746,380 | - | - | **10,884,283** |
| Impact from revaluation in profit and loss | - | 596,748 | - | - | **596,748** |
| Cancelled depreciation upon reevaluation | (251,261) | (8,411,308) | - | - | **(8,662,569)** |
| Disposals | (229) | - | (10,896,206) | - | **(10,896,435)** |
| Transfers | - | 329,048 | 7,747,618 | (8,076,666) | **-** |
| **Gross value as of 31 December 2022** | **57,988,369** | **56,850,095** | **243,245,736** | **24,842,447** | **382,926,649** |
| **Depreciation as of 1 January 2022** | **(14,191)** | **(2,688,781)** | **(165,810,418)** | **(609,878)** | **(169,103,268)** |
| Depreciation in the year | (237,069) | (5,722,527) | (14,926,955) | - | **(20,886,552)** |
| Cancelled depreciation upon reevaluation | 251,261 | 8,411,308 | - | - | **8,662,569** |
| Other movements | - | - | 125,195 | - | **125,195** |
| Disposals | - | - | 10,889,920 | - | **10,889,920** |
| **Depreciation as of 31 December 2022** | **-** | **-** | **(169,722,258)** | **(609,878)** | **(170,332,137)** |
| **Net book value as of 31 December 2022** | **57,988,369** | **56,850,095** | **73,523,478** | **24,232,570** | **212,594,512** |

| | 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) | (2,688,781) | (15,721,465) | | **(18,424,839)** |
| Reversal of impairment | - | - | - | 2,460,989 | **2,460,989** |
| Disposals | - | - | 6,818,983 | - | **6,818,983** |
| **Depreciation as of 31 December 2021** | **(14,191)** | **(2,688,781)** | **(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** |

The value of fully depreciated assets as of 31 December 2022 is RON 125,080,879 (2021: RON 129,267,821).

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

***Revaluation of land and buildings***

As of 31 December 2022, 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 11,481,031, of which in the revaluation reserve it was registered the amount of RON 10,884,283.
Also, in 2022, as a result of the revaluation, the amount of RON 596,748 was recorded as an impact on the profit for the year - on the line of "Depreciation and impairment"; 1,305,483 RON representing the reversal of impairment losses related to buildings resulting from the revaluation from 31 December 2017 and 31 December 2020 and 708,735 RON impairment losses resulted from 31 December 2022 revaluation.

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

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 149 / sqm), estimation of net rental revenues for buildings (estimating a monthly market rent, the occupancy rate of the property, the operating expenses, respectively the property tax, the insurance premium, administrative expenses and expenses for capital repairs and a capitalization rate of 9.5%).

The fair value of the Company's land of 77,877 sqm was determined by the valuer to be EUR 149/sqm.

The total fair value of the measured assets is RON 114,838,475. 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 108,1m - RON 121,1m.

(amounts are expressed in RON, unless specified otherwise)

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

***Construction in progress and downpayments***

Construction in progress as of 31 December 2022 are in amount of RON 24,232,570 (2021: RON 5,199,506) and include mainly equipment related to the production capacity and laboratory design works that will be finalized and put in function in first half of 2023.

At 31 December 2022 and 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.

During 2022 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 8,076,666 (2021: RON 23,181,345).

As at 31 December 2022, the company has paid advances for equipment in amount of RON 5,907,878 (2021: RON 0).

### 9.2 RIGHT-OF-USE ASSETS

| | Buildings | Machinery Tools and Equipment | Total |
|---|---|---|---|
| **Net book value as of 1 January 2022** | **784,647** | **8,184,266** | **8,968,913** |
| Additions during the year | 4,490,111 | 10,245,738 | **14,735,849** |
| Additions IBR change | 227,414 | 128,540 | **355,954** |
| Disposals | - | (62,993) | **(62,993)** |
| Depreciation in the year | (1,474,677) | (3,841,158) | **(5,315,835)** |
| **Net book value as of 31 December 2022** | **4,027,495** | **14,654,393** | **18,681,888** |

| | Buildings | Machinery Tools and Equipment | Total |
|---|---|---|---|
| **Net book value as of 1 January 2021** | **1,348,712** | **4,160,692** | **5,509,404** |
| Additions during the year | 902,229 | 7,089,822 | **7,992,051** |
| Disposals | - | (44,518) | **(44,518)** |
| Depreciation in the year | (1,466,294) | (3,021,729) | **(4,488,023)** |
| **Net book value as of 31 December 2021** | **784,647** | **8,184,266** | **8,968,913** |

