

**Annual Report 2019**

**Zentiva Group, a.s.**

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## **Introduction**

Zentiva Group, a.s. (originally Al Sirona Bidco s.r.o.), business registration number (IČ): 072 54 792 was established on 29 June 2018 based on a decision of the sole shareholder, Al Sirona (Luxembourg) Acquisition S.à r.l., registered in the Commercial Register kept by Luxembourg Business Registers G.I.E., reg. No.: B223382, with its registered office located at 5, rue des Capucins, zip code 1313 Luxembourg, Grand Duchy of Luxembourg.

Upon the intrastate merger by acquisition with Zentiva Group, a.s., business registration number (IČ): 28446640 ("the original Zentiva Group"), Al Sirona Bidco s.r.o., business registration number (IČ): 07254792, became the successor company as at 30 November 2019. At the same time, pursuant to the Project of merger by acquisition dated 7 November 2019, as amended by the addendum dated 11 December 2019, the successor company Al Sirona Bidco was renamed to Zentiva Group and its legal form was changed from the original limited liability company to a joint stock company.

The original scope of business of Al Sirona Bidco s.r.o., business registration number (IČ): 072 54 792 was maintaining holdings in Zentiva Group companies. As at the date of the merger, it held ownership interests in Zentiva Group, a.s., business registration number (IČ): 28446640 and Zentiva, k.s.

The main line of business of merged Zentiva Group, a.s., subsequently assumed by successor Zentiva Group, a.s., is the provision of management, technical and advisory support for Zentiva Group companies (until 30 September 2018 Zentiva generics platform within the Sanofi Group), with focus on management, sales, marketing, ITC, manufacturing, logistics, human resources, accounting, taxes, product registration, project management of developing new products and operational management of the generics platform, as well as management of the Zentiva trademark and of other licenses acquired for the production of generic pharmaceuticals.

In May 2019, Zentiva Group invested into Solacium Pharma s.r.l. and Be Well Pharma s.r.l. (acquisition of 100% equity interest) trading in over-the-counter medicines on the Romanian market and complemented its business in this field.

The company is controlled by Al Sirona (Luxembourg) Acquisition S.à r.l., registered in the Commercial Register kept by the Luxembourg Business Registers G.I.E., reg. No. B223382, with its registered office at 5, rue des Capucins, zip code 1313 Luxembourg, Grand Duchy of Luxembourg.

## **Occupational health and safety and environmental protection policy**

Zentiva Group, a.s. aspires to be a healthy company in terms of its impact on the living and working environment. One of the key values that the Company strives to meet in the long run is to ensure a high standard of occupational health and safety and environmental protection. Naturally, the Company provides ongoing training to employees and conducts continuous monitoring of business processes to make sure they support this policy. Zentiva Group, a.s. regularly organizes preventive or educational events for its employees.

The Company meets the requirements and commitments declared in the HSE (Health, Safety and the Environment) Policy, implements the strategy of continuous improvement of occupational health and safety and environmental protection and timely and consistently fulfills all legal limits and obligations in this area.

The preventive approach to occupational health and safety and environmental protection remains one of the main priorities of Zentiva Group.

## **Research and development**

The Company carries out no research and development activities. The Company only helps with technical project management within the group in the framework of its management activities.

## **Acquisition of treasury shares or equity interests**

In 2019, the Company did not acquire any own shares or ownership interests.

## **Branch or affiliate abroad**

The Company operates four branches abroad. They are Zentiva Group. a.s. branches in Bulgaria, Estonia, Lithuania and Latvia.

## **Prospects for 2020**

The generic drugs business in Europe, including the Czech Republic is stable, profitable and the Zentiva Group ranks amongst major players in the market.

Zentiva Group, a.s.'s main task for 2020 is to successfully complete the stabilization stage following the change of the owner and maintain its market position considering all opportunities and risks that the year 2020 is going to bring.

In 2020, new acquisitions will be integrated into the group structure in order to use all the resulting synergies.

## **Subsequent Events**

At the end of 2019, the Zentiva group acquired the Alvogen group as well as a pharmaceutical plant in India.

During 2020, the new acquisitions will be integrated into the Zentiva group in order to achieve synergies.

In 2020, a coronavirus infection (COVID-19) in Europe has affected the public, which is the end customer of the Zentiva group, and also has growing implications for the global economy. Management closely monitors the situation and addresses its impact for the Company.

The group's primary responsibility is to proactively work with government entities and health authorities in all countries where Zentiva operates.

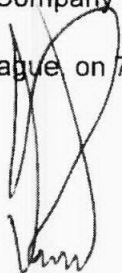
In response to the pandemic, the group enhanced its supply of pain and fever medicines on the market, and introduced a number of operational measures to minimize production, market and credit risks.

The group will continue to assess and address potential risks to align supply with market demand and mitigate or reduce any adverse impact on the supply chain, customers or other areas.

**Other Matters**

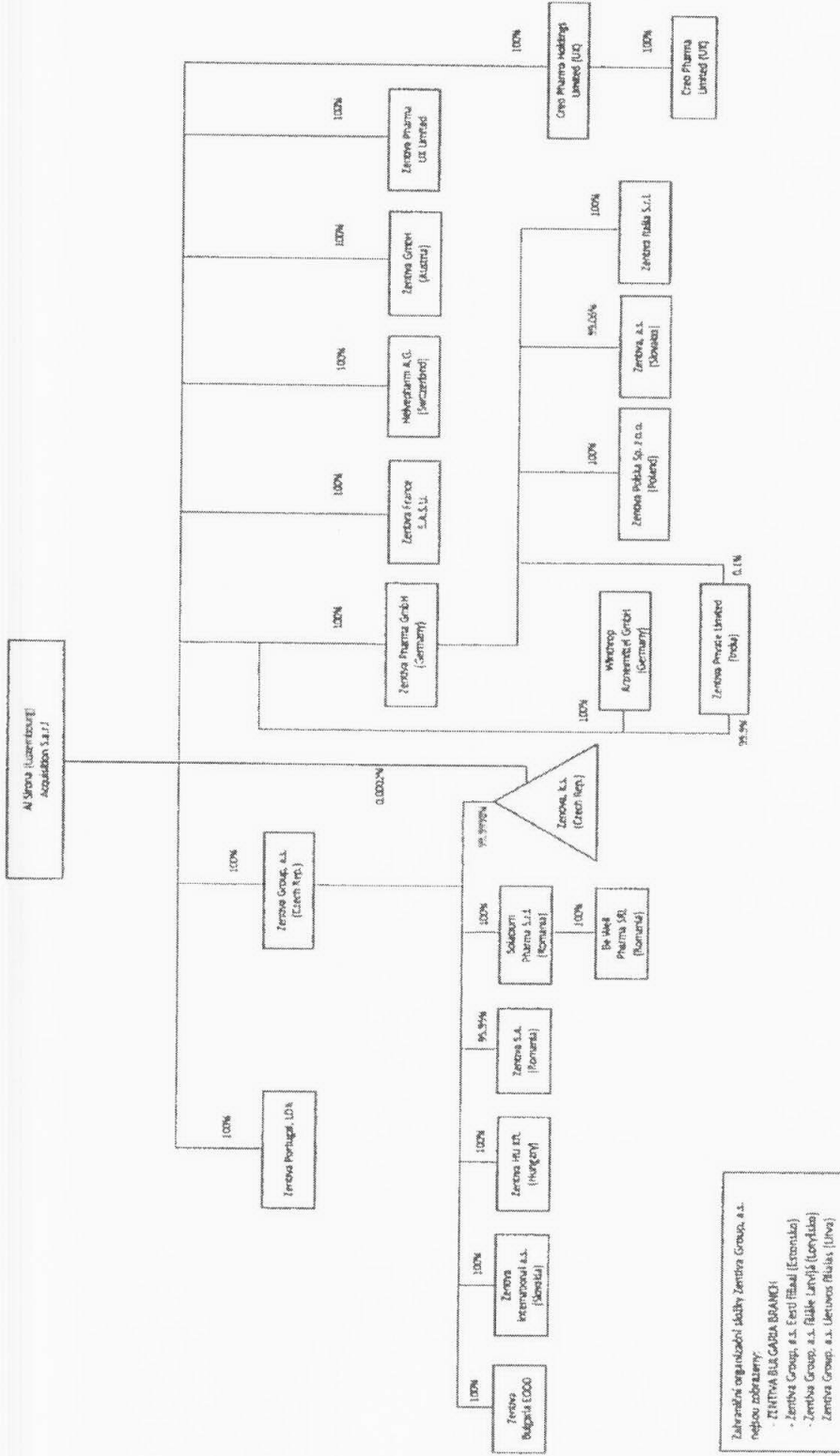
The Company discloses no information under special legislation.

In Prague, on 7 August 2020

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Statutory Body of the Company

# Organizační struktura skupiny Zentiva k 31. 12. 2019



Zahraniční organizační jednotky Zentiva Group, a.s. nejsou zobrazeny:  
 - ZENTIVA BUS CARA BRANCO  
 - Zentiva Group, a.s. Eesti (Estonia)  
 - Zentiva Group, a.s. Rūsijs Latvija (Latvia)  
 - Zentiva Group, a.s. Lietuvos (Lithuania)

**Zentiva Group, a.s.**

**REPORT ON RELATIONS BETWEEN A CONTROLLING AND A CONTROLLED  
PERSONS AND ON RELATIONS BETWEEN THE CONTROLLED PERSON  
AND OTHER PERSONS CONTROLLED BY THE SAME CONTROLLING PERSON  
FOR 2019**

This report has been prepared by management in compliance with the provision of Section 82 of Act No. 90/2012 Coll. on Corporations and Cooperatives.

The report has been prepared for the reporting period ended 31 December 2019.

Zentiva Group, a.s. (formerly Al Sirona Bidco s.r.o.), with its registered office located at U kabelovny 529/16, Dolní Měcholupy, 102 00 Prague 10, Czech Republic, business registration number (IČ): 07254792, entered in the Commercial Register maintained with the Municipal Court in Prague, Section B, Insert 24990, as the successor company, assumed upon the intrastate merger by acquisition all the assets of Zentiva Group, a.s., with its registered office located at Prague 10 – Dolní Měcholupy, U kabelovny 130, 102 37, Czech Republic, business registration number (IČ): 28446640, being the dissolving company. In addition, the successor company Zentiva Group, a.s. (formerly Al Sirona Bidco s.r.o.) changed its legal form from the limited liability company to the joint-stock company on the basis of the Project of merger by acquisition dated 7 November 2019, as amended by the addendum dated 11 December 2019. The merger decisive date was 1 January 2019. Zentiva Group, a.s., is controlled by Al Sirona (Luxembourg) Acquisition S.à r.l., registered in the Commercial Register kept by the Luxembourg Business Registers G.I.E., reg. No. B223382, with its registered office at 5, rue des Capucins, zip code 1313 Luxembourg, Grand Duchy of Luxembourg (sole shareholder).

The structure of relations between related parties is included in Appendix 1.

The core function of Zentiva Group, a.s., is the provision of management, technical and advisory support for Zentiva Group companies, with focus on management, sales, marketing, ITC, manufacturing, logistics, human resources, finances, product registration, development and purchase of new products, as well as management of the Zentiva trademark and of other licenses acquired for the production of generics pharmaceuticals.

