

ANNUAL REPORT

2018

Zentiva, a.s. Bratislava

CONTENTS

1. About Zentiva, a.s.....	3
2. Key Data.....	5
3. Information on Shareholders.....	6
4. Bodies of the Joint-Stock Company.....	7
5. Foreword by the Board of Directors.....	8
6. Financial Report.....	10
7. Lawsuits.....	15
8. Health, Safety and Environmental Protection.....	16
9. Employees.....	17

Financial Statements and Auditor's Report for the Year Ended 31 December 2018

About Zentiva

1

Business name:	Zentiva, a.s.
Legal form:	Joint-stock company
Registered office:	Einsteinova 24 851 01 Bratislava
Registration No.:	31411771
Date of formation:	13 April 1992
Founder:	National Property Fund of the SR, Bratislava, Drieňová 27

Organizational units abroad: none

Share capital:	€8,100,960.00
Shares issued:	
Class:	Ordinary shares with voting rights
Type:	Bearer shares
Form:	Book-entry only
Par value:	€5.00
Number of shares:	1,620,192

The main business activities of Zentiva, a.s. are the purchase and sale of medicinal products, pharmaceutical and technical adjuvants for human use, marketing activities associated with the active support of Zentiva generic products including advertising and promotion, and the provision of licenses for trademark use and pharmaceutical know-how.

In November 2016, Zentiva's owner Sanofi announced that it was considering the sale of its European generic unit. This course of action was subsequently taken, in line with Sanofi's strategic plan, which places particular emphasis on maintaining an innovative portfolio. After an extensive selection procedure, Sanofi entered into exclusive negotiations with Advent International, an American investment fund, in spring 2018. The over-the-counter medicines division was not part of the divestiture to Advent International and thus remained part of the Sanofi Group.



The transfer of Sanofi's European generics business to the new owner Al Sirona (Advent International) was completed on 1 October 2018. This included the sale of the main package of Zentiva a.s. shares from Zentiva NV (Netherlands) to Zentiva Pharma GmbH (Germany). Advent International is one of the largest companies in the world, focusing on private equity investments. Via its branches and affiliates in 31 countries, it manages more than US\$6 billion of capital.

Under its new ownership, Zentiva remains an international leader in the development, production and sale of high-quality and reliable generic medicinal products at affordable prices, improving and extending the lives of a growing number of patients in several countries.

Zentiva a.s. sells 56 pharmaceutical product forms in Slovakia. This portfolio includes prescription medicines, primarily used in the primary care sector.

Key Data

2

Financial data (in €000 unless indicated otherwise)	2018	2017
Sales	55,101	88,080
Loss / Revenues from licenses	(18,927)	54,600
Gross profit	22,721	114,440
Earnings before interest and taxes	10,028	100,389
Earnings before taxes	9,859	100,346
Income tax	(7,569)	(22,369)
Net profit	2,290	77,976
Basic earnings per ordinary share (€)	1.41	48.13
Investments	628	8 920
Number of employees as at 31 December (persons)	90	101
Indicators		
EBIT margin (earnings before interest and taxes) (%)	18.20	70.36
Net profit margin (%)	4.16	54.65

Information on Shareholders

3

Shareholders structure – as at 31 December 2018

	Number of shareholders	Share in registered capital Number of shares	%	Share in voting rights %
CORPORATE BODIES	15	1,606,595	99.16	99.16
Of which:				
Slovak corporate bodies	9	589	0.04	0.04
Foreign corporate bodies	6	1,606,006	99.12	99.12
INDIVIDUAL INVESTORS	4,911	13,597	0.84	0.84
Of which:				
Slovak investors	4,737	13,161	0.81	0.81
Foreign investors	174	436	0.03	0.03
TOTAL BEARER SHARES	4,926	1,620,192	100.00	100.00
Of which:				
Foreign corporate bodies and individual investors	180	1,606,442	99.15	99.15
TOTAL SHARES	4,926	1,620,192	100.00	100.00

Principal shareholders as at 31 Dec 2017	Number of shares	
	pcs	%
ZENTIVA PHARMA GMBH, Germany	1,604,916	99.06
Other	15,276	0.94
TOTAL	1,620,192	100.00

The Company did not acquire any treasury shares or treasury stock.

Bodies of the Joint-Stock Company

4

Board of Directors of the Joint-Stock Company

Thomas Cornelis Koene – Chairman of the Board of Directors

Gildas Perrillon – Member of the Board of Directors – until 22 November 2018

Xavier Lasserre – Member of the Board of Directors – since 23 November 2018

Supervisory Board

Carol Bléry – Member of the Supervisory Board

MUDr. Mojmír Krutý – Member of the Supervisory Board

Martin Albert – Member of the Supervisory Board – since 23 November 2018

Foreword by the Board of Directors

5

In 2018, Zentiva, a.s. continued to foster its long-term strategy, focused on increased availability of high-quality medicinal products, at affordable prices, to the largest possible number of patients. Despite the austerity measures applied by the Slovak government, the Company managed to maintain its leading position in the Slovak generic medicines market. By value and number of delivered packages, Zentiva's comparable market share in 2018 (as at 31 December 2018) was 26.6% and 37.4%, respectively. That means that each third package of generic medicinal products delivered to Slovak patients was made by Zentiva. In the overall pharmaceutical market, the value and number of packages delivered by Zentiva amounted to 3.5% and 11.1%, respectively.

Currently, Zentiva offers 120 products on the Slovak market. Our Company continuously supplies medicines at affordable prices to Slovak patients, thus helping to improve overall healthcare standards. In 2018, Zentiva a.s. delivered 3.5 million packages for the Slovak market via Sanofi SK s.r.o. and Zentiva International a.s., and 14.1 million packages for foreign markets via SWIND.

Zentiva directs its investments back into Slovak healthcare. These fund the accredited training of physicians, pharmacists, medical and pharmaceutical interns and other healthcare professionals, patients and the public. We are also involved in primary and secondary preventive actions and projects in the area of Corporate Social Responsibility, through which we support hospitals, schools and socially disadvantaged groups.

Our Company is part of GENAS – the Generics Manufacturer Association, which brings together manufacturers and suppliers of generic and similar biological medicinal products, operating in Slovakia. Within the framework of an initiative for higher transparency of cooperation with health professionals and health organizations, we have published our results for 2018, indicating values transferred through our Company's cooperation with experts (e.g., professional conference support, support to experts participating in congresses, fees for expert lectures and consulting services with experts).

Our aim will continue to be the provision of the widest possible patient access to modern, affordable medicinal products designed for the treatment of a broad range of chronic diseases.

On 28 October 2016, Sanofi Group announced its decision to initiate the carve-out process in order to divest the European generics business for potential sale within 12 to 24 months. This was in line with the plan for simplifying its portfolio under the corporate strategy Roadmap 2020.

The transfer of Sanofi's European generics business to the new owner Advent International was completed on 1 October 2018. This included the sale of the main package of Zentiva a.s. shares from Zentiva NV (Netherlands) to Zentiva Pharma GmbH (Germany).

In 2018, the share capital decreased from €53,774,172.48 to €8,100,960, while the number of shares remained unchanged. The par value per share reduced from €33.19 to €5.

Financial Report

6

On 25 March 2013, Zentiva, a.s. sold its industrial division in Hlohovec to Saneca Pharmaceuticals, a.s., which continues production activity for Zentiva, a.s. as a contractual manufacturer. This division's production was sold by Zentiva, a.s. (via Sanofi companies until 31 May 2018 and via Zentiva International a.s. since 1 June 2018) to the Slovak market throughout 2018 and to foreign markets until 31 May 2018.

In the past, about 18.17% of the Company's entire production was sold in Slovakia. The remainder of production was exported mainly to the Czech Republic, Poland, Russia, Romania, Ukraine and Bulgaria. After separation from the Sanofi Group, the business model also changed – since 1 June 2018 Zentiva a.s. has operated exclusively in the Slovak market.

6.1. Income Statement

Pursuant to Section 17(a) of Act No. 431/2002 Coll., as amended, the Company has been obliged since 2008 to prepare its individual Financial Statements in accordance with the International Financial Reporting Standards, as adopted by the EU, and, therefore, the Statements and the Notes were prepared in accordance with those standards.