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 lease agreement for IT equipment.

*(amounts are expressed in RON, unless specified otherwise)*

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

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 termination option. This option is negotiated by the Company's management to provide flexibility in the management of the leased asset and align with the Company's business needs. The Company's management applies judgement to determine whether it is reasonably certain to exercise termination option.

The table below shows the carrying amount of the lease liability and movements in this category during the financial year 2022 and respectively 2021:

| | 2022 | 2021 |
|---|---|---|
| **As of 1 January** | **9,323,786** | **5,763,825** |
| Additions during the period | 14,735,849 | 7,992,051 |
| Interest on the lease liability | 252,616 | 89,947 |
| Early termination of car leases | (63,070) | (46,794) |
| Lease payments | (5,319,378) | (4,685,515) |
| Interest paid | (252,616) | (89,847) |
| Forex impact | 133,794 | 300,119 |
| **As of 31 December** | **18,810,981** | **9,323,786** |
| Out of which: | | |
| **Long term lease liability** | **5,811,596** | **5,293,658** |
| **Short term lease liability** | **12,999,385** | **4,060,128** |

The following expenses represent the amounts recognized in the Statement of Comprehensive Income in relation to leases in 2022 and respectively in 2021:

| | 2022 | 2021 |
|---|---|---|
| Depreciation of right-of-use assets | 5,315,835 | 4,488,023 |
| Interest expense on the lease liability | 252,616 | 89,947 |
| **Total expenses recognized in the Statement of Comprehensive Income** | **5,568,451** | **4,577,970** |

*(amounts are expressed in RON, unless specified otherwise)*

## 10. INTANGIBLE ASSETS

| | Other intangible assets | Intangibles in progress | Total |
|---|---|---|---|
| **Costs at 1 January 2022** | **10,511,054** | **45,499** | **10,556,553** |
| Additions | - | 305,366 | **305,366** |
| Disposals | (1,506,686) | - | **(1,506,686)** |
| Transfers | 345,501 | (345,501) | **-** |
| **Costs at 31 December 2022** | **9,349,869** | **5,364** | **9,355,232** |
| **Amortization and impairment at 1 January 2022** | **(5,903,584)** | **-** | **(5,903,584)** |
| Amortization in the year | (1,241,907) | - | **(1,241,907)** |
| Other movements | (602,140) | - | **(602,140)** |
| Disposals | 1,506,686 | - | **1,506,686** |
| **Amortization and impairment at 31 December 2022** | **(6,240,945)** | **-** | **(6,240,945)** |
| **Net value at 31 December 2022** | **3,108,924** | **5,364** | **3,114,287** |

| | 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** |

## 11. GOODWILL AND CUSTOMER RELATIONSHIPS

| | Goodwill | Customer relationships | Total |
|---|---|---|---|
| **Cost at 1 January 2022** | **11,649,100** | **34,492,101** | **46,141,201** |
| Additions | - | - | - |
| Disposals | - | - | - |
| Transfers | - | - | - |
| **Cost at 31 December 2022** | **11,649,100** | **34,492,101** | **46,141,201** |
| **Amortization and impairment at 1 January 2022** | **-** | **(10,668,421)** | **(10,668,421)** |
| Amortization in the year | - | (3,449,210) | (3,449,210) |
| Disposals | - | - | - |
| **Amortization and impairment at 31 December 2022** | **-** | **(14,117,631)** | **(14,117,631)** |
| **Net value at 31 December 2022** | **11,649,100** | **20,374,470** | **32,023,570** |