The Company is controlled by the parent company through decisions of General Meetings.

The amount of receivables and liabilities as at 31 December 2019 as well as the volume of purchases from and sales to related parties is disclosed in Note 19 to the financial statements.

The following contracts/agreements were in place between the Company and the controlled persons within the Group:

#### **1. Contracts/agreements used for procurement**

<u>Transaction</u>	<u>Partner</u>	<u>Contract</u>
Administrative support	Zentiva, k.s	Services agreement

## 2. Contracts/agreements used for sales

<u>Transaction</u>	<u>Partner</u>	<u>Contract</u>
Provision of technical and administrative services	Zentiva, k.s.	Framework agreement for the provision and coordination of services
	Zentiva, a.s.	Framework agreement for the provision and coordination of services
	Zentiva S.A.	Framework agreement for the provision and coordination of services
Provision of rights to use trademark	Zentiva, k.s.	License agreement
	Zentiva, a.s.	License agreement
	Zentiva S.A.	License agreement
Provision of rights to use pharmaceutical know-how (dossier)	Zentiva, k.s.	License agreement for know-how
Leases	Zentiva, k.s.	Contract for the lease of non-residential premises
Accounting	Zentiva, k.s.	Contract for bookkeeping services
Auxiliary services	Zentiva, k.s.	Services agreement
Finance management	Zentiva, k.s.	Contract for financial management and support)
		Mandate agreement - management of labor matters
Auxiliary services	Zentiva, k.s.	Agreement for the manner of use of computer program
		SAP system maintenance agreement
		SAP system maintenance agreement
		SAP system maintenance agreement
		SAP system maintenance agreement
IT	Zentiva, k.s.	Contracts for the provision of promotional services (concluded with foreign branches of the provider Zentiva Group, a.s.)
		Zentiva International a.s
		Zentiva, k.s.
		Zentiva, a.s.
		Zentiva S.A.
Marketing services	Zentiva, k.s.	

## 3. Financial services related contracts

<u>Transaction</u>	<u>Partner</u>	<u>Contract</u>
Received loan	Al Sirona (Luxembourg) Acquisition S.a.r.l.	Intercompany loan contract
Received loan	Zentiva S.A.	Cash management agreement
Cash Pooling	Al Sirona (Luxembourg) Acquisition S.a.r.l.	Cash pooling agreement
Granted loan	Solacium Pharma S.r.l.	Loan agreement

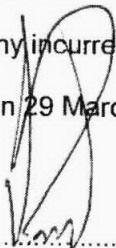
The aforementioned contracts/agreements were entered into in compliance with the respective legislation. All the foregoing contracts/ agreements were made under standard commercial terms.

A number of advantages stem from relations between related parties, the most significant advantages are:

- Ensuring of sales of own services and use of trademarks and licenses
- Easier access to financing
- Advantages related to membership in the pan-European group, e.g. procurement of materials or services from suppliers

The Company incurred no damage from the foregoing relations and transactions.

In Prague, on 29 March 2020

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Statutory Body of the Company

# Zentiva Group, a.s.

## Financial Statements for the year ended 31 December 2019

(Translation of Financial Statements Originally Issued in Czech -  
See Note 2 to the Financial Statements)

R	Kvalifikované časové razítko (platnost):	A=platné	N=neplatné
A	Akreditovaný poskytovatel certifik. služeb?:	A=ano	N=ne
C	Kvalifikované časové razítko:	A=platné	N=neplatné
V	Vytvořeno před zneplatněním certifikátu:	A=ano	N=ne

<sup>1</sup> Technické parametry - velikost, formát, škodlivý kód.  
<sup>2</sup> Stav "Z"(Zahraniční) = certifikát není od české certifikační autority.  
Kontrola podpisů a razítek byla provedena na základě CRL seznamů platných k datu a času ověření datové zprávy.

## BALANCE SHEET

		Current year			Prior year 2018 (restated)
		Gross	Allowances	Net	Net
<b>TOTAL ASSETS</b>		<b>44,671,033</b>	<b>(7,295,407)</b>	<b>37,375,626</b>	<b>23,861,799</b>
<b>A.</b>	<b>STOCK SUBSCRIPTION RECEIVABLE</b>				
<b>B.</b>	<b>FIXED ASSETS</b>	<b>41,206,868</b>	<b>(7,295,407)</b>	<b>33,911,461</b>	<b>22,597,045</b>
B I	<b>Intangible fixed assets</b>	<b>2,256,557</b>	<b>(1,204,950)</b>	<b>1,051,607</b>	<b>0</b>
B I 1	Development				0
2	Valuable rights	1,958,665	(1,153,259)	805,406	0
1	Software	1,267,791	(544,581)	723,210	0
2	Other valuable rights	690,874	(608,678)	82,196	0
3	Goodwill				0
4	Other intangible fixed assets	21,266	(3,852)	17,414	0
	Advances granted for intangible fixed assets and intangible fixed assets in progress	276,628	(47,839)	228,787	
5	Advances granted for intangible fixed assets				
1	Advances granted for intangible fixed assets				
2	Intangible fixed assets in progress	276,626	(47,839)	228,787	
B II	<b>Tangible fixed assets</b>	<b>17,153,939</b>	<b>(5,981,755)</b>	<b>11,172,184</b>	<b>0</b>
B II 1	Land and structures	550,489	(337,014)	213,475	0
1	Land				0
2	Structures	550,489	(337,014)	213,475	0
2	Movable assets and sets of movable assets	248,079	(222,205)	25,874	0
3	Gain or loss on revaluation of acquired property	16,338,248	(5,422,536)	10,915,712	
4	Other tangible fixed assets	6,126		6,126	
1	Perennial crops				0
2	Livestock				0
3	Miscellaneous tangible fixed assets	6,126		6,126	0
	Advances granted for tangible fixed assets and tangible fixed assets in progress	10,997		10,997	
5	Advances granted for tangible fixed assets				
1	Advances granted for tangible fixed assets				
2	Tangible fixed assets in progress	10,997		10,997	0
B III	<b>Long-term investments</b>	<b>21,796,372</b>	<b>(108,702)</b>	<b>21,687,670</b>	<b>22,597,045</b>
B III 1	Interests – controlled or controlling entity	21,790,423	(108,702)	21,681,721	22,597,045
2	Loans and borrowings – controlled or controlling entity				
3	Interests – significant influence				
4	Loans and borrowings – significant influence				
5	Other long-term securities and interests				
6	Loans and borrowings – other				
7	Other long-term investments	5,949		5,949	
1	Miscellaneous long-term investments	5,949		5,949	0
2	Advances granted for long-term investments				0
<b>C.</b>	<b>CURRENT ASSETS</b>	<b>3,304,991</b>	<b>0</b>	<b>3,304,991</b>	<b>1,264,764</b>
C I	<b>Inventories</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
C I 1	Materials				0
2	Work in progress and semi-finished production				0
3	Finished products and goods				0
1	Finished products				0
2	Goods				0
4	Livestock				0
5	Advances granted for inventories				0
C II	<b>Receivables</b>	<b>3,174,715</b>	<b>0</b>	<b>3,174,715</b>	<b>1,262,790</b>
C II 1	Long-term receivables	331,548	0	331,548	0
1	Trade receivables				0
2	Receivables – controlled or controlling entity				0
3	Receivables – significant influence				0
4	Deferred tax asset	331,548		331,548	
5	Other receivables				
51	Receivables from partners				0
52	Long-term advances granted			0	0
53	Unbilled revenue				0
54	Miscellaneous receivables				

## BALANCE SHEET

		Current year			Prior year 2018 (restated)
		Gross	Allowances	Net	Net
C II 2	<b>Short-term receivables</b>				
1	Trade receivables	2,843,167	0	2,843,167	1,262,790
2	Receivables – controlled or controlling entity	524,336		524,336	807,999
3	Receivables – significant influence	879,267		879,267	0
4	Other receivables				0
4.1	Receivables from partners	1,439,564		1,439,564	454,791
4.2	Social security and health insurance	1,210,793		1,210,793	428,268
4.3	Due from government - tax receivables				0
4.4	Short-term advances granted	192,940		192,940	26,523
4.5	Unbilled revenue	2,266		2,266	
4.6	Miscellaneous receivables	27,406		27,406	
C III	<b>Short-term financial assets</b>				
1	Interests - controlled or controlling entity	0	0	0	0
2	Other short-term financial assets				0
C IV	<b>Cash</b>				
1	Cash in hand	130,276	0	130,276	1,994
2	Cash at bank				
		130,276		130,276	1,964
D	<b>Prepaid expenses and accrued income</b>				
D 1	Prepaid expenses	159,174	0	159,174	0
2	Prepaid expenses (specific-purpose expenses)	54,166		54,166	0
3	Accrued income	105,008		105,008	0

## BALANCE SHEET

		Current year	Prior year 2018 (restated)
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>37,375,626</b>	<b>23,861,789</b>
<b>A.</b>	<b>EQUITY</b>	<b>6,087,646</b>	<b>7,417,860</b>
A I	Basic capital		
A I 1	Registered capital	20,050	50
A I 2	Own ownership interests (-)	20,050	50
A I 3	Changes in basic capital		
A II	<b>Share premium and revaluation reserve</b>	<b>7,278,531</b>	<b>7,306,842</b>
A II 1	Share premium		
A II 2	Capital funds		
A II 2 1	Other capital funds	7,278,531	7,306,842
A II 2 2	Gain or loss on revaluation of assets and liabilities (+/-)	7,273,983	7,273,983
A II 2 3	Gain or loss on revaluation upon corporate transformation (+/-)	4,548	32,859
A II 2 4	Differences arising on corporate transformation (+/-)		
A II 2 5	Differences arising between balance sheet date and transformation date (+/-)		
A III	<b>Reserves from profit</b>	<b>3,450</b>	<b>0</b>
A III 1	Other reserves		
A III 2	Statutory and other reserves	3,450	
A IV	<b>Profit (loss) brought forward (+/-)</b>	<b>1,375,107</b>	<b>0</b>
A IV 1	Retained earnings	1,796,501	
A IV 2	Other profit (loss) brought forward (+/-)	(421,394)	
A V	<b>Profit (loss) for the year (+/-)</b>	<b>(2,589,492)</b>	<b>110,968</b>
A VI	<b>Approved decision on advances for profit distribution (-)</b>	<b>0</b>	<b>0</b>
<b>B. + C.</b>	<b>PROVISIONS AND LIABILITIES</b>	<b>31,136,563</b>	<b>16,443,939</b>
B	<b>Provisions</b>	<b>23,564</b>	<b>0</b>
B 1	Provision for pensions and similar obligations		
B 2	Provision for corporate income tax		
B 3	Provisions recognized under special legislation		
B 4	Other provisions	23,564	
C	<b>Liabilities</b>	<b>31,111,989</b>	<b>16,443,939</b>
C I	<b>Long-term liabilities</b>	<b>26,455,887</b>	<b>16,117,950</b>
C I 1	Bonds payable		
C I 1 1	Convertible bonds		
C I 1 2	Other bonds		
C I 2	Amounts owed to credit institutions		
C I 3	Long-term advances received		
C I 4	Trade payables		
C I 5	Long-term notes payable		
C I 6	Liabilities – controlled or controlling entity	26,455,887	16,117,131
C I 7	Liabilities – significant influence		
C I 8	Deferred tax liability		819
C I 9	Other liabilities		
C I 9 1	Liabilities to partners		
C I 9 2	Unbilled deliveries		
C I 9 3	Miscellaneous liabilities		
C II	<b>Current liabilities</b>	<b>4,656,102</b>	<b>325,989</b>
C II 1	Bonds payable		
C II 1 1	Convertible bonds		
C II 1 2	Other bonds		
C II 2	Amounts owed to credit institutions	1,973	
C II 3	Short-term advances received		
C II 4	Trade payables	349,917	50,002
C II 5	Short-term notes payable		
C II 6	Liabilities – controlled or controlling entity	4,037,798	241,767
C II 7	Liabilities – significant influence		
C II 8	Other liabilities	266,414	34,220
C II 8 1	Liabilities to partners		
C II 8 2	Short-term borrowings		
C II 8 3	Liabilities to employees	41,435	
C II 8 4	Liabilities arising from social security and health insurance	12,236	
C II 8 5	Due to government – taxes and subsidies	39,562	34,020
C II 8 6	Unbilled deliveries	170,582	200
C II 8 7	Miscellaneous liabilities	2,599	
D	<b>Accruals and deferred income</b>	<b>152,427</b>	<b>0</b>
D 1	Accruals	116,778	
D 2	Deferred income	35,649	