Sales

The Company's total sales in 2018 dropped by 61% compared to 2017 (i.e., from €142,680 thousand in 2017 to €55,101 thousand in 2018). Of these, sales from merchandise dropped in 2018 by 68% compared to 2017 (i.e., from €69,486 thousand in 2017 to €22,199 thousand in 2018). The sale of products to external customers was achieved in the domestic market through sanofi-aventis Slovakia until 31 May 2018 and since 1 June 2018 through Zentiva International a.s. Sales to foreign markets were achieved until 31 May 2018 primarily through SWIND France. All the sales activities outside the Slovak market were discontinued as at 31 May 2018 due to the change in the business model after the carve-out of the generic division from the Sanofi Group. As compensation for partial adjustment of trade flows under the new business model, after the carve-out of the generic division from the Sanofi Group, the Company obtained sales of €17,014 thousand.

Top products sold by the Company in 2018 by sales:

	Therapeutic Category	Active Substance	Sales in 2018 in €000	Sales in 2017 in €000
TORVACARD+ATORVASTATIN	Lipid lowering agents	Atorvastatinum calcium	2,453	10,801
LOZAP	Hypotensive	Losartanum calcium	1,714	12,041
FOKUSIN	Sympatholytic	Tamsulosini hydrochl.	1,415	2,691
KINITO	Prokinetics	Itopridi hydrochloridum	1,271	4,282
ASCORUTIN	Vitamins	Bioflavonoids	1,241	2,341
ALNAGON	Antipyretics	Acetylsalicylic acid	748	1,411
CORONAL	Beta-blockers	Bisoprololi fumarase	666	3,267
PINOSOL	Otorinolaryngol	Herbal	663	7,523
METFORMIN	Antidiabetics	Metformini hydrochloridum	629	2,890
FIXIT	Antihistamines	Fexofenadin	583	1,099

Zentiva a.s. effects deliveries of products based on a supply agreement with Saneca Pharmaceuticals a.s. The current contract terminates at the end of 2019 and Zentiva, a. s. expects negotiations regarding its extension to take place in the second half of 2019.

In 2017, Zentiva a.s. sold €54,600 thousand of pharmaceutical know-how to Sanofi France and subsequently repurchased the right to use selected know-how of €8,900 thousand. Due to the change in the strategy agreed upon between the Sanofi and Advent International groups within the generic division sale, all the contracts on sale and subsequent repurchase of know-how were revised in September 2018, so that the sale of know-how amounted to €35,674 thousand (impact on the income statement of -€18,927 thousand) and subsequent repurchase of rights to use selected know-how totaled €4,394 thousand (impact on the balance sheet of -€4,506 thousand). At the same time, the know-how license of +€955 thousand was provided.

Sales from marketing revenues dropped by 39% compared to 2017 (-€3,832 thousand) as OTC medicinal products were separated off to Sanofi and the support of this product portfolio ceased.

Gross profit

Production costs / consumed purchases in 2018 amounted to €13,453 thousand, representing a decrease of 52% (€28,239 thousand) compared to 2017. This decrease resulted from the transfer of OTC medicinal products to Sanofi and the change in the business model after separation from the Sanofi Group.

The Company's gross profit in 2018 amounted to €22,721 thousand, representing a decrease of 80% compared to 2017 (2017: €114,440 thousand). The difference was mainly caused by one-off items relating to the separation from the Sanofi Group (e.g., sale of know-how in 2017 and corresponding adjustments in 2018).

Other operational costs

General and administrative costs of €3,817 thousand in 2018 increased by 125% compared to 2017 (€1,693 thousand). This was mainly due to costs of developing infrastructure and Zentiva's new business model after its separation from the Sanofi Group.

In 2018, the Company incurred research and development costs of €387 thousand (2017: €153 thousand).

Earnings before interest and taxes

The Company's earnings before interest and taxes dropped by €90,361 thousand to €10,028 thousand (compared to €100,389 thousand in 2017). The reasons behind this fall are described in the Gross profit section.

Financial costs

In its financial activities, the Company generated a loss of €169 thousand (2017: loss of €43 thousand).

In 2018, the Company posted net interest revenues of €0, the same as in 2017.

Earnings before taxes

The Company's earnings before taxes of €9,859 thousand were lower by 90% in 2018, compared to 2017 (2017: €100,346 thousand), and by 57% lower than in 2016 (2016: €22,811 thousand).

Income tax

In 2018, the Company's tax costs totaled €7,569 thousand (2017: €22,369 thousand), including the special business levy. Due to a supplement to the special business levy for 2017, the effective tax rate in 2018 was 76.77% (2017: 22.29%).

In relation to the ongoing tax inspection, in 2015 the Company created an accrual for potential tax charges and related penalties of €7,481 thousand, which was reassessed in 2016 and increased by €790 thousand. After the final tax assessment from the Tax Authority, the Company will use all legal means to minimize possible negative impacts.

Net profit

The Company's net profit in 2018 fell by 97% to €2,290 thousand, compared to 2017 (2017: €77,976 thousand).

Net profit margin in 2018 decreased to 4.16% (2017: 54.65%).

6.2. Profit Distribution Proposal

The Board of Directors proposed distribution of **€2,268,268.80** from net profit generated in 2018.

6.3. Balance Sheet

Investments in tangible and intangible assets

In 2018, the Company updated the value of repurchased know-how from €8,900 thousand to €4,394 thousand.

Trade and other receivables

Trade and other receivables in 2018 (€21,864 thousand) decreased by €181,128 thousand, compared to 2017 (€202,992 thousand). This was mainly caused by a reduction in the receivable from cash pooling and cash management, and the change in the business model.

Receivables from the Tax Authority increased in 2018 to €25,153 thousand.

The Group recognizes receivables and payables within cash management structures of Advent International as other short-term receivables or payables.

(Net) interest revenues within cash management structures in 2018 were €0, the same as in 2017.

In 2018, the Company duly paid up all its payables to government authorities and banks.

Short-term payables

Short-term payables in 2018 increased by €4,328 thousand, compared to 2017. The main reasons behind this were updates to sale and repurchase of know-how, reduction of payables resulting from termination of invoicing of marketing costs from abroad due to the change in the business model and reduction of payables towards third parties.

6.4. Cash Flow Summary

Net cash flows from operations

In 2018, the Company generated negative net cash flows from its main business activities of -€9,997 thousand (2017: €34,704 thousand), mainly as a result of high advances paid for income tax and special levy purposes.

Net cash flows from investments

Net cash flows from investments increased in 2018 to €53,975 thousand due to the collection of payment for receivables from the sale of pharmaceutical know-how to Sanofi France, in the total amount of €54,600 thousand (2017: -€19 thousand).

Net cash flows from financing activities

Net cash flows from financing activities in 2018 amounted to -€43,296 thousand (2017: -€34,629 thousand). The major items under this section were represented by the payout of dividends, decrease in share capital of €149,495 thousand (2017: €16,910 thousand) and positive cash flows from cash pooling totaling €106,199 thousand (2017: -€17,719 thousand).

Lawsuits

7

Lawsuits filed by the Company:

In 2018, the Company did not file any motions for initiation of an order for payment procedure or for issuance of rulings which could materially affect its financial standing.

Lawsuits filed against the Company:

Re. Sika vs. Zentiva, a.s. Bratislava for payment of €96,257 (i.e., SKK 2,899,825) with any other amounts due and payable, on the grounds of incorrect wage categorization

Ing. Šnupárek and Ing. Ratkovská, CSc., vs. Zentiva, a.s. Bratislava for payment of €130 thousand on the grounds of remuneration entitlement claimed by co-originators of an invention

Pfizer vs. Zentiva, a.s. Bratislava and Zentiva International a.s. for payment of €150 thousand on the grounds of infringement of a patent

Health, Safety and Environmental Protection

8

The Company is fully committed to performing all activities in line with the HSE management system (H - health, S - safety, E – environment), which covers HSE policy, standards, regulations and guidelines. All the activities of the Company and its individual employees are to be aligned with these requirements and must comply with the effective local regulations.

Zentiva, a.s. considers the areas of health and safety of its employees as well as environmental protection to be matters of prime importance.

