Zentiva N.V.

Financial Statements 2006

Amsterdam, the Netherlands

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Section A General overview

1. ABOUT ZENTIVA

Zentiva N.V. (Zentiva) is an international pharmaceutical company focused on developing, manufacturing and marketing modern branded generic pharmaceutical products. The Company has leading positions in the Czech Republic, Romania and Slovakia and is growing rapidly in Poland, Russia, the Ukraine and the Baltic States. Zentiva's profitable growth strategy centers on increasing patient access to modern medicines through primary care providers within the EU and Eastern Europe. This is being achieved by further organic development of its existing business and through selective acquisitions.

Zentiva recently extended its geographic reach with its largest ever acquisition of Eczacıbaşı Generic Pharmaceuticals, one of the leading generic pharmaceutical companies in Turkey. This acquisition which is due to complete in the third quarter 2007 will significantly enlarge the Zentiva Group. As a result of this acquisition Turkey will become Zentiva's second largest market.

Zentiva addresses a wide range of therapeutic areas but has particular focus on cardiovascular disorders, inflammatory conditions, pain, infections and diseases of the central nervous system, as well as the gastrointestinal and urology fields.

The Zentiva Group currently employs over 4,700 people and has production sites in the Czech Republic, Slovakia, and Romania.

Zentiva is listed on the Prague and London Stock Exchanges. The Company's largest shareholders are the global pharmaceutical group sanofi-aventis (24.9%) and the Czech insurance company Česká pojišťovna and related parties (12.3%). Zentiva's management holds 6.1% of the company shares. Other institutional and private investors hold a combined 56.7% of the company shares.

2. KEY FIGURES

Financials (in CZKm)	*2003*	*2004*	*2005*	*2006*
Sales	7 571	10 674	11 839	14 003
Gross Profit	4 526	6 457	7 295	9 063
EBITDA	2 194	3 092	3 240	4 173
EBIT (1)	1 828	2 531	2 578	3 303
Profit before tax	1 507	2 361	2 670	3 089
Net profit for the period	917	1 680	1 929	2 289
Attributable to:				
Equity holders of the parent	904	1 613	1 878	2 203
Minority interest	(13)	(67)	(51)	(86)
Earnings per Share (in CZK)				
Basic (2)	24.29	44.91	49.23	57.88
Diluted (3)	22.42	43.82	49.23	57.81
Net cash balance / (Net debt)	(3 323)	170	(1 950)	(2 520)
CAPEX	471	723	931	1 269
Free cash flow YTD (before acquisitions)	1 187	1 355	1 273	1 027
Ratios				
Gross margin	59.8%	60.5%	61.6%	64.7%
EBITDA margin	29.0%	29.0%	27.4%	29.8%
EBIT margin	24.1%	23.7%	21.8%	23.6%
Profit before tax margin	19.9%	22.1%	22.6%	22.1%
Net profit(4) margin	11.9%	15.1%	15.9%	15.7%
Net Cash (Net debt) to Equity in %	(112.1%)	2.4%	(19.9%)	(20.8%)
Cash conversion(5)	64.9%	53.6%	49.4%	31.1%
CAPEX as % of Sales	6.2%	6.8%	7.9%	9.1%
Exchange Rates				
CZK/USD average	28,227	25,701	23,947	22,609
CZK/USD eop	25,654	22,365	24,588	20,876
CZK/EUR average	31,844	31,904	29,784	28,343
CZK/EUR eop	32,405	30,465	29,005	27,495

(1) Profit before tax and finance costs

(2) Basic EPS for profit for the year attributable to ordinary equity holders of the parent is calculated by dividing Net profit for the period attributable to Equity holders of the parent (after deducting preference dividends) by the weighted average number of ordinary shares outstanding during the period (adjusted for share split in 2004 and 2003).

(3) Diluted EPS for profit for the year attributable to ordinary equity holders of the parent is calculated by dividing Net profit for the period attributable to Equity holders of the parent (after deducting preference dividends) by the weighted average number of ordinary shares outstanding during the period which are adjusted for effect of dilutive potential shares (adjusted for share split in 2004 and 2003).

(4) Net profit for the period attributable to Equity holders of the parent.

(5) Cash conversion = FCF (before acquisitions) to Profit before tax and finance costs.

3. 2006 – OUR PRIMARY CARE FOCUSED GROWTH STRATEGY DELIVERS

Zentiva has had a very successful year in 2006 the highlights of which are set out below:

Financial - Record Sales and Profits

- Total net sales up 18.3% to CZK 14,003.1 million from CZK 11,839.4 million in 2005. This growth was driven by a 31.5% increase in pharmaceutical sales which now account for over 98% of Zentiva's total sales. Prescription product sales increased by 25.4% while consumer healthcare sales increased by 56.9%.

- Geographically sales growth was driven by very strong performances in Romania, sales up 397.2% to CZK 2,478.7 million, Poland, sales up 37.4% to CZK 1,943.0 million and Russia, sales up 71.4% to CZK 1,316.8 million. In the Czech Republic sales declined 4.5% to CZK 5,088.0 while in Slovakia sales grew 4.2% to CZK 1,891.6 million. The sales decline in the Czech Republic was due to government measures introduced in early 2006 to contain healthcare costs.

- Gross profit margin increased to 64.7% in 2006 versus 61.6% for the full year 2005, mainly due to the growing sales contribution from the company's higher margin promoted brands.

- EBIT margin of 23.6% includes net extraordinary costs of CZK 80 million attributed to our Romanian subsidiary. Excluding these items the EBIT margin was 24.2%. In 2005 Zentiva's EBIT margin was 21.8%.

- Net profit for 2006 attributable to equity holders of the parent increased by 17.3% to CZK 2,203.2 million representing diluted EPS of CZK 57.81 or USD 2.56. The Board has recommended to shareholders that the Company pay a dividend of CZK 11.5 per share for 2006. This proposal will be subject to shareholder approval at the Annual General Meeting to be held on June 6, 2007.

Successful Integration of Romanian Acquisition

A key factor behind the record results that Zentiva has delivered in 2006 was the successful integration of our Romanian acquisition, Zentiva SA (formerly Sicomed). This company which was acquired in October 2005 has given us a much enlarged organization in Romania. Zentiva is now the leading generic pharmaceutical company in Romania and it is the largest pharmaceutical company by volume in the Romanian market and is the fourth largest by value. Romania is currently Zentiva's second largest market in terms of sales.

The acquisition of Sicomed is in line with Zentiva's growth strategy of extending its geographic reach via a combination of organic expansion and selected acquisitions.

Further Strengthening of Our Product Portfolio

Zentiva's investment in R&D continues to provide a good flow of new products to support the Company's growing sales and marketing organization. In 2006, Zentiva received first time registrations for products based on a five new molecules. In 2006 Zentiva introduced new products such as Lindaxa (sibutramin), Amyx (glimepirid) and Ladybon (tibolon) for the first time. The total number of launches of new products in all of our markets reached almost 60 in 2006.

Sanofi-aventis becomes Zentiva's Largest Shareholder

In March 2006, a major change to Zentiva's shareholder register took place. Warburg Pincus, one of the world's leading private equity firms, which had backed the company's management buy out in 1998, sold its last remaining stake to the major global pharmaceutical group sanofi-aventis. sanofi-aventis, in conjunction with its share purchase from Warburg Pincus, also acquired shares from Zentiva's management with the result it has become the company's largest shareholder with a 24.9% stake in the Company. As a consequence of the transaction, Nicholas Lowcock and Lamberto Palla resigned as Directors B (Non-executive) from the Board of the Company and Hanspeter Spek and Jean-Michel Levy were appointed as Directors B to the Board of the Company.

4. IMPORTANT EVENTS AT THE BEGINNING OF 2007

Acquisition of a 75% Stake in Eczacıbaşı Generic Pharmaceuticals

In the first quarter of 2007 Zentiva announced further important initiatives to extend the company's geographic reach. The most important of these was the acquisition of a 75% stake in Eczacıbaşı Generic Pharmaceuticals, the third largest generics pharmaceutical company in Turkey for EUR 460 million in cash on a debt-free basis. This acquisition which is expected to complete in the third quarter 2007, is the largest in the company's history, and will give us an excellent position in what we regard as a very attractive market. In addition, to a strong commercial platform in Turkey, Eczacıbaşı Generic Pharmaceuticals has a high quality product pipeline with international potential, excellent manufacturing facilities and a very experienced local management team. In conjunction with the acquisition, we have announced that Bülent Eczacıbaşı, the Chairman of the Eczacıbaşı Group, will join Zentiva's Board of Directors. Shareholders at an Extraordinary General Meeting, held on April 2, 2007 in Amsterdam, gave approval for the Company to move ahead with this transaction.

Entry to Hungarian market

In the first quarter 2007 we also entered the Hungarian market via the acquisition of 23 generic products, personnel and other operating assets from sanofi-aventis. Zentiva expects to grow its presence in Hungary as the company introduces more of its own successful high quality branded generic products targeting primary care.

5. CHAIRMAN AND CEO's STATEMENT

Dear Shareholders

Zentiva has had a very successful 2006. During the year we achieved record sales and earnings based on the continued successful delivery of our profitable growth strategy. This strategy is focused on the delivery of high quality modern branded generics to the rapidly expanding primary care markets of Central and Eastern Europe. Our growth in Romania, Poland and Russia, three of our core markets, has been particularly gratifying as has the rapid progress that we have made in newer markets such as Ukraine, Bulgaria and the Baltic States. The expansion of Zentiva's business in recent years has been achieved via a combination of organic growth and selective acquisitions.

In 2006, a key contributor to the Company's record results was the successful integration of our Romanian acquisition. The acquisition of the leading generics company in the fast growing Romanian market, Sicomed (now Zentiva SA), which was made in October 2005, is in line with our strategy of expanding into other key Central and Eastern European markets. Romania is currently Zentiva's second largest market after the Czech Republic.

Zentiva is well placed for future growth in Romania given that our strong commercial organization and unrivalled distribution network provides us with an excellent platform for the introduction of more of the company's modern branded generics portfolio. The power of this combination was already evident in 2006 with Zentiva achieving Romanian sales of CZK 2,478.7 million, close to five times the level achieved in 2005.

Our Profitable Growth Strategy

The progress that Zentiva has made over the last three years is clear validation of our well defined growth strategy.

Zentiva's strategy is built around a number of key elements. Firstly, our focus on the primary care sector allows Zentiva to play an important role in expanding this segment of the market in the countries in which we operate. This benefits society by dramatically increasing the number of patients who have access to modern therapy without significantly increasing healthcare costs.

A pro-active and selective approach to research and development ensures that we bring novel state of the art generic medicines to the market in a timely fashion. These medicines provide patients with access to the most up to-date treatment options. These products are then branded to ensure that they are clearly differentiated, and benefit from the positive values associated with the Zentiva brand name. We then actively promote these branded products to the primary care market through our highly trained sales force that is able to educate physicians and other primary healthcare providers about the benefits of Zentiva's new highly cost-effective medicines.

A key factor underpinning our strategy is our efficient business operations which are centered on one of the lowest cost supply chains in the European industry. Zentiva's efficient operating practices provides us with the financial resources to invest in our industry leading sales and marketing infrastructure while at the same time allowing us to be price competitive. This in turn provides us with the appropriate platform to drive the sales of our novel branded products.

Zentiva – The Importance of Our Expanded Market Reach

In 2006, the investment that Zentiva has made in recent years building its capabilities in the markets outside the Czech Republic and Slovakia clearly paid dividends. The fact that we have been able to produce record financial results at a time when our sales in the Czech Republic, our largest market, declined is an excellent achievement and reflects all of the hard work to extend our geographical reach in the last three years. In 2006, strong growth in Romania, Poland and Russia, as well as other countries such at Ukraine, Bulgaria and the Baltic States helped Zentiva to achieve a much more broadly based geographic sales mix. Combined, these other markets achieved a 60% increase in sales in 2006 and they now account for 8% of the Company's total pharmaceutical sales.

In the Czech Republic, we experienced a 4.5% decline in sales in 2006 as a result of new initiatives introduced early in the year by the Government, to contain healthcare costs. Encouragingly as the year progressed the market started to recover with the result that our Czech sales increased by 2.9% in the fourth quarter.

In Romania, which is currently Zentiva's second largest market, we have made significant progress and now have a fully integrated operation with strong positions in both the prescription and CHC markets. Our sales in 2006 in Romania increased by almost 400% and I believe this is a market where we have further significant opportunities for growth.

In Poland, our decision to broaden the therapeutic areas which we target allowed us to continue to produce attractive growth. In 2006, Poland became Zentiva's third largest market in terms of sales with sales up 37.4% to CZK 1,943.0 million.

In Slovakia, which is now our fourth largest market in terms of sales, we are starting to see some benefits from our efforts to improve the efficiency of our organization and to drive the sales of our promoted brands. Sales in Slovakia increased by 4.2% in 2006 to CZK 1,891.6 million in 2006.

In Russia, we had another very positive year with sales up 71.4% to CZK 1,316.8 million in 2006. This strong growth was due to a number of factors including the country's good economic performance and its expanded reimbursement system. Against this positive background Zentiva was able to expand its share of this fast growing market due to the introduction of a number of our leading branded generic products centered on the cardiovascular, urology and OTC markets.

Further Geographic Expansion

In the first quarter 2007 we have announced two important initiatives to further extend Zentiva's geographic reach. The most important of these was the acquisition of a 75% stake in Eczacıbaşı Generic Pharmaceuticals, the third largest generics pharmaceutical company in Turkey for EUR 460 million. This acquisition is the largest in the Company's history, and will give us an excellent position in what we regard as a very attractive market. In addition, to a strong commercial platform in Turkey, Eczacıbaşı Generic Pharmaceuticals has a high quality product pipeline with international potential, excellent manufacturing facilities and a very experienced local management team. To give you a sense of the importance of this acquisition, it will add about 40% to our sales, it will give us access to 30% more patients and it will add significant state of the art production capacity. Once the acquisition completes, our business in Turkey will be renamed Eczacıbaşı – Zentiva.

In conjunction with the acquistion we have announced that Bülent Eczacıbaşı, the Chairman of the Eczacıbaşı Group, will join Zentiva's Board of Directors. I would also like to take this opportunity to welcome him and I am sure he will play an integral part in helping us to further develop Zentiva's business both in Turkey and the rest of Central and Eastern Europe.

In the first quarter 2007 we also entered the Hungarian market. Zentiva expects to grow its presence in Hungary as the company introduces more of its own successful high quality branded generic products targeting primary care.

Zentiva – A New Supportive Main Shareholder

Zentiva shares have perfomed well, reflecting our sales and profit growth. During the course of 2006, the company's shares have risen by 11.6% to CZK 1,268, by the end of March 2007 they had increased by a further 13.8% to CZK 1,443. This compares to the IPO price of CZK 485 per share (June 2004).

Zentiva has benefited greatly from being a public company. The key benefits being a strengthened financial position and a higher profile for Zentiva within both the international investment community and the global pharmaceutical industry. This increased awareness of Zentiva has allowed us to attract high quality personnel and to have greater access to potential corporate opportunities in the fast consolidating global generic pharmaceuticals industry.

In March 2006, a major change to Zentiva's shareholder register took place. Warburg Pincus, one of the world's leading private equity firms, which backed the company's management buy out in 1998, sold its last remaining stake to the major global pharmaceutical group sanofi-aventis. sanofi-aventis, in conjunction with its share purchase from Warburg Pincus, also acquired shares from Zentiva's management with the result it has become the company's largest shareholder with a 24.9% equity stake.

I would like to thank Warburg Pincus for its support over the last nine years, as there is little doubt that without access to its capital and expertise Zentiva would not have developed into the successful company that it is today.

Zentiva – Our Contribution to Society

As one of the largest pharmaceutical companies in Central and Eastern Europe, Zentiva believes that, in addition to bringing modern medicines to the population at large, it should also make an important contribution to society itself.

Zentiva – Generating Attractive Shareholder Returns

Zentiva's record results in 2006 highlight the strength of the business platform that we have put in place over the last three years. Our experienced management team has demonstrated its ability to deliver via the progress that we have made in an increasing range of markets. These strengths, allied to the recent moves that we have made to enter the Turkish and Hungarian markets should enable us to generate further significant growth in sales and earnings. Taken together I feel confident that our primary care focused strategy will enable us to move towards our goal of becoming the leading pharmaceutical company in Central and Eastern Europe.

My confidence in the company's future prospects and its ability to create further value for our shareholders is based on the quality of the Zentiva team, both our management and employees, which remains focused on the day-to-day execution of our primary care strategy. The successful implementation of this strategy, has not only allowed us to create significant value for our shareholders, but has also helped improve the lives of the people in the markets in which we operate.

Jiří Michal
Chairman of the Board and CEO

6. INVESTOR REVIEW

Zentiva's Shares

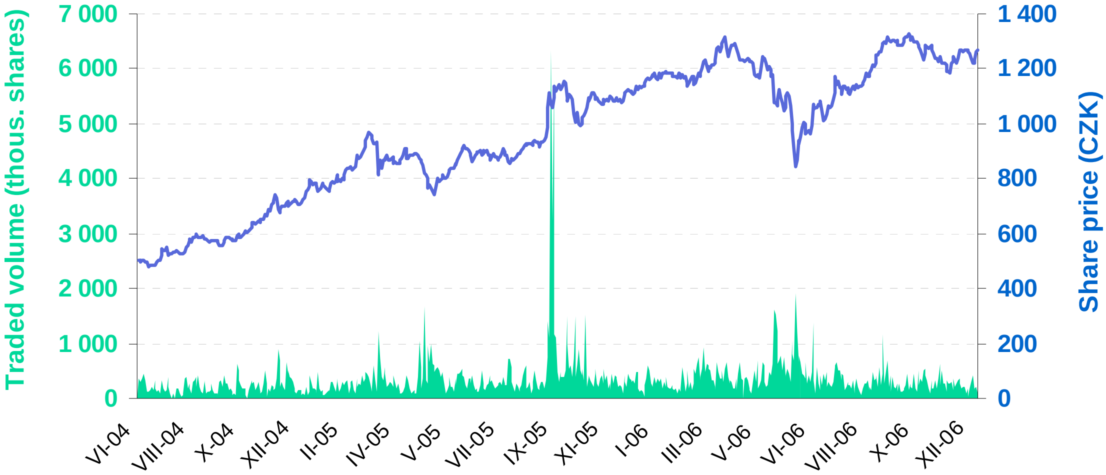
Zentiva's shares were listed on the Prague and London Stock exchanges on June 28, 2004. As of December 31, 2006, the Company has issued 38,136,230 ordinary registered shares with a nominal value of EUR 0.01 each. The shares are in certificated form, but are capable of being held in uncertificated form. The aggregate nominal value of the issued shares is EUR 381,362.30. The shares are traded on the Prague Stock Exchange (PSE); the ISIN of the shares is NL0000405173. The shares are also traded on the London Stock Exchange (LSE) in the form of Global Depository Shares (GDSs), where Regulation S GDSs have ISIN US98942R2040 and Rule 144A GDSs have ISIN US98942R1059.

Positive Share Price Performance

Zentiva's shares have performed very strongly since their listing in June 2004. By the end of 2006 the price had risen 161.4% to CZK 1,268. In 2006 the shares rose by 11.6% compared to a 7.9% rise of PX index in the PSE. Based on the strong performance of the shares Zentiva had a market capitalisation of CZK 48.4 billion (USD 2.3 billion) at the end of 2006 (CZK/USD 20.876 Exchange rate as at December 29, 2006).

Based on Zentiva's market capitalization, the Company's shares are now part of the PX, the index which includes all of the leading shares listed on the PSE. Zentiva's shares were the second most actively traded on the Prague stock exchange in terms of value, in 2006, accounting for 12.63% of all trades.

Zentiva's Share price development



Source: PSE

Dividend Policy and Dividend Payments

Zentiva is committed to providing its shareholders with industry leading returns on their investment. An important contribution to shareholders' return comes in the form of the Company's dividend payments. Zentiva's dividend policy, which was outlined at the time of the IPO, is to target a dividend payment equal to 15-20% of the Company's consolidated net earnings.

The Board's dividend proposal, which needs to be approved at the Annual General Meeting, is that the dividend for 2006 will be CZK 11.5 per share vs. CZK 9.5 per share paid in 2006 and CZK 8.0 per share paid in 2005.

Looking forward Zentiva expects that its dividend will continue to increase as a result of net income growth.

Zentiva's IR Commitment Generates Growing Analyst Coverage

A key focus of Zentiva's investor relations since its listing has been to increase the number of analysts providing research on the Company. At present the Company has 14 analysts who communicate regularly with investors and other interested parties about developments at Zentiva. Encouragingly these analysts are both from the local Czech broking community as well as from leading global investment banks. This level of coverage reflects both the attractiveness of the Zentiva growth story as well as the Company's commitment to Investor Relations.

Zentiva is committed to an open and pro-active communication with its shareholders. At the time of each quarterly results announcement the Company holds a conference call to ensure that analysts and investors can access the senior management team with any questions that they have. In addition, Zentiva has participated in a number of conferences organized by leading investment banks in both London and New York, as well as conducting regular roadshows with both shareholders and interested investors.

The Company's website www.zentiva.nl gives access to current financial and business information about Zentiva.

The Annual General Meeting takes place in Amsterdam and formal notification is sent to shareholders at least one month in advance. At the Meeting a business presentation is made to shareholders and all Directors able to attend are available, formally during the Meeting, and informally afterwards, for questions.

In keeping with a public company which benchmarks its activities against its international peers. Zentiva has a strong commitment to corporate governance. A review of Zentiva's corporate governance policies and activities is outlined in Chapter 17 of this report.

Shareholders

Details of the Company's shareholding as at December 31, 2006 are set out below.

Shareholder Ownership	**(%)**
Sanofi-Aventis	24.9
Česká pojišťovna and parties acting in agreement with it	12.3
Management	6.1
Other Institutional and private investors	56.7
Total	100.0

Changes of the Shareholders structure during year 2006

On March 27, 2006, Zentiva announced that the sanofi-aventis Group ("sanofi-aventis") had purchased 9,486,663 ordinary shares in the Company for a total consideration of EUR 430.3 million. As a result of this transaction sanofi-aventis acquired a 24.9% stake in Zentiva making it the Company's largest shareholder. sanofi-aventis acquired an approximate 19.6% stake from Warburg Pincus, representing all of Warburg Pincus's remaining interest in Zentiva, a 4.5% stake from certain Zentiva managers and employees, representing approximately 43% of shares held by senior management and a 0.8% stake from certain former managers of Zentiva. Following the transaction, Zentiva's senior management will continue to own approximately 5.9% of the Company and has agreed for a period of two years not to sell those remaining shares, subject to certain exceptions.

Changes to the Shareholders Structure in 2007

No changes have occurred to the company's shareholders structure during 2007.

Ownership of Own Shares

As of December, 2006, Zentiva had purchased 126,000 of its own shares for a total consideration of CZK 123 million, or CZK 975.44 per share. These shares have been purchased to be used as part of the company's employee stock option plan.

Financial Results Calendar for 2007

March 5, 2007	- Preliminary Unaudited 2006 Results
April 27, 2007	- 2006 Audited Financial Statements and Annual Report 2006
May 14, 2007	- Q1 2007 Results
August 6, 2007	- Q2 2007 Results
November 5, 2007	- Q3 2007 Results

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7. ZENTIVA'S STRATEGY

The key factor in Zentiva's success has been the Company's consistent implementation of its strategy for profitable growth. This strategy is based on:

- Extending its geographic reach outside its core markets of the Czech Republic, Romania, Poland, Slovakia, and Russia into new markets of the EU and Eastern Europe. These include the Ukraine, Bulgaria and Hungary where markets are growing and primary care is developing. This geographic expansion will be achieved via a combination of acquisitions and organic development.

- Developing, manufacturing and selling modern branded generics at competitive prices in selected therapeutic areas which are mainly treated by primary care physicians.

- Focusing on a number of key therapeutic areas including cardiovascular, central nervous system, pain management, alimentary tract, gynecology, urology, as well as consumer healthcare, to capitalize on Zentiva's sales and marketing strengths in the primary care market.

- Focusing on building an internationally competitive organisation which is able to rapidly bring to market its pipeline of high quality branded generic products at prices which capitalize on our streamlined and efficient production facilities.

Central and Eastern Europe – The Growth in Primary Care

Zentiva's focus on the primary care market is driven by the growth that is anticipated in this important and expanding segment of the pharmaceutical markets in the countries in which it operates. This growth is being driven by:

- The strong economic growth of many of the countries of Central and Eastern Europe;
- The rising demand for improved healthcare from the citizens of these countries. This will drive pharmaceutical spending which is currently much lower on a per capita basis than in the markets of the EU and the US.
- The growth of the primary care segment as the provision of healthcare has shifted to primary care physicians from hospitals as had previously been the case.

These three important trends put Zentiva in a strategically strong position given its ability to provide modern branded pharmaceutical products at appropriate cost to the healthcare providers in the countries in which it operates. The use of branded generic products, such as those supplied by Zentiva, is a very attractive option financially for healthcare providers given that many more patients can be treated in a primary care setting than would be the case in the more expensive hospital based sector.

The broad applicability of this primary care strategy is clear from the success that Zentiva has enjoyed in an increasing number of markets in Central and Eastern Europe with countries such as the Ukraine, the Baltic States and Bulgaria now starting to make an important contribution to overall sales. The company is confident that in time it will be able to contribute to the development of a primary care market in Hungary, a country in which Zentiva started its own operations in March 2007, following the acquisition of certain assets from sanofi-aventis. Zentiva is also looking forward to developing its business in Turkey following the completion of the acquisition of Eczacıbaşı Generic Pharmaceuticals which will provide us with a strong platform to help build the primary care segment of this market.

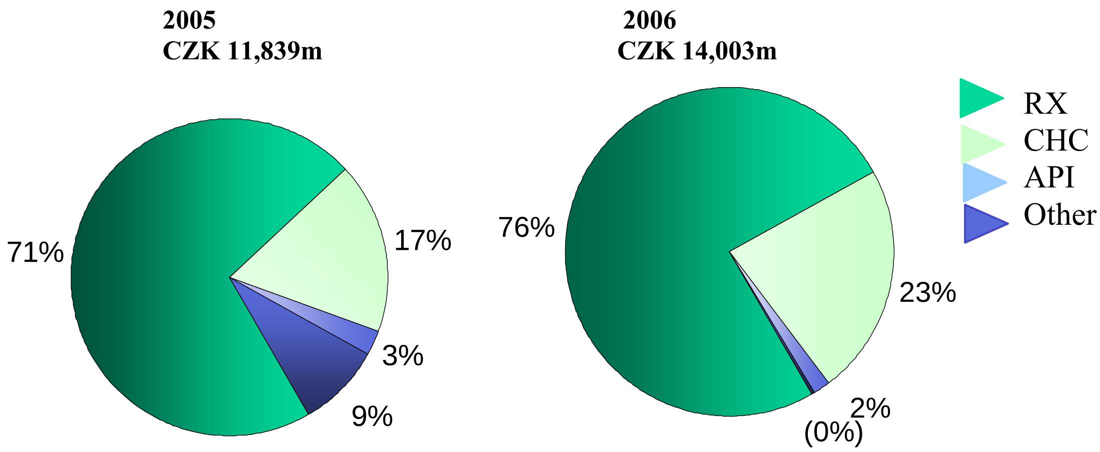
8. ACCESSING THE GROWTH MARKETS OF CENTRAL AND EASTERN EUROPE

Zentiva's total net sales in 2006 grew by 18.3% to CZK 14,003.1 million in comparison to 2005. The key factor behind Zentiva's growth was the continued success of its pharmaceutical business with sales increasing by 31.5% to CZK 13,821.5 million. This was made up of 25.4% growth from our modern prescription product portfolio which achieved sales of CZK 10,614.6 million, and a 56.9% increase in our CHC business which recorded sales of CZK 3,206.9 million. The higher growth achieved by the CHC business was due to the much enlarged Romanian CHC business, following the acquisition of our Romanian subsidiary, and the strong growth of this business segment in the CIS zone.

Zentiva's continued focus on its modern promoted pharmaceutical portfolio led to its increased contribution to overall sales, resulting in improved profitability.

Sales by Product Group

Pharmaceuticals Account for 99% of 2006 sales vs. 89% in 2005



(in CZKm)	2006	2005	2006 vs. 2005
Pharmaceuticals	13,821.5	10,511.4	31.5%
Prescription	10,614.6	8,467.2	25.4%
CHC	3,206.9	2,044.2	56.9%
API	225.5	316.0	(28.6%)
Other Sales/Deductions*	(43.8)	1,012.0	NA
Total Sales	14,003.1	11,839.4	18.3%

Note: * includes Contract manufacturing sales, Services ,Deductions, Sale of know-how and revenues related to disposed products

Prescription (RX) Pharmaceutical Products

In 2006, Zentiva's branded prescription pharmaceuticals sales grew by 25.4% to CZK 10,614.6 million. This was the result of the modernization of our product mix and the strong performance of the company's promoted prescription brands, up 54.9% to CZK 6,455.8 million. Within our core markets, the branded promoted prescription portfolio grew 16.5% in the Czech Republic, 358.1% in Romania, 39.9% in Poland, 23.3% in Slovakia and 114.0% in Russia. Amongst the key Zentiva brands which delivered strong growth in the period under review were the anti-hypertensive Lozap (losartan), the lipid lowering agents

Simvacard (simvastatin) and Torvacard (atorvastatin), the pain killer Tralgit (tramadol), the urological product Fokusin (tamsulosin), as well as the antibiotic Azitrox (azithromycin).

Consumer Health Care (CHC) Pharmaceutical Products

In 2006, Zentiva's CHC business grew by 56.9% to CZK 3,206.9 million. This is due to the success of products such as Modafen (ibuprofen and pseudoephedrine) and the antimycotic Mycomax (fluconazole). The growth of the CHC business was also boosted by the inclusion of Sicomed's CHC portfolio in Romania which accounted for a much larger share of that company's overall sales. Drugs such as Algocalmin (metamizol),, the analgesic Antinevralgic P (paracetamol, codeine and aspirin) and Dicarbocalm (multivitamin), which were part of the Sicomed business, are now amongst the leading Zentiva CHC products.

API

In 2006, reported third party API (Active Pharmaceutical Ingredient) sales decreased by 28.7% to CZK 225.5 million. This is in line with Zentiva's strategy to utilize its API manufacturing capacity to supply APIs for inclusion in its own key promoted products. This strategy assists Zentiva in enhancing its gross margin.

Other Sales/Deductions[(1)]

In 2006, other sales/deductions actually turned negative leading to a deduction of CZK 43.8 million. This was due in particular to the fourth quarter where the other sales/deductions amounted to CZK 106.9 million. This is due to much lower contract manufacturing revenues and an increase in sales deductions as a result of the company's changed geographic revenue mix. In 2006 sales deductions were CZK 878.1 million vs. CZK 370.1 million for 2005.

Zentiva's Top Pharmaceutical Products in 2006

The sales of Zentiva's top fifteen pharmaceutical products represented 47.2% of total sales in 2006 further highlighting our success in driving sales growth through our portfolio of promoted brands. Zentiva's top fifteen products accounted for 42.4% of sales in 2005.