The accompanying income statement, cash flow statement, statement of changes in equity and notes are an integral part of the financial statements

Zentiva Group, a s for the year ended 31 December 2019  
Czech Statutory Financial Statement Forms (in thousands of Czech crowns)

INCOME STATEMENT

		Current year	Prior year 2018 1.7.2018 - 31.12.2018 (restated)
I	Revenue from sale of finished products and services	2,859,283	
II	Revenue from sale of goods		
A.	<b>Production-related consumption</b>		
A 1	Cost of goods sold	1,332,515	219
A 2	Consumption of material and energy	40,019	
A 3	Services	1,292,496	219
B.	Change in inventory produced internally (+/-)	0	0
C.	Own work capitalized (-)	0	0
D.	<b>Personnel expenses</b>		
D 1	Wages and salaries	1,003,948	0
D 2	Social security and health insurance costs and other costs	806,261	
D 2 1	Social security and health insurance costs	197,687	
D 2 2	Other costs	186,151	
		11,536	
E.	<b>Value adjustments in respect of operating activities</b>		
E 1	Value adjustments in respect of intangible and tangible fixed assets	1,416,682	0
E 1 1	Value adjustments in respect of intangible and tangible fixed assets - permanent	1,419,732	
E 1 2	Value adjustments in respect of intangible and tangible fixed assets - temporary	(3,070)	
E 2	Value adjustments in respect of inventory		
E 3	Value adjustments in respect of receivables		
III.	<b>Other operating income</b>		
III 1	Income from sale of fixed assets	26,348	0
III 2	Income from sale of materials	2,651	
III 3	Miscellaneous operating income	23,697	
F.	<b>Other operating expenses</b>		
F 1	Net book value of fixed assets sold	55,224	0
F 2	Net book value of materials sold	2,583	
F 3	Taxes and charges relating to operations	34,413	
F 4	Provisions relating to operations and prepaid expenses (specific-purpose expenses)	874	
F 5	Miscellaneous operating expenses	17,354	
*	<b>Profit or loss on operating activities (+/-)</b>	<b>(922,718)</b>	<b>(219)</b>
IV.	<b>Income from long-term investments - interests</b>		
IV 1	Income from interests in subsidiaries or parents	0	0
IV 2	Other income from interests		
G.	Cost of interests sold	0	0
V.	<b>Income from other long-term investments</b>		
V 1	Income from other long-term investments - subsidiaries or parents	0	428,268
V 2	Other income from other long-term investments		428,268
H.	Expenses relating to other long-term investments	503,551	0
VI.	<b>Interest receivable and similar income</b>		
VI 1	Interest receivable and similar income - subsidiaries or parents	6,221	0
VI 2	Other interest receivable and similar income	5,459	
		762	
I.	Value adjustments and provisions relating to financial activities	0	0
J.	<b>Interest payable and similar expenses</b>		
J 1	Interest payable and similar expenses - subsidiaries or parents	1,678,545	243,288
J 2	Other interest payable and similar expenses	1,679,404	243,288
		141	
VII.	Other finance income	1,307,755	15,287
K.	Other finance cost	1,102,998	54,241
*	<b>Profit or loss on financial activities (+/-)</b>	<b>(1,972,018)</b>	<b>146,026</b>
**	<b>Profit or loss before taxation (+/-)</b>	<b>(2,894,734)</b>	<b>145,807</b>

The accompanying balance sheet, cash flow statement, statement of changes in equity and notes are an integral part of the financial statements.

Zentiva Group, a s for the year ended 31 December 2019  
Czech Statutory Financial Statement Forms (in thousands of Czech crowns)

INCOME STATEMENT

		Current year	Prior year 2018 1.7.2018 - 31.12.2018 (restated)
<b>L.</b>			
	<b>Income tax</b>		
L 1	Income tax due	(305,242)	34,839
L 2	Income tax deferred (+/-)	(7,725)	34,020
		(297,517)	819
<b>**</b>	<b>Profit or loss after taxation (+/-)</b>	<b>(2,589,492)</b>	<b>110,968</b>
<b>M.</b>	<b>Transfer of share of profit or loss to partners (+/-)</b>	<b>0</b>	<b>0</b>
<b>***</b>	<b>Profit or loss for the year (+/-)</b>	<b>(2,589,492)</b>	<b>110,968</b>
<b>*</b>	<b>Net turnover</b>	<b>4 199 607</b>	<b>443 555</b>

The accompanying balance sheet, cash flow statement, statement of changes in equity and notes are an integral part of the financial statements.

Zentiva Group, a.s. for the year ended 31 December 2019  
Czech Statutory Financial Statement Forms (in thousands of Czech crowns)

**CASH FLOW STATEMENT**

For the years ended 31 December 2019 and 2018

		Current year	Prior year 2018 1.7.2018 - 31.12.2018 (restated)
<b>Cash flows from operating activities</b>			
<b>Z</b>	<b>Profit or loss on ordinary activities before taxation (+/-)</b>	<b>(2,894,734)</b>	<b>145,807</b>
A 1	Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	<b>2,848,185</b>	<b>228,001</b>
A 1 1	Depreciation and amortization of fixed assets and write-off of receivables	1,419,757	
A 1 2	Change in allowances	(3,070)	
A 1 3	Change in provisions	869	
A 1 4	Foreign exchange differences	(142,627)	(15,287)
A 1 5	(Gain)/Loss on disposal of fixed assets	(68)	
A 1 6	Interest expense and interest income	1,673,324	243,288
A 1 7	Other non-cash movements (e.g. revaluation at fair value to profit or loss, dividends received)		
<b>A *</b>	<b>Net cash from operating activities before taxation, changes in working capital and extraordinary items</b>	<b>53,451</b>	<b>373,608</b>
A 2	Change in non-cash components of working capital	<b>2,145,314</b>	<b>(784,320)</b>
A 2 1	Change in inventory	472,546	(807,999)
A 2 2	Change in trade receivables	1,858,066	(26,523)
A 2 3	Change in other receivables and in prepaid expenses and unbilled revenue	(4,708)	50,002
A 2 4	Change in trade payables	(180,590)	200
A 2 5	Change in other payables and in accruals and deferred income		
<b>A **</b>	<b>Net cash from operating activities before taxation, interest paid and extraordinary items</b>	<b>2,198,765</b>	<b>(410,512)</b>
A 3 1	Interest paid	(1,679,545)	(243,288)
A 4 1	Income tax paid	(313,426)	
<b>A ***</b>	<b>Net cash provided by (used in) operating activities</b>	<b>205,784</b>	<b>(653,800)</b>
<b>Cash flows from investing activities</b>			
B 1 1	Purchase of fixed assets	(537,312)	(22,564,186)
B 2 1	Proceeds from sale of fixed assets	2,651	
B 3 1	Loans granted	(879,158)	(428,268)
B 4 1	Interest received	6,221	
B 5 1	Dividends received		
<b>B ***</b>	<b>Net cash provided by (used in) investing activities</b>	<b>(1,407,598)</b>	<b>(22,992,454)</b>
<b>Cash flows from financing activities</b>			
C 1	Change in long-term liabilities and long-term and short-term loans	1,122,935	16,374,185
C 2 1	Effect of other changes in equity on cash		
C 2 2	Profit shares paid		
C 2 3	Effect of other changes in own capital on cash		7,273,983
<b>C ***</b>	<b>Net cash provided by (used in) financing activities</b>	<b>1,122,935</b>	<b>23,648,168</b>
<b>Effect of merger</b>			
<b>F.</b>	<b>Net increase (decrease) in cash</b>	<b>207,181</b>	<b>0</b>
<b>P.</b>	<b>Cash and cash equivalents at beginning of year</b>	<b>128,312</b>	<b>1,914</b>
<b>R.</b>	<b>Cash and cash equivalents at end of year</b>	<b>1,964</b>	<b>50</b>
		<b>130,276</b>	<b>1,964</b>

The accompanying balance sheet, income statement, statement of changes in equity and notes are an integral part of the financial statements

Zentiva Group, a.s.

Financial Statements for the year ended 31 December 2019

## **1. DESCRIPTION OF THE COMPANY**

Zentiva Group, a.s. ("the Company") is a joint stock company with its registered office located at U kabelovny 529/16, Dolní Měcholupy, 102 00 Prague 10, Czech Republic, business registration number (IČ): 07254792; as the successor company, it assumed upon the intrastate merger by acquisition all the assets of Zentiva Group, a.s., with its registered office located at Prague 10 – Dolní Měcholupy, U kabelovny 130, 102 37, Republic, business registration number (IČ): 28446640, being the dissolving company. In addition, the successor company Zentiva Group, a.s. (formerly Al Sirona Bidco s.r.o.) changed its legal form from the limited liability company to the joint-stock company on the basis of the Project of merger by acquisition dated 7 November 2019, as amended by the addendum dated 11 December 2019.

The merger decisive date was 1 January 2019.

### Description of the merged entities:

- 1) Al Sirona Bidco s.r.o. (business registration number: 07254792)

Al Sirona Bidco s.r.o. was incorporated on 29 June 2018 and was located at U kabelovny 529/16, Dolní Měcholupy, 102 00 Prague 10, Czech Republic.

Al Sirona Bidco s.r.o. was an entity controlled by Al Sirona (Luxembourg) Acquisition S.à r.l., registered in the Commercial Register kept with Luxembourg Business Registers G.I.E., registration number B223382, with its registered office located at 5, rue des Capucins, Zip code 1313 Luxembourg, Grand Duchy of Luxembourg.

The principal business activity of Al Sirona Bidco s.r.o. was maintaining holdings in Zentiva Group companies in the Czech Republic.

- 2) Dissolved Zentiva Group a.s. (business registration number: 28446640)

Zentiva Group, a.s., with its registered office located at Prague 10 – Dolní Měcholupy, U kabelovny 130, 102 37, Republic, business registration number (IČ): 28446640, was incorporated pursuant to the decision of the Board of Directors of Zentiva N.V., 1097 JB Amsterdam, Prins Bernhardplein 200, the Netherlands, in the process of company division by spin-off from Zentiva, a.s., with its registered office in Prague 10 – Dolní Měcholupy, U kabelovny 130, Czech Republic, business registration number (IČ) 49240030, as at 1 January 2008.