Based on the above, HSE activities in 2018 were focused on the following areas:

- Focus on safe and eco driving
- Training in safe driving during winter months
- Reduction of CO2 emissions by purchasing vehicles that emit low CO2
- Raising safety awareness of employees (regular e-learning training in the field of safeguarding occupational health, fire protection, first aid, training of drivers)
- Regular reviews and audit of electric equipment
- Workplace ergonomics
- Environmentally friendly printing
- Electrical energy saving (artificial lighting not used during the day unless it is necessary)
- Waste sorting in offices excluding the use of plastic and disposable products

Zentiva and its employees were dedicated to the individual activities listed above throughout the whole of 2018, thereby contributing to improving work conditions, raising awareness of environmental protection and improving employees' state of health.

Employees

9

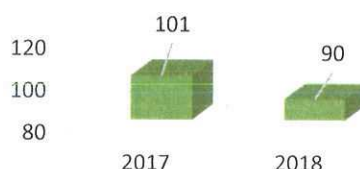
Human Resources

As at 31 December 2018, Zentiva had 90 employees. A significant decrease in the number of employees resulted from the change in the ownership structure. The French Sanofi Group completed the sale of Zentiva to US-based investment company Advent International. Zentiva has thus entered a new era of independence and transformation, and started to operate as an independent company.

The sale did not relate to the selected part of the OTC sector. Employees responsible for this part moved to Sanofi, through transition of rights and obligations. On the other hand, some of Sanofi's employees who were responsible for generics moved to Zentiva, applying the law on transfer of rights and obligations. The new organizational structure does not just reflect these movements, but primarily showcases the effectiveness of the new Zentiva.

Despite the highly dynamic change, voluntary labor turnover of Zentiva's employees remained very low. The employer brand has a high degree of recognition and social acceptance. Zentiva is still considered an attractive employer with a strong historic tradition and respected corporate culture. The changes undergone by Zentiva are perceived as a new and very interesting challenge.

Number of employees



REMUNERATION AND BENEFITS

Strong labor market competitiveness and due regard to development of real wages in the relevant segment represent long-term objectives of the Company, which we continue to fully respect. The wide range of benefits offered to employees in addition to salaries represents a diversified range of options focused on healthcare, safety, security, future, family support and work-life balance. The compensation area closely correlates with performance parameters.

EDUCATION AND DEVELOPMENT

In 2018, we continued to proceed with our development activities that have found their place in the standard offer of education. The main aims of effective learning activities which took place in 2018 in the form of courses, training, global programs, coaching, conferences, teambuilding events, open discussions and involvement in projects were to help employees:

- Conquer old beliefs and methods
- Overcome fear
- Learn new techniques
- Gain various types of experience
- Understand that the Company decided to invest in their education and thereby improve their skills
- Re-energize and change their approach
- Come up with new ideas

We believe that Zentiva's human capital is one of its most valuable assets and a key source of efficient growth.

For the sixth time, the Company participated in the pharmaceutical labor market event. Intensive contact with students, offering internship opportunities or other trainee programs is an effective way to attract young medics and pharmacists.

Independent Auditor's Report

To the Shareholders, Supervisory Board and Board of Directors of Zentiva, a.s.:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Zentiva, a.s. ("the Company"), which comprise the balance sheet as at 31 December 2018 and income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Statutory Audit No 423/2015 Coll. and on amendments to the Act on Accounting No 431/2002 Coll., as amended by later legislation ("the Act on Statutory Audit") related to ethics, including Auditor's Code of Ethics, that are relevant to our audit of the financial statements, and we have fulfilled other requirements of these provisions related to ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation of the financial statements that give true and fair view in accordance with IFRS EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the

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aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

Report on Other Legal and Regulatory Requirements

Report on Information Disclosed in the Annual Report

Management is responsible for the information disclosed in the annual report, prepared based on requirements of the Act on Accounting No 431/2002 Coll., as amended by later legislation ("the Act on Accounting"). Our opinion on the financial statements expressed above does not apply to other information contained in the annual report.

In connection with audit of the financial statements it is our responsibility to understand the information disclosed in the annual report and to consider whether such information is not materially inconsistent with audited financial statements or our knowledge obtained in the audit of the financial statements, or otherwise appears to be materially misstated.

We considered whether the Company's annual report contains information, disclosure of which is required by the Act on Accounting.

Based on procedures performed during the audit of financial statements, in our opinion:

- Information disclosed in the annual report prepared for 2018 is consistent with the financial statements for the relevant year,
- The annual report contains information based on the Act on Accounting.

Additionally, based on our understanding of the Company and its situation, obtained in the audit of the financial statements, we are required to disclose whether material misstatements were identified in the annual report, which we received prior to the date of issue of this auditor's report. In this regard, there are no findings which we should disclose.

17 May 2019
Bratislava, Slovak Republic




Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257



Ing. Tomáš Přeček, statutory auditor
UDVA Licence No. 1067

Zentiva, a. s.

**Financial statements
for the year ended 31 December 2018
prepared in Accordance with
International Financial Reporting Standards (IFRS)
as adopted by the European Union (EU)**

Authorized for issue by:	Signature of accounting unit's statutory body:	Signature of person responsible for financial statements:	Signature of person responsible for accounting:
17 May 2019	Thomas Koene 	Zuzana Rehorčíková 	Dagmar Uharčeková 

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

Contents	Page
Income statement	3
Statement of comprehensive income	4
Balance sheet	5
Statement of cash flows	6
Statement of changes in shareholders' equity	7
Corporate information	8
Summary of significant accounting policies	9
Financial risk management	16
Notes to financial statements	19-29

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

Income statement

<i>(in thousands of EUR)</i>	Note	2018	2017
Revenues	4	38,087	88,080
Revenues from Veronese project	4	17,014	-
Income from sale of licenses	7	-18,927	54 600
Consumed purchases	4	-13,453	-28,239
Gross profit		22,721	114,440
Marketing expenses	4	-8,489	-12,205
Administrative expenses	4	-3,817	- 1,693
Research and development expenses		-387	-153
Profit before tax and financial expenses		10,028	100,389
Finance loss / income, net		--169	-43
Loss from financial activities		-169	-43
Profit before tax		9,859	100,346
Income tax	5	-7,569	- 22,369
Profit for the year		2,290	77,976

The accompanying summary of significant accounting policies and notes form an integral part of these financial statements.

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

Statement of comprehensive income

<i>(in thousands of EUR)</i>	2018	2017
Net profit for the year	2,290	77,976
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>		
Re-measurement gains on defined benefit plans	3	25
Re-measurement of financial investments	-86	-
Other changes	3	-
Other comprehensive income - deferred income tax effect	-1	-5
Other comprehensive income for the year, net of tax	-81	20
Total comprehensive income for the period	2,209	77,996

The accompanying summary of significant accounting policies and notes form an integral part of these financial statements

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

Balance sheet

<i>(in thousands of EUR)</i>	Note	31 December 2018	31 December 2017
Assets			
Non-current assets:			
Property, plant and equipment	6	294	81
Intangible assets	7	4,227	8,900
Financial assets	9	-	86
Deferred tax asset	8	696	454
Total non-current assets		5,217	9,521
Current assets			
Trade receivables	10	12,864	65,761
Receivables from cash pooling and cash management and other receivables	11	9,000	137,231
Income tax		25,153	-
Cash and cash equivalents	12	774	92
Total current assets		47,791	203,084
Total assets		53,008	212,605
Liabilities and shareholders' equity			
Equity:			
Share capital	13	8,101	53,774
Share premium	13	-	25,738
Retained earnings and other funds	14	15,290	91,165
Total shareholders' equity		23,391	170,667
Non-current liabilities			
Long-term provisions	16	222	209
Total non-current liabilities		222	209
Current liabilities			
Trade and other liabilities	15	20,916	16,588
Short-term provisions	16	213	1,307
Accrual for tax risks		8,266	8,266
Income tax		-	15,558
Total current liabilities		29,395	41,719
Total liabilities and shareholders' equity		53,008	212,605

The accompanying summary of significant accounting policies and notes form an integral part of these financial statements.