## 11. GOODWILL AND CUSTOMER RELATIONSHIPS (continued)

| | 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** |

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 2022 and respectively as of 31 December 2021 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 value in use 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 (2023 – 2031) determined taking into account an average annual growth rate of net sales of 7.4% (2021: 3.7%), a perpetuity growth rate of 2.5% (2021:2.5%), operating margin of 4.5% (2021:4.5%)and a WACC of 13.5% for 2023, 14.5% for 2024, 11.6% for 2025 and 10.5% for the period 2026 - 2031 (2021: 10%).

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 | 68.5 | 81.9 | 73.1 |
| Net carrying amount | 32.1 | 32.1 | 32.1 |
| **Difference** | **36.4** | **49.8** | **41.0** |

*(amounts are expressed in RON, unless specified otherwise)*

## 12. INVENTORIES

| **Inventories** | **31 December 2022** | **31 December 2021** |
|---|---|---|
| Merchandise | 27,880,610 | 36,656,462 |
| Finished goods and semi-finished goods | 55,002,377 | 52,290,420 |
| Raw materials | 90,332,051 | 52,741,194 |
| Packaging materials | 18,410,109 | 10,791,894 |
| ***Minus:*** | | |
| Allowance of inventories | (18,564,915) | (27,916,834) |
| **Total** | **173,060,231** | **124,563,136** |

| **Changes in allowance per inventory category** | **31 December 2022** | **31 December 2021** |
|---|---|---|
| **Balance on 1 January** | **(27,916,834)** | **(28,301,622)** |
| Net movement | 9,351,919 | 384,788 |
| **Balance at 31 December** | **(18,564,915)** | **(27,916,834)** |

| **Allowance per inventory category** | **31 December 2022** | **31 December 2021** |
|---|---|---|
| Finished goods, semi-finished goods and merchandise | (12,112,580) | (16,321,689) |
| Raw materials | (5,336,569) | (10,949,154) |
| Packaging materials | (1,115,766) | (645,991) |
| **Total** | **(18,564,915)** | **(27,916,834)** |

The Company has no inventories pledged in favor of third parties as of 31 December 2022 and 31 December 2021 respectively.

The amount of the write-down of inventories recognised as an expense in the period is disclosed 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 2022 | 31 December 2021 |
|---|---|---|
| **Total trade receivables, net, out of which:** | **148,849,848** | **99,909,501** |
| Trade receivables | 129,671,535 | 24,208,297 |
| Trade receivables from related parties | 19,495,809 | 77,649,742 |
| **Less** | | |
| Allowance for expected credit losses | (317,495) | (1,948,538) |
| **Total other receivables- net, out of which:** | **2,596,904** | **2,277,917** |
| Recoverable taxes | 2,273,005 | 3,580,171 |
| Sundry debtors | 488,189 | 124,909 |
| **Less** | | |
| Allowance for doubtful foreseen losses from other receivables | (164,290) | (1,427,162) |
| **Total Trade receivables and other receivables*** | **151,446,752** | **102,187,418** |

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| **Advances and prepayments of which:** | **13,642,385** | **2,687,016** |
| Advances paid – current | 1,128,508 | 1,208,629 |
| Advances paid to related parties – current | 11,736,473 | - |
| Prepayments | 777,405 | 1,478,387 |
| **Less** | | |
| Allowance for doubtful foreseen losses from advances and prepayments | - | - |
| **Total advances and prepayments** | **13,642,385** | **2,687,016** |

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 Credendo and Coface insurer. The risks and rewards related to the receivables were 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. Starting October 2022, the Company decided to stop selling new receivables to Factofrance. In the period following October 2022, only repayments were made. As of 31 December 2022, the amounts to be recovered from Factofrance were in amount of RON 14,968,607 (31 December 2021: RON 33,858,627).