The spin-off was based on the Company's division project pursuant to Section 153(d) and Section 220sb of Act No. 513/1991 Coll. of the Commercial Code. In accordance with Section 69(c), par. 2 of the Commercial Code, the company being divided was neither dissolved nor ceased to exist but a defined part of its assets was transferred to the successor company, Zentiva Group, a.s.

The spun-off company, Zentiva Group, a.s., was incorporated by entering the split of Zentiva, a.s., in the Commercial Register as at 1 September 2008. 1 January 2008 was determined as the decisive date of the spin-off.

From 2009 to 2018, the Company was part of the global Sanofi group. In October 2016, the Sanofi group announced its intention to divest its generics business in Europe and began to implement the plan in the coming years. On 1 October 2018, Sanofi's European generics business was sold to Advent International.

Within the disposal process, the companies belonging to the Zentiva group were carved-out of the Sanofi structure (including Zentiva Group a.s.). Transfers of employees, sales of tangible and intangible assets, carving-out of information systems and other IT applications and further steps leading to the independence of the Zentiva group accompanied the carve-out. Some of these transactions related directly to the Company itself. This process gave rise to new branches aimed at supporting the distribution of generics on the markets in Bulgaria, Latvia, Lithuania and Estonia.

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The accompanying balance sheet and income statement are an integral part of the financial statements.

Zentiva Group, a.s.

Financial Statements for the year ended 31 December 2019

The main line of business of Zentiva Group, a.s. is the provision of management, technical and advisory support for the Zentiva Group, with focus on sales, marketing, ITC, manufacturing, logistics, human resources, accounting, taxes, product registration, project management of developing new products and operational management of the generics platform, as well as management of purchased licenses acquired for the production of generic pharmaceuticals and administration of the Zentiva trademark.

As part of the merger, the Company acquired the following foreign branches:

1. ZENTIVA BULGARIA BRANCH – with its registered office at: Iskarsko Shosse Blvd. 7, Trade Center Evropa, Building 15, 4th floor, 1528 Sofia, Bulgaria (BG)
2. Zentiva Group, a.s. Eesti filiaal – with its registered office at: Tartu mnt 13, 10145 Tallinn, Estonia (EE)
3. Zentiva Group, a.s. filiāle Latvijā – with its registered office at: Ģertrūdes iela 10-10, Rīga, 1010 Latvia (LV)
4. Zentiva Group, a.s. Lietuvos filialas with its registered office at: Logailos str. 9, Vilnius, Lithuania (LT)

Since 2018, the parent company and the sole shareholder is Al Sirona (Luxembourg) Acquisition S.a.r.l., with its registered office at 1313 Luxembourg, 5 rue des Capucins, Grand Duchy of Luxembourg.

Statutory body – Board of Directors as at 31 December 2019:

Board of Directors of Zentiva Group, a.s.	
Chair:	Nicholas Robert Haggar
Member:	Thomas Cornelis Koene
Member:	Martin Albert
Member:	Paul Geymayer
Member:	Kenneth Lynard
Member:	Xavier Lasserre

The Board of Directors acts on behalf of the Company toward third parties, courts and other public authorities. Each Board member acts independently.

Supervisory Board of Zentiva Group, a.s.	
Chair:	Tereza Ber
Member:	Ines Windisch
Member:	Anant Anand Atal

**Changes in the composition of the Zentiva Group, a.s.'s statutory body in 2019 were as follows:**

As at 11 February 2019, Nicholas Robert Haggar was appointed a Statutory Representative while John Beighton's term of office ceased to exist.

As at 11 July 2019, Carol Jean Noël Bléry was appointed a Statutory Representative while Myriam Deltenre's term of office ceased to exist.

As at 1 October 2019, Kenneth Lynard was appointed a Statutory Representative while Carol Jean Noël Bléry's term of office ceased to exist as at 30 September 2019.

Zentiva Group, a.s.

Financial Statements for the year ended 31 December 2019

As at 31 December 2019, the term of office of the Statutory Representative, Nicholas Robert Haggart, ceased to exist and, at the same time, he was appointed the Chair of the Board of Directors.

As at 31 December 2019, the term of office of the Statutory Representative, Kenneth Lynard, ceased to exist and, at the same time, he was appointed a member of the Board of Directors.

As at 31 December 2019, Thomas Cornelis Koene, Martin Albert, Paul Geymayer and Xavier Lasserre were appointed Board of Directors members.

#### **Changes in the composition of the Supervisory Board of Zentiva Group, a.s., in 2019:**

As at 31 December 2019, Tereza Ber was appointed the Supervisory Board Chair; Ines Windisch and Anant Anand Atal were appointed members of the Supervisory Board as at the same date.

The Company did not prepare consolidated financial statements for the year ended 31 December 2019 and 2018; however, the Company prepared a reporting package for the purposes of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) published by AI Sirona (Luxembourg) Acquisition S.a r.l.

In accordance with the valid Czech accounting legislation, the Company is exempt from the obligation to prepare consolidated financial statements in accordance with Czech GAAP, however, the consolidated financial statements prepared by the parent company will be published in the public register. Consolidated financial statements for the Group were prepared as at 31 December 2019 for the reporting period from 1 October 2018 to 31 December 2019 for the first time and will be available at the parent company's registered office.

The accompanying financial statements have been prepared as separate financial statements.

#### **Explanation Added for Translation into English**

These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Company that conform with generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles in other countries.

## **2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS**

The accompanying financial statements were prepared in accordance with the Czech Act on Accounting and the related guidelines as applicable for 2019 and 2018.

The successor company Zentiva Group, a.s. (formerly AI Sirona Bidco s.r.o.) was originally a holding company involved in maintaining holdings in Czech Zentiva companies; its previous accounting period was shortened from 1 July 2018 to 31 December 2018 (hereinafter referred to as the "previous accounting period" or the year "2018") while the current accounting period was the period from 1 January 2019 to 31 December 2019 (hereinafter referred to as the "current accounting period" or the year "2019"). Therefore, certain information in the financial statements is not fully comparable.

Zentiva Group, a.s.

Financial Statements for the year ended 31 December 2019

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies applied by the Company in preparing the 2019 and 2018 financial statements are as follows:

#### **a) Intangible Fixed Assets**

Intangible fixed assets are recorded at their acquisition cost and related expenses.

Intangible fixed assets with a cost exceeding CZK 60 thousand are amortized over their useful economic lives.

Small intangible items with a cost of less than CZK 60 thousand are amortized over their useful economic lives over a maximum of 2 years and carried in a subsidiary ledger.

Valuable rights, patents and licenses are amortized over their useful lives as specified in the relevant contracts.

Amortization of licenses for generics purchased by the Company starts at the time the product is launched within the first territory; the amortization period is based on the duration of the respective contract and should not exceed the statutory period. If only a part of the license relating to a particular territory is amortized as not all the conditions necessary for commencement of amortization have been met in other markets, amortization of the remaining portion begins according to the date when relevant conditions for a given territory are satisfied. Subsequently, the amortization period is based on the duration of the contract.

#### **b) Tangible Fixed Assets**

Tangible fixed assets are recorded at their acquisition cost, which consists of purchase price, freight, customs duties and other related costs.

The costs of technical improvements are capitalized. Repairs and maintenance expenses are expensed as incurred.

Small tangible items with a cost of less than CZK 40 thousand (except for selected categories, such as sets of furniture, office equipment and computers) are expensed and carried in a subsidiary ledger.

#### **Depreciation**

Depreciation is calculated based on the acquisition cost and the estimated useful life of the related asset. The useful economic lives are as follows:

	Years
Structures	25 – 45
Machinery and equipment	3 – 15
Vehicles	4 – 8
Furniture and fixtures	4 – 10
Miscellaneous tangible fixed assets	2 – 4
Gain or loss on revaluation of acquired property	15

Gain or loss on revaluation of company transformations totaling CZK 10,405,728 thousand arose as a difference by which the value of the revalued financial investment by AI Sirona Bidco s.r.o. in Zentiva

Zentiva Group, a.s.

Financial Statements for the year ended 31 December 2019

Group, a.s., exceeded its equity. The assets and liabilities of the dissolving company were revalued to the value determined by an expert.

The gain on revaluation of acquired property totaling CZK 5,904,048 thousand arose upon the Company spin-off from Zentiva, a.s., in 2008 as a difference between the net book value of spun-off assets and liabilities of the former company and the value of the spun-off assets based on an expert's valuation.

The gain on revaluation of acquired property totaling CZK 28,752 thousand arose in connection with the acquisition of a part of an enterprise (Global Gx Regulatory Center department) and represents the difference between the net book value of thus acquired assets and liabilities and the value of the enterprise part determined using an appraisal report.

The loss on revaluation of acquired property totaling CZK (280) thousand arose in connection with the acquisition of a part of an enterprise (Finance) and represents the difference between the net book value of thus acquired assets and liabilities and the value of the enterprise part determined using an appraisal report.

The ultimate parent company, Al Sirona (Luxembourg) Acquisition S.à r.l., provided the Company with a guarantee to cover the value of financial assets and gains or losses on revaluation as at 31 December 2019. The Company compared the current calculation of the discounted cash-flow with the net book value of the gain on revaluation as at 31 December 2018 and did not identify the need to create an allowance.

#### **c) Financial Assets**

Financial investments consist of ownership interests and shareholdings.

Interests are valued at their acquisition cost, which includes the purchase price and direct costs related to the acquisition, e.g. fees and commissions paid to agents and stock exchanges.

The ultimate parent company, Al Sirona (Luxembourg) Acquisition S.à r.l., provided the Company with a guarantee to cover the value of financial assets and gains or losses on revaluation as at 31 December 2019. The Company compared the current calculation of the discounted cash-flow with the net book value of the gain on revaluation as at 31 December 2018 and did not identify the need to create an allowance.

In addition, interests denominated in foreign currencies are retranslated at the exchange rate prevailing as at the balance sheet date with the revaluation amounts recorded in equity.

#### **d) Cash**

Cash includes cash at bank accounts.

Within the group, a system for utilization of idle money of individual group companies, i.e. cash pool, has been introduced. Cash deposited in, or used from, this system as at the balance sheet date is reported in 'Short-term receivables – controlled or controlling entity' or 'Current liabilities – controlled or controlling entity', as appropriate, in the accompanying balance sheet and the change in the deposited cash is reported in 'Loans and borrowings granted' or 'Change in long-term liabilities and long/short-term loans', as appropriate, in the accompanying cash flow statement.

#### **e) Receivables**

Receivables are initially measured at their nominal amount. Both long- and short-term receivables are carried at their realizable value after allowance for doubtful accounts. Additions to the allowance account are charged to income.

The receivable from the transfer of the share in profit or loss of the subsidiary Zentiva, k.s., is recorded as a 'Receivable from partners'. For purposes of the cash flow statement, a change in receivables

Zentiva Group, a.s.

Financial Statements for the year ended 31 December 2019

from the transfer of the share is recorded under cash flows from operating activities in the 'Change in other receivables and in prepaid expenses and unbilled revenue' caption.