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

Statement of cash flows

<i>(in thousands of EUR)</i>	Note	2018	2017
Profit before tax		9,859	100,346
Non-monetary items			
Loss/Profit from the sale of licenses		18,927	-54,600
Depreciation and amortization of tangible and intangible fixed assets	6,7	578	263
Movements in allowances	10	2	17
Movements in provisions	16	-1,078	-718
Movements in working capital			
Decrease / (Increase) in trade receivables and other receivables		20,327	-5,060
Increase/(Decrease) in trade payables and other payables		-10,766	-727
Other movements in operating activities		-	35
Interest paid		-32	43
Net cash flows from operating activities		37,817	39,600
Income tax paid/received		-47,814	-4,896
Net cash flows from operating activities		-9,997	34,704
Cash flows used in investing activities			
Income from the sale of non-current assets		54 603	-
Purchase of non-current assets		-628	-19
Net cash flows used in investing activities		53,975	-19
Cash flows used in financing activities			
Dividends paid		-103,822	-16,910
Decrease of share capital		-45,673	-
Cash inflow/outflow from loans provided to related party (cash-pooling/cash management)		106,199	-17,719
Net cash flows used in financing activities		-43,296	- 34,629
Net decrease/increase in cash and cash equivalents		682	56
Cash and cash equivalents at beginning of period	12	92	36
Cash and cash equivalents at end of period	12	774	92

The accompanying summary of significant accounting policies and notes form an integral part of these financial statements

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

Statement of changes in equity

<i>(in thousands of EUR)</i>	Share capital	Share premium	Retained earnings and other funds	Total
Balance as at 31 December 2016	53,774	25,738	30,019	109,531
Net profit for 2017	-	-	77,976	77,976
Other comprehensive income	-	-	20	20
Total comprehensive income	-	-	77,996	77,996
Dividends	-	-	-16,850	-16,850
Balance as at 31 December 2017	53,774	25,738	91,165	170,677
Net profit for 2018	-	-	2,290	2,290
Other comprehensive income	-	-	-81	-81
Total comprehensive income	-	-	2,209	2,209
Decrease of share capital	-45,673	-	-	-45,673
Dividends	-	-25,738	- 78,084	-103,822
Balance as at 31 December 2018	8,101	-	15,290	23,391

The accompanying summary of significant accounting policies and notes form an integral part of these financial statements.

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

1. Corporate Information

Zentiva, a.s. ("Zentiva" or "the Company"), formerly Slovakofarma, a.s., was incorporated as a joint-stock company under the laws of the Slovak Republic on 13 April 1992. The Company is registered in the Commercial Register at the District Court Bratislava I, Section Sa, Insert 5652/B

Information on shareholders

On 28 October 2016, Sanofi Group announced its decision to initiate the carve-out process in order to divest the European generics business for potential sale within 12 to 24 months. This was in line with the plan for simplifying its portfolio under the corporate strategy Roadmap 2020. The transfer of Sanofi's European generics business to the new owner Advent International was completed on 1 October 2018. This included the sale of the main package of Zentiva a.s. shares from Zentiva NV (Netherlands) to Zentiva Pharma GmbH (Germany).

Until 30 September 2018, the Company was owned by ZENTIVA N.V., with its registered office at Fred. Roeskestraat 1231, HG EE Amsterdam, the Netherlands, whose majority shareholder was Sanofi. Since 1 October 2018, the Company AI Sirona is the new majority shareholder of the Company Zentiva Pharma GmbH (Germany). The Company is included in the consolidated financial statements prepared for all Group members by AI Sirona (Luxembourg) Acquisition S.a r.l, with its registered office at 2-4 rue Beck, L-1222 Luxembourg.

In 2018, the shares continued to be redeemed by parent company Zentiva N.V till the separation from Sanofi group. Since 1 October 2018, the new majority shareholder decided not to buy shares.

General Assembly of the Company approved the decrease of share capital from EUR 53,774,172.48 on EUR 8,110,960 EUR on 19 June 2018, while the number of shares remained unchanged. The par value per share reduced from €33.19 to €5.

Company shareholders

Shareholders of the Company as at 31 December 2018

	No. of shares	In thousands of EUR	In %
ZENTIVA PHARMA GMBH, Germany	1,604,916	8,025	99.06
Other	15,276	76	0.94
TOTAL	1,620,192	8,101	100.00

The Company is a private joint-stock company. The Company is not a partner with unlimited liability in any entity.

The Zentiva group ("the Group") is primarily engaged in the production and wholesaling of pharmaceuticals and chemical products in the Slovak and Czech Republic and other foreign markets.

Company's registered office:

Zentiva, a.s.
Einsteinova 24
851 01 Bratislava
Slovak Republic

Business registration No.: 31 411 771
Tax registration No.: SK 2020394970
Legal form: joint-stock company
Date of incorporation: 1 May 1992

During the year 2018 the Company has 89.8 employees on average (2017: 101.3 employees), the number of employees as at 31 December 2018 there was 90 employees (as at 31 December 2017: 101), of which 12 were managers (31 December 2017: 12).

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

Date of authorization of the previous financial statements

The financial statements of the Company for the prior period as at 31 December 2017 were approved by the General Meeting of shareholders on 19 June 2018.

Board of Directors of the Company

Thomas Cornelis Koene - Chairman of the Board of Directors since 12 November 2015

Gildas Perrillon – Member of the Board of Directors till 22 November 2018

Xavier Lasserre – Member of the Board of Directors since 23 November 2018

Supervisory Board

MUDr. Mojmír Krutý – Member of the Supervisory Board since 8 July 2013

Carol Bléry – Member of the Supervisory Board since 27 June 2017

Martin Albert – Member of the Supervisory Board since 23 November 2018

Statutory auditor

ERNST & YOUNG Slovakia, spol. s r.o., with its registered office at Žižkova 9, 811 02 Bratislava, SKAU license No. 257, acting as the Company's statutory auditor. The statutory auditor's fee for 2018 was EUR 23.5 thousand (2017: EUR 28 thousand).

2. Summary of Significant Accounting Policies**a) Basis of preparation and accounting**

These separate financial statements have been prepared as ordinary separate financial statements according to Section 17 (6) of the Slovak Accounting Act No. 431/2002 Coll. as later amended.

Pursuant to the Act on Accounting, from 1 January 2008 the Company prepares financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). At this particular time, due to the endorsement process of the EU, and the activities of the Group, there is no difference in the policies applied by the Company between IFRS and IFRS as adopted by the EU.

The accompanying financial statements were prepared in accordance with IFRS and all applicable IFRSs adopted by the EU. IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and by the International Financial Reporting Interpretations Committee ("IFRIC").

Financial statements were prepared on a going-concern basis and on a historical cost basis and cover the 12 months from 1 January 2018 to 31 December 2018.

The amounts in the financial statements are presented in thousands of euro ("in thousands of EUR").

b) Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent liabilities reported at the end of the period and the reported amounts of revenues and expenses for that period. Although accounting judgments, estimates and assumptions were used to the best knowledge of the Company's management in respect of current events and circumstances, actual results may differ from these estimates.

In the process of applying the adopted accounting policies, management has made certain judgments, estimates and assumptions which have a significant effect on the amounts recognized in the financial statements (apart from those involving estimates, which are dealt with below).

Deferred tax

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the assets can be utilized. Significant management judgment is required to determine the amount of deferred tax

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. For more details, refer to Note 8.

Calculation of deferred tax asset of the Group is based on the assumption that taxable profit will be available against which the deferred tax would be utilized. This assumption can be shown as inadequate in case of decline in taxable profits.

Accrual for tax risks

In relation with the ongoing tax inspection for the year 2011, in 2015 the Company created an accrual for potential tax charges and related penalties totaling EUR 7,481 thousand. The Company submitted all required documents to the Tax authorities. Until the end of 2017 Tax authorities have not finalized tax inspection and therefore no final tax statement has been issued. The Company based its calculation of an accrual for tax risks on the actual situation at the 2015 year end and on discussions with its tax advisors. The Company will use all legal means to minimize possible negative impacts after the final tax statement is issued. Tax returns remain open and may be subject to Tax inspection for a period of five years. In 2016 the Company paid EUR 5 thousand penalty for additional tax returns for the year 2012, 2013 and 2014. The respective amount was used and was part of the accrual for tax risks. The accrual for tax risk was reassessed on 31 December 2016 and increased by EUR 791 thousand. The balance as of 31 December 2017 and 2018 is EUR 8,266 thousand. On 5 March 2018, the Company received final assessment from Tax Authority with the additional Income tax liability of EUR 6,754,225.95 EUR. The Company did not settle the amount and filed an appeal against the decision. Financial administration of Slovak republic partially admitted the objections of the Company and returned to relevant Tax authority Tax charge decision for the year 2011 for further action and decision.