Trade receivables are not interest-bearing and are generally on 60 - 120 days terms (2021: 60 - 120 days terms).

The trade receivables are presented net of the accrual for commercial discounts amounting RON 37 million at year end 31 December 2022 (2021: RON 24 million), for which the Company will issue credit notes throughout the year 2023.

*(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 2022 | 31 December 2021 |
|---|---|---|
| **Balance as of 1 January** | **(3,375,700)** | **(5,304,253)** |
| Set-up | (858,355) | (2,749,139) |
| Uses | 3,752,270 | 4,677,692 |
| Reversals | - | - |
| **Balance as of 31 December** | **(481,785)** | **(3,375,700)** |

**Year 2022**

The Company has trade receivables to be recovered from Group companies, and payables to those companies. Offsetting of the amounts is planned to be done on a regular basis.

The majority of trade receivables from third parties are insured against the default risk by Credendo and Coface, companies with an AA rating according to S&P.

As at 31 December 2022, for estimating the expected credit losses ("ECL") related to the receivables of the company, an analysis has been made to assess the credit risk in terms of probability of default, determined based on creditworthiness of Credendo and Coface. The probability of default parameter was derived from external agency ratings. Last identified rating is Moody's B3 rating. For the purpose of IFRS 9, the standard ECL formula and a forward looking correction were applied.

As a result of this IFRS 9 analysis, the Company estimates an impairment of trade receivables from third parties and group companies in amount of RON 317,495.

**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 were 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.

*(amounts are expressed in RON, unless specified otherwise)*

## 14. CASH AND CASH EQUIVALENTS

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Cash at banks and on hand | 11,190,679 | 62,597,628 |
| **Total** | **11,190,679** | **62,597,628** |

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.

As of 31 December 2022, the Company had letters of guarantee issued in favor of third parties amounting to RON 19,105 (2021: RON 8,355,901).

As of 31 December 2022 and 31 December 2021 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

In 2022 and 2021 the Company participated in a cash pooling agreement with AI Sirona (Luxembourg) Acquisition SARL (the ultimate parent entity of Zentiva Group, a.s.). 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 31,614,121 (2021: interest income in the amount of RON 6,544,059) 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. As at 31 December 2022, the company booked a ECL provision in amount of RON 1,070,369 (31 December 2021: RON 0)

(amounts are expressed in RON, unless specified otherwise)

## 16. ISSUED CAPITAL AND RESERVES

| Authorized shares | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Ordinary shares of RON 0.1 each | 697,017,040 | 697,017,040 |

| Ordinary shares issued and fully paid | Number | Value |
|---|---|---|
| On 31 December 2022 | 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 2022 (2021: no redeemable shares).

| Share capital | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Issued share Capital | 69,701,704 | 69,701,704 |
| **Total share capital** | **69,701,704** | **69,701,704** |

As of December 31, 2022, Zentiva Group a.s. held 95,9486% of the Company's shares (31 December 2021: 95,9486%), the reminder of the shares being held by other minority shareholders.

| Share premium | 31 December 2022 | 31 December 2021 |
|---|---|---|
| **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 inflated 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 2022, the Company has revaluation reserves in amount of RON 67,069,892 (2021: RON 57,527,094).

### Legal and other reserves

| Total other reserves included in the capital components: | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Legal reserves (i) | 13,940,341 | 13,940,341 |
| Other reserves (other funds) (ii) | 132,458,834 | 107,803,474 |
| **Total other reserves** | **146,399,175** | **121,743,815** |

(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 reached the threshold of 20% from the share capital. In 2021 and 2022, the company didn't set legal reserves.

(amounts are expressed in RON, unless specified otherwise)

## 16. ISSUED CAPITAL AND RESERVES (continued)

(ii) Other reserves include undistributed profits from the years 2004 - 2008, 2012 – 2013, 2015 - 2016. Such reserves are available for distribution as dividends. In 2022 other reserves were increased with an amount of RON 24,655,360 (2021: RON 3,397,329) representing reserve for reinvested profit (RON 6,819,381 are related to 2022 and RON 17,835,979 represents an additional reserve for 2021). The company is required to keep the assets, for which the tax benefit was obtained, in its patrimony for at least a period equal to half the period of economic use of the asset, but not more than 5 years. When the reserves from reinvested profit are used, they become taxable.