**f) Derivatives**

Derivatives are initially measured at cost. Derivatives are recorded in other short-/long-term receivables or payables, as appropriate, in the accompanying balance sheet.

The Company records only derivatives held for trading. Derivatives are revalued to fair value as at the balance sheet date. Changes in the fair value of derivatives held for trading are charged or credited, as appropriate, to finance income.

**g) Equity**

The basic capital of the Company is stated at the amount recorded in the Commercial Register maintained in the Municipal Court. Statutory and other reserves are established based on a decision of the Company in compliance with its Articles of Association.

**h) Provisions and Liabilities**

The Company creates provisions for losses and risks if the related purpose, amount and timing can be reliably estimated and the accrual and matching principles are observed.

Long-term liabilities and current liabilities are carried at their nominal values.

**i) Foreign Currency Transactions**

Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns at the exchange rate prevailing as at the transaction date. On the balance sheet date monetary items are adjusted to the exchange rates as published by the Czech National Bank as at 31 December. Realized and unrealized exchange rate gains and losses were charged or credited, as appropriate, to income for the year.

For valuation purposes, foreign exchange rate differences arising from interests are not accounted for separately in the respective cost or revenue accounts at the balance sheet date, but are carried in balance sheet accounts using the account group 41 in accordance with the applicable wording of the Act on Accounting.

**j) Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The Company management prepared these estimates and predictions based on all available relevant information. These estimates and assumptions are based on information available as at the date of the financial statements and may differ from actual results.

The useful life of fixed assets is reviewed on an annual basis. Following the transfer of the generic medicines business from the Sanofi Group to the Zentiva Group in 2018, a revision of possible intangible assets was updated in 2019.

The result of this revision was an extension of the average useful life of valuable rights and intellectual property from 5 years to 8 years and the overall impact of the reduction in depreciation in the profit or loss in 2019 by CZK 12,898 thousand. Depreciation was recalculated prospectively from 1.1.2019.

Zentiva Group, a.s.

Financial Statements for the year ended 31 December 2019

The change in useful life was supported by a qualified estimate by external experts to allocate the purchase price based on a discounted cash flow forecast.

#### **k) Recognition of Revenues and Expenses**

Revenues and expenses are recognized on an accrual basis, that is, they are recognized in the periods in which the actual flow of the related goods or services occurs, regardless of when the related monetary flow arises.

The Company recognizes as an expense any additions to provisions for or allowances against risks, losses or physical damage that are known as at the financial statements' date.

#### **l) Income Tax**

The corporate income tax expense is calculated based on the statutory tax rate and book income before taxes, increased or decreased by the appropriate permanent and temporary differences (e.g. non-deductible provisions and allowances, entertainment expenses, differences between book and tax depreciation, etc.).

The deferred tax position reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for corporate income tax purposes, taking into consideration the period of realization.

The Company is a General Partner in Zentiva, k.s. Accordingly, the relevant part of the profit is transferred and taxed from Zentiva, k.s., to Zentiva Group, a.s. In 2018, Zentiva Group, a.s. (formerly AI Sirona Bidco s.r.o.) and the original Zentiva Group, a.s., held 25% and 74.9998%, respectively of the General Partner's ownership interests in Zentiva, k.s. In 2019, due to a merger by acquisition of the General Partners, the share in profit attributable to Zentiva Group, a.s., increased to 98.9998%.

In accordance with the above, the calculation of income tax and deferred tax for Zentiva Group, a.s., includes the share of both current and deferred tax expense for Zentiva, k.s., as well.

The Company recorded a deferred tax asset due to loss and research and development costs deduction on the basis that its future recovery is probable.

The Company does not account for the deferred tax from the gain on revaluation pertaining to the property acquired within the spin off process since an "economic" tax was already reflected in the expert opinion used to determine the gain on revaluation. Accordingly, the gain on revaluation is shown in net amounts, including the deferred tax effects.

#### **m) Subsequent Events**

The impact of events that occurred between the balance sheet date and the date of the financial statements preparation is recognized in the financial statements provided these events provide additional evidence about conditions that existed at the date of the balance sheet.

If material events reflecting the facts occurring after the balance sheet date happened between the balance sheet date and the date of the financial statements preparation the consequences of these events are disclosed in the notes to the financial statements but not recognized in the financial statements.

#### **n) Correction of Prior Period Errors**

The company Zentiva, k.s. in which Zentiva Group, a.s. is general partner with a share of 99.9998% as at 31 December 2019, reported in 2018 by CZK 520,236 thousand higher revenues due to intragroup re-invoicing and the entire amount was incorrectly recorded in the financial statements as at 31 December

Zentiva Group, a.s.

Financial Statements for the year ended 31 December 2019

2019. Zentiva Group, a.s. made an adjustment to this error in the amount of CZK 520,236 thousand plus tax effect in the amount of CZK 98,842 thousand (net effect CZK 421,394 thousand).

The company Zentiva, k.s. had the following ownership structure as at 31 December 2018 - Zentiva Group, a.s. (74.9998%) and Al Sirona Bidco s.r.o. (25%). As mentioned in point 1 above, the company merged Zentiva Group, a.s. (defunct company) and Al Sirona Bidco s.r.o. (successor company) as at 1 January 2019. For this reason, only the correction attributable to Al Sirona Bidco s.r.o. (the successor company, now Zentiva Group, a.s.) is reported in comparable figures.

The Company has corrected the error against equity - Other profit or loss from previous years (see Note 4c, 11, 14, 17, 19). In this context, comparable data in the accompanying balance sheet, income statement and cash flow statement have been adjusted and for this reason these data are presented as restated. For the same reason, comparable figures in the related tables of this annex are also presented in the financial statements as restated.

#### Note 4c)

	Original value 2018	Revised value 2018
Correction - Distribution of profit from Zentiva, k.s. belonging to Al Sirona Bidco, s.r.o.	558,328	428,268
Correction - Receivables from partners	2,233,309	1,713,070

#### Note 11

	Original value as of 31. 12. 2018	Revised value as of 31. 12. 2018
Correction - Income tax liability	58,731	34,020

#### Note 14

	Original value as of 31. 12. 2018	Revised value as of 31. 12. 2018
Correction - Profit before tax, including the transfer of the general partner's share	346,079	216,019
Correction - Taxable income	309,271	179,211
Correction - Tax due	58,731	34,020

#### Note 17

	Original value as of 31. 12. 2018	Revised value as of 31. 12. 2018
Correction - Other income from long-term financial assets	558,328	428,268

#### Note 19

	Original value as of 31. 12. 2018	Revised value as of 31. 12. 2018
Correction - Short-term receivables from related parties - Zentiva, k.s. - share of profits	558,328	428,268

Zentiva Group, a.s.

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#### 4. **FIXED ASSETS**

##### a) **Intangible Fixed Assets (in CZK thousands)**

###### **COST**

	At beginning of year	Transfer due to merger as at 1 January	Additions	Disposals	Transfers	At end of year
Software	-	1,257,724	117	(22,969)	32,919	1,267,791
Patents, royalties and other valuable rights	-	666,626	302	(15,690)	39,636	690,874
Other intangible fixed assets	-	21,266	-	-	-	21,266
Intangible fixed assets in progress	-	120,754	228,427	-	(72,555)	276,626
2019 Total	-	2,066,370	228,846	(38,659)	-	2,256,557
2018 Total	-	-	-	-	-	-

###### **ACCUMULATED AMORTIZATION**

	At beginning of year	Transfer due to merger as at 1 January	Amortization during year	Disposals	At end of year	Allowances	Net book value
Software	-	(300,452)	(266,669)	22,540	(544,581)	-	723,210
Patents, royalties and other valuable rights	-	(594,246)	(29,926)	15,690	(608,482)	(196)	82,196
Other intangible fixed assets	-	(2,127)	(1,725)	-	(3,852)	-	17,414
Intangible fixed assets in progress	-	-	-	-	-	(47,839)	228,787
2019 Total	-	(896,825)	(298,320)	38,230	(1,156,915)	(48,035)	1,051,607
2018 Total	-	-	-	-	-	-	-

The successor company Zentiva Group, a.s. (formerly Al Sirona Bidco s.r.o.) had no intangible fixed assets; all assets come from the dissolved Zentiva Group, a.s.

Valuable rights represent, in particular, licenses to pharmaceuticals with expired patent protection.

The Company owns the IT infrastructure and software licenses for the Group.

As at 31 December 2019 and 2018, the total value of purchased small intangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 2,924 thousand and CZK 0 thousand, respectively.

Zentiva Group, a.s.

Financial Statements for the year ended 31 December 2019

**b) Tangible Fixed Assets (in CZK thousands)**

**COST**

	At beginning of year	Transfer due to merger as at 1 January	Additions	Disposals	Transfers	At end of year
Structures	-	550,489	-	-	-	550,489
Machinery and equipment	-	247,813	-	(80,691)	13,898	181,020
Furniture and fixtures	-	65,447	807	(17)	822	67,059
Art works and collections	-	6,126	-	-	-	6,126
Tangible fixed assets in progress	-	10,737	14,980	-	(14,720)	10,997
Loss on revaluation of acquired property – acquisition of a part of an enterprise	-	10,434,200	-	-	-	10,434,200
Gain on revaluation of acquired property – spin-off	-	5,904,048	-	-	-	5,904,048
<b>2019 Total</b>	-	<b>17,218,860</b>	<b>15,787</b>	<b>(80,708)</b>	-	<b>17,153,939</b>
<b>2018 Total</b>	-	-	-	-	-	-

**ACCUMULATED DEPRECIATION**

	At beginning of year	Transfer due to merger as at 1 January	Depreciation during year	Cost of sales or liquidation, disposals	At end of year	Net book value
Structures	-	(314,789)	(22,225)	-	(337,014)	213,475
Machinery and equipment	-	(231,899)	(8,496)	80,165	(160,230)	20,790
Furniture and fixtures	-	(61,442)	(542)	9	(61,975)	5,084
Art works and collections	-	-	-	-	-	6,126
Tangible fixed assets in progress	-	-	-	-	-	10,997
Loss on revaluation of acquired property – acquisition of a part of an enterprise	-	(3,685)	(695,613)	-	(1,092,901)	9,341,299
Gain on revaluation of acquired property – spin-off	-	(4,329,635)	(393,603)	-	(4,329,635)	1,574,413
<b>2019 Total</b>	-	<b>(4,941,450)</b>	<b>(1,120,479)</b>	<b>80,174</b>	<b>(5,981,755)</b>	<b>11,172,184</b>
<b>2018 Total</b>	-	-	-	-	-	-

The successor company Zentiva Group, a.s. (formerly AI Sirona Bidco s.r.o.) had no tangible fixed assets; all assets come from the dissolved Zentiva Group, a.s.

The total value of purchased small tangible fixed assets which are not reflected in the accompanying balance sheet was CZK 3,456 thousand and CZK 0 thousand as at 31 December 2019 and 2018, respectively.

Tangible fixed assets include, in particular, an office building and a business center in Dolní Měcholupy including equipment, computer systems and servers, security and service systems and wiring.

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The gain or loss on revaluation of company transformations in the amount of CZK 10,405,728 thousand arose as a difference between the valuation of the financial investment of AI Sirona Bidco s.r.o. based on the appraisal report totaling CZK 17,818,100 thousand and its equity of CZK 7,412,372 thousand. As at 31 December 2019, the net book value of the gain on revaluation was CZK 9,712,013 thousand.