Employee benefits

In compliance with the Company's regulations, company provides one-off bonus after reaching working milestone of 10,15,20,25 and more years (in 5-year intervals). Bonus is differentiated and edges between EUR 400 to EUR 800. Payment is paid quarterly (4 instalments).

In case of early retirement or disability pension, the Company acts in accordance with the Labour Code, ie at first the retirement or disability pension, the employer is required to pay an amount equal to one month's average salary. The Company does not plan to reassess this process.

The related liability is recognized using the incremental actuarial method, with adjustments for actuarial gains and losses and past service cost. The liability is calculated annually by independent actuaries. The present value of the liability is determined by the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating to the terms of the related liability. For details, see Note 16.

c) Changes in accounting policies

Accounting policies adopted are consistent with those applied in the separate financial statements at 31 December 2018.

The Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that have been endorsed for use in the EU and that are relevant to its operations and effective for accounting periods beginning on 1 January 2018. The following standards, amendments and improvements issued by the IASB and adopted by the EU are effective for the current accounting period:

- IAS 40 Investment property- Amendments to IAS 40: Transfers of Investment Property - effective for financial years beginning on 1 January 2018;
- IFRS 2 Shared-based Payment – Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions - effective for financial years beginning on 1 January 2018;
- IFRS 9 Financial Instruments: - effective for financial years beginning on 1 January 2018
- IFRS 15 Revenue from Contracts with Customers - effective for financial years beginning on 1 January 2018;

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

- IFRS 15 Revenue from Contracts with Customers – Clarifications to IFRS 15 Revenue from Contracts with Customers - effective for financial years beginning on 1 January 2018;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration - effective for financial years beginning on 1 January 2018

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- Amendments to IAS 1 and IAS 8: Definition of Material - effective for financial years beginning on or after 1 January 2020, these amendments have not been approved by the EU yet;
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement - effective for financial years beginning on or after 1 January 2019, these amendments have not been approved by the EU yet;
- Amendments to IAS 28: Long-term interests in Associates and Joint Ventures - effective for financial years beginning on or after 1 January 2019, these amendments have not been approved by the EU yet;
- Amendments to IFRS 3 Business Combinations - effective for financial years beginning on or after 1 January 2020, these amendments have not been approved by the EU yet;
- IFRS 9 - Prepayments features with negative compensation (Amendment) – effective for financial years beginning on or after 1 January 2019;
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - these amendments have not been approved by the EU yet, the effectiveness date of the amendments was deferred indefinitely;
- IFRS 16: Leases – effective for financial years beginning on or after 1 January 2019;
- IFRIC 23 Uncertainty over income Taxes Treatments – effective for financial years beginning on or after 1 January 2019;
- Annual improvements to IFRSs 2015 - 2017 Cycle - effective for financial years beginning on or after 1 January 2019, these amendments have not been approved by the EU yet;

The Company is reviewing the impact of these amendments on the financial statements. It is not expected that these standards would have material impact on the financial statements of the Company.

IFRS 16 – Leases will enter into force at the end of the accounting period with the effective date of 1 January 2019. As the Company uses in its rental services in the form of operating leases, the introduction of the standard will have an impact on the presentation of the Company's statements. The Company calculated an estimated net value of "Rights-of-use assets" of EUR 612 thousand as at 1 January 2019.

d) Functional and presentation currency

On the basis of the economic substance of the underlying events and circumstances, the euro was determined as the functional currency and the currency of the Company's presentation.

e) Foreign currency translation – transactions and balances

Transactions in foreign currencies are recorded at the exchange rate pertaining at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange as at the reporting date. All differences are taken to the income statement.

f) Property, plant and equipment and intangibles

Property, plant and equipment and intangibles are stated at cost or production cost less accumulated depreciation and any impairment in value. Production costs for self-constructed assets include cost of materials, direct labour and an appropriate proportion of production overheads.

Replacements and improvements which prolong the useful life or significantly improve the condition of the asset are capitalized. Maintenance and repairs are recognized as an expense in the period in which they are incurred.

Freehold land is not depreciated.

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

The Company assesses the remaining useful lives of items of property, plant and equipment and intangibles and the depreciation methods applied on at least an annual basis, to ensure that the depreciation method and period are consistent with the expected inflows of economic benefits. The estimated useful lives are as follows:

Assets	Number of years
Machinery and equipment	3
Licenses, valuable right and software (intangible assets)	5,10

The cost of properties retired or otherwise disposed of, together with the accumulated depreciation provided thereon, is eliminated from the accounts. The net gain or loss is recognized as other operating income or expense.

Items of property, plant and equipment with useful lives of more than one year and with a cost not exceeding EUR 1,700 are classified as small tangible assets and depreciated for 3 years from the date they were put in use.

Development expenditure incurred on an individual project is capitalized when its future recoverability can reasonably be regarded as assured. In the event that this is not the case, development expenditure is expensed as incurred. Any expenditure capitalized is amortized over the period of expected future sales from the related project.

g) Leases

Finance leases, which substantially transfer to the entity all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over whichever is the shorter of the estimated useful life of the asset or the lease term (if the entity is not entitled to purchase the leased item after the lease expires).

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. Since 1. January 2019, operating lease is recognized under IFRS 16.

h) Inventories

Inventories are valued at whichever is the lower of actual acquisition cost and net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

i) Impairment of non-financial assets

The carrying amounts of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may exceed the estimated recoverable amount. If there is an indication that an asset may be impaired and if the carrying amount of an asset exceeds its estimated recoverable amount, assets or cash-generating units are written down to their recoverable value. The recoverable amount is whichever is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset. The recoverable value of an asset that does not generate cash inflows that are largely independent of those from other assets is determined for the whole cash-generating unit to which the asset pertains. Any impairment losses are recognized in the income statement.

An assessment is made at each reporting date as to whether there is any indication that previously recognized

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

impairment losses may no longer exist or may have decreased. If any such indication exists, the Company makes an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

j) Financial instruments

Financial assets and financial liabilities presented on the balance sheet include cash and cash equivalents, financial assets available for trading, trade and other receivables and payables, and loans and borrowings. The accounting policies applied in the presentation and measurement of these items are described below.

Financial instruments are classified as assets, liabilities or equity in accordance with the substance of the contractual agreement. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Derecognition of a financial asset takes place when the Company no longer controls the contractual rights that comprise the financial asset, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed over to an independent third party.

k) Accounting for financial derivative instruments

Since 28 February 2011 till 30 September 2018, the Company has been involved in the Sanofi cash-management structures, part of which is also a system of protection against foreign currency risk, realized by Sanofi-Aventis SA France. The protection against foreign currency risk also includes transactions with currency derivatives which fail to meet the criteria to be considered as hedging derivative instruments. Since 1 October 2018, the Company is involved in the AI Sirona cash-management structures through the Company AI Sirona, Luxembourg, Acquisition S.a r.l

Derivative financial instruments are initially recognized at fair value on the date that a derivative contract is entered into and are subsequently re-measured to their fair value. Derivatives are held as assets when their fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are recognized immediately in profit/loss for the accounting period as financial income or financial expenses.

l) Financial assets available for sale

Financial assets available for sale are those non-derivative financial assets that are designated as available-for-sale or are classified as neither held-to-maturity investments, loans and receivables, nor financial assets at fair value through profit or loss. After initial measurement, available-for-sale financial assets are measured at fair value, with unrealized gains or losses being recognized in equity in the fair valuation reserve. When the investment is derecognized, the cumulative gain or loss previously recorded in equity is recognized in the income statement.

Financial assets available for sale are classified as long-term if the Company does not expect to sell them within twelve months of the reporting date or if there is no need to sell them to obtain operating capital.

m) Accounts receivable

Trade receivables, which generally have 30-150 day terms, are recognized and carried at an original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

n) Cash and cash equivalents

Cash and cash equivalents comprise cash in bank, cash in hand and short-term deposits with an original maturity of three months or less. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

and cash equivalents as defined above.