## 17. DIVIDENDS DISTRIBUTED AND PAID

During 2022, the Company did not distribute dividends (2021: the Company did not distribute dividends).

In 2022, the Company made no dividend payments to the Company's shareholders (2021: RON 5,110 dividend payments made to the minority shareholders).

## 18. PROVISIONS

| Other provisions | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Provisions for litigations | - | (211,549) |
| Provisions for taxes | (3,583,810) | (3,583,810) |
| Other provisions | (1,001,717) | - |
| Environmental provision | (1,265,568) | (1,265,568) |
| **Total** | **(5,851,095)** | **(5,060,927)** |

| | Provisions for litigations | Provisions for taxes | Environmental provision | Other provisions | Total |
|---|---|---|---|---|---|
| **On 1 January 2022** | **211,549** | **3,583,810** | **1,265,568** | **-** | **5,060,927** |
| Increase | - | 262,800 | - | 1,913,472 | **2,176,272** |
| Reversal | (211,549) | (262,800) | - | (911,755) | **(1,386,104)** |
| **On 31 December 2022** | **-** | **3,583,810** | **1,265,568** | **1,001,717** | **5,851,095** |
| Current | - | 3,583,810 | - | 1,001,717 | **4,585,527** |
| Long term | - | - | 1,265,568 | - | **1,265,568** |

| | 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** |

## 18. PROVISIONS (continued)

### *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 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. As at 31 December 2022, the balance of the tax provision is in amount of RON 3,583,810.

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.

### *Environmental provisions*

The environmental provision was reassessed by specialists during the year 2021 and the balance of the provision as of 31 December 2021 and 31 December 2022 is in amount of RON 1,265,568. 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 10 years in the Company, ½ average gross salary at company level;
- 10 - 20 years within the Company, 1 average gross salary at company level;
- 20 - 30 years within the Company, 2 average gross salary at company level;
- Over 30 years within the Company, 3 average gross salaries at company level.

In addition, according to P2 Plan, when employees turn 50, in case the employees have completed 5 years of continuous service in the company, they receive a bonus based on their length of service within the Company as follows:

- 5 - 15 years in the Company, ½ average gross employee salary;
- Over 15 years in the Company, one average gross employee salary.

At the same time, depending on the length of service at the Company, the employees receive some benefits in fixed amounts, which start with 400 RON upon completion of 2 years in the Company and reach 3,800 RON upon completion of 36 years in the Company.
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 2022 Post-employment benefits (P1) | 31 December 2022 Jubilee Plan (P2) | Total | 31 December 2021 Post-employment benefits (P1) | 31 December 2021 Jubilee Plan (P2) | Total |
|---|---|---|---|---|---|---|
| **Benefit obligation at the beginning of the year** | **2,669,000** | **655,000** | **3,324,000** | **2,990,000** | **722,000** | **3,712,000** |
| Current service cost | 199,000 | 95,000 | 294,000 | 214,000 | 93,000 | 307,000 |
| Financial cost - interest (on the benefit) | 149,000 | 33,000 | 182,000 | 101,000 | 23,000 | 124,000 |
| Paid benefits | (519,000) | (863,000) | (1,382,000) | (26,000) | (155,000) | (181,000) |
| Termination benefits | 384,000 | - | 384,000 | - | - | - |
| Amendments to the plan | - | 2,180,000 | 2,180,000 | - | - | - |
| Actuarial gain / loss – experience | 321,000 | 943,000 | 1,264,000 | (115,000) | 38,000 | (77,000) |
| Actuarial gain / loss – changes in demographic assumptions | - | - | - | - | - | - |
| Actuarial gain / loss – changes in financial assumptions | (295,000) | (2,000) | (297,000) | (495,000) | (66,000) | (561,000) |
| **Benefit obligation at the end of the year** | **2,907,000** | **3,041,000** | **5,948,000** | **2,669,000** | **655,000** | **3,324,000** |
| **The net benefit liability recognized in the statement of financial position** | **2,907,000** | **3,041,000** | **5,948,000** | **2,669,000** | **655,000** | **3,324,000** |