The loss on revaluation of acquired property CZK (280) thousand arose as the difference between the valuation based on the appraisal report (CZK 1,675 thousand) and the net book value of acquired assets (CZK 1,955 thousand) upon the purchase of a part of an enterprise – Finance division. The resulting loss on revaluation is depreciated annually over fifteen years, or until the disposal of the last component of acquired property. As at 31 December 2019 and 2018, the net book value of the loss on revaluation was CZK (112) thousand and CZK (131) thousand, respectively.

The gain on revaluation of acquired property of CZK 28,752 thousand arose as the difference between the valuation based on the appraisal report (CZK 20,243 thousand) and the net book value of acquired assets and liabilities of CZK (8,509) thousand upon the purchase of a part of an enterprise – "GRC" division. The resulting gain on revaluation is depreciated over fifteen years, or until the disposal of the last component of acquired property. As at 31 December 2019 and 2018, the net book value of the gain on revaluation was CZK 23,001 thousand and CZK 24,918 thousand, respectively.

The revaluation gain of CZK 5,904,048 thousand arose as a difference between the amount determined by a certified expert (CZK 7,453,565 thousand) and the net book value of transferred assets (CZK 1,567,513 thousand) in the company being spun-off, net of the deferred tax liability (CZK 17,996 thousand) in connection with the assets being spun-off as at 1 January 2008 (see Note 1). As at 31 December 2019 and 2018, the net book value of the gain on revaluation arising from the spin-off was CZK 1,180,810 thousand and CZK 1,574,413 thousand, respectively.

The gain on the revaluation of acquired property is a very judgmental balance and since initial recognition its valuation is annually subject to impairment testing. Significant changes may result from changes of business assumptions on future operations.

As at 31 December 2019 and 2018, no assets of the Company were pledged as security.

### c) Long-Term Financial Investments (in CZK thousands)

Summary of changes in long-term financial investments - Interests – controlled or controlling entity:

	Balance as at 31/ 12/ 2018	Merger effect elimination	Opening balance as at 1 January	Additions	Disposals	Balance as at 31/ 12/ 2019
Subsidiaries	22,564,186	(1,111,175)	21,453,011	331,795	-	21,784,806
Allowances	-	(108,702)	(108,702)	-	-	(108,702)
Revaluation	32,859	37,908	70,767	-	(65,150)	5,617
<b>Total</b>	<b>22,597,045</b>	<b>(1,181,969)</b>	<b>21,415,076</b>	<b>331,795</b>	<b>(65,150)</b>	<b>21,681,721</b>

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The breakdown of net book values of financial investments as at 31 December 2019 (in CZK thousands):

	Acquisition cost as at 31/ 12/ 2019	Allowances as at 31/ 12/ 2019	Revaluation	Net book value as at 31/ 12/ 2019
Zentiva, k.s.	14,548,560	-	(78,404)	14,470,156
Zentiva International a.s.	241,944	(52,233)	-	189,711
Zentiva HU Kft.	72,370	(56,469)	-	15,901
Zentiva S.A.	6,817,307	-	15,703	6,833,008
Solacium Pharma S.R.L.	175,329	-	(2,449)	172,880
Zentiva Bulgaria EOOD	65	-	-	65
Total	21,855,575	(108,702)	(65,150)	21,681,721

On 1 January 2019, as part of the merger (see Note 1), the value of the Company's investment in Zentiva, k.s., was increased to CZK 14,539,064 thousand. In addition, the Company's share in profit/loss of Zentiva k.s. increased to 99.9998% due to the merger. As at 31 December 2019, the foreign currency portion of the investment in Zentiva, k.s., was revalued and, as a result, its value decreased by CZK 68,908 thousand.

Based on the Memorandum of Association of Zentiva k.s., where the merged companies were the General Partners, the profit in 2018 was distributed according to their shares as follows:

- Zentiva Group, a.s., held 74,9998%; and
- Al Sirona Bidco s.r.o. held 25%.

In 2019, based on the merger, the profit/loss of Zentiva, k.s., is already attributable to Zentiva Group, a.s., in the amount of 99.9998%.

On 16 September 2019, the partners approved the distribution of Zentiva, k.s.'s profit to the General Partner Zentiva Group, a.s. (formerly Al Sirona Bidco s.r.o.) in the total amount of CZK 428,268 thousand (corrected). As at 31 December 2018, these receivables were presented in the 'Receivables from partners' caption in the balance sheet and in the 'Other income from other long-term investments' caption in the income statement.

The General Partner's share in the profit/loss of Zentiva, k.s., for 2019 was a loss of CZK 503,551 thousand. As at 31 December 2019, the liability was presented in the 'Receivables from partners' caption in the balance sheet and in the 'Expenses relating to other long-term investments' caption in the income statement. In addition, Receivables from partners as at 31 December 2019 in the balance sheet include a receivable arising from the 2018 profit towards General Partners totaling CZK 1,713,070 thousand (corrected).

On 5 September 2018, the merged company Zentiva Group, a.s., decided to acquire a 93.32% share in Zentiva S.A. totaling CZK 6,599,629 thousand. In addition, another minority interest in Zentiva S.A. was acquired in the amount of CZK 4,168 thousand on 17 January 2019. Furthermore, on 1 August 2019, an amount of CZK 152,237 thousand was paid in order to increase the basic capital of Zentiva S.A. As a result, the ownership interest in Zentiva S.A. increased to 95.9486%.

As at 31 December 2019, the Company revalued the foreign currency investment in Zentiva S.A. in the balance sheet through 'Gain or loss on revaluation of assets and liabilities', and recognized the investment increase in the amount of CZK 15,703 thousand. As at 31 December 2018, the Company revalued the foreign currency investment in Zentiva S.A. in the balance sheet through 'Gain or loss on revaluation of assets and liabilities', and recognized the investment increase in the amount of CZK 61,271 thousand.

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On 31 May 2019, the Board of Directors of Zentiva HU Kft. approved the distribution of the 2018 profit of CZK 117,349 thousand (HUF 1,474,049 thousand) in the form of a set-off against the interim dividend. The overpayment of CZK 565 thousand is reported in Liabilities – controlled or controlling entity in the accompanying balance sheet.

Based on the Company's decision, Zentiva Bulgaria EOOD was established as at 31 October 2019, which did not start operations in the reported period.

Based on the Company's decision, 100% ownership interest in Solacium Pharma s.r.l. was acquired on 31 May 2019, including its 100% stake in Be Well Pharma S.r.l. Solacium distributes over-the-counter drugs under its own brands, which complement the Zentiva Group's portfolio in the Romanian market. Be Well Pharma S.r.l. holds certain intellectual property rights.

Subsidiaries and associates as at 31 December 2019 were as follows (in CZK thousands):

Financial information about Zentiva k.s., Zentiva International a.s. and Zentiva S.A. was obtained from the companies' audited financial statements for the year ended 31 December 2019. Audited financial statements of the other companies were not available as at the date of the preparation of the accompanying financial statements. In 2018 and 2019, the allowance of CZK 52,233 thousand was retained against the investment in Zentiva International, a.s., and of CZK 56,469 thousand against the investment in Zentiva HU Kft.

Company	Zentiva k.s.	Zentiva International a.s.	Zentiva HU Kft.	Zentiva SA	Solacium Pharma	Zentiva Bulgaria
Registered office	Czech Republic	Slovak Republic	Hungary	Romania	Romania	Bulgaria
Percentage of ownership	99.9998	100	100	95.9486	100	100
Total assets	12,850,415	724,007	4,782	5,408,151	93,047	65
Equity	3,597,615	184,020	4,036	3,729,725	(34,805)	65
Basic capital and capital funds	3,597,520	195,251	3,844	502,961	1	65
Reserves from profit	88	-	-	826,960	-	-
Retained earnings	10	(4,650)	107	2,167,357	(41,399)	-
Profit for the current year	(3)	(6,581)	85	232,447	6,593	-
Acquisition cost of share / interest	14,539,064	241,944	72,370	6,756,034	175,329	65
Nominal value of share / interest	3,209,603	169,561	3,844	355,322	1	65
Intrinsic value of share / interest	3,561,632	184,020	4,036	3,578,619	(34,805)	65

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Subsidiaries and associates of the merged company Al Sirona Bidco s.r.o. as at 31 December 2018 were as follows (in CZK thousands):

Financial information about these companies was obtained from the audited financial statements of each company.

Company	Zentiva k.s.	Zentiva Group a.s.
Registered office	Czech Republic	Czech Republic
Percentage of ownership	25	100
Total assets	13,461,761	21,581,515
Equity	3,597,618	7,412,372
Basic capital and capital funds	3,597,520	69,628
Reserves from profit	88	3,450
Retained earnings	6	6,184,904
Profit for the current year	4	1,154,390
Acquisition cost of share / interest	6,399,349	16,164,837
Nominal value of share / interest	810,508	20,000
Intrinsic value of share/ interest	899,402	73,078

#### **Other long-term financial investments:**

As at 31 December 2019 and 2018, the Company recorded a long-term loan of CZK 11,899 thousand and CZK 12,077 thousand, respectively granted to European Medicines Verification Organisation, with its registered office at Rue Mil Neuf Cents 8, Luxembourg. The long-term portion of the loan is presented within financial investments in the 'Miscellaneous long-term investments' caption in the amount of CZK 5,949 thousand in the accompanying financial statements; its short-term portion due in 2020 is reported under short-term receivables in the 'Other receivables' caption in the amount of CZK 5,950 thousand. In 2019 and 2018, the merged company recorded interest income of CZK 492 thousand and CZK 0 thousand, respectively. Al Sirona Bidco s.r.o. did not provide loans to third parties as at 31 December 2018 and recorded no Other fixed assets.

#### **5. RECEIVABLES**

As at 31 December 2019 and 2018, receivables overdue for more than 90 days totaled CZK 37 thousand and CZK 0 thousand, respectively.

As at 31 December 2019 and 2018, the Company had no receivables secured by collateral.

As at 31 December 2019, the Company recorded a receivable from income tax of CZK 192,940 thousand (corrected) including a withholding tax paid abroad. As at 31 December 2018, Al Sirona Bidco s.r.o. recorded a receivable of CZK 26,523 thousand arising from a withholding tax paid abroad.

As at 31 December 2019 and 2018, the Company recorded unbilled revenues related to not yet billed services in the amount of CZK 27,406 thousand and CZK 0 thousand, respectively, in Zentiva Group, a.s.

Receivables from related parties (see Note 19).

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## 6. ALLOWANCES

Allowances reflect a temporary diminution in the value of assets (see Note 4).

Changes in the allowance accounts (in CZK thousands):

Allowances against:	At beginning of year	Transfer due to merger as at 1 January	Additions	Deductions	Balance as at 31/ 12/ 2019
Intangible fixed assets	-	51,106	-	(3,070)	48,035
Financial investments	-	108,702	-	-	108,702

AI Sirona Bidco s.r.o. recorded no allowances as at 31 December 2018. The allowances as at 31 December 2019 were transferred from Zentiva Group a.s.

## 7. SHORT-TERM FINANCIAL ASSETS

Short-term financial assets consist of cash at bank.