Zentiva a.s. concluded a contract for cash management with Sanofi-Aventis SA France on 28 February 2011. This contract was terminated on 30 September 2018. The new contract "Cash Pool Agreement" with the Company AI Sirona, Luxembourg, Acquisition S.a r.l. was concluded on 1 October 2018

Receivables and liabilities within AI Sirona cash-management structures are presented within other short-term receivables and current liabilities. For the purposes of cash flow statement, the change in these receivables and liabilities are presented within cash flow from financial activities.

o) Interest-bearing loans and borrowings

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method.

p) Trade payables

Trade payables are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.

Dividends due are recognized when the shareholders' right to receive payment is established.

q) Provisions

Provisions are recognized when the Company bears a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

r) Revenues

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Sales are recognized net of VAT, excise tax and discounts when delivery of goods or rendering of the service has taken place and transfer of risks and rewards has been completed.

Interest is recognized on a time-proportionate basis that reflects the effective yield on the related asset.

Revenue from sale of licenses is recognized when they are reasonably secured.

s) Income tax

Current Income tax

Current income tax is calculated from the accounting profit, as determined under Slovak legislation, and adjusted for certain items in accordance with tax legislation, at the currently valid tax rate of 21%, effective from 1 January 2017. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

In accordance with Act No. 235/2012 Coll., on a Special Levy on Business in Regulated Industries and on the Amendment to and Supplementation of Certain Acts, the Company is obliged to pay a monthly special levy effective from September 2012. This levy is based on the profit before tax and is presented as a part of the current income tax pursuant to the IFRS requirements.

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

Deferred income tax

Deferred income tax is provided, using the liability method and balance sheet approach, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities and assets are recognized for all taxable and deductible temporary differences except for initial recognition of an asset or a liability in a transaction which is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income 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 income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

t) Employee benefits

The Company uses an unfunded defined benefit plan. Actuarial techniques are used to measure the obligation and those obligations are measured on a discounted basis. Gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans. Actuarial gains or losses are recognized immediately if not significant. The past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, past service cost is recognized immediately. The Company applies the policy to recognize all actuarial gains and losses in the period in which they occur outside of profit or loss in other comprehensive income, i.e. through equity.

u) Share based payments

Part of Zentiva employees has joined the Sanofi Stock Option & Restricted Share Plans provided by parent company of Sanofi group. Employee's liability of Sanofi equity and option plan scheme was transferred on Zentiva a.s. related to generics business to the new owner.

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

v) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed if the possibility of an outflow of resources embodying economic benefits is possible.

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

3. Financial Risk Management**Fair value of financial instruments**

Financial instruments included on the balance sheet are comprised of trade receivables, other current assets, cash and cash equivalents, short-term loans, trade payables, other liabilities and financial derivatives.

Financial risk management

The Company's business is exposed to various financial risks, including the impact of changes in foreign exchange rates and interest rates on loans. The Company's risk management program focuses on unpredictable events on financial markets and aims to minimize potentially unfavorable effects on financial performance of the entity.

Foreign currency risk

The functional currency of the Company is euro, which is the currency of the country that is decisive for the regulatory environment wherein the Company operates, and the currency that influences labour costs and the costs of goods sold to the most considerable extent.

Interest rate risk

The Company's profit/loss and cash flows from operating activities are, to a significant extent, independent of changes in market interest rates. The received loans are interest-bearing with floating interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the entity's profit before tax (through the impact on interest-bearing assets). The Company's equity should not be affected by the change in interest rates.

As at 31 December 2018

Base rate	Effect on profit before tax (in thousands of EUR)	
	Increase by 25 basis points	Decrease by 25 basis points
EURIBOR	130	-130

As at 31 December 2017

Base rate	Effect on profit before tax (in thousands of EUR)	
	Increase by 25 basis points	Decrease by 25 basis points
EURIBOR	266	-266

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

3. Financial risk management (continued)

Credit risk

The Company is not exposed to significant concentrations of credit risk. In line with the internal policies and procedures, the Company sells its products and services only to customers with an appropriate credit history. The Company performs monetary transactions only with highly creditworthy financial institutions as counterparties. The policy is to keep its dependence on any financial institution as low as possible. The maximum related credit exposure of the Company equals the carrying amount of receivables listed in Note 10.

In connection with the acquisition of the Zentiva group by Sanofi in 2009, the structure of customers of the accounting unit has changed. In 2018, Sanofi transferred generic business to AI Sirona, resulting to the change of goods and financial flows within Zentiva group. In 2018, 97.3 percent of total sales for goods and services were taken within the Sanofi/Zentiva group (2.7 percent to external customers). In 2017, 98.8 percent of total sales for goods and services was taken within the Sanofi group (1.2 percent to external customers).

Liquidity risk

The Treasury Department's objective is to maintain a balance between continuity of funding and flexibility through the use of a sufficient number of credit lines and participation in the Sanofi cash-management structures. Due to the dynamic nature of the business activities of the accounting unit (and its parent company), the Treasury Department seeks to ensure flexibility by participation in AI Sirona Cash-Pool Management Structures. Since the beginning of 2012, it is fully oriented toward Sanofi Cash Management, in the face of the current existence of credit lines. Since 1 October 2018 Cash Pool Management was changed from Sanofi to AI Sirona.

The table below summarizes the maturity profile of the Company's financial liabilities at the balance sheet date based on contractual undiscounted payments:

Year ended 31 December 2018 (in thousands of EUR)

	On demand / Within maturity	Less than 3 months	3 to 12 months	1 to 5 years	Total
Liabilities from derivatives, cash-pooling and cash management structure (Note 15)	-	-	-	-	-
Trade and Other liabilities (Note 15)	-	18,903	-	-	18,903

Year ended 31 December 2017 (in thousands of EUR)

	On demand / Within maturity	Less than 3 months	3 to 12 months	1 to 5 years	Total
Liabilities from derivatives, cash-pooling and cash management structure (Note 15)	18	-	-	-	18
Trade and Other liabilities (Note 15)	-	16,570	-	-	16,570

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratio in order to support its business and maximize shareholder value.

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

3. Financial risk management (continued)

Fair values

Below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are included in the financial statements:

	Carrying amount (in thousands of EUR)		Fair value (in thousands of EUR)	
	2018	2017	2018	2017
Cash and cash equivalents	774	92	774	92
Trade receivables	12,864	65,761	12,864	65,761
Trade payables and other payables	20,916	16,588	20,916	16,588
Receivables from cash pooling, cash management and other receivables	9,000	137,231	9,000	137,231

For financial instruments with maturity date of less than one year, there is a presumption that the fair value approximates to their carrying amounts. The fair value of financial instruments with maturity date over one year is estimated by discounting future cash flows using the prevailing interest rates (as at 31 December 2018 the Company had no financial instruments with maturity date over one year except for liabilities from social fund).

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

Notes to Financial Statements

4. Revenues and Expenses

Revenues

<i>(in thousands of EUR)</i>	2018	2017
Revenues from sales of merchandise	31,984	78,245
Marketing sales	6,003	9,835
Other	100	-
Total	88,080	83,323

Revenue of Veronese project of EUR 17,014 represents the compensation for partial adjustment of business flow regarding the new business model after separation of generic division from Sanofi group.

Consumed purchases

<i>(in thousands of EUR)</i>	2018	2017
Costs of goods sold	12,270	26,639
Other consumed purchases	1,283	1,600
Total	13,453	28,239

Marketing expenses

<i>(in thousands of EUR)</i>	2018	2017
Personnel expenses	4,206	4,086
Depreciation	461	256
Repairs and maintenance	33	16
Intercompany marketing expenses	1,045	2,278
License fees	518	1,369
Marketing (third party) and other services	2,226	4,200
Total	8,489	12,205

Administrative expenses

<i>(in thousands of EUR)</i>	2018	2017
Personnel expenses	364	282
Depreciation	7	5
Repairs and maintenance	18	18
Corporate expenses	2,778	1,786
Creation and release of provisions	-	-753
Other expenses	650	355
Total	3,817	1,693

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

5. Income Taxes

Major components of income tax expense:

<i>(in thousands of EUR)</i>	2018	2017
Current income tax		
Income tax for the period	989	20,100
Adjustment of tax paid for previous years	-	514
Special levy - supplementary payment	6,623	-
Special levy	200	1,624
Deferred income tax		
Origination and reversal of temporary differences	-243	131
Total	7,569	22,369

In accordance with the valid legislation as at 31 December 2017 the Group applied the tax rate of 21% for income tax calculation and deferred tax calculation.