[(1)] Includes Contract manufacturing sales, Services, Deductions and sale of Know-how, and revenues related to disposed products

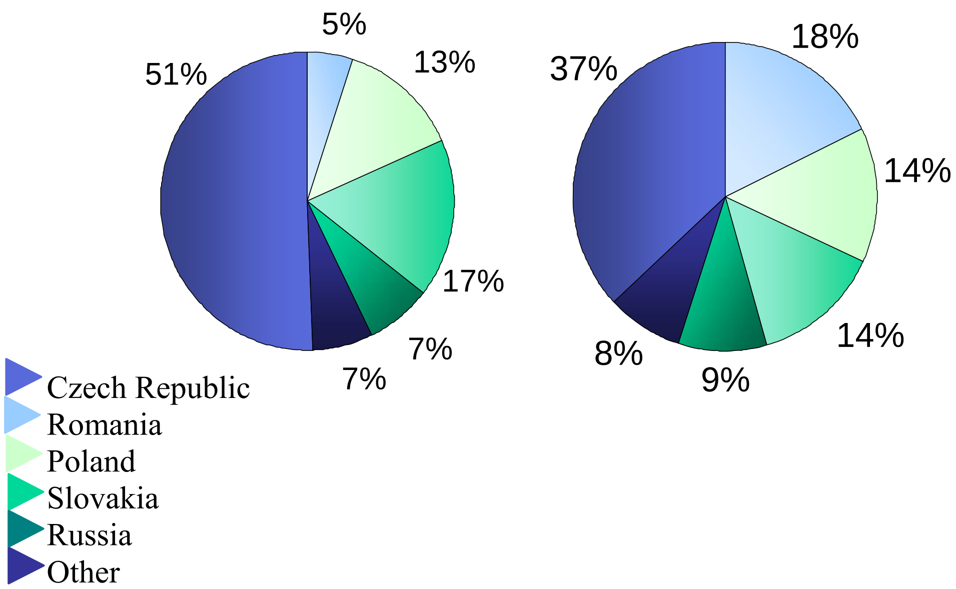
Top Pharmaceutical Products (in CZKm)

Product	**Pharmaceutical compound**	**Therapeutic treatment**	**2005**	**2006**	**2006 vs. 2005**
Simvacard	simvastatin	hypolipidemic	707.3	986.2	39.4%
Helicid	omeprazole	anti-ulcerant	767.7	922.7	20.2%
Lozap	losartan	anti-hypertensive	347.1	598.5	72.4%
Torvacard	atorvastatin	hypolipidemic	149.4	472.7	216.5%
Penester	finasteride	urology	374.9	464.1	23.8%
Ibalgin	ibuprofen	anti-inflammatory	381.7	413.9	8.4%
Zoxon	doxazosin	urology	333.6	406.5	21.8%
Algocalmin	metamizol	pain	324.3	374.2	15.4%
Pinosol	herbal	respiratory	249.6	339.2	35.9%
Agapurin	pentoxyfyline	cardiovascular	395.7	338.4	(14.5%)
Mycomax	fluconazol	anti-mycotic	193.1	279.5	44.8%
Agen	amlodipine	cardiovascular	278.4	275.9	(0.9%)
Azitrox	azitromycin	respiratory	134.0	255.6	90.7%
Modafen	ibuprofen + pseudoephedrine	cough and cold	223.4	249.8	11.8%
Tralgit	tramadol	analgesic	161.4	236.3	46.4%
Total			**5,021.4**	**6,613.2**	**31.7%**

Sales by Geography

Extended geographic reach leads to further diversification of our sales

Pharmaceutical Sales
Year 2005 **+31.5%** **Year 2006**



(in CZKm)	2005	2006	2006 vs. 2005
Pharmaceuticals	10,511.4	13,821.5	31.5%
Czech Republic[1]	5,327.6	5,088.0	(4.5%)
Romania	498.5	2,478.7	397.2%
Poland	1,414.0	1,943.0	37.4%
Slovak Republic[1]	1,815.3	1,891.6	4.2%
Russia	768.3	1,316.8	71.4%
Other	687.7	1,103.3	60.4%
Ukraine	232.6	399.8	71.9%
Bulgaria	122.4	282.3	130.6%
Baltic	179.6	205.3	14.3%
Other CIS	96.7	120.9	24.9%
Other	56.4	95.0	68.6%
API	316.0	225.5	(28.6%)
Other Sales/Deductions[2]	1,012.0	(43.8)	NA
Total Sales	11,839.4	14,003.1	18.3%

(1) For 2006, the 2005 figures were revised to make them comparable with the 2006 figures. As a result CZK 245 million of sales in Czech Republic and CZK 183 million of sales in Slovakia were moved to Other sales/deductions

(2) Includes Contract manufacturing sales, Services, Deductions and Sale of know-how, and revenues related to disposed products.

The Czech Market

The Czech market in 2006

Population[1]	10.2m
Pharmaceutical market size[2]	US$1.3bn
Pharmaceutical market performance (in USD)	0.3%
Zentiva's Czech sales	US$225.1m

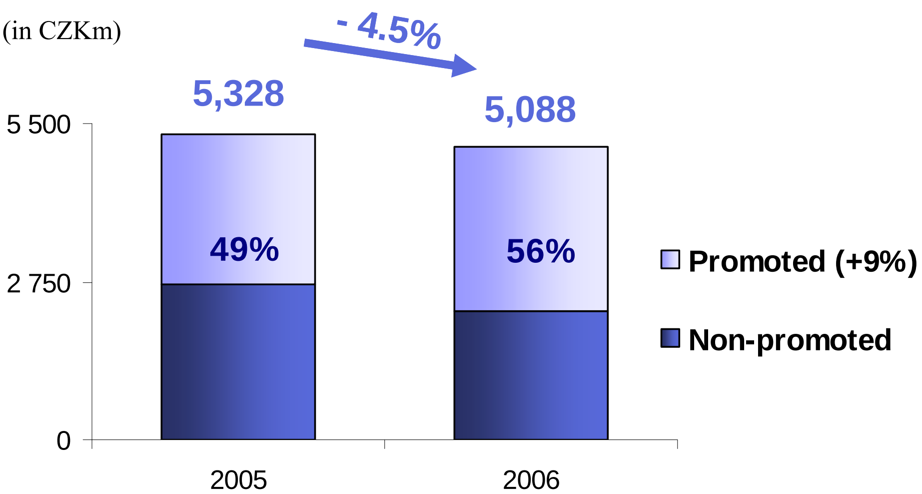
Source: [1] EIU, [2] IMS (Retail Market), 12 Moths to December 31, 2006

In 2006 the market declined modestly due to government measures introduced at the beginning of the year which were designed to curb the growth in healthcare expenditure. The actions taken by the Czech health ministry included implementing changes to its pharmaceutical policy, toughening prescription limits, cancelling the centralised purchase of medicines and freezing the income of pharmaceutical providers. In addition the prescribing limit for doctors in 2006 was set at 2% below the 2005 level. This contrasts with previous years when the prescribing limit had grown by 4-5% p.a. for hospitals and by up to 10% p.a. for specialist physicians.

Zentiva's largest market is the Czech Republic where the Company has been for many years the leading supplier of both prescription and CHC medicines. In the prescription pharmaceutical market the Company's market leadership is based on its strong position in the primary care market and in particular the cardiovascular, CNS and alimentary therapeutic categories.

Zentiva has currently approximately 30% of the overall retail market for pharmaceutical products in the Czech market by volume. In value terms Zentiva's market share is just below 15%. Zentiva's leading position in the Czech market is the result of its dominant share of the branded generics market. The other leading companies operating in the Czech pharmaceutical market are Novartis, Teva, sanofi-aventis and Servier.

(in CZKm)



(in CZKm)	2005	2006	% change
Total sales	5 327.6	5 088.0	(4.5%)
Promoted product sales	2 619.9	2 857.7	9.1%
Commercial Staff	268	246	(8.2%)

In the Czech Republic, the healthcare market continued through the course of the year to recover from the government actions to reduce health care spending, which were introduced at the beginning of 2006. This led to a decline in the market and in the prescribing of pharmaceuticals in the primary care sector particularly in the early months of the year. In response, Zentiva continued to focus on improving its product mix by increasing the proportion of its sales that are derived from higher margin promoted brands. Zentiva's Czech sales fell by 4.5% to CZK 5,088.0 million in 2006.

The current key brands in the Czech Republic are the anti-ulcer drug Helicid (omeprazole), the anti-hypertensive drug Lozap (losartan) and the lipid lowering agent Torvacard (atorvastatin) as well as the CHC drug Ibalgin (ibuprofen). The key promoted brands which achieved good sales growth in 2006, in the Czech market, were Lozap, Torvacard, the hypnotic Hypnogen (zolpidem) and the cardiovascular drug Lindaxa (sibutramine) which was launched during the year. Zentiva also launched the cardiovascular drug Amyx (glimepirid) and female drug Ladybon (tibolon) in 2006.

The Romanian Market

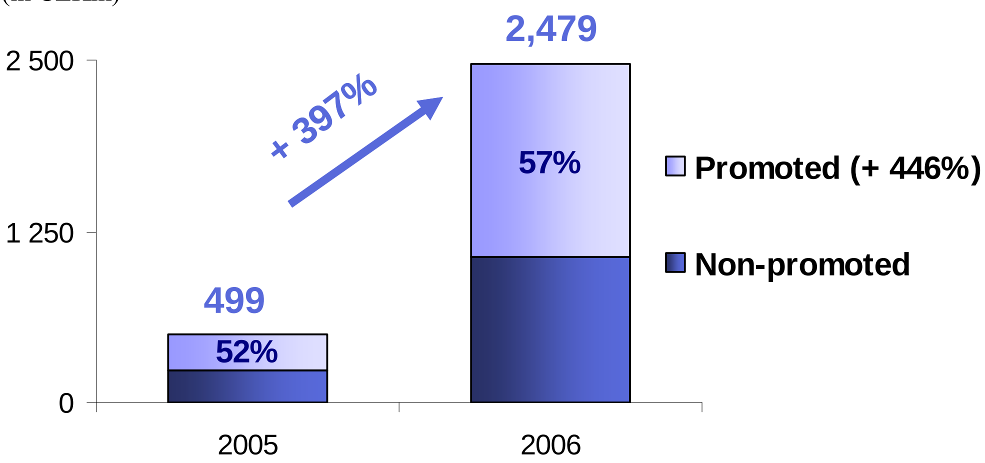
The Romanian market in 2006

Population[1]	21.8m
Pharmaceutical market size[2]	US$1.3bn
Pharmaceutical market performance (in USD)	+ 30.1%
Zentiva's Romanian sales	US$109.7m

Source: [1] EIU, [2] Cegedim (Retail Market), 12 Months to December 31, 2006

Zentiva has made significant progress in Romania in 2006 and it is now the company's second largest market. Zentiva is now clearly the number one generics company in Romania. The company is the fourth largest pharmaceutical company overall in terms of sales by value with 6% of the market. This strong market position is the result of the success of its own original organisation together with the transforming acquisition of Sicomed S.A. which took place in October 2005. The other leading pharmaceutical companies operating in Romania are GSK, the market leader by value, Roche, Novartis and Servier.

(in CZKm)



(in CZKm)	2005	2006	% change
Total sales	498.5	2 478.7	397.2%
Promoted product sales	258.8	1 413.6	446.2%
Commercial Staff	111	228	105.4%

In 2006, Zentiva's Romanian business has benefited from the launch of a growing number of the company's internationally recognized brands allowing us to leverage our much enlarged commercial platform. During the year, Zentiva's Romania business made significant progress recording sales of CZK 2,478.7 million, close to five times the level achieved in 2005. In local currency terms the overall growth in 2006 was 399.5%. In 2006 the brands of the former Sicomed contributed CZK 1,607.4 million to our sales in Romania, 64.8% of the total.

Amongst Zentiva's top international promoted brands which have done well in Romania are the cardiovascular drugs Simvacard (simvastatin), the antibiotic Azitrox (azithromycin), the psychotic drug

Rispen (risperidon) and the pain killer Tralgit (tramadol). The largest contributors to sales amongst the company's established local brands, most of which are CHC products, were Algocalmin (metamizol), the analgesic Antinevralgic P (paracetamol,codeine and aspirin) and Dicarbocalm (multivitamin).

Zentiva introduced a significant number of its internationally successful brands in Romania in 2006. New launches included the cardiovascular drugs Vasocardin (metoprolol) and Atram (carvedilol), the CNS drug Rispen (risperidon), and the urological drug Fokusin (tamsulosin). Other important products introduced during the year include the alimentary drug Helicid (omeprazole), the painkillers Tralgit (tramadol), Coxtral (nimesulide) and Recoxa (meloxicam) as well as the CHC products Calibrum (multivitamine) and Ibalgin (ibuprofen).

The Polish Market

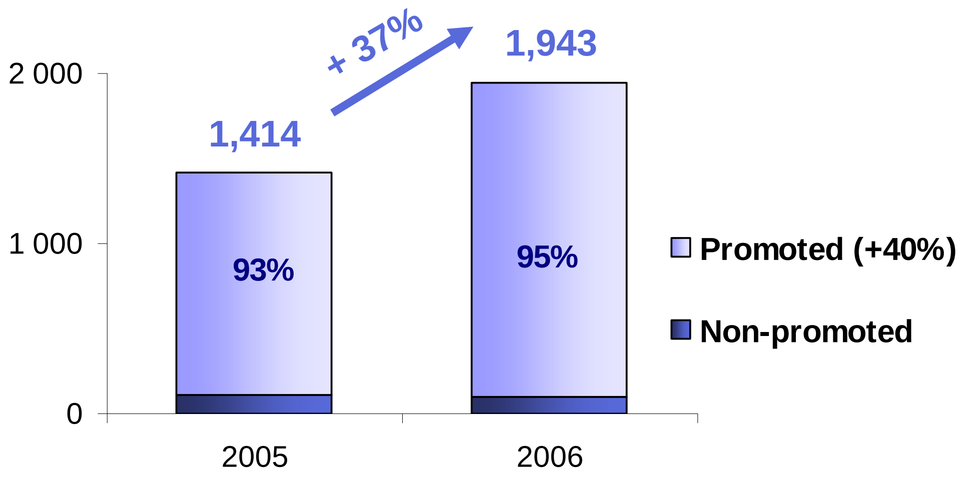
The Polish market in 2006

Population[(1)]	38.2m
Pharmaceutical market size[(2)]	US$4.2bn
Pharmaceutical market performance (in USD)	+ 7.7%
Zentiva Polish sales	US$86.0m

Source: [(1)] EIU, [(2)] IMS (Retail Market), 12 Months to December 31, 2006

Zentiva's third largest market is Poland having overtaken Slovakia in terms of sales due the rapid expansion of its Polish business. Zentiva continued to be the fastest growing company of the top 20 pharmaceutical companies in 2006 further enhancing the company's overall market position. The company has only a small position in the CHC market having only entered this business in Poland in 2006. The leading pharmaceutical companies in Poland are Polpharma, GSK, Servier, Sanofi-aventis and Sandoz (part of Novartis).

(in CZKm)



(in CZKm)	2005	2006	% change
Total sales	1 414.0	1 943.0	37.4%
Promoted sales	1 309.5	1 839.3	40.5%
Commercial Staff	350	501	43.1%

In 2006, Zentiva continued its rapid growth in Poland with sales increasing 37.4% to CZK 1,943.0 million. In local currency terms Polish sales increased 40.3% in 2006.

The growth seen in 2006 was due to the continued success of the urology products Penester (finasteride), Zoxon (doxazosine), the anti-ulcer drug Helicid (omeprazole), as well as a significant contribution by the lipid lowering drug Simvacard (simvastatin). The success of Simvacard is the result of Zentiva's dedicated cardiovascular business unit which was established at the start of 2005. Simvacard is now one of the leading selling lipid lowering drugs in the Polish market and Zentiva's second most important brand in this country. The new cardiovascular unit has also ensured that the company's more recently introduced lipid lowering drug Torvacard (atorvastatin) has made extremely good sales progress.

Zentiva's decision to broaden its offering to many more therapeutic areas of the Polish market is clearly paying dividends. However, achieving the full potential of these brands has been delayed due to the long expected decision on Polish categorization of product reimbursement not yet being implemented. In 2006, important contributions to sales were achieved by the recently introduced anti-inflammatory drug Aglan (meloxicam), the antibiotic Azitrox (azithromycin) and the analgesic Modafen (ibuprofen and pseudoephedrine). Other products which have done well in recent months are the urology drug Fokusin (tamsulosin) and the anti-hypertensive Lozap (losartan).

New launches in Poland in 2006 were the urological drug Fokusin (tamsulosin), the cardiovascular drugs Agen (amlodipin), Atram (carvediol), Lozap (losartan) and Torvacard (atorvastatin). Further important introductions included the CNS drugs Esprital (mirtazapin) and Rispen (risperidon) and the painkiller Coxtral (nimesulide).

The Slovak Market

The Slovak market in 2006

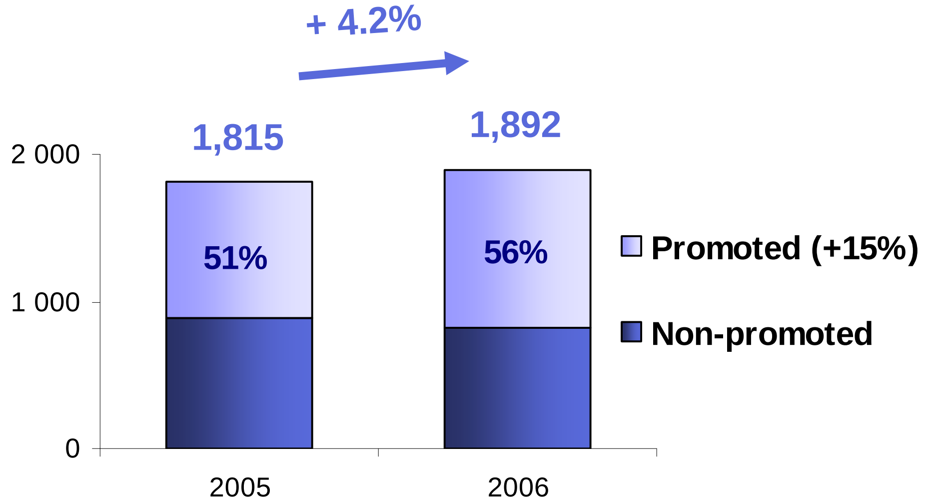
Population[(1)]	5.4m
Pharmaceutical market size[(2)]	US$0.8bn
Pharmaceutical market performance (in USD)	19.5%
Zentiva Slovak sales	US$83.7m

Source: [(1)] EIU, [(2)] IMS (Retail Market), 12 Months to December 31, 2006

Slovakia became Zentiva's fourth largest market in 2006 as a result of the group's rapid expansion in both Romania and Poland. However, Zentiva remains the leading supplier of prescription and CHC medicines in this country, a position it has held for many years. The Company's leadership in the prescription pharmaceutical market is based on its strong position in the primary care market and in particular the cardiovascular, CNS and alimentary therapeutic categories.

Zentiva has approximately 31% of the overall market for pharmaceutical products in Slovakia by volume. In value terms the Company has about 10% of the market. Zentiva's leading position in the Slovak market is the result of its dominant share of the branded generics market. Other important companies operating in the Slovakian pharmaceutical market include Novartis, sanofi-aventis, Roche and GSK.

(in CZKm)



(in CZKm)	2005	2006	% change
Total sales	1 815.3	1 891.6	4.2%
Promoted product sales	926.6	1 068.2	15.3%
Commercial Staff	123	120	(2.4%)

In 2006, Zentiva increased its sales by 4.2% to CZK 1,891.6 million. The slower growth in Slovakia in 2006 has led to it becoming Zentiva's the fourth largest market in terms of sales, it was the Group's second largest in 2005. However, Zentiva is still the country's leading pharmaceutical company and Slovakia remains and will remain an important market for Zentiva in terms of volumes and sales efficiency.

In 2006, Zentiva has continued to improve the quality of its Slovak business. In local currency terms, 2006 sales in Slovakia increased by 6.2%.This has been achieved by focusing on maximizing the volume sales of its promoted brands. During the period, sales of Zentiva's promoted prescription brands performed well increasing sales by 23.3% while non-promoted brands saw a 7.4% sales decline due to the lower prices and volume declines experienced by its older portfolio products.

The company's modern branded prescription drugs made the most important sales contribution in Slovakia in 2006. These include the recently introduced lipid lowering drug Torvacard (atorvastatin), which is now one of Zentiva's top products in the Slovak market, the anti-hypertensive Lozap (losartan), the pain killer Tralgit (tramadol), the anti-ulcer drug Helicid (omeprazole) the anti-inflammatory Coxtral (nimesulide), as well as the cardiovascular drug Agen (amlodipin). The CHC product Ibalgin (ibuprofen) also saw higher sales.

New launches in Slovakia in 2006 included the cardiovascular drug Torvacard (atorvastatin), the painkiller Recoxa (meloxicam) and urological drug Fokusin (tamsulosin).

The Russian Market

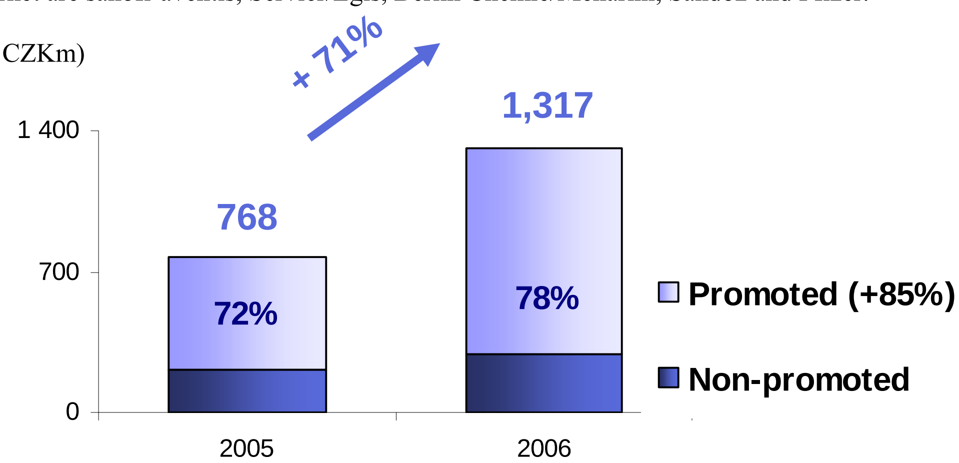
The Russian market in 2006

Population[(1)]	144.2m
Pharmaceutical market size[(2)]	US$5.0bn
Pharmaceutical market performance (in USD)	+ 28.1%
Zentiva Russian sales	US$58.3m

Source: [(1)] EIU, [(2)] RMBC database in wholesalers' prices (Commercial + reimbursement Retail Market), 12 Months to December 31, 2006

Zentiva's fifth largest market is the Russian region. In the last two years, Zentiva has considerably strengthened its position in the Russian market due to the successful introduction of a number of its key promoted brands. Zentiva ranks among the volume and value leaders in the treatment of BPH (benign prostatic hypertrophy), hypolipidemia, with its lipid lowering "sartans", as well as nasal decongestants and antimycotics. The company also has a very significant CHC business in Russia given the importance of this market segment, which was established before the introduction of the new government funded reimbursement system (DLO) in 2005. The leading companies operating in the Russian Pharmaceutical market are sanofi-aventis, Servier/Egis, Berlin Chemie/Menarini, Sandoz and Pfizer.

(in CZKm)



(in CZKm)	2005	2006	% change
Total sales	768.3	1 316.8	71.4%
Promoted product sales	552.7	1 023.2	85.1%
Commercial Staff	162	226	39.5%

In the Russian region, Zentiva continued to grow at an attractive pace in 2006 with total sales of pharmaceutical products increasing by 71.4% to CZK 1,316.8 million. In local currency terms, Russian sales grew by 85.4% in 2006. In 2006, Zentiva's sales in Russia were split as follows approximately 30% DLO sales, 33% prescription "private market" sales and 37% CHC sales.

The most significant contributors to Zentiva's sales growth in 2006 were the anti-hypertensive drug Lozap (losartan), the cardiovascular drug Simvacard (simvastatin) as well as the urology drugs Penester (finasteride) and Zoxon (doxazosine), both of which are used to treat benign prostatic hypertrophy. The lipid lowering drug Torvacard (atorvastatin) has also done well.

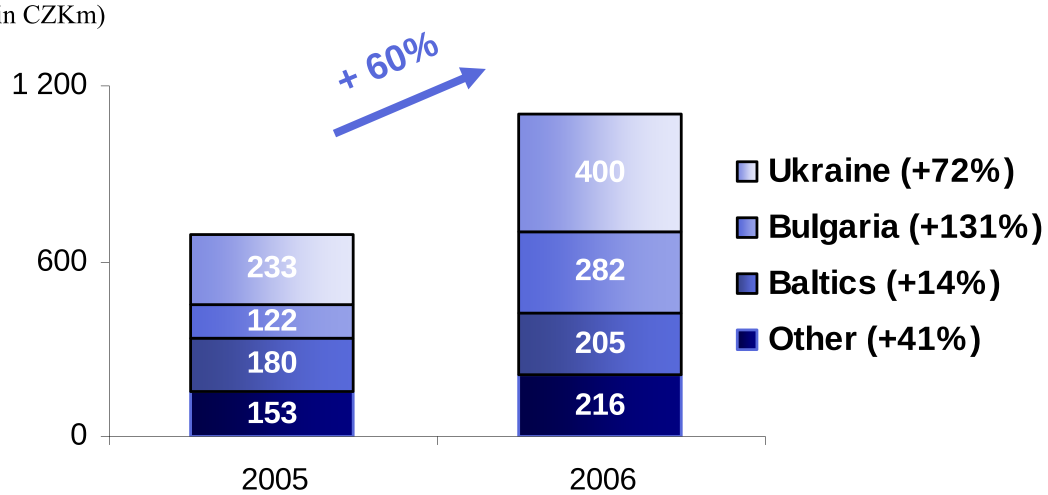
Within the CHC segment the respiratory drug Pinosol, the antimycotic Mycomax (fluconazole) and Vitamin E were important contributors to Zentiva's increased sales.

New launches in 2006 were the cardiovascular drug Torvacard (atorvastatin) and urological drug Fokusin (tamsulosin).

Other Markets

In addition to its five core markets, Zentiva has been rapidly developing its business in a number of other important countries in Central and Eastern Europe such as Ukraine, Bulgaria and Baltic states. In aggregate these Other markets now generate 8% of total pharmaceutical sales. The growth is based on the expansion of our core branded portfolio into these markets. The share of promoted product sales increased from 21% in 2005 to 62% in these newer markets in 2006.

(in CZKm)



(in CZKm)	2005	2006	% change
Ukraine	232.6	399.8	71.9%
Bulgaria [(1)]	122.4	282.3	130.6%
Baltic	179.6	205.3	14.3%
Other	153.1	215.9	41.0%
Total	687.7	1,103.3	60.4%

[(1)] Sales in Bulgaria reflect significant to-market deliveries, ahead of forseen temporary administrative complications related to EU transformation.

The growth in these areas along with rapid progress that has been made in Romania confirms Zentiva's business strategy of expanding into these newly emerging pharmaceutical markets in the region. The recent entry into the Hungarian market and Zentiva's largest ever acquisition of Eczacıbaşı Generic Pharmaceuticals, one of the leading generic pharmaceutical companies in Turkey, which was announced recently, are further key steps in implementing of this strategy.

9. R&D NEW PRODUCTS TO DRIVE ZENTIVA'S EXPANSION

Zentiva's rapid growth in recent years has been to a large degree based the success of the company's R&D function. The most visible element of the success of Zentiva's R&D has been the exciting portfolio of modern branded generics that the Company has introduced in recent years. These include the anti-hypertensive, Lozap (losartan), the lipid lowering agents Simvacard (simvastatin) and Torvacard (atorvastatin), the pain killer Tralgit (tramadol), the urological product Fokusin (tamsulosin), the anti-ulcer drug Helicid (omeprazole) as well as the antibiotic Azitrox (azithromycin). These new brands have not only driven Zentiva's sales growth but have also increased the Company's profitability. This is because of their much gross higher margins versus the in-licensed products which used to form a significant part of Zentiva product portfolio in the late 1990s.

The Zentiva Approach to R&D

Zentiva has a very structured and commercially led approach to its product development process. This process is driven by two key considerations:

- The need to develop products that will clearly contribute to Zentiva's rapidly growing business in the primary care sector of the markets in which it operates and;
- The limited number of products which can be developed at any one time given the protection that originator manufacturers continue to enjoy based on their patents as well as rules covering access to pre-clinical and clinical data.

Zentiva adopts a team orientated approach to the development of its new projects. This is because of the broad requirements that are needed to gain regulatory approval as well as to ensure that the Company is in a position to supply the product, once approved, at the quality demanded for modern therapeutic products by the regulatory authorities.

R&D at Zentiva – Industry Leading Expertise

In 2006 Zentiva spent CZK 556.0 million, equivalent to 4.0% of sales on R&D. At present there are 120 people employed in Zentiva's corporate R&D function which focuses on the development of new branded generic products.

In addition to this corporate R&D function, the Company has another R&D function which is focused on improving the quality and efficiencies of Zentiva's API (active pharmaceutical ingredients) production.

Zentiva's R&D function is based in Prague (Czech Republic) and in Hlohovec (Slovakia). These two sites work as a unified organization that has clearly contributed to the successful development of Zentiva's business.

In addition to its very commercial approach to R&D, Zentiva's ability to continue to introduce exciting new modern branded generic products is the result of the company's investment in state of the art equipment and facilities. These include formulation and pilot production facilities, and analytical laboratories, which allows it to work on a range of dosage forms.

A further key strength is Zentiva's highly motivated regulatory department which has strong relationships with the regulatory authorities in the Company's core markets.

Zentiva has one of the strongest R&D departments in the generics industry in Europe and has already established an excellent track of rapidly delivering new prescription branded generics, as well as new formulations of the Company's leading CHC products to the market.

Branded Generics – Completing the Approval Process

The approval process which Zentiva needs to complete to gain marketing approval for its branded prescription generic products is in many ways very similar to that undertaken by international research based pharmaceutical products.

However there are two important steps which are different in the development work needed to gain approval for a generic product, these are:

- Companies such as Zentiva do not need to carry out either pre-clinical or clinical studies for their branded generic products as they are able to use data generated by the originator company. These data formed part of the regulatory approval package for the novel medicine when it first reached the market.

- Companies such as Zentiva have to undertake studies which clearly show that their new branded generic product is bioequivalent to the original product that is already on the market. i.e. the generic formulation of the drug delivers the same amount of active ingredient to the body and as a result is expected to provide the same clinical benefit. Based on proving the bioequivalence of its product, Zentiva is then able to utilise the pre-clinical and clinical data generated by the company that originally developed the drug in question in order to gain approval.

Another important regulatory development which has been helpful to Zentiva has been the Mutual Recognition Procedure (MRP). This is a procedure which operates in the EU is designed to streamline the process of gaining product approvals. Under this procedure the assessment and marketing authorisation by one Member State of the EU (Reference Member State) should be “mutually recognised” by the other member states.

The key benefit of MRP to Zentiva is that it only needs to file for the approval of its new branded generic products with one regulatory agency. Once it has gained approval via this one agency it is then in a position to rapidly gain approval and access to the other markets of the EU. By using the MRP, Zentiva is able to bring products to the market more rapidly and at lower cost than was possible when applications needed to be made to each of the countries in which it wanted to launch its products.

The Current Zentiva Pipeline

Zentiva’s strategy of growing its business via its own self developed promoted brands means that new product development is a key determinant of the company’s success.

In recent years, Zentiva has been investing in its Research and Development capability in order to provide the new branded products needed to support its growing sales and marketing organization.

Given Zentiva’s primary care focus, its product pipeline is centered on the therapeutic areas which are mainly treated by primary care physicians.

The company received 121 new marketing authorizations including 64 via MRP (mutual recognition procedure) during the course of 2006 in Zentiva’s five core markets (CZ, RO, PL, SK, RU). In all of the markets in which Zentiva operates, the Company received a total of 337 new marketing authorizations in 2006, of which 166 were via MRP. These include registrations of new products and line extensions of existing products. In 2006, Zentiva received first time registrations for products based on a five new molecules.

The company submitted a total of 87 marketing authorization applications during 2006 in Zentiva’s five core markets, 36 of which were via MRP. Across all of the markets in which it operates Zentiva submitted 234 marketing authorization applications during 2006 of which 93 were MRP applications.

As of December 31, 2006 the Company had a total of 85 marketing authorization applications pending in its five core markets for the sale of pharmaceutical products. This figure includes the registration of new products, the registration of existing products in new territories, and line extensions on existing products. Ten of these pending applications were made using MRP. Across all of the markets in which it operates

Zentiva had 158 marketing authorization applications pending at the end of 2006, of which 42 were via MRP.

10. ZENTIVA´S HIGHLY COMPETITIVE SUPPLY CHAIN

As a leading producer of branded generic products it is vital that Zentiva is able to manage and grow its supply chain so that it is able to deliver to the market high quality products at low cost. It is impossible to overstate how important it is for Zentiva to be cost competitive if it is to continue to build its regional business against a background of constant pressure on prices from both governments and competitors.

Multi-Pronged Approach to Low Cost Production

An important element of Zentiva's culture is its constant focus on developing highly efficient business processes. This culture is a central element of the management of the company's supply chain.

The key components of Zentiva's supply chain that are subject to continuous review and improvement include:

- **Procurement.** Zentiva has an aggressive policy of seeking out the lowest cost suppliers of the raw materials that it needs. Zentiva now enjoys much greater purchasing power given its very rapid growth in recent years, which has enabled it to negotiate lower prices from its raw material suppliers. Given its rapid growth in the last three years Zentiva is now one of the largest volume manufacturers of pharmaceuticals in Europe, providing the Company with significant economies of scale. The acquisition of Eczacıbaşı Generic Pharmaceuticals with its significant production capacity in Turkey will provide further scale benefits.