The Company has an overdraft facility with Citibank Europe Plc (Composite Facility Agreement) comprising a shared credit line of CZK 119 thousand with Zentiva k.s. for both companies in aggregate.

The total unpaid portion of all credit facilities used by Zentiva, k.s., cannot exceed the maximum amount of CZK 119 million and the total unpaid portion of all credit facilities used by Zentiva Group, a.s., cannot exceed CZK 37 million, whilst the total unpaid portion of all credit facilities of both companies at the same time cannot exceed the maximum amount of CZK 119 million.

As at 31 December 2019, the drawn down element of the overdraft (in accordance with the agreed credit line) was CZK 1,973 thousand. As at 31 December 2018, AI Sirona Bidco recorded no short-term financial assets. The used credit line is shown in caption Amounts owed to credit institutions in the accompanying balance sheet (see Note 12).

## 8. PREPAID EXPENSES AND ACCRUED INCOME

Prepaid expenses include, in particular, prepaid IT services, insurance premiums, school fees, which are charged to income for the year in which they were incurred.

Unbilled revenue from related parties (see Note 19).

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## 9. EQUITY

Statement of changes in equity (in CZK thousands):

	Closing balance as at 30 June 2018	Increase	Closing balance as at 31 December 2018 (corrected)	Effect of merger	Revaluation of investment	Decrease	2018 profit/loss transfer (corrected)	Balance as at 31/ 12/ 2019
Number of shares	1	-	1	-	-	-	-	1
Basic capital	50	-	50	20,000	-	-	-	20,050
Other capital funds	-	7,273,983	7,273,983	-	-	-	-	7,273,983
Gain or loss on revaluation of assets and liabilities	-	32,859	32,859	26,265	(54,576)	-	-	4,548
Statutory and other reserves	-	-	-	3,450	-	-	-	3,450
Retained earnings	-	-	-	1,685,533	-	-	110,968	1,796,501
Other profit (loss) brought forward*	-	-	-	-	-	(421,394)	-	(421,394)
Profit (loss) for the year	-	110,968	110,968	-	-	(2,589,492)	(110,968)	(2,589,492)
Total	50	7,417,810	7,417,860	1,735,248	(54,576)	(3,010,886)	-	6,087,646

\* Correction of profit/(loss) transfer from Zentiva, k.s. (see Note 3n)

As at 31 December 2019, the basic capital of the Company consisted of one ordinary share, fully subscribed and paid, with a nominal value of CZK 20,050 thousand. As part of the merger, the basic capital of the successor company of CZK 50 thousand was increased by the basic capital of the merged company in the amount of CZK 20 million.

Other capital funds consist of a contribution in excess of the basic capital totalling CZK 7,273,983 thousand.

As at 31 December 2019, the financial investments in Zentiva k.s., Zentiva S.A. and Solacium in Romania were revalued in the aggregate amount of CZK 5,617 thousand. At the same time, the related deferred tax totalling CZK (1,067) thousand was recognized. As at 31 December 2018, the financial investment in Zentiva, k.s., in the amount of CZK 40,567 thousand was revalued and the related deferred tax of CZK (7,707) thousand was recognized.

Statutory and other reserves include, in particular, social fund used for financing of social needs of employees.

As part of the Merger Project, it was decided that the profit of Al Sirona Bidco s.r.o. for 2018 totalling CZK 110,868 thousand (corrected) be transferred to retained earnings within the compilation of the opening balance sheet as at 1 January 2019. The opening balance sheet as at 1 January 2019 was approved by the Company's Board of Directors.

Other profit (loss) in the amount of CZK 421,394 thousand relates to the correction of prior period errors in Zentiva, k.s., in which the Company holds a 99.9998% ownership interest (see Note 3n).

The opening balance sheet as at 1 January 2019 was prepared based on the Project as the aggregate of the balance sheets of the successor company and the dissolving companies. The difference (of CZK 10,405.7 million) by which the value of the revalued financial investment by Al Sirona Bidco s.r.o. in Zentiva Group, a.s., exceeded its equity, was recognized as Gain or loss on revaluation of company transformations. The assets and liabilities of the dissolving companies were revalued to the value determined by an expert.

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## 10. PROVISIONS

The movements in the provision accounts in Zentiva Group, a.s. were as follows (in CZK thousands):

Provisions	At beginning of year	Transfer due to merger as at 1 January	Creation of provisions	Deductions	Balance as at 31/ 12/ 2019
Other	-	22,695	15,291	(14,422)	23,564

As at 31 December 2019, the Company recognized a provision, in particular, for employee benefits based on the collective bargaining agreement and also a provision for jubilee and retirement pensions; the Company also recorded a provision of CZK 18,290 thousand for retention bonuses. No provisions were created as at 31 December 2018.

## 11. CURRENT LIABILITIES

As at 31 December 2019 and 2018, the Company had overdue current trade payables totaling CZK 83,163 thousand. AI Sirona Bidco had no overdue current trade payables as at 31 December 2018.

As at 31 December 2019, the Company had liabilities of CZK 12,236 thousand owing to social security and health insurance premiums not yet due. AI Sirona Bidco had no liabilities owing to social security and health insurance premiums as at 31 December 2018.

As at 31 December 2019, unbilled deliveries represent, in particular, estimated supplies of goods and services of CZK 154,687 thousand and accrued vacation of CZK 15,895 thousand. As at 31 December 2018, the Company recorded an audit estimate of CZK 200 thousand.

As at 31 December 2019, the Company recorded a VAT liability of CZK 39,562 thousand. As at 31 December 2018, the Company recorded a liability from income tax of CZK 34,020 thousand (corrected).

Payables to related parties (see Note 19).

## 12. BANK LOANS AND BORROWINGS

Bank	31/ 12/ 2019 Amount in CZK thousands	31/ 12/ 2018 Amount in CZK thousands
Citibank – overdrafts (due within one year)	1,973	-

In 2019, the interest expense related to the overdraft facility of the merged company, Zentiva Group a.s., was CZK 140 thousand.

AI Sirona Bidco s.r.o. had no bank loans as at 31 December 2018.

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### 13. ACCRUALS AND DEFERRED INCOME

Accruals include, in particular, wage bonuses, which are charged to income for the year in which they were incurred.

Deferred income from related parties (see Note 19).

### 14. INCOME TAXES

The tax base for the calculation of the corporate income tax includes the General Partner's share in the profit or loss of the limited partnership Zentiva, k.s., distributed pursuant to the Memorandum of Association of Zentiva, k.s., including non-taxable revenues, non-deductible expenses and other tax relief (in the identical ratio as is used for the profit distribution in accordance with the Memorandum of Association). The same system applies also for the deferred tax calculation.

	2019 (in CZK thousands)	2018 (in CZK thousands) AI Sirona Bidco s.r.o. (corrected)
Profit before taxes incl. the transfer of profit share to General Partner	(3,447,578)	216,019
Non-taxable revenues	-	-
Dividends received during the year	1,273	-
Non-deductible expenses	-	-
Difference between book and tax depreciation including the difference between the net book value of disposed assets for accounting and tax purposes	(17,862)	-
Changes in allowances and provisions	24,570	-
Other (e.g. entertainment expenses, shortages and losses incl. reversal of overestimates from prior years)	457,104	-
Depreciation of gain or loss on revaluation	1,087,318	-
Non-deductible expenses and tax base adjustments transferred from Zentiva, k.s. incl. deduction of research and development costs)	323,773	(36,807)
Donations and gifts	-	-
Transaction related financial investment in subsidiary (see Note 4c)	-	-
Taxable income	(1,571,401)	179,211
Current income tax rate	19%	19%
Tax	-	34,051
Tax relief	-	-
Tax relief transferred from Zentiva, k.s.	-	(31)
Prior-year adjustments	-	-
Current tax expense	-	34,020

As at the financial statements' date the calculation of income tax expense is preliminary.

According to the law on income tax, the Company reduces the income tax liability by taxes paid abroad. Due to the expected tax loss, withholding tax cannot be offset in 2019. For 2018, the Company reduced its tax liability by an amount equal to the tax paid abroad totaling CZK 88,129 thousand, and AI Sirona Bidco, s.r.o., by CZK 26,435 thousand.

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The Company quantified deferred taxes as follows (in CZK thousands):

Deferred tax items	Balance as at 31/ 12/ 2019		Balance as at 01/ 01/ 2019 Al Sirona Bidco s.r.o		Balance as at 01/ 01/ 2019 Zentiva Group a.s.	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Difference between net book value of fixed assets for accounting and tax purposes		(2,555)				(5,701)
Difference between net book value of fixed assets of Zentiva, k.s. for accounting and tax purposes		(109,084)		(14,353)		(43,062)
Other temporary differences:						
Revaluation of financial investment		(1,067)		(6,243)		(11,640)
Unbilled deliveries	25,832				10,914	
Contingencies of Zentiva, k.s.	15,668		2,939		8,819	
Allowance against fixed assets	15,322				9,710	
Allowance against fixed assets of Zentiva, k.s.	13,789		3,456		10,729	
Allowance against receivables of Zentiva, k.s.	404		1,398		4,195	
Allowance against inventory of Zentiva, k.s.	12,559		3,828		11,484	
Provisions	4,167				4,240	
Provisions of Zentiva, k.s.	29,788		8,156		24,467	
Deferred tax arising from research and development costs deduction	28,105					
Deferred tax arising from training costs deduction	298,566					
Deferred tax arising from tax loss	51					
<b>Total</b>	<b>444,253</b>	<b>112,705</b>	<b>19,777</b>	<b>20,596</b>	<b>84,558</b>	<b>(60,403)</b>
<b>Net</b>	<b>331,548</b>			<b>819</b>	<b>24,155</b>	
Change in deferred tax recognized into equity		1,067		6,243		11,640

As at 31 December 2019, the Company recorded a deferred tax asset of CZK 331,548 thousand. As at 31 December 2018, the merged company Zentiva Group a.s. recorded a deferred tax asset of CZK 24,155 thousand and Al Sirona Bidco s.r.o. recorded a deferred tax liability of CZK 819 thousand.

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## 15. LEASES

The Company leases fixed assets, which are not recorded on the balance sheet.

As at 31 December 2019, assets which are being used by the Company under operating leases consist of the following (in CZK thousands):

Description	Terms/Conditions	Expense in 2019	Cost
Operating lease of cars	36 - 48 months or up to specific mileage	21,596	84,369
SAP CEP AIX/IBM	From April 2018 for 33 months, by December 2020	8,786	24,162
SAP Zentiva Infrastructure	From April 2018 for 45 months, by December 2020	5,028	18,854
Veronese CAPEX	From January 2019 for 24 months, by December 2020	26,700	62,083
Refresh on Zentiva premises	From October 2019 for 48 months, by September 2023	1,952	31,224

As at 31 December 2018, AI Sirona Bidco s.r.o. had no assets used under lease arrangements.

The Company used no assets under finance leases as at 31 December 2019 and 2018, respectively.

## 16. COMMITMENTS AND CONTINGENCIES

As at 31 December 2019 and 2018, the Company had commitments, contingent liabilities and contingent assets, which were not shown on the balance sheet. These relate, in particular, to other fixed assets (see Note 4).