Below is a reconciliation of theoretical income tax expense calculated using the statutory tax rate and profit before tax as reported in these financial statements to the actual income tax expense for the years ended as at 31 December:

<i>(in thousands of EUR)</i>	2018	2017
Profit before tax	9,859	100,346
Statutory income tax rate 21%	638	21,072
Adjustment of tax paid in previous years	-	514
Special levy	200	1,624
Special levy - supplementary payment	6,623	-
Permanent differences impact, net	108	-841
Tax expense	7,569	22,369

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

6. Property, Plant and Equipment

(in thousands of EUR)

	Land and buildings	Machinery and equipment	Construction in progress	Total
Period ended 31 December 2017				
Opening net book value	-	96	-	96
Additions	-	20	-	20
Transfers	-	-	-	-
Disposals	-	-1	-	-1
Depreciation charge	-	-34	-	-34
Closing net book value	-	81	-	81

Period ended 31 December 2018				
Opening net book value	-	81	-	81
Additions	-	296	13	309
Transfers	-	-	-	-
Disposals	-	-4	-	-4
Depreciation charge	-	-92	-	-92
Closing net book value	-	281	13	294

Period ended 31 December 2017				
Cost	-	117	-	117
Accumulated depreciation	-	-36	-	-36
Net book value	-	96	-	96

Period ended 31 December 2018				
Cost	-	400	13	413
Accumulated depreciation and impairment	-	-119	-	-119
Net book value	-	281	13	294

The Company has no assets held under finance lease contracts.

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

7. Intangible Assets

<i>(in thousands of EUR)</i>	Licenses, software and intangibles in progress	Total
Period ended 31 December 2017		
Opening net book value	229	229
Additions	8,900	8,900
Disposals	-	-
Amortization charge	-229	-229
Closing net book value	8,900	8,900
Period ended 31 December 2018		
Opening net book value	8,900	8,900
Additions	319	319
Disposals	-4,506	-4,506
Amortization charge	-486	-486
Closing net book value	4,227	4,227
As at 31 December 2017		
Cost	9,820	9,820
Accumulated amortization	- 920	- 920
Net book value	8,900	8,900
As at 31 December 2018		
Cost	5,634	5,634
Accumulated amortization	- 1,407	-1,407
Net book value	4,227	4,227

The original acquisition value of tangible and intangible assets, which are fully amortized, but still in use by the Company, is EUR 920 thousand.

In 2017, as part of the project to carve-out the European generics business from Sanofi Group, Zentiva, a.s. sold licenses for pharmaceutical know-how of 54 600 thousand EUR to Sanofi –aventis Group France (Net book value of these licenses at the date of purchase was zero) and subsequently purchased the right to use the selected licenses of EUR 8,900 thousand which were capitalized as Intangibles. In 2018, the contract for the sale and repurchase of pharmaceutical know-how was updated, while the sale price was reduced by EUR 14,017 thousand to EUR 35,674 thousand and subsequent repurchase price was reduced by EUR 4,506 thousand to EUR 4,394 thousand. The main terms of the transaction are subject to Approval of General Meeting.

As a part of this project was transferred also know -how of EUR 314 thousand relating to generic activity between Zentiva a.s. and Sanofi -Aventis Pharma Slovakia s.r.o..

Receivables of EUR 2,440 thousand and liabilities of 16,524 thousand from the sale of licenses and payables due from the purchased rights to use the selected licenses were not settled as of 31 December 2018.

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

8. Deferred Taxes

Deferred tax is calculated from all temporary differences based on liability method using tax rate of 21%.

Deferred tax assets and deferred tax liabilities are offset if the deferred taxes relate to the same taxation authority and a legally enforceable right exists to set off current tax assets against current income tax liabilities. Deferred tax assets and liabilities affecting profit/loss for the period arise from the following items:

<i>(in thousands of EUR)</i>	31 December 2017	Recognized in the income statement and other comprehensive income	31 December 2018
Deferred tax assets			
Fixed assets	-	8	8
Accrual, past due liabilities	454	234	688
Total	454	242	696
Total net deferred tax asset	454	242	696

The deferred tax recognized through income statement represents EUR 242 thousand and the deferred tax income recognized through other comprehensive income represents EUR 1 thousand.

9. Financial investments

<i>(in thousands of EUR)</i>	31 December 2018	31 December 2017
Opening book value	86	86
Balance at year end	-	86

10. Trade Receivables

<i>(in thousands of EUR)</i>	31 December 2018	31 December 2017
Trade receivables	12,996	65,891
Allowances	-132	-130
Total	12,864	65,761
Allowance as at 1 January		
From trade	130	147
Additions	2	-17
Usage	-	-
Reversal	-	-
Allowance as at 31 December	132	130

Trade receivables represent outstanding balances on invoices from both domestic and foreign customers. Receivables are denominated in EUR and CZK, receivables from bankruptcy proceedings are denominated in USD. From trade receivables customer Zentiva k.s. represents 61% (EUR 7,797 thousand), Zentiva International a.s. 19,8% (EUR 2,529 thousand) and Sanofi Aventis SA Groupe France 19.1%.

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

10. Trade receivables (continued)

The analysis of impaired trade receivables is as follows:

	Nominal value 2018 (in thousands of EUR)	Allowance 2018 (in thousands of EUR)	Carrying amount 2018 (in thousands of EUR)
Past due and not impaired			
less than 30 days	-	-	-
31 – 90 days	-	-	-
91 – 180 days	-	-	-
over 180 days	132	132	-
Total impaired receivables	132	132	

	Nominal value 2017 (in thousands of EUR)	Allowance 2017 (in thousands of EUR)	Carrying amount 2017 (in thousands of EUR)
Past due and not impaired			
less than 30 days	-	-	-
31 – 90 days	-	-	-
91 – 180 days	-	-	-
over 180 days	130	130	
Total impaired receivables	130	130	

11. Receivables from Cash-Pooling, Cash management and Other Receivables

	31 December 2018	31 December 2017
<i>(in thousands of EUR)</i>		
Receivables from cash-pooling and cash management	-	106,199
Prepayments and other receivables out of IC	-	1,109
Other receivables IC	9,000	29,923
Allowances for other receivables	-	-
Total	9,000	137,231

In 2018, the average interest rate from cash management was 0.00% p.a. (0.00% p.a. in 2017).

The net interest income on the cash pool was EUR 0 thousand in 2018 (2017: net interest income was also EUR 0 thousand).

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

12. Cash and Cash Equivalents

<i>(in thousands of EUR)</i>	31 December 2018	31 December 2017
Cash in hand and in banks	774	92
Total	774	92

Cash in banks earns interest at floating rates based on the daily bank deposit rates.

13. Share Capital and Share Premium

	31 December 2018		31 December 2017	
	Number	In thousands of EUR	Number	In thousands of EUR
Share capital				
Authorized, issued and fully paid ordinary shares at a nominal value of EUR 5 (33.19) per share	1,620,192	8,101	1,620,192	53,774

On 19 June 2018, the General Assembly of the Company approved the decrease of share capital from EUR 53,774,172.48 on EUR 8,110,960 EUR, while the number of shares remained unchanged. The par value per share reduced from €33.19 to €5.

The share premium of EUR 25,738 thousand represented the positive difference between the total subscribed price of 230,765 ordinary shares and their nominal value in 1997. On 19 June 2018, the General Assembly of the Company approved the distribution of Share premium based on the „Profit -sharing“ proposal of Zentiva for 2017 and Retained Earnings and Other Reserves (EUR 15,88 per share). Share premium is of EUR 0 as at 31 December 2018.

14. Retained Earnings and Other Reserves

Retained earnings and other prior year reserves totaling EUR 16 thousand as at 31 December 2018 (as at 31 December 2017: EUR 93,867 thousand) include the legal reserve fund, other funds and gains/losses on ownership interests.