- **API Production and Sourcing**. As Zentiva's portfolio of modern branded generics has grown so has the Company's need for the appropriate APIs. In 2006 the Company produced 20% of its API requirements internally. This internal sourcing is an important positive for Zentiva's profitability given the much lower cost of internally sourced APIs. To ensure that this percentage will continue to increase Zentiva is both investing in the research needed to extend its API production skills while at the same time selecting products to add to its branded generics portfolio which it has the ability to supply in-house.

  In addition, to producing more of its API requirement internally Zentiva has been more aggressive in the sourcing of the APIs that it does not manufacture. This has involved ensuring as far as possible that it has two suppliers for each important API and signing longer term supply contracts with these parties in order to achieve the lowest price possible.

- **Manufacturing.** The state of the art GMP facilities that Zentiva operates in Prague and Hlohovec enables the Company to supply high quality products to all of its markets Zentiva's production facility in Bucharest has Romanian GMP approval and its entire production capacity is used to supply the local market.

  Zentiva manufactures its products in a linear process with the process for each product being subject to strict quality and contamination controls. A key element of this contamination control is that each production line only manufactures one product at a specific dosage form at any point of time. Once all of the ingredients have been produced, the dosages of all of the components of the final dosage form needed by the market are measured and combined.

Three Sites – Specialised Production Capabilities

In 2006 Zentiva produced a total of 336 million pharmaceutical packs, this represents capacity utilization rate of close to 75%.

Each of Zentiva's three production sites is focused on certain products and dosage forms:

- The Prague facility in the Czech Republic produces solid form products, semi solid form products, injections and liquids.
- The Hlohovec facility in Slovakia produces solid form products, effervescent tablets, liquids, soft gelatine capsules and ointments.
- The Bucharest facility in Romania produces solid dosage forms and injections.

Once the respective dosage forms have been produced, they are packed and quarantined and then tested to ensure that they meet the quality standards set out by the various regulatory authorities that Zentiva's products have to comply with.

Production Investments in 2006

In 2006, Zentiva made investments in a number of important new production facilities and capacity. In Prague the company invested in a new facility to manufacture highly active APIs. This was a challenging project given the need to produce products of the required standard, while ensuring that Zentiva's employees are properly protected and that the facility does not adversely impact the environment. The most important investment in the Hlohovec facility in 2006 was the construction of new capacity to produce the anti ulcer drug Helicid (omeprazole).

The following table sets forth current information relating to the Company's principal production facilities:

Location	Size of Site (square metres)	Description	Size of Production Facilities (square metres)	Size of Production Facilities (including stock) (square metres)	Tenure/ Owner-ship
U Kabelovny 130 102 37 Prague 10 Czech Republic	136,020	6 production buildings 2 laboratory buildings, 1 sewage disposal building, 1 incinerator	36,927	54,994	Ownership by Zentiva a.s. (Czech Republic)
API			3,093	4,528	
Branded pharmaceutical products			33,834	50,466	
Nitrianská 100 920 27 Hlohovec Slovakia	467,800	10 production buildings 2 laboratory buildings, 1 sewage disposal building	78,705	123,357	Ownership by Zentiva a.s. (Slovakia)
API			24,817	39,599	
Branded pharmaceutical products			53,888	83,758	
50 Theodor Pallady Blvd. 032266 Bucharest Romania	76,980	3 production buildings 1 laboratory (included in Administration building)	15,403	25,122	Ownership by Zentiva SA (Romania)
API			0	0	
Branded pharmaceutical products			15,403	25,122	

11. OUR PEOPLE – CENTRAL TO INTERNATIONAL GROWTH

Zentiva's ambition is to be the leading pharmaceutical company in Central and Eastern Europe. To achieve this goal it is vital that Zentiva continues to recruit, retain and develop the talented people needed to deliver its growth targets.

In the last several years Zentiva's human resources department has focused on ensuring that the company can continue to attract the talented people needed to ensure its growth. In addition, it has played a key role in ensuring the company provides the correct environment so that we can support our employees in terms of their career aspirations. A number of initiatives taken by the Human Resources team to achieve both of these goals include:

- Creating international opportunities so that people can be moved across the Zentiva organisation to gain experience and enhance the Company's overall performance,
- Enhancing the pool of leaders, within the Company, who have the vision and motivational skills needed to drive the business forward towards its ambitious targets.
- Creating tomorrow's senior management team by developing a new talent management system within Zentiva, which allows us to both recruit and identify within our organisation the people who can make a key difference to the Company's future success.

As a result of such activities Zentiva is very well regarded as an employer. A recent survey in the Czech Republic voted Zentiva as the third most desired employer in the country.

The positive view of working at Zentiva has also been highlighted in a recent companywide survey of its employees which showed that employees appreciated its loyalty, leadership, relationships and processes. They were also appreciative of Zentiva's standard of care of employees and its employee benefits.

Number of employees

	31.12.2005	31.12.2006	% change
Total number of employees	4,237	4,678	10.4%
Of that Commercial Staff	1,262	1,708	35.3%

Building a Stronger Commercial Organization

In the last three years Zentiva has grown its commercial organisation significantly. This is to support the growth the company has delivered in markets such as Romania, Poland and Russia as well as some of the smaller markets in the region.

In order to manage this much larger organization Zentiva has made some important changes to the management structure of its commercial operation. These changes have been designed to allow the company to manage its rapid regional growth while at the same time being very aware of local market dynamics in each of the countries in which it operates.

To achieve this goal, Zentiva has decided to cluster each of its local companies into four zones to give more attention and management time to our priority markets in order to ensure that we reach our strategic objectives and that we are able to support our customers through ensuring that all Zentiva standards are implemented at all times.

The role of the company's four new zone managers is to provide improved quality of management support from Zentiva's headquarters to our strategically important priority markets in CEE. These new appointments will also help Zentiva to get a better understanding of the local markets and their needs and connect all the processes in Zentiva to optimise the performance of each of the local companies.

These new appointments are not designed to undermine the importance of each of our local general managers as they remain crucial to Zentiva reaching our local objectives both strategically and financially. This local management input is crucial as the health system in each country is different, as is the supply system and the regulatory environment.

The company's new four zones are as follows:

- the Czech and Slovak zone
- the Balkan zone covering Romania and Bulgaria,
- the Baltic zone covering Poland, Lithuania, Latvia and Estonia
- the CIS zone covering Russia, Ukraine, Belarus and the Caucasus countries

It is clear that with its growing footprint across the region and expanding sales in each of its markets that this new zonal management structure will play key role in Zentiva's future success.

Close links with key Universities

Looking further ahead Zentiva is continuing to build on its strong relationship at key Universities in the Czech Republic and Slovakia. The company has engaged in a range of activities to raise the Company's profile amongst talented young people: Zentiva Day, trainee programmes for graduates, scientific seminars for industrial pharmacies, scientific excursions, as well as providing support on students' theses and advice on students' professional development.

12. ZENTIVA – A COMMITTED SOCIAL PARTNER

An important element of Zentiva's culture is commitment to being a highly supportive social partner in the key markets in which it operates. It is Zentiva's view that being involved in society on a broader basis sits well with its business which is focused on improving healthcare.

The Czech Republic

In 2006, Zentiva was awarded the prestigious Trebia Award for its outstanding support of the arts, and it is easy to see why.

Last year, Zentiva was the partner of the Prague Autumn International Musical Festival for the fifteenth time. The festival brings world famous orchestras, soloists, singers and conductors to Prague. Zentiva also supported the Febiofest which is the Central-European film festival of films and cartoons. Zentiva sponsored the film *I Served the King of England* which was awarded four Czech Lions.

In sports, Zentiva was proud to support the Czech Olympic Team at the Winter Olympics in Turin in 2006. Zentiva was also the general partner of the traditional Prague race of eights (rowing), the Primátorky (Mayor's Cup) for the second year running.

Slovakia

Zentiva supports numerous charities in Slovakia, such as the Slovak Paralympic Committee, Child Safety Line, the League for Psychic Health and the Slovak Humanity Committee.

The Company also supports the Bratislava Music Festival, the most prestigious musical festival in Slovakia. Zentiva is a keen supporter of performing arts, establishing a long-term working relationship with the Andrej Bagar Theatre in Nitra.

Zentiva is very interested in supporting the education system in Slovakia. Not only at the Primary and Secondary school levels, but also at the higher education level in colleges and universities, such as the Slovak Medical University.

Romania

Zentiva has continued its partnership with one of the largest international educational platforms for young people, AIESEC. Zentiva partnered with AIESEC in a project named "Sustainability Day", a workshop aimed to stimulate debate amongst young people in topics such as the healthcare system and education.

In 2006, Zentiva became the founding partner of Casa Campionilor Foundation or Champions' House. The foundation aims to help young people in sport. Zentiva and the Foundation developed together two important projects: "Vreau sa Fiu Campion" or "I want to be a Champion" aimed to encourage performance in young athletes and "Campioni de Legenda" or "Legendary Champions" which awards sport icons.

Zentiva is also involved in the arts in Romania. The company sponsored the Mozart Festival celebrating 250 years since the birth of the famous composer, which is a joint event held at the Vienna and Bucharest City Halls.

13. BOARD OF DIRECTORS REPORT

Zentiva had a very successful year in 2006 producing record results which met its own and the stockmarket's expectations. This very positive outcome is based on the Company's well defined operational and financial strategy. An important contributor to the record results in 2006 has been the successful integration of Sicomed S.A. in Romania, which as anticipated has been an earnings enhancing transaction and has provided a strong platform for future growth.

The excellent figures which were achieved in 2006 again reflect the core elements of Zentiva's financial strategy which are:

- A highly efficient supply chain - the Company achieves attractive gross margins due to the efficient management of its supply chain including the use of more in-house sourced APIs. Gross margins are also positively impacted by the growing proportion of the Company's sales coming from its own branded generics portfolio.
- Investment in the sales and marketing capability - to continue to drive the sales of Zentiva's promoted product portfolio in the primary care segment of the markets in which it operates. In 2006, Zentiva continued to make significant investments in this core business area as it continued its aggressive regional expansion. The investments that were made in 2006 are expected to further benefit sales in 2007.
- Investment in the R&D - to ensure the company has the R&D skills and capacity needed to bring new exciting branded products to the market. These new products are central to Zentiva's growth strategy. In 2007 Zentiva expects to bring approximately the same number of new products to the markets in which it operates, as it did in 2006.

In addition to these operating financial targets, Zentiva is also working to capitalize on the Company's strong financial position and its strong cash generation. The Company used the Romanian acquisition as an opportunity to gear its balance sheet by financing this acquisition from its cash resources and from new debt facilities.

Below we have set out in more detail the elements of Zentiva's financial performance in 2006.

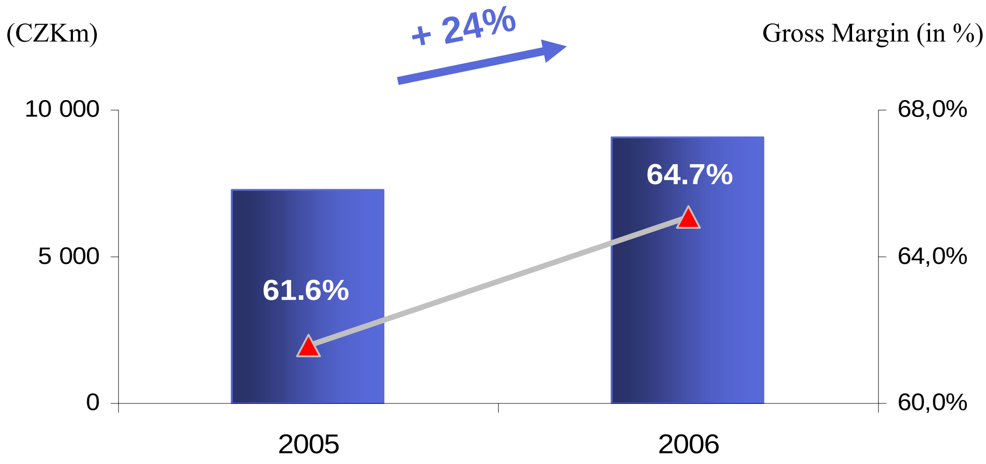
Sales

(in CZKm)	2005	2006	% change
Total sales	11,839.4	14,003.1	18.3%
Pharmaceutical sales	10,511.4	13,821.5	31.5%
Commercial Staff (as at 31 December)	1,262	1,708	35.3%

In 2006 Zentiva's sales increased 18.3% to CZK 14,003.1 million from the CZK 11,839.4 million achieved in 2005. The key factor behind the growth in sales continues to be Zentiva's rapid expansion in Romania, Russia and Poland as well a number of the new markets which the company is targeting. These include the Ukraine, Bulgaria and the Baltic States. Sales in the Czech Republic declined in 2006 due to government measures to contain healthcare costs however sales increased in the fourth quarter as the market improved. Sales in Slovakia showed moderate growth in 2006.

Zentiva's performance in 2006 was also very encouraging in terms of the Company's sales mix. This was the result of the strong growth in our core pharmaceuticals business more than off-setting the declining sales seen in non-core activities, such as APIs and other product sales including sales deductions. In 2006 pharmaceutical sales increased by 31.5% to CZK 13,821.5 million while our non core businesses saw sales decline more than 86% to CZK 181.7 million.

Gross Profit



(in CZKm)	2005	2006	% change
Gross Profit	7,295.4	9,062.6	24.2%
Gross Margin	61.6%	64.7%	

Zentiva's gross profit increased by 24.2% to CZK 9,062.6 million in 2006. Gross margin improved to 64.7% from 61.6% in 2005. This improvement in gross margin is due to a number of factors including the continued modernisation of our product portfolio, better sourcing of raw materials, an improved geographic sales mix and most importantly the increasing proportion of sales generated by higher margin promoted brands. During the year the gross profit was depressed by one-off costs of CZK 64 million relating to the acquisition of Sicomed in Romania. This figure was made up of CZK 23 million in inventory revaluations, and inventory write offs of CZK 41 million.

Operating Expenses

Sales & Marketing

(in CZKm)	2005	2006	% change
Sales & Marketing Expenses	2,773.9	3,609.0	30.1%
As % of Sales	23.4%	25.8%	

The Company's sales and marketing expenses increased by 30.1% to CZK 3,609.0 million in 2006. This higher expenditure is due to the significant expansion of Zentiva's commercial activities in Romania, Poland and Russia as well as number of other markets. However this increase in expenditure is lower than the 53.0% sales growth in 2006 for our promoted products. In addition there were certain extraordinary items which impacted our sales and marketing expenses as a result of the consolidation of Zentiva's Romanian subsidiary. In total the impact for 2006 was CZK 91 million, including a CZK 13 million extraordinary amortization charge due to brand value impairment and a CZK 78 million fair value amortization adjustment.

During the course of 2006 Zentiva increased the number of employees in its commercial organization by 35% to CZK 1,708. The countries which have seen the biggest investment in sales and marketing are Poland, where we entered the cardiovascular market and in addition created a CHC team, Russia, where Zentiva had a number of new product introductions and Romania where Zentiva established its new enlarged commercial infrastructure in January 2006. In terms of Other markets, Zentiva has launched successful projects to expand its commercial operations in both Bulgaria and the Ukraine in 2006.

Research & Development

(in CZKm)	2005	2006	% change
Research & Development Expenses	492.5	556.0	12.9%
As % of Sales	4.2%	4.0%	

Zentiva's research and development expenses increased by 12.9% to CZK 556.0 million in 2006. This represents 4.0% of sales, which is at the low end of Zentiva's spending target of 4.0 – 4.5% of sales and in part reflects the acquisition of Sicomed in Romania which had a much lower ratio of R&D expenditure. The growth in spending reflects the investment needed to generate the new branded products which are central to the Company's growth internationally.

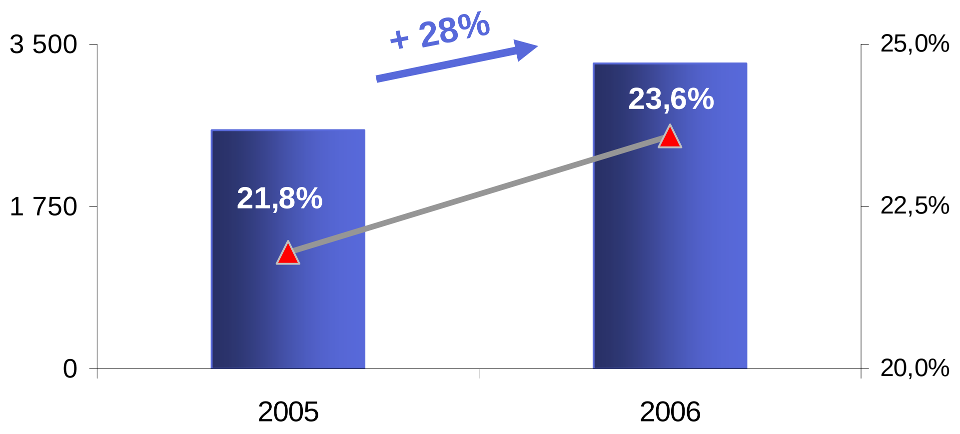
General & Administrative

(in CZKm)	**2005**	**2006**	**% change**
General & Administrative Expenses	1,450.7	1,594.5	9.9%
As % of Sales	12.3%	11.4%	

The Company's general and administrative expenses in 2006 increased by 9.9% compared to 2005 to CZK 1,594.5 million. This increase in general and administrative expenses was mainly due to higher personnel costs as a result of consolidation of the company's new Romanian subsidiary. In this period there was a CZK 15 million one-off adjustment relating to a provision for receivables in Zentiva SA and a one-off gain of CZK 92 million as a result of a sale of a parcel of unused land in Romania in September 2006.

Profit before Tax and Finance Costs (EBIT)

(in CZKm) EBIT margin (in %)



(in CZKm)	2005	2006	% change
EBIT	2,578.3	3,303.1	28.1%
EBIT Margin	21.8%	23.6%	

The Company's Profit before Tax and Finance costs increased by 28.1% to CZK 3,303.1 million in 2006 compared to CZK 2,578.3 million in 2005. The Profit before Tax and Finance cost margin increased to 23.6% compared to 21.8% in 2005. This is the result of the gross margin improvement being partially offset by increased investment in sales and marketing as the company continued to extend its geographic footprint. The EBIT figure for 2006 was also impacted by a total of CZK 80 million in extraordinary items. This figure is made up of a CZK 64 million which was in cost of goods sold, CZK 91 million which was in sales and marketing and CZK 15 million which impacted administrative expenses. These one-off costs were partially offset in the third quarter when Zentiva recorded a gain as a result of a sale of unused parcel of land in Bucharest, Romania. Excluding these extraordinary items, which are related to our Romanian subsidiary, the EBIT margin would have been 24.2%.

Net Interest and Other Financial Results

(in CZKm)	2005	2006	% change
Interest Income	28.1	27.0	(4.0%)
Interest Expense	(46.3)	(116.9)	152.5%
Other Financial Costs	109.5	(123.9)	n/m
Net Interest and Other Financial Result	91.5	(213.8)	n/m

In 2006, Zentiva had net interest expense of CZK 89.9 million. This compares with a net interest expense in 2005 of CZK 18.1 million.

This higher net interest expense reflects Zentiva's decision to leverage its financial structure by financing the acquisition of Sicomed SA in October 2005, using a mixture of the company's cash resources and additional debt.

During 2006, Zentiva recorded other financial costs of CZK 123.9 million versus income of CZK 109.6 million in 2005. The financial costs in 2006 are largely negative net foreign exchange translation effects of CZK 101.7 million this compares to net foreign exchange gains of CZK 65.2 million in 2005.

Profit before tax

(in CZKm)	2005	2006	% change
Profit before tax	2,669.8	3,089.3	15.7%
Profit before tax Margin	22.6%	22.1%	

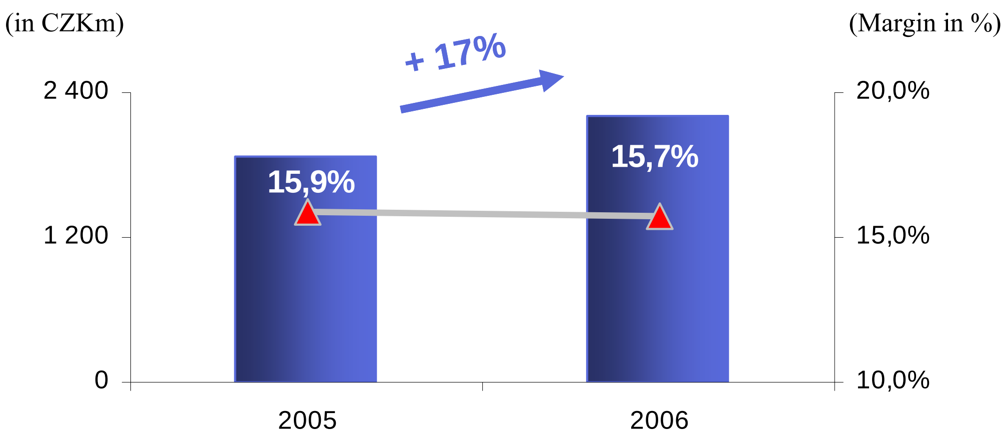
The Company's profit before tax increased by 15.7% to CZK 3,089.3 million in 2006 from CZK 2,669.8 million in 2005. The increase is the result of the very strong operating performance being undermined by a total of CZK 80 million in extraordinary items related to the acquisition of Sicomed, higher interest expenses and a much higher level of financial expenses due to net unrealized foreign exchange losses.

Income tax expense

(in CZKm)	2005	2006	% change
Income Tax Expense	741.2	800.0	7.9%
Effective tax Rate	27.8%	25.9%	

The Company's tax charge increased by 7.9% in 2006 to CZK 800.0 million from CZK 741.2 million in 2005. The effective tax rate was 25.9% versus 27.8% in 2005.

Net profit attributable to equity holders of the parent (Net Profit)



(in CZKm)	2005	2006	% change
Net Profit	1,877.5	2,203.2	17.3%
Net Profit Margin	15.9%	15.7%	

The Company's net profit attributable to equity holders of the parent increased by 17.3% to CZK 2,203.2 million in 2006 from CZK 1,877.5 million in 2005.

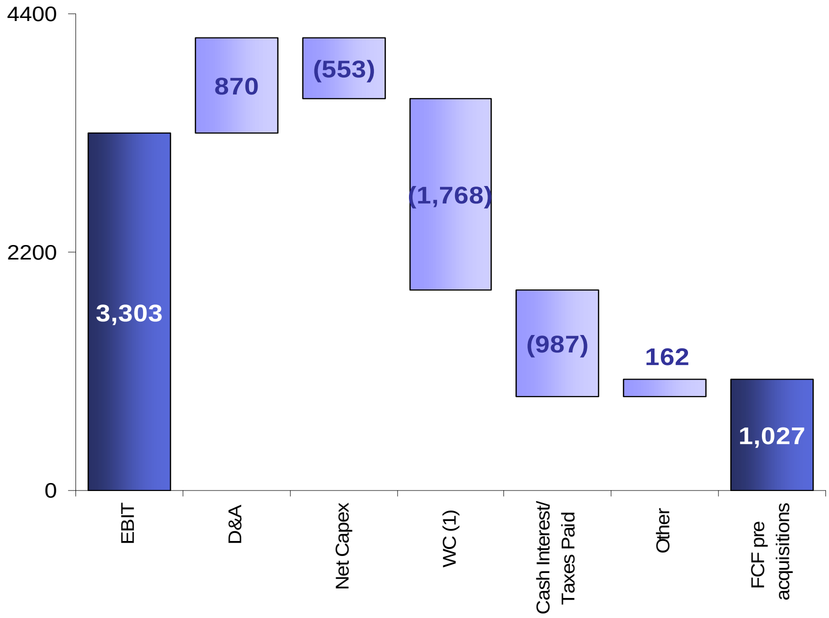
Balance Sheet

(in CZKm)	31.12.2005	31.12.2006	% change
Cash and Cash Equivalents	3,233.4	1,189.5	(63.1%)
Net Debt	1,949.7	2,519.9	29.2%
Net Debt / Equity	19.9%	20.8%	

At the end of December 2006 Zentiva's net debt position was CZK 2,519.9 million compared to CZK 1,949.7 million at the end of 2005. The increase is attributable to the financial investment that was made in increasing our share in Zentiva S.A. (Romania) from 51.0% at the end of 2005 to the current level of 74.9%. The net debt to equity ratio at the end of 2006 stood at 20.8%.

Cash Flow

During 2006 Zentiva generated CZK 1,027.0 million in free cash before acquisitions, representing a 31.1% EBIT (profit before tax and finance costs) conversion.



(1) WC (Working Capital) is defined as accounts receivable + inventory – accounts payable

Capital Expenditures

(in CZKm)	2005	2006	% change
Capital Expenditures	930,7	1,268.9	36.3%
As % of Sales	7.9%	9.1%	

The Company's capital expenditure in 2006 reached CZK 1,268.9 million. This level of expenditure represents 9.1% of sales (this is slightly above Zentiva's target mainly due to the completion of the reconstruction of the company's administrative building in Prague). The most important investments made in the period were to upgrade certain selected production capacities in Prague, Hlohovec and Bucharest and the completion of the reconstruction of the administrative building in Prague.

Working Capital

Working capital increased by CZK 1,768.0 million in 2006 compared to 1,270.6 in 2005. This in line with the growth of our business, which is mainly taking place in territories where longer receivables periods are the norm. There was also a decrease in payables resulting from payments of investments such as the new administrative building and the upgrades of our production capacities.

Zentiva´s 2006 Dividend

The Board´s dividend proposal for 2007, which needs to be approved at the Annual General Meeting that will be held in Amsterdam on June 6, 2007, is that Zentiva will pay a dividend of CZK 11.5 per share from its 2006 profit.

Zentiva´s dividend policy is to pay out of between 15% - 20% of Net income. The Company paid dividends of CZK 8.0 and CZK 9.5 per share in 2005 and 2006 respectively, representing a pay out ratio of approximately 19%.

14. OUTLOOK FOR 2007

Zentiva expects 2007 to be another positive year with both organic sales and net profit growth anticipated. In 2007, Zentiva anticipates achieving sales growth of slightly more than 10% while margins are expected to be sustained at current levels. This growth will be driven by our core pharmaceutical business which is focused on delivering our affordable high-quality branded generics to the primary care sector.

Top line growth is expected to be driven by our performance in Romania, Poland, Russia, and Ukraine, thus further diversifying geographically our revenue mix. The Czech and Slovak markets are expected to see increased sales of our key promoted brands and will continue to provide a platform for our overall business efficiency. Improved product mix is expected to maintain our margins as our promoted portfolio increases its share of revenues. This positive trend will be partly offset by continuing pressure on pricing. Product launches will continue at a similar healthy rate to 2006. Capex is expected to reach CZK 1.2 billion (approx. 7% of sales) mainly for upgrading our pharmaceutical manufacturing capacities, expanding our API production, R&D based investments as well as IT.

This organic sales and net profits growth will be enhanced by the acquisition of Eczacıbaşı Generic Pharmaceuticals, which is expected to complete in the third quarter 2007. This is due to the revenue and cost synergies which we expect to generate from the acquisition.

On a combined pro forma basis, the enlarged Zentiva's net sales and EBITDA for 2006 would have been CZK 19.7 billion and CZK 5.4 billion, respectively.

15. ACQUISITION OF THE CONTROL OF ECZACIBASI GENERIC PHARMACEUTICALS

Zentiva N.V. announced on March 5, 2007, that it had signed an agreement to acquire 75% of the issued share capital of Eczacıbaşı Generic Pharmaceuticals, a major domestic pharmaceutical supplier in Turkey, from EİS Eczacıbaşı İlaç Sanayi ve Ticaret A.Ş (EİS Eczacıbaşı) a company listed on the Istanbul Stock Exchange for EUR 460 million in cash, on a cash and debt-free basis.

EİS Eczacıbaşı will retain a 25% stake in Eczacıbaşı Generic Pharmaceuticals allowing it to participate in and support the growth and development of this business. As part of the deal , a shareholders' agreement governing the relationship between Zentiva and EİS Eczacıbaşı in respect of Eczacıbaşı Generic Pharmaceuticals has been agreed. The shareholders' agreement will provide, among other things, that after a two year period EİS Eczacıbaşı will have a right to sell its 25% stake in Eczacıbaşı Generic Pharmaceuticals to Zentiva, and Zentiva will have a right to purchase its 25% stake.

The Transaction has been unanimously approved by the Board of Directors of Zentiva. The Transaction, which will be funded by a new five-year committed loan facility was approved by Zentiva's shareholders at an extraordinary general meeting, which was held on April 2, 2007. The Transaction also needs the approval of the Turkish Competition Board.

The transaction is expected to complete in the third quarter 2007 at which time Eczacıbaşı Generic Pharmaceuticals will be renamed Eczacıbaşı-Zentiva.

Background to the Acquisition

At the time of its IPO in June 2004, Zentiva stated that one of the key reasons for the Company going public was to raise funds to give it the financial flexibility to achieve its growth objectives. A key element of this strategy was to make strategic acquisitions to extend its growth opportunities in the markets of Central and Eastern Europe and beyond.

Acquisitions have already played a key role in the development of Zentiva, with the acquisition of Slovakofarma, the leading pharmaceutical company in Slovakia, in August 2003, providing the platform for the growth of the Company between 2003 and 2005. The acquisition of Sicomed in 2005 allowed

Zentiva to continue its drive for profitable growth. Based on leveraging Sicomed's strong presence in the fast growing Romanian market, and in particular its unrivalled distribution network, Zentiva was able to capitalize on its modern branded generic portfolio and deep product pipeline to rapidly build a clear leadership position in that primary care market. In the period since its IPO, Zentiva has been able to achieve significant economies of scale, which has boosted gross margins and allowed it to expand its sales and marketing reach in both Poland and Russia. In addition, it has enabled the Company to invest more efficiently in R&D to develop the new products that are central to its international growth strategy and its long term growth ambitions.

Given this success, Zentiva's internationally experienced management has been seeking opportunities to strengthen the Company's position in other growth markets in Central and Eastern Europe. By accessing these markets, Zentiva can benefit from the positive macroeconomic outlook in this region as well as the trend for increasing per capita healthcare expenditure.

The Turkish Market

Turkey is one of the most dynamic pharmaceutical markets in the world and the fastest growing in Eastern Europe. It is expected to emerge as one of the top 10 pharmaceutical markets in the world by 2010, according to IMS. Market growth will be driven by a number of factors including: ongoing reforms in the Turkish healthcare sector; increasing usage of modern branded generic products, wider introduction of advanced drugs; growth and increased life expectancy of the population; urbanization of the country; strong GDP growth; and increasing consumer purchasing power.

In addition, Zentiva's analysis of the Turkish market suggests that the growth of the primary care market, the country's ongoing healthcare reforms and the anticipated demand for more modern medicines are further attractions to gaining greater access to this market. This positive outlook for the market has provided the strategic impetus for Zentiva to enter the Turkish market with a leading market position.

About Eczacıbaşı Generic Pharmaceuticals (Eczacıbaşı-Zentiva)

Eczacıbaşı Generic Pharmaceuticals is a leading Turkish pharmaceutical company with a diversified product portfolio of branded generic pharmaceuticals as well as offering contract manufacturing and warehousing services and APIs to third-party manufacturers. It held approximately 5% of the pharmaceutical market in terms of volume in 2006, ranking it as a major domestic pharmaceutical manufacturer. Furthermore, Eczacıbaşı Generic Pharmaceuticals holds 3% of the total pharmaceutical market in terms of value, ranking it third among the generic players in the market. The strong position is supported by one of the largest sales forces in Turkey consisting of approximately 550 medical representatives. It has a broad product portfolio with the largest therapeutic areas being anti-infective and alimentary drugs. Eczacıbaşı Generic Pharmaceuticals also has a significant presence in cardiovascular and central nervous system medicines. Eczacıbaşı Generic Pharmaceuticals' current broad and deep product pipeline is the strongest in Eczacıbaşı Generic Pharmaceuticals' history, and is expected to deliver a flow of new products to the market to support its anticipated growth profile.

In 2006, Eczacıbaşı Generic Pharmaceuticals generated net sales of YTL 362.3 million (EUR 200.9 million), up 13.6% from 2005, and adjusted EBITDA of YTL 80.9 million (EUR 44.9 million). Adjusted EBITDA excludes certain costs at Eczacıbaşı which Zentiva management believe will not be incurred on an ongoing basis. These costs relate to the allocation of certain Eczacıbaşı Group central costs and other costs totalling YTL 7.6m, of (EUR 4.2 million) in 2006.