| Changes in actuarial gains | 31 December 2022 Retirement benefit plan (P1) | 31 December 2022 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** | **917,000** | **343,000** | **1,260,000** | **1,527,000** | **371,000** | **1,898,000** |
| Actuarial (gain) / losses following changes in employee experience | 321,000 | 943,000 | 1,264,000 | (115,000) | 38,000 | (77,000) |
| Actuarial (gain) / losses following changes in assumptions | (295,000) | (2,000) | (297,000) | (495,000) | (66,000) | (561,000) |
| **Actuarial gains / losses accumulated at the end of the year** | **944,000** | **1,284,000** | **2,228,000** | **917,000** | **343,000** | **1,260,000** |
| **Assumptions to determine the defined benefit obligation** | | | | | | |
| Discount rate | 8.10% | 8.10% | - | 5.60% | 5.60% | - |
| Compensation increase rate | 5.50% | 5.50% | - | 4.00% | 4.00% | - |

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

## 20. TRADE PAYABLES AND OTHER PAYABLES

| **Trade payables and other payables** | **31 December 2022** | **31 December 2021** |
|---|---|---|
| Trade payables | 82,127,427 | 75,887,576 |
| Trade payables to related parties at the end of year | 32,968,150 | 22,391,059 |
| Other liabilities | - | 13,498 |
| **Total** | **115,095,577** | **98,292,133** |

| **Other current liabilities** | **31 December 2022** | **31 December 2021** |
|---|---|---|
| Wages and salaries payable | 16,727,645 | 12,847,369 |
| Social security contributions and salary taxes | 5,341,031 | 4,474,104 |
| Claw-back tax (*) | 13,091,407 | 11,252,312 |
| Other taxes | 2,796,582 | 2,755,264 |
| Other liabilities | 3,636,712 | 3,368,032 |
| **Total** | **41,593,377** | **34,697,081** |

| (*) **Claw-back** | **31 December 2022** | **31 December 2021** |
|---|---|---|
| Initial estimate of the tax liability to the State Budget for the last quarter | 15,207,825 | 12,215,704 |
| Regularization of the claw-back tax for the last quarter, according to the notification received from the CNAS | (2,116,418) | (963,392) |
| **Total** | **13,091,407** | **11,252,312** |

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 | Sale of goods and 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 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 |
| Zentiva Pharma UK Limited | Company under common control | Provision of services | UK | London |

*(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 2022 | Balance as of 31 December 2021 |
|---|---|---|
| Labormed Pharma Trading SRL (Alvogen Romania SRL) | 15,382,705 | 12,522,480 |
| Labormed Pharma SA | 3,098,789 | 670,363 |
| Solacium Pharma SRL | - | 3,388,029 |
| Zentiva K.S. | 272,196 | 47,463,597 |
| Zentiva Group A.S. | 725,459 | 13,605,273 |
| Zentiva Pharma UK Limited | 18,645 | - |
| Zentiva Private LTD | (1,985) | - |
| **Trade receivables from related parties** | **19,495,809** | - |
| Zentiva Group A.S. – advances paid | 11,736,473 | - |
| **Total** | **31,232,281** | **77,649,742** |
| Al Sirona (Luxembourg) Acquisition S.à.r.l – cash pooling | **583,511,187** | **513,704,034** |