## 17. REVENUES

The revenues of the Company were concentrated primarily with the provision of managerial and technical support and advisory services within the group with focus on management, sales, IT, logistics, human resources, accounting and tax, etc. and also the revenues related to the ownership of the Zentiva brand. As at 31 December 2018, AI Sirona Bidco s.r.o. had revenues only from 'long-term investments – interests' in the amount of CZK 428,268 thousand (corrected).

The breakdown of revenues on ordinary activities is as follows (in CZK thousands):

	2019	2018 (corrected)
Czech Republic	2,536,076	-
Slovakia	57,832	-
Other (foreign)	265,375	-
Other income from other long-term investments	-	428,268
Total revenues	2,859,283	428,268

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## 18. PERSONNEL AND RELATED EXPENSES

The breakdown of personnel expenses of Zentiva Group a.s. is as follows (in CZK thousands):

	2019		2018
	Total personnel	Management	Total personnel
Average number of employees	445	6	-
Wages and salaries	806,261	273,269	-
Social security and health insurance	186,151	28,214	-
Social cost	11,536	147	-
Total personnel expenses	1,003,948	301,630	-

In 2019, the members of statutory and supervisory bodies received total bonuses and other remuneration of CZK 16,604 thousand.

AI Sirona Bidco reported no personnel expenses as at 31 December 2018.

## 19. RELATED PARTY INFORMATION

In 2019 and 2018, members of statutory bodies received no loans, guarantees and other benefits. Members of senior management use company cars for both business and private purposes.

The Company sells products and services to related parties in the ordinary course of business. In 2019, sales of Zentiva Group a.s. within the Group totaled CZK 2,859,283 thousand. As at 31 December 2018, AI Sirona Bidco reported income only from long-term investments – subsidiaries (see Note 17).

Short-term trade receivables from related parties were as follows (in CZK thousands):

Related party	31/ 12/ 2019	31/ 12/ 2018
Zentiva, k.s.	122,034	-
Zentiva Pharma UK Ltd	2,544	-
Zentiva Italia SRL	-	-
Zentiva France	6,097	-
Zentiva S.A.	330,359	-
Zentiva, a.s.	19,723	-
Zentiva Pharma GmbH	20,880	-
Zentiva Portugal	2,489	-
Zentiva International, a.s.	628	-
Zentiva HU	578	-
Zentiva Poland	7,639	-
Helvepharm AG	2,295	-
Total	515,266	-

As at 31 December 2018, AI Sirona Bidco s.r.o. had no short-term trade receivables from related parties.

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**Unbilled revenues arising from unbilled services to related parties (in CZK thousands):**

Related party	31/ 12/ 2019	31/ 12/ 2018
Zentiva, k.s.	5,806	-
AI Sirona (Luxembourg) Acquisition S a.r.l.	18,216	-
Total	24,022	-

AI Sirona Bidco recorded no unbilled revenues as at 31 December 2018.

**Unbilled revenues arising from licenses and other corporate services provided to companies (in CZK thousands):**

Related party	31/ 12/ 2019	31/ 12/ 2018
Zentiva, k.s.	71,948	-
Zentiva Pharma UK Ltd.	2,353	-
Zentiva Italia SRL	4,117	-
Zentiva France	5,170	-
Zentiva S.A.	8,495	-
Zentiva, a.s.	-	-
Zentiva Portugal	2,484	-
Zentiva International, a.s.	194	-
Zentiva Poland	4,881	-
Zentiva Pharma GmbH	3,872	-
Helvepharm	1,494	-
Total	105,008	-

AI Sirona Bidco recorded no unbilled revenues as at 31 December 2018.

As at 31 December 2019 and 2018, Zentiva Group a.s. recorded deferred income of CZK 35,649 thousand and CZK 0 thousand, respectively comprising billings for promo and marketing services to Zentiva k.s.; the invoices are issued quarterly prior to the beginning of the given quarter. AI Sirona Bidco recorded no deferred income as at 31 December 2018.

The Company receives services from related parties in the ordinary course of business. In 2019 and 2018, purchases were CZK 1,233 thousand and included mainly purchase of insurance-related services. AI Sirona Bidco purchased no services from related parties in 2018.

Zentiva Group, a.s.

Financial Statements for the year ended 31 December 2019

**Current trade payables to related parties were as follows (in CZK thousands):**

Related party	31/ 12/ 2019	31/ 12/ 2018
Zentiva, k.s.	1,486	-
Zentiva S.A.	263	-
Total	1,749	-

AI Sirona Bidco had no current trade payables to related parties as at 31 December 2018.

**Other short-term receivables from related parties were as follows (in CZK thousands):**

Related party	31/ 12/ 2019	31/ 12/ 2018 (corrected)	Interest income in 2019
Zentiva, k.s. – share in profit	1,731,032	428,268	-
Zentiva k.s. – other	154	-	-
AI Sirona Luxembourg – purchase price adjustment	798,072	708,706	-
AI Sirona Luxembourg – received loan settlement	-	99,273	-
AI Sirona Luxembourg – cash pooling	65,580	-	48
Solacium Pharma s.r.l.	15,460	-	5,411
Total	2,610,298	1,236,247	5,459

**Long-term and other short-term payables to related parties were as follows (in CZK thousands):**

The Company records long-term loans from the parent company, which are shown in the caption Long-term liabilities – controlled or controlling entity in the accompanying balance sheet.

Additionally, the Company signed a cash management agreement with Zentiva S.A. on 21 September 2018. According to the agreement, the loan bears interest of 1M ROBOR (Romani Interbank Offered rate) plus 15 points in case the Company is a debtor and minus 5 points in the opposite case.

The Company has concluded a cash-pool agreement with the parent company AI Sirona Luxembourg and new debit/credit bank accounts have been opened in various currencies.

AI Sirona Bidco was not part of the Group cash-pool scheme in 2018.

Zentiva Group, a.s.

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**Short-term payables to related parties as at 31 December 2019 were as follows (in CZK thousands):**

	31/ 12/ 2019	31/ 12/ 2018
Al Sirona Luxembourg – cash pooling including unpaid interest	1,888,756	-
Al Sirona Luxembourg – unpaid interest from long-term loan	-	241,767
Zentiva S.A. – short-term loan including unpaid interest*	2,019,131	-
Zentiva HU Kft – overpayment of 2018 interim dividend	565	-
Zentiva, k.s. – other recharging	-	-
Zentiva k.s. – withholding tax and other	129,345	50,002
<b>Total</b>	<b>4,037,798</b>	<b>291,769</b>

\* interest expense related to the loan from Zentiva S.A. were in 2019 in the amount of CZK 60,039 thousand.

**Overview of cash pooling by individual currencies of Al Sirona Luxembourg as at 31 December 2019 (in CZK thousands):**

Description	Initial date	Interest rate	Balance as at 31/ 12/ 2018	Balance as at 31/ 12/ 2019	Interest expense in 2019	Interest income in 2019
CP CZK *	04/ 01/ 2019	4,03% + 3M PRIBOR	-	-	1,100	-
CP EUR	02/ 11/ 2018	4,03% + 3M EURIBOR	-	1,469,419	35,147	-
CP GBP	30/ 10/ 2018	4,03% + 3M LIBOR	-	284,439	6,558	48
CP RON	26/ 03/ 2019	4,03% + 3M ROBOR	-	134,899	9,854	-
<b>Total</b>			<b>-</b>	<b>1,888,756</b>	<b>52,659</b>	<b>48</b>

\* CZK cash-pool terminated as at 30 April 2019.

**Loans granted by related parties as at 31 December 2019 were as follows (in CZK thousands):**

Related party	Description	Interest rate	Due dates	Principal	Interest expense in 2019
Al Sirona (Luxembourg)	Loan in EUR	EURIBOR + margin	28/ 09/ 2025	12,156,690	715,581
Al Sirona Luxembourg	Loan in EUR	EURIBOR + margin	28/ 03/ 2025	9,487,138	569,405
Al Sirona Luxembourg	Loan in EUR (revolving)	EURIBOR + margin	28/ 09/ 2025	782,628	23,809
Al Sirona Luxembourg	Loan in GBP	LIBOR + margin	28/ 09/ 2025	4,029,431	257,911
<b>Total</b>				<b>26,455,887</b>	<b>1,566,706</b>

Zentiva Group, a.s.

Financial Statements for the year ended 31 December 2019

**Loans granted by related parties as at 31 December 2018 were as follows (in CZK thousands):**

Related party	Description	Interest rate	Due dates	Principal	Interest expense in 2018
Al Sirona Luxembourg	Loan in EUR	EURIBOR + margin	28/ 09/ 2025	12,255,211	178,713
Al Sirona Luxembourg	Loan in GBP	LIBOR + margin	28/ 09/ 2025	3,861,920	63,054
Total				16,117,131	241,767

## **20. SIGNIFICANT ITEMS OF INCOME STATEMENT**

The item Services includes mainly administrative costs, IT, advertising, market research, legal advisory and other supporting services (outsourced accounting services).



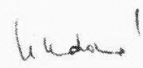
Other finance cost and income comprise realized and unrealized exchange rate gains and losses and hedging of foreign currency transactions made in 2019 and 2018, respectively.

## **21. SUBSEQUENT EVENTS**

In 2020, a coronavirus infection (COVID-19) in Europe has affected the public, which is the end customer of the Zentiva group, and also has growing implications for the global economy. Management closely monitors the situation and addresses its impact for the Company. The group's primary responsibility is to proactively work with government entities and health authorities in all countries where Zentiva operates. In response to the pandemic, the group enhanced its supply of pain and fever medicines on the market, and introduced a number of operational measures to minimize production, market and credit risks. The group will continue to assess and address potential risks to align supply with market demand and mitigate or reduce any adverse impact on the supply chain, customers or other areas. The management of the Company considered the potential impact of COVID-19 on its activities and business and concluded it did not have a significant effect on the going concern assumption. Accordingly, the financial statements for the year ended 31 December 2020 were prepared on the assumption that the Company would be able to continue as a going concern.

In the second quarter of 2020, Zentiva group acquired Alvogen group in Central and Eastern Europe as well as a pharmaceutical plant in India. During 2020, new acquisitions will be gradually integrated into the Zentiva group in order to develop a growth strategy and achieve synergies.

## **22. STATEMENT OF CHANGES IN EQUITY (SEE NOTE 9)**

Prepared on:	Signature of entity's statutory body:	Person responsible for accounting:	Person responsible for financial statements:
7 August 2020	 Kenneth Lynard	 Helena Rajmanová-Hechtová	 Marie Lindová



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(Translation of a report originally issued in Czech - see Note 2 to the financial statements.)

## INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Zentiva Group, a.s.:

### *Opinion*

We have audited the accompanying financial statements of Zentiva Group a.s. (the Company) prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the balance sheet as at 31 December 2019, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Company, see Note X to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

### *Basis for Opinion*

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation 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 Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Other Information*

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.



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In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

#### *Responsibilities of the Company's Board of Directors and Supervisory Board for the Financial Statements*

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the Czech Republic and for such internal control as the Board of Directors 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, the Board of Directors 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 the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

*The Supervisory Board is 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 above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' 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.



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

We communicate with the Board of Directors and the Supervisory Board 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.

Ernst & Young Audit, s.r.o.  
License No. 401

Magdalena Soucek, Auditor  
License No. 1291

7 August 2020  
Prague, Czech Republic