Zentiva's Enhanced Growth Opportunities

The acquisition of Eczacıbaşı Generic Pharmaceuticals creates a fourth "home" market for Zentiva with strong growth dynamics for the group. Eczacıbaşı Generic Pharmaceuticals' position as one of the leading generics players in Turkey will ensure that Zentiva grows at least in line with this rapidly growing market.

Zentiva plans to build and add value to Eczacıbaşı Generic Pharmaceuticals' strong business platform through reinforcing the Turkish company's current sales concept to introduce and promote a more focused generics portfolio. The Company also plans to expand the Eczacıbaşı Generic Pharmaceuticals sales force to successfully market the company's current product portfolio. This product offering will be enhanced with Zentiva's own higher margin branded generics products, which have enjoyed significant success internationally, as well as the products from Eczacıbaşı Generic Pharmaceuticals high quality development pipeline.

Further benefits of the acquisition to the Company are the scope for R&D efficiencies, the ability to leverage Eczacıbaşı Generic Pharmaceuticals as Zentiva's platform for strategic expansion into Near/Mid East and Asia and the enhanced export opportunities for Eczacıbaşı Generic Pharmaceuticals products through Zentiva's strong Central European network. Eczacıbaşı Generic Pharmaceuticals' high quality manufacturing plant is EU approved and is currently seeking US FDA approval and is expected to contribute significantly to the group. The combination of Zentiva and Eczacıbaşı Generic Pharmaceuticals creates a much stronger competitor in the fast growing Central and Eastern European pharmaceuticals market.

Financial Implications
Zentiva expects that the acquisition of Eczacıbaşı Generic Pharmaceuticals will be accretive to cash earnings per share immediately and will increase the company's earnings growth. In part, this positive impact will stem from both revenue and cost synergies that are anticipated as a result of the transaction.

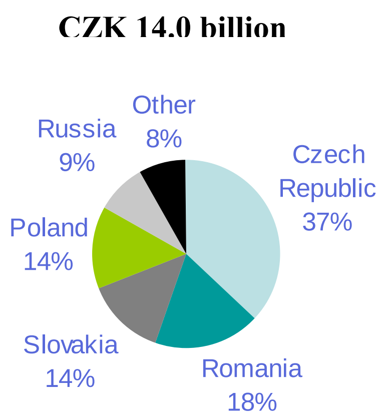
A key element of the enhanced earnings growth will result from Zentiva introducing its higher margin modern branded generic products to the primary care market through Eczacıbaşı Generic Pharmaceuticals' distribution capability in the Turkish market and the launch of Eczacıbaşı Generic Pharmaceuticals' product portfolio in some of Zentiva's existing markets.

Zentiva also believes that in Turkey a combination of enhanced sales growth from modern branded generic products and lower operating costs will help to continue the improving trend in Eczacıbaşı Generic Pharmaceuticals' profit margins.

The cost synergies that Zentiva expects to deliver will be generated from improved sourcing of raw materials, enhanced production and sales efficiencies and by sharing best-practices across the combined group's operations.

On a combined pro forma basis, Zentiva's net sales and EBITDA for 2006 would have been EUR 695 million (CZK 19.7 billion) and EUR 192 million (CZK 5.4 billion) respectively.

Zentiva 2006 Pharmaceutical Sales



Combined 2006E Pharmaceutical Sales

Extraordinary General meeting approves acquisition

Extraordinary General Meeting ("EGM") took place in Amsterdam on April 2, 2007. At the EGM the following resolution was submitted to schareholders for their approval: to approve (i) the acquisition by the Company of 91,500,001 ordinary shares in Eczacıbaşı Saglik Urünleri Sanayi ve Ticaret A.S. ("ESU") and 6,783,000,001 ordinary shares of EOS Eczacıbaş Ozgün Kimyasal Urünleri Sanayi ve Ticaret A.S. ("EIS Eczacıbaşı") for the purchase price of EUR 459,750,000 (prior to post-closing adjustments), and (ii) all other transactions contemplated under the Share Purchase Agreement executed between the Company and EIS Eczacıbaşı on March 2, 2007, in particular the execution of the Shareholders´ Agreement between the Company and EIS Eczacıbaşı in respect of their shareholdings in ESU and EOS. Following discussion and voting, the EGM approved the resolution.

16. OTHER IMPORTANT 2007 ANNOUNCEMENTS

Zentiva entered the Hungarian Market

Zentiva N.V. announced on March 1, 2007 that it had entered the Hungarian pharmaceutical market via the acquisition of certain generic products, personnel and other operating assets from sanofi-aventis. The move into the Hungarian market, which in 2006 was worth USD 2.0 million (Source: IMS - Retail Market), is in line with Zentiva's strategy of extending its geographic reach in the region, as it moves towards its target of becoming the leading pharmaceutical company in Central and Eastern Europe.

As the starting point for the expansion of its Hungarian operations, Zentiva's Hungarian subsidiary has acquired a total of 23 products, which had sales of approximately EUR 11 million in 2006. In addition, Zentiva and sanofi-aventis have agreed that some supporting functions will be transferred alongside these products. Zentiva expects to grow its presence in Hungary as the company introduces more of its own successful high quality branded generic products targeting primary care.

The acquired business provides Zentiva with access to the Hungarian market, which is an attractive growth opportunity. This acquisition will allow the Company to continue its growth in the CEE by executing its primary care focused strategy.

17. CORPORATE GOVERNANCE

Zentiva has a strong commitment to corporate governance which it benchmarks against the activities of its international peers. Zentiva regards it as very important to achieve a balance in the interests of its various stakeholders. Enterprise, integrity, openness and transparent management as well as proper supervision of the management are fundamental to Zentiva‘s corporate governance.

Board of Directors
The composition of the Zentiva Board at the end of 2006 as follows:

	Current term until
Jiří Michal, Chairman of the Board, Director A	2008
Brad Wilson, Vice-Chairman of the Board, Director B	2008
Urs Kamber, Director B	2009
Jean-Michel Levy, Director B	2009
Lars Ramneborn, Director A	2008
Johannes Scholts,Director B	2008
Hanspeter Spek, Director B	2009
Petr Šulc Director, A	2008

Note: According to the Articles of Association Director A represents an Executive Director and Director B is a Non-executive Director.

Directors A (Executive Directors)
Jiří Michal, Chairman of the Board and Chief Executive Officer
Mr. Michal, born on December 23, 1950, has worked for the Company since graduating from university in 1974. During his time with the Company he has held the positions of operational director and Chief Financial Officer and was appointed Chief Executive Officer in 1993. Mr. Michal is also Chairman of the Board of Directors of Zentiva. He is currently Vice President of the Chemical Industry Association in the Czech Republic. Mr. Michal studied chemical industrial economics and management at the University of Chemistry and Technology in the Czech Republic between 1969 and 1974.

Lars Ramneborn, Vice President, Commercial
Mr. Ramneborn, born on March 27, 1963 is currently Vice President, Commercial at Zentiva with responsibility for the Company’s commercial operations and sales and marketing activities. He joined Zentiva in February 2003 with more than 15 years’ sales and marketing experience in the pharmaceutical industry gained at AstraZeneca and Glaxo in Sweden and at AstraZeneca and IVAX in Central and Eastern Europe. Mr. Ramneborn graduated from the University of Karlstad in Sweden with a degree in management and economics. Mr. Ramneborn was appointed to the Board on October 5, 2005.

Petr Šulc, Chief Financial Officer
Mr. Šulc, born on April 26, 1967, joined the Company in 2001 as the Chief Financial Officer. Prior to joining the Company, he was employed by AGA S/A, Brazil, as a financial analyst from 1995 to 1997. He then moved to AGA GAS s.r.o., in the Czech Republic as Chief Financial Officer and Managing Director. In 2000, he took up a position as regional financial controller for Western Europe with Linde Gas AG, Germany, where he stayed until joining the Company in 2001. Mr. Šulc graduated from the Prague School of Economics in the Czech Republic with a degree in economics in 1990 and from Charles University in the Czech Republic in 1991 with a degree in law.

Directors B (Non-executive Directors)

Urs Kamber
Mr. Kamber, born on March 7, 1952 was appointed as a Non-executive director of Zentiva on June 8, 2005. Mr. Kamber has a broad range of experience with major international companies. He was CFO of the Swiss medtech company Centerpulse, a world leading supplier of artificial hips and knees between 2001 and 2003. While in this position he oversaw and implemented a major turn around in the company’s

and was main negotiator in the bidding process which resulted in Centerpulse being taken over by Zimmer. Prior to this assignment, Mr. Kamber worked for Swisscom project managing the privatization of Czech Telecom and served as its CFO from 1995 through 2001. Mr. Kamber currently serves as Non-executive Director of the Board of Bulgarian Telecom in Sofia and as Non-executive Director of other companies in his capacity as CEO of Incentive Private Equity Holding AG in Zurich, Switzerland.

Jean-Michel Levy
Mr. Levy was born on October 18, 1947 and is currently Senior Vice President for Business Development at Sanofi-Aventis. He has a degree in Business Administration from HEC in Paris. Since 1969, Mr. Levy has worked in the pharmaceutical industry in a variety of positions (within the predecessor companies of Sanofi-Aventis). He has held his current position of Vice President Corporate Planning and Strategy since 1990 and in this role he is responsible for preparing the long term vision of Sanofi-Aventis, participating in the management of Alliances and working on significant business development opportunities for the group. During his career he has developed considerable expertise in the economic evaluation of business development opportunities, both research and development projects, as well as, through mergers and acquisitions. Mr. Levy has been instrumental in the strategic growth of the Sanofi legacy companies and the creation of Sanofi-Aventis, the largest European pharmaceutical company and the number 3 pharmaceutical company in the world.

Johannes Scholts
Mr. Scholts, born on November 8, 1958, was appointed as a supervisory board member of Leciva CZ, a.s. in June 2003 and as a Non-executive director of Zentiva in March 2004. Mr. Scholts is currently employed by ATC Corporate Services (Netherlands) B.V. (''ATC''), which he joined in 1992. He was appointed managing director of ATC in 2001. He is also a Non-executive director of a number of private companies in his capacity as Managing Director of ATC. Mr. Scholts became a chartered accountant in 1995.

Hanspeter Spek
Mr. Spek was born on November 5, 1949 and is currently Executive Vice President Pharmaceutical Operations at Sanofi-Aventis. Mr. Spek graduated from business school in Germany. In 1974, he completed a management training program at Pfizer International, and then joined Pfizer RFA as a junior product manager. He served in various positions at Pfizer RFA, including manager of the marketing division. Mr. Spek joined Sanofi Pharma GmbH, a German subsidiary of Sanofi, in 1985 as Marketing Director, and served in various positions in Germany and then at Sanofi in France, before being named Senior Vice President Europe following the merger with Synthélabo in 1999. He served as Executive Vice-President, International Operations from October 2000, until January 2003, when he took charge of the worldwide operations of Sanofi-Synthélabo. He was appointed to his present position of Executive Vice-President Pharmaceutical Operations of Sanofi-Aventis in August 2004.

Brad Wilson, Vice-Chairman of the Board
Mr. Wilson, born on November 20, 1947, was appointed as a Non-executive director of Zentiva on May 26, 2004. Mr. Wilson has over 30 years' experience in the healthcare industry. He is currently Chief Executive Officer of OnMedica Group Ltd, a company providing e-Detailing and e-Communication opportunities for pharmaceutical companies in Europe. Between 1972 and 1996 Mr. Wilson worked for SmithKline Beecham Plc (SB) in roles of increasing importance in sales, marketing, strategy and general management. He was Senior Vice President of SB's Intercontinental Division between 1990 and 1993 and Chairman, Europe, of the company's pharmaceutical business from 1993 to 1996. In 1997, he joined Recordati SA where he was Chairman, International Operations, until leaving to found OnMedica Group Ltd in 2000. Mr Wilson is a graduate of Oxford University in the UK.

Executive Management Team
The members of the senior management team of the Company are:

Jiří Michal, Chairman of the Board and Chief Executive Officer
Mr. Michal has worked for the Company since graduating from university in 1974. During his time with the Company he has held the positions of operational director and Chief Financial Officer and was appointed Chief Executive Officer in 1993. Mr. Michal is also Chairman of the Board of Directors of Zentiva. He is currently Vice President of the Chemical Industry Association in the Czech Republic. Mr. Michal studied chemical industrial economics and management at the University of Chemistry and Technology in the Czech Republic between 1969 and 1974.

Petr Šulc, Chief Financial Officer
Mr. Šulc joined the Company in 2001 as the Chief Financial Officer. He is on the Board of Directors of Zentiva. Prior to joining the Company, he was employed by AGA S/A, Brazil, as a financial analyst from 1995 to 1997. He then moved to AGA GAS s.r.o., in the Czech Republic as Chief Financial Officer and Managing Director. In 2000, he took up a position as regional financial controller for Western Europe with Linde Gas AG, Germany, where he stayed until joining the Company in 2001. Mr. Šulc graduated from the Prague School of Economics in the Czech Republic with a degree in economics in 1990 and from Charles University in the Czech Republic in 1991 with a degree in law.

Petr Suchý, Chief Operating Officer
Mr. Suchý, born on May 28, 1960, has worked for the Company since graduating from university in 1984. He currently holds the post of Chief Operational officer and is on the Board of Directors of Zentiva, a.s. Mr. Suchý graduated from the University of Chemistry and Technology in the Czech Republic with a degree in engineering.

Lars Ramneborn, Vice President, Commercial
Mr. Ramneborn, is currently Vice President, Commercial at Zentiva with responsibility for the Company's commercial operations and sales and marketing activities. He is on the Board of Directors of Zentiva. He joined Zentiva in February 2003 with more than 15 years' sales and marketing experience in the pharmaceutical industry gained at AstraZeneca and Glaxo in Sweden and at AstraZeneca and IVAX in Central and Eastern Europe. Mr. Ramneborn graduated from the University of Karlstad in Sweden with a degree in management and economics.

Jan Šotola, Director, Research and Development
Mr. Jan Šotola, born on July 17, 1959, who took up the position of Research and Development Director in July 2005 graduated from the University of Chemistry and Technology in Prague. He has worked for the Czech Academy of Science as well as having had an internship at the Max Planck Institute in Berlin. In 1994 he joined the predecessor of Zentiva, Léčiva a.s., and in his previous position within the Zentiva group he worked as Director of Chemical Research and Development. In parallel, he also held the office of Chairman of the Board of Directors of VÚFB, a.s., a subsidiary within Zentiva N.V. In addition to heading up Pharmaceutical Research and Development, he will continue to lead the Chemical Research and Development unit.

Miroslav Janoušek, Director, Regulatory and Quality
Mr. Janoušek, born on June 27, 1964, has been employed by the Company for over 16 years and is currently a director with responsibility for regulatory and quality. Within the Company, he has previously worked in the analytical department and in management roles in the production and quality control departments. Mr. Janoušek graduated from Charles University in the Czech Republic in 1987 with a degree in pharmaceutical technology. In 1988, he completed his postgraduate studies in pharmaceutical technology at Charles University. In 1991, Mr. Janoušek extended his qualifications in pharmaceutical analytics at the Institute for Post Graduate Education in the Czech Republic.

John Rafferty, Director, Human Relations
Mr. Rafferty, born on January 5, 1956, joined the Company in 2003 as a director with responsibility for human resources. Prior to joining the Company, he worked in the personnel departments of various companies in the United Kingdom and from 1998 to 2003 he was a vice president with responsibility for human resources and legal affairs at Ivax Pharmaceuticals s.r.o in the Czech Republic. Mr. Rafferty graduated from Bradford University in 1978 with a degree in modern languages. He also has a post-graduate diploma in personnel management from Manchester Metropolitan University, a masters in law and employment relations and a masters in E.U. law from Leicester University.

Alexander Marček, Director, Corporate Finance, Secretary to the Board of Directors
Mr. Marček, born on September 11, 1968, joined Zentiva in October 2004 from Český Telecom, the largest provider of fixed line and mobile telecommunications services in the Czech Republic. Mr. Marček joined Český Telecom in 1998 as Investor Relations Manager, and became Director of Corporate Finance in 2001. Prior to this, Mr. Marček worked at the leading Czech investment bank Patria Finance, and the leading global investment bank Goldman Sachs in London. He has a degree from the University of California at Berkeley, and also studied at the Prague School of Economics.

The Board and Executives

The Directors are listed under “Board of Directors”.
The Board is responsible for the Company’s system of corporate governance and is ultimately accountable for Zentiva’s activities, strategy and financial performance. The Board currently comprises three Executive and five Non-Executive Directors.

Board Process

The Board has the authority, and is accountable to shareholders, for ensuring that the Company is appropriately managed and achieves the strategic objectives agreed by the Board. The Board discharges those responsibilities by supervising overall budgetary planning, treasury planning and business strategy. The Board reviews the Company’s internal controls and risk management policies and approves its governance structure and code of ethics. The Board reviews and also approves major financing, investment and contractual decisions in excess of defined thresholds. In addition to these items, the Board evaluates and monitors the performance of the Company as a whole. This includes:
— Engaging at Board meetings with the Executive Directors and members of the Senior Management team as appropriate, on the financial and operating performance of Zentiva and external issues material to the Company’s prospects.
— Evaluating progress toward the achievement of the Company’s financial and business objectives and annual plans.
— Monitoring, through reports received directly or from various committees, the key significant risks facing the Company.

The Board has overall responsibility for succession planning. The Board has given the Chairman/CEO broad authority to operate the business of the Group and is accountable for, and reports to the Board on business performance. The Company Board met 11 times in 2006.

Executive Management Team

The Executive Management Team assists the Chairman/CEO and the executive management of the Company which met a total of 20 times in 2006. The members and their responsibilities are listed under “Executive Management Team”.

Conflict of Interest

In 2006, members of the Board and other senior management did not have any general conflict of interest between their duties to the Company and their private interests or other duties. Pursuant to the rules of the Board, a member of the Board is required to abstain from the vote on matters in which the member is an interested party and may have a potential conflict of interest. Therefore, should there be a conflict of interest in a specific matter, it would not have an impact on the decision-making of the Board because the conflicted member of the Board would abstain from voting on the matter in question.

Declaration

Except as mentioned below and to the best knowledge of the Company, at the date of this Annual report, for at least the previous five years, none of the members of the Board of Management or executive management identified in this Annual report has had any conviction in relation to fraudulent offences; or has held an executive function in the form of a senior manager, partner with unlimited liability, founder, a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation; or has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body); or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

In 2005, our fully owned subsidiary Zentiva SK a.s. entered into liquidation process. The liquidation was completed in 2006. Lars Ramneborn was a member of the Board of directors, and Petr Šulc was a member of the supervisory board at the time of liquidation. The liquidation was entirely voluntary and was related to optimization of the structure of Zentiva group.

Annual General Meeting

The AGM will be held on June 6, 2007, in Amsterdam. The business to be transacted at the meeting will include:

- Adopting Zentiva's annual accounts prepared in accordance with IFRS
- Adopting Zentiva's Annual Report
- Proposal to pay dividend
- Remuneration policy for the Directors A (Executive directors) and Directors B (Non-executive directors)
- Retirement, election and re-election of Directors

Corporate Governance

General

Zentiva regards it as very important to achieve a balance in the interests of its various stakeholders. Enterprise, integrity, openness and transparent management as well as proper supervision of the management are the basis of Zentiva's corporate governance.

Zentiva applies all the principles and the majority of the best practice provisions of the Dutch corporate governance code (the „Code"), in so far as they are applicable to the Company's organisational structure and business profile.

The Code assumes for the best practice provisions that a company has a two-tier board structure in place whereby the supervision of the Executive Directors is conducted from a separate Supervisory Board. Zentiva has instead adopted a single tier board as is customary in the sphere of international business. Therefore, due to its organizational structure, certain of the best practice provisions applicable to the Supervisory Board will apply to the non-executive directors. Certain others should by their nature not apply to the Company.

Zentiva does not comply with the following best practice provisions in the Code that are applicable to the Company:

Best practice provision III.7.1

A supervisory board member shall not be granted any shares and/or rights to shares by way of remuneration. It is customary for international businesses to grant Non-executive directors shares or options by way of remuneration. This is necessary to attract Non-executive directors with the required level of experience in the pharmaceutical industry and with excellent international reputations. Therefore the Board deems it necessary to offer to certain potential Non-executive Directors share options as part of their remuneration.

Best practice provision III.8.1

The Chairman of the management board shall not also be and shall not have been an Executive Director.

Zentiva's chairman of the board is Mr. Michal who is an Executive Director. It is the Board's opinion that due to the fact that Mr. Michal has worked for over thirty years for the Company in several functions, he is the best possible person to safeguard the interests of all of the Company's stakeholders and should therefore assume the position of chairman.

Board Committees

In keeping with the best practice provision III.5 of the Dutch corporate governance code, Zentiva has put in place the following Board committees:

Audit Committee

The members of the Audit Committee are:

- Urs Kamber (acting chairman)
- Jean-Michel Levy
- Brad Wilson

The Audit Committee advises the Non-Executive Directors in relation to their responsibilities. The Non-executive Directors have full oversight responsibility for the audit committee and as a result the audit committee may not take any action on behalf of the Non-Executive Directors without the approval of the majority of the Non-executive Directors.

The responsibilities of the Audit Committee include:

- supervising and monitoring, and advising the Executive Directors on, the effect of internal risk management and control systems, including supervision of the enforcement of the relevant legislation and regulations, and supervising the effect of codes of conduct;
- supervising the submission of financial information by the Company;
- supervising the compliance of recommendations and observations of internal and external auditors;
- supervising the functioning of the internal audit department; in particular co-determining the plan of action for the internal audit department of the Company and taking note of the findings and considerations of the internal audit department;
- supervising the policy of the Company on tax planning;
- supervising the financing of the Company;
- supervising the application of information and communication technology (ICT);
- recommending the appointment of an external auditor by the Company's general meeting of shareholders; and
- adoption of the annual accounts and approving the Budget and major capital expenditures of the Company.

The Audit Committee prepares and publishes on an annual basis a report of its duties and findings.

At least once a year the audit committee, shall, together with the Executive Directors, report to the Non-executive Directors on the developments concerning the relationship with the external auditor, in particular his independence.

Remuneration Committee

The members of the Remuneration Committee are:

- Brad Wilson (Chairman)
- Hanspeter Spek
- Johannes Scholts

The remuneration committee advises the Non-executive Directors in relation to its responsibilities as set out in the Rules. The Non-executive Directors shall have full oversight responsibility for the remuneration committee and as a result the Remuneration Committee may not take any action on behalf of the Non-executive Directors without the approval of the majority of all the Non-executive Directors.

The responsibilities of the Remuneration Committee include:

- preparing a proposal for the Board of Management concerning the remuneration policies for the members of the Board of Management to be adopted by the General Meeting of shareholders of the Company.

The Remuneration Committee prepares and publishes on an annual basis a report of its duties and findings.

Selections and Appointment Committee

The members of the Selection and Appointments Committee are:
— Johannes Scholts (chairman)
— Brad Wilson
— Hanspeter Spek

The Selection and Appointment Committee advises the Board of Management in relation to its responsibilities. The Non-executive Directors shall have full oversight responsibility for the Selection and Appointment Committee and as a result the Selection and Appointment Committee may not take any action on behalf of the Non-executive Directors without the approval of the majority of the Non-executive Directors.

The responsibilities of the Selection and Appointment Committee shall include:
- Preparing the selection criteria and appointment procedures for members of the Board of Management;
- Periodically evaluating the scope and composition of the Board of Management;
- Periodically evaluating the functioning of individual Executive Directors and Non-executive Directors and reporting the results thereof to the Non-executive Directors;
- Leading searches for candidate members of the Board of Management;
- Proposing the (re-)appointments of members of the Board of Management; and
- Supervising the policy of the Board of Management in relation to the selection and appointment criteria for senior management of the Company.

The selection and appointment committee prepares and publishes on an annual basis a report of its duties and findings.

Code of Conduct and Misconduct Protocol Zentiva

In terms of the best practice policy, the Company's Board of Directors has approved a Code of Conduct which comprises the basic principles of Zentiva's corporate governance, as well as the essential ethical and legal obligations in handling the Company's business in order to do the business in a fair and honest manner.

The Code of Conduct sets the targets and provides directions and procedural rules on how to reach and realize those targets accordingly.

Treatment of Personnel

Since Zentiva regards its personnel as a fundamental part of the Company's business, Zentiva's success is based, inter alia, on the continious internal development of and creating a positive working environment for its staff, as well as on encouraging the individuals to express their concerns about any prospective misconduct capable of violating laws or regulations in order ensure Zentiva's compliance with the applicable laws, regulations and the Code of Conduct.

Treatment of Customers

In relation to its customers, Zentiva secures the highest possible level of business confidentiality and fulfils its obligations to the best of its abilities by providing high quality products, by maintaining significant levels of research and development of the most advanced healthcare products and the highest possible level of service.

Environment

Zentiva is conscious of the environment. Therefore, Zentiva observes locally and internationally accepted environmental standards and acts, and communicates to its customers and users of het Company products' potential dangers to the environment that might be caused by irresponsible use of such products.

Competition

Zentiva believes in reliable economic competition and endeavours to increase its market share by constantly improving the quality of its products and services.

Section B
Consolidated financial statements

(ALL AMOUNTS IN CZK THOUSAND)

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006	2005	2004
Total sales	4	14,003,126	11,839,351	10,673,801
Cost of goods sold		(4,940,510)	(4,543,995)	(4,217,176)
Gross profit		**9,062,616**	**7,295,356**	**6,456,625**
Sales and marketing expenses	4	(3,608,986)	(2,773,880)	(2,051,695)
General and administrative expenses, net	4	(1,594,532)	(1,450,727)	(1,436,315)
Research and development		(556,000)	(492,463)	(437,826)
Profit before tax and finance costs		**3,303,098**	**2,578,286**	**2,530,789**
Interest income		26,979	28,115	28,834
Interest expenses	18	(116,850)	(46,260)	(101,123)
Financial income/(expenses), net	4	(123,915)	109,633	(97,241)
Profit before tax		**3,089,312**	**2,669,774**	**2,361,259**
Income tax expense	5	(800,032)	(741,155)	(681,506)
Net profit for the period		**2,289,280**	**1,928,619**	**1,679,753**
Attributable to:				
Equity holders of the parent		**2,203,160**	**1,877,542**	**1,613,055**
Minority interest		86,120	51,077	66,698
Earnings per Share (in CZK per Share):				
- basic, for profit for the year attributable to ordinary equity holders of the parent	6	57.88	49.23	44.91
- diluted, for profit for the year attributable to ordinary equity holders of the parent	6	57.81	49.23	43.82

(ALL AMOUNTS IN CZK THOUSAND)

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006

Balance Sheets as at 31 December	**Notes**	**2006**	**2005** *) revised	**2004**
Assets				
Non-current assets:				
Property, plant and equipment, net	9	5,960,068	5,578,523	4,471,005
Intangible assets, net	10	1,073,414	1,094,130	246,602
Investments	11	25,264	25,818	29,020
Long term receivables		1,555	5,620	11,719
Deferred tax asset	5	242,276	147,500	77,592
Goodwill/(Negative goodwill)	8, 10	1,643,616	1,851,986	(1,182,350)
Total non-current assets		8,946,193	8,703,577	3,653,588
Current assets:				
Inventory	12	2,410,352	2,249,006	1,985,565
Accounts receivables, net	13	5,509,946	4,142,328	2,856,080
Prepayments and other current assets	14	205,964	211,272	148,896
Marketable securities		21	20	20
Cash and cash equivalents	16	898,713	3,223,385	470,380
(out of which 2,358,834 TCZK restricted in 2005)				
Cash restricted more than 3 months	16	290,785	-	-
Current assets		9,315,781	9,826,011	5,460,941
Non-current assets held for sale	15	5,495	500,139	-
Total current assets		9,321,276	10,326,150	5,460,941
Total assets		**18,267,469**	**19,029,727**	**9,114,529**
Equity and liabilities				
Equity				
Share capital	17	12,112	12,112	12,112
Treasury shares	17	(122,905)	-	-
Share premium	17	2,514,784	2,514,784	2,514,784
Share options granted	24	52,479	11,754	-
Retained earnings		8,359,910	6,518,332	3,814,495
Cumulative translation adjustment		212,173	7,111	239,299
Equity attributable to equity holders of the parent		11,028,553	9,064,093	6,580,690
Minority interest		1,068,349	717,455	396,665
Total equity		12,096,902	9,781,548	6,977,355
Non-current liabilities:				
Obligations under capital lease	23	16,760	18,251	1,458
Interest bearing loans and borrowings	18	-	2,072,942	-
Provisions and other long term liabilities	22	1,523	47,397	47,980
Deferred tax liability	5	262,592	289,560	13,123
Total non-current liabilities		280,875	2,428,150	62,561

(ALL AMOUNTS IN CZK THOUSAND)

Balance Sheets as at 31 December	Notes	2006	2005 *) revised	2004
Current liabilities:				
Accounts payables	19	1,224,635	1,463,701	1,184,574
Financial liability - Minority shareholders payable	8,10,20	-	1,672,677	-
Other taxes payables	5	66,568	21,921	39,718
Accruals and other current liabilities	21	724,375	439,445	332,847
Current tax accrual		106,589	94,669	198,920
Overdraft and short term notes	18	3,709,350	3,100,167	300,024
Dividends payable		44,516	18,533	16,726
Current capital lease obligation	23	13,659	8,916	1,804
Total current liabilities		5,889,692	6,820,029	2,074,613
Total liabilities and equity		**18,267,469**	**19,029,727**	**9,114,529**

*) 2005 balances were revised to include the subsequent modification resulting from the final purchase price allocation related to the acquisition of Zentiva S.A. (former Sicomed S.A) in October 2005 (see Note 8).