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

| | Balance as of 31 December 2022 | Balance as of 31 December 2021 |
|---|---|---|
| Labormed Pharma Trading SRL (Alvogen Romania SRL) | 10,972,707 | 5,964,175 |
| Labormed Pharma SA | 1,718,903 | 710,727 |
| Solacium Pharma SRL | - | 1,379,723 |
| Zentiva K.S. | 12,428,076 | 605,242 |
| Zentiva Group A.S. | 6,845,584 | 13,168,245 |
| Zentiva Pharma GMBH | 323,281 | 366,618 |
| Zentiva Italia | 229,627 | 196,329 |
| Zentiva Private LTD | 380,511 | - |
| Al Sirona (Luxembourg) Acquisition S.à.r.l | 69,462 | - |
| **Total** | **32,968,150** | **22,391,059** |

### 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 2022 | Financial year ended at 31 December 2021 |
|---|---|---|
| Labormed Pharma Trading SRL (Alvogen Romania SRL) | 18,608,732 | 20,506,826 |
| Labormed Pharma SA | 3,801,066 | 1,614,966 |
| Solacium Pharma SRL | 7,213,298 | 4,893,841 |
| Zentiva K.S. | 273,865,627 | 262,817,685 |
| Zentiva Group AS | 15,616,526 | 7,634,325 |
| Zentiva Pharma UK Limited | 18,645 | - |
| **Total** | **319,123,893** | **297,467,643** |

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

## 21. RELATED PARTY DISCLOSURES (continued)

From the total sales to the group for the year 2022 are eliminated and are not included in the table above 24,720,735 RON (2021: RON 39,427,052) 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 2022 | Financial year ended at 31 December 2021 |
|---|---|---|
| Labormed Pharma Trading SRL (Alvogen Romania SRL) | 4,970,584 | 19,685,775 |
| Labormed Pharma SA | 2,297,479 | 3,271,402 |
| Solacium Pharma SRL | 1,613,766 | 2,700,865 |
| Zentiva K.S. | 86,415,562 | 70,160,126 |
| Zentiva Group A.S. | 40,142,710 | 59,551,903 |
| Zentiva Private LTD | 1,163,888 | - |
| Zentiva Italia | - | 2,115,858 |
| Al Sirona (Luxembourg) Acquisition S.à.r.l | 69,462 | 297,469 |
| **Total** | **136,673,451** | **157,783,398** |

From the total group purchases for 2022 are eliminated and are not included in the table above RON 24,720,735 (2021: RON 39,427,052) 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 5.1 "Revenues",
- Note 6.2 "Other operating expenses",
- Note 6.4 “Financial income” related to cash pooling account interest.

**The ultimate parent of the Company**

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

Al 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 2022 and 2021.

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

## 21. RELATED PARTY DISCLOSURES (continued)

### Compensations granted to the key management of the Company

***Directors, managers and the supervisory body***

In 2022 the Company granted the following gross amounts to the members of the Board of Directors which include fixed remuneration and bonuses:

| | Financial year ended at 31 December 2022 | Financial year ended at 31 December 2021 |
|---|---|---|
| Members of the Board of Directors | 2,261,071 | 2,173,837 |
| **Total** | **2,261,071** | **2,173,837** |

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 2022 and 2021, 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. 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.

## 22. CONTINGENCIES (continued)

### Transfer price

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

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.

**Legal claims** (including the estimated value)

As of December 31, 2022, the Company is 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 as at the date of this Report.

  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. 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, which has not been received yet.

- In August 2022, the company Novartis AG filled a permanent injunction the Company, by which Novartis AG demanded Zentiva refrain from any act infringing the patent EP 3103448 for Gilenya® products. Specifically, Novartis AG requested Zentiva: (i) to cease any act of commercial exploitation of the product "Fingolimod Zentiva 0.5 mg" and other related products; (ii) to withdraw from the Romanian market all products/related products; (iii) to destroy all products/related products; (iv) to publish the court decision within the top three national newspapers (in terms of readership) and (v) to pay the costs related to the litigation.