The legal reserve fund was established in accordance with the valid legislation to cover potential future losses and is not distributable. As at 31 December 2018 and 31 December 2017, the fund amounted to EUR 10,776 thousand. Other capital funds and gains/losses on revaluation of ownership interests were EUR 2,207 thousand as at 31 December 2018 (EUR 2,293 thousand as at 31 December 2017).

On 19 June 2018, the General Meeting approved the financial statements of the Company for the prior year as at 31 December 2017 and the payment of dividends of EUR 78,084 thousand. (EUR 48.20 per share).

On 27 June 2017, the General Meeting approved the financial statements of the Company for the prior year as at 31 December 2016 and the payment of dividends of EUR 16,850 thousand. (EUR 10.40 per share).

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

15. Trade and Other Liabilities

<i>(in thousands of EUR)</i>	31 December 2018	31 December 2017
Trade payables	18,517	15,931
Liabilities from derivatives, cash pooling and cash management	-	18
Wages and social security	756	285
Liabilities to shareholders from dividend and decrease of share capital		
Other liabilities and other accrued liabilities	47	34
Total	20,916	16,588
Of which, not yet due	20,878	8,415

Out of which social fund

<i>(in thousands of EUR)</i>	year 2018	year 2017
Balance as at 1 January	34	36
Total additions	36	28
Total use	-23	-30
Balance as at 31 December	47	34

16. Provisions

<i>(in thousands of EUR)</i>	31 December 2017	Use	Release	Additions	31 December 2018
Long-term provisions					
Employee benefits provision	209	-	-	13	222
Total long-term provisions	209	-	-	13	222
Short-term provisions					
Unused vacation and staff bonuses	537	-537	-	-	-
Other	770	-770	-	213	213
Total short-term provisions	1,307	-1,307	-	213	213
Total provisions	1,516	-1,307	-	226	435

The Company expects that the long-term provisions for employee benefits will be used after 2019.

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

16. Provisions (continued)

Provision for staff benefits

	31 December 2018	31 December 2017
Opening balance as at 1 January	209	247
Costs of present and past services	13	-7
Interest expense	2	2
Benefits paid	-	-8
Actuarial gains or losses	-2	-25
Closing balance as at 31 December	222	209

17. Contingent Liabilities

Operating lease obligations

<i>(in thousands of EUR)</i>	2018	2017
Up to one year	248	277
From 1 to 5 years	312	343
Over five years	-	-
Total	560	520
Lease payments reported in the income statement for the period	395	397

Lawsuits

Lawsuits filed by the Company:

In 2018, the Company did not file any application for orders to pay, or rulings which could have a significant effect on the financial standing of the Company.

Lawsuits filed against the Company

V. Sika vs. the Company for payment of EUR 96,257 (SKK 2,899,825) and related interest and fees on the grounds of incorrect wage categorization.

Ing. Šnupárek and Ing. Ratkovská, CSc. vs. the Company for payment of EUR 130 thousand on the grounds of fees claimed by the co-inventors of a product.

Pfizer vs. the Company and Zentiva International a.s. for payment of EUR 150 thousand on the grounds of patent infringement.

Based on lawyers' opinion the management of the Company is confident, no significant loss may occur relating to above mentioned legal cases.

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

18. Related Party Transactions

For the purposes of these financial statements, related parties are those persons where one person controls the other or exercises significant influence on the other person upon making decisions regarding financial or operational matters.

In 2017, as part of the project to carve-out the European generics business from Sanofi Group, Zentiva, a.s. sold licenses for pharmaceutical know-how of 54 600 thousand EUR to Sanofi –aventis Group France (Net book value of these licenses at the date of purchase was zero) and subsequently purchased the right to use the selected licenses of EUR 8,900 thousand which were capitalized as Intangibles. In 2018, the contract for the sale and repurchase of pharmaceutical know-how was updated, while the sale price was reduced by EUR 14,017 thousand to EUR 35,674 thousand and subsequent repurchase price was reduced by EUR 4,506 thousand to EUR 4,394 thousand. The main terms of the transaction are subject to Approval of General Meeting.

As a part of this project was transferred also know -how of EUR 314 thousand relating to generic activity between Zentiva a.s. and Sanofi -Aventis Pharma Slovakia s.r.o..

The Group was controlled by Sanofi- aventis Group, France until 30 September 2018. Since 1 October 2018, the Group is controlled by AI Sirona. A summary of transactions that the Company made with the Zentiva Group companies, Sanofi Group and AI Sirona group companies in the reported period and related party balances is as follows:

Inter-company sales and purchases

(in thousands of EUR)

	Sales in 2018	Purchases in 2018	Sales in 2017	Purchases in 2017
Zentiva International a.s Bratislava	5,108	1,179	63	-
Zentiva k.s. Praha	4,776	89	544	295
Zentiva Group Praha	-	3,328	-	2,997
Zentiva SA Bucharest	11	54	11	172
Sanofi-Aventis Pharma Slovakia s.r.o.	-	-	672	1,378
Sanofi Winthrop Industries	19,738	-	77,187	-
Sanofi-Aventis Bulgaria	-	-119	-	87
Sanofi_Aventis Spp PL	-	566	-	1,635
Sanofi-Aventis Estonia	-	60	-	169
Sanofi-Aventis Latvia	-	109	-	367
Sanofi –Aventis s r.o. Praha	-	375	-	-1,376
Carring Insurance LTD Ireland	-	-	-	10
Sanofi-aventis s r.o. Slovakia	3,529	135	10,619	1,117
Sanofi_aventis Groupe France	2,452	16,542	54,604	31

Sanofi entities were related parties until the carve-out of Sanofi and Zentiva on 30 September 2018.

Inter-company trade and other receivables were as follows:

(in thousands of EUR)

	31 December 2018	31 December 2017
Zentiva International, a.s. , Bratislava	2,529	66
Zentiva k.s., Praha	7,797	544
Carring Insurance LTD Ireland	-	3
Sanofi-Aventis s r.o. Slovakia	-	1,173
Sanofi-Winthrop Industries France	-	38,338
Sanofi-Aventis Pharma Slovakia	-	806
Sanofi-Aventis Bulgaria	-	153
Sanofi-Aventis Estonia	-	45
Sanofi_aventis SAGroupe France	2 440	54,600

Sanofi entities were related parties until the s carve-out of Sanofi and Zentiva on 30 September 2018.

Financial statements for the year ended 31 December 2018
Prepared in Accordance with International Financial Reporting Standards

18. Related Party Transactions (continued)

Inter-company trade payables were as follows:

<i>(in thousands of EUR)</i>	31 December 2018	31 December 2017
Zentiva International, a.s. , Bratislava	1,179	-
Zentiva k.s. Praha	103	518
Zentiva SA Bucharest	-	38
Sanofi-Aventis s.r.o. Praha	-	191
Sanofi-Aventis Latvia	-	124
Zentiva Group a.s., Praha	827	699
Sanofi-aventis Pharma Slovakia	-	1,443
Sanofi_Aventis Slovakia	-	128
Sanofi-Aventis Group France	-	50
Sanofi-Aventis SA Group France	16,524	8,900
Sanofi_Aventis Spp PL	-	66

Other receivables and payables in the consolidated Group

<i>(in thousands of EUR)</i>	31 December 2018	31 December 2017
Sanofi-Aventis SA France (cash pooling and management)	-	106,199
AI Sirona Luxembourg (cash pooling)	9,000	
Total receivables	9,000	106,199
Sanofi-Aventis SA France (currency derivatives)	-	18
Total payables	-	18

Sanofi entities were related parties until the s carve-out of Sanofi and Zentiva on 30 September 2018. The Company has realized intercompany currency derivatives as a part of Sanofi group.

Part of Zentiva employees has joined the Sanofi Stock Option & Restricted Share Plans provided by parent company of Sanofi group before the s carve-out of Sanofi and Zentiva (including a Global Employee Share Scheme as stated in Note 2u)). Employee's liability of Sanofi equity and option plan scheme was transferred to Zentiva a.s. as a part of the transfer of Sanofi generics business to the new owner.

19. Subsequent Events

On 18 February 2019, the Company submitted notification about the extension of the deadline for submitting the tax return till 30 June 2019.