(ALL AMOUNTS IN CZK THOUSAND)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2006

	2006	2005	2004
Cash flows from operating activities:			
Profit before income taxes	3,089,312	2,669,774	2,361,259
Adjustment for:			
Depreciation, amortization expense and impairment	869,681	664,950	560,874
Net finance costs	89,871	18,145	72,289
(Gain)/loss on disposal of property, plant and equipment	(128,499)	(2,279)	13,324
Other non-cash (gains)/charges, net	34,343	(77,271)	(15,028)
Operating cash flows before working capital changes	3,954,708	3,273,319	2,992,718
Changes in:			
Accounts receivables	(1,830,892)	(852,625)	(350,457)
Inventory	(161,346)	176,523	(77,298)
Accounts payables	275,911	534,968	261,003
Other assets	(7,985)	(78,125)	10,835
Other liabilities and provisions	297,971	(94,748)	(36,881)
Cash generated from operations	**2,528,367**	**2,959,312**	**2,799,920**
Interest paid	(117,957)	(36,409)	(101,123)
Income taxes paid	(869,361)	(800,080)	(706,966)
Net cash flows used in operating activities	**1,541,049**	**2,122,823**	**1,991,831**
Cash flows from investing activities:			
Purchase of fixed assets and intangible assets	(1,268,868)	(930,654)	(722,904)
Proceeds from disposal of property, plant and equipment	83,342	49,098	39,269
Proceeds from disposal of assets held-for-sale	632,641	-	20,719
Proceeds from/ Purchase of long-term receivables	4,474	6,099	(7,895)
Acquisitions, net of cash acquired	(1,107,909)	(2,617,672)	(108,296)
Interest received	34,377	19,380	28,834
Dividends received	-	5,995	5,388
Net cash flows used in investing activities	**(1,621,943)**	**(3,467,754)**	**(744,885)**
Cash flows from/(used in) financing activities:			
Proceeds from issue of share capital	-	-	2,210,395
Purchased treasury shares	(122,905)	-	-
Proceeds from borrowings	3,577,323	4,759,182	212,301
Repayment of borrowings	(5,041,082)	(212,328)	(3,927,632)
Dividends paid to equity holder of the parent	(361,582)	(305,090)	-
Dividends paid to minority interests	(80,164)	-	-
Net cash flows from /(used in) financing activities	**(2,028,410)**	**4,241,764**	**(1,504,936)**
Net increase/(decrease) in cash and cash equivalents	(2,109,304)	2,896,833	(257,990)
Net foreign exchange difference	75,417	(143,828)	36,199
Cash and cash equivalents at the beginning of the year	3,223,385	470,380	692,171
Cash and cash equivalents and Cash restricted more than 3 months at the end of the year	1,189,498	3,223,385	470,380

(ALL AMOUNTS IN CZK THOUSAND)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

	Attributable to equity holders of the Company							Minority interest	Total equity
	Share capital	**Treasury shares**	**Share premium**	**Share options**	**Retained earnings**	**CTA***	**Total**		
Balance as at 1 January 2004	2,556	-	-	-	2,230,710	173,829	2,407,095	558,597	2,965,692
Currency translation differences	-	-	-	-	-	35,886	35,886	4,387	40,273
Total income and expense for the year recognized directly in equity	-	-	-	-	-	*35,886*	*35,886*	*4,387*	*40,273*
Net profit 2004	-	-	-	-	1,613,055	-	1,613,055	66,698	1,679,753
Total income and expense for the year	-	-	-	-	*1,613,055*	*35,886*	*1,648,941*	*71,085*	*1,720,026*
Dividends paid - subsidiaries	-	-	-	-	-	-	-	(7,943)	(7,943)
Minority acquisition	-	-	-	-	-	-	-	(225,074)	(225,074)
Share split impact (1)	6,879	-	(6,879)	-	-	-	-	-	-
New shares issued (1)	2,991	-	2,521,663	-	-	-	2,524,654	-	2,524,654
Change in functional currency impact (2)	(314)	-	-	-	(29,270)	29,584	-	-	-
Balance as at 31 December 2004	12,112	-	2,514,784	-	3,814,495	239,299	6,580,690	396,665	6,977,355
Negative goodwill release (4)	-	-	-	-	1,192,610	-	1,192,610	-	1,192,610
Balance as at 1 January 2005 - restated	12,112	-	2,514,784	-	5,007,105	239,299	7,773,300	396,665	8,169,965
Currency translation differences	-	-	-	-	-	(232,188)	(232,188)	(17,196)	(249,384)
Total income and expense for the year recognized directly in equity	-	-	-	-	-	*(232,188)*	*(232,188)*	*(17,196)*	*(249,384)*
Net profit 2005	-	-	-	-	1,877,542	-	1,877,542	51,077	1,928,619
Total income and expense for the year	-	-	-	-	*1,877,542*	*(232,188)*	*1,645,354*	*33,881*	*1,679,235*
Addition from acquisition	-	-	-	-	-	-	-	365,666	365,666
Equity dividends	-	-	-	-	(305,090)	-	(305,090)	-	(305,090)
Dividends of subsidiaries	-	-	-	-	-	-	-	(9,163)	(9,163)
Freestanding minority acquisition (3)	-	-	-	-	(61,225)	-	(61,225)	(43,792)	(105,017)
Share options granted (5)	-	-	-	11,754	-	-	11,754	-	11,754
Balance as at 31 December 2005	12,112	-	2,514,784	11,754	6,518,332	7,111	9,064,093	743,257	9,807,350
Impact of finalized Sicomed S.A. purchase price allocation (6)	-	-	-	-	-	-	-	(25,802)	(25,802)
Balance as at 31 December 2005 - revised	12,112	-	2,514,784	11,754	6,518,332	7,111	9,064,093	717,455	9,781,548

(ALL AMOUNTS IN CZK THOUSAND)

	Attributable to equity holders of the parent							Minority interest	Total
	Share capital	**Treasury shares**	**Share premium**	**Share options**	**Retained earnings**	**CTA***	**Total**		
Balance as at 31 December 2005 – revised	12,112	-	2,514,784	11,754	6,518,332	7,111	9,064,093	717,455	9,781,548
Currency translation differences	-	-	-	-	-	205,062	205,062	62,663	267,725
Total income and expense for the year recognized directly in equity	-	-	-	-	-	*205,062*	*205,062*	*62,663*	*267,725*
Net profit 2006	-	-	-	-	2,203,160	-	2,203,160	86,120	2,289,280
Total income and expense for the year	-	-	-	-	*2,203,160*	*205,062*	*2,408,222*	*148,783*	*2,557,005*
Minority acquisition reversal (7)	-	-	-	-	-	-	-	309,122	309,122
Treasury shares purchased	-	(122,905)	-	-	-	-	(122,905)	-	(122,905)
Equity dividends	-	-	-	-	(361,582)	-	(361,582)	-	(361,582)
Dividends of subsidiaries	-	-	-	-	-	-	-	(107,011)	(107,011)
Share options granted (5)	-	-	-	40,725	-	-	40,725	-	40,725
Balance as at 31 December 2006	12,112	(122,905)	2,514,784	52,479	8,359,910	212,173	11,028,553	1,068,349	12,096,902

**Cumulative translation adjustment*

(1) For details about share split impact and new shares issued (see Note 17).
(2) Functional currency of Zentiva N.V. was changed from EUR to CZK as at 1 July 2004 (see Note 2d).
(3) The difference between the cost of acquisition of 0.75% share in Zentiva, a.s. Prague and minority interest acquired (see Note 8).
(4) Negative goodwill reclassified directly to retained earnings as of 1 January 2005 as a result of IFRS 3 adoption (see Note 8).
(5) Share options granted to management (see Note 24).
(6) see Note 8 and 10
(7) see Note 8

(ALL AMOUNTS IN CZK THOUSAND)

1. CORPORATE INFORMATION

Zentiva N.V. was incorporated as a private limited liability company on 29 April 1998 with it's registered seat in Amsterdam, the Netherlands. In a resolution of 21 May 2004, the shareholders resolved to convert Zentiva B.V. into Zentiva N.V. ("the Company"), a public limited liability company (naamloze vennootschap). The Company is the parent company of Zentiva Group ("the Group"), which is primarily engaged in the production, development and sales of generic pharmaceuticals, including pharmaceutical chemicals, cosmetics and packaging materials for pharmaceutical products and special purpose equipment and machines for the pharmaceutical industry.

The shareholders of the Company who hold a 10% or more interest in the Company's outstanding shares as at 31 December 2006:

	2006	2005	2004
Sanofi-Aventis Group	24.9%	-	-
Česká pojišťovna and parties acting in agreement with it	12.3%	12.3%	-
3 Private Equity funds managed by Warburg Pincus LLC	-	19.6%	53.9%

As of 27 March 2006, Sanofi Aventis Group acquired a 24.9% stake in Zentiva N.V. via the acquisition of 19.6% stake from Warburg Pincus funds, 4.5% stake from management and employees of the Group and 0.8% stake from certain former managers of the Group.

The directors of the Company as at 31 December 2006:

Jiří Michal, Chairman	Director A*
Lars Ramneborn	Director A*
Petr Šulc	Director A*
Urs Kamber	Director B*
Johannes Scholts	Director B*
Brad Wilson	Director B*
Hanspeter Spek	Director B*
Jean-Michel Levy	Director B*

* According to the Articles of Association Director A represents an Executive Director, Director B is a Non-executive Director.

Mr. Nicholas Lowcock and Mr. Lamberto Palla resigned as Directors B on 29 March 2006 as a consequence of a stake acquisition by Sanofi Aventis Group in Zentiva N.V. and were replaced by Mr. Hanspeter Spek and Mr. Jean-Michel Levy consequently.

The consolidated financial statements of the Group for the year ended 31 December 2006 were authorized for issuance by directors on 23 March 2007.

The consolidated financial statements of the Group for the year ended 31 December 2006 will be presented for approval at the Annual General Meeting scheduled to be held on 6 June 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Accounting convention

The accompanying consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. At this particular time, due to the endorsement process of the EU, and the activities of the Group, there is no difference in the policies applied by the Group between IFRS and IFRS as adopted by EU.

The consolidated financial statements have been prepared on a historical cost basis, except for the measurement at fair value of derivative financial instruments and available-for-sale financial assets.

The accounts of the Group are presented in thousands of CZK. The accounts of the individual companies, which have been included in the consolidation, are maintained in the currencies as indicated and converted into CZK using the policy as described in Note 2f.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The following accounting policies and disclosures specifically address any significant estimates or changes in assumptions that had an affect on the reported amounts (see Notes 2aa, 5, 8, 9 and 10).

As a result of the finalization of the accounting for Sicomed S.A. acquisition, the Company adjusted certain balance sheet balances and revised the 2005 Balance Sheet to conform to the final purchase price allocation (see note 2h). No revision of the 2005 Statement of Income has been made as the impact was clearly insignificant.

b) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after 1 January 2006.

The changes in accounting policies result from adoption of the following new or revised standards:

- IFRIC 4 Determining whether an Arrangement contains a Lease

The adoption of IFRIC 4 did not have any material effect relating to the Group's activities.

c) Adoption of International Financial Reporting Standards

In the years 2006, 2005 and 2004, the Group has applied consistently International Financial Reporting Standards that were applicable at 31 December 2006, 2005 and 2004. IFRS 1, IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement, IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation and IAS 21 (revised). The Effects of Changes in Foreign Exchange Rates were adopted early, already in 2003. Comparative figures have been amended where required.

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- Amendments to IAS 1 (issued 2005, effective date 1 January 2007) Presentation of Financial Statements, Capital Disclosures.
- IFRS 7 Financial Instruments: Disclosures which supersedes IAS 30 and the disclosure requirements of IAS 32 , while the presentation requirements of IAS 32 remain unchanged (issued in 2005, effective date 1 January 2007)

- IFRS 8 (effective date 1 January 2009) Operating Segments
- IFRIC 7 (effective date 1 March 2006) Restatement approach under IAS 29 Financial Reporting in Hyperinflation Economies
- IFRIC 8, Scope IFRS 2 (effective date 1 May 2006)
- IFRIC 9 (effective date 1 June 2006) Reassessment of Embedded Derivatives
- IFRIC 10 (effective date 1 November 2006) Interim Financial Reporting and Impairment
- IFRIC 11, IFRS 2 (effective date 1 March 2007) Group and Treasury Share Transaction
- IFRIC 12 (effective date 1 January 2008) Service Concession Arrangements

The Group expects that the adoption of the above pronouncements will have no significant impact on the Group's financial statements in the period of initial application. IFRIC 7 and IFRIC 9 do not apply to the Group activities.

d) Functional and presentation currency

Based on the primary economic environment in which the Group entities operate and taking into account the other factors as described in IAS 21, the functional currencies of individual consolidated Group entities were determined as follows:

- Zentiva's N.V. functional currency was determined to be Czech Crown (CZK) *)
- Czech entities' functional currencies were determined to be Czech Crown (CZK)
- Slovak entities' functional currencies were determined to be Slovak Crown (SKK)
- Zentiva´s S.A. functional currency was determined to be new Leu (RON)
- Zentiva´s PL functional currency was determined to be Polish Zloty (PLN)
- Zentiva´s Pharma functional currency was determined to be Russian Rubl (RUB)

For the purpose of consolidated financial statements of Zentiva N.V., the presentation currency in accordance with IAS 21 was selected to be Czech Crown (CZK). The methods of translation of Group entities into the presentation currency are further described in Note 2f.

*) As at 1 July 2004 the functional currency of Zentiva N.V. was prospectively changed from EUR to CZK. Zentiva N.V. translated all items from EUR to CZK using the exchange rate as of 30 June 2004. The resulting translated amounts of non-monetary items are treated as their historical costs.

e) Basis of consolidation

The consolidated financial statements comprise the financial statements of Zentiva N.V. and its subsidiaries. Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company. Group companies are those companies in which the Company has a controlling financial interest through direct and indirect ownership of a majority voting interest or effective managerial and contractual control. The subsidiaries held or acquired exclusively with a view to subsequent resale are excluded from consolidation and are included as available-for-sale investments and measured at fair value where this can be reliably measured, or at cost less impairment losses where fair value cannot be reliably measured. All material intercompany accounts and transactions have been eliminated in consolidation. The equity and net profit for the period attributable to minority interests are shown as separate items in the consolidated financial statements.

(ALL AMOUNTS IN CZK THOUSAND)

The Company has consolidated the following investments in which it has a controlling financial interest through direct and indirect ownership of a majority voting interest as at 31 December:

Company	Description	Ownership % 2006	Ownership % 2005	Ownership % 2004
Zentiva N.V., Amsterdam	Parent company of the Group, incorporated in April 1998, the Netherlands	N/A	N/A	N/A
Léčiva CZ, a. s.	Incorporated in April 1998, the Czech Republic	100%	100%	100%
Zentiva, a.s., Prague (former Léčiva a.s., Prague) and its subsidiary Zentiva International, a.s. (former Léčiva SK, a.s.)	Acquired May 1998, the Czech Republic	100%	100%	99.25%
VÚFB, a.s.	Acquired May 1998, the Czech Republic, merged with Zentiva a.s., Prague as of 1 January 2005	-	-	95.30%
GREEN PLANET, a.s., Zentiva CZ, s.r.o.	Subsidiaries of Zentiva, a.s. Prague incorporated in 2001 and 2003, the Czech Republic, merged with Zentiva a.s., Prague as of 1 January 2005	-	-	99.25%
Zentiva SK a.s.	Subsidiary of Zentiva a.s., Prague incorporated in 2003, the Slovak Republic, liquidated in 2006	-	100%	99.25%
Zentiva PL Spolka z o.o., Nadační fond ERUDIO, Zentiva Pharma	Subsidiaries of Zentiva, a.s. Prague incorporated in 2003, Poland, the Czech Republic and Russia	100%	100%	99.25%
Nadační fond Praktik	Incorporated 2002, the Czech Republic	50%+	50%+	50%+
Nadační fond pro Vaše srdce	Incorporated in 2006, the Czech Republic	50%	-	-
Zentiva HU Kft.	Incorporated in 2006, Hungary	100%	-	-
Zentiva BG EOOD	Incorporated in 2006, Bulgaria	100%	-	-
SL Pharma Group including its key subsidiary	Acquired August 2003, Austria, in liquidation since August 2006	100%	100%	100%
Zentiva a. s., Hlohovec (former SLOVAKOFARMA, a.s.)	Acquired as a key subsidiary of SL Pharma, August 2003, the Slovak Republic	90.84%	90.83%	90.75%
Farmácia Security, s.r.o. , Nadácia SL (foundation)	Subsidiaries of Zentiva a.s., Hlohovec acquired as part of the SL Pharma Group in 2003, the Slovak Republic	90.84%	90.83%	90.75%
Zentiva ApS	Incorporated November 2004, Denmark	100%	100%	100%
Venoma Holdings Limited Group including its key subsidiary	Acquired October 2005, Cyprus	100%	100%	-
Zentiva S.A. (former Sicomed S.A.)	Acquired as a key subsidiary of Venoma Holdings Limited, October 2005, Romania	74.91%	50.98%	-
Pallady Business Park	Acquired as a subsidiary of Zentiva S.A., October 2005, Romania	74.91%	50.98%	-

All acquired companies above have been included in the consolidated financial statements using the purchase method and / or principles of accounting applied under the IFRS 1 transitional rules on 1 January 2001 or, if later, the date of acquisition.

Subsidiaries excluded from consolidation

The following investments have been excluded from consolidation and accounted for as available-for-sale investments:

Company	Description	Ownership % 2006	Ownership % 2005	Ownership % 2004
SLOVAKOFARMA s.r.o.	Investment acquired as part of the SL Pharma Group in 2003, in liquidation	-	-	90.75%

Slovakofarma s.r.o. was liquidated during the year 2005.

All changes in fair values of available–for–sale investments are recognized directly in equity except for impairment losses and foreign exchange gains and losses which are recorded as charges or income in the accompanying income statement.

f) Foreign currency translation

Transactions in foreign currencies are recorded at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the respective functional currency at the rate of exchange at the balance sheet date. All differences are taken to the income statement.

As discussed in Note 2d and 2e, the Group has identified the Czech Crown (CZK) as its presentation currency. As a result all financial statements of individual Group entities denominated in currency other than CZK (as described in Note 2d) are translated as follows:

a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
b) income and expenses for each income statement balance and statements of cash flow items are translated at the exchange rates at the dates of the transactions or at average exchange rates for the year;
c) components of equity are translated into the presentation currency using historic rates
d) all resulting differences are recognized as a separate component of equity and are recognized to the statement of income upon disposal of the relevant investment.

Goodwill, fair value adjustments and negative goodwill (until 31 December 2004) arising on the acquisition of a foreign entity are treated as assets and liabilities of the acquired entity and are recorded at the exchange rate at the date of the transaction and at each balance sheet date are translated at the closing rate. The resulting differences are taken to equity.

g) Property, plant and equipment

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

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

Freehold land is not depreciated.

(ALL AMOUNTS IN CZK THOUSAND)

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Asset	Years
Buildings	30 - 45
Plant and equipment	4 - 15
Vehicles	4 - 8
Furniture and other equipment	2 - 10

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

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are recognized in the income statement.

h) Goodwill and negative goodwill, acquisitions

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Negative goodwill represents the excess of the Group's interest in the fair values of the identifiable assets and liabilities in the SL Pharma Group over the cost of the acquisition. Negative goodwill was in accordance with IFRS 3 - Business Combinations reclassified directly to retained earnings as at 1 January 2005. The carrying value of the negative goodwill as of the 2004 year end was CZK 1,192,610 thousand. Up to that date negative goodwill was reported in the balance sheet as a deduction from the assets of the Group and amortized using the straight-line method over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets.

The Group's initial accounting for Zentiva S.A. (former Sicomed S.A.) business acquisition (October 2005) that was determined only provisionally by the end of 2005 has been finalized at the beginning of October 2006. As a result, the Group adjusted certain balance sheet balances and revised the 2005 Balance Sheet to conform to the final purchase price allocation. No revision of 2005 Statement of Income has been made as the impact was clearly insignificant (see Note 10).

The impairment test of goodwill wasn't carried out in 2005 as the purchase price allocation was only provisional. The goodwill has been tested for impairment as of 31 December 2006 for the first time (see Note 2z).

Minority shares which are subject to a tender offer following the acquisition of a controlling interest are accounted for as a liability. The difference between the fair value of the financial liability and the minority interest is accounted for as part of the business combination as the tender offer and business combination are linked transactions and the liability is assumed as a part of the consideration for the business acquired. Therefore, the above difference is accounted for as a goodwill. As of the date when the tender offer expires, the goodwill attributable to minorities which had not been acquired is released. Financial liability to minority interest is recorded for all minorities to which the tender offer applies as at the balance sheet date. The liability is not recorded with respect to the shareholders who fall outside the scope of the tender offer or unconditionally refused to offer their shares.

Freestanding minority interest acquisition and increase in ownership of a controlled subsidiary is not considered a business combination under IFRS 3. For such a minority acquisition the Group records the entire difference between the cost of acquisition and the minority interest acquired to equity.

i) Intangible assets

Intangible assets acquired separately from a business are capitalized at cost. Intangible assets acquired as part of an acquisition of a business are capitalized separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets, excluding development costs, created within the business are not capitalized and such costs are charged against profits in the year incurred.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Intangible assets primarily consist of concessions, patents, licenses and similar rights and are amortized on a straight-line basis over their estimated useful life from 4 to 11 years. Assets acquired as part of the Venoma Holdings Limited (Zentiva S.A.) acquisition, which have in case of product and other brands an indefinite life, are subject to an annual impairment test only.

j) Research and development

Research costs are expensed as incurred. Development expenditure incurred on an individual project is capitalized when its future recoverability can reasonably be regarded as assured. Any expenditure capitalized is amortized over the period of expected future sales from the related project.

k) Investments

All investments are initially recognized at fair value of the consideration given, including acquisition charges associated with the acquisition of the investment.

After initial recognition, investments which are classified as held for trading and available-for-sale are measured at fair value. Gains or losses on investments available-for-sale are recognized directly in equity except for impairment losses and foreign exchange gains and losses which are recognized in income. Gains and losses on investment held for trading are recognized in income.

l) Inventories

Inventories are valued at the lower of cost and net realizable value as follows:

Raw materials	purchase cost on a weighted average basis
Work-in-progress	cost of direct materials and labour and an allocation of manufacturing overheads based on normal operating capacity but excluding borrowing costs
Finished products	cost of direct materials and labour and an allocation of manufacturing overheads based on normal operating capacity but excluding borrowing costs
Goods	purchase cost on a weighted average basis

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

m) Accounts receivable

Trade receivables have generally 60-120 day terms. Due date of receivables is adjusted in accordance with standard market conditions on separate territories. The due date for Russia and Romania receivables is therefore prolonged. Receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

n) Cash

Cash and cash equivalents comprise cash at bank and in hand, short-term deposits with an original maturity of three months or less and restricted cash.

For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above and include also restricted cash with maturity over three months that is specifically identified on the face of this statement.

o) Interest-bearing loans and borrowings

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium at issuance.

Borrowing costs generally are expensed as incurred. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds including amortization of discounts, premium and issue costs, if any.

p) Costs related to the initial public offering (IPO)

Costs of new equity issued are deducted from equity only to the extent that those are incremental and related to the new equity issued. Transaction costs related to the issuance of new shares are directly charged to equity, net of any related tax benefits. These costs are restricted to incremental external expenses such as registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. Costs related to the listing of new or already existing shares are expensed. Any ongoing costs, such as annual listing fee, or costs not related to the IPO as such are expensed.

q) Provisions

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

r) Leases

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

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the Group does not assume substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

s) Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Revenues from sale of licenses are recognized when they are reasonably secured and cash has been received.

t) Income tax

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

Deferred income tax liabilities and assets are recognized for all taxable and deductible, temporary differences except for:

- initial recognition of an asset or a liability in a transaction which is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss,
- the initial recognition of goodwill,
- temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

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

Income tax legislation in the countries where the Group operates

In The Netherlands, in the Czech and Slovak Republics, in Poland, Romania and in Russia the corporate income tax is calculated in accordance with the Dutch, Czech, Slovak, Polish, Romanian and Russian tax regulations, for each individual company. Consolidated corporate income tax returns cannot be filed.

The Group operates in some jurisdictions whose tax laws are not well developed and its tax position may be subject to review from time to time which could result in material liabilities.

The countries where the Group currently operates have a number of laws related to various taxes imposed by governmental authorities. Applicable taxes include value added tax (“VAT”), corporate tax, payroll (social) taxes and excise duties together with others. In addition, laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, implemented regulations are often unclear or nonexistent. Accordingly, few precedents with regard to the application and implementation of these laws have been established. Often, differing opinions regarding legal interpretations exist both among and within government ministries and organizations; thus, creating uncertainties and areas of conflict. The Group´s tax position (including matters related to its corporate structure and intercompany transactions) is subject to possible review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. Management believes that it has adequately provided for the tax liabilities in the accompanying financial statements. However, if for any reason the Group´s tax position (including matters related to its corporate structure) were to be disputed by tax authorities, the Group could be subject to substantial tax liabilities which could have a material adverse impact on its financial position and results of operations.

u) Derivative financial instruments

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to manage risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

Certain inventory and license purchase and sale agreements include foreign currency embedded derivative instruments. Such derivatives were immaterial as at 31 December 2006, 2005 and 2004.

v) Earnings per share

Basic earnings per share data is calculated based on the weighted average number of shares outstanding during the period excluding treasury shares held by the Company. Fully diluted earnings per share are based on the weighted average number of shares outstanding (as calculated for basic earnings per share) adjusted for the effect of the assumed issuance of all potentially dilutive securities.

During year 2006, 2005 and 2004, there were no significant potentially dilutive securities outstanding except for management options (see Note 6). The diluted earnings per share in 2004 were calculated taking into account 100% dilution effect of the options granted because it was not practicable to determine fair value of the underlying common stock option with sufficient reliability. The dilutive effect of share options granted in 2005 and 2006 was measured based on a comparison between the average market price of an ordinary share during this period and its exercise price including the fair value of services to be obtained.

Earnings per share calculation in 2004 was also influenced by the share split which occurred in May 2004.

w) Employee benefits, share based payments

The Group does not operate any private pension scheme or post retirement benefit plan, and consequently, has no legal or constructive obligation to make contributions to any such funds.

Managers of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using the Monte Carlo model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 6).

x) Segment information

Segment results include revenues and expenses directly attributable to a segment and the relevant portion of Group revenues and expenses that can be allocated on a reasonable basis to a segment, whether from external transactions, from transactions with other segments of the Group or, as specified by Group policy, based on internal prices established to allocate costs to the segments in the management accounting.

Segment assets comprise those operating assets that are directly attributable to the segment or can be allocated to the segment on a reasonable basis by location of customers or by location of assets. Segment receivables are determined as net, i.e. after deducting related allowances that are reported as direct offsets in the Group's balance sheet.

Unallocated items mainly comprise corporate, general and administrative expenses including income tax items that relate to the Group as whole, assets not directly attributable to the operations of the segments such as short and long-term investments, and liabilities. Segment results are determined before any adjustments for minority interest.

Revenues are monitored by territory and by product groups. See Note 4 for detail.

y) Impairment of assets

The carrying amounts of assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is estimated as the higher of net selling price and value in use. Where carrying values exceed the estimated recoverable amount the assets are written down to their recoverable value. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such condition exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in estimate used to determine the asset's recoverable amount since the last impairment loss was recognized. Such reversal is recognized to profit or loss and the recoverable amount shall not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized.

z) Impairment testing of goodwill

Goodwill in the amount of CZK 1,633,356 thousand acquired through Sicomed S.A. business combination was allocated to segment Romania. To this segment also a part of production property from segment Czech Republic and Slovak Republic which is contributing to Romanian sales was assigned. The recoverable amount was determined based on value in use calculation using projected cash flows for the following five years based on approved budget discounted to present value, the growth rate used to extrapolate cash flow beyond budgeted period is nil.

Key factors and assumptions used in the valuation are:

Net sales growth rate - stated on the level of 5-6% year on year. This rate respects assumptions for estimated market and market share development.

Risk factor - has been applied for sales development to cover unpredictable deviation of market development and to cover possible price erosion. The risk factor range is from 5% to 19%.

Discount rate that reflects management's estimate of the risk assigned to Romania market and is supported by financial data available for that territory. The post-tax discount rate was determined to be 11.54%.

Sales and marketing costs ratio - kept stable between 17-18% for calculation purposes.

Gross contribution - based on average values achieved in 2006. The portfolio mix of products from different production sites is the key driver for gross contribution development.

aa) Contingencies

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

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

bb) Assets held for sale

The Group companies classify a non-current asset (or disposal group) as held for sale when its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale within one year must be highly probable.

The Group measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group companies do not depreciate (or amortize) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognized.

The Group presents a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the accompanying balance sheet.

cc) Subsequent events

Post-year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

(ALL AMOUNTS IN CZK THOUSAND)

3. SEGMENT INFORMATION

Business segments

As substantially all of the Group's sales are pharmaceutical and consumer health care products (CHC), sold to the same customer base, the Company believes it operates in one business segment. The sales of active pharmaceutical ingredients (API) are to different customers but are clearly insignificant.

Geographical segments

The structure is based on geographical areas by locations of customers and is measured using the following key figures:

Sales Revenues
Hand over price *
Allocation of marketing and other selling costs for the territory (except for support process costs)
Allocation of support process costs for the territory**
Allocation of accounts receivables, net for the territory

*costs which include cost of goods sold plus a share in the Group's administration and research and development costs allocated across the whole product portfolio (fixed over whole period, adopted to reality by adjustments),
**support process costs which are directly attributable to the territories such as information technology services, human resources services and registration costs.

Other assets, liabilities, income and expenses are not to be allocated. API sales are not monitored by geographical segment and are therefore included in the unallocated section.

The geographical segment information for the year 2006 is as follows:

	Czech Republic	Slovak Republic	Zone Balt*	Romania	Zone CIS**	Other	Total Segments	Unallocated	Eliminations/ Adjustments	Consolidated
By location of customers										
Net Sales	4,881,493	1,868,918	2,065,167	2,204,241	1,628,128	342,695	12,990,642	1,012,484	-	14,003,126
Hand over price	(2,511,518)	(1,076,466)	(529,602)	(1,464,665)	(683,826)	(199,851)	(6,465,928)	(896,629)	446,034	(6,916,523)
Selling expenses	(731,357)	(292,754)	(846,360)	(438,547)	(583,528)	(102,807)	(2,995,353)	(613,633)	-	(3,608,986)
Other support costs	(15,275)	(16,338)	(46,757)	(14,730)	(68,002)	(13,417)	(174,519)	-	-	(174,519)
Segment profit before tax and finance costs	1,623,343	483,360	642,448	286,299	292,772	26,620	3,354,842	(497,778)	446,034	3,303,098
Accounts receivable	921,653	689,108	488,099	1,924,863	998,093	202,024	5,223,840	286,106	-	5,509,946
Other assets	-	-	-	-	-	-	-	12,757,523	-	12,757,523
Liabilities	-	-	-	-	-	-	-	6,170,567	-	6,170,567
By location of assets										
Depreciation, amortization expenses and impairment	329,964	261,795	8,744	232,123	30,720	6,335	869,681	-	-	869,681
Fixed assets	3,158,420	2,035,085	29,533	1,647,030	116,539	46,875	7,033,482	-	-	7,033,482
Capital expenditures	704,379	342,136	7,568	112,998	58,529	43,258	1,268,868	-	-	1,268,868
Inventory	945,522	991,618	35,905	335,669	76,178	25,460	2,410,352	-	-	2,410,352

(ALL AMOUNTS IN CZK THOUSAND)

The geographical segment information for the year 2005 is as follows:

	Czech Republic	Slovak Republic	Zone Balt*	Romania	Zone CIS**	Other	Total Segments	Unallocated	Eliminations/ Adjustments	Consolidated
By location of customers										
Net Sales	5,463,513	1,959,391	1,353,487	439,201	978,334	329,607	10,523,533	1,315,818	-	11,839,351
Hand over price	(2,688,804)	(1,096,292)	(492,197)	(240,617)	(465,993)	(133,266)	(5,117,169)	(1,156,964)	(106,318)	(6,380,451)
Selling expenses	(751,816)	(304,433)	(524,193)	(119,188)	(376,458)	(116,006)	(2,192,094)	(581,786)	-	(2,773,880)
Other support costs	(7,411)	(13,646)	(26,821)	(6,216)	(42,056)	(10,584)	(106,734)	-	-	(106,734)
Segment profit before tax and finance costs	2,015,482	545,020	310,276	73,180	93,827	69,751	3,107,536	(422,932)	(106,318)	2,578,286
Accounts receivable	1,254,249	548,463	396,466	930,734	539,209	150,901	3,820,022	322,306	-	4,142,328
Other assets	-	-	-	-	-	-	-	14,887,399	-	14,887,399
Liabilities	-	-	-	-	-	-	-	9,248,179	-	9,248,179
By location of assets										
Depreciation, amortization expenses and impairment	317,406	273,546	8,226	46,066	18,310	1,396	664,950	-	-	664,950
Fixed assets	2,870,314	1,918,614	32,798	1,755,237	88,269	7,421	6,672,653	-	-	6,672,653
Capital expenditures	524,678	269,442	16,950	46,768	66,212	6,604	930,654	-	-	930,654
Inventory	901,286	829,438	19,113	391,383	64,752	43,034	2,249,006	-	-	2,249,006

The geographical segment information for the year 2004 is as follows:

	Czech Republic	Slovak Republic	Zone Balt*	Romania	Zone CIS**	Other	Total Segments	Unallocated	Eliminations/ Adjustments	Consolidated
By location of customers										
Net Sales	5,307,545	2,041,596	844,525	67,902	612,907	122,882	8,997,357	1,676,444	-	10,673,801
Hand over price	(2,670,497)	(1,204,615)	(264,302)	(35,976)	(338,341)	(86,881)	(4,600,612)	(1,117,274)	(205,347)	(5,923,233)
Selling expenses	(683,476)	(324,809)	(337,295)	(6,246)	(170,250)	(30,851)	(1,552,927)	(498,768)	-	(2,051,695)
Other support costs	(2,404)	(21,174)	(25,261)	(3,059)	(44,456)	(6,874)	(103,228)	(64,856)	-	(168,084)
Segment profit before tax and finance costs	1,951,168	490,998	217,667	22,621	59,860	(1,724)	2,740,590	(4,454)	(205,347)	2,530,789
Accounts receivable	1,181,732	653,446	251,061	20,243	244,108	102,098	2,452,688	403,392	-	2,856,080
Other assets	-	-	-	-	-	-	-	6,258,449	-	6,258,449
Liabilities	-	-	-	-	-	-	-	2,137,174	-	2,137,174
By location of assets										
Depreciation, amortization expenses and impairment	314,340	230,907	7,926	76	7,488	137	560,874	-	-	560,874
Fixed assets	2,609,389	2,034,106	25,451	471	47,210	980	4,717,607	-	-	4,717,607
Capital expenditures	459,265	215,703	13,958	-	30,829	3,149	722,904	-	-	722,904
Inventory	991,105	860,975	-	-	112,370	21,115	1,985,565	-	-	1,985,565

** Zone Balt comprises Poland, Lithuania, Latvia and Estonia*
*** Zone CIS (Commonwealth of independent states) comprises Russia, Byelorussia, the Ukraine, Moldavia, Georgia, Kazakhstan, Azerbaijan, Armenia, Turkmenistan, Kyrgyzstan and Uzbekistan*

4. REVENUES AND EXPENSES

General and administrative expenses, net

General and administrative expenses, net, for the years ended 31 December 2006, 2005 and 2004, are comprised of the following (in CZK thousand):

	2006	2005	2004
Office salaries and management	(593,015)	(489,874)	(489,384)
Services	(178,395)	(129,027)	(134,990)
IPO costs (part not deducted from equity)	-	-	(89,952)
Depreciation and amortization, net	(205,707)	(205,925)	(90,538)
Operating expenses – general and administration	(239,464)	(231,808)	(208,992)
Travel, exhibitions	(27,463)	(28,321)	(17,159)
Bad debt expense, net	(79,579)	(37,368)	8,712
Representation, gifts	(50,497)	(48,628)	(39,765)
Operating leases	(27,328)	(23,333)	(16,164)
Brand expenses	-	(9,660)	(43,424)
Other operating gains/expenses, net	91,002	(32,088)	(52,683)
Miscellaneous administrative expenses	(284,086)	(214,695)	(261,976)
General and administrative expenses, net	(1,594,532)	(1,450,727)	(1,436,315)

Depreciation and amortization, net in 2004 includes amortization of negative goodwill in the amount of CZK 73,302 thousand.