  At the first hearing set on 13 December 2022, Novartis AG filed a modification request to amend their claim according to the limitation request they described in the statement of defense [i.e., Novartis requested the court (i) to take note that Novartis limits the patent RO/EP 3103448 by amending the claims for the purposes set out in the main application and in the statement of defense, (ii) to order the Romanian State Office for Inventions and Trademarks ("OSIM") to publish the patent in the amended form, (iii) to reject Zentiva's arguments and, accordingly, to dismiss the counterclaim for annulment as unfounded, and (iv) to oblige Zentiva to support the costs related to the litigation].

  At the hearing set on 14 February 2023, OSIM filed a statement of defense showing the procedural history of the patent and underlied that they would not present arguments regarding the merits of the patent, since it was issued by the European Patent Office ("EPO"). However, OSIM has asked the court to suspend the case until all proceedings relating to EP 448 are completed before the EPO. The next hearing was set by the court on April 18, 2023.

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 2022 and 2021.

***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.

On 31 December 2022, 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 2022 and 2021).

The Company's exposure to the risk of changes in market interest rates is presented below:

**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 interest rates is presented below:

| | Change in ROBOR rate (+/-10%)<br>Effect on profit before tax |
|---|---|
| 2022 | 3,617,769 |
| 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 receivables or payables 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 2022 | EUR | USD | RON | CZK | GBP | Total |
|---|---|---|---|---|---|---|
| Trade receivables and other receivables | 11,384,874 | - | 137,464,974 | - | - | **148,849,848** |
| Cash pooling intercompany receivable | 19,843,754 | - | 563,667,433 | - | - | **583,511,187** |
| Cash and cash equivalents | 159,573 | 105,443 | 10,925,662 | - | - | **11,190,679** |
| **Total assets (1)** | **31,388,201** | **105,443** | **712,058,070** | **-** | **-** | **743,551,714** |
| Trade payables – suppliers | 36,327,305 | 13,686,281 | 65,055,001 | - | 26,989 | **115,095,577** |
| Lease liabilities | 18,810,981 | - | - | - | - | **18,810,981** |
| **Total liabilities (2)** | **55,138,286** | **13,686,281** | **65,055,001** | **-** | **26,989** | **133,906,558** |
| **Difference (1)- (2)** | **(23,750,085)** | **(13,580,838)** | **647,003,068** | **-** | **(26,989)** | **609,645,156** |

| 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** | **-** | **-** | **676,211,164** |
| 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)** | **568,565,246** |

### 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 is presented below:

| | **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** |
|---|---|---|---|
| 2022 | (2,375,008) | (1,358,084) | - |
| 2021 | (2,965,537) | (1,374,609) | - |

### *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.

### *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.

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

## 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 liabilities to financial institutions).

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

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

| As of 31 December 2022 | <30 days | 30 – 60 days | 60 - 180 days | 180 – 360 days | >1 year | Total |
|---|---|---|---|---|---|---|
| Trade payables | 103,375,560 | 1,742,620 | 9,977,397 | - | - | **115,095,577** |
| Lease liabilities | 584,040 | 717,206 | 2,155,047 | 3,246,615 | 13,009,696 | **19,712,604** |
| **Total liabilities** | **103,959,600** | **2,459,825** | **12,132,444** | **3,246,615** | **13,009,696** | **134,808,181** |

| 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** |

***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 2022 and 2021.

## 24. STATUTORY AUDITOR EXPENSES

In 2022, the statutory auditor Ernst & Young Assurance Services SRL. Auditor had a contractual fee of EUR 102,600 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 debts related to the factoring agreement concluded with Factofrance SA were fully paid in March 2023.

The financial statements from page 3 to page 59 were approved by the Board of Directors and were authorized to be issued in accordance with the resolution of the Directors, dated 27 March 2023.

**Administrator,**
Simona Cocos

Signature
Company stamp

Cocos

SOCIETATEA COMERCIALA ZENTIVA S.A.
ZENTIVA
14
BUCURESTI

**Prepared by,**
Daniel Nitulescu
Chief Financial Officer

Signature