RICHTER GEDEON

Alapítva 1901-ben

PROPOSAL OF THE 2017 ANNUAL GENERAL MEETING

Richter Gedeon Vegyészeti Gyár Nyilvánosan Működő Rt.
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Fővárosi Törvényszék Cégbírósága Cg. 01-10-040944 • EU közösségi adószám: HU 10484878 • K&H Bank 10200971-20103088-00000000

The Chemical Works of Gedeon Richter Plc.
(Richter Gedeon Vegyészeti Gyár Nyilvánosan Működő Rt.)
(1103 Budapest, Gyömrői út 19-21.)

Agenda of the Annual General Meeting ("AGM") on Wednesday, April 26, 2017 at 3:00 p.m.

The venue of the AGM shall be at 34. Stefánia út, H-1143 Budapest (MH. Művelődési Ház).

1. Report on the 2016 business activities of the Richter Group and presentation of the draft Consolidated Annual Report pursuant to the IFRS
2. Report of the Statutory Auditor on the draft Consolidated Annual Report pursuant to the IFRS
3. Report of the Supervisory Board including the report of the Audit Board on the draft Consolidated Annual Report pursuant to the IFRS
4. Approval of the draft 2016 Consolidated Annual Report pursuant to the IFRS
5. Report of the Board of Directors on the 2016 business activities of the Company (on the management, the Company's financial situation and business policy) and presentation of the draft individual annual report prepared in accordance with the Hungarian Accounting Act
6. Report of the Statutory Auditor on the draft individual Annual Report prepared in accordance with the Hungarian Accounting Act
7. Report of the Supervisory Board including the report of the Audit Board on the draft individual Annual Report prepared in accordance with the Hungarian Accounting Act
8. Resolution on the determination and allocation of the 2016 after-tax profit declaration of dividends for the 2016 business year on the common shares
9. Approval of the 2016 draft individual Annual Report of the Company prepared in accordance with the Hungarian Accounting Act, including the 2016 Balance Sheet
10. Corporate Governance Report
11. Resolution on establishing new branch offices and the related amendment of the Statutes
12. Further amendments to the Company's Statutes (insertion of a new activity, modification of the Board of Directors' competences in connection with branch offices, business sites and activities, modification of rules regarding the Audit Board, correction of rules regarding the calculation of interim dividends and amendment of the rules on the exercise of employer's rights)
13. Report of the Board of Directors on the treasury shares acquired by the Company based upon the authorization in AGM resolution No.14/2016.04.26.
14. Authorization to the Board of Directors for the purchase of own shares of the Company
15. Election of members of the Board of Directors
16. Resolution on the remuneration of the members of the Board of Directors
17. Resolution on the remuneration of the members of the Supervisory Board
18. Approval of the Rules of Procedure of the Supervisory Board
19. Miscellaneous

1.

Report on the 2016 business activities of the Richter Group and presentation of the draft Consolidated Annual Report pursuant to the IFRS

GEDEON RICHTER PLC.

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

Erik Bogsch
Managing Director

22 March, 2017

Gedeon Richter Plc.

CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Income Statement

for the year ended 31 December

	Notes	2016 HUFm	2015 HUFm Restated*
Revenues	5	**389,690**	**365,220**
Cost of sales		(164,002)	(144,611)
Gross profit		**225,688**	**220,609**
Sales and marketing expenses		(107,564)	(98,310)
Administration and general expenses		(20,339)	(19,397)
Research and development expenses		(35,153)	(34,822)
Other income and other expenses (net)	5	(8,016)	(1,398)
Profit from operations	5	**54,616**	**66,682**
Finance income	7	26,600	24,230
Finance costs	7	(14,788)	(32,537)
Net financial income/(loss)	7	**11,812**	**(8,307)**
Share of profit of associates and joint ventures	14	1,798	1,502
Profit before income tax		**68,226**	**59,877**
Income tax	8	(1,203)	(6,014)
Profit for the year		**67,023**	**53,863**
Profit attributable to			
Owners of the parent		66,200	53,863
Non-controlling interest		823	0
Earnings per share (HUF)	9		
Basic and diluted		356	291

* See Note 39 for details regarding the restatement.

The notes on pages 10 to 89 form an integral part of the Consolidated Financial Statements.

22 March, 2017

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Managing Director

Consolidated Statement of Comprehensive Income

for the year ended 31 December

	Notes	2016 HUFm	2015 HUFm Restated*
Profit for the year		**67,023**	**53,863**
Items that will not be reclassified to profit or loss			
Actuarial loss on retirement defined benefit plans	28	(44)	(22)
		(44)	**(22)**
Items that may be subsequently reclassified to profit or loss			
Exchange differences arising on translation of foreign operations		1,546	7,179
Exchange differences arising on translation of associates and joint ventures	14	34	51
Revaluation of available for sale investments	24	5,502	1,447
		7,082	**8,677**
Other comprehensive income for the year		**7,038**	**8,655**
Total comprehensive income for the year		**74,061**	**62,518**
Attributable to:			
Owners of the parent		73,203	62,404
Non-controlling interest		858	114

* See Note 39 for details regarding the restatement.

The notes on pages 10 to 89 form an integral part of the Consolidated Financial Statements.

22 March, 2017

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Managing Director

Consolidated Balance Sheet

	Notes	31 December 2016 HUFm	31 December 2015 HUFm Restated*	1 January 2015 HUFm Restated*
ASSETS				
Non-current assets				
Property, plant and equipment	12	191,002	177,950	172,174
Goodwill	18	68,632	64,888	61,086
Other intangible assets	12	192,677	150,827	152,580
Investments in associates and joint ventures	14	8,541	7,140	5,408
Other financial assets	15	32,864	26,414	24,184
Deferred tax assets	16	5,416	8,063	9,014
Loans receivable	17	4,799	3,683	3,921
		503,931	**438,965**	**428,367**
Current assets				
Inventories	19	81,246	64,680	61,910
Trade receivables	20	116,223	92,539	95,255
Other current assets	21	14,991	13,927	13,591
Investments in securities	22	751	3,970	20,873
Current tax asset	16	682	539	603
Cash and cash equivalents	23	96,053	132,374	97,940
		309,946	**308,029**	**290,172**
Total assets		**813,877**	**746,994**	**718,539**

* See Note 39 for details regarding the restatement.

The notes on pages 10 to 89 form an integral part of the Consolidated Financial Statements.

22 March, 2017

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Managing Director

Consolidated Balance Sheet
- continued

	Notes	31 December 2016 HUFm	31 December 2015 HUFm Restated*	1 January 2015 HUFm Restated*
EQUITY AND LIABILITIES				
Capital and reserves				
Equity attributable to owners of the parent				
Share capital	24	18,638	18,638	18,638
Treasury shares	25	(1,285)	(3,206)	(4,881)
Share premium		15,214	15,214	15,214
Capital reserves		3,475	3,475	3,475
Foreign currency translation reserves	24	18,478	16,478	9,700
Revaluation reserve for available for sale investments	24	8,825	3,323	1,876
Retained earnings		614,657	561,330	513,258
		678,002	**615,252**	**557,280**
Non-controlling interest	13.1	3,871	3,137	2,932
		681,873	**618,389**	**560,212**
Non-current liabilities				
Borrowings	29	28,874	37,188	44,155
Deferred tax liability	16	5,962	8,939	8,876
Other non-current liabilities and accruals	30	4,448	7,817	10,056
Provisions	28	3,508	2,928	2,770
		42,792	**56,872**	**65,857**
Current liabilities				
Borrowings	29	7,776	6,523	14,525
Trade payables	26	45,926	38,209	36,335
Current tax liabilities	16	655	425	281
Other payables and accruals	27	32,929	24,669	40,222
Provisions	28	1,926	1,907	1,107
		89,212	**71,733**	**92,470**
Total equity and liabilities		**813,877**	**746,994**	**718,539**

* See Note 39 for details regarding the restatement.

The notes on pages 10 to 89 form an integral part of the Consolidated Financial Statements.

22 March, 2017

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Managing Director

Consolidated Statement of Changes in Equity
for the year ended 31 December 2015

	Notes	Share capital	Share premium	Capital reserves	Treasury shares	Revaluation reserve for available for sale investments	Foreign currency translation reserves	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
		HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Balance at 1 January 2015		**18,638**	**15,214**	**3,475**	**(4,881)**	**1,876**	**9,700**	**514,536**	**558,558**	**3,172**	**561,730**
Impact of restatement*		-	-	-	-	-	-	(1,278)	**(1,278)**	(240)	**(1,518)**
Balance at 1 January 2015 (as restated)		**18,638**	**15,214**	**3,475**	**(4,881)**	**1,876**	**9,700**	**513,258**	**557,280**	**2,932**	**560,212**
Profit for the year		-	-	-	-	-	-	53,863	**53,863**	0	**53,863**
Exchange differences arising on translation of foreign operations		-	-	-	-	-	6,727	338	**7,065**	114	**7,179**
Exchange differences arising on translation of associates and joint ventures	14	-	-	-	-	-	51	-	**51**	-	**51**
Actuarial loss on defined benefit plans	28	-	-	-	-	-	-	(22)	**(22)**	-	**(22)**
Revaluation of available for sale investments	24	-	-	-	-	1,447	-	-	**1,447**	-	**1,447**
Comprehensive income for year end 31 December 2015 (as restated)		-	-	-	-	**1,447**	**6,778**	**54,179**	**62,404**	**114**	**62,518**
Net treasury shares transferred and purchased	25	-	-	-	1,675	-	-	-	**1,675**	-	**1,675**
Ordinary share dividend for 2014	31	-	-	-	-	-	-	(6,150)	**(6,150)**	-	**(6,150)**
Dividend paid to non-controlling interest		-	-	-	-	-	-	-	-	(90)	**(90)**
Additional paid in capital to subsidiaries		-	-	-	-	-	-	-	-	181	**181**
Recognition of share-based payments	24	-	-	-	-	-	-	43	**43**	-	**43**
Transactions with owners in their capacity as owners for year end 31 December 2016 (as restated)		-	-	-	1,675	-	-	(6,107)	**(4,432)**	91	**(4,341)**
Balance at 31 December 2015 (as restated)		**18,638**	**15,214**	**3,475**	**(3,206)**	**3,323**	**16,478**	**561,330**	**615,252**	**3,137**	**618,389**

* See Note 39 for details regarding the restatement.

The notes on pages 10 to 89 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2016

	Notes	Share capital	Share premium	Capital reserves	Treasury shares	Revaluation reserve for available for sale investments	Foreign currency translation reserves	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
		HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Balance at 1 January 2016 (as restated)		**18,638**	**15,214**	**3,475**	**(3,206)**	**3,323**	**16,478**	**561,330**	**615,252**	**3,137**	**618,389**
Profit for the year		-	-	-	-	-	-	66,200	**66,200**	823	**67,023**
Exchange differences arising on translation of foreign operations		-	-	-	-	-	1,966	(455)	**1,511**	35	**1,546**
Exchange differences arising on translation of associates and joint ventures	14	-	-	-	-	-	34	-	**34**	-	**34**
Actuarial loss on defined benefit plans	28	-	-	-	-	-	-	(44)	**(44)**	-	**(44)**
Revaluation of available for sale investments	24	-	-	-	-	5,502	-	-	**5,502**	-	**5,502**
Comprehensive income for year end 31 December 2016		-	-	-	-	**5,502**	**2,000**	**65,701**	**73,203**	**858**	**74,061**
Net treasury shares transferred and purchased	25	-	-	-	1,921	-	-	-	**1,921**	-	**1,921**
Ordinary share dividend for 2015	31	-	-	-	-	-	-	(13,419)	**(13,419)**	-	**(13,419)**
Dividend paid to non-controlling interest		-	-	-	-	-	-	-	-	(139)	**(139)**
Additional paid in capital to subsidiaries		-	-	-	-	-	-	-	-	19	**19**
Recognition of share-based payments	24	-	-	-	-	-	-	1,045	**1,045**	-	**1,045**
Sale of subsidiary		-	-	-	-	-	-	-	-	(4)	**(4)**
Transactions with owners in their capacity as owners for year end 31 December 2016		-	-	-	**1,921**	-	-	**(12,374)**	**(10,453)**	**(124)**	**(10,577)**
Balance at 31 December 2016		**18,638**	**15,214**	**3,475**	**(1,285)**	**8,825**	**18,478**	**614,657**	**678,002**	**3,871**	**681,873**

The notes on pages 10 to 89 form an integral part of the Consolidated Financial Statements.

Consolidated Cash Flow Statement
for the year ended 31 December

	Notes	2016 HUFm	2015 HUFm Restated*
Operating activities			
Profit before income tax		68,226	59,877
Depreciation and amortisation	5	32,895	31,248
Non-cash items accounted through Total Comprehensive Income	14, 30	(6,725)	(1,850)
Year-end foreign exchange translation difference of borrowings	7	(245)	(243)
Net interest and dividend income	7	(4,531)	(1,482)
Changes in provision for defined benefit plans	28	(15)	158
Increase on changes of property, plant and equipment and intangible assets		(461)	(830)
Impairment recognised on intangible assets	12	3,873	3,484
Impairment on investments		63	-
Expense recognised in respect of equity-settled share based payments	24	4,724	4,260
Movements in working capital			
(Increase)/decrease in trade and other receivables		(18,095)	2,773
Increase in inventories		(11,446)	(2,770)
Increase in payables and other liabilities		16,358	7,231
Interest expense		(827)	(1,160)
Income tax paid	16	(6,375)	(5,649)
Net cash flow from operating activities		**77,419**	**95,047**
Cash flow from investing activities			
Payments for property, plant and equipment**		(30,551)	(27,708)
Payments for intangible assets**		(5,902)	(5,594)
Proceeds from disposal of property, plant and equipment		401	1,332
Payments to acquire financial assets		(88)	(2,043)
Proceeds on sale or redemption on maturity of financial assets		3,950	18,429
Disbursement of loans net		(614)	(836)
Interest income	7	2,566	2,641
Dividend income	7	2,792	1
Net cash outflow on acquisition of subsidiaries	27,36,30	(63,555)	(25,322)
Net cash flow to investing activities		**(91,001)**	**(39,100)**
Cash flow from financing activities			
Purchase of treasury shares	25	(1,758)	(2,542)
Dividend paid	31	(13,563)	(6,245)
Repayment of borrowings	29	(6,813)	(14,628)
Proceeds from borrowings		-	2
Net cash flow to financing activities		**(22,134)**	**(23,413)**
Net (decrease)/increase in cash and cash equivalents		**(35,716)**	**32,534**
Cash and cash equivalents at beginning of year		**132,374**	**97,940**
Effect of foreign exchange rate changes on the balances held in foreign currencies		(605)	1,900
Cash and cash equivalents at end of year		**96,053**	**132,374**

* See Note 39 for details regarding the restatement.
** The Payments for property plant and equipment and the Payments for intangible assets cannot be directly reconciled to the Note 12 Transfers and capital expenditure row, because the later one contains non-material, non-cash addition of the assets, including transfers.

The notes on pages 10 to 89 form an integral part of the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. General background

I) Legal status and nature of operations
Gedeon Richter Plc. ("the Company"/"Parent Company"), the immediate parent of the Group (consisting of the Parent Company and its subsidiaries), a manufacturer of pharmaceutical products based in Budapest, was established first as a Public Limited Company in 1923. The predecessor of the Parent Company was founded in 1901 by Mr Gedeon Richter, when he acquired a pharmacy. The Company is a public limited company, which is listed on Budapest Stock Exchange. The Company's headquarter is in Hungary and its registered office is at Gyömrői út 19-21, 1103 Budapest.

II) Basis of preparation
The Consolidated Financial Statements of Richter Group have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (EU) (hereinafter "IFRS"). The Consolidated Financial Statements comply with the Hungarian Accounting Law on consolidated financial statements, which refers to the IFRS as endorsed by the EU.

The Consolidated Financial Statements have been prepared on the historical cost basis of accounting, except for certain financial instruments which are valued at fair value. The amounts in the Consolidated Financial Statements are stated in millions of Hungarian Forints (HUFm) unless stated otherwise. The members of the Group maintain accounting, financial and other records in accordance with relevant local laws and accounting requirements. In order to present financial statements which comply with IFRS, appropriate adjustments have been made by the members of the Group to the local statutory accounts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements, are disclosed in Note 3.

These financial statements present the consolidated financial position of the Group, the result of its activity and cash flows, as well as the changes in shareholder's equity. The Group's consolidated companies are shown in Notes 13, 14.

III) Adoption of new and revised Standards

A) The following amended standards became effective for the Group from 1 January 2016, but did not have any material impact on the Group.

- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued in May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued in May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued in June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued in August 2014 and effective for annual periods beginning 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued in September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014, and effective for annual periods on or after 1 January 2016).

B) Certain new standards and interpretations have been issued that are not yet effective, and which the Group has not early adopted.

- IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

  - Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
  - Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
  - Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
  - IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
  - Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

  The Group has started the assessment of the impact of IFRS 9 on financial instruments out of which the new impairment model of the standard will have the most significant effect for the Group.

- IFRS 15, Revenue from Contracts with Customers (issued in May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group has started the assessment of the impact of IFRS 15. The Group is focusing in the initial phase of the assessment on the effect of the new standard on licensing arrangements and transactions containing variable considerations.

- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018, the EU has not yet endorsed the amendment). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Group is currently assessing the impact of the amendment on its financial statements.

- IFRS 16, Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019, the EU has not yet endorsed the new standard). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is presenting operating lease commitments according to IAS 17 in Note 35. Taking into consideration the amount of these commitments, the effect of the application of IFRS 16 will be moderate on the financial statements.

- IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018 the EU has not yet endorsed the interpretation). The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary. The Group is currently assessing the impact of the amendments on its financial statements, the effect of the application of IFRIC 22 is expected to be moderate on the financial statements.

C) The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- IFRS 14, Regulatory deferral accounts (issued in January 2014, the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard).

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB. The EU endorsement is postponed as IASB effective date is deferred indefinitely.)

- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017, the EU has not yet endorsed the changes).

- Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017, the EU has not yet endorsed the changes).

- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018, the EU has not yet endorsed the changes).

- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 the EU has not yet endorsed the changes).

- Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28, the EU has not yet endorsed the changes).

- Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018, the EU has not yet endorsed the changes).

Other new/amended standards/interpretations are not expected to have a significant effect for the Group.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

I) Basis of Consolidation

The Consolidated Financial Statements incorporate the financial statements of the Parent Company and entities directly or indirectly controlled by the Parent Company (its subsidiaries), the joint arrangements (joint ventures) and those companies where the Parent Company has significant influence (associated companies). The Group controls an entity when the Group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

II) Investments in joint ventures and associated companies

A joint venture is a contractual arrangement whereby the Group and the parties undertake an economic activity that is subject to joint control.

Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses.
Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group assesses whether the contractual arrangement gives all the parties control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement.

Since all of the joint arrangements are structured through separate vehicle and neither the legal form nor the terms of the arrangement or other facts and circumstances provides rights to the assets and obligations of the company (but to the net assets), therefore the companies are classified as joint ventures.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates and joint ventures includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' or joint ventures' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or the joint venture.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dividends received from associates or joint ventures reduce the carrying value of the investment in the associates and joint ventures.

Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates and joint ventures are recognised in the income statement.

III) Transactions and balances in foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Consolidated Financial Statements, the results and financial position of each Group entity are expressed in Hungarian Forints (HUF), which is the functional currency of the Parent Company and the presentation currency for the Consolidated Financial Statements.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange gains and losses are presented in the income statement within finance income or finance expense.

On consolidation, the assets and liabilities of the Group's foreign operations are translated at the exchange rate of the Hungarian National Bank rates prevailing on the balance sheet date except for equity, which is translated at historic value. Income and expense items are translated at the average exchange rates weighted with monthly turnover. Exchange differences arising, if any, are recognised in other comprehensive income.
Such translation differences are recognised as income or as expenses in the period in which the Group disposes of an operation.
Conversion into Hungarian Forints of Group's foreign operations that have a functional currency not listed by the National Bank of Hungary is made at the cross rate calculated from Bloomberg's published rate of the given currency to the USD and NBH's rate of the HUF to the USD. The method of translation is the same as mentioned above.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

IV) Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue on sales transactions is recognised upon fulfilment the terms of sales contracts.

A) Sales of goods
The Group manufactures and sells wide range of pharmaceuticals in the wholesale and retail market.

The Richter Group operates a chain of pharmacies – mainly located in Romania – and several distribution companies to convey products to consumers. Most of their turnover is generated by products other than those manufactured by the Group.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

B) Sales of services
Revenue, on rendering services, such as pharmaceutical and biotech products trading, marketing services, transportation, is recognised at entities operating in Other segment of the Group. For sales of services, revenue is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided.

C) Profit sharing
Sales revenue includes also Profit sharing income, paid by the partners according to agreed terms. These partners are providing information on regular basis to the Group on their turnover and assess the Group's share of the profit of these transactions. Revenue from profit sharing agreements are accounted in the accounting period when the underlying sales is performed.

D) Royalties
Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement. In case the Company is achieving a one off royalty revenue by selling a license to the customer, the revenue is recognised in the period when the risks and rewards are transferred to the other party. In case the Company is obtaining regular revenue based on the sales or other activity of the other party, revenue is recognised in the period when the underlying activity is performed by the customer.

E) Interest income
Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

F) Dividend income
Dividend income is recognised when the right to receive payment is established.

V) Property, plant and equipment
Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period.

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment loss.

Depreciation is charged so as to write the cost of assets (less residual value) off from Balance Sheet on a straight-line basis over their estimated useful lives. The Group uses the following depreciation rates:

Name	Depreciation
Land	0%
Buildings	1-4.5%
Plant and equipment	
Plant and machinery	*5-33.33%*
Vehicles	*10-20%*
Office equipments	*8-33.33%*

The depreciation amount for a period of a property, plant and equipment shall be determined based on its expected usage, useful life, physical wear and tear and estimated residual value. Depreciation is calculated monthly and recognised as cost of sales, sales and marketing expenses or administration and general expenses, depending on the purpose of usage of underlying assets, in the Consolidated Income Statement or recognised as inventories in the Consolidated Balance Sheet.

Assets in the course of construction are not depreciated. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. Repair and maintenance costs are not capitalised.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Initial cost of construction in progress shall contain all cost elements that are directly attributable to its production or installation during the reporting period.

The residual value of property, plant and equipment with the exception of cars is zero, because of the nature of the activity of the Group. Residual value of cars is 20% of their initial cost.

The depreciation period and the depreciation method for property, plant and equipment shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, then depreciation calculated for current and future periods shall be adjusted accordingly.

VI) Goodwill
Goodwill arising on consolidation represents the excess of the fair value of consideration transferred over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.
On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. This later method was applied for all of the acquisitions of the Group so far.
Goodwill is recognised separately in the Consolidated Balance Sheet and is not amortised but is reviewed for impairment annually in line with IAS 36. In each reporting period the Group reviews its goodwill for possible impairment. For impairment testing goodwill is allocated to the Group's individual or group of cash generating units (CGU). The recoverable amount of the cash generating unit is the higher of fair value less cost to sell or its value in use, which is determined by Discounted Cash Flow method.

If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The impairment loss is recognised in the 'Other income and other expenses (net)' line in the Consolidated Income Statement. The impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

When in the case of a bargain purchase, the consideration transferred is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Consolidated Income Statement within Other income and other expenses (net).

Goodwill arising on acquisitions are recorded in the functional currency of the acquired entity and translated at year end closing rate.

VII) Intangible assets

Purchase of trademarks, licenses, patents and software from third parties are capitalised and amortised if it is likely that the expected future benefits that are attributable to such an asset will flow to the entity, and costs of these assets can be reliably measured.
The Group is using the straight line method to amortize the cost of intangible assets over their estimated useful lives as follows:

Name	Amortization
Rights	
Property rights (connected with properties)	*5%*
Other rights (licenses)	*5-50%*
Intellectual property	4-50%
Research and development	5-50%
ESMYA, BEMFOLA	4%

Individually significant intangible assets are presented in Note 12. The purchased licenses are amortized based on the contractual period, resulting in amortization rates within the range presented in the table above.

Amortization is recognised as Cost of sales, Sales and marketing expenses, Administration and general expenses and Research and development expenses in the Consolidated Income Statement depending on the function of the intangible assets.