The 2006 balance of Other operating gains/expenses, net includes a profit in the amount of CZK 92,442 thousand resulting from the sale of land, which was recorded as assets held for sale as of 31 December 2005 (see Note 23). Further, Other operating gains/expenses, net mainly comprise gains and losses from sale of fixed assets and contractual penalties. Miscellaneous administrative expenses mainly comprise advisory services, software license fees and fees for administration area maintenance.

Sales and marketing expenses

	2006	2005	2004
Staff cost	(1,222,050)	(813,883)	(554,031)
Depreciation and amortization	(176,861)	(88,514)	(46,653)
Direct selling expenses, handling	(604,934)	(575,204)	(455,466)
Marketing costs	(796,040)	(711,186)	(545,028)
Sales overhead	(809,101)	(585,093)	(450,517)
Total sales and marketing expenses	(3,608,986)	(2,773,880)	(2,051,695)

Financial income/(expenses), net

Financial income/(expenses), net in 2006, 2005 and 2004 mainly include net income/(expenses) resulting from foreign currency exchange differences.

Key operating costs by nature

	2006	2005	2004
Total average number of employees	4,668	3,416	2,885
Wages	(2,111,111)	(1,524,121)	(1,220,216)
Social and health insurance	(672,121)	(501,452)	(402,758)
Total staff cost	(2,783,232)	(2,025,573)	(1,622,974)
Raw material used	(3,000,752)	(3,094,350)	(2,954,735)
Change in inventory of finished goods, semi-finished goods and work in progress	194,986	(83,859)	(42,535)
Depreciation, amortization and impairment	(869,681)	(664,950)	(560,874)
Repairs and maintenance	(435,005)	(378,409)	(340,166)

Cost of goods sold mainly includes direct production costs such as material, energy, production wages, and indirect costs such as production overheads, depreciation of machinery and amortization of licenses and other intangibles, transport and other operating costs not included as part of General and administrative expenses, net and Sales and marketing expenses.

Sales breakdown by territories

	2006	2005*	2004*
Branded pharmaceuticals			
Czech Republic	5,088,024	5,327,559	5,071,448
Romania	2,478,682	498,540	96,340
Poland	1,943,027	1,413,976	784,632
Slovak Republic	1,891,559	1,815,315	1,841,216
Russia	1,316,820	768,307	432,735
Other	1,103,345	687,686	496,707
API	225,493	316,040	339,475
Other sales/deductions	(43,824)	1,011,928	1,611,248
Total sales	14,003,126	11,839,351	10,673,801

** Presentation of 2004 and 2005 figures was changed to conform to the presentation used in 2006.*

Sales breakdown by product groups

	2006	2005*	2004*
Branded pharmaceuticals			
Prescription	10,614,578	8,467,187	4,082,782
CHC	3,206,879	2,044,196	4,640,296
API	225,493	316,040	339,475
Other sales/deductions	(43,824)	1,011,928	1,611,248
Total sales	14,003,126	11,839,351	10,673,801

** Presentation of 2004 and 2005 figures was changed to correspond to presentation used in 2006.*

5. TAXES

Income tax expense

Major components of income tax expense for the years ended 31 December are (in CZK thousand):

	2006	2005	2004
Consolidated statement of income:			
Current income tax charge	932,221	798,362	678,776
Adjustments in respect of current income tax of previous periods	(2,007)	(9,847)	(4,326)
Deferred income tax:			
Relating to origination and reversal of temporary differences	(130,182)	(43,359)	8,839
Relating to the change in income tax rates	-	(4,001)	(1,783)
Income tax expense reported in the consolidated statement of income	800,032	741,155	681,506

There are no income taxes related to the undistributed retained earnings of subsidiaries, consolidated statements of changes in equity and cumulative translation adjustments because of the applicable parent company tax exemptions.

The reconciliation of income tax expense applicable to profit from operating activities to the income tax expense at the Group's effective income tax rate for the years ended 31 December was as follows (in CZK thousand):

	2006	2005	2004
Profit before tax	3,089,312	2,669,774	2,361,259
Tax at the domestic rates applicable to profits in the country concerned*	686,544	655,913	588,497
Change in valuation allowance	-	-	(11,767)
Permanent differences (including unrecognized tax losses of the parent company)**	113,488	85,242	104,776
Total income tax expense	800,032	741,155	681,506
Effective tax rate	26%	28%	29%

*A reconciliation of income tax expense applicable to profit from operating activities before income tax is prepared on the basis of aggregating separate reconciliations for each national jurisdiction. In 2006, statutory income tax rates are 24% for Czech and Russian entities, 19% for Slovak and Polish entities, 16% for Romanian entities and 27.5% for Dutch entities. In 2005, statutory income tax rates were 26% for Czech entities, 19 % for Slovak and Polish entities, 27 % for Dutch entities, 24 % for Russian and 16% for Romanian entities. In 2004, statutory income tax rates were 28 % for Czech entities, 19 % for Slovak and Polish entities, 34.5 % for Dutch entities and 24 % for Russian.

**Significant portion relates to the permanent differences and other unrecognized tax losses in Zentiva N.V. in 2006, 2005 and 2004. Permanent differences also include impact of negative goodwill amortization in 2004. The total amount of accumulated unrecognized tax losses in Zentiva N.V. as of 31 December 2006, 2005 and 2004 is estimated by management at CZK 328,557 thousand, CZK 337,482 thousand and CZK 239,382 thousand, respectively. As the level of their utilization cannot be assessed with reasonable certainty, the management decided to treat such losses as permanent differences of the standalone parent company of the Group and no deferred tax asset has been recorded in this respect.

Deferred taxes arise from temporary differences in the net book values of assets and liabilities for statutory accounting and tax purposes, from temporary differences relating to adjustments to conform to IFRS and from temporary differences resulting from consolidation adjustments.

As of 31 December 2006, 2005 and 2004, the key components of deferred taxes are as follows (in CZK thousand):

	2006		2005 - revised		2004	
	Asset	Liability	Asset	Liability	Asset	Liability
Temporary differences between book and tax value of fixed assets (including capitalization of leases and assets held for sale)**	-	(316,440)	-	(339,039)	-	(38,778)
Allowance for receivables	713	-	31,732	-	42,864	-
Allowance for inventory	29,514	-	10,872	-	4,644	-
Other provisions	87,982	-	18,916	-	8,580	-
Capitalization of leases	-	(2,136)	-	-	-	-
Costs which are tax deductible in future periods	16,472	-	12,631	-	5,867	-
Consolidation adjustments***	163,579	-	122,828	-	50,721	-
Other adjustments	-	-	-	-	-	(9,429)
Total gross deferred taxes	298,260	(318,576)	196,979	(339,039)	112,676	(48,207)
Set off*	(55,984)	55,984	(49,479)	49,479	(35,084)	35,084
Total net deferred taxes	242,276	(262,592)	147,500	(289,560)	77,592	(13,123)

* Gross deferred tax assets and liabilities and their current and long term portions, respectively, were offset for each individual subsidiary of the Group when applicable. No consolidated corporate income tax return may be filed for the Group.

** The increase in 2005 mainly results from acquisition of Sicomed S.A. and revaluation of its assets. The deferred tax liability was changed for year 2005 to reflect revised value after finalization of Sicomed S.A. purchase price allocation (see Note10).

*** Mainly related to the elimination of unrealized intercompany profits.

The basic structure of net deferred tax balances in the Group as at 31 December 2006, 2005 and 2004 is as follows (in CZK thousand):

	2006	2005 revised	2004
Deferred tax liabilities			
- Zentiva, a.s. Prague	(64,587)	(48,006)	-
- Zentiva, a.s. Hlohovec	(21,189)	(6,714)	-
- Zentiva S.A.	(175,402)	(233,426)	-
- Subsidiaries of Zentiva, a.s. Prague	-	-	(7,132)
- Impact of consolidation	(1,414)	(1,414)	(5,991)
Deferred tax liability	(262,592)	(289,560)	(13,123)
Deferred tax assets (net of valuation allowance)			
- Zentiva, a.s. Prague	-	-	6,018
- Zentiva, a.s. Hlohovec	-	-	15,605
- Zentiva International, a.s.	40,815	12,062	2,950
- Other subsidiaries of Zentiva, a.s. Prague	36,468	11,196	2,298
- Impact of consolidation (primarily unrealized margin elimination)	164,993	124,242	50,721
Deferred tax asset	242,276	147,500	77,592

Other taxes

Other Taxes Payable in the accompanying consolidated balance sheet consist of other than corporate income tax payables or accruals, primarily VAT payable, custom duties, excise duties, property and other taxes payable.

6. EARNINGS PER SHARE

The following reflects the income and share data used in the basic earnings per share computations:

	2006	2005	2004
Weighted average number of ordinary shares issued	38,136,230	38,136,230	32,962,887
Weighted average number of treasury shares	(71,728)	-	-
Average number of shares outstanding during the period adjusted by treasury shares impact	*38,064,502*	*38,136,230*	*32,962,887*
Dilutive effect of share options granted	45,956	-	-
Average number of shares outstanding during the period adjusted for effect of dilutive potential shares	*38,110,458*	*38,136,230*	*32,962,887*
Net income attributable to the shareholders (CZK thousand)	2,203,160	1,877,542	1,613,055
Less: accretion attributable to preferred shares (CZK thousand)	-	-	(132,658)
Net income attributable to ordinary shareholders (CZK thousand)	2,203,160	1,877,542	1,480,397
Basic earnings per share	57.88 CZK/share	49.23 CZK/share	44.91 CZK/share
Diluted earnings per share	57.81 CZK/share	49.23 CZK/share	43.82 CZK/share

There have been no transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

As at 28 June 2004 the Company finished the initial public offering process. There were several capital transactions connected, which had impact on the share capital, share premium, number of shares and accretion attributable to preferred shares (see Note 17).

Earnings per share calculation was adjusted by the share split in the year 2004. The diluted earnings per share are calculated taking into account 100 % dilutive effect of the restricted shares granted to management at the end of April 2004.

The dilutive effect of share options granted in 2005 and 2006 was measured based on comparison between the average market price of an ordinary share during the period and its exercise price including the fair value of services to be obtained. In 2006 and 2005, the dilutive effect of share option was 45,956 shares and 0 shares, respectively (see Note 24).

7. RETAINED EARNINGS/DIVIDENDS PAID AND PROPOSED

Retained earnings available for distribution are based on the financial statements of the Company prepared in accordance with the law of the Netherlands, as opposed to these consolidated financial statements, which are prepared under the International Financial Reporting Standards as adopted by EU. The distributable reserves at 31 December 2006, 2005 and 2004 amount to CZK 7,311,324 thousand, CZK 6,310,871 thousand and CZK 6,329,279 thousand, respectively.

Dividends of CZK 361,582 thousand and CZK 305,090 thousand were paid to equity holders of the parent during the years 2006 and 2005. No such dividends were paid during the year 2004.

8. MERGERS AND ACQUISITIONS

In 1998 the Company acquired a majority of voting rights in Leciva, a.s. (now Zentiva, a.s. Prague) that was established on 1 April 1993 through a transformation of a state company. Later in 1998, Leciva, a.s. acquired controlling share of VUFB a.s., a company engaged in research and development of pharmaceuticals. These investments were increased in the period 1999 – 2004 to 99.25% and 95.3%, respectively. In applying IFRS 1 (see Note 2c), the Group has decided not to apply IAS 22 to business combinations that took place prior to 1 January 2001 pursuant to the exception for those transactions. As at 1 January 2005, Zentiva, a.s. and VUFB, a.s. were merged. During 2005 Zentiva N.V. acquired remaining portion of the freestanding minority interest in Zentiva, a.s. Prague and the investment in Zentiva, a.s. Prague was increased to 100%. The cost of this increase amounted to CZK 105,017 thousand. The acquisition of such minority interest was not considered a business combination under IFRS 3. The Group policy for recording the minority interest acquisition is to record the entire difference between the cost of acquisition and the minority interest acquired as an equity transaction (see Note 2h). In accordance with this policy the Group has decided to record the cost of acquisition of 0.75% in Zentiva, a.s. Prague using the equity concept method and the difference between the cost of acquisition and minority interest acquired which amounted to CZK 61,225 thousand was charged to retained earnings.

In August 2003 Zentiva N.V. acquired a 100% share of SL Pharma, an Austrian holding company that was a 69 % shareholder of SLOVAKOFARMA a.s. Group (now Zentiva, a.s. Hlohovec) and the investment of Zentiva N.V. in Zentiva, a.s. Hlohovec was increased to 85.02% for total consideration of CZK 1,936,877 thousand as of 31 December 2003. In 2004, 2005 and 2006 Zentiva N.V. acquired additional 5.73%, 0.8% and 0,01% of Zentiva, a.s. Hlohovec for CZK 113,399 thousand, CZK 783 thousand and CZK 100 thousand and increased it's total interest to 90.75%, 90.83% and 90.84% as at 31 December 2004, 2005 and 2006, respectively. All partial acquisitions related to the purchase of shares in SL Pharma and in Zentiva, a.s. Hlohovec in 2003 and 2004 were considered by the Group as linked transactions and accounted for under the purchase method. This acquisition resulted as at 31 December 2004 in a total negative goodwill of CZK 1,289,286 thousand which was amortized over a 17 year period and accounted for at the subsidiary level, subject to conversion from SKK to the presentation currency. The carrying amount of negative goodwill of CZK 1,192,610 thousand was reclassified directly to retained earnings as of 1 January 2005 in accordance with IFRS 3.

In October 2005 Zentiva N.V. acquired 100% of Venoma Holdings Limited. Venoma Holdings Limited is a holding company which owns a 50.98% interest in Sicomed S.A., a Romanian pharmaceutical company. Following the acquisition, Zentiva N.V. launched a tender offer for the outstanding minority of 49.02% in Sicomed S.A. The tender offer has been outstanding as at 31 December 2005, expiring 19 January 2006. Zentiva N.V. recorded a minority shareholders payable in the current liabilities section of the balance sheet of CZK 1,672,677 thousand in respect of tender offer made that related to 36.64% of freestanding minorities, who were entitled to exercise the option to sell. One of the minority shareholders, QVT Fund, holding 12.38% in Sicomed S.A. as at 31 December 2005, refused to participate in the offer and this minority shareholding has been included in the minority interest in equity in the accompanying balance sheet as at 31 December 2005. The total cost of the 50.98% acquisition was CZK 2,631,560 thousand and comprises the amount paid in cash and costs directly attributable to the combination.

The tender offer for the Sicomed S.A. shares has expired on 19 January 2006. As a result, the Group acquired additional 23.93% stake in Sicomed S.A. for the consideration of CZK 1,107,909 thousand. The total Group's stake in this subsidiary increased to 74.91% as of this date. The balance of the liability related to minorities and goodwill has been reduced accordingly for a difference resulting from the minority offer of 12.71% that has not been exercised, with a corresponding entry to minority interest equity accounts.

The Group's initial accounting for Sicomed S.A. business acquisition which was finalized at the beginning of October 2006 resulting in an increase of the initially recorded amount of goodwill by CZK 182,531 thousand.

The acquisition of 50.98% of Sicomed S.A. and the tender offer made for the outstanding minority of 36.64% out of which 23.93% were exercised in January 2006, resulted in a total goodwill of CZK 1,841,726 thousand as of 31 December 2005 and CZK 1,633,356 thousand as of 31 December 2006.

The fair and carrying values of the identifiable assets and liabilities of Sicomed S.A. and Venoma as at the date of acquisition were (in CZK thousand):

	Fair values Sicomed S.A.	Fair values Sicomed S.A. revised	Fair values Venoma	Carrying values total
Property, Plant and Equipment, net	945,313	945,313	-	556,826
PPE held for sale	478,901	478,901	-	92,753
Intangible assets, net	1,109,160	861,145	-	1,768
Inventory	439,964	439,964	-	336,520
Account receivables and other current assets, net	1,003,329	1,003,329	40	1,017,204
Cash and Cash Equivalent	13,048	13,048	44,491	57,539
Accounts Payable	(235,222)	(235,222)	-	(235,222)
Accruals and Other Current Liabilities	(77,855)	(77,855)	(115)	(77,970)
Overdraft and Short Term Notes	(241,238)	(241,238)	-	(241,238)
Current Capital Lease Obligation	(6,390)	(6,390)	-	(6,390)
Obligations Under Capital Lease	(16,387)	(16,387)	-	(16,387)
Interest Bearing Loans and Borrowing	(84,994)	(84,994)	-	(84,994)
Provision and Other Long Term Liabilities	(1,416)	(1,416)	-	(1,416)
Deferred income tax payable	(287,699)	(248,017)	-	27,762
Total value of net assets acquired	3,038,514	2,830,181	44,416	1,426,755
Acquisition of subsidiary, net of cash acquired	2,574,021	2,574,021		

The fair value is based on an independent appraisal report prepared as at the date of acquisition. Total net balance sheet effect of the fair value adjustment as of the date of acquisition on tangible and intangible non-current assets and assets held for sale amounted to RON 232 million (CZK 1,882 million) respectively RON 201 million (CZK 1,634 million) after finalization of purchase price allocation.

In the process of finalizing the purchase price allocation in 2006, the Group revised some of assumptions, which were used for the independent appraisal report prepared for the initial accounting of purchase price allocation e.g. planned EBITDA used for the original calculation of free cash flow was decreased to the more realistically expected figures. As a result, the valuation of some intangible asses was changed – namely value of relationships with distributors and value of brand Gerovital (see Note 10).

9. PROPERTY, PLANT AND EQUIPMENT

Summary of Property, Plant and Equipment, net as at 31 December 2006, 2005 and 2004 (in CZK thousand):

	Freehold land and buildings	Machinery and equipment	Construction in progress	Total
As at 31 December 2004				
Cost	3,040,865	4,266,248	160,377	7,467,490
Accumulated depreciation	(620,697)	(2,375,788)	-	(2,996,485)
Net book value as at 31 December 2004	2,420,168	1,890,460	160,377	4,471,005
As at 31 December 2005				
Cost	3,371,830	4,973,981	585,695	8,931,506
Accumulated depreciation	(623,073)	(2,729,910)	-	(3,352,983)
Net book value as at 31 December 2005	2,748,757	2,244,071	585,695	5,578,523
As at 31 December 2006				
Cost	4,030,056	5,678,286	218,031	9,926,373
Accumulated depreciation	(757,935)	(3,208,370)	-	(3,966,305)
Net book value as at 31 December 2006	3,272,121	2,469,916	218,031	5,960,068

	Freehold land and buildings	Machinery and equipment	Construction in progress	Total
31 December 2003 net book value	2,419,217	1,821,436	122,402	4,363,055
Currency translation adjustment	(763)	(85)	361	(487)
Additions	-	-	720,708	720,708
Transfers	135,600	544,617	(680,217)	-
Disposals	(10,388)	(30,958)	(33)	(41,379)
Impairment	(10,957)	(3,251)	(2,844)	(17,052)
Depreciation charge	(112,541)	(441,299)	-	(553,840)
31 December 2004 net book value	2,420,168	1,890,460	160,377	4,471,005
Currency translation adjustment	(36,354)	(37,945)	(3,615)	(77,914)
Additions	17,012	1,393	856,849	875,254
Additions from acquisitions	372,500	471,608	101,205	945,313
Transfers	135,350	381,303	(516,653)	-
Disposals	(27,679)	(4,224)	(12,468)	(44,371)
Impairment	(3,927)	(20,686)	-	(24,613)
Depreciation charge	(96,062)	(432,556)	-	(528,618)
Other	(32,251)	(5,282)	-	(37,533)
31 December 2005 net book value	2,748,757	2,244,071	585,695	5,578,523
Currency translation adjustment	55,418	50,434	3,738	109,590
Additions	1,500	6,472	1,043,594	1,051,566
Transfers	636,563	778,433	(1,414,996)	-
Disposals	(37,216)	(41,546)	-	(78,762)
Impairment	1,152	(11,821)	-	(10,669)
Depreciation charge	(134,053)	(556,127)	-	(690,180)
31 December 2006 net book value	3,272,121	2,469,916	218,031	5,960,068

Additions from acquisition in 2005 relate to the impact of Venoma Holdings Limited and Sicomed S.A. purchase. The non current assets acquired are stated at fair value as at the date of acquisition less accumulated depreciation for the period from acquisition through 31 December 2005. The main addition to the Group in this respect was the production plant and land in Bucharest. Part of the non-current assets acquired in the business combination has been classified as assets held for sale and recorded at their fair value to current assets. The Group actively marketed these assets and found a buyer for a large plot of land and some buildings that were not to be used for operations in the future (see Note 15).

Additions in 2006 mainly include reconstruction of administrative building of CZK 486,000 thousand, investment to production lines of CZK 235,000 thousand, IT technologies of CZK 147,200 thousand, supporting processes of CZK 91 thousand and to environmental program of CZK 8,500 thousand in the Czech Republic. Building reconstruction of CZK 91,541 thousand, Granulator machine of CZK 23,372 thousand and Simatic system of CZK 23,749 thousand in the Slovak Republic.

Additions in 2005 mainly include investment to IT technologies of CZK 42,707 thousand, supporting processes of CZK 119,023 thousand and to environmental program of CZK 26,012 thousand in the Czech Republic, and to production machine in the amount of CZK 19,161 thousand and buildings reconstructions in the amount of CZK 46,593 thousand in the Slovak Republic.

Additions in 2004 in the Czech Republic mainly include five production lines of CZK 77,204 thousand and IT equipment of CZK 30,785 thousand. In the Slovak Republic, the main additions in 2004 were two production machines of CZK 57,913 thousand.

The carrying value of property, plant and equipment held under finance lease and hire purchase contracts at 31 December 2006, 2005 and 2004 is CZK 94,108 thousand, CZK 97,899 thousand and CZK 78,475 thousand, respectively.

The Group has reviewed the remaining useful economic life of significant fixed assets in 2005. The change in estimate resulted in a decrease of the annual depreciation charge in the amount of CZK 26 million in 2005 in comparison with the depreciation based on useful economic lives that were applied in 2004.

Construction in progress

Construction in progress at 31 December 2006, 2005 and 2004 included advances of CZK 7,569 thousand, CZK 27,099 thousand and CZK 42,993 thousand, respectively and tangibles in progress of CZK 210,462 thousand, CZK 558,596 thousand and CZK 117,384 thousand, respectively. 2006, 2005 and 2004 advances represent mainly advances for machinery and other investment projects. Generally, tangibles in progress represent construction and reconstruction of operating premises, acquisition of machinery and equipment and other investment projects.

Significant parts of construction in progress include:

- Investments to IT technologies in the amount of CZK 42,797 thousand, reconstruction of package material storehouse of CZK 20,522 thousand and laboratory equipment of 15,084 thousand in the Czech Republic, reconstruction of administrative and production building of CZK 71,574 thousand and purchase of production machinery and equipment of CZK 20,848 thousand in Romania at 31 December 2006.
- Construction of administrative building of CZK 360,528 thousand and reconstruction of production lines of CZK 136,849 thousand at 31 December 2005 (in the Czech Republic),
- Construction of administrative building of CZK 79,395 thousand at 31 December 2004 (in the Czech Republic),

Fully depreciated assets

Included in property, plant and equipment as at 31 December 2006 is machinery and equipment with an acquisition cost value of CZK 1,143,232 thousand, which is fully depreciated, but remain in use.

Assets not in active use

As at 31 December 2006, 2005 and 2004 the Group did not have any significant assets not in active use.

10. INTANGIBLE ASSETS

Summary of intangible assets of Zentiva N.V. as at 31 December 2006, 2005 and 2004 (in CZK thousand):

	Concession, Patents, Licenses, Brands and Other intangibles	Development costs & Relationship with distributors	Total
As at 31 December 2004			
Cost	432,158	-	432,158
Accumulated amortization	(185,556)	-	(185,556)
Net book value	246,602	-	246,602
As at 31 December 2005			
Cost	1,047,093	586,965	1,634,058
Accumulated amortization	(273,240)	(18,673)	(291,913)
Net book value	773,853	568,292	1,342,145
As at 31 December 2005 –revised			
Cost -revised	1,014,440	371,603	1,386,043
Accumulated amortization-revised	(273,240)	(18,673)	(291,913)
Net book value -revised	741,200	352,930	1,094,130
As at 31 December 2006			
Cost	1,302,940	398,728	1,701,668
Accumulated amortization	(543,733)	(84,521)	(628,254)
Net book value	759,207	314,207	1,073,414

Carrying amount of intangible assets with indefinite life (including goodwill) as at 31 December 2006, 2005 and 2004 was CZK 2,091,071 thousand, CZK 2,145,328 thousand and CZK 0.

(ALL AMOUNTS IN CZK THOUSAND)

	Concession, Patents, Licenses, Brands and other intangibles	Development costs & relationship with distributors	Intangibles, net	Goodwill	(Negative Goodwill)	Goodwill/ (Negative goodwill), net
31 December 2003 net book value	212,732	-	212,732	11,091	(1,168,699)	(1,157,608)
Currency translation adjustment	283	-	283	-	1,188	1,188
Additions	98,122	-	98,122	-	(98,401)	(98,401)
Disposals and adjustments	(3,142)	-	(3,142)	-	-	-
Amortization charge	(61,393)	-	(61,393)	(831)	73,302	72,471
31 December 2004 net book value	246,602	-	246,602	10,260	(1,192,610)	(1,182,350)
Release of negative goodwill	-	-	-	-	1,192,610	1,192,610
1 January 2005 net book value-restated	246,602	-	246,602	10,260	-	10,260
Currency translation adjustment	(15,882)	(16,223)	(32,105)	-	-	-
Additions from acquisition	520,290	588,870	1,109,160	1,010,743	-	1,010,743
Additions	123,471	14,318	137,789	-	-	-
Disposals and adjustments	(7,582)	-	(7,582)	-	-	-
Impairment	(8,407)	-	(8,407)	-	-	-
Amortization charge	(84,639)	(18,673)	(103,312)	-	-	-
Goodwill related to the minority tender offer outstanding	-	-	-	648,452	-	648,452
31 December 2005 net book value	773,853	568,292	1,342,145	1,669,455	-	1,669,455
Impact of finalized Sicomed S.A. purchase price allocation	(32,653)	(215,362)	(248,015)	182,531	-	182,531
31 December 2005 net book value - revised	741,200	352,930	1,094,130	1,851,986	-	1,851,986
Currency translation adjustment	16,062	10,198	26,260	(30,258)	-	(30,258)
Additions	117,579	15,859	133,438	-	-	-
Disposals and adjustments	(11,582)	-	(11,582)	-	-	-
Impairment	(1,481)	-	(1,481)	-	-	-
Amortization charge	(102,571)	(64,780)	(167,351)	-	-	-
Goodwill related to the minority tender offer outstanding as of 31 December 2005	-	-	-	(178,112)	-	(178,112)
31 December 2006 net book value	759,207	314,207	1,073,414	1,643,616	-	1,643,616

The adoption of IFRS 3 and IAS 36 (revised) has resulted in the Group ceasing annual goodwill amortisation and commencing testing for goodwill impairment at the cash-generating unit level annually since 1 January 2005. The negative goodwill which was amortized over 17 years was reclassified directly to retained earnings as of 1 January 2005 in accordance with IFRS 3 – “Business Combinations”.

(ALL AMOUNTS IN CZK THOUSAND)

The Group's initial accounting for Zentiva S.A. (former Sicomed S.A.) business acquisition (October 2005) that was determined only provisionally by the end of 2005 has been finalized at the beginning of October 2006. As a result of the final purchase price allocation, the Company adjusted below described balance sheet balances (see Note 8). The revision resulted from reassessment of the value of relationships with distributors and brand Gerovital. The 2005 Balance sheet has been revised to conform to the final purchase price allocation. No revision of 2005 Profit and loss statement has been made as the impact was clearly insignificant.

	31 December 2005	31 December 2005 revised	Difference
Intangible Assets, net	1,342,145	1,094,130	(248,015)
Goodwill/(Negative goodwill), net	1,669,455	1,851,986	182,531
Minority interest	(743,257)	(717,455)	25,802
Deferred Tax Liabilities	(329,242)	(289,560)	39,682

Additions from acquisition in 2005 relate to the impact of Venoma Holdings Limited and Sicomed S.A. purchase. The intangible assets acquired are stated at fair value as of the date of acquisition less accumulated amortization and/or impairment loss for the period from acquisition through 31 December 2005. The main additions to the Group in this respect were product brands and intangibles related to relationships with distributors and market share.

Significant additions in 2006 mainly include Project eZen of total CZK 8,789 thousand in the Czech Republic.

Construction in progress at 31 December 2006 mainly include license for Perindopril and Toparimate of CZK 14,728 thousand and investments to IT systems of total CZK 56,640 thousand (e.g. Project eDMS of CZK 15,568 thousand, SAP improvement and Microsoft license of total CZK 10,634 thousand) in the Czech Republic.

Significant additions in 2005 in the Czech Republic mainly include several IT related acquisitions and improvements (centralization of applications project realization in the amount of CZK 21,070 thousand, eDMS in the amount of CZK 12,324 thousand and Zentiva Corporate Portal in the amount of CZK 7,901 thousand).

Additions in 2004 in the Czech Republic mainly include eZEN system of CZK 5,594 thousand, nine high-value licenses for various software of CZK 28,002 thousand and a license for Ramipril of CZK 3,379 thousand.

Patents and licenses are being amortized evenly over their useful economic lives of 4 to 11 years, brands acquired as part of business combination that have infinite lives are subject to annual impairment test.

11. INVESTMENTS

Summary of financial investments of the Group as at 31 December 2006, 2005 and 2004 (in CZK thousand):

		31 December 2006			31 December 2005			31 December 2004	% of ownership in			Proceeds from sale in
Investee	Country	Cost of acquisition	Total change in fair value / impairment, net	Fair value	Cost of acquisition	Total change in fair value / impairment, net	Fair value	Fair value	2006	2005	2004	2004
Available-for sale financial assets -												
Non-consolidated Subsidiaries												
Leciva FARMSANOAT *	Uzbekistan	-	-	-	-	-	-	-	-	-	-	7,728
Leciva GEO	Georgia	-	-	-	-	-	-	-	-	-	-	12,519
U – Farma	Ukraine	-	-	-	-	-	-	-	-	-	-	18,837
S. Med Handels GmbH	Austria	-	-	-	-	-	-	-	-	-	-	485
SLOVAKOFARMA, s.r.o.	Czech Republic	-	-	-	-	-	-	2,671	-	-	91 %	-
Other Securities and Contributions												
Mestská ČOV, s.r.o	Slovak Republic	20,344	-	20,344	19,505	-	19,505	20,031	19%	19%	19 %	-
Other securities	Czech Republic, Slovak Republic	9,288	(5,980)	3,308	13,031	(8,031)	5,000	4,757	-	-	-	-
NF pro Vaše srdce acquisition	Czech Republic	-	-	-	250	-	250	-	-	-	-	-
Other Investments	Czech Republic, Slovak Republic, Romania	1,867	(255)	1,612	1,868	(805)	1,063	1,561	-	-	-	-
Total Investments (non-consolidated)		31,499	(6,235)	25,264	34,654	(8,836)	25,818	29,020	-	-	-	39,569

* The receivable from sale of the investment in Leciva FARMSANOAT was fully provided for as the collectibility of the receivable is uncertain.

Other Securities and Contributions and Other Investments are carried at fair value.

In June 2004, the ownership interest in Leciva FARMSANOAT was sold for USD 293 thousand. All receivables and loans which were not part of the transaction were fully provided for.

During 2004 the Company sold its investment in the subsidiary Leciva GEO including all loans and relevant receivables and the ownership rights were transferred to the purchaser. The Company's financial or investment commitment in Leciva GEO was dismissed by this sale.

In December 2004, the Company sold its interest in subsidiary U-Farma for USD 800 thousand and the investment was fully disposed off.

In March 2004, the Company sold its shares in subsidiary S. Med Handels GmbH, Vienna for EUR 15 thousand and the investment was fully disposed off.

Slovakofarma, s.r.o. was liquidated during the year 2005.

All disputes with minority shareholders in U-Farma and Leciva GEO were terminated by the disposal of the investment in 2004.

12. INVENTORY

Inventory, net, at 31 December 2006, 2005 and 2004 is comprised of the following (in CZK thousand):

	31 December 2006	31 December 2005	31 December 2004
Raw Materials and Supplies	872,292	879,256	814,860
Work in Process	346,721	236,331	205,931
Finished Goods	1,160,198	1,077,142	957,726
Merchandise	31,141	56,277	7,048
Total Inventory, net	2,410,352	2,249,006	1,985,565

Obsolete, defective or slow moving inventories have been reduced to their net realizable value by an allowance, determined by management based on the results of physical stock taking for the finished goods inventory and a detailed analysis of the respective items of obsolete, defective and excessive inventory. The amount of inventory allowance as at 31 December 2006, 2005, and 2004 amounted to CZK 131,290 thousand, CZK 117,211 thousand and CZK 36,588 thousand respectively.

13. ACCOUNTS RECEIVABLE, NET

	31 December 2006	31 December 2005	31 December 2004
Trade accounts receivable	5,849,901	4,527,048	3,098,352
Receivables from taxes	224,478	115,664	228,311
Other receivables	123,900	123,574	84,939
Less valuation allowance	(688,333)	(623,958)	(555,522)
Accounts receivable, net	5,509,946	4,142,328	2,856,080

Trade Receivables represent outstanding balances on invoices from both domestic and foreign customers. All receivables from domestic sales are denominated in local currencies while receivables from abroad are denominated in foreign currencies.

(ALL AMOUNTS IN CZK THOUSAND)

Receivables from taxes include receivables from tax authorities predominantly related to VAT.

Other receivables in 2006 mainly include security paid to tax authority for excise duty and balances due from Chemapol and interest receivable from former non-consolidated subsidiary Leciva FARMSANOAT in amount of CZK 48,179 thousand, which were fully provided for as at 31 December 2006.

Other receivables in 2005 and 2004 mainly include security paid to tax authority for excise duty and balances due from Chemapol and interest receivable from former non-consolidated subsidiary Leciva FARMSANOAT in the amount of CZK 43,408 thousand and CZK 42,357 thousand, respectively, which were fully provided for as at 31 December 2005 and 2004, respectively.

The receivables acquired under the SL Pharma and Venoma Holdings Limited acquisition were valued at fair value as at the date of acquisition. The above table includes gross balances of the unpaid nominal amounts of these receivables and of the related valuation allowance, respectively.

14. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and Other Current Assets at 31 December 2006, 2005 and 2004 are mainly comprised of CZK 91,410 thousand, CZK 138,971 thousand and CZK 81,050 thousand of advances for goods and services and of CZK 113,787 thousand, CZK 46,123 thousand and CZK 35,584 thousand of prepaid expenses, respectively. Advances for goods and services mainly consist of CZK 4,481 thousand, CZK 296 thousand and CZK 292 thousand of advances for material and of CZK 86,929 thousand, CZK 138,675 thousand and CZK 80,758 thousand of advances for services, respectively.

15. NON-CURRENT ASSETS HELD FOR SALE

The assets held for sale as of 31 December 2005 (land in Bucharest) with a carrying value of CZK 462,621 thousand were sold to third parties for RON 69,922 thousand, resulting in a profit of CZK 92,442 thousand (see Note 23).

Assets held for sale in 2005 comprised further of marketing building in Bratislava in the amount of CZK 32,250 thousand and dryer machine in the amount of CZK 5,268 thousand which were supposed to be sold within one year.

16. CASH AND CASH EQUIVALENTS AND CASH RESTRICTED MORE THAN 3 MONTHS

	31 December 2006	31 December 2005	31 December 2004
Cash at bank and in hand	3,761	5,321	249,472
Short-term deposits – restricted less than 3 months	-	2,358,834	-
Short-term deposits - unrestricted	894,952	859,230	220,908
Total cash and cash equivalents	898,713	3,223,385	470,380
Total cash restricted more than 3 months	290,785	-	-

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made overnight or for varying periods of between 1 and 30 days depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

As of 31 December 2006, the Company recorded an escrow account with restricted cash relevant to sale of land in Zentiva S.A. (see Note 23).

(ALL AMOUNTS IN CZK THOUSAND)

As at the year end 2005 the Company had two escrow accounts. One of them in the amount of CZK 58,021 thousand was set-up to pay out the minority shareholders of Zentiva a.s., Prague. The required period elapsed on 2 January 2006. Second multi-currency escrow account in the amount of CZK 2,300,813 thousand was set up in connection with the launched tender offer for remaining 49.02% shares of Sicomed S.A. That account was closed down on 19 January 2006 and the remaining amount of money transferred to Zentiva N.V.

17. SHARE CAPITAL AND SHARE PREMIUM

	31 December 2006	31 December 2005	31 December 2004
Share Capital Net of Treasury Shares at 31 December (in TCZK)	12,112	12,112	12,112
Share Premium as (in TCZK)	2,514,784	2,514,784	2,514,784
Number of Ordinary Shares at 1 January	38,136,230	38,136,230	152,700
Exercised management options- issue of ordinary shares	-	-	14,500
Issue of Ordinary Shares in exchange of preferred shares	-	-	706
Share split influence (1:175)	-	-	29,215,644
Issue of Ordinary shares in exchange of preferred dividends	-	-	4,422,784
New Issue of Ordinary Shares	-	-	4,329,896
Total Number of Ordinary Shares at 31 December	38,136,230	38,136,230	38,136,230
Total Number of Shares Issued at 31 December	38,136,230	38,136,230	38,136,230
Treasury shares	(126,000)	-	-

The authorized capital as at 31 December 2006, 2005 and 2004 amounted to CZK 12,112 thousand.

There were several capital transactions in 2004 completed, which mainly related to the initial public offering process (IPO) that has been completed on 28 June 2004.

The management exercised their options to 14,500 ordinary shares in April 2004. The Company's proceeds from this transaction were CZK 584,000 thousand.

In May 2004, the nominal value of shares was increased from 0.46 EUR to 1.75 EUR and all shares were split at a ratio of 1:175 resulting in the nominal value of 0.01 EUR per share. Preferred shares were converted into ordinary at a conversion ratio of one ordinary for each preference share, followed by issue of 4,422,784 ordinary shares to Warburg Pincus funds (being conversion of all accrued cumulative preferred dividends in the amount of CZK 2,204,972 thousand) in June 2004.

The combined initial public offering (IPO) at Prague Stock Exchange and London Stock Exchange followed and a total of 11,500,000 shares encompassing 4,329,896 new and 7,170,104 existing shares were offered for CZK 485 and USD 18.36, respectively. The IPO proceeds of the Company amounted to CZK 1,940,654 thousand, out of which CZK 2,011,265 thousand were gross proceeds and CZK 70,611 thousand cost of new equity deducted directly from equity.

18. INTEREST BEARING LOANS AND BORROWINGS

As at 31 December 2006, the Group had the following interest bearing loans and borrowings:

				Outstanding as at 31. 12. 2006		
				Amount in foreign currency	Amount in TCZK	
Bank	Nature	Maturity due	Total limit		Short term	Long term
Zentiva a. s., Prague						
Komerční banka	Loan	2007	400,000 TCZK	-	-	-
	Overdraft	2007	incl. 200,000 TCZK	-	128,764	-
	Overdraft	2007	incl. 100 TEUR	32 TEUR	890	-
	Overdraft	2007	incl. 100 TUSD	-	-	-
CITIBANK, a.s.	Loan	2007	900,000 TCZK	-	300,000	-
	Overdraft	2007	incl. 200,000 TCZK	-	9	-
Česká spořitelna	Loan	2007	900,000 TCZK	-	300,000	-
	Overdraft	2007	incl. 300,000 TCZK	-	202,756	-
ING Bank N. V.	Loan	2007	300,000 TCZK	-	-	-
	Overdraft	2007	incl.300,000 TCZK	-	297,331	-
Zentiva, a. s. Hlohovec						
Tatra banka - EXIM	Loan	2007	270,000 TSKK	-	215,616	-
Tatra banka	Overdraft	2007	300,000 TSKK	-	-	-
	Overdraft	2007	50,000 TSKK	-	-	-
	Overdraft	2007	50,000 TSKK	-	-	-
Zentiva Pharma						
Citibank Moscow	Overdraft	2007	6,000 TUSD	14,693 TRUB	11,652	-
Zentiva N.V.						
ING	Loan	2008	400,000 TCZK	-	400,000	-
ABN/AMRO	Loan	2008	400,000 TCZK	-	400,000	-
Komerční banka, a.s.	Loan	2008	400,000 TCZK	-	400,000	-
Česká spořitelna, a.s.	Loan	2008	400,000 TCZK	-	400,000	
CITIBANK a.s.	Loan	2008	400,000 TCZK	-	400,000	-
	Overdraft	2007	200,000 TCZK	-	252,332	-
	Overdraft	2007	10,000 TEUR	-	-	-
Zentiva PL						
CITIBANK	Overdraft	2007	1,000 TPLN	-	-	-
Current part				-	3,709,350	-
Non – current part				-	-	-
Total Bank Loans						3,709,350

The Group has an overdraft facility of CZK 1,932 million with 7 banks of which CZK 894 million was drawn as at 31 December 2006.

As at 31 December 2005, the Group had the following interest bearing loans and borrowings:

				Outstanding as at 31. 12. 2005		
Bank	Nature	Maturity due	Total limit	Amount in foreign currency	Amount in TCZK Short term	Long term
Zentiva a. s., Prague						
Komerční banka	Loan	2006	405,000 TCZK	-	-	-
	Overdraft	2006	incl. 350,000 TCZK	-	53,131	-
	Overdraft USD	2006	incl. 250 TUSD	-	-	-
	Overdraft EUR	2006	incl. 250 TEUR	65 TEUR	1,899	-
CITIBANK, a.s.	Loan	2006	900,000 TCZK	-	690,000	-
	Overdraft	2006	incl. 200,000 TCZK	-	40,310	-
Česká spořitelna	Loan	2006	900,000 TCZK	-	-	-
	Overdraft	2006	incl. 900,000 TCZK	-	696,513	-
ING Bank N. V.	Loan	2006	300,000 TCZK	-	-	-
	Overdraft	2006	incl. 300,000 TCZK	-	34,276	-
Zentiva, a. s. Hlohovec						
Tatra banka - EXIM	Loan	2006	270,000 TSKK	-	206,743	-
Tatra banka	Overdraft	2006	300,000 TSKK	-	-	-
	Loan	2006	50,000 TSKK	-	-	-
	Loan	2006	50,000 TSKK	-	-	-
ČSOB, Bratislava	Loan	2006	320,000 TSKK	-	-	-
	Overdraft	2006	20,000 TSKK	-	-	-
Zentiva Pharma						
Citibank Moscow	Overdraft	2006	6,000 TUSD	5,604 TUSD	137,981	-
Zentiva N.V.						
ING	Loan	2008	600,000 TCZK	-	200,000	400,000
ABN/AMRO	Loan	2008	600,000 TCZK	-	200,000	400,000
Komerční banka, a.s.	Loan	2008	600,000 TCZK	-	200,000	400,000
Česká spořitelna, a.s.	Loan	2008	600,000 TCZK	-	200,000	400,000
CITIBANK a.s.	Loan	2008	600,000 TCZK	-	200,000	400,000
Zentiva PL						
CITIBANK	Overdraft	2006	1,000 TPLN	-	-	-
Sicomed S.A.						
Banc Post	Investment loan	2008	3,000 TUSD	795 TEUR	8,369	14,643
				881 TUSD	7,843	13,725
HVB Bank	Investment loan	2008	3,000 TUSD	580 TEUR	5,596	11,192
				2,046 TUSD	16,691	33,382
Raiffeisen Bank	Investment loan	2006	5,000 TUSD	1,538 TUSD	37,624	-
	Overdraft	2006	8,000 TUSD	6,669 TUSD	163,191	-
Current part					3,100,167	
Non – current part						2,072,942
Total Bank Loans						5,173,109

The Group has an overdraft facility of CZK 2,360 million with 9 banks of which CZK 1,127 million was drawn as at 31 December 2005.

As at 31 December 2004, the Group had the following interest bearing loans and borrowings:

Bank	Nature	Maturity due	Total limit	Outstanding as at 31. 12. 2004 Amount in foreign currency	Amount in TCZK
Zentiva, a. s. Prague					
Komerční banka, a.s.	Loan	2005	450,000 TCZK	-	-
	Overdraft	2005	350,000 TCZK	-	-
CITIBANK a.s.	Loan	2005	900,000 TCZK	-	-
	Overdraft	2005	incl. 50,000 TCZK	-	-
Česká spořitelna, a.s.	Loan	2005	900,000 TCZK	-	-
	Overdraft	2005	incl.150,000 TCZK	-	-
ING Bank N. V.	Loan	2005	300,000 TCZK	-	-
	Overdraft	2005	incl. 300,000 TCZK	-	10,613
Zentiva, a. s. Hlohovec					
Istrobanka Bratislava	Loan	2005	212,677 TSKK	42,535 TSKK	33,446
	Overdraft		1,534 TEUR	-	-
VÚB	Loan	2005	200,000 TSKK	50,000 TSKK	39,315
Tatra banka - EXIM	Loan	2005	270,000 TSKK	270,000 TSKK	212,301
ČSOB, Bratislava	Loan	2006	320,000 TSKK	-	-
	Overdraft	2006	20,000 TCZK	-	-
Zentiva Pharma					
Citibank Moscow	Overdraft	2005	4,000 TUSD	194 TUSD	4,349
Total Bank Loans – current part					300,024

The bank loans are mainly based on revolving loan contracts and are renewed on a regular basis. The management of the Group expects that the majority of the above listed loans will be renewed.

In 2004 the Group prematurely repaid the long term bank loan in the total amount of CZK 1,028,788 thousand.

The Group had an overdraft facility of CZK 1,006 million with 7 banks of which CZK 15 million was drawn as at 31 December 2004.

The interest expense charged to income statement consists of (in CZK thousand):

	2006	2005	2004
Long-term bank loans	51,328	3,987	4,250
Short-term bank loans and short-term notes	65,522	42,273	76,965
Other loans	-	-	19,908
Total	116,850	46,260	101,123

Debt covenants

At 31 December 2006, long-term borrowings in the total amount of CZK 1,000 million were reclassified as current in the accompanying consolidated financial statements. The Group has started to negotiate changes in the covenants namely turnover of receivables in December 2006 however the agreement was reached in January 2007. The Group is planning a debt restructuring in 2007.

The following covenants were defined in Zentiva N.V. loan contracts in 2006:

- total borrowings – ratio of total liabilities to total equity (including minority interest) shall not exceed 0.85 in 2006;
- debt service coverage ratio – ratio of the cash available for debt service to debt service shall be at least 2.0 in year 2006.
- turnover of receivable shall not exceed 130 days or 180 days in some cases (for new amendments to loan contracts).*
- leverage defined as consolidated Group debt / annualized EBITDA shall not be lower than 2.00.

The loan agreements contained covenants, which were generally met by the Group companies in 2005 and 2004.

The above listed bank loans bear floating interest rates. The following table shows the average floating interest rates for above stated bank loans in 2006, 2005 and 2004:

Related currency	Average year interest rate in %		
	2006	2005	2004
CZK	2.64	1.96	2.84
EUR	3.40	2.11	2.76
SKK	4.36	2.65	5.47
USD	5.53	3.26	2.15
PLN	4.51	5.33	6.65
CHF	1.82	0.68	1.06
GBP	5.20	4.67	5.14

Assets pledged as security

There are no assets pledged as security as at 31 December 2006.

As at 31 December 2005 Property, plant and equipment with net book value of CZK 363 million, Inventories of CZK 143 million and Trade receivables of CZK 588 million have been pledged as security over borrowings and loans from third parties.

As at 31 December 2004 Property, plant and equipment with net book value of CZK 227 million has been pledged as security over borrowings and loans from third parties.

19. ACCOUNTS PAYABLE

As at 31 December, trade and other payables are comprised of the following (in CZK thousand):

	31 December 2006	31 December 2005	31 December 2004
Trade payables	968,804	1,218,282	1,005,226
Wages and social security	255,831	245,419	179,348
Total accounts payable	1,224,635	1,463,701	1,184,574

20. FINANCIAL LIABILITY – MINORITY SHAREHOLDERS PAYABLE

In October 2005 Zentiva N.V. acquired 50.98% of Sicomed S.A. Following the acquisition Zentiva N.V. launched a tender offer to the remaining minorities of Sicomed S.A. at a fixed price of 1.37 RON per share. Financial liability to minority interest was recorded for all minorities to which the tender offer applied as at the balance sheet date. The liability was not recorded with respect to the shareholders who fell outside the scope of the tender offer or unconditionally refused to offer their shares. This tender offer gave rise to the financial liability in amount of CZK 1,672,677 thousand as at 31 December 2005 that was related to 36.64% of minorities still subject to the outstanding tender offer as at 31 December 2005. The tender offer expired as of 19 January 2006 and the financial liability was released at this date (see Note 8 and 10).

21. ACCRUALS AND OTHER CURRENT LIABILITIES

Accruals and Other Current Liabilities as at 31 December 2006, 2005 and 2004 are mainly comprised of CZK 66,125 thousand, CZK 48,409 thousand, CZK 34,454 thousand relating to accruals for unused vacation and bonuses and of deferred income and outstanding invoices of CZK 518,267 thousand, CZK 264,504 thousand and CZK 246,396 thousand, respectively. As at 31 December 2006 and 2005 CZK 49,282 thousand and CZK 58,021 thousand is relating to liabilities to former Zentiva a.s., Prague minority shareholders (see Note 8).

22. PROVISIONS AND OTHER LONG TERM LIABILITIES

As at 31 December 2005 and 2004 other long-term liabilities mainly include a provision created in 2002 in the amount of CZK 40,965 thousand for a guarantee granted to NERI. Based on the out-of-court settlement, the guarantee of CZK 39,000 thousand was paid in 2006 and consequently, the provision was reversed in 2006.

23. COMMITMENTS AND CONTINGENCIES

Operating lease commitments - group as lessee

Future minimum rentals payable under non-cancellable operating leases are as follows as at 31 December (in CZK thousand):

	2006		2005		2004	
	Car rental	Other rental	Car rental	Other rental*	Car rental	Other rental*
Within one year	191,413	75,740	153,967	81,450	87,047	56,109
After one year but not more than five years	214,682	324,848	191,230	265,769	130,944	171,061
More than five years	-	83,081	-	62,709	-	31,112
Total	406,095	483,669	345,197	409,928	217,991	258,282

* Include rental paid in advance until 2006

As at 31 December 2006, 2005 and 2004 the Group used 1,171 cars, 933 and 520 cars, respectively, under operating lease contracts. Total amount of car rental expense in 2006, 2005 and 2004 was CZK 193,724 thousand, CZK 118,208 thousand and CZK 70,073 thousand, respectively.

Finance lease and hire purchase commitments

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows (in CZK thousand):

	2006		2005		2004	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	15,617	13,659	10,872	8,916	1,966	1,804
After one year but not more than five years	17,868	16,760	20,249	18,251	1,514	1,458
Total minimum lease payments	33,485	-	31,121	-	3,480	-
Less lease amounts representing financial charges	(3,066)	-	(3,954)	-	(218)	-
Present value of minimum lease payments	30,419	30,419	27,167	27,167	3,262	3,262

A bargain purchase option is included within these leasing contracts which results in their classification as capital leases. Leasing period for cars is 36 or 48 months.

Capital and investment commitments

As at 31 December 2006, contracted commitments related to fixed assets and investment projects are as follows (in CZK thousand):

	Due in 2009	Due in 2008	Due in 2007
Zentiva, a.s. Prague	-	-	172,121
Zentiva, a.s. Hlohovec	-	-	56,481
Zentiva Pharma,o.o.o. Moscow	-	-	17,325
Zentiva S.A. Bucharest	1,747	5,161	5,413
Total commitments	1,747	5,161	251,340

Guarantee Provided

As at 31 December 2006 the Group had usual operating guarantees in the normal course of business.

Environmental claims

Management believes that the Group companies generally comply with local regulations and any potential environmental contingencies would not significantly impact the Group operations.

Legal claims

The Group is involved in a number of legal proceedings incidental to the normal conduct of its business. Management does not believe that aggregate liabilities relating to such proceedings are likely to be material to the financial statements as at 31 December 2006, 2005 and 2004.

In April 2002 Zentiva, a.s. Prague received a legal claim from ČSOB in the amount of CZK 97,942 thousand related to the mutual offset of receivables and payables between Zentiva, a.s. Prague and Chemapol, a.s. Chemapol, a.s. is subject to bankruptcy proceedings and the bank claims compensation of losses related to the offset of receivables that were pledged to the Bank. A legal proceeding took place on 20 January 2003 by the city court in Prague which resulted in the holding of further proceedings for an indefinite period. On 26 April, 2004 and 7 December, 2004 legal proceedings settled this matter in favour of Zentiva a.s. On 30 March, 2005 ČSOB appealed to the supreme court in Prague, but the decision is not known yet. The Supreme Court reversed the judgment and sent the case back to the first instance hearing. On 17 July 2006 a constitutional complaint was lodged.

The assets held for sale as of 31 December 2005 (land in Bucharest) with a carrying value of CZK 462,621 thousand were sold to third parties for RON 69,922 thousand, resulting in a profit of CZK 92,442 thousand. Subsequent to the sale and prior to 31 December 2006 the legal validity of the sale was challenged by another third party based on a legal claim on a land ownership issue. The purchasers paid the whole purchase price, out of which RON 35,780 thousand has been deposited into an escrow account, with the release from the escrow account being subject to the final outcome of the legal claim. The property ownership on payment of the purchase price was legally transferred to the purchasers, however Zentiva S.A. has the right to reverse the sale agreements and return the cash received from the purchasers if the legal case is not finalized by the end of September 2007. Based on consultation with its legal advisors, Management consider that it is possible, but not probable that the action being taken in relation to this matter will succeed. Therefore it is considered that the sale has been completed and that there are no additional associated costs that should be provided for as of 31 December 2006.

Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates and loan interest rates. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

Risk management is centralized and carried out mainly by the Treasury department of Zentiva, a.s. Prague.

(i) Foreign exchange risk

The Group operates internationally and the main exposure toward foreign exchange risk arises from its operating activities. Functional currency of the Group is CZK, which reflects majority of cash flows, however significant part of purchases of pharmaceutical material is realized in EUR, USD and SKK. On the other hand, sales of finished pharmaceuticals and other sales except CZK are realized mainly in SKK, USD, PLN, RON and EUR. Since the Group drew only few loans denominated in foreign currencies the exposure arising from loans is not significant. As at 31 December 2006 the Group did not have any exchange rate hedges to mitigate the overall currency exposure.

(ii) Interest rate risk

The Group's operating income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group borrows mainly at floating interest rates.

(iii) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Derivative counter parties and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit lines. Due to the dynamic nature of the underlying business, the Group Treasury aims at maintaining flexibility by keeping committed credit lines available.

24. RELATED PARTY DISCLOSURES

The Group companies purchase products and receive services from related parties in the ordinary course of business. All intercompany purchases and balances between consolidated subsidiaries are eliminated in the consolidated financial statements.

Balances related to the trade and other ordinary transactions with related parties (in CZK thousand):

Related party		Sales to related parties	Purchases from related parties	Amounts owed to related parties: Amount at 31. 12. in TCZK	Amounts owed to related parties: Adjustment	Amounts owed to related parties: NBV	Amounts owed to related parties: in TCZK
Leciva FARMSANOAT	2004	1,584	-	-	-	-	-
Leciva GEO	2004	53	4,826	-	-	-	-
SLOVAKOFARMA, s.r.o	2004	-	2,269	-	-	-	-
Mestská ČOV s.r.o. (Hlohovec, Slovak Republic)	2004	65	112	-	-	-	-
	2005	28	-	8	-	8	-
Horec, s.r.o. (Slovenská Ľupča, Slovak Republic)	2004	-	75	-	-	-	-
U-Farma	2004	1,322	-		-	-	-
ATC Corporate Services (Netherlands) B.V. *	2004	-	11,277	-	-	-	3,271
	2005	-	7,345	-	-	-	1,502
	2006	-	10,297	-	-	-	976
Sanofi-Aventis Deutschland	2006	8,156	-	-	-	-	-

* ATC Corporate Services is an external agency hired in the Netherlands from which the Company outsources general administration at the Zentiva Headquarters. ATC representative Johannes Scholts is a member of the board of directors of the Company.

Interest-bearing related party loans are as follows:

Related parties – loans and interests		Interest income	Interest expense: Amount in TCZK	Interest expense: Amount in TEUR	Amounts owed to related parties (interest included): Amount at 31. 12.	Amounts owed to related parties (interest included): Adjustment	Amounts owed to related parties (interest included): NBV	Amounts owed to related parties (interest included): Amount in TCZK	Amounts owed to related parties (interest included): Amount in TEUR
Leciva FARMSANOAT-loan	2004	705	-	-	-	-	-	-	-
Leciva GEO-loan	2004	3,613	-	-	-	-	-	-	-
Various private equity partnerships sponsored by Warburg, Pincus LLC	2004	-	19,908	626	-	-	-	-	-

See Note 11 for change in related parties, financial investment and related receivable balances.

Any interest receivable resulting from the loans to Leciva GEO and Leciva FARMSANOAT has been fully provided for in the accompanying consolidated financial statements.

Long term-liabilities related to various private equity partnerships sponsored by Warburg, Pincus LLC (former significant shareholder) are loans that bore interest of 14%.

Remuneration of directors and management

Remuneration of the directors and management of the Group (in CZK thousand):

	2006	2005	2004
Directors of Zentiva N.V.			
Salaries	33,789	33,655	19,747
Bonuses, benefits and other remuneration	22,275	18,543	16,185
Share based payments	7,405	3,086	-
Executive Managers & Extended Executive Managers *			
Salaries	38,878	33,574	33,048
Bonuses, benefits and other remuneration	23,144	7,205	18,981
Share based payments	10,614	3,086	-
Key Management			
Salaries	55,521	55,580	50,370
Bonuses, benefits, termination and other remuneration	20,553	22,260	19,491
Share based payments	12,851	4,996	-
Total number of key management members and directors	39	38	46

* a new management category was introduced in 2006 whose duties impact to a significant degree on the key operational tasks and therefore progress to delivery of the business strategy

The remuneration of directors and key management members of the Group is as follows:

The annual compensation of the Key Managers employed by the Group as at 31 December 2006 was CZK 76 million in total, the bonus entitlement can vary from 20% to 50% of the annual basic salary. The annual compensation of 18 Executive Managers, Extended Executive Managers and Directors was CZK 118 million (usually paid in EUR), the bonus entitlement can vary from 20% to 50% of the basic annual salary. The annual compensation to the Non-executive Directors was CZK 9.6 million in total.

The annual compensation of the Key Managers that were employed by the Group as at 31 December 2005 and 31 December 2004 was in total CZK 78 million and CZK 70 million, respectively. Contingent bonuses varied in 2005 and 2004 from 20% to 50% and 30% to 50%, respectively, of the basic annual compensation. The annual salary of 14 and 17 Executive Managers and Directors amounted to CZK 93 million and CZK 88 million (usually denominated in EUR), respectively, contingent bonuses ranging from 20% to 50% of basic annual compensation. In addition, the annual compensation to the Non-executive Directors was CZK 3,351 thousand and CZK 1,236 thousand respectively.

There was also a stock option program for key middle managers and executives of the Group. They receive fringe benefits such as cars for personal use, insurance, pension contribution or housing allowances (see below).

Stock option plan

In July 2005 a new stock option plan was introduced for key managers in the Group. In total options for 440,000 shares were granted. The vesting date for the share options is 1 July 2008 and expiration date is 1 July 2011. Exercise price for the share option in the amount of CZK 869 equals to the share price on the stock exchange at the granting date. The fair value of each option was set up by an external valuation company in the amount of CZK 192.35 using the Monte Carlo model with the following assumptions: strike price CZK 869, risk free rate 2.8% pa, dividend yield 1.4% pa, volatility 30% pa (based on last 6 months share price history), withdrawal rate (post vesting) 10% pa, early exercise factor 40%.

In July 2006, further stock option plan was introduced for managers in the Group. In total options for 325,000 shares were granted. The vesting date for the share options is 14 July 2009 and expiration date is 14 July 2012. Exercise price for the share option in the amount of CZK 1,014 equals to the share price on the stock exchange at the granting date. The fair value of each share option was set up by an external valuation company in the amount of 231 CZK using the Monte Carlo model with the following assumptions: strike price 1,014 CZK (share price as of 14 July

2006), risk free rate 3.89% pa, dividend yield 1.00% pa, volatility 30% pa, withdrawal rate (post vesting) 15% pa, early exercise factor of 50%.

Total expenses in the amount of CZK 40,725 thousand and CZK 11,754 thousand were recognized in year 2006 and 2005 against equity.

Other

As at 31 December 2006, 2005 and 2004 Directors, Executive Managers and Extended Executive Managers of the Company held 2,262,780 shares, 3,985,993 shares and 4,948,706 shares of the Company, respectively (exclusive of shares held by the Warburg Pincus funds).

There were no loans or guarantees and similar benefits granted to members of statutory bodies and directors in any Group company in 2006, 2005 and 2004, respectively. The executive and key middle management can use cars for personal purposes, other benefits include life and injury insurance and pension contributions to a fund for directors, executive management and key managers, other benefits-in-kind such as housing are provided on an occasional basis.

25. EVENTS AFTER BALANCE SHEET DATE

On 5 March 2007 Zentiva N.V. has reached an agreement to acquire 75% of the group Eczacibasi Generic Pharmaceuticals (Turkey) with a put/call instrument for the remaining 25% stake. The transaction amounts to EUR 460 million (CZK 12,954 million) and is planned to be financed via new syndicated 5-year debt facilities. The transaction is still subject to the Turkish Antimonopoly Authority approval and therefore it has not closed yet and it was impracticable to obtain more information.

Zentiva N.V. announced on March 1, 2007 that it had entered the Hungarian pharmaceutical market via the acquisition of certain generic products, personnel and other operating assets from Sanofi-Aventis.

26. FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise of bank loans and overdrafts, debentures, finance lease, trade payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations. The carrying value of these financial instruments and financial assets approximates their fair value.

Section C
Company financial statements

(ALL AMOUNTS IN CZK THOUSAND)

COMPANY FINANCIAL STATEMENTS

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006	2005
Revenues			
Dividend income	13	1,353,116	1,413,039
Interest income	3	46,014	23,513
Other revenues	4	82,641	66,356
Total revenues		1,481,771	1,502,908
Expenses			
Employee benefit costs	5	(56,318)	(37,923)
Financial income/expenses, net	6	71,202	(62,883)
Interest expenses	7	(96,187)	(21,976)
Other expenses	8	(38,434)	(36,708)
Total expenses		(119,737)	(159,490)
Profit before tax	16	**1,362,034**	**1,343,418**
Income tax expenses		**-**	**-**
Net profit attributable to equity holders		**1,362,034**	**1,343,418**

(ALL AMOUNTS IN CZK THOUSAND)

BALANCE SHEET AS AT 31 DECEMBER 2006

Balance Sheets as at 31 December	**Notes**	**2006**	**2005**
Assets			
Non-current assets:			
Investments in subsidiaries	9	10,507,150	7,261,097
Total non-current assets		10,507,150	7,261,097
Current assets:			
Related parties receivables	13	1,325,791	35,778
Prepayments and other current assets		13,348	13,571
Cash and cash equivalents	10	58,028	2,372,752
Total current assets		1,397,167	2,422,101
Total assets		**11,904,317**	**9,683,198**
Equity and liabilities			
Equity			
Share capital	11	12,112	12,112
Share premium	11,12	2,514,784	2,514,784
Treasury shares	11,12	(122,905)	-
Share options granted	13	52,479	11,754
Retained earnings	12	4,796,539	3,796,087
Total equity		7,253,009	6,334,737
Non-current liabilities:			
Interest bearing loans and borrowings	14	-	2,000,000
Total non-current liabilities		-	2,000,000
Current liabilities:			
Accounts payables		1,799	4,874
Related party payables	13	2,331,821	211,278
Accruals and other current liabilities	15	65,356	132,309
Short term notes	14	2,252,332	1,000,000
Total current liabilities		4,651,308	1,348,461
Total liabilities and equity		**11,904,317**	**9,683,198**

(ALL AMOUNTS IN CZK THOUSAND)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2006

	2006	**2005**
Cash flows from operating activities:		
Profit before tax	1,362,034	1,343,418
Adjustment for:		
Dividends received	(1,353,116)	(1,413,039)
Net finance costs	50,173	(1,537)
Other non-cash (gains)/charges, net	68,061	1,248
Operating cash flows before working capital changes	127,152	(69,910)
Changes in:		
Accounts receivables	(6,748)	(32,244)
Accounts payables	(12,123)	(816)
Cash generated from operations	108,281	(102,970)
Interest paid	(81,556)	(6,813)
Net cash flows used in operating activities	**26,725**	**(109,783)**
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(1,107,909)	(2,617,672)
Dividends received	1,220,410	1,413,039
Interest received	28,282	15,607
Net cash flows (used in) provided by investing activities	**140,783**	**(1,189,026)**
Cash flows from financing activities:		
Treasury shares	(122,905)	-
Proceeds from borrowings	(1,997,745)	3,927,260
Dividends paid	(361,582)	(305,090)
Net cash flows provided by/(used in) financing activities	**(2,482,232)**	**3,622,170**
Net increase in cash and cash equivalents	(2,314,724)	2,323,361
Cash and cash equivalents at the beginning of the year	2,372,752	49,391
Cash and cash equivalents at the end of the year	58,028	2,372,752

(ALL AMOUNTS IN CZK THOUSAND)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

	Attributable to equity holders of the Company					
	Share capital	**Share premium**	**Treasury shares**	**Share options**	**Retained earnings**	**Total**
Balance as at 31 December 2004	12,112	2,514,784			2,757,759	5,284,655
Net profit 2005	-	-	-	-	1,343,418	1,343,418
Dividends paid	-	-	-	-	(305,090)*	(305,090)
Share options granted (1)	-	-	-	11,754	-	11,754
Balance as at 31 December 2005	12,112	2,514,784	-	11,754	3,796,087	6,334,737
Net profit 2006	-	-	-	-	1,362,034	1,362,034
Treasury shares purchased	-	-	(122,905)	-	-	(122,905)
Dividends paid	-	-	-	-	(361,582)*	(361,582)
Share options granted (1)	-	-	-	40,725	-	40,725
Balance as at 31 December 2006	12,112	2,514,784	(122,905)	52,479	4,796,539	7,253,009

* the Company has paid dividends in amount of 8 CZK per share

(1) Share options granted to management see Note 13.

(ALL AMOUNTS IN CZK THOUSAND)

1. CORPORATE INFORMATION

Zentiva N.V. was incorporated as a private limited liability company on 29 April 1998 with it's registered seat in Amsterdam, the Netherlands. In a resolution of 21 May 2004, the shareholders resolved to convert Zentiva B.V. into Zentiva N.V. ("the Company"), a public limited liability company (naamloze vennootschap). The Company is the holding company of Zentiva Group, which is primarily engaged in the production, development and sales of generic pharmaceuticals, including pharmaceutical chemicals, cosmetics and packaging materials for pharmaceutical products and special purpose equipment and machines for the pharmaceutical industry.

The shareholders of the Company who hold a 10% or more interest in the Company's outstanding shares as at 31 December:

	2006	2005
Sanofi-Aventis Group	24.9%	-
Česká pojišťovna and parties acting in agreement with it	12.3%	12.3%
3 Private Equity funds managed by Warburg Pincus LLC	-	19.6%

The directors of the Company as at 31 December 2006:

Jiří Michal, Chairman	Director A*
Lars Ramneborn	Director A*
Petr Šulc	Director A*
Urs Kamber	Director B*
Johannes Scholts	Director B*
Bradley Wilson	Director B*
Hanspeter Spek	Director B*
Jean-Michel Lévy	Director B*

* According to the Articles of Association Director A represents an Executive Director, Director B is a Non-executive Director.

Mr. Nicholas Lowcock and Mr. Lamberto Palla resigned as Directors B on 29 March 2006 as a consequence of a stake acquisition by Sanofi Aventis Group in Zentiva N.V. and were replaced by Mr. Hanspeter Spek and Mr. Jean-Michel Levy consequently.

The financial statements of the Company for the year ended 31 December 2006 were authorized for issuance by directors on 4 June 2007.

The financial statements of the Company for the year ended 31 December 2006 will be presented for approval at the Annual General Meeting scheduled to be held on 6 June 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Accounting convention

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties. The principal accounting policies adopted are set out below.

The accounts of the Company are presented in thousands of CZK.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. Following accounting policies and disclosures specifically address any significant estimates or changes in assumptions that had an affect on the reported amounts.

b) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

c) Adoption of International Financial Reporting Standards

In the years 2006 and 2005, the Company has applied consistently International Financial Reporting Standards that were applicable at 31 December 2006 and 2005 respectively.

The Company has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- Amendments to IAS 1 (issued 2005, effective date 1 January 2007) Presentation of Financial Statements, Capital Disclosures.
- IFRS 7 Financial Instruments: Disclosures which supersedes IAS 30 and the disclosure requirements of IAS 32, while the presentation requirements of IAS 32 remain unchanged (issued in 2005, effective date 1 January 2007)
- IFRS 8 (effective date 1 January 2009) Operating Segments
- IFRIC 7 (effective date 1 March 2006) Restatement approach under IAS 29 Financial Reporting in Hyperinflation Economies
- IFRIC 8, Scope IFRS 2 (effective date 1 May 2006)
- IFRIC 9 (effective date 1 June 2006) Reassessment of Embedded Derivatives
- IFRIC 10 (effective date 1 November 2006) Interim Financial Reporting and Impairment
- IFRIC 11, IFRS 2 (effective date 1 March 2007) Group and Treasury Share Transaction
- IFRIC 12 (effective date 1 January 2008) Service Concession Arrangements

The Company expects that the adoption of the above pronouncements will have no significant impact on the Company's financial statements in the period of initial application. IFRIC 7 and IFRIC 9 do not apply to the Company activities.

d) Functional and presentation currency

Based on the primary economic environment in which the Company operates and taking into account the other factors as described in IAS 21 (revised), the functional currencies for Zentiva N.V. was changed from EUR to CZK (Czech crown) as of 1 July 2004 prospectively. Zentiva N.V. translated all items from EUR to CZK using the exchange rate as of 30 June, 2004. The resulting translated amounts of non-monetary items are treated as their historical costs.

e) Foreign currency translation

Transactions in foreign currencies are recorded at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the respective functional currency at the rate of exchange at the balance sheet date. All differences are taken to the statement of income.

f) Investments in subsidiaries

All investments are accounted at cost. Investments are initially recognized at fair value of the consideration given, including acquisition charges associated with the acquisition of the investment. Distributions received in excess of profits arising after the acquisition are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment. The carrying amounts of investments are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is estimated as the higher of net selling price and value in use. Where carrying values exceed the estimated recoverable amount the assets are written down to their recoverable value. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such condition exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in estimate used to determine the asset's recoverable amount since the last impairment loss was recognized. Such reversal is recognized to profit or loss and the recoverable amount shall not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized.

g) Cash

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

h) Interest-bearing loans and borrowings

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium at issuance.

Borrowing costs generally are expensed as incurred. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds including amortization of discounts, premium and issue costs, if any.

i) Costs related to the initial public offering (IPO)

Costs of new equity issued are deducted from equity only to the extent that those are incremental and related to the new equity issued. Transaction costs related to the issuance of new shares are directly charged to equity, net of any related tax benefits. These expenses are restricted to incremental external expenses such as registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. Costs related to the listing of new or already existing shares are expensed. Any ongoing costs, such as annual listing fee, or costs not related to the IPO as such are expensed.

j) Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales related taxes. The following specific recognition criteria must also be met before revenue is recognized:

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

k) Income tax

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

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

l) Employee benefits, share based payments

The Company does not operate any private pension scheme or post retirement benefit plan, and consequently, has no legal or constructive obligation to make contributions to any such funds.

Share option plan in which Company grants rights to its equity instruments direct to subsidiary entity's employees and to it's own employees is accounted for as equity-settled transaction. Managers of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using the Monte Carlo model.

The equity-settled transactions is recognized as cost (for Company's employees) or investment (for subsidiary employees), together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative impact recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. No expense/investment is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

m) Contingencies

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

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

(ALL AMOUNTS IN CZK THOUSAND)

n) Subsequent events

Post-year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. INTEREST INCOME

The interest income charged to income statement consists of:

	2006	2005
Interest income from related parties (Note 13)	40,187	13,976
Interest income from escrow account	2,086	9,022
Other	3,741	515
Total	**46,014**	**23,513**

4. OTHER REVENUES

Other revenues for the years ended 31 December 2006 and 2005 mainly include revenues from related parties charged under secondment (assignment of personnel to subsidiaries) and centralized services agreements in amount of CZK 76,896 thousand and CZK 64,184 thousand, respectively (see Note 12).

5. EMPLOYEE BENEFIT COSTS

	2006	2005
Wages and salaries	45,540	30,323
Social securities	10,778	7,600
Total	**56,318**	**37,923**

6. FINANCIAL INCOME/EXPENSES, NET

Financial income/(expenses), net in 2006 and 2005 mainly include net income/(expenses) resulting from foreign currency exchange differences.

7. INTEREST EXPENSES

The interest expense charged to income statement consists of:

	2006	2005
Interest expense from related parties (Note 13)	16,663	5,312
Interest expense from loans	79,524	16,664
Total	**96,187**	**21,976**

8. OTHER EXPENSES

Other expenses for the years ended 31 December 2006 and 2005 mainly comprise of legal, accounting, tax, audit and other advisory services.

(ALL AMOUNTS IN CZK THOUSAND)

9. INVESTMENTS IN SUBSIDIARIES

Investee	Country	31 December 2006 Cost of acquisition	31 December 2006 Book value	31 December 2005 Cost of acquisition	31 December 2005 Book value	% of ownership in 2006	% of ownership in 2005
Zentiva a.s., Prague	Czech Republic	2,661,931	2,661,931	2,661,931	2,661,931	100.00	100.00
Zentiva a.s., Hlohovec	Slovak Republic	2,781,935	2,781,935	680,717	680,717	90.84	21.83
SL Pharma- in liquidation	Austria	1,273,583	1,273,583	1,273,583	1,273,583	100.00	100.00
Venoma Holdings Limited	Cyprus	2,608,736	2,608,736	2,608,736	2,608,736	100.00	100.00
Zentiva S.A.*	Romania	1,130,733	1,130,733	22,824	22,824	23.93	-
Zentiva ApS	Denmark	540	540	540	540	100.00	100.00
Leciva CZ	Czech Republic	97,091	2,260	97,091	2,260	100.00	100.00
Option plan	Netherlands	47,432	47,432	10,506	10,506	-	-
Total Investments		**10,601,981**	**10,507,150**	**7,355,928**	**7,261,097**	**-**	**-**

* Company has control through the Venoma Holdings Limited 50.98% share in Zentiva S.A.

The Company has acquired 100% ownership in Leciva CZ in 1998. After that Leciva CZ acquired majority share of Zentiva a.s., Prague. In 2000 and 2003 the shares held by Leciva CZ in Zentiva a.s., Prague were sold to Zentiva N.V. and besides that Zentiva N.V. also purchased shares from Zentiva a.s., Prague minority shareholders. This investment was increase to 99.25% as of 31 December 2004. During 2005 Zentiva N.V. acquired remaining portion of the freestanding minority interest in Zentiva, a.s. Prague and the investment in Zentiva, a.s. Prague was increased to 100%. In 2003 the Company has adopted liquidation plan of Leciva CZ as this company is no longer required in the Group structure and impairment charge decrease it's value to CZK 2,206 thousand only.

In August 2003 Zentiva N.V. acquired a 100% share of SL Pharma, an Austrian holding company that was a 69 % shareholder of SLOVAKOFARMA a.s. group (now Zentiva, a.s. Hlohovec) and the investment of Zentiva N.V. in Zentiva, a.s. Hlohovec was increased to 16.02% as of 31 December 2003. In 2004 and 2005 Zentiva N.V. acquired additional 5.73% and 0.08% of Zentiva, a.s. Hlohovec for CZK 113,399 thousand and CZK 783 thousand and increased it's total interest to 21.75% and 21.83% as at 31 December 2004 and 2005, respectively. In June 2006 SL Pharma has sold it's 69% share in Zentiva a.s., Hlohovec to Zentiva N.V. SL Pharma liquidation process was started in August 2006.

In October 2005 Zentiva N.V. acquired 100% of Venoma Holdings Limited. Venoma Holdings Limited is a holding company which owns a 50.98% interest in Sicomed S.A., a Romanian pharmaceutical company. Following the acquisition, Zentiva N.V. launched a tender offer for the outstanding minority of 49.02% in Sicomed S.A. The tender offer has been outstanding as at 31 December 2005, expiring 19 January 2006. As a result, the Group acquired additional 23.93% stake in Sicomed S.A. The total Group's stake in this subsidiary increased to 74.91% as of this date.

Zentiva ApS was incorporated in 2004 in Denmark.

10. CASH AND CASH EQUIVALENTS

	31 December 2006	31 December 2005
Cash at bank	58,028	13,918
Short-term deposits - restricted	-	2,358,834
Total cash and cash equivalents	**58,028**	**2,372,752**

As at the year end 2005 the Company had two escrow accounts. One of them in the amount as at 31 December 2005 of CZK 58,021 thousand was set-up to pay out the minority shareholders of Zentiva a.s., Prague as it's required by law. The required period elapsed on 2 January 2006. Second multi-currency escrow account in the amount of CZK 2,300,813 thousand was set up in connection with launched tender offer for remaining 49.02% shares of Sicomed S.A. to obtain the bank guarantee from ING bank and to fulfill the mandatory requirements of that offer. That account was closed down on 19 January 2006 and remaining amount of money transferred to Zentiva N.V.

(ALL AMOUNTS IN CZK THOUSAND)

11. SHARE CAPITAL AND SHARE PREMIUM

	31 December 2006	31 December 2005
Share Capital at 31 December (in TCZK)	12,112	12,112
Share Premium as (in TCZK)	2,514,784	2,514,784
Total Number of Ordinary Shares at 31 December	**38,136,230**	**38,136,230**
Total Number of Shares Issued at 31 December	**38,136,230**	**38,136,230**
Total Number of Treasury shares	**(126,000)**	**-**

The authorized Euro denominated share capital as at December 31, 2006 and 2005 amounted to € 1,400,000, of which at December 31, 2006, 38,136,230 shares (2005: 38,136,230 shares) of € 0.01 each were issued and paid up. The issued share capital against the exchange rate as of December 31, 2006 amounts to 10,501 TCZK (2005: 11,058 TCZK). In the Company's financial statements the issued share capital is stated at historical exchange rate of 12,112 TCZK

12. RETAINED EARNINGS/DIVIDENDS PAID AND PROPOSED

Retained earnings available for distribution are based on the financial statements of the Company prepared in accordance with International Financial Reporting Standards as adopted by EU and with Part 9 of the Book 2 of the Netherlands Civil Code. The distributable reserves at 31 December 2006 and 2005 amount to CZK 7,188,418 thousand and CZK 6,310,871 thousand, respectively.

Dividends of CZK 361,582 thousand and CZK 305,090 thousand were paid during the year 2006 and 2005.

13. RELATED PARTY DISCLOSURES

Disclosure for subsidiaries and sub-subsidiaries of the Company as of 31 December 2006:

					Receivables/Payables		Loans	
Related party	**Dividends**	**Other revenues**	**Interest income**	**Interest expense**	**Amounts owed by related parties**	**Amounts owed to related parties**	**Amounts owed by related parties (interest included)**	**Amounts owed to related parties (interest included)**
Zentiva a.s., Prague	300,000	38,192	21,878	9,218	7,702	593	45,274	33,647
Zentiva a.s., Hlohovec	1,075,162	890	159	4,181	243	3,054	4,365	40,326
SL Pharma	790,558	-	-	984	-	-	1,049	2,115,629
Zentiva International	-	2,178	3,601	1,355	639	-	1,009,272	98,868
Zentiva PL	-	186	-	-	23	-	-	-
Zentiva Pharma	-	287	-	-	80	-	-	-
Zentiva S.A. (formerly Sicomed)	-	35,163	14,544	-	50,745	319	206,139	-
Venoma Holding	-	-	1	925	-	-	1	39,355
Zentiva ApS	-	-	4	-	-	-	259	-
Total	**2,165,720***	**76,896**	**40,187**	**16,663**	**59,432**	**3,966**	**1,266,359**	**2,327,825**

* out of that amount CZK 812,604 thousand was charged against investments as part relating to pre-acquisition profits

Disclosure for subsidiaries and sub-subsidiaries of the Company as of 31 December 2005:

					Receivables/Payables		Loans	
Related party	**Dividends**	**Other revenues**	**Interest income**	**Interest expense**	**Amounts owed by related parties**	**Amounts owed to related parties**	**Amounts owed by related parties (interest included)**	**Amounts owed to related parties (interest included)**
Zentiva a.s., Prague	1,402,414	30,727	4,496	3,191	2,930	13,152	-	127,081
Zentiva a.s., Hlohovec	10,625	886	-	-	1,055	-	-	-
SL Pharma	-	-	-	2,121	-	-	-	70,149
Zentiva International	-	1,613	9,480	-	1,920	-	-	-
Zentiva PL	-	132	-	-	-	284	-	-
Zentiva Pharma	-	209	-	-	-	612	-	-
Sicomed	-	30,617	-	-	29,873	-	-	-
Total	**1,413,039**	**64,184**	**13,976**	**5,312**	**35,778**	**14,048**	**-**	**197,230**

Disclosure for other related parties of the Company as of 31 December 2006:

Related party	**Expenses**	**Amount owed to related parties (interest included)**
ATC Corporate Services (Netherlands) B.V. *	10,297	976
Total	**10,297**	**976**

Disclosure for other related parties of the Company as of 31 December 2005:

Related party	**Expenses**	**Amount owed to related parties (interest included)**
ATC Corporate Services (Netherlands) B.V. *	7,345	1,502
Total	**7,345**	**1,502**

* ATC Corporate Services is an external agency hired in the Netherlands from which the Company outsources general administration at the Zentiva Headquarters. ATC representative Johannes Scholts is a member of the board of directors of the Company

All transactions with related parties are at arm's length.

Remuneration of directors and management

Remuneration of the directors of the Company (in CZK thousand):

	2006	**2005**
Directors		
Salaries	8,407	11,669
Bonuses, benefits and other remuneration	8,268	2,817
Share based payments	1,587	661
Managers		
Salaries	13,396	8,349
Bonuses, benefits and other remuneration	8,314	1,091
Share based payments	2,116	587
Total number of key management members and directors	11	9

The remuneration of directors and managers of Zentiva N.V. is as follows:

The annual compensation of the managers that were employed by the Zentiva N.V. as at 31 December 2006 is in total CZK 22 million, contingent bonuses can vary from 20% to 50% of basic annual compensation. The annual salary of directors amounts to CZK 17 million (usually denominated in EUR), contingent bonuses ranging from 30% to 50% of basic annual compensation. The annual compensation to the Non-executive Directors was CZK 9.6 million in total.

The annual compensation of the managers that were employed by the Zentiva N.V. as at 31 December 2005 is in total CZK 9 million, contingent bonuses can vary from 20% to 50% of basic annual compensation. The annual salary of directors amounts to CZK 14 million (usually denominated in EUR), contingent bonuses ranging from 30% to 50% of basic annual compensation. In addition, the annual compensation to the Non-executive Directors was CZK 3,351 thousand.

The individual remuneration for the directors for 2006 were: Mr Wilson TCZK 850 for salary, Mr Kamber TCZK 850 for salary, Mr Ramneborn TCZK 3,942 for salary and 1,468 for bonuses, Mr Scholts TCZK 850 for salary, Mr Michal TCZK 850 for salary, Mr Sulc TCZK 850for salary, Mr Palla TCZK 213 for salary and TCZK 6,799 for bonuses.

There was also stock option program for key middle managers and executives of the Group. They receive fringe benefits such as cars for personal use, insurance, pension contribution or housing allowances (see below).

Stock option plan

In July 2005 a stock option plan was introduced for key managers in the Group. In total options for 440,000 shares were granted. The vesting date for the share options is 1 July 2008 and expiration date is 1 July 2011. Exercise price for the share option in the amount of CZK 869 equals to the share price on the stock exchange at the granting date. The fair value of each option was set up by an external valuation company in the amount of CZK 192.35 using the Monte Carlo model with the following assumptions: strike price CZK 869, risk free rate 2.8% pa, dividend yield 1.4% pa, volatility 30% pa (based on last 6 months share price history), withdrawal rate (post vesting) 10% pa, early exercise factor 40%.

In 2005 the Company recognized expenses for it's own employees in amount of CZK 1,248 thousand and increase in investment in subsidiaries in amount of CZK 10,506 thousand for share options granted to subsidiaries employees together with corresponding entry to equity in amount of CZK 11,754 thousand.

In July 2006, further stock option plan was introduced for managers in the Group. In total options for 325,000 shares were granted. The vesting date for the share options is 14 July 2009 and expiration date is 14 July 2012. Exercise price for the share option in the amount of CZK 1,014 equals to the share price on the stock exchange at the granting date. The fair value of each share option was set up by an external valuation company in the amount of 231 CZK using the Monte Carlo model with the following assumptions: strike price 1,014 CZK (share price as of 14 July 2006), risk free rate 3.89% pa, dividend yield 1.00% pa, volatility 30% pa, withdrawal rate (post vesting) 15% pa, early exercise factor of 50%.

In 2006 the Company recognized expenses for it's own employees in amount of CZK 3,799 thousand and increase in investment in subsidiaries in amount of CZK 36,926 thousand for share options granted to subsidiaries employees for both option plans together with corresponding entry to equity in amount of CZK 40,725 thousand.

Other

As at 31 December 2006 and 2005 directors and managers of the Company held 1,740,334 shares and 3,854,572 shares of the Company, respectively.

14. INTEREST BEARING LOANS AND BORROWINGS

As at 31 December 2006, the Company had the following interest bearing loans and borrowings:

Bank	Nature	Original maturity due	Total limit	Outstanding as at 31. 12. 2006 Amount in TCZK Short term	Long term
ING	Loan	2008	400,000 TCZK	400,000	-
ABN/AMRO	Loan	2008	400,000 TCZK	400,000	-
Komerční banka, a.s.	Loan	2008	400,000 TCZK	400,000	-
Česká spořitelna, a.s.	Loan	2008	400,000 TCZK	400,000	-
CITIBANK a.s.	Loan	2008	400,000 TCZK	400,000	-
	Overdraft	2007	200,000 TCZK 10,000 TEUR	252,332	
Current part				**2,252,332**	
Non–current part					**-**
Total Bank Loans					**2,252,332**

As at 31 December 2005, the Company had the following interest bearing loans and borrowings:

Bank	Nature	Maturity due	Total limit	Outstanding as at 31. 12. 2005 Amount in TCZK Short term	Long term
ING	Loan	2008	600,000 TCZK	200,000	400,000
ABN/AMRO	Loan	2008	600,000 TCZK	200,000	400,000
Komerční banka, a.s.	Loan	2008	600,000 TCZK	200,000	400,000
Česká spořitelna, a.s.	Loan	2008	600,000 TCZK	200,000	400,000
CITIBANK a.s.	Loan	2008	600,000 TCZK	200,000	400,000
Current part				**1,000,000**	
Non–current part					**2,000,000**
Total Bank Loans					**3,000,000**

Debt covenants

At 31 December 2006, long-term borrowings in the total amount of CZK 1,000 million were reclassified as current in the accompanying financial statements. This because the Company has started to negotiate changes in the covenants, namely turnover of receivables, in December 2006 which covenants were not met in 2006. The agreement was reached in January 2007. Furthermore, the Company reached an agreement with Citibank for the repayment of the loan in 2007. The Company is planning a further debt restructuring in 2007.

The following covenants were defined in Zentiva N.V. loan contracts in 2006:

- total borrowings – ratio of total liabilities to total equity (including minority interest) shall not exceed 0.85 in 2006;
- debt service coverage ratio – ratio of the cash available for debt service to debt service shall be at least 2.0 in year 2006.
- turnover of receivable shall not exceed 130 days or 180 days in some cases (for new amendments to loan contracts).
- leverage defined as consolidated Group debt / annualized EBITDA shall not be lower than 2.00.

Average interest rate for the loans was 2.8% in 2006 and 2.4% in 2005.

15. ACCRUALS AND OTHER CURRENT LIABILITIES

Major components of accruals and other current liabilities for the years ending 31 December 2006 and 2005 are as follows:

	2006	2005
Outstanding invoices	484	59,637
Former minority shareholders of Zentiva a.s.	49,282	58,021
Wages and other employee payables	5,384	4,615
Social security and taxes payable	1,407	144
Interest accrued	8,784	9,892
Total	**65,341**	**132,309**

The payable to former minority shareholders of Zentiva a.s., Prague are linked with the purchased of additional share up to 100% in that company which took place during the year 2005 (see Note 9). Outstanding invoices as of 31 December 2005 are mainly composed of not yet invoices services provided in connection with Venoma Holdings Group purchase in late 2005 (acquisition charges).

16. TAXES

Income tax expense

The reconciliation of income tax expense applicable to profit from operating activities to the income tax expense at the Company's effective income tax rate for the years ended 31 December was as follows (in CZK thousand):

	2006	2005
Profit before tax	1,362,034	1,343,418
Less -dividends (exempt)	(1,353,116)	(1,413,039)
Profit before tax and dividends	8,918	(69,621)
Tax at the domestic rate applicable to profit	2,640	(21,931)
Permanent differences and unrecognized tax losses	(2,640)	21,931
Total income tax expense	-	-

In order to ensure tax exemptions on dividend income and other capital distributions, the Company claims only limited deductions on the costs incurred. Income tax rate decreased from 31.5 % in year 2005 to 29.6% in 2006. The total amount of accumulated unrecognized tax losses in Zentiva N.V. as of 31 December 2006 and 2005 is estimated by management at CZK 328,557 thousand and CZK 337,482 thousand, respectively. As the level of their utilization cannot be assessed with reasonable certainty, the management decided to treat such losses as permanent differences of the standalone financial statements and no deferred tax asset has been recorded in this respect.

17. FINANCIAL RISK

The Group's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates and loan interest rates. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the group.

Risk management is centralized and carried out mainly by the Treasury department of Zentiva, a.s. Prague.

(i) Foreign exchange risk

The Group operates internationally and the main exposure toward foreign exchange risk arises from its operating activities. Functional currency of the Group is CZK, which reflects majority of cash flows, however significant part of purchases of pharmaceutical material is realized in EUR, USD and SKK. On the other hand, sales of finished pharmaceuticals and other sales except CZK are realized mainly in SKK, USD, PLN and EUR. Since the Group drew only few loans denominated in foreign currencies the exposure arising from loans is not significant. As at 31 December 2005 the Group did not have any exchange rate hedges to mitigate the overall currency exposure.

(ii) Interest rate risk

The Group's operating income and operating cash flows are substantially independent of changes in market interest rates. The group has no significant interest-bearing assets. The group borrows mainly at floating interest rates.

(iii) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Derivative counter parties and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit lines. Due to the dynamic nature of the underlying business, the Group Treasury aims at maintaining flexibility by keeping committed credit lines available.

(ALL AMOUNTS IN CZK THOUSAND)

18. DISCLOSURE OF DIFFERENCES BETWEEN SHAREHOLDERS' EQUITY AND GROUP ENTITY, AND NET PROFIT AND GROUP PROFIT

As required by Dutch Law, the reconciliations between the Company's and consolidated equity and net income are as follows:

	Equity as of 31.12.2006	Equity as of 31.12.2005
Equity of Zentiva N.V. (company only)	**7,253,009**	**6,334,737**
Elimination of intra-group transactions		
elimination of margins on inventory	807,479	597,753
elimination of other transactions including the deffered tax impact	(100,531)	230,486
Impact of business combinations		
investments elimination	5,550,841	3,836,984
negative goodwill reclassification	-	(1,192,610)
Consolidated equity	**12,096,902**	**9,807,350**

	Net profit for year 2006	Net profit for year 2005
Net profit of Zentiva N.V.	**1,362,035**	**1,343,418**
Elimination of transactions between Zentiva N.V. and other group companies		
elimination of dividends	(1,353,116)	(1,413,039)
elimination of other transactions (mainly sevices provided)	(97,666)	(25,952)
Net profit of other group companies		
Zentiva .a.s, Prague	1,989,938	1,473,002
Zentiva a.s., Hlohovec	580,946	422,748
Zentiva International	123,531	334,703
Zentiva PL	28,739	17,663
Zentiva Pharma	(172,943)	(1,289)
Zentiva S.A.	133,263	(107,729)
SL Pharma	2,215,014	36,049
other companies	1,434	(1,512)
Elimination of transactions among other group companies		
elimination of margins on inventory	(162,327)	(223,784)
elimination of intra-group sale of shares from SL Pharma to Zentiva N.V.	(2,222,704)	-
elimination of dividends paid to Zentiva Prague from Zentiva International	(223,696)	-
elimination of other transactions	86,831	74,339
minority interest	(86,119)	(51,077)
Consolidated profit attributable to equity holders of the parent	**2,203,160**	**1,877,542**

19. FINANCIAL INSTRUMENTS

The Company's principal financial instruments comprise of bank loans and overdrafts and trade payables. The main purpose of these financial instruments is to raise finance for the Company's operations. Company has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations. The carrying value of these financial instruments and financial assets approximates their fair value.

Amsterdam, 4 June 2007

Jiří Michal

Executive Director
Appointed 16 October 1998

Petr Šulc

Executive Director
Appointed 31 March 2004

Johannes Scholts

Non-executive Director
Appointed 31 March 2004

Brad Wilson

Non-executive Director
Appointed 26 May 2004

Urs Kamber

Non-executive Director
Appointed 8 June 2005

Lars Ramneborn

Executive Director
Appointed 10 October 2005

Hanspeter Spek

Non-executive Director
Appointed 27 April 2006

Jean-Michel Lévy

Non-executive Director
Appointed 27 April 2006

Section D
Other information

DIVIDENDS PROPOSED

The Board has recommended to shareholders that the Company pay a dividend of CZK 11.5 per share for 2006. This proposal will be subject to shareholder approval at the Annual General Meeting to be held on 6th June 2007.

EVENTS AFTER BALANCE SHEET DATE

Zentiva N.V. announced on March 5, 2007, that it had signed an agreement to acquire 75% of the issued share capital of Eczacıbaşı Generic Pharmaceuticals, a major domestic pharmaceutical supplier in Turkey, from EİS Eczacıbaşı İlaç Sanayi ve Ticaret A.Ş (EİS Eczacıbaşı) a company listed on the Istanbul Stock Exchange for EUR 460 million in cash, on a cash and debt-free basis.

EİS Eczacıbaşı will retain a 25% stake in Eczacıbaşı Generic Pharmaceuticals allowing it to participate in and support the growth and development of this business. As part of the deal , a shareholders' agreement governing the relationship between Zentiva and EİS Eczacıbaşı in respect of Eczacıbaşı Generic Pharmaceuticals has been agreed. The shareholders' agreement will provide, among other things, that after a two year period EİS Eczacıbaşı will have a right to sell its 25% stake in Eczacıbaşı Generic Pharmaceuticals to Zentiva, and Zentiva will have a right to purchase its 25% stake.

The Transaction has been unanimously approved by the Board of Directors of Zentiva. The Transaction, which will be funded by a new five-year committed loan facility was approved by Zentiva's shareholders at an extraordinary general meeting, which was held on April 2, 2007. The Transaction also needs the approval of the Turkish Competition Board.

The transaction is expected to complete in the third quarter 2007 at which time Eczacıbaşı Generic Pharmaceuticals will be renamed Eczacıbaşı-Zentiva.

Zentiva N.V. announced on March 1, 2007 that it had entered the Hungarian pharmaceutical market via the acquisition of certain generic products, personnel and other operating assets from Sanofi-Aventis.

To: Shareholders of Zentiva N.V.

AUDITOR'S REPORT

Report on the financial statements

We have audited the financial statements (as set out on pages B1 - C19) of Zentiva N.V., Amsterdam, which comprise the consolidated and company balance sheet as at 31 December 2006, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility
Management of the company is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of Zentiva N.V. as at 31 December 2006, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

ROTTERDAM, 4 June 2007

for Ernst & Young Accountants

sgd O.E.D. Jonker