The amortization period and the amortization method for an intangible asset shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, then amortization calculated for current and future periods shall be adjusted accordingly. Because of the nature of the business and intangible assets, the residual value has been usually determined to be nil.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date.
Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

In the Annual Report the term of ESMYA® is used for indication of the brand name of the product containing ulipristal acetate on Gynaecology therapeutic area in uterine myoma indication, while the terminology of ESMYA refers to the intangible asset recognized by Richter (relating to the EU/USA region as described in Note 12) at the acquisition of PregLem and presented in the Consolidated Balance Sheet.

VIII) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the members of the Group review the carrying amount of tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indications exist, the recoverable amount of the asset is estimated in order to determine the amount of such an impairment loss. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss as "Other income and other expenses (net)".

The Group shall assess at each balance sheet date whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset, and the carrying value of the asset shall be increased to this value. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized for the asset in prior years. A reversal of an impairment loss for an asset shall be recognized immediately in profit or loss and presented as "Other income and other expenses (net)".

IX) Research and development
Cost incurred on development projects are recognised as intangible assets when they meet the recognition criteria of IAS 38 "Intangible Assets":

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- The Group's intention to complete the intangible asset and use or sell it
- The Group's ability to use or sell the intangible asset
- To prove that the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate:
  - the existence of a market for the output of the intangible asset or for the intangible asset itself or,
  - if it is to be used internally, the usefulness of the intangible asset
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset. The way and timing of the use of such resources can be presented.
- The development costs of the intangible asset can be reliably measured.

Amortization shall begin when the asset is available for use. The useful life of these assets is assessed individually and amortized based on facts and circumstances. The Group is using the straight line method to amortize R&D over the estimated useful life.

R&D costs that do not meet these recognition criteria are expensed when incurred.

X) Financial assets
Financial assets are classified into the following categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

A) Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL or derivatives. Financial assets at FVTPL are stated at fair value, with any resulting gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

B) Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

C) Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.
Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised in other comprehensive income. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the Consolidated Income Statement as 'Financial income' or 'Financial expense'. Dividends on available-for-sale equity instruments and interest on available-for-sale securities calculated using the effective interest method are recognised in the income statement as financial income.

In case of purchase or sale of financial assets the transactions are accounted at the settlement date.

D) Financial assets constituting loans receivables are carried at amortized cost and are presented separately in XIV) Loans receivable, XVIII) Cash and cash equivalents while Trade receivables are described in XV) Trade receivables. In case the risks and characteristics of embedded derivative instruments are not closely related to those of the host contract, these are treated as separate derivative instruments and valued accordingly.

For assets carried at amortised cost the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For assets classified as availahle for sale the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria described above.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. This impairment is accounted in the Consolidated Income Statement as Financial costs. Impairment losses recognised in the Consolidated Income Statement on equity instruments are not reversed through the Consolidated Income Statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the Consolidated Income Statement.

XI) Financial liabilities
Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL or derivatives. Financial liabilities at FVTPL are stated at fair value, with any gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. Financial liabilities constituting trade payables are described separately in XVI) Trade payables.

XII) Contingent-deferred purchase price
The contingent-deferred purchase price obligation of the Group as a result of an acquisition is measured initially and subsequently at fair value. The change in the fair value is analysed to different components and charged to the Consolidated Income Statement accordingly. The effect of the foreign exchange difference and the unwinding of interest is recognized in Finance costs (or Finance Income), while the change in the probability and the change in the estimated cash-flow to be paid is recognized in Other income and other expenses (net).

XIII) Other financial assets
Investments comprise long term bonds and unconsolidated investments in other companies. These investments contain 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivable investments' (non-derivative financial assets with fixed or determinable payments that are not quoted in an active market) as described in Note 15.

XIV) Loans receivable
Loans receivables include given loans measured at amortised cost. It also contains interest free loans given to employees with maximum of 8 years maturity. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

XV) Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

XVI) Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

XVII) Derivative financial instruments
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.
Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised as they arise in the Consolidated Income Statement. The derivative transactions of the Group do not qualify to be hedging transactions therefore no hedge accounting is applied.

XVIII) Cash and cash equivalents
In the Consolidated Cash Flow Statement Cash and cash equivalents comprise: cash in hand, bank deposits, and investments in money market instruments with a maturity date within three months accounted from the date of acquisition, net of bank overdrafts. In the Consolidated Balance Sheet bank overdrafts are shown within borrowings in current liabilities.

XIX) Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated Income Statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.
Regarding the capitalization of borrowing cost please see in XXIV) Borrowing costs.

XX) Inventories
Inventories are stated at the lower of cost and net realisable value. Goods purchased shall be measured by using the FIFO (first in first out) method. Goods produced shall be measured at actual (post calculated) production cost.
Net costs of own produced inventories include the direct cost of raw materials, the actual cost of direct production labour, the related maintenance and depreciation of production machinery and related direct overhead costs.

XXI) Provisions
Provisions are recognised when the Group has a current legal or constructive obligation arising as a result of past events, and when it is likely that an outflow of resources will be required to settle such an obligation, and if a reliable estimate for such amounts can be made.

Provision for Environmental Expenditures
The Group is exposed to environmental liabilities relating to its past operations and purchases of property, mainly in respect of soil and groundwater remediation costs. Provisions for these costs are made when the Group has constructive or legal obligation to perform these remedial works and when expenditure on such remedial work is probable and its costs can be estimated within a reasonable range. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The Group does not have legal or constructive obligation in relation to environmental expenditures as of 31 December 2016 and as of 31 December 2015.

Provision for Retirement Benefits
The Group operates a long term defined employee benefit program, which is described in XXVI) Employee Benefits.

XXII) Income taxes
The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Parent Company and its subsidiaries operate and generate taxable income.

Deferred tax is provided, using the balance sheet method, in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

In case the Group is eligible for investment tax credit, the initial recognition exception is applied therefore no deferred tax is recognised in connection with this investment (see Note 3.2).

XXIII) Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

XXIV) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

XXV) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at commencement of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Balance Sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term (Note 33). Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

XXVI) Employee benefits

Pension obligations

The Group operates a long term defined employee benefit program, which is presented as Provision in the Consolidated Balance Sheet. In line with IAS 19 for defined retirement benefit plans the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period.
The estimated amount of the benefit is accounted in equal amounts each period until maturity date (straight line method) and valued at present value by using actuarial discount rate.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions regarding defined benefit plans are charged to the Other Comprehensive Income while the remeasurements of other long term employee benefit program are charged to the Consolidated Income Statement in the period in which they arise.

Defined contribution plans

For defined contribution plans the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Termination benefit

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

XXVII) Share based payment

The Group is granting treasury shares to certain employees in its employee share bonus programs. Details of these bonus programs are set out in Note 25. These bonus programs are accounted for as equity-settled share-based payments.
Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis (adjusted with the change in estimate) over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the entity revises its estimates of the number of shares granted that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

XXVIII) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property, plant and equipment are included in Other non-current liabilities and accruals in the Consolidated Balance Sheet and credited to the income statement as Other income and other expenses (net) on a straight-line basis over the expected useful live of the related assets.

XXIX) Share Capital

Ordinary shares are classified as equity. Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued.
Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, and is included in equity attributable to the Company's equity holders.

XXX) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

XXXI) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability and debited against equity (retained earnings) in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

XXXII) Comparative financial information

With effect from 1 January 2017 stand-alone IFRS reporting also became compulsory for Gedeon Richter Plc. The Company implemented changes to the IT system supporting the transition. As part of this development the Company reviewed its methodology to eliminate intra-group profit on sale of inventories. This review discovered that previously applied average margin for elimination was not precise on purchased inventories and that intra-group profit on own manufactured inventories was not fully eliminated. As a consequence, the inventory had been incorrectly overstated and cost of sales understated. The above described IT development enabled the Group to fully eliminate intra-group profit on sale of inventory.

Additionally, the preparation of stand-alone IFRS report of Gedeon Richter Plc. has revealed that the book value of previously identified difference between the IFRS and statutory value of property, plant and equipment and its depreciation have not been reviewed annually. As a consequence, the balance of property, plant and equipment was understated and previous years' depreciation was overstated. The review resulted in correction of the value of property, plant and equipment and retained earnings.

In accordance with IAS 8 standard the corresponding figures for previous periods have been restated accordingly as detailed in Note 39.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2 management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Consolidated Financial Statements are the following:

3.1 Key sources of estimation uncertainty

Impairment testing of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in point VI). The impairment assessment performed by the Group contains significant estimates that depend on future events. The assumptions used and the sensitivity of the estimation is presented in details in Note 18.

Depreciation and amortization

Property, plant and equipment and intangible assets are recorded at cost and are depreciated or amortised on a straight-line basis over their estimated useful lives. The estimation of the useful lives of assets is a matter of judgement based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use.
However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical, market and legal conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

The appropriateness of the estimated useful lives is reviewed annually. If the estimated useful lives would decrease by 10% in comparison to management's estimates, depreciation for the year ended 31 December 2016 would be greater by HUF 3,654 million (2015: increase by HUF 3,472 million).

The Group recorded depreciation and amortisation expense in the amount of HUF 32,895 million and HUF 31,248 million for the years ended 31 December 2016 and 2015, respectively.

Tax loss carried forward in Switzerland

PregLem

The Swiss subsidiary of the Group, PregLem has CHF 92 million (HUF 26,653 million) tax loss carried forward as of 31 December 2016 and CHF 103 million (HUF 29,870 million) as of 31 December 2015. PregLem also had tax holiday on cantonal (Geneva) level that expired in 2016. The Company has prepared a detailed schedule on the utilization of the tax loss carried forward and provided for deferred tax on cantonal level only on the deductible temporary differences that are expected to be recovered after the expiry of the above mentioned tax holiday. The net deferred tax liability related to PregLem as of 31 December 2016 is HUF 1,431 million while as of 31 December 2015 HUF 7,894 million (see Note 16).

Finox

The newly acquired Swiss group, Finox has EUR 43 million (HUF 13,490 million) tax loss carried forward as of 31 December 2016. The company has prepared a detailed schedule on the utilization of the tax loss carried forward and provided for deferred tax on cantonal level only on the deductible temporary differences that are expected to be recovered. The deferred tax asset has been determined with the relevant tax rate for Finox (10.97%) which reduces the amount of deferred tax liability recognised on the acquisition. The tax rate applied assumes that the company will be able to maintain its favourable tax status. The net deferred tax liability related to Finox AG, a member of the newly acquired Swiss group as of 31 December 2016 is HUF 3,608 million.

Uncertain tax position in Romania

From 1 October 2009 the Government approved a debated claw-back regime (aimed at financing the overspending of the national pharmaceutical budget) to be paid to the CNAS (Casa Nationala de Asigurari Sanatate) by the domestic manufacturers and wholesalers in the range of 5-12 % from sales of reimbursed drugs. The related uncertain tax position is disclosed in more details in Note 37.

From 1 October 2011, a new version of Romania's pharmaceutical claw-back mechanism came into force levying direct liabilities for the domestic and foreign manufacturers, which does not constitute to be an uncertain tax position; the related expenses have been disclosed in Note 5.

In the acquisitions presented below, in accordance with its Accounting Policy, the Group reports the contingent- deferred purchase price liabilities to former owners at fair value (determined by probability weighted discounted technique) which are reviewed in each period. Subject to the occurrence of future events payments may be higher than the liabilities on the books.

GRMed contingent-deferred purchase price payments

In 2013 Richter Gedeon Plc. announced that it signed a series of agreements with the owners of its marketing partner, Rxmidas Pharmaceuticals Co. Ltd. ('Rxmidas'), targeting a reshaped and stronger direct presence on the Chinese pharmaceutical market. Richter acquired the company and the agreement terms included an upfront payment together with milestone payments in the forthcoming years.

Contingent-deferred purchased price is accounted for at discounted fair value. The gross amount of the expected payment (undiscounted) is approximately CNY 179 million (HUF 7,565 million) as of 31 December 2016 and CNY 275 million (HUF 12,139 million) as of 31 December 2015. Since the contingent-deferred purchase price is determined as a certain proportion of future profit of predetermined products therefore maximum exposure in prior periods could not be quantified.

Since the last payment was already settled in 2017 therefore there is no uncertainty as of 31 December 2016.

GR Mexico contingent-deferred purchase price payments

In December 2013 as part of its expansion in Central and South America the Company has signed an agreement with the owner of DNA Pharmaceuticals, S.A. de C.V. („DNA"), to establish its direct presence on the pharmaceutical market in Mexico. Under the terms of the agreement Richter acquired 100% stake and 70% voting rights and assumed an obligation for payment of the remained and unpaid 30% portion in three years out of which 10% had been settled in 2015. The Group did not recognise non-controlling interest on the acquisition as explained in Note 36.

Subsequent to the signature of the agreement the company is renamed into Gedeon Richter Mexico, S.A.P.I. de C.V (hereinafter "GR Mexico"). The targeted activities are sales, promotion and registration of female healthcare products. This partnership agreement between GR Mexico and Richter creates a perfect synergy for launching ESMYA® on the Mexican market.

Contingent-deferred purchased price has been presented as "Other current liability" and the gross amount of the expected payment (undiscounted) is USD 3.0 million (HUF 881 million) as of 31 December 2016, while USD 3.0 million (HUF 860 million) as of 31 December 2015

Mediplus Group contingent-deferred purchase price payments

In May 2014 Gedeon Richter Plc. has signed an agreement with Andelam B.V. a Netherland based private limited liability company ("Andelam") to buy 100% stake and 51% voting rights in Mediplus N.V. a marketing company based in Curaçao ("Mediplus"). According to the agreement Richter is going to fulfil the liability originated from the contingent and deferred purchase price in connection with the unpaid 49% in the following years. Further payments are connected to certain performance related targets to be reached by previous owner latest in Q1 2017. In the view of Richter's management the preconditions for the milestone payment will not be met, therefore the fair value of the liability in respect of this transaction is zero. Based on the agreement concluded with the original shareholder in 2015, Richter's voting right increased to 100%.

The maximum amount of exposure relating to the acquisition of the Mediplus Group was USD 5,880 thousand (HUF 1,727 million) as of 31 December 2016 and USD 5,880 thousand (HUF 1,685 million) as 31 December 2015.

Mediplus is a well-established marketing company, which covers through its subsidiaries a number of countries in the Latin American region, namely: Ecuador, Peru, Chile and Bolivia. It also sells pharmaceutical products to Central American and Caribbean countries. The main profile is to market those female healthcare products of Richter, which are already on the market in the above mentioned countries.

Uncertainty in connection to the contingent-deferred purchase prices above is presented in Note 11.

3.2 Critical judgements in applying entities accounting policies

Investment tax credit

The Parent Company has been eligible for a tax credit as a result of the investment performed by the Company. The criteria that are needed to be fulfilled in order to qualify for this tax credit are described in Note 8. The Group assesses that the amount of investment is the only substantial criteria in relation to the tax credit because the operation of the assets purchased requires clearly more human resource than prescribed by the relevant regulation. The Group assessed this relief to be an investment tax credit. Based on the accounting policy of the Group, investment tax credit is treated as increase of the related asset's tax base. Since the asset was not acquired in a business combination and neither accounting profit nor taxable profit is affected on the related asset's initial recognition, the deductible temporary difference that arises will be exempt due to the initial recognition exception in paragraph 24 of IAS 12 and therefore no deferred tax asset is recognised.

The remaining tax relief open for subsequent years amounts to HUF 1,323 million at current value (in 2015 HUF 3,390 million).

4. Segment Information

Management has determined the operating segments based on the reports reviewed by the Board of Directors (Chief Operating Decision Makers) that are used to make strategic decisions. The three main segments for management purposes:

- Pharmaceuticals: includes the companies that are involved in the Group's core business, i.e. research, development and production of pharmaceutical products
- Wholesale and retail: distribution companies and pharmacies that are part of the sales network in various regional markets and, as such, convey our products to consumers
- Other: presents all the other consolidated companies that provide marketing and sales support services mainly to the members of the Group.

In the Pharmaceuticals segment of the Group a dominant part of the revenue from sale of goods originates from sale of finished form pharmaceuticals and active pharmaceutical ingredients. From therapeutic point of view the female healthcare, cardiovascular and central nervous system related drugs are the most significant products.

I) Business segments

	Pharmaceuticals		Wholesale and retail		Other		Eliminations		Total	
	HUFm		HUFm		HUFm		HUFm		HUFm	
	2016	**2015** Restated*	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015** Restated*
3rd party revenues	314,391	300,551	74,459	63,688	840	981	-	-	389,690	365,220
Inter segment revenues	9,448	8,359	5	3	3,763	3,621	(13,216)	(11,983)	-	-
Revenues	**323,839**	**308,910**	**74,464**	**63,691**	**4,603**	**4,602**	**(13,216)**	**(11,983)**	**389,690**	**365,220**
Profit from operations	55,204	66,148	1,158	893	151	(98)	(1,897)	(261)	54,616	66,682
Total assets	882,469	828,875	45,582	42,676	7,134	6,330	(121,308)	(130,887)	813,877	746,994
Total liabilities	114,950	112,752	37,618	40,689	1,257	1,344	(21,821)	(26,180)	132,004	128,605
Capital expenditure***	35,700	32,426	539	621	214	255	-	-	36,453	33,302
Depreciation and amortization**	32,066	30,427	596	583	233	238	-	-	32,895	31,248
Share of profit of associates and joint ventures	(835)	228	2,566	1,308	41	4	26	(38)	1,798	1,502
Investments in associates and joint ventures	-	997	7,070	4,819	1,523	1,403	(52)	(79)	8,541	7,140

* See Note 39 for details regarding the restatement.
** See Note 12.
*** See in the Consolidated Cash flow Statement.

II) Entity wide disclosures

The external customers of the Group are domiciled in the following regions:

1. Hungary
2. CIS (Commonwealth of Independent States)
3. EU
4. USA
5. China
6. Latin America
7. Other countries

2016	Hungary	CIS	EU	USA	China	Latin America	Other countries	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Revenues	35,776	121,736	166,167	18,813	21,616	9,187	16,395	389,690
Total assets	611,689	56,264	91,678	2,595	4,501	7,131	40,019	813,877
Capital expenditure	32,459	1,281	2,336	-	0	183	194	36,453

2015	Hungary	CIS	EU	USA	China	Latin America	Other countries	Total
	HUFm Restated*	HUFm Restated*	HUFm Restated*	HUFm	HUFm	HUFm	HUFm	HUFm Restated*
Revenues	34,976	122,058	149,596	18,103	16,849	9,057	14,581	365,220
Total assets*	582,503	39,052	85,704	3,130	1,347	6,316	28,942	746,994
Capital expenditure	28,505	1,400	2,872	-	-	181	344	33,302

* See Note 39 for details regarding the restatement.

Revenues from external customers are derived from the sales of goods, revenue from services and royalty incomes as described below.

Analyses of revenue by category	2016 HUFm	2015 HUFm
Sales of goods	373,466	356,118
Revenue from services	10,563	8,494
Royalty income	5,661	608
Total revenues	**389,690**	**365,220**

Revenues of approximately HUF 22,809 million (2015: HUF 20,003 million) are derived from a single external customer. These revenues are attributable to the Pharmaceuticals segment and located in the CIS region.
There is no customer exceeding 10% of net sales, therefore the Group assesses the risk of customer concentration as not significant.

5. Profit from operations – expenses by nature

	2016 HUFm	2015 HUFm Restated*
Revenues	389,690	365,220
From this: royalty and other similar income	*5,661*	*608*
Changes in inventories of finished goods and work in progress, cost of goods sold	(90,345)	(80,067)
Material type expenses	(101,941)	(91,150)
Personnel expenses	(101,877)	(94,675)
Depreciation and amortisation (Note 12)	(32,895)	(31,248)
Other income and other expenses (net)	(8,016)	(1,398)
Profit from operations	**54,616**	**66,682**

* See Note 39 for details regarding the restatement.

Most significant items presented within Other income and other expenses (net):

Claw-back expenses are partial repayment of the received Sales revenue of the reimbursed products to the State where the product is to be distributed (further "claw-back"). In accordance with the announced claw-back regime local authorities established the amount of extraordinary tax to be paid based on the comparison of the subsidies allocated for reimbursed drugs and manufacturers' sales thereof. Other income and expenses include expenditures in respect of the claw-back regimes effective in Romania, Germany, France, Spain, Portugal, Belgium, Latvia, Italy and Bulgaria amounting to HUF 5,432 million in 2016 (in 2015 HUF 4,747 million). The 20 % tax obligation payable in respect of turnover related to reimbursed sales in Hungary amounted to HUF 379 million in 2016 and HUF 192 million in 2015.

Other income and expenses net includes impairment of Rights (see Note 12) and the effect of probabilities and change of gross payment on the contingent-deferred purchase price (see Note 11).
The product withdrawal of Lisvy® resulted in a write-off amounting to HUF 2,405 million accounted for in respect of intangible assets. An additional HUF 849 million impairment loss was accounted in respect of inventories, an amount which Richter expects to receive as compensation as notified by Bayer. Further compensation claims that are under negotiation between the Parties have not yet been recognized as receivable and as other income.

An impairment loss amounting to HUF 1,720 million was recorded in respect of the Goodwill related to Mediplus in 2016, please see in Note 18.

A one-off income amounting to HUF 3,453 million was recorded as other income in 2016 in connection with the 100% acquisition of the joint venture Gedeon Richter Rxmidas JV Co. Ltd. engaged in the trading of OTC products on the Chinese market. Having applied the accounting standards for business combinations as established by IFRS 3 the 50% stake held prior to the transaction was reassessed at fair value at the time of the acquisition (22 January 2016) recognised as other income thereof in the Consolidated Income Statement.

Other income includes a one-off income paid by Recordati as an upfront payment, amounting to HUF 3,112 million as stipulated in the concluded agreement relating to future European sales and marketing of cariprazine in 2016. The base period figure, Other income, included milestone incomes (from Allergan in conjunction with securing marketing authorization for VRAYLAR™ in the United States, and from Stada in connection with the development of biosimilar products), as well as the exchange rate compensation related to Chinese sales accounted for retrospectively.

6. Employee information

	2016	2015
Average number of people employed during the year	11,820	11,465

The newly acquired companies resulted in an increase of 94 in the average number of employees during 2016. There were no acquisitions in 2015.

7. Net financial result

The Group is translating its foreign currency monetary assets and liabilities to the year-end exchange rate on individual item level, which is presented in the Consolidated Income Statement separately as Finance income or Finance costs. Since the management of the Company is analysing these translation differences on net basis, balances are presented on net basis as follows:

	2016 HUFm	2015 HUFm
Unrealised financial items	**4,679**	**(6,568)**
Exchange gain/(loss) on trade receivables and trade payables	3,658	(5,984)
(Loss)/gain on foreign currency loans receivable	(148)	1,360
Year-end foreign exchange translation difference of borrowings	245	243
Exchange gain/(loss) on other currency related items	1,939	(1,625)
Unwinding of discounted value related to contingent-deferred purchase price liabilities (Note 11)	(948)	(573)
Result of unrealised forward exchange contracts	(4)	11
Impairment loss on investments	(63)	-
Realised financial items	**7,133**	**(1,739)**
Gain on forward exchange contracts*	-	621
Exchange gain/(loss) realised on trade receivables and trade payables	2,670	(2,867)
Foreign exchange difference on conversion of cash	218	(1,062)
Dividend income	2,792	1
Interest income	2,566	2,641
Interest expense	(827)	(1,160)
Other financial items	(286)	87
Total	**11,812**	**(8,307)**

* Contains only the result of the net settled (settling through mark to market procedures) forward exchange contracts. Gain and loss of delivery fx deal is presented as "Foreign exchange difference on conversion of cash".

Unrealised financial gain was heavily affected by the 4.78 RUB/HUF, 293.69 USD/HUF exchange rates in effect on 31 December 2016 (3.88 RUB/HUF on 31 December 2015, 286.63 USD/HUF respectively) which impacted the revaluation of currency related Balance Sheet items. These translation differences together resulted in a gain of HUF 5.7 billion in the net financial income for 2016. For the sensitivity analysis relating to foreign currency exposure see Note 10.

At the end of the financial period Richter had an option arising from a convertible loan provided in 2015 (change of the fair value is HUF 69 million loss), and an "exchangeable bond" option connected to MNV bonds (change of the fair value is HUF 1,016 million gain), more detailed in Note 15.

Exchange rate movements are closely monitored by the Company and the conclusion of further forward contracts will be subject to Management's review and approval.

The Company does not apply hedge accounting according to IAS 39. The forward transactions are carried at fair value, which is determined based on forward rates provided by the commercial banks.

Contingent-deferred purchase price payment scheme was applied at the 2013 acquisition of GRMed Co. Ltd. and the 2014 acquisition of GR Mexico (see point 3.1). The contingent-deferred purchases are carried at fair value and thus increase the Group's Other short-term liabilities items. Unwinding of discounted value related to contingent-deferred purchase price liabilities are disclosed more detailed in Note 11.

The interest expense of the borrowings that are presented in Note 29 is HUF 827 million (in 2015 HUF 1,160 million).

8. Income tax expense

The Group discloses the Hungarian local business tax and innovation contribution as income taxes as we have established that these taxes have the characteristics of income taxes in accordance with IAS 12 rather than operating expenses.

	2016 HUFm	2015 HUFm Restated*
Domestic corporate income tax	(561)	(851)
Foreign corporate income tax	(1,453)	(1,191)
Local business tax	(3,728)	(3,351)
Innovation contribution	(480)	(499)
Current tax	**(6,222)**	**(5,892)**
Deferred tax (Note 16)	5,019	(122)
Income tax	**(1,203)**	**(6,014)**

* See Note 39 for details regarding the restatement.

The average effective tax rate calculated on the basis of the current tax is 9.1% and 1.8% taking into account the effect of deferred tax as well, in 2015 these rates were 9.8% and 10.0% respectively.

Current corporate tax rates at the Parent Company and at the three most significant subsidiaries are as follows:

Parent Company*	19%
Romania	16%
Russia	20%
Poland	19%

* For the first HUF 500 million 10% tax rate is applicable, for the tax base exceeding HUF 500 million 19% tax rate is applicable. From January 1st, 2017 9% statutory tax rate is applicable.

At subsidiary level there was no change in the tax rates above in compare to prior year.

The tax authorities may at any time inspect the books and records within the time frame described in the related statutory regulation and may impose additional tax assessments with penalties and penalty interest. Management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Relating to uncertain tax position please see Note 37.

Tax rate reconciliation

	2016 HUFm	2015 HUFm Restated*
Profit before income tax	**68,226**	**59,877**
Tax calculated at domestic tax rates applicable to profits in the respective countries**	17,127	14,169
Tax effects of:		
Benefit of utilising investment tax credit at Parent	(2,221)	(2,978)
Associates results reported net of tax	(342)	(279)
Income not subject to tax	(1,293)	(349)
Expense not deductible for tax purposes	546	1,049
Expense eligible to double deduction***	(5,356)	(5,204)
The effect of changes in tax loss for which no deferred income tax has been recognised****	(222)	(205)
Correction of tax return	(397)	-
Effect of change in tax rate	(5,731)	-
Impact of unrecognized tax on investment in subsidiaries*****	(908)	(189)
Tax charge	**1,203**	**6,014**

* See Note 39 for details regarding the restatement.
** The tax has been calculated with domestic tax rates including the effect of every income tax (including e.g. local business tax).
*** These expenditures can be deducted twice from the current years result to get the taxable profit (qualifying R&D expenses).
**** Unused tax loss of the current year on which no deferred tax asset has been recognised adjusted by the effect of the tax loss utilised in current period on which no deferred tax asset was recognised.
***** Deferred tax liability is not recognized in accordance with IAS 12.39 on the related temporary difference.

Investment tax credit

In 2007 the Parent Company notified the Ministry of Finance of its intent to take advantage of the tax relief in connection with the capital expenditure project to construct a new plant in Debrecen to develop and manufacture biotechnology products.
The project was concluded in 2011 and all the equipment that formed part of the project was commissioned. The Company has taken advantage of the investment tax relief for the first time in the 2012 fiscal year.

The criteria for eligibility for the tax relief according to Section 22/B (1) b) of the Act on Corporate Tax and Dividend Tax are:

- the value of investment is to be at least HUF 1 billion at current value,
- installed assets shall be kept for 5 years in the beneficiary region and
- during this period, the number of staff employed shall exceed that of the tax year preceding the investment project by at least 75 people.

The Company can take advantage of the tax relief in the tax year following the year when the project was completed and in the following nine years (at the latest during the fourteenth tax year following the tax year in which the notification or the application was submitted). Therefore Richter can take advantage of the tax relief in connection with the Debrecen capex project up to 2021 at the latest.
The Company used the tax credit described above in the 2012, 2013, 2015 and 2016 business years. The remaining tax relief open for subsequent years amounts to HUF 1,323 million at current value (in 2015 HUF 3,390 million).

Accounting treatment of the tax credit

The Group assesses that the amount of investment is the only substantial criteria in relation to the tax credit because clearly more human resource is required to operate the assets purchased. The increase of the average number of employees exceeds the criteria defined in the tax credit by 120 employees (calculation made according to the 2012 year change in the Act on Corporate Tax and Dividend Tax). Therefore the Group assessed this tax credit to be an investment tax credit and applied the initial recognition exception stated in IAS 12.24 and did not recognise any deferred tax in connection with these assets.

9. Consolidated earnings per share

Basic earnings per share is calculated by reference to the net profit attributable to shareholders and the weighted average number of ordinary shares outstanding during the year. These exclude the average number of ordinary shares purchased by the Company and held as Treasury shares.
For diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to assume conversion of all dilutive potential ordinary shares. As of 31 December 2015 and 2016 there are no potential dilutive instruments issued by the Group.

EPS (basic and diluted)

	2016	2015 Restated*
Net consolidated profit attributable to owners of the parent (HUFm)	66,200	53,863
Weighted average number of ordinary shares outstanding (thousands)	185,848	185,286
Earnings per share (HUF)	**356**	**291**

* See Note 39 for details regarding the restatement.

10. Financial instruments

Financial instruments in the Balance Sheet include loans receivable, investments, trade receivables, other current assets, cash and cash equivalents, short-term and long-term borrowings, trade and other payables.

	Notes	Carrying value		Fair value	
		31 December 2016 HUFm	31 December 2015 HUFm	31 December 2016 HUFm	31 December 2015 HUFm
Financial assets[1]					
Available for sale investments carried at fair value					
Investments in securities[2]	22	751	2,446	751	2,446
Held to maturity investments carried at amortised cost					
Investments in securities[2]	22	-	1,524	-	1,524
Loans and receivables carried at amortised cost					
Loans receivable	21	1,776	2,893	1,776	2,893
Trade receivables	20	116,223	92,539	116,223	92,539
Other current assets	21	3,524	2,336	3,524	2,336
Cash and cash equivalents	23	96,053	132,374	96,053	132,374
Financial assets carried at fair value through profit or loss					
Foreign exchange forward contracts[4]	21	-	4	-	4
Current		**218,327**	**234,116**	**218,327**	**234,116**
Available for sale investments carried at fair value					
Investments[3]	15	13,255	8,169	13,255	8,169
Held to maturity investments carried at amortised cost					
Investments	15	1,862	1,815	1,862	1,815
Loans and receivables carried at amortised cost					
Loans and receivable investments	15	15,780	16,282	15,780	16,282
Loans receivable	17	4,799	3,683	4,799	3,683
Financial assets carried at fair value through profit or loss					
Convertible loan option[7]	15	79	148	79	148
"Exchangeable bonds" option[8]	15	1,888	-	1,888	-
Non-current		**37,663**	**30,097**	**37,663**	**30,097**

[1] All financial assets are free from liens and charges.
[2] The fair valuation of securities was based on bank data supply.
Level 1: in 2016 none (in 2015 HUF 1,524 million)
Level 2: in 2016 HUF 751 million (in 2015 HUF 2,446 million)
[3] Level 1: in 2016 HUF 13,255 million (in 2015 HUF 8,169 million)
[4] Level 2: the entire balance in 2016 none (in 2015 HUF 4 million)
[5] Level 3 (constituting contingent-deferred purchase price): in 2016 HUF 8,446 million (in 2015 HUF 6,370 million)
[6] Level 3 (constituting contingent-deferred purchase price): in 2016 none (in 2015 HUF 5,694 million)
[7] Level 3: in 2016 HUF 79 million (in 2015 HUF 148 million)
[8] Level 3: in 2016 HUF 1,888 million

	Notes	Carrying value 31 December 2016 HUFm	Carrying value 31 December 2015 HUFm	Fair value 31 December 2016 HUFm	Fair value 31 December 2015 HUFm
Financial liabilities					
Liabilities carried at amortised cost					
Borrowings	29	7,776	6,523	7,776	6,523
Trade payables	26	45,926	38,209	45,926	38,209
Other payables and accrual	27	17,253	11,582	17,253	11,582
Financial liabilities carried at fair value through profit or loss					
Other payables[5]	11,27	8,446	6,370	8,446	6,370
Current		**79,401**	**62,684**	**79,401**	**62,684**
Liabilities carried at amortised cost					
Borrowings	29	28,874	37,188	28,874	37,188
Other non-current liabilities	30	3,438	974	3,438	974
Financial liabilities carried at fair value through profit or loss					
Other non-current liabilities[6]	11,30 27.1	-	5,694	-	5,694
Non-current		**32,312**	**43,856**	**32,312**	**43,856**

[1] All financial assets are free from liens and charges.
[2] The fair valuation of securities was based on bank data supply.
Level 1: in 2016 none (in 2015 HUF 1,524 million)
Level 2: in 2016 HUF 751 million (in 2015 HUF 2,446 million)
[3] Level 1: in 2016 HUF 13,255 million (in 2015 HUF 8,169 million)
[4] Level 2: the entire balance in 2016 none (in 2015 HUF 4 million)
[5] Level 3 (constituting contingent-deferred purchase price): in 2016 HUF 8,446 million (in 2015 HUF 6,370 million)
[6] Level 3 (constituting contingent-deferred purchase price): in 2016 none (in 2015 HUF 5,694 million)
[7] Level 3: in 2016 HUF 79 million (in 2015 HUF 148 million)
[8] Level 3: in 2016 HUF 1,888 million

Above mentioned different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within level 1 that are observable at the market for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Financial risk management

During the year Gedeon Richter Plc. has identified its relevant financial risks that are continuously monitored and evaluated by the management of the Company. The Group focuses on capital structure, foreign currency related-, credit and collection related- and liquidity risk.

Interest rate risk
As stated in Note 10 Capital management the amount of total borrowings of the Group is not relevant since that the interest rate risk is negligible.

Security price risk
Investment in securities mainly held in treasury bills and government securities issued or granted by the Hungarian State. Therefore security price risk is not material (see credit risk point in this note). The most significant investment of the Group is represented by the interest held in Protek Group all security price risk is related to that investment which is stated in Note 15.

I.) Capital management

The capital structure of the Group consists of net debt (borrowings as detailed in Notes 29 offset by cash and bank balances in Note 23) and equity of the Group (comprising share capital, retained earnings, other reserves and non-controlling interests).

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group is also monitoring the individual entities to meet their statutory capital requirements. The Parent Company has been pursuing constant dividend policy, provided dividend from the profit to the owners every year. In accordance with the dividend policy followed by the Company, the Board of Directors recommends the payment of approximately 25 percent of Gedeon Richter Plc.'s net consolidated profit calculated according to IFRS. Dividends are approved by the shareholders of Gedeon Richter Plc.'s at the Annual General Meeting.

The capital risk of the Group was still limited in 2016 and 2015, since the net debt calculated as below shows surplus in the balance sheet.

The gearing at end of the reporting period was as follows:

	31 December 2016 HUFm	31 December 2015 HUFm Restated*
Borrowings (Note 29)	36,650	43,711
Less: cash and cash equivalents (Note 23)	(96,053)	(132,374)
Net debt	**(59,403)**	**(88,663)**
Total equity	681,873	618,389
Total capital	**622,470**	**529,726**
EBITDA**	90,303	97,931
Net debt to EBITDA ratio	**(0.66)**	**(0.91)**
Net debt to equity ratio	**(0.09)**	**(0.14)**

* See Note 39 for details regarding the restatement.
** EBITDA has been determined in line with the credit agreement as operating profit increased by dividend income and depreciation and amortization expense.

	2016 HUFm	2015 HUFm Restated*
Profit from operations	54,616	66,682
Depreciation	32,895	31,248
Dividend income	2,792	1
EBITDA	**90,303**	**97,931**

* See Note 39 for details regarding the restatement.

The Group is in compliance with the ratios stated as covenants in the EIB credit line agreement.

II.) Foreign currency risk

The Group performs significant transactions in currencies other than the functional and the presentation currency, therefore faces the risk of currency rate fluctuation. The Group continuously calculates open FX positions and monitors key foreign exchange rates. In order to mitigate the foreign exchange risk the Group is aiming to achieve natural hedging through loans taken in foreign currency. There is no formal threshold stated in the policies of the Group on the exposure level that would automatically require conclusion of derivative instruments to mitigate the foreign currency risk.

Foreign exchange sensitivity of actual costs

The Group does business in a number of regions, and countries with different currencies. The most typical foreign currencies are the EUR, USD, PLN, RON, RUB, CHF and the KZT. The calculation of exposure to foreign currencies is based on these seven currencies.

The foreign currency risk management calculation is based on the balances exposed to exchanges of foreign currencies of the Parent Company and the eight principal subsidiaries (Gedeon Richter Polska Sp. z o.o., Gedeon Richter Romania S.A., AO Gedeon Richter - RUS, PregLem S.A., Richter-Helm BioLogics GmbH & Co. KG, Pharmafarm S.A., Gedeon Richter Farmacia S.A., TOO Gedeon Richter KZ). The items of the other consolidated companies have insignificant foreign currency exposure as they are performing mainly wholesale and retail activity. The effect of the risk arising from currency fluctuation is measured by different change in the exchange rates. Certain foreign currencies recently showed higher volatility (RUB, KZT) therefore according to the decision of the Management these currencies have been diverted in a reasonable level when determining the exchange rate combination.

The table below presents the effect of the change in the average foreign currency rate on the operating profit and on the profit for the year:

2016		Exchange rates							Effect on operating profit	Effect on profit for the year	
*	EUR/HUF	USD/HUF	EUR/USD	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	KZT/HUF		HUFm	
103.21%	**321.46**										
		290.27	**1.11**	**73.65**	**71.54**	**5.24**	**294.82**	**1.04**	**19,127**	**21,923**	**largest growth**
		281.24	1.14	71.36	69.31	4.19	285.65	0.83	1,336	1,346	
		272.21	1.18	69.07	67.08	3.14	276.48	0.62	(16,454)	(19,231)	
100.00%	311.46										
		290.27	1.07	73.65	71.54	5.24	294.82	1.04	16,908	19,639	
		281.24	1.11	71.36	69.31	4.19	285.65	0.83	0	0	
		272.21	1.14	69.07	67.08	3.14	276.48	0.62	(17,790)	(20,577)	
96.79%	**301.46**										
		290.27	1.04	73.65	71.54	5.24	294.82	1.04	16,454	19,231	
		281.24	1.07	71.36	69.31	4.19	285.65	0.83	(1,336)	(1,346)	
		272.21	**1.11**	**69.07**	**67.08**	**3.14**	**276.48**	**0.62**	**(19,127)**	**(21,923)**	**greatest decrease**

* Change of EUR/HUF average exchange rates.

all amounts in HUFm

2015		Exchange rates							Effect on operating profit	Effect on profit for the year	
*	EUR/HUF	USD/HUF	EUR/USD	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	KZT/HUF		HUFm	
103.23%	**319.67**										
		288.17	**1.11**	**76.50**	**72.11**	**5.64**	**298.68**	**2.10**	**15,233**	**12,783**	**largest growth**
		279.16	1.15	74.11	69.85	4.70	289.34	1.43	888	839	
		270.15	1.18	71.72	67.59	3.67	280.00	0.74	(14,513)	(12,020)	
100.00%	309.67										
		288.17	1.07	76.50	72.11	5.64	298.68	2.10	13,133	10,681	
		279.16	1.11	74.11	69.85	4.70	289.34	1.43	0	0	
		270.15	1.15	71.72	67.59	3.67	280.00	0.74	(15,400)	(12,859)	
96.77%	**299.67**										
		288.17	1.04	76.50	72.11	5.64	298.68	2.10	13,458	11,105	
		279.16	1.07	74.11	69.85	4.70	289.34	1.43	(888)	(839)	
		270.15	**1.11**	**71.72**	**67.59**	**3.67**	**280.00**	**0.74**	**(16,288)**	**(13,698)**	**greatest decrease**

* Change of EUR/HUF average exchange rates.

Based on the yearly average currency rate sensitivity analysis of 2016 the combination of weak Hungarian Forint - 321.46 EUR/HUF against other currencies - would have caused the largest growth in the amount of HUF 19,127 million on the Group's consolidated operating profit and HUF 21,923 million on the Group's consolidated profit for the year.
The greatest decrease HUF 19,127 million on operating and HUF 21,923 million on profit for the year would have been caused by the combination of exchange rates of 301.46 EUR/HUF against other currencies.

Based on the yearly average currency rate sensitivity analysis of 2015 the combination of weak Hungarian Forint - 319.67 EUR/HUF against other currencies - would have caused the largest growth in the amount of HUF 15,233 million on the Group's consolidated operating profit and HUF 12,783 million on the Group's consolidated profit for the year. The greatest decrease HUF 16,288 million on operating and HUF 13,698 million on profit for the year would have been caused by the combination of exchange rates of 299.67 EUR/HUF against other currencies.

Currency sensitivity of balance sheet items

Currency sensitivity analysis of balance sheet items is applied to third party trade receivables and trade payables, bank accounts in foreign currency, loans receivable, borrowings, and contingent-deferred purchase price liabilities considering that items of related parties are eliminated during consolidation. The calculation is based on the items of the Parent Company and the eight principal subsidiaries (Gedeon Richter Polska Sp. z o.o., Gedeon Richter Romania S.A., AO Gedeon Richter - RUS, PregLem S.A., Richter-Helm BioLogics GmbH & Co. KG, Pharmafarm S.A., Gedeon Richter Farmacia S.A., TOO Gedeon Richter KZ). The effect of the risk arising from currency fluctuation is measured by different scenarios regarding the exchange rates.
The calculation is based on the exchange rates combination presented below. Certain foreign currencies recently showed higher volatility (RUB, KZT) therefore according to the decision of the Management these currencies have been diverted in reasonable level when determining the exchange rate combination.

The table below presents the effect of the change in the year end currency rate on the net financial position:

2016		**Exchange rates**							**Effect on net financial position**	
*	EUR/HUF	USD/HUF	EUR/USD	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	KZT/HUF	HUFm	
103.21%	**321.00**									
		303.20	**1.06**	**72.60**	**70.70**	**6.00**	**298.80**	**1.10**	**11,667**	**best case scenario**
		293.69	1.09	70.29	68.53	4.78	289.41	0.88	268	
		284.20	1.13	68.00	66.30	3.60	280.10	0.70	(10,749)	
100.00%	311.02									
		303.20	1.03	72.60	70.70	6.00	298.80	1.10	11,399	
		293.69	1.06	70.29	68.53	4.78	289.41	0.88	0	
		284.20	1.09	68.00	66.30	3.60	280.10	0.70	(11,017)	
96.79%	**301.00**									
		303.20	0.99	72.60	70.70	6.00	298.80	1.10	11,130	
		293.69	1.02	70.29	68.53	4.78	289.41	0.88	(269)	
		284.20	**1.06**	**68.00**	**66.30**	**3.60**	**280.10**	**0.70**	**(11,286)**	**worst case scenario**

* Change of EUR/HUF balance sheet date exchange rates.

all amounts in HUFm

2015		Exchange rates							Effect on net financial position	
*	EUR/HUF	USD/HUF	EUR/USD	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	KZT/HUF	HUFm	
103.23%	**323.20**									
		295.90	**1.09**	**75.80**	**71.50**	**4.70**	**298.70**	**1.20**	**8,382**	**best case scenario**
		286.63	1.13	73.46	69.22	3.88	289.38	0.84	732	
		277.40	1.17	71.10	67.00	3.00	280.00	0.40	(7,427)	
100.00%	313.12									
		295.90	1.06	75.80	71.50	4.70	298.70	1.20	7,650	
		286.63	1.09	73.46	69.22	3.88	289.38	0.84	0	
		277.40	1.13	71.10	67.00	3.00	280.00	0.40	(8,159)	
96.77%	**303.00**									
		295.90	1.02	75.80	71.50	4.70	298.70	1.20	6,915	
		286.63	1.06	73.46	69.22	3.88	289.38	0.84	(735)	
		277.40	**1.09**	**71.10**	**67.00**	**3.00**	**280.00**	**0.40**	**(8,895)**	**worst case scenario**

* Change of EUR/HUF balance sheet date exchange rates.

The worst case scenario is when EUR, USD, PLN, RON, RUB, CHF and KZT weaken against HUF. In this case the consolidated financial result would decrease by HUF 11,286 million. The best case scenario is when EUR, USD, PLN, RON, RUB, CHF and KZT would strengthen against HUF. In this case the consolidated financial result would increase by HUF 11,667 million.

In 2015 the worst case scenario was when EUR, USD, PLN, RON, RUB, CHF and KZT weaken against HUF. In this case the consolidated financial result would have decreased by HUF 8,895 million.
The best case scenario was when EUR, USD, PLN, RON, RUB, CHF and KZT would strengthen against HUF. In this case the consolidated financial result would have increased by HUF 8,382 million.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in million foreign currency units, were as follows:

2016

	Currencies (all amounts in millions)						
	EUR	USD	CHF	RUB	RON	PLN	KZT
Trade receivables	86.0	42.8	1.1	7,532.8	269.9	79.6	1,375.8
Trade payables	(21.9)	(14.3)	(0.9)	(7.1)	(273.7)	(5.4)	(8.2)
Loans receivable	17.8	6.9	-	-	-	-	-
Bank deposits	88.5	61.1	0.7	640.6	8.9	24.2	1.0
Borrowings	(117.8)	-	-	-	-	-	-
Deferred purchase price	(25.7)	(3.0)	-	-	-	-	-
Total	**26.9**	**93.5**	**0.9**	**8,166.3**	**5.1**	**98.4**	**1,368.6**

2015

	Currencies (all amounts in millions)						
	EUR	USD	CHF	RUB	RON	PLN	KZT
Trade receivables	73.2	37.3	1.2	5,761.6	251.2	76.1	1,070.5
Trade payables	(22.0)	(6.7)	(0.2)	(14.8)	(240.2)	(3.5)	(1.9)
Loans receivable	16.2	8.2	-	-	-	-	-
Bank deposits	179.3	87.9	1.0	1,151.5	51.7	44.5	78.6
Borrowings	(137.5)	-	-	-	-	-	-
Deferred purchase price	(36.6)	(2.8)	-	-	-	-	-
Total	**72.6**	**123.9**	**2.0**	**6,898.3**	**62.7**	**117.1**	**1,147.2**

III.) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers. The Group regularly assesses its customers and establishes payment terms and credit limits associated to them. Richter also reviews the payment of the receivables regularly and monitors the overdue balances. The Group also regularly requires securities (e.g. credit insurance, bank guarantees) from its customers. If the customers reached the contractual credit limit and even not able to present any securities required, further shipments can be suspended by the Group.

The Group does business with key customers in many countries. These customers are major import distributors in their countries and management of the Group maintains close contact with them on an ongoing basis. Provisions for doubtful receivables are estimated by the Group's management based on prior experience and current economic environment. The following securities are applied to minimize the credit risk.

Regions	Trade receivables secured as at 31 December 2016	Type of security		
		Credit insurance	Bank guarantee	L/C
	HUFm	HUFm	HUFm	HUFm
CIS	26,164	19,580	6,584	-
EU	400	-	400	-
USA	-	-	-	-
China	-	-	-	-
Latin America	-	-	-	-
Other	332	32	124	176
Total	**26,896**	**19,612**	**7,108**	**176**

Regions	Trade receivables secured as at 31 December 2015	Type of security		
		Credit insurance	Bank guarantee	L/C
	HUFm	HUFm	HUFm	HUFm
CIS	14,668	14,086	582	-
EU	183	-	183	-
USA	-	-	-	-
China	-	-	-	-
Latin America	-	-	-	-
Other	366	129	115	122
Total	**15,217**	**14,215**	**880**	**122**

Credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with credit ratings assigned by international rating agencies presented below.

The credit rating of the five most significant banks as of 31 December 2016 based on Standard and Poor's international credit rating institute are the followings (if such credit rating is not available we present the rating of its "ultimate parent"):

	2016	2015
BNP Paribas Hungary Branch (ultimate parent – BNP Paribas SA)	A	A+
Erste Bank Hungary Zrt.*	BBB	BBB-
K&H Bank Zrt*	BBB	BBB-
OTP Bank Nyrt.	BB+	BB
Unicredit Bank Zrt (ultimate parent - UniCredit SpA)	BBB-	BBB-

* For these financial institutes we present the rating of Fitch Ratings since Standard and Poor's data is not available.

The Group holds more than 61% of its cash and cash equivalents as of 31 December 2016 (more than 34% as of 31 December 2015) in the above mentioned financial institutes. The other bank relations of the Group are widely dispersed, therefore the credit exposure with one financial institution is limited.
The Group has no significant concentration of credit risk, with its exposure spread over a large number of counterparties and customers.

Credit rating of held to maturity investment and "Exchangeable bonds" is Baa3 according to Moody's international credit rating institute (Note 15).

IV.) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group. These forecasts are updated on a monthly basis based on actual data. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times so that the Group does not breach covenants. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance. Group treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities.
Besides these, on operational level various cash pool systems throughout the Group help to optimise liquidity surplus and need on a daily basis.
The liquidity risk of the Group was limited in 2016 and 2015, since the Cash and cash equivalents presented in the balance sheet exceeds the Current liabilities and the balance of the Current assets is higher than the total liabilities.

The banks of the Group issued the guarantees detailed below, enhancing the liquidity in a way that the Group did not have to provide for these cash amounts:

	2016 HUF m	**2015** HUF m
Bank guarantee relating to Government Grant	1,661	1,661
Bank guarantee for National Tax and Customs Administration of Hungary – collaterals for customs and excise duty related liabilities	109	107
Other, individually not relevant bank guarantees	80	82

11. Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows:

Level 1 measurements are at quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 measurements are valuations techniques with all material inputs observable at the market for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses unobservable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the Consolidated Balance Sheet at the end of each reporting period.

The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

HUFm	Notes	2016				2015			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets									
Other financial assets	15	13,255	-	-	**13,255**	8,169	-	-	**8,169**
Investments in securities	22	751	-	-	**751**	-	2,446	-	**2,446**
Foreign exchange forward contracts	21	-	-	-	-	-	4	-	**4**
Convertible loan option	15			79	**79**	-	-	148	**148**
"Exchangeable bonds" option	15	-	-	1,888	**1,888**	-	-	-	-
Total assets recurring fair value measurements		**14,006**	**-**	**1,967**	**15,973**	**8,169**	**2,450**	**148**	**10,767**
Financial liabilities									
Other non-current liabilities	27.1	-	-	-	-	-	-	5,694	**5,694**
Other payables	27.1			8,446	**8,446**	-	-	6,370	**6,370**
Total liabilities recurring fair value measurements		**-**	**-**	**8,446**	**8,446**	**-**	**-**	**12,064**	**12,064**

There were no changes in valuation method neither for level 1, nor for level 2 and level 3 recurring fair value measurements during the year ended 31 December 2016 and 2015.

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2016 and 2015 (Note 3.1):

	Fair value at 31 December 2016 HUFm	Valuation technique	Unobservable inputs	Range of inputs (weighted average)	Sensitivity of fair value measurement
Assets at fair value					
Convertible loan option EVESTRA	79	Option valuation model	• Price of the stock	3.0 USD/share	The change of the stock price multiples the fair value
			• Strike price of the option	3.5 USD/share	The higher the strike price the lower the fair value
			• Time in years	0.93 year	The longer the time in years the higher the fair value
			• The annualised risk free rate	0.78 %	The higher the annualised risk free rate the higher the fair value
			• Standard deviation of the stock's returns (volatility)	28.34 %	The higher the standard deviation the higher the fair value
"Exchangeable bonds" option*	1,888	Option valuation model	• Price of the stock	6,190 HUF/share	The change of the stock price multiples the fair value
			• Strike price of the option	5,966 HUF/share	The higher the strike price the lower the fair value
			• Time in years	2.16 year	The longer the time in years the higher the fair value
			• Standard deviation of the stock's returns (volatility)	18.97 %	The higher the standard deviation the higher the fair value
Contingent- deferred liabilities at fair value					
GRMed**	7,565	Discounted cash flows (DCF)	• Estimated future profits • Foreign exchange rate	42.28 HUF/CNY	The higher the FX rate the higher the fair value
GR Mexico***	881	Discounted cash flows (DCF)	• Foreign exchange rate	293.69 HUF/USD	The higher the FX rate the higher the fair value
			• Nominal amount outstanding	USD 3.0 million	
Total recurring fair value measurements at Level 3	**10,413**				

* MNV bond contains an "exchangeable bond" option classified as embedded derivative according to IAS 39. The fair value of this option is HUF 1,888 million and presented separately in the Consolidated Financial Statements. In previous years it was not significant (for detailed information see Note 15).

** Since the last payment was already settled in 2017 therefore the time value is insignificant and the liability have not been discounted as of 31 December 2016 and there is no uncertainty as of 31 December 2016.

*** Since the liability was already settled in 2017 therefore the time value is insignificant and the liability have not been discounted as of 31 December 2016. The nominal amount outstanding is depending on the profitability of the company.

	Fair value at 31 December 2015 HUFm	Valuation technique	Unobservable inputs	Range of inputs (weighted average)	Sensitivity of fair value measurement
Assets at fair value					
Convertible loan option EVESTRA	148	Option valuation model	• Price of the stock	3.0 USD/share	The change of the stock price multiples the fair value
			• Strike price of the option	3.5 USD/share	The higher the strike price the lower the fair value
			• Time in years	1.93 year	The longer the time in years the higher the fair value
			• The annualised risk free rate	1.02 %	The higher the annualised risk free rate the higher the fair value
			• Standard deviation of the stock's returns (volatility)	28.34 %	The higher the standard deviation the higher the fair value
Contingent- deferred liabilities at fair value					
GRMed	11,254	Discounted cash flows (DCF)	• Estimated future profits		
			• Foreign exchange rate	44.14 HUF/CNY	The higher the FX rate the higher the fair value
			• Industry WACC	11.01%	The higher the WACC the lower the fair value
GR Mexico*	810	Discounted cash flows (DCF)	• Foreign exchange rate	286.63 HUF/USD	The higher the FX rate the higher the fair value
			• Industry WACC	9.64%	The higher the WACC the lower the fair value
			• Nominal amount outstanding	USD 3.0 million	
Total recurring fair value measurements at Level 3	**12,212**				

* The nominal amount outstanding is depending on the profitability of the company.

The above tables disclose sensitivity to valuation inputs for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly. For this purpose, significance was judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2015 and 2016.

	PregLem HUFm	GRMed HUFm	GR Mexico HUFm
Fair value at 1 January 2015	**14,705**	**14,438**	**1,067**
Effect of paid consideration	(17,858)	(7,037)	(427)
Effect of unwinding of interest*	220	299	54
Effect of change of probabilities**	786	-	-
Effect of fx*	2,147	1,133	116
Effect of change in estimated cash-flow**	-	2,421	-
Fair value at 31 December 2015	**-**	**11,254**	**810**
Fair value at 1 January 2016	-	11,254	810
Effect of paid consideration	-	(6,189)	-
Effect of unwinding of interest*	-	898	50
Effect of fx*	-	(248)	21
Effect of change in estimated cash-flow**	-	1,850	-
Fair value at 31 December 2016	**-**	**7,565**	**881**

* Effect of unwinding of interest and effect of realised and unrealised fx are presented as financial loss or gain.
** Effect of change of probabilities and effect of change in estimated cash-flow is presented as Other income and expenses (net).

In the view of Richter's management the preconditions for the milestone payment related to Mediplus Group acquisition will not be met, therefore the fair value of the liability in respect of this transaction is zero in 2016 and in 2015.

(b) Non-recurring fair value measurements

The Group did not have non-recurring fair value measurement of any assets or liabilities.

(c) Valuation processes for recurring and non-recurring level 3 fair value measurements

Level 3 valuations are reviewed annually by the Group's financial director who reports to the Board of Directors. The financial director considers the appropriateness of the valuation model inputs, as well as the valuation result using various valuation methods and techniques. In selecting the most appropriate valuation model the director performs back testing and considers which model's results have historically aligned most closely to actual market transactions.

(d) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets and liabilities not measured at fair value is presented at Note 10. The fair value of the financial assets and liabilities carried at amortized cost does not significantly differ from its carrying amount.

12. Property, plant and equipment and Other intangible assets

	Land and buildings HUFm Restated*	Plant and equipment HUFm Restated*	Construction in progress HUFm	Total HUFm Restated*
Gross value				
at 31 December 2014	**141,887**	**226,060**	**14,422**	**382,369**
Translation differences	(1,742)	(741)	(183)	**(2,666)**
Capitalization	5,600	16,909	(22,509)	-
Transfers and capital expenditure	81	15	27,716	**27,812**
Disposals	(193)	(4,572)	(5)	**(4,770)**
at 31 December 2015	**145,633**	**237,671**	**19,441**	**402,745**
Accumulated depreciation				
at 31 December 2014	**35,455**	**174,740**	-	**210,195**
Translation differences	(231)	(351)	-	**(582)**
Current year depreciation	4,299	15,299	-	**19,598**
Net foreign currency exchange differences	(31)	(109)	-	**(140)**
Transfer / (disposals)	30	(4,306)	-	**(4,276)**
at 31 December 2015	**39,522**	**185,273**	-	**224,795**
Net book value				
at 31 December 2014	**106,432**	**51,320**	**14,422**	**172,174**
at 31 December 2015	**106,111**	**52,398**	**19,441**	**177,950**

* See Note 39 for details regarding the restatement.

	Land and buildings HUFm	Plant and equipment HUFm	Construction in progress HUFm	Total HUFm
Gross value				
at 31 December 2015*	**145,633**	**237,671**	**19,441**	**402,745**
Translation differences	1,594	621	134	**2,349**
Effect of newly acquired companies (Note 36)	-	484	-	**484**
Capitalization	10,466	21,132	(31,598)	-
Transfers and capital expenditure	-	56	30,820	**30,876**
Disposals	(229)	(6,208)	(11)	**(6,448)**
at 31 December 2016	**157,464**	**253,756**	**18,786**	**430,006**
Accumulated depreciation				
at 31 December 2015	**39,522**	**185,273**	-	**224,795**
Translation differences	(6)	126	-	**120**
Effect of newly acquired companies (Note 36)	-	21	-	**21**
Current year depreciation	4,324	15,843	-	**20,167**
Net foreign currency exchange differences	24	88	-	**112**
Transfer / (disposals)	(435)	(5,776)	-	**(6,211)**
at 31 December 2016	**43,429**	**195,575**	-	**239,004**
Net book value				
at 31 December 2015	**106,111**	**52,398**	**19,441**	**177,950**
at 31 December 2016	**114,035**	**58,181**	**18,786**	**191,002**

* See Note 39 for details regarding the restatement.

All items of Property, plant and equipment are free from liens and charges. The amount of Land and buildings does not contain any Investment property.

	Rights	Intellectual property	Research and development	ESMYA*	Total
	HUFm	HUFm	HUFm	HUFm	HUFm
Gross value					
at 31 December 2014	**124,820**	**3,424**	**423**	**76,801**	**205,468**
Translation differences	717	30	-	8,074	**8,821**
Acquisition	5,335	259	-	-	**5,594**
Disposals	(281)	(126)	-	-	**(407)**
at 31 December 2015	**130,591**	**3,587**	**423**	**84,875**	**219,476**
Accumulated amortization					
at 31 December 2014	**43,542**	**2,009**	**85**	**7,252**	**52,888**
Translation differences	303	29	-	763	**1,095**
Current year amortization	8,360	277	84	2,929	**11,650**
Net foreign currency exchange differences	(11)	1	-	(14)	**(24)**
Impairment and reversal of impairment (net)	3,068	-	-	-	**3,068**
Disposals	(18)	(10)	-	-	**(28)**
at 31 December 2015	**55,244**	**2,306**	**169**	**10,930**	**68,649**
Net book value					
at 31 December 2014	**81,278**	**1,415**	**338**	**69,549**	**152,580**
at 31 December 2015	**75,347**	**1,281**	**254**	**73,945**	**150,827**

* The ESMYA presented as separate subcategory within the intangible assets represents the intangible asset recognized at the acquisition of PregLem.

all amounts in HUFm

	Rights	Intellectual property	Research and development	ESMYA*	BEMFOLA**	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Gross value						
at 31 December 2015	**130,591**	**3,587**	**423**	**84,875**	**-**	**219,476**
Translation differences	(239)	(13)	-	9	(649)	**(892)**
Effect of newly acquired companies (Note 36)	-	-	-	-	52,513	**52,513**
Acquisition	5,690	212	-	-	-	**5,902**
Disposals	(295)	(85)	-	-	-	**(380)**
at 31 December 2016	**135,747**	**3,701**	**423**	**84,884**	**51,864**	**276,619**
Accumulated amortization						
at 31 December 2015	**55,244**	**2,306**	**169**	**10,930**	**-**	**68,649**
Translation differences	(158)	(11)	-	1	-	**(168)**
Effect of newly acquired companies (Note 36)	-	-	-	-	-	**-**
Current year amortization	8,402	313	85	2,886	1,042	**12,728**
Net foreign currency exchange differences	-	-	-	29	(5)	**24**
Impairment and reversal of impairment (net)	2,934	-	-	-	-	**2,934**
Disposals	(192)	(33)	-	-	-	**(225)**
at 31 December 2016	**66,230**	**2,575**	**254**	**13,846**	**1,037**	**83,942**
Net book value						
at 31 December 2015	**75,347**	**1,281**	**254**	**73,945**	**-**	**150,827**
at 31 December 2016	**69,517**	**1,126**	**169**	**71,038**	**50,827**	**192,677**

* The ESMYA presented as separate subcategory within the intangible assets represents the intangible asset recognized at the acquisition of PregLem.
** The BEMFOLA presented as separate subcategory within the intangible assets represents the intangible asset recognized at the acquisition of Finox.

All intangible assets are free from liens and charges. The intangible assets of the Group, except for R&D, are not own produced.

ESMYA (covering the entire ESMYA column above EU/USA region)
In the course of PregLem S.A.'s acquisition the rights attached to the distribution in the EU and the USA of ESMYA®, the company's most important product was recognised as an independent intangible asset in 2010. The amortization of this asset started in the second quarter of 2012 as a result of the market launch of the product with an estimated useful life of 25 years. ESMYA asset belongs to a CGU with goodwill – see details of impairment testing of the CGU in Note 18 – PregLem S.A.

BEMFOLA
The intangible asset was recognised at the acquisition transaction of Finox (see Note 36) in the value of HUF 50,916 million with 25 years useful life. The amortisation of this asset started in 2016.
Another intangible asset was recognised during the acquisition in the amount of HUF 1,597 million, as Customer Relationship. The value of this intangible was considerably smaller compared to BEMFOLA.

The most significant Rights are described below, with related impairment test where applicable:

Net book value	31 December 2016 HUFm	31 December 2015 HUFm
ESMYA LatAm	9,221	9,371
Grünenthal	39,089	43,515
Lisvy®	-	3,407
Lenzetto®	893	915
Reacquired right	213	1,113
Pharmacy licenses	2,436	2,153
Other, individually non-material rights	17,665	14,873
Total	**69,517**	**75,347**

Rights – ESMYA LatAm intangible asset
In 2014 Richter purchased the right to utilisation of ulipristal acetate (ESMYA®'s active ingredient) for the Latin American region from HRA Pharma, the net book value of this right is HUF 9,221 million as of 31 December 2016 and HUF 9,371 million as of 31 December 2015.
The Company split the purchase price among markets and recognised intangible assets accordingly. The amortization of these intangibles have already been started in the markets where the product launches occurred. The only significant intangible asset not yet available for use relates to the Brazilian market (HUF 3,494 million) on which the Group has performed an impairment assessment in accordance with requirements of IAS 36. Richter prepared the impairment test as of the balance sheet date. Based on the tests no impairment is to be reported neither in 2016 nor in 2015.

The recoverable amount of ESMYA LatAm related to Brazil intangibles was also determined by the fair value less cost of disposal applying the Multi-Period Excess Earnings Method. The cash flow generated by the use of the intangible asset derives from Brazil only.

The calculations were based on the medium and long term projection adopted by the management.
Product launch is expected in 2018. Sales revenue peaks in 2019 and starts declining in 2020 with the appearance of generic products. From 2022 the turnover will remain virtually the same. Cash flows show a slight decrease in the remaining period (due to the inflation based growth of costs).

The discount rate (post tax: 10.1%; in 2015 12.1%) applied reflects current market assessments of the time value of money and the risks specific to the CGU for which future cash flow estimates have not been adjusted.

Any reasonable change in the key assumptions is still not expected to result in an impairment of this intangible asset.

Rights – Grünenthal
The product rights acquired from Grünenthal in 2010 containing manufacturing rights (amounted to EUR 600 thousand) and market authorisation (amounted to EUR 235.9 million) together with the value of the established products brand are presented as Rights. The estimated useful life for both rights is 15 years. The amortization period started in 2010. Net book value of the rights in relation to Grünenthal is HUF 39,089 million as of 31 December 2016 and HUF 43,515 million as of 31 December 2015.

Rights – Lisvy®
On 27 January 2015 Richter announced that it entered into a license and distribution agreement with Bayer HealthCare to commercialize the low-dose gestodine and ethinyl estradiol containing transdermal contraceptive patch of Bayer in the European Union, in other European countries and also in certain Latin American countries under the trademark of Lisvy®. The value of the trademark was presented as Rights.
On 10 October 2016 Richter initiated the voluntary withdrawal of Lisvy®. The step was taken with immediate effect on all markets involved.
The decision followed a notification received from Bayer HealthCare, the licensor and supplier of Lisvy®, according to which certain stability tests carried out under specific conditions resulted in out-of specification results. Consequently Bayer commenced an investigation to determine the root cause of such non-specific responses. In this endeavour Richter closely co-operates with Bayer.
The product withdrawal resulted in a write-off for the total amount of Lisvy intangible asset.

Rights – Lenzetto®
In 2015 Richter purchased exclusive license in Europe for Lenzetto®, the estradiol spray for treating menopause symptoms manufactured by the Australian pharma company Acrux. Lenzetto® has received multiple marketing approvals in several European countries.
The value of the license is presented as Rights. The estimated useful life is 10 years. The amortization period started in 2015 those markets that the product had already launched. The net book value of the license is HUF 915 million as of 31 December 2015 and HUF 893 million as of 31 December 2016.

Rights – Reacquired right
The reacquired right arising from the business combination in China in 2013 amortised over the estimated useful life of 39 months starting from 31 December 2013. Net book value of the reacquired right was HUF 1,113 million as of 31 December 2015 and HUF 213 million as of 31 December 2016.

Rights – Other
Impairment test was performed on the value of pharmacy licenses in Romania (presented in the Wholesale and retail segment) and as a consequence to that we had to account for HUF 40 million as impairment loss and 450 million as reversal of impairment in 2016 and HUF 366 million impairment loss and 1,150 million as reversal of impairment in 2015. The goodwill related to the pharmacy licenses was also tested for impairment, which is described in Note 18 under the Armedica Trading Group subheading. For pharmacy licenses where the recoverable amount was lower than the carrying value, impairment was recognized first on goodwill balance related to the license, and the remainder of the impairment loss was recognized on the pharmacy licenses. Net book value of pharmacy licenses was HUF 2,436 million as of 31 December 2016 and HUF 2,153 million as of 31 December 2015.

In September 2015 the Board resolved to approve the discontinuation of PGL 1 research project and wrote-off the related Intangible assets (including license fees) in the amount of HUF 590 million.

On 21 September 2015 Gedeon Richter Plc. announced that the license and collaboration agreement established with the US based Palatin Technologies, Inc. in September 2014, to co-develop and commercialize bremelanotide for female sexual dysfunction (FSD) indications in the European Union, other European countries and additional selected countries was terminated under mutually agreed terms fully releasing the parties from any and all legal and financial claims or obligations. The book value of the related license was written off as impairment in the amount of HUF 3,134 million in 2015.

The average remaining useful life of the intellectual properties does not exceed 7 years.

13. Consolidated companies

Details of the Group's subsidiaries at 31 December are as follows:

Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		2016	2015	2016	2015	
AO Gedeon Richter - RUS	Russia	100.00	100.00	100.00	100.00	Pharmaceutical manufacturing
Gedeon Richter Romania S.A.	Romania	99.92	99.90	99.92	99.90	Pharmaceutical manufacturing
Gedeon Richter Polska Sp. z o.o.	Poland	99.84	99.84	99.84	99.84	Pharmaceutical manufacturing
Richter Themis Pvt. Ltd.	India	51.00	51.00	51.00	51.00	Pharmaceutical manufacturing
Gedeon Richter Pharma GmbH	Germany	100.00	100.00	100.00	100.00	Pharmaceutical trading
Gedeon Richter USA Inc.	USA	100.00	100.00	100.00	100.00	Pharmaceutical trading
RG Befektetéskezelő Kft.	Hungary	100.00	100.00	100.00	100.00	Financial-accounting and controlling activities
Gedeon Richter UA PAT	Ukraine	98.16	98.16	98.16	98.16	Pharmaceutical trading
Gedeon Richter UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
Gedeon Richter Iberica S.A.U	Spain	100.00	100.00	100.00	100.00	Pharmaceutical trading
Nedermed B.V.	The Netherlands	100.00	100.00	100.00	100.00	Pharmaceutical trading
Medimpex Japan Co. Ltd.	Japan	90.90	90.90	90.90	90.90	Pharmaceutical trading
Medimpex Jamaica Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
Medimpex West Indies Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
Humanco Kft.	Hungary	100.00	100.00	100.00	100.00	Social, welfare services
Pesti Sas Holding Kft.	Hungary	100.00	100.00	100.00	100.00	Portfolio management
Richter Szolgáltató Kft.	Hungary	100.00	100.00	100.00	100.00	Catering services
Reflex Kft.	Hungary	100.00	100.00	100.00	100.00	Transportation, carriage
Chemitechnik Pharma Kft.	Hungary	66.67	66.67	66.67	66.67	Engineering services
GYEL Kft.	Hungary	66.00	66.00	66.00	66.00	Quality control services
Armedica Trading S.R.L.	Romania	99.92	99.90	99.92	99.90	Asset management
Gedeon Richter Farmacia S.A.	Romania	99.92	99.90	99.92	99.90	Pharmaceutical retail
Gedeon Richter France S.A.S.	France	100.00	100.00	100.00	100.00	Pharmaceutical retail
I.M. Gedeon Richter-Retea Farmaceutica S.R.L.	Moldavia	51.00	51.00	51.00	51.00	Pharmaceutical retail
Richter-Helm BioLogics GmbH & Co. KG	Germany	70.00	70.00	70.00	70.00	Biotechnological manufacturing and research
Richter-Helm BioLogics Management GmbH	Germany	70.00	70.00	70.00	70.00	Asset management
Medimpex UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
Farnham Laboratories Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
Gedeon Richter Aptyeka SP OOO	Armenia	51.00	51.00	51.00	51.00	Pharmaceutical retail
Pharmafarm S.A.	Romania	99.92	99.90	99.92	99.90	Pharmaceutical wholesale
Gedeon Richter Ukrfarm TOV	Ukraine	100.00	100.00	100.00	100.00	Pharmaceutical retail

Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		2016	2015	2016	2015	
Gedeon Richter Marketing Polska Sp. z o.o.	Poland	99.97	99.97	99.97	99.97	Marketing services
Gedeon Richter Italia S.R.L.	Italy	100.00	100.00	100.00	100.00	Pharmaceutical retail
PregLem S.A.	Switzerland	100.00	100.00	100.00	100.00	Manufacturing and research
Gedeon Richter Marketing ČR s.r.o.	Czech Republic	100.00	100.00	100.00	100.00	Marketing services
Gedeon Richter Slovakia s.r.o.	Slovak Republic	100.00	100.00	100.00	100.00	Marketing services
Richter-Lambron SP OOO	Armenia	51.00	51.00	51.00	51.00	Pharmaceutical trading
Gedeon Richter Austria GmbH	Austria	100.00	100.00	100.00	100.00	Marketing services
Gedeon Richter (Schweiz) AG	Switzerland	100.00	100.00	100.00	100.00	Marketing services
Pharmarichter OOO	Russia	100.00	100.00	100.00	100.00	Pharmaceutical sales promotion
I.M. Rihpangalpharma S.R.L.	Moldavia	65.00	65.00	65.00	65.00	Pharmaceutical trading
Gedeon Richter Portugal, Unipessoal Lda.	Portugal	100.00	100.00	100.00	100.00	Marketing services
PregLem France S.A.S.	France	100.00	100.00	100.00	100.00	Marketing services
Pesti Sas Patika Bt.*	Hungary	-	74.00	-	74.00	Pharmaceutical retail
Gedeon Richter Slovenija, d.o.o.	Slovenia	100.00	100.00	100.00	100.00	Marketing services
Gedeon Richter Benelux SPRL	Belgium	100.00	100.00	100.00	100.00	Marketing services
Gedeon Richter Nordics AB	Sweden	100.00	100.00	100.00	100.00	Marketing services
TOO Gedeon Richter KZ	Kazakhstan	100.00	100.00	100.00	100.00	Marketing services
Grmed Company Ltd.	Hong-Kong	100.00	100.00	91.00	81.00	Asset management
Rxmidas Pharmaceuticals Company Ltd.	China	100.00	100.00	91.00	81.00	Marketing services
Gedeon Richter Pharmaceuticals (China) Co. Ltd.	China	100.00	100.00	91.00	81.00	Marketing services
Gedeon Richter Colombia S.A.S.	Columbia	100.00	100.00	100.00	100.00	Pharmaceutical trading
Gedeon Richter Croatia d.o.o.	Croatia	100.00	100.00	100.00	100.00	Marketing services
Gedeon Richter Mexico, S.A.P.I. de C.V	Mexico	100.00	100.00	80.00	80.00	Pharmaceutical trading
Gedeon Richter do Brasil Importadora, Exportadora e Distribuidora S.A.	Brazil	51.00	51.00	51.00	51.00	Pharmaceutical trading
Comercial Gedeon Richter (Chile) Ltda.	Chile	100.00	100.00	100.00	100.00	Pharmaceutical trading
Mediplus (Economic Zone) N.V.	Curaçao	100.00	100.00	100.00	100.00	Pharmaceutical trading
Gedeon Richter Peru S.A.C.	Peru	100.00	100.00	100.00	100.00	Pharmaceutical trading
GEDEONRICHTER Ecuador S.A.	Ecuador	100.00	100.00	100.00	100.00	Pharmaceutical trading
Gedeon Richter Bolivia SRL	Bolivia	100.00	100.00	100.00	100.00	Pharmaceutical trading

* Followed by certain legal actions Richter has sold the majority ownership in Pesti Sas Patika Bt. on 14 December 2016. As a consequence of this sale ownership reduced to 49%. The impact of it was not significant.

Subsidiaries newly included in the consolidation

Name	Date of establish-ment/ acquisition	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
			2016	2015	2016	2015	
Gedeon Richter Rxmidas Joint Venture Co. Ltd.*	01.2016	Hong-Kong	100.00	50.00	100.00	50.00	Marketing services
Grmidas Medical Service (China) Co.Ltd.*	01.2016	China	100.00	50.00	100.00	50.00	Pharmaceutical trading
Finox Holding AG**	07.2016	Switzerland	100.00	-	100.00	-	Asset management
Finox AG**	07.2016	Switzerland	100.00	-	100.00	-	Biotechnological manufacturing
Finox Biotech AG**	07.2016	Lichtenstein	100.00	-	100.00	-	Trading of biotech products
Finox Biotech Germany GmbH**	07.2016	Germany	100.00	-	100.00	-	Marketing services
Finox Biotech Nordics AB.**	07.2016	Sweden	100.00	-	100.00	-	Marketing services
Finox Biotech Iberia S.L.**	07.2016	Spain	100.00	-	100.00	-	Marketing services
Finox Biotech France SARL**	07.2016	France	100.00	-	100.00	-	Marketing services
Finox Biotech Italy S.r.l.**	07.2016	Italy	100.00	-	100.00	-	Marketing services
Finox Biotech UK and Ireland Ltd.**	07.2016	UK	100.00	-	100.00	-	Marketing services
Finox Biotech Benelux BV**	07.2016	Belgium	100.00	-	100.00	-	Marketing services
Finox Biotech Eastern Europe**	07.2016	Poland	100.00	-	100.00	-	Marketing services
Finox Biotech Australia PTY Ltd.**	07.2016	Australia	100.00	-	100.00	-	Trading of biotech products

* Increase of ownership in Gedeon Richter Rxmidas Joint Venture Co. Ltd. and Grmidas Medical Service (China) Co.Ltd.is described separately in Note 36.
** Companies of the newly acquired Finox Group, see Note 36.

13.1 Summarised financial information on subsidiaries with material non-controlling interests

The total non-controlling interest as of 31 December 2016 is HUF 3,871 million, of which HUF 1,816 million is for Richter-Helm BioLogics GmbH & Co. KG, HUF 1,319 million is attributed to Medimpex West Indies Ltd.. The impact of other owners of the remaining subsidiaries with non-controlling interests are insignificant on the Group.

2016	Medimpex West Indies Ltd.	Richter-Helm BioLogics GmbH & Co. KG
	HUFm	HUFm
Accumulated non-controlling interest	1,319	1,816
Non-current assets	50	4,638
Current assets	3,786	4,745
Non-current liabilities	-	2,307
Current liabilities	510	1,022
Revenues	3,069	9,140
Profit/(loss)	450	1,706
Dividends paid	140	-
Total cash-flow	(6)	(337)

2015	Medimpex West Indies Ltd.	Richter-Helm BioLogics GmbH & Co. KG
	HUFm	HUFm
Accumulated non-controlling interest	1,160	1,314
Non-current assets	55	4,787
Current assets	3,495	3,764
Non-current liabilities	-	3,288
Current liabilities	621	884
Revenues	3,009	7,806
Profit/(loss)	352	475
Dividends paid	17	-
Total cash-flow	297	716

In case of subsidiaries with material non-controlling interests Other comprehensive income is not material (see the Consolidated Statement of Changes in Equity), the Company does not state it individually.

Amounts of assets, liabilities, revenues, profit/loss and dividends are presented at 100%, before intercompany eliminations.

The non-controlling interest is recognised to the extent the risks and rewards of ownership of those shares remain with them. For each acquisition the terms of the contracts are analysed in detail. In case of complex scenarios (e.g when contingent-deferred purchase prices are also involved), factors considered includes, the pricing of the forward contract, any ability to avoid future payment, whether share price movements during the contract period result in benefits and losses being borne by the Group or by the non-controlling shareholder. Based on thorough analysis we concluded that the acquisition of Gedeon Richter Mexico, S.A.P.I. de C.V. in 2014 provided the Group with access to the economic benefits and risks of the shares during the contract period, therefore no non-controlling interests were recognised on these acquisitions.

14. Investments in associates and joint ventures

	2016 HUFm	2015 HUFm
At 1 January	**7,140**	**5,408**
Additional payment	80	110
Share of profit/(loss) of associates and joint ventures	1,798	1,502
Net investments*	871	241
Dividend	(256)	(172)
Reclassification to subsidiary (Note 36)**	(997)	-
Reclassification to associates***	12	-
Impairment	(57)	-
Exchange difference	(50)	51
At 31 December	**8,541**	**7,140**
out of investment in associates	*7,305*	*4,948*
out of investment in joint ventures	*1,236*	*2,192*

* Share of loss and exchange difference recognized against loans provided to joint ventures (as net investment in joint ventures) in accordance with IAS 28.38.
** Gedeon Richter Rxmidas Joint Venture Co.Ltd. was handled as joint venture in 2015.
*** Pesti Sas Patika Bt. was subsidiary in 2015.

Reconciliation of the summarised financial information presented to the carrying amount of the associates, highlighting the most significant associate of the Group (Hungaropharma Zrt.). Since Hungaropharma Zrt. is a group preparing IFRS consolidated financial statements, therefore in the net asset figure below, the "consolidated net asset attributable to the owner of the parent" was taken into account.

	2016 HUFm	2015 HUFm
Opening net assets at 1 January of Hungaropharma Zrt.	**15,191**	**11,508**
Profit for the year*	7,693	3,836
Dividends	(246)	(153)
Closing net assets of Hungaropharma Zrt. at 31 December	**22,638**	**15,191**
Interest in associate (at 30.85%)	6,984	4,686
Unrealised profit elimination	(52)	(38)
Interest in other associates	373	300
Carrying value at 31 December	**7,305**	**4,948**

* The profit for the year was adjusted to reflect the difference between the audited and non-audited balance of the associate as of the previous year. The adjustment was not material.

Similar reconciliation of the investment in joint ventures is not performed, since they are considered to be not significant.

At 31 December the following associates have been accounted for by the equity method:

Name	Place of incorporation	Principal activity	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenues	Profit/ (loss)	Interest held
			HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	%
2016									
Hungaropharma Zrt.	Hungary	Pharmaceutical wholesale	8,411	51,421	725	36,469	276,191	8,424	30.85
Salvia-Med Bt.	Hungary	Pharmaceutical retail	1	65	-	28	522	22	32.79
Szondi Bt.	Hungary	Pharmaceutical retail	38	155	-	25	531	43	33.00
Top Medicina Bt.	Hungary	Pharmaceutical retail	28	40	-	38	360	8	20.00
Vita-Richter SP OOO**	Azerbaijan	Pharmaceutical trading	997	-	856	-	-	-	49.00
Pharmapolis Kft.	Hungary	Building project management	5,069	435	3,199	2,299	381	3	24.00
Pharmatom Kft.***	Hungary	Biotechnological research, development	434	6	-	441	1	(3)	24.00
Pesti Sas Patika Bt.*	Hungary	Pharmaceutical retail	2	22	-	12	121	(5)	49.00

* Followed by certain legal actions Richter has sold the majority ownership in Pesti Sas Patika Bt. on 14 December 2016. As a consequence of this sale ownership reduced to 49%. The impact of it was not significant.
** An impairment loss was recognised related to the investment in Vita-Richter, because of the lack of real control.
*** Pharmatom Kft. – which was founded with the aim of perform government granted R&D projects – not prospering which was an indicator for impairment.

Name	Place of incorporation	Principal activity	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenues	Profit/ (loss)	Interest held
			HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	%
2015									
Hungaropharma Zrt.	Hungary	Pharmaceutical wholesale	8,713	44,898	2,967	35,333	269,520	4,078	30.85
Salvia-Med Bt.	Hungary	Pharmaceutical retail	2	60	-	23	487	21	32.79
Szondi Bt.	Hungary	Pharmaceutical retail	39	133	-	18	466	29	33.00
Top Medicina Bt.	Hungary	Pharmaceutical retail	29	41	-	41	365	10	20.00
Vita-Richter SP OOO	Azerbaijan	Pharmaceutical trading	809	-	695	-	-	-	49.00
Pharmapolis Kft.	Hungary	Building project management	5,362	318	3,299	2,458	313	(81)	24.00
Cerorin Kft.	Hungary	Biotechnological research, development	-	1	-	-	-	(1)	24.00
Pharmatom Kft.	Hungary	Biotechnological research, development	404	8	-	439	-	(31)	24.00

The financial statements for 2016 of Hungaropharma Zrt, the most significant associate of the Group have not been audited yet. Corresponding data for year 2015 has not been amended in 2016 Consolidated Financial Statements as there were no material differences between the audited and unaudited figures of 2015.
Amounts of assets, liabilities, revenues and profit/loss are presented at 100%.
The associates did not have any item in Other Comprehensive Income (in 2016 and 2015).

At 31 December the following joint ventures have been accounted for using the equity method:

Name	Place of incorporation	Principal activity	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenues	Profit/ (loss)	OCI	Interest held
			HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	%
2016										
Medimpex Irodaház Kft.*	Hungary	Renting real estate	2,486	47	26	37	310	81	-	50.00
Richter-Helm BioTec Management GmbH	Germany	Asset management	-	7	-	0	-	0	0	50.00
Richter-Helm BioTec GmbH & Co. KG	Germany	Trading of biotech products	-	1,088	10,923	522	1,601	(743)	34	50.00

Name	Place of incorporation	Principal activity	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenues	Profit/ (loss)	OCI	Interest held
			HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	%
2015										
Gedeon Richter Rxmidas JV Co. Ltd.	Hong-Kong	Marketing services	-	2,179	-	186	2,291	985	27	50.00
Medimpex Irodaház Kft.*	Hungary	Renting real estate	2,508	69	33	155	262	49	-	50.00
Richter-Helm BioTec Management GmbH	Germany	Asset management	-	8	-	1	0	(1)	-	50.00
Richter-Helm BioTec GmbH & Co. KG	Germany	Trading of biotech products	-	616	10,057	238	1,240	(529)	24	50.00

* The balance of Medimpex Irodaház Kft. contains adjustment of the fair value of the Investment property to be in line with the Accounting Policy of the Group.

Amounts of assets, liabilities, revenues and profit/loss are presented at 100%.
Neither the individual nor the cumulated figures of the joint ventures are material therefore no further disclosures are considered to be relevant.

15. Other financial assets

	31 December 2016 HUFm	31 December 2015 HUFm
Held to maturity investments carried at amortised cost	1,862	1,815
Investments carried at amortised cost as loans and receivables	15,780	16,282
Available-for-sale investments carried at fair value	13,255	8,169
Financial assets carried at fair value through profit or loss	1,967	148
Total	**32,864**	**26,414**

Held to maturity investments carried at amortised cost are bonds issued or granted by the Hungarian State.

Investments carried at amortised cost as loans and receivables comprise "exchangeable bonds" that were issued at 6 December 2013 by the Hungarian State Holding Company (MNV Zrt.) with maturity date of 2019. A minor portion was purchased by Richter in the nominal value of EUR 52 million. Bonds will be exchangeable for a cash amount determined by reference to the value of the underlying ordinary shares (the "Shares") of Gedeon Richter or, at the option of the Issuer, for such Shares. MNV bond contains an "exchangeable bond" option classified as embedded derivative according to IAS 39. After the separation of this option the net value of the bond was HUF 15,780 million as of 31 December 2016 (HUF 16,282 million as of 31 December 2015).

The only significant available-for-sale investment contains 5% ownership in Protek Holding valued at fair value based on the closing stock exchange price. Since there was significant growth in the share price, and a positive change of RUB/HUF exchange rate, an increase has been recorded against revaluation reserve for available for sale investments (through Consolidated Statement of Comprehensive Income). As a result of the above mentioned reasons, a revaluation gain was recorded both in 2016 and in 2015 (Note 24).

	31 December 2016	31 December 2015
Opening value (HUFm)	6,249	4,587
Change in fair value (HUFm)	*6,287*	*1,662*
Closing value (HUFm)	12,536	6,249
Share price (RUB/share)	99.5	61.1
RUB/HUF exchange rate	4.78	3.88
Change in the fair value (HUFm)	*6,287*	*1,662*

In 2016 the value of above stated exchangeable bond option was HUF 1,888 million which was presented as financial assets carried at fair value through profit or loss. In previous years it was not significant therefore not stated separately.

On 19 February 2015 Gedeon Richter Plc. and Evestra Inc. announced that they have signed a collaboration agreement in which Richter is providing a USD 5 million convertible loan to Evestra. Under the terms of the agreement, after three years Richter has an option to decide whether the loan is to be reimbursed, including earned interest, or converted into an equity stake in Evestra. According to IAS 39 this option was entitled as embedded derivative, measured at fair value and booked through profit and loss (fair value measurement is provided in Note 11). Initial recognition of the derivative did not impact the Consolidated Income Statement. The change in the fair value of the option resulted in HUF 69 million loss as financial costs. The loan (host instrument) is presented as Loans receivable in the Consolidated Balance Sheet (Note 21).

16. Current income tax and deferred tax

Current tax assets and liabilities

	31 December 2016 HUFm	31 December 2015 HUFm
Current tax assets	682	539
Current tax liabilities	655	425

Deferred tax is calculated by the balance sheet method based on the temporary differences. Deferred tax assets and liabilities in the Consolidated Balance Sheet are as follows:

	31 December 2016 HUFm	31 December 2015 HUFm Restated*	1 January 2015 HUFm Restated*
Deferred tax assets	5,416	8,063	9,014
Deferred tax liabilities	(5,962)	(8,939)	(8,876)

* See Note 39 for details regarding the restatement.

The movement in deferred income tax assets and liabilities during the year is as follows:

Deferred tax assets	PPE and intangible assets HUFm Restated*	Provision HUFm	Impairment HUFm	Other temporary differences HUFm	Unrealised profit elimination HUFm Restated*	Total HUFm Restated*
31 December 2014	**(3)**	**867**	**617**	**2,047**	**5,486**	**9,014**
(Debited)/credited to the income statement	(27)	152	(88)	(1,677)	675	**(965)**
(Debited)/credited to other comprehensive income**	-	12	-	53	-	**65**
Exchange differences	(9)	(1)	-	(41)	-	**(51)**
31 December 2015	**(39)**	**1,030**	**529**	**382**	**6,161**	**8,063**
(Debited)/credited to the income statement	167	(481)	(222)	(192)	(1,195)	**(1,923)**
(Debited)/credited to other comprehensive income**	-	(4)	-	(860)	-	**(864)**
Exchange differences	(1)	(8)	-	20	-	**11**
Transfer	3	(450)	(294)	870	-	**129**
31 December 2016	**130**	**87**	**13**	**220**	**4,966**	**5,416**

* See Note 39 for details regarding the restatement.

** Deferred tax assets and liabilities debited/credited to other comprehensive income was HUF 755 million (expense), out of which accounted through revaluation reserve HUF 337 million (expense, see Note 24) and HUF 418 million (expense) accounted through retained earnings.

Deferred tax liabilities	PPE and intangible assets	Provisions	Fair valuation	ESMYA*	BEMFOLA**	Other temporary differences	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
31 December 2014	**184**	**-**	**100**	**7,661**	**-**	**931**	**8,876**
Debited/(credited) to the income statement	14	-	-	(576)	-	(281)	**(843)**
Debited/(credited) to other comprehensive income	-	-	115	-	-	(37)	**78**
Exchange differences	5	-	-	809	-	14	**828**
31 December 2015	**203**	**-**	**215**	**7,894**	**-**	**627**	**8,939**
Acquisition of subsidiary	-	(69)	-	-	4,520	(433)	**4,018**
Debited/(credited) to the income statement	10	(2)	-	(6,339)	(426)	(185)	**(6,942)**
Debited/(credited) to other comprehensive income***	-	32	(79)	(62)	-	-	**(109)**
Exchange differences	(6)	-	(9)	(62)	2	-	**(75)**
Transfer	4	(450)	(293)	-	-	870	**131**
31 December 2016	**211**	**(489)**	**(166)**	**1,431**	**4,096**	**879**	**5,962**

* The most significant deferred tax liability balance presented is in relation to the acquisition of PregLem, where the deferred tax liability that arose as a result of recognition of ESMYA was partially offset by the unused tax loss of the company.

** The deferred tax liability balance presented arises in relation to the acquisition of Finox (see Note 36), where the deferred tax liability that arose as a result of recognition of BEMFOLA and the related Customer Relationship was partially offset by the unused tax loss of the company.

*** Deferred tax assets and liabilities debited/credited to other comprehensive income was HUF 755 million (expense), out of which accounted through revaluation reserve HUF 337 million (expense, see Note 24) and HUF 418 million (expense) accounted through retained earnings.

From the deferred tax balance presented above it is expected that HUF 6,222 million (in 2015 HUF 8,102 million) of the liabilities and HUF 374 million (in 2015 HUF 1,438 million) of the assets will reverse after 12 months.

At 31 December 2016 Richter Group has HUF 8,310 million unused tax loss (that would result in HUF 1,330 million deferred tax asset) for which no deferred tax asset has been recognised since the recovery is not probable, while in 2015 the Group had HUF 15,625 million unused tax loss (that would have resulted in HUF 2,500 million deferred tax asset). In 2016 most of the unused tax loss is connected to the Romanian subsidiaries for which no deferred tax asset has been recognised.

Temporary differences arising in connection with interest in associates and joint ventures are insignificant.

17. Loans receivable

	31 December 2016 HUFm	31 December 2015 HUFm
Loans given to related parties	3,207	1,119
Loans given to employees	707	543
Other loans given	885	2,021
Total	**4,799**	**3,683**

18. Goodwill

	Goodwill HUFm
Cost	
At 1 January 2015	**61,086**
Measurement period adjustment	(527)
Decrease deriving from sale of subsidiaries	(87)
Exchange differences	4,565
Impairment charged for the year	(149)
At 31 December 2015	**64,888**
At 1 January 2016	64,888
Increase deriving from acquisition of subsidiaries (Note 36)	7,226
Exchange differences	(1,731)
Impairment charged for the year	(1,751)
At 31 December 2016	**68,632**

The above mentioned impairment was charged in amount of HUF 1,720 million in Pharmaceuticals segment and HUF 31 million in Wholesale and retail segment.

Closing goodwill on Cash Generating Units (Companies)

	31 December 2016 HUFm	31 December 2015 HUFm
Pharmacenticals segment		
GR Polska Sp. z o.o.	1,051	1,099
Richter-Helm BioLogics Co & KG	99	100
PregLem S.A.	34,563	34,559
GRMed Company Ltd.	23,142	24,161
GR Brasil	75	60
GR Mexico	1,799	2,092
Mediplus Group	-	1,679
Gedeon Richter Rxmidas Joint Venture Co. Ltd.	6,807	-
Wholesale and retail segment		
Armedica Trading Group	1,035	1,077
Other segment		
Pesti Sas Holding Kft.	61	61
Total	**68,632**	**64,888**

Impairment test of the goodwill is based on the following assumptions:

Gedeon Richter Polska Sp. z o.o.
Gedeon Richter Polska Sp. z o.o. achieved significant profit in 2016, and according to its midterm financial plans further growth is expected of the company. As a result of this no impairment was required at the end of financial year of 2016 similar to 2015. Any reasonable change in the key assumptions is still not expected to result in an impairment of Goodwill.

Armedica Trading Group
The Group has allocated the goodwill to individual pharmacies and performs the impairment review on group of cash generating units (CGU) level. Two groups of CGUs have been set up and the pharmacies were categorized into these groups based on their current EBITDA performance.
Each year the performance of the pharmacies is assessed whether they are grouped into the correct category of pharmacies. Classification criterion has been defined as -3.5% EBITDA/sales level. The Group determined this level by analyses. The pharmacies that exceeded the above mentioned EBITDA/sales ratio achieved in total an EBIDTA amount close to break even and the Group expects that the performance of this pharmacies will improve.

Similarly to previous years we have assessed the recoverable amount with fair value less cost to sell method considering the economic environment, which changed significantly in comparison to the prior year. The compensation of reimbursed products accelerated further in 2016 increasing the liquidity and cash generating ability of pharmacies. In the fair value less cost to sell model we have made estimation on future performance based on historical data and realistic market assumptions on mid and long term timeframe. The Group performed the present value calculation using estimation of 14 years cash flows which is in line with the remaining estimated useful life of the licenses.

In case of the underperforming group where the recoverable amount of the group is less than its carrying amount the Group has recorded impairment on the entire goodwill balance (HUF 31 million), and impairment was required on the related pharmacy licenses as disclosed in Note 12. No impairment was required on the good performance group of pharmacy licenses.

We also performed sensitivity test on the good performing pharmacies including the following parameters: Volume of sales, Weighted Average Cost of Capital (WACC) and mark-up. By changing ceteris paribus these factors: 5% decline in sales price would require full impairment for goodwill and partial pharmacy licenses. 5% decrease of the mark-up similarly to 5% increase of WACC would not require additional impairment neither for goodwill nor for the related licenses.

PregLem S.A.
PregLem was acquired on 6 October 2010. This acquisition supports and provides a gynaecological portfolio and development of the Group's presence in Western Europe. On the acquisition the intangible asset ESMYA (Note 12) and goodwill were also recognized.
At the date of the acquisition ESMYA®, a novel treatment for uterine fibroids, was close to the registration. In February 2012 the European Commission (EC) has granted marketing authorization to ESMYA® as pre-operative treatment of uterine fibroids what was followed by the authorizations for the extended (use up to two courses - 2014) and intermittent use (2015).

Similarly to the previous year, Richter conducted an impairment test of PregLem for the 2016 balance sheet date and found that again there is no need to account for impairment. Considering that the future cash flows from continued use of the acquired assets are considerable, the return has been determined for a cash generating unit including the ESMYA intangibles, PregLem goodwill and other tangible assets used to generate cash inflows (ESMYA CGU).

The return on the ESMYA CGU is determined by means of the income-based method with a fair value less cost to sell approach. The calculations are based on the approved budgets and management projections, the underlying cash flows of which are expected to reflect market participant assumptions as well.

Cash flows have been projected over the estimated useful life of the asset. Future cash flows are basically affected by changes in turnover, which has three main phases: ramp-up, staying at level, and decline once generic competition starts.

Key facts and assumptions around the management estimation on the future performance of ESMYA (CGU) are unchanged:

EU ESMYA® sales: Generic competition is not expected before 2025 in the European Union due to the data and marketing exclusivity granted by authorities effective till 2022 and also the Company's patent portfolio (both granted patent and pending patent applications) protecting ESMYA®. Main assumptions haven't changed compared to 2015.

The product has been authorized for the long term treatment of uterine fibroids, which increases the overall sales potential and extends the time horizon for the product to reach this potential.

The majority (76%) of the recoverable amount is generated by the EU cash flows: sales revenue is expected to peak in 2019 and maintain that level until 2024. Cash flow peaks in 2024 as a result of declining cost of sales (expiration of license fee obligation). Sales are expected to decline over 5 years starting with 2025 – the first year of generic competition - (CAGR -15%) and to remain stable after that till the end of the forecast period.

USA ESMYA® sales: In the United States, the combined effects of the delayed launch (2018) compared to EU markets and the Company's patent portfolio will not make it likely that effective generic competition could start before 2030. Main assumptions were the same in 2015.

The discount rate (post tax: 7.3%; in 2015 9.2%) applied reflects current market assessments of the time value of money and the risks specific to the CGU for which future cash flow estimates have not been adjusted.

The present value of cash flows up to 2024 represents the 59% of total recoverable amount.

The recoverable amount of ESMYA CGU exceeded carrying value of the sum of ESMYA intangible asset, other tangible assets used to generate cash inflows and the related GW. A rise in post-tax discount rate to 14.5 % (in 2015: 10.8%) would remove the remaining headroom.

GRMed Company Ltd.

GRMed Company Ltd. was acquired in 2013. The transaction supported the Group's stronger presence in China through acquiring an indirect holding in the Chinese trading company RxMidas.

The goodwill impairment was tested as of the balance sheet date of 31 December 2016 and 2015 it was found that there is no need to account for impairment in 2016 similar to the previous year.

Considering that the future cash flows from continued use of the assets are considerable, the return has been determined for a cash generating unit (CGU) by means of the income-based method with a fair value less cost to sell approach. The calculations were based on the long term turnover projection and costing plan adopted by the management, the underlying cash flows of which are expected to reflect market participant assumptions as well.
The present value of cash flows beyond this was determined by means of the terminal value formula.

A steady increase in cash flows is envisioned for the projection period (2017-2026) due to the average annual 11.3% (10.8% in 2015) growth in turnover.

The present value of the 2017-2026 cash flows alone is substantially (approximately 1.5 times; in 2015 0.5 times) higher the CGU's book value. By a conservative estimate of residual value (calculating with 0% growth), the return is 5.0 times (2.9 times in 2015) the tested amount.

The discount rate (post tax: 10.1%; in 2015 11.0%) applied reflects current market assessments of the time value of money and the risks specific to the CGU for which future cash flow estimates have not been adjusted.

Any reasonable change in the key assumptions is still not expected to result in an impairment of Goodwill.

Mediplus Group

Registered in Curacao, Mediplus Group in various Latin American countries was acquired and involved in the consolidation in 2014. The transaction was part of the series of recent acquisitions aimed at expanding the Group's activity in the LatAm region and serving as a springboard for future growth.

The goodwill impairment was tested as of the balance sheet date of 31 December 2016 and it was found that there is need to account for impairment the total amount of goodwill (HUF 1,720 million).

The recoverable amount of this group of cash generating units (CGUs) was determined by an income based fair value less cost to sell calculation. The calculations were based on the long term turnover projection (2017-2026) based on the data of Mediplus Group (Mediplus (Economic Zone) N.V., Comercial Gedeon Richter (Chile) Ltda., Gedeon Richter Peru S.A.C., GEDEONRICHTER Ecuador S.A., Gedeon Richter Bolivia SRL) adopted by the management, the underlying cash flows of which are expected to reflect market participant assumptions on the respective markets as well.
Cash flows measured are mostly related to the Company's traditional portfolio therefore these cash flow projections do not include the sales of ESMYA® in the region, because goodwill was allocated to CGU not included ESMYA® sales.

Based on its two-year market experience the Group reconsidered the market position of the products and concluded that sales targets set earlier could not be achieved to that extent. Since the recoverable amount that could be counted on the basis of realistic cash flows was below even the carrying value of other CGU assets, an impairment against the total amount of Goodwill was needed.

The discount rate (post tax: 11.5%; in 2015 12.9%) applied reflects current market assessments of the time value of money and the risks specific to the CGU for which future cash flow estimates have not been adjusted.

There were no reasonably possible changes seen in any of the key assumptions that would have resulted in a fact other than in an impairment against the Goodwill. Even a 30% rise in turnover would not have led to different result. Assets other than Goodwill were not affected by impairment: the Company has examined those assets and found evidence that it would be able to recover asset's carrying amount through using or by selling them.

Gedeon Richter Mexico, S.A.P.I. de C.V.

DNA Pharmaceuticals S.A. of Mexico was acquired and involved in consolidation in 2014. The realised goodwill was tested for impairment as of 31 December 2016.

Similarly to other goodwill impairment tests, the return has been determined for a cash generating unit (CGU) by means of the income-based method with a fair value less cost to sell approach. The calculations were based on the long term turnover projection adopted by the management (2017-2026), the underlying cash flows of which are expected to reflect market participant assumptions on the respective markets as well. The present value of cash flows beyond this was determined by means of the terminal value formula.

Cash flows decline until 2019 as operating expenses get financed increasingly by the traditional portfolio which does not include ESMYA®. The launch of new oral contraceptive products is expected to boost the sales up to 2025 (CAGR 2019-2025: 9.2%), when it stabilises. Residual value was calculated in line with these expectations.

The discount rate (post tax: 7.9%; in 2015 9.6%) applied reflects current market assessments of the time value of money and the risks specific to the CGU for which future cash flow estimates have not been adjusted.

The present value of the 2017-2026 cash flows represents the 39% of total recoverable amount.

The calculated return is close to the CGU's book value exceeds that by 2% (in 2015 about 76%) so relatively small change in key assumptions (e.g. a rise in post-tax discount rate to 8.0% (in 2015 17.1%) or -0.2% difference in CAGR 2019-2026) would remove the remaining headroom. A -2.5% difference in CAGR 2019-2026 would result in an impairment of HUF 898 million.

Gedeon Richter Rxmidas Joint Venture Co. Ltd.
In December 2010 Richter announced the foundation of Gedeon Richter Rxmidas Joint Venture Co. Ltd. with an initial equity share of 50%. On 22 January 2016 it was announced that Richter acquired from its partner, Rxmidas Pharmaceuticals Holdings Ltd. its outstanding 50% stake in the joint venture company. Consequently, with its 100% holding Richter will be in full charge of its contraceptive and OTC business in China.

Parties performed income-based valuation to determine the contract value of the 50% of the share capital. The calculations (discounted cash flow model) were based on a long term (10 year) turnover projection and costing plan adopted by the Parties. Cash flows measured relate to the sale of the Company's traditional products in the Chinese market. Sales are expected to growth throughout the entire forecasting period (2016-2025) in a slower pace at a CAGR 15.5%. The same indicator in case of the cash flows even higher (34.6%) because the operating expenditures growth at a smaller rate (10.8%) than sales.

The discount rate applied was 12%. The assumptions in the model are still considered to be realistic by the management, the performance in 2016 slightly exceeded the expectations, therefore there is no need for impairment on this goodwill balance as of 31 December 2016.

19. Inventories

	31 December 2016 HUFm	31 December 2015 HUFm Restated*	1 January 2015 HUFm Restated*
Raw materials, packaging and consumables	40,031	27,682	27,254
Production in progress	1,756	1,592	1,298
Semi-finished and finished goods	39,459	35,406	33,358
Total	**81,246**	**64,680**	**61,910**

* See Note 39 for details regarding the restatement.

Inventories include impairment and scrapping in value of HUF 3,842 million and reversal of impairment in value of HUF 513 million in 2016 (HUF 1,889 million impairment and scrapping and HUF 351 million reversal was made in 2015).

The main reasons for impairment and scrapping are the obsolescence of the inventory and the unfavourable changes of the market conditions of the particular product. The reversal of impairment is due to the change of market conditions.

In respect of Lisvy® inventories the product withdrawal resulted an impairment loss in amount of HUF 849 million which Richter expects to receive as compensation as notified by Bayer. Further compensation claims that are under negotiation between the Parties have not yet been recognized as receivable and as other income.

As of 31 December 2016 the total carrying amount of inventories that are valued at net realisable value amounts to HUF 8,121 million (in 2015 it was HUF 2,168 million).

All items of Inventories are free from liens and charges.

20. Trade receivables

	31 December 2016 HUFm	31 December 2015 HUFm
Trade receivables	114,418	90,215
Amounts due from related companies (Note 38)	1,805	2,324
Total	**116,223**	**92,539**

Ageing of Trade receivables

	31 December 2016 HUFm	31 December 2015 HUFm
Trade receivables not yet due	104,192	83,752
Trade receivables overdue, not impaired	8,963	7,591
1-90 days	*6,078*	*6,237*
91-180 days	*1,359*	*939*
181-360 days	*1,255*	*308*
>360 days	*271*	*107*
Trade receivables overdue, impaired	10,284	8,423
1-90 days	*1,226*	*1,145*
91-180 days	*1,029*	*1,660*
181-360 days	*2,053*	*424*
>360 days	*5,976*	*5,194*
Impairment on trade receivables	(7,216)	(7,227)
1-90 days	*(247)*	*(407)*
91-180 days	*(414)*	*(1,532)*
181-360 days	*(803)*	*(383)*
>360 days	*(5,752)*	*(4,905)*
Total	**116,223**	**92,539**

Movements on the Group provision for impairment of trade receivables are as follows:

	31 December 2016 HUFm	31 December 2015 HUFm
At 1 January	**7,227**	**7,410**
Provision for receivables impairment	1,716	2,022
Reversal of impairment for trade receivables	(1,798)	(1,755)
Exchange difference	71	(450)
At 31 December	**7,216**	**7,227**

The reversal of impairment is explained with the financial settlement of overdue receivables.

Both in 2016 and in 2015 it was required to account for impairment on one individually significant customer covering its entire balance.

21. Other current assets

	31 December 2016 HUFm	31 December 2015 HUFm
Loans receivable	1,776	2,893
Other receivables	3,524	2,336
Fair value of open forward exchange contracts	-	4
Subtotal of financial assets (Note 10)	**5,300**	**5,233**
Tax and duties recoverable	4,463	3,982
Advances	2,264	1,842
Prepayments	2,964	2,870
Total	**14,991**	**13,927**

22. Investments in securities

	31 December 2016 HUFm	31 December 2015 HUFm
Government bonds (HTM)*	-	1,524
Money market funds (AFS)	1	2,428
Other securities (AFS)	750	18
Total (Note 10)	**751**	**3,970**

*Treasury bills and government securities are issued or granted by the Hungarian State.

The value of Government bonds decreased since they matured in 2016, most of the money market funds were sold.

23. Cash and cash equivalents

	31 December 2016 HUFm	31 December 2015 HUFm
Bank deposits	95,926	132,262
Cash on hand	127	112
Total	**96,053**	**132,374**

The total amount of Cash and cash equivalents at the balance sheet date was mainly (more than 65%) held by the Parent Company out of which major part is short term bank deposit and minor part is on demand deposit. It is denominated in EUR, USD, HUF and other currencies.

24. Share capital and reserves

Share capital	31 December 2016 Number	31 December 2016 HUFm	31 December 2015 Number	31 December 2015 HUFm
Ordinary shares of HUF 100 each	186,374,860	18,638	186,374,860	18,638

Detailed ownership structure of the Parent

Ownership	Ordinary shares number		Voting rights** %		Share capital %	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Domestic ownership	**59,832,738**	**58,409,460**	**32.15**	**31.48**	**32.11**	**31.34**
State ownership total	47,051,817	47,051,817	25.28	25.36	25.25	25.25
out of which MNV Zrt.	47,051,668	47,051,668	25.28	25.36	25.25	25.25
out of which Municipality	149	149	0.00	0.00	0.00	0.00
Institutional investors	6,070,053	5,498,517	3.26	2.96	3.26	2.95
Retail investors	6,710,868	5,859,126	3.61	3.16	3.60	3.14
International ownership	**126,289,476**	**126,745,169**	**67.84**	**68.30**	**67.75**	**68.00**
Retail investors	1,697,648	2,451,470	0.91	1.32	0.91	1.32
Institutional investors	124,591,828	124,293,699	66.93	66.98	66.84	66.68
out of which Aberdeen Asset Mgmt. Plc.	18,243,530	18,243,530	9.80	9.83	9.79	9.79
out of which Harding Loevner LP	9,367,925	-	5.03	-	5.03	-
Undisclosed ownership	**11,012**	**408,576**	**0.01**	**0.22**	**0.01**	**0.22**
Treasury shares*	**241,634**	**811,655**	**0.00**	**0.00**	**0.13**	**0.44**
Share capital	**186,374,860**	**186,374,860**	**100.00**	**100.00**	**100.00**	**100.00**

* The treasury shares have no voting rights.
** Article 13.8 of the Statutes restricts the voting rights of shareholders, alone or together with other related persons to no more than 25%.

Data in the above table were compiled based on the share registry amended with information provided by KELER Zrt. as clearing company, global custodians and nominees.

The Group does not have any (ultimate) controlling party. The Hungarian State is having significant influence through the ownership of MNV Zrt.

Foreign currency translation reserves

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

Revaluation reserve for available for sale investments

When measuring financial assets available for sale (Note 15, 22) at their fair values the difference shall be recognized as Revaluation reserve for available for sale investments. It shall be recycled to the income statement at the time of disposal or impairment.

	Revaluation reserve for available for sale investments HUFm
At 1 January 2015	**1,876**
Recycled through Other comprehensive income	(2)
Revaluation gross	1,815
Deferred tax effect	(366)
At 31 December 2015	**3,323**
Recycled through Other comprehensive income	(65)
Revaluation gross	5,904
Deferred tax effect	(337)
At 31 December 2016	**8,825**

From January 1st, 2017 9% statutory tax rate is applicable for the Parent Company, who has the most available for sale investments in the Group. The effect of tax rate reduction is included in the current deferred tax change in line with the modification of the tax rate.

Equity-settled share based payment presented within retained earnings

Equity-settled employee benefits reserve is presented within Retained earnings, therefore the current year's effect is shown in the Consolidated Statement of Changes in Equity.
The reserve contains equity-settled share-based payments to employees measured at the fair value of the equity instruments at the grant date. Please see more detailed in Note 25 Treasury shares.

	2016 HUFm	2015 HUFm
Expense recognized in current year	4,724	4,260
Treasury share given (Note 25)	3,679	4,217
Total changes in reserve presented in the Consolidated Statement of Changes in Equity	**1,045**	**43**

25. Treasury shares

It is the intention of the Company to grant Treasury shares to management and employees as part of its remuneration policy. The Company is operating three share based payment programs, described below in more details. From these programs, the individual bonuses and the bonus program vest immediately, while the shares granted under the Staff Stock Bonus Plan have a vesting condition of employment at the end of the deposit period also described below.

Bonus program
Richter operates a bonus share programme since 1996 to further incentivise managers and key employees of the Company. In 2016 217,189 shares were granted to 440 employees of the Company while in 2015 327,378 shares were granted to 454 employees.

Individual bonuses
387,600 treasury shares were granted to qualified employees as bonuses during the year while 422,917 treasury shares were granted in 2015.

Staff Stock Bonus Plan
Pursuant to a programme approved by the National Tax and Customs Administration related to employee share bonuses (Staff Stock Bonus Plan 2016), the Company granted 285,459 treasury shares to 4,342 employees in 2016. Tbe shares will be deposited on the employees' security accounts with UniCredit Bank Hungary Ltd. until 2 January 2019. In 2015 350,694 shares were granted to 4,356 employees deposited on their accounts until 2 January 2018.

The AGM held on 26 April 2016 approved that the Company may purchase its own shares for the treasury, the aggregated nominal value of which shall not exceed 10 percent of the registered capital of the Company. Based on this approval, the Company purchased 302,831 treasury shares on the OTC market during the year.

Treasury shares	**2016** Numbers	**2015** Numbers
at 1 January	**811,655**	**1,365,687**
Out of these, number of shares owned by subsidiaries	*710,284*	*1,361,988*
Share purchase	302,831	525,304
Transferred as part of bonus program	(217,189)	(327,378)
Individual bonuses	(387,600)	(422,917)
Granted pursuant to the National Tax and Customs Administration - approved plan	(285,459)	(350,694)
Granted pursuant to the National Tax and Customs Administration - repurchased	17,396	21,653
at 31 December	**241,634**	**811,655**
Out of these, number of shares owned by subsidiaries	*60,284*	*710,284*

	2016 HUFm	**2015** HUFm
Book value		
at 1 January	**3,206**	**4,881**
Share purchase	1,758	2,542
Transferred as part of bonus program	(983)	(1,024)
Individual bonuses	(1,571)	(1,736)
Granted pursuant to the National Tax and Customs Administration - approved plan	(1,222)	(1,548)
Granted pursuant to the National Tax and Customs Administration - repurchased	97	91
at 31 December	**1,285**	**3,206**

26. Trade payables

	31 December 2016 HUFm	31 December 2015 HUFm
Trade payables	45,738	38,204
Amount due to related companies (Note 38)	188	5
Total	**45,926**	**38,209**

27. Other payables and accruals

	31 December 2016 HUFm	31 December 2015 HUFm
Short term accruals	13,389	9,219
Other liabilities	3,717	2,211
Contingent-deferred purchase price liabilities	8,446	6,370
Dividend payable	147	152
Subtotal of financial liabilities (Note 10)	**25,699**	**17,952**
Wages and payroll taxes payable	5,678	4,834
Other taxes	1,056	771
Deposits from customers	190	669
Accrual for taxes and social contributions of share options and other bonuses	306	443
Total	**32,929**	**24,669**

27.1 Contingent-deferred purchase price

The Group has performed several acquisitions with contingent-deferred purchase prices since 2010. These purchase prices are measured at fair value (probability weighted discounted amount) and the uncertainties related to them are presented in Note 3.1.
The liabilities presented in the financial statements related to these purchase prices (presented as other items in this note and in Note 30) are as follows.

	31 December 2016 HUFm	31 December 2015 HUFm
Non-current liabilities		
GRMed	-	5,307
GR Mexico	-	387
	-	**5,694**
Current liabilities		
GRMed	7,565	5,947
GR Mexico	881	423
	8,446	**6,370**
Total	**8,446**	**12,064**

Change in the fair value of the above purchase prices are presented in Note 11.

28. Provisions

	31 December 2016 HUFm	31 December 2015 HUFm
Other short term provisions	1,926	1,907
Long term provisions –		
for retirement and other long term benefits*	3,508	2,928
from this defined retirement benefit plans at the Parent	*1,525*	*1,394*
from this defined retirement benefit plans at GR Polska	*289*	*300*
from this defined retirement benefit plans at PregLem	*263*	*60*
from this defined retirement benefit plans at Finox Group	*365*	-
Total	**5,434**	**4,835**

* The balance not described in more details below contains jubilee and similar long term benefits.

At 31 December 2016, Other short term provisions include provisions created for individual bonuses, and penalties.

From the defined benefit plans of the Group, it is considered that only the pension plan operated by the Parent Company is significant, therefore further disclosures are provided only related to that. Since the plan is operated in Hungary the benefits and the disclosures below are determined in Hungarian Forint.

Defined retirement benefit plans at the Parent

Actuarial valuation related to retirement benefit plans

According to the Union Agreement of Gedeon Richter Plc. the retiring employees are entitled to the following additional benefit in case the employment contract ends with mutual agreement or regular dismissal:

- 1 month absentee fee in case of min. 15 years consecutive employment
- 2 month absentee fee in case of min. 30 years consecutive employment
- 3 month absentee fee in case of min. 40 years consecutive employment
- 4 month absentee fee in case of min. 45 years consecutive employment

If the employee meets the conditions mentioned above, and has for at least 20 years of continuous employment at Richter is entitled to additional benefit - 45 days of absentee fee.

The valuation method

In line with IAS 19, defined benefit obligation was calculated by using Projected Unit Credit Method. The estimated amount of the benefit shall be accounted in equal amounts for each period until the maturity date (straight line method), and valued at present value by using actuarial discount rate.

Any reasonable change in the key assumptions are not expected to result in a significant change in the value of provision therefore a detailed sensitivity analysis is not required for the variables of the valuation model.

The calculation is applied for all employees employed at the balance sheet date.

	2016 HUFm	2015 HUFm
Opening value of retirement benefit	1,394	1,285
Interest costs (charged to the P&L)	45	43
Current service costs (charged to the P&L)	114	106
Settlement	(145)	(63)
Actuarial loss/(gain) (charged to the OCI)	117	23
Retirement benefit	**1,525**	**1,394**

The principal actuarial assumptions were as follows:

The estimation was performed with a 2.0% annual increase in the wages.

Discount rate

The discount calculation is made "on the basis of available high quality corporate bonds or, in the absence thereof, of government securities in the given market."
When estimating the level of interest we apply the yields of long term government securities established by EUROSTAT on a country by country basis for the reported year and published at the date closest to the assessment.
In the present case the yield published in December 2016 was used to determine the discount rate for the calculation of liabilities. In this calculation the year end interest rate (3.31%) was applied.

Distribution of probability of resigning in terms of the age of employees and the duration of their employment

Relying on factual data the probability of resigning was estimated on the basis of annual average probability of resigning in groups set up by duration of employment as shown in the following table. At the same time to reckon with future uncertainty a risk factor increasing in time is taken into account.

Term of employment at Richter	Annual average probability of resigning	Uncertainty factor related to the probability of resigning
Relevant data applied during the actuarial calculation:		
between 1-5 years	7.0%	5.0%
between 6-15 years	3.0%	10.0%
between16-30 years	2.0%	20.0%
over 30 years	1.5%	30.0%

29. Borrowings

The credits are not secured by registered mortgages on real estates and inventories.

	31 December 2016 HUFm	31 December 2015 HUFm
Long-term borrowings	28,874	37,188
Short-term borrowings	7,776	6,523
Total	**36,650**	**43,711**

In June 2011 Gedeon Richter Plc. and the European Investment Bank (EIB) signed a EUR 150 million credit line contract with a 9 year term comprising an initial 3 year period of grace followed by a 6 year repayment period. This agreement has as its aim the financing during the period of 2011-2014 of Richter's original research activities targeting compounds, which are active in diseases of the Central Nervous System, combined with the development of bio similar products. Total credit line has been drawn down until 31 December 2013. The outstanding balance of this borrowing as of 31 December 2015 was EUR 137.5 million (HUF 43,054 million), while as of 31 December 2016 EUR 116.7 million (HUF 36,286 million) after the repayment of EUR 21.0 million (HUF 6,494 million).

30. Other non-current liabilities and accruals

	31 December 2016 HUFm	31 December 2015 HUFm
Government grants	3,573	1,149
Other non-current liabilities	875	974
Contingent-deferred purchase price liabilities	-	5,694
Total	**4,448**	**7,817**

The contingent-deferred purchase prices described in more detailed in Note 3.1, Note 11 and Note 27.
Government grants relates to property, plant and equipment.

31. Dividend on ordinary shares

	2016 HUFm	2015 HUFm
Dividend on ordinary shares	13,419	6,150

A dividend of HUF 72 per share (HUF 13,419 million) was declared in respect of the 2015 results, approved at the Company's Annual General Meeting on 26 April 2016 and paid during the year.

32. Agreed capital commitments and expenses related to investments

Data are presented for the Parent Company and the Russian subsidiary since they have the most significant capital expenditure in the Group.

	31 December 2016 HUFm	31 December 2015 HUFm
Contractual capital commitments of Parent	4,185	5,959
Contractual capital commitments of AO Gedeon Richter -RUS	82	37
Capital expenditure that has been authorised by the directors but has not yet been contracted for at Parent	35,840	21,879
Capital expenditure that has been authorised by the directors but has not yet been contracted for at AO Gedeon Richter-RUS	4,162	1,192

The capital expenditure programme of the Parent Company approved by the Board of Directors totalling HUF 40,025 million comprises all costs associated with capital expenditure planned for 2017. The above commitments were not recorded either in the Income Statement or in the Balance Sheet.

33. Operating lease – Group as lessee

Operating lease commitments of the Group (based on the contracts effective as of the year end) are mainly related to car and building rental. The non-cancellable operating lease commitments are as a follows:

	2016 HUFm	2015 HUFm
Within 1 year	3,798	4,733
Between 1 and 5 years	9,604	10,065
Over 5 years	4,409	2,634
Total	**17,811**	**17,432**

The agreements do not include purchase option.
In 2016 HUF 6,002 million and in 2015 HUF 6,549 million has been recorded as operating lease expense.

34. Guarantees provided by the Group

The Group has not provided directly any guarantees to third parties. Guarantees provided by banks on behalf of the Group are presented in Note 10.

35. Social security and pension schemes

The Group has provided in relation to the employees in Hungary social contribution tax amounting to 27% and vocational training contribution amounting to 1.5% of gross salaries which are paid during 2016 to the National Tax and Customs Administration by the Group. The Group has no further obligations beyond the statutory rates in force during the year. In relation to employees employed in abroad, the social insurance contributions have been paid in accordance with the laws of each country.

The Parent Company contributes 6% of the monthly gross wages (maximum 50% of the current minimum wage) for those employees who decided to participate in the voluntary pension fund. In addition, one-off contribution is made in respect of employees who are reaching the age limit of 55, 57, 59, 61, 63, 65 years in the amount of HUF 50,000 within five years of the statutory retirement age. The total cost of the contributions made by the Parent Company was HUF 1,218 million in 2016 (in 2015: HUF 1,106 million).

The Parent Company has contributed to a private health insurance fund for the benefit of its employees since 1 September 2003. Amounts paid increased to HUF 5,500/person/month since 1 March 2016 (in 2015 it was 4,000/person/month). The total amount paid for employees was HUF 313 million during 2016 (in 2015 it was HUF 242 million).

Pension contribution paid by Hungary based subsidiaries in respect of their employees amounted to HUF 31 million in 2016 and HUF 31 million in 2015.

Foreign subsidiaries pay contributions to various pension funds in respect of their employees which amounted to HUF 461 million and HUF 306 million in 2016 and 2015, respectively.

The pension contribution paid by the Company and described above are Defined Contribution Plan.

None of the subsidiaries of the Group operate any similar pension schemes, but all Hungary based subsidiaries pay a contribution to the voluntary pension fund and the Patika Voluntary Health Insurance Fund.

36. Business Combination

Business Combination in 2016

Gedeon Richter Rxmidas Joint Venture Co. Ltd.

In December 2010 Richter announced the foundation of Gedeon Richter Rxmidas Joint Venture Co. Ltd. with an initial equity share of 50%. On 22 January 2016 it was announced that Richter acquired from its partner, Rxmidas Pharmaceuticals Holdings Ltd. its outstanding 50% stake in the joint venture company. Consequently, with its 100% holding Richter will be in full charge of its contraceptive and OTC business in China.

	Carrying value HUFm	Fair value HUFm
Total consideration paid in cash	**4,870**	**4,870**
Fair value of GRRX previously held interest	-	4,383
Total consideration	**4,870**	**9,253**
Trade receivables	639	639
Other current assets	5	5
Cash and cash equivalents	1,572	1,572
Other payables	(189)	(189)
Fair value of net asset acquired	**2,027**	**2,027**
Goodwill	-	**7,226**

Total consideration paid in cash was EUR 15.6 million. There was no arrangement for contingent consideration.

In connection with the 100% acquisition of the joint venture Gedeon Richter Rxmidas JV Co. Ltd. the 50% stake held prior to the transaction was reassessed at fair value at the time of the acquisition (22 January 2016) in line with the accounting standards for business combinations as established by IFRS 3.

From the acquisition above HUF 4,870 million is expected to be deductible for tax purposes by the Parent Company, since the previously held interest is not remeasured in the tax accounts.

The goodwill recognised on the acquisition of Gedeon Richter Rxmidas Joint Venture Co. Ltd. arose from the utilisation of the distribution and marketing capabilities of the company, which will effectively promote launching and sales of the selected Richter products in the respective markets (Note 18).

Acquisition-related costs (mainly legal advice) of approximately HUF 1.4 million is charged to Administrative and general expenses in the Consolidated Income Statement for the year 2016.

Gedeon Richter Rxmidas Joint Venture Co. Ltd. contributed to the Profit for the year of the Group HUF 379 million gain and to the Net sales of the Group by HUF 2,155 million in 2016. The total profit and net sales of the company was taken into consideration since the acquisition was in January 2016.

Finox Holding AG - FINOX Group

The Parent Company announced by the means of extraordinary announcements both the acquisition of Finox Holding (30 June 2016) for an amount of CHF 197 million and the closing of the transaction (8 July 2016). Total consideration paid in cash contains the value of the ownership and a long term loan given by previous owner. The above mentioned total amount was presented in the Consolidated Cash Flow Statement as Net cash outflow on acquisition of subsidiaries.

Finox Holding is a privately held Swiss biotech company focused on development and commercialisation of innovative and cost effective products addressing female fertility.
Finox product, BEMFOLA® is a recombinant-human Follicle Stimulating Hormone (r-hFSH) which was developed as a first biosimilar to Gonal-f® an established reference product. Richter has obtained global rights for BEMFOLA® for which marketing authorization was already granted in EU in May 2014 and is currently sold in more than 20 countries.

At the closing of the transaction the company assumed control and commenced the integration of the companies belonging to Finox Holding into Richter Group.

	Carrying value HUFm	**Fair value** HUFm
Total consideration paid in cash	**26,011**	**-**
Property, plant and equipment	463	463
Investments	3	3
Deferred tax assets	1,693	1,693
Loans receivable	1	1
Inventories	8,216	5,969
Trade receivables	1,799	1,799
Other current assets	1,121	1,121
Cash and cash equivalents	3,266	3,266
Borrowings (long term)	(31,138)	(31,138)
Other non-current liabilities	(708)	(708)
Long provision	(639)	(639)
Borrowings (short term)	(1)	(1)
Other payables and accruals	(2,302)	(2,302)
Other intangible asset - BEMFOLA	-	50,916
Other intangible asset – CR value	-	1,597
Deferred tax liability	-	(5,761)
Fair value of net asset acquired	**(18,226)**	**26,279**
Bargain purchase gain	**-**	**(268)**

The Company revised the key assumptions which were used in the purchase price calculation and they were stated reliable. Non material bargain purchase gain realised on the acquisition was accounted for as Other income and other expenses (net) in the Consolidated Income Statement.

Acquisition-related costs (audit fees and legal advice) of approximately HUF 160 million have been charged to Administrative and general expenses in the Consolidated Income Statement for the year ended 31 December 2016.

Finox Group contributed to the Profit for the year of the Group HUF 2,270 million loss and to the Net sales of the Group by HUF 2,695 million in 2016.

We cannot present the contribution of the Finox Group to Net sales and Profit for the year for the entire calendar year of 2016, since the Finox Group members had a different business year before the acquisition, their financial statements were made according to local GAAPs and were not consolidated.

Business Combination in 2015

The Group had no new acquisitions in 2015.

The amount of goodwill realised to the acquisition of Gedeon Richter Mexico, S.A.P.I. de C.V. was reduced by HUF 527 million in 2015. The reason of the adjustment was the identification of a new asset (long term receivable) during the measurement period.

37. Contingent liabilities

Uncertain tax position in Romania

From 1 October 2009 the Government approved a debated claw-back regime in the range of 5-12 % (aimed at financing the overspending of the national pharmaceutical budget) to be paid to the CNAS by the domestic manufacturers and wholesalers from sales of reimbursed drugs. The Group has similar taxes in other countries which are treated as other expense in the Consolidated Financial Statements. On 1 October 2011, a new version of Romania's pharmaceutical claw-back mechanism came into force levying direct liabilities for the domestic and foreign manufacturers. No provision has been recorded related to the contingent liabilities preceding January - September 2011. The uncertain tax position has not been quantified in the Financial Statements because there is an ongoing debate on the taxable person and the calculation of the tax, therefore a reliable estimate cannot be made on the exposure. Contingent liabilities for the periods before forfeited.

38. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

The State Holding Company (MNV Zrt.), as a business organisation is having a significant interest over Richter nevertheless the Parent Company has no other transactions with the State Holding Company, than the regular dividend payments.

	2016 HUFm	2015 HUFm
Dividend paid to MNV Zrt.	3,403	1,564

The Group does not perform significant transactions with other entities controlled or significantly influenced by the Hungarian State. The cumulative effect of these transactions is also not significant therefore it is not presented separately in the financial statements.

38.1 Related parties

The Group has not provided any long or short-term loans to its key management personnel. Loans given to associated companies, joint ventures are both long and short term loans.

	31 December 2016 HUFm	31 December 2015 HUFm
Loans to associated companies	3,207	3,461
Loans to joint ventures	-	58
Trade receivables (joint ventures)	234	320
Trade receivables (associates)	1,571	2,004
Trade payables (joint ventures)	142	-
Trade payables (associates)	46	5
Revenue from joint ventures	1,879	1,170
Revenue from associates	13,280	12,975

The loans are in Hungarian Forint, out of which HUF 8 million expires between 1 and 2 years, HUF 3,199 million over 5 years.

Revenues from related parties almost exclusively represents sale of pharmaceutical products. The Group has open trading commitments with related parties as of 31 December 2016 in amount of HUF 11 million.

Richter has financing obligations to Richter-Helm BioTec GmbH & Co. KG (joint ventures), which requires further capital contributions to finance the clinical and registration stage of teriparatide.

All related-party transactions were made on an arm's length basis.

38.2 Remuneration of the Board of Directors and the Supervisory Board

	Short-term benefits - Allowance	
	2016 HUFm	2015 HUFm
Board of Directors	68	70
Supervisory Board	24	24
Total	**92**	**94**

38.3 Key management compensation

	2016 HUFm	2015 HUFm
Salaries and other short term employee benefits	839	726
Share based payments	1,249	1,389
Total short term compensation	**2,088**	**2,115**
Pension contribution paid by the employer	564	571
Total	**2,652**	**2,686**

The table above contains the compensation received by the chief executive officer, directors and other senior members of management, constituting 44 people.
There were no redundancy payments to key management members neither in 2015 nor in 2016.

39. Adjustments in connection with Consolidated Financial Statements as of 31 December 2014 and 2015

With effect from 1 January 2017 stand-alone IFRS reporting also became compulsory for Gedeon Richter Plc. The Company implemented changes to the IT system supporting the transition. As part of this development the Company reviewed its methodology to eliminate intra-group profit on sale of inventories. This review discovered that previously applied average margin for elimination was not precise on purchased inventories and that intra-group profit on own manufactured inventories was not fully eliminated. As a consequence, the inventory had been incorrectly overstated and cost of sales understated. The above described IT development enabled the Group to fully eliminate intra-group profit on sale of inventory.

Additionally, the preparation of stand-alone IFRS report of Gedeon Richter Plc. has revealed that the book value of previously identified difference between the IFRS and statutory value of property, plant and equipment and its depreciation has not been reviewed annually. As a consequence, the balance of property, plant and equipment was understated and previous years' depreciation was overstated. The review resulted in correction of the value of property, plant and equipment and retained earnings.

In accordance with IAS 8 standard the corresponding figures for previous periods have been restated accordingly.

The effect – which relates entirely to the pharmaceutical segment – on the financial statement line items is presented in the following tables for the prior periods:

Consolidated Balance Sheet

	1 January 2015	Change	1 January 2015	31 December 2015	Change	31 December 2015
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
	As previously presented		Restated	As previously presented		Restated
Property, plant and equipment	169,558	2,616	172,174	175,355	2,595	177,950
Deferred tax assets	8,606	408	9,014	7,487	576	8,063
Inventories	66,452	(4,542)	61,910	70,051	(5,371)	64,680
Retained earnings	514,536	(1,278)	513,258	563,022	(1,692)	561,330
Non-controlling interest	3,172	(240)	2,932	3,645	(508)	3,137

Consolidated Income Statement

	2015 HUFm As previously presented	Change HUFm	2015 HUFm Restated
Cost of sales	(143,761)	(850)	(144,611)
Gross profit	221,459	(850)	220,609
Profit from operations	67,532	(850)	66,682
Profit before income tax	60,727	(850)	59,877
Income tax	(6,182)	168	(6,014)
Profit for the year	54,545	(682)	53,863
Profit attributable to			
Owners of the parent	54,277	(414)	53,863
Non-controlling interest	268	(268)	0

Consolidated Statement of Comprehensive Income

	2015 HUFm As previously presented	Change HUFm	2015 HUFm Restated
Profit for the year	54,545	(682)	53,863
Total comprehensive income for the year	63,200	(682)	62,518
Attributable to:			
Owners of the parent	62,818	(414)	62,404
Non-controlling interest	382	(268)	114

Earnings per share (HUF)

	2015 HUFm As previously presented	Change HUFm	2015 HUFm Restated
Basic	292	(1)	291
Diluted	292	(1)	291

all amounts in HUFm

Consolidated Statement of Chauges in Equity

	Share capital	Share premium	Capital reserves	Treasury shares	Revaluation reserve for available for sale investments	Foreign currency translation reserves	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Profit for the year as previously presented	-	-	-	-	-	-	54,277	54,277	268	54,545
Change	-	-	-	-	-	-	(414)	(414)	(268)	(682)
Profit for the year as restated	-	-	-	-	-	-	53,863	53,863	0	53,863
Comprehensive income for year ended 31 December 2015 as previously presented	-	-	-	-	1,447	6,778	54,593	62,818	382	63,200
Change	-	-	-	-	-	-	(414)	(414)	(268)	(682)
Comprehensive income for year ended 31 December 2015 as restated	-	-	-	-	1,447	6,778	54,179	62,404	114	62,518

Consolidated Cash Flow Statement

	2015 HUFm As previously presented	Change HUFm	2015 HUFm Restated
Operating activities			
Profit before income tax	60,727	(850)	59,877
Depreciation and amortisation	31,227	21	31,248
Movements in working capital			
Decrease/(increase) in inventories	(3,599)	829	(2,770)
Net cash flow from operating activities	**95,047**	-	**95,047**

The amounts disclosed in Note 12 Property, plant and equipment, in Note 16, Current income tax and deferred tax and in Note 19 Inventories were the most affected by the correction.

40. Notable events in 2016

The Company's main objectives for 2016 were as follows: to expand sales despite a difficult market environment; to retain and improve market shares; and to strengthen the strategy of standing on multiple legs in the market; based on the strategic principles, to shift business to enhance the contribution of high value added products; to expand the gynaecological business; to develop a new proprietary CNS product; and to take further steps in the development of biosimilar products.

On 4 January 2016 Richter announced that the European Medicines Agency (EMA) has accepted Richter's regulatory submission for the proposed biosimilar to Eli Lilly's Forteo (teriparatide). The biosimilar teriparatide has been developed by the Company's subsidiary Richter-Helm BioTec GmbH & Co. KG. According to the relevant license agreements, biosimilar teriparatide is expected to be launched under both Richter-Helm BioTec GmbH & Co. and Stada labels in Europe following the patent expiry of the original product. On 14 November 2016 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion on the product and accordingly proposes the granting of marketing authorisation for the biosimilar teriparatide Terrosa. Following on the positive opinion on 4 January 2017 the European Commission granted marketing authorisation for Terrosa.

In December 2010 Richter announced the foundation of GR Rxmidas Joint Venture Co. Ltd. with an initial equity share of 50%. On 22 January 2016 it was announced that Richter acquired from its partner, Rxmidas Pharmaceuticals Holdings Ltd. its outstanding 50% stake in the joint venture company. Consequently, with its 100% holding Richter will be in full charge of its contraceptive and OTC business in China.

On 29 March 2016 the European Medicines Agency (EMA) started assessment of the marketing authorisation of cariprazine for the indication of schizophrenia. In August of the same year Richter and Recordati signed a licence agreement granting Recordati exclusive sales license to commercialise the product in Western Europe as well as Algeria, Tunisia and Turkey.

On 17 September 2015 Richter and Allergan were pleased to announce that FDA granted Allergan marketing authorization of cariprazine for the treatment of manic or mixed episodes of bipolar I disorder and schizophrenia in adults. From the first quarter of 2016 the product will be sold in pharmacies of the Unitede States under the trade name of Vraylar™. Besides its long term positive financial impact this event has an obvious significance in terms of industrial history. The two companies released a clinical and regulatory update on the cariprazine programme in August 2016. Topline results from the MD-72 trial indicate that flexible doses of cariprazine did not separate significantly from placebo as an add-on treatment in adults with major depressive disorder (MDD) in this trial, therefore the companies will continue to work on a subsequent Phase III trial to prove efficacy.

In a joint press release in May 2016 Richter and Allergan plc announced positive results from the Venus I pivotal Phase III clinical trials that evaluated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids.

With a view to expanding its Women's Healthcare portfolio, at the end of June 2016 Richter acquired Finox Holding, a Swiss based biotech company engaged in the development and commercialisation of innovative and cost effective products addressing female fertility. Finox Holding's product BEMFOLA® is a recombinant human follicle stimulating hormone (r-hFSH), the first biosimilar r-hFSH product to be granted marketing authorisation in Europe. Richter has obtained global rights for the commercialisation of BEMFOLA® (with the exception of the United States) thereby intending to emphasize its commitment to biosimilar products.

To bring development and manufacture of biosimilar products to new heights the Company set up an independent organisational unit named Biotechnology Business, which has been in operation since 1 July 2016.

Following the lines of the "specialty pharma" strategy developed in 2007, in 2015 Richter signed a license and distribution agreement with Bayer HealthCare to commercialize Bayer's transdermal contraceptive patch under the trade name Lisvy®. In October 2016 Richter initiated immediate withdraw after receiving Bayer's notification that the results of certain stability tests conducted with the product had not met the product specifications. The two companies are working together to identify the causes leading to the test results.

As another step towards the implementation of its biosimilar strategy, in October 2016 Richter signed an agreement on the technology transfer to manufacture trastuzumab, a monoclonal antibody developed by DM Bio of Korea, and to take over the licence of development and commercialisation. Richter will secure exclusive distribution rights for the territory of Europe, the CIS region, and Latin America.

In December 2015 it was announced that the EMA had accepted Richter's regulatory submission for its proposed biosimilar to Amgen's Neulasta (pegfilgrastim). In December 2016 the Company withdrew the application after the CHMP's notification in November that the data submitted were not sufficient for a positive evaluation of the risk/benefit analysis related to the product. Richter is committed to continue with the clinical development programme and registration of pegfilgrastim.

In 2016 Richter took further steps to expand its international business through a capital increase in its manufacturing companies and continuing its investments. Driven by the goal of adapting to the Russian economic policy of favouring local production, Richter made supporting investments into the Russian subsidiary a special priority.
Retaining and strengthening the Company's position in the Hungarian and the traditional markets (CIS, Central and Eastern Europe) despite increasingly difficult environment whose problems fall hard on the entire pharmaceutical industry (price erosion, tightening subsidies and price control) continue to feature among Richter's strategic goals.

In the context of a HUF 15 billion investment programme Richter is expanding the Debrecen biotechnology plant constructed in 2012 for the development and manufacturing of biosimilar products. A government grant has been received in the amount of HUF 5 billion. By creating new jobs the project will almost double the biotech manufacturing capacity.

41. Events after the date of the balance sheet

On 17 January 2017 Richter and Allergan plc announced positive results from Venus II, the second pivotal Phase III clinical trials. The trial investigated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids causing irregular uterine bleeding and confirmed the result of the Venus I study published in May 2016. Application for registration of ulipristal acetate is expected to be submitted to the United States Food and Drug Administration (FDA) during the second half of 2017.

On 19 January 2017 Richter announced that it had signed an agreement with Allergan plc for the distribution of Allergan's levonorgestrel releasing Intrauterine System. Richter will distribute the product under the brand name Levosert® in Western Europe and other European countries. The product has already been granted national marketing authorisations in Western and Northern European countries, and has been launched in most countries by Allergan. Richter is currently selling Levosert® in most CEE markets in accordance with the relevant agreement signed with Uteron Pharma in 2011. According to the agreement Richter makes a milestone payment upon signature. After the product is launched, Allergan will also be entitled to sales related royalty and milestone payments.

After acquiring the remaining 9% share in February 2017 Richter became 100% shareholder of GRMed Company Limited. With this payment the Company has fully paid the deferred purchase price kept on the books among liabilities.

In February 2017 Richter and Bayer reached an agreement on reimbursement of the costs of inventories in conjunction with the withdraw of Lisvy® (Note 6).

Except for the above mentioned events, there were no events after balance sheet date that would influence the presentation of the Group financial statements.

42. Approval of financial statements

Current Consolidated Financial Statements have been approved by the Board of Directors and authorised for release at 22 March 2017.

These Consolidated Financial Statements of the Company were approved for issue by the Company's Board of Directors (the Board), however, the Annual General Meeting (AGM) of the owners, authorized to accept these financials, has the right to require amendments before acceptance. The probability of any potential change required by the AGM is extremely remote.

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GEDEON RICHER PLC.

CONFIDENTIAL

Consolidated BUSINESS REPORT 2016

Erik Bogsch
Managing Director

Budapest, 22 March 2017

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1. General data

1.1 Brief History of Richter Group

The parent company

Gedeon Richter Plc. is a leading pharmaceutical company in the Central and East European region. Its activity encompasses every aspect of the pharmaceutical industry from research and development through the manufacturing of active substances (produced synthetically, by fermentation or extraction) and finished drugs to packaging, marketing and sales. Richter's wide product range encompasses virtually all therapeutic fields. At the same time, the therapeutic breakdown of sales shows a high degree of concentration: more than three-quarters of Richter's turnover are contributed by three major therapeutic areas.

The Company's predecessor was founded in 1901 by pharmacist Gedeon Richter, who bought a pharmacy, then turned his business into a share company two decades later, in October 1923. After World War II the Company was nationalized and while it continued operating as a share company, the sole shareholder was the Hungarian State. In June 1950, while maintaining Gedeon Richter Ltd. in terms of corporate law, the State established Richter Gyógyszer és Vegyészeti Gyár Nemzeti Vállalat (Richter National Pharmaceutical and Chemical Company), which later became known as Kőbányai Gyógyszerárugyár (Kőbánya Pharmaceutical Factory). It existed alongside Gedeon Richter Ltd. without affecting its operation.

In 1990 Kőbánya Pharmaceutical Factory merged with Gedeon Richter Ltd. as part of the transformation from a state-owned company to a share company. The merger was registered by the Budapest Court of Registration on 18 March 1991. The total registered capital of the share company amounted to HUF 13,223,974,000.

Privatization

(The number of the shares didn't restate in order to reflect the impact of the share split realized in July 2013.)

Due to the involvement of Hungarian and international investors the Company's capital was increased by HUF 4.4 billion to reach HUF 17.6 billion on 28 September 1994 and its shares were listed on the Budapest Stock Exchange. Privatization connected with the capital increase resulted in the expansion of sources of financing.
Commenced in 1994, the privatization process continued in the fourth quarter of 1995, enlarging the Company's basis of domestic and international investors.

In 1997 another 2,600,000 shares owned by the State Privatization and Holding Company (ÁPV Rt.) were offered to institutional investors in the context of a private placement, and 200,000 shares were sold to domestic private investors in the context of a public offering.
The Extraordinary General Meeting approved a HUF 1,000 million capital increase to HUF 18,637,486,000 by the issuance of 1,000,000 new shares. As a result of these transactions the State's share in Richter was reduced to 25%.

On 14 September 2004 the State Privatization and Holding Company (ÁPV Rt.) launched 4,659,373 bonds convertible to state-owned Richter shares with maturity in 2009 in the context of a private offering that involved institutional investors specialized in this type of investment. The bonds matured on 28 September 2009. The government exercised its option to redeem the bonds for cash instead of converting them to shares. At the same time, the government supported the idea that Hungarian National Asset Management Inc. (MNV Zrt.), ÁPV Rt.'s legal successor should handle financing by issuing new bonds convertible to Richter shares. As a result of the subscription that was concluded on 25 September 2009, bonds with 2014 maturity amounting to EUR 833.3 million were issued to institutional investors, convertible to 4,680,672 state-owned Richter ordinary shares. On 6 November 2013 MNV Zrt. announced its intention to repurchase the convertible bonds before their maturity in 2014 and would finance the repurchase by issuing new State-owned bonds convertible to Richter shares in the amount of EUR 903.8 million maturing in 2019. The transaction was successfully concluded on 6 December 2013. The

new bonds with maturity of 2 April 2019 were launched on the Frankfurt Stock Exchanges Open Market (Freiverkehr). By retaining its shares in Richter the Hungarian State ensures the continuation of Richter's strategy, which relies on the Company's continued independence.

Major acquisitions to promote the expansion of the Company

Through the establishment of greenfield investments from the mid-1990s the parent company has expanded its network of manufacturing bases in Russia (1996) and India (2004) and through acquisitions in Romania (1998), Poland (2002). Acquisitions were aimed at a biotechnology company in Germany (2007), and Swiss women's healthcare product development firms (2010 and 2016).

Richter's recent acquisitions, the purchase of 100% of the shares of the Swiss PregLem Group (October 2010) and the buyout of Grünenthal, a German generic pharma company's women's healthcare portfolio (November 2010) enables the Company to carve out a share of the market of innovative women's healthcare products while geographically expanding the market of Richter's traditional women's healthcare products. The two transactions gave an impetus to develop a Western European marketing network and capture a greater share of the market of women's healthcare products, relying on Richter's trading companies that have been active in the field for a long time as well as on the newly established marketing companies. The change has strategic importance for the Company.

With its seat located in Geneva, PregLem was established in 2006 for the purpose of research, development and clinical trials of proprietary products for special gynaecological indications (uterine myoma, endometriosis, infertility) that have reached the clinical stage. Of its active product lines, the leading product is Esmya with ulipristal acetate as active ingredient. According to Richter's announcement on 27 February 2012, Esmya had been granted marketing authorisation valid for all EU member states for its first indication (pre-operative treatment of uterine myoma) and was launched in most markets in the course of the year.

In 2014 in an extraordinary communication Richter announced that the European Commission had granted marketing authorization for the use of Esmya for up to two courses of preoperative treatment of uterine fibroid (extension of the first indication). In

keeping with its strategy, in June 2014 Richter signed a license and distribution agreement to commercialize ulipristal acetate in Latin America.
In April 2015 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion on Richter's request for an extension of indication, and following on this decision, the European Commission granted approval for the intermittent use of Esmya in the long term management of uterine fibroids in May 2015. The marketing authorization is applicable in all countries of the European Union.
In a joint press release in May 2016 Richter and Allergan plc announced positive results from Venus I clinical trials, then in January 2017 they announced that Venus II had confirmed the results of Venus I. Both pivotal Phase III clinical trials evaluated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids. The two successful trials enable our licence partner Allergan plc to put together the regulatory dossier for securing marketing authorisation for the United States.

The women's healthcare portfolio acquired from Grünenthal AG contains seven brands. Their main sales areas are the major Western European countries but sales are also aimed at Central and Eastern Europe and have also been launched in the Middle East. Sales of the brands in the Russian market started in Q4 of 2012.

At the end of June 2016 Richter announced the acquisition of Finox Holding, a Swiss based biotech company engaged in the development and commercialisation of innovative and cost effective products addressing female fertility. Finox Holding's product Bemfola® is a recombinant human follicle stimulating hormone (r-hFSH), the first biosimilar r-hFSH product for which marketing authorisation was granted in Europe. Richter has obtained global rights for Bemfola® (with the exception of the United States). Consequent to this acquisition Richter added female fertility to its growing specialised Women's Healthcare business, and also managed to enhance its opportunities in the biolsimilar market.

Shares of the Company in Q1 of 2013 Richter took control of selling its traditional products and acquired a majority holding in its Chinese marketing partner. The company will be active in the promotion and marketing of prescription drugs. With this move Richter has fundamentally transformed and strengthened its presence in the Chinese market. To expand its scope of business, in January 2016, Richter bought out its partner's

50% share in the joint venture, which was founded in 2010, as a result of which the Company now has full control of distribution of oral contraceptives and the OTC line in China.

In the second half of 2013 Richter started to expand in the Central and South American region by founding a company in Colombia as a first step, followed by acquisitions in Brazil and Mexico. In May 2014 an agreement was signed for the acquisition of a majority stake in Mediplus N.V. registered in Curaçao, Mediplus is a marketing company covering Ecuador, Peru, Chile and Bolivia through its subsidiaries and also sells products to Central American and Caribbean countries. The acquisition process was concluded in October 2015 and resulted in Richter's holding 100% of the shares of Mediplus Group.

As a result of these transactions the Company has appeared directly in the world's fastest growing pharmaceutical markets (China and the Latin American region), and has taken strategic steps to increase its geographical penetration. Richter's women's healthcare portfolio is given a prominent role in every market.

Major consolidated companies and related changes in the Group

a. Pharmaceutical production segment

Pharmaceutical companies

The Group's Romanian manufacturing subsidiary, **Gedeon Richter Romania S. A.** manufactures and distributes finished products for the Romanian market and is also actively involved in Group sourcing of manufacturing, product development and marketing services.

The distribution companies in the Romanian pharmaceutical market still struggles with partners faced with prolonged liquidity problems. The term of payment improved to an average of 210-240 days as the national Insurance House reduced its payment term to 120-150 days while generic manufacturers still offer longer deadlines. Due to the government's regulations to reduce prices, mounting competition and continuously increasing allowances Gedeon Richter Romania S. A. is faced with great challenges; nevertheless, its domestic turnover increased year-on-year. Group level turnover

increased, including the Romanian wholesale and retail segment, so the company's tasks within the Group continue to be highly important.

The company's operating profit is positive due increasing sales and also to the fact that the claw-back tax was considerably lower.

In 2016 capex projects deployed by the Romanian subsidiary relied primarily on the company's strategic projects supporting Gedeon Richter Romania S.A.'s role within the Group. Capex projects to be highlighted include the expansion of the tablets plant and the development of the solutions unit besides improvement of the IT system and landscaping and building renovation works on the factory premises.

In 2016 the parent company increased the capital of its Romanian manufacturing subsidiary by RON 77,196 thousand through the conversion of its loans amounting to EUR 8,000 thousand and RON 41,000 thousand.

Gedeon Richter Romania S. A. continues to hold an indirect majority share in the wholesale and retail network.

Richter's Polish production subsidiary, **Gedeon Richter Polska Sp. z o. o.** is also responsible for Richter Group's registration, pharmacovigilance and PR activities in Poland. The subsidiary offering outsourced production and development services has grown to be a strategically highly important site for the Group. With a clear-cut organisational structure and a consolidated staff of 450 the company is increasingly efficient; its Polish marketing subsidiary is also effective in supporting the commercialization of proprietary products.

In the 2016 business year Richter's sales income exceeded expectations and was 8% above the reference year figure despite the keen competition and aggressive price war characterizing the Polish market. Total income from sales was PLN 240 million due primarily to outstandingly high Groprinosin sales.

The economic crisis in Russia continued to affect the 2016 performance of Richter's Russian manufacturing subsidiary **ZAO Gedeon Richter-RUS**. This is reflected primarily in the liquidity problems of the pharma wholesale companies featuring among the Top 10 buyers and deteriorates the company's earnings forecast. Conversely, the noticeable strengthening of the rouble in the second half contributed to the increase of the 2016 turnover denominated not only in rouble but also in euro and the company managed to meet its target sales income.

The company's main function will continue to be production and distribution supported by the parent company's marketing activity. The production portfolio continued to expand and in the next two years full-cycle manufacturing of several leading products will be started, for which preparations were progressing in great strides in 2016.
The company financed its 2016 capex through its own funds, and after conversion of trade receivables to loans at the end of the previous year it has no significant arrears in payment of the parent company's supplier invoices.

Richter Themis Ltd. continued to be active as a manufacturer and distributor of intermediate products and APIs mostly for Group members in 2016. There were only minor changes in the portfolio of products compared to the reference year; the company managed to make up for the products dropped from the portfolio by adding new APIs, thus its production capacities were fully utilized throughout the year. In addition, it also supplied a considerable amount of products to external buyers.
In addition to API production the company is also active in development. Production and development are economical, so the company enhances the cost effectiveness of the Group's API production.

In biotechnology services **Richter-Helm BioLogics GmbH & Co's** turnover in 2016 was above the previous year figure and achieved sales exceeding forecasts. The microbial biotechnology company is engaged partly in sourced development and partly in production. Intra-Group development is a significant aspect of its activity (in 2016 it produced three batches of filgrastrim) but its external relations are also expanding. The company's profitability has improved considerably over the past years and closed its business year with a substantial after-tax profit.

In 2016 **PregLem S.A.** continued to support the European commercialisation of Esmya, the women's healthcare product with ulipristal acetate as its active ingredient. In addition, R&D continues to be a key activity for the company with the development of Esmya's indications being top priority, albeit to a decreasing extent.

On 30 June 2016 Richter acquired **Finox Holding**, a Swiss based biotech company engaged in the development and commercialisation of innovative and cost effective products addressing female fertility. Their product Bemfola® is a recombinat human

follicle stimulating hormone (r-hFSH), which stimulates the ovaries in order to treat infertility. Richter has obtained global rights for the commercialisation of Bemfola® (with the exception of the United States). The product was granted marketing authorisation for the EU in May 2014 and is sold in over 20 countries.

As a result of the volatile situation and high exposure in Ukraine decision has been taken to discontinue the project related to **GRUA P.A.T.**'s production facilities so far out of operation.

Other consolidated companies providing sales and marketing services for the pharmaceutical segment:

In 2011 the scope of activities of the subsidiaries **Gedeon Richter Iberica S.A.U.** of Spain, **Gedeon Richter Italia S.R.L.** of Italy and **Gedeon Richter Pharma GmbH** of Germany was expanded by marketing. Besides marketing and PR services these companies are also engaged in so-called pre-distribution activities. In 2016 the companies continued to maintain the efficiency of the network of women's healthcare pharma representatives in Western Europe.

To promote marketing Richter established a subsidiary each in Switzerland (**Gedeon Richter (Schweiz) AG**), Portugal (**Gedeon Richter Portugal, Unipessoal Lda.**) and Austria (**Gedeon Richter Austria GmbH**). In 2012 Richter expanded in Belgium, the Netherlands and Luxemburg (**Gedeon Richter Benelux SPRL**) as well as in the Nordic countries (**Gedeon Richter Nordics AB**), and involved its already existing British and French companies (**Gedeon Richter UK Ltd.** and **Gedeon Richter France S. A R. L.**) in the network. The portfolio of the already developed network continued to expand by other women's healthcare products in 2016.

In 2016 **Gedeon Richter Marketing Polska Sp. z o. o.** efficiently promoted Richter's Polish manufacturing company against a background of increasingly aggressive price competition in the Polish market. With a stable turnover, reduced costs and significantly improved per capita performance and more efficient utilisation of its resources the company conducted successful marketing activities for both of its owners, Gedeon Richter Plc. and Gedeon Richter Polska Sp. z o. o.

After transforming its Polish agency into a subsidiary, the parent company decided to make a similar move in 2010 in the Czech Republic and Slovakia, and transformed its representative offices into **Gedeon Richter Marketing ČR s.r.o.** and **Gedeon Richter Slovakia s.r.o.** respectively. Richter also established **Gedeon Richter Slovenija, trženje, d.o.o.**, its subsidiary in Slovenia at the end of 2011. This was followed by the establishment, at the end of 2013 of a Croatian subsidiary **Gedeon Richter Croatia d.o.o.** The Czech, Slovak, Slovenian and Croatian companies support the sales of Richter products by operating efficient networks of representatives. The companies operate on a basis of invoicing costs plus margin, which ensures cost coverage and stable liquidity on a continuous basis.

In 2016 **Gedeon Richter (China) Pharmaceuticals Co. Ltd.** again delivered the expected results despite the widely varied sales performance of the promoted products. and an increasingly strong need to expand the portfolio of products for the future. Hopefully the approval process for registration can be shortened. OTC products and their marketing was transferred from GRmidas Medical Service (China) Co. Ltd. to Gedeon Richter (China) Pharmaceuticals Co. Ltd. once Richter fully acquires this company too in early 2017.

Active in promotional purchases, storage and distribution, Moscow based **Pharmarichter O.O.O.** proved to be a high-performing company in 2016 in both technical and financial terms.

Devaluation of the national currency has a major effect on the figures of Richter's fully owned exclusive Kazakh importer **Gedeon Richter KZ L.L.P.** After the devaluation impacts of previous periods, the Kazakh company's financial status was stabilised in 2016. Furthermore, since 1 October 2016 the distribution company has undertaken agency activities for Gedeon Richter Plc. in Kazakhstan, therefore the company now generates income from marketing services too. The outstanding investment expenditure resulted from the addition of the new business (transfer of 94 vehicles belonging to the network of pharmaceutical representatives as in-kind contribution).

The core business of **Richter-Helm BioTec GmbH & Co. KG** has been project management and business development in the field of microbial biotechnology over the

past years, focusing on Group projects (teriparatide). Similarly to the previous year, the 2016 performance of the company was in keeping with development plans.

The priority task of U.S. based **Gedeon Richter USA Inc.** continues to be the support of business development and strengthen strategic partnerships in the region.

Medimpex UK Ltd. is active in traditional trading in the United Kingdom.

Latin-America

As a first step of expansion in Central and South America started in the second half of 2013, the parent company established a company in Colombia named **Gedeon Richter Colombia S.A.S.**, with the main function to provide marketing and registration related services for the introduction of Richter's products in the region. Securing the necessary registrations and authorizations was started in 2015 and Esmya was launched in 2016.

In Mexico Richter has 80% share as a result of a two-stage transaction in **Gedeon Richter Mexico SAPI de CV**. With its portfolio limited for the time being, the Mexican company met the projected turnover in 2016. Esmya was added to the portfolio of products and generated steadily rising sales. With a view to portfolio expansion, securing the regulatory authorizations required for registration is in process. Gradual devaluation of the Mexican peso dampens the otherwise successful company's performance.

Richter has a 51% share in the Brazilian company **Gedeon Richter do Brasil Importadora Exportadora e Distribuidora SA** which continued its marketing and registration related activities in 2016 in addition to commercialization of the existing portfolio of products; however, product sales were highly volatile because of the instability of the market. In an effort to offset the negative effect the owners increased the company's capital by BRL 453,675.37 at the end of the year.

In May 2014 Richter signed an acquisition agreement in respect of **Mediplus N.V.**, which resulted in holdings in Curaçao, Bolivia, Chile, Peru and Ecuador and strengthens Richter's penetration in Latin America. In 2015 became the sole shareholder of Mediplus Group. In

the course of 2016 Esmya was sold by all companies and the portfolio of Richter's product expanded in the countries of the region.

b. Wholesale and retail

Romania

Armedica Trading S. R. L. is the holding company of Richter Group's Romanian pharmaceutical wholesale and retail trade segments.

The Hungarian parent company developed a full-fledged vertical sales network in Romania with the companies owned by Armedica as endpoints. The two outlets continues to play an important role in implementing the strategic goals of the Romanian and Hungarian parents, predominantly in the distribution of the Group's finished products and promoting Richter Group in Romania.

The Group's wholesale company in Romania is **Pharmafarm S.A.** In 2016 the company continued the trading policy started in 2015, and as a result it closed the year with an increase in sales income as well as a stable margin. The company maintained its cost containment and its strong and balanced customer management, inventories and sourcing policies. Thanks to a strict customer rating system customer-side impairment was kept lower than in previous years and impairment reversals dominated. The company generated a stable operating profit throughout the year. Collaboration continues to ensure Pharmafarm S.A.'s prominence among the suppliers of Gedeon Richter Farmacia S.A.

Gedeon Richter Farmacia S.A. is the Romanian group's retail company. Steps to streamline GRFA S.A.'s portfolio in order to improve efficiency were completed. In 2016 only one pharmacy licence was sold and the network consisted on 88 pharmacies in December. Turnover per outlet was 5% higher on the average year-on-year. There are still loss generating pharmacies, but impairment reported in previous years is now superseded by reversals related to the licences of the increasingly profitable pharmacies.

Ukraine and the CIS

After the termination of wholesale and retail, the only activity of **Gedeon Richter Ukrfarm O.O.O.**, Richter's fully owned Ukrainian subsidiary is to operate the Kiev headquarters owned by Gedeon Richter Group.

In the Moldovan pharmaceutical market the presence of Richter has become a dominant feature, as the Company has secured outstanding market shares for years. This success is the result of Richter's Moldovan agency and the excellent and successful cooperation of the retail and wholesale companies. Sales of Richter's products are efficiently supported by **Richpangalfarma S.R.L.**, a key player in the pharmaceutical wholesale market since 1996 in which Richter holds a 65% stake.

Moldova introduced regulations to maximise price margins but this did not cause a significant setback in the operation of **GR–Retea Farmaceutica S.R.L.** operating the network of pharmacies. After revamping the sales and inventories policies and redesignin the portfolio of products the 41-strong network's performance was reliable.

The economy of Armenia was hit hard when the annual GDP shrank to 2.6% in Q3. In these circumstances Richter' Armenian wholesale and retail holdings had to reckon with plummeting sales in 2016. On the positive side, the wholesale subsidiary **Richter-Lambron O.O.O.** made a successful appearance in the market of third-party products and continued to expand its network of suppliers and customers.

With its expanded network of 26 pharmacies, the sales of **Gedeon Richter Aptyeka Sp O.O.O.** declined drastically and profits dropped likewise. The outstanding profitability of previous years fell so much by the end of 2016 that the company needed a significant support from the associated wholesale company. The retail company tries to compensate for the situation by quality-driven exchanges of pharmacy units and cost containment.

The performance of the two wholesale companies with Richter's majority share operating in Jamaica (**Medimpex Jamaica Ltd.** and **Medimpex West Indies Ltd.)** resulted in a steadily improving turnover. As a result of the wholesalers' activities Richter managed to step up the distribution of its products in the region in 2016. On the negative side,

successful operation is hampered by the devaluation of the Jamaican currency against the dollar.

There was no change in the domestic wholesale share: the parent company continues to be a shareholder of the biggest pharmaceutical distributor in Hungary.
As a result of steps taken in previous years to enhance efficiency, **Hungaropharma Zrt.** continued to improve its earnings in 2016. Richter directly holds 30.68% of the company's shares.

c. Other consolidated companies segment

There has been no change in the profiles of the other consolidated companies of Richter Group (engineering, real estate management, quality control, forwarding, etc.); they provided continuous support fully in line with expectations and with good performance throughout 2016. Operation of these affiliated undertakings is focused predominantly to Hungary.
Richter's undertakings in this segment with foreign sites continue to be dormant. (Nedermed B.V., Medimpex Japan Co. Ltd. and Ambee Pharmaceuticals Ltd.)

Impact of the market environment; the Group's global strategy and activity

With its global business comprising five continents, Gedeon Richter is unique among the Central Eastern European pharma companies as its primary activities of the research and development, manufacturing and marketing of pharmaceutical products are supported by a number of subsidiaries, joint ventures and associated companies. Our manufacturing subsidiaries, which operate in our traditional markets, together with our specialized marketing network have created the foundation for a strong regional multinational Group. As a result of developments that started in the early 1990s today a number of marketing and service companies support the presence and activity of the Richter Group and strengthen its market positions in a number of countries around the world.

In response to the economic crisis in Russia, in the late 1990s the Company has re-tailored its long-term strategic goals and has been aiming at strengthening its regional-

multinational activities whilst maintaining stable positions in its traditional markets on the one hand, and strengthening its presence in the EU and the United States on the other hand with proprietary and generic products, and has sought to build long-term co-operation in supplying active pharmaceutical ingredients. The primary focus of the Company is on the expansion of the women's healthcare business and an increase in generic sales, the latter in preparation for upcoming patent expires. In the United States we concluded long-term supply contracts with manufacturers specialized in women's healthcare products.

Revamped in 2007, Richter's strategy has raised the support of the so-called specialty pharma products, i.e. development, manufacture and sales of pharmaceutical products with high value added a priority strategic goal. This goal is served by R&D projects conducted in connection with the central nervous system and in the field of biotechnology, and also by the ongoing development and expansion through acquisitions of the women's healthcare portfolio.

Implementation of the above strategy resulted in a significant increase of sales income in the EU markets. Income from sales increased likewise in the countries that have been Richter's traditional markets and who joined the EU after 2004. The latter trend is particularly significant as drug subsidies in the new accession countries are generally underfinanced, which led the Company to reduce the price of some of its products. The 2014 Ukraine crisis and the massive devaluation of the rouble curbed the dynamic growth of the pharmaceutical market that had characterised the CIS region in recent years and resulted in plummeting sales revenues mainly in Russia and Ukraine. As a result of the new sales scheme Richter strengthened its position in the Western European and Chinese markets and due to acquisitions, also in the Central and South American region. As a result, the contribution of international markets to total sales achieving 90% in 2016 too.

Richter developed a long-term collaboration with several large international companies in research and development, sales and production in various markets (the EU, the U.S., Japan and Russia).

After years of perpetual uncertainties and repeated cuts since 2006, the Hungarian pharmaceutical market was characterised by relative stability in 2016. The surtaxes affecting the pharmaceutical industry were offset up to 90% by the tax benefits the

Company was granted on account of its R&D activities. While the semi-annual blind bidding process introduced in 2011 designed to force the pharma companies to cut their prices resulted in a loss of HUF 35 million in 2016, the Company was able to compensate for it by introducing new products.

1.2 Main objectives for 2016

The Group's main objectives for 2016 were as follows: to expand sales despite a difficult market environment; to retain and improve market shares; and to strengthen the strategy of standing on multiple legs in the market; further development of cooperation between Group companies; based on the strategic principles, to shift business to enhance the contribution of high value added products; to expand the gynaecological business; to develop a new proprietary CNS (Central Nervous System) product; and to take further steps in the development of biosimilar products.

In 2016 significant advancement was achieved in the following areas:

- The pharmaceutical production segment significantly increased its income from sales in the EU markets (particularly in the EU15), as well as in China and the Other countries segment.

-On 17 September 2015 Richter and Allergan were pleased to announce that FDA granted Allergan marketing authorization of cariprazine for the treatment of manic or mixed episodes of bipolar I disorder and schizophrenia in adults. From the first quarter of 2016 the product will be sold in pharmacies of the United States under the trade name of Vraylar™. Besides its long term positive financial impact this event has an obvious significance in terms of industrial history. The two companies released a clinical and regulatory update on the cariprazine programme in August 2016. Topline results from the MD-72 trial indicate that flexible doses of cariprazine did not separate significantly from placebo as an add-on treatment in adults with major depressive disorder (MDD) in this trial, therefore the companies will continue to work on a subsequent Phase III trial to prove efficacy.

-On 29 March 2016 the European Medicines Agency (EMA) started assessment of the marketing authorisation of cariprazine for the indication of schizophrenia. In August of the same year Richter and Recordati signed a licence agreement granting Recordati exclusive sales license to commercialise the product in Western Europe as well as Algeria, Tunisia and Turkey.

-In the context of a HUF 15 billion investment programme Richter is expanding the Debrecen biotechnology plant constructed in 2012 for the development and manufacturing of biosimilar products. A Government grant has been received in amount of HUF 5 billion. By creating new jobs the project will almost double the biotech manufacturing capacity.

-On 4 January 2016 Richter announced that the European Medicines Agency (EMA) has accepted Richter's regulatory submission for the proposed biosimilar to Eli Lilly's Forteo (teriparatide). The biosimilar teriparatide has been developed by the Company's subsidiary Richter-Helm BioTec GmbH & Co. KG. According to the relevant license agreements, biosimilar teriparatide is expected to be launched under both Richter-Helm BioTec GmbH & Co. and Stada labels in Europe following the patent expiry of the original product. On 14 November 2016 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion on the product and accordingly proposes the granting of marketing authorisation for the biosimilar teriparatide Terrosa. Following on the positive opinion on 4 January 2017 the European Commission granted marketing authorisation for Terrosa.

-In December 2015 it was announced that the EMA had accepted Richter's regulatory submission for its proposed biosimilar to Amgen's Neulasta (pegfilgrastim). In December, 2016 the Company withdrew the application after the CHMP's notification in November that the data submitted were not sufficient for a positive evaluation of the risk/benefit analysis related to the product. Richter is committed to continue with the clinical development programme and registration of pegfilgrastim.

-With a view to expanding its Women's Healthcare portfolio. at the end of June 2016 Richter acquired Finox Holding, a Swiss based biotech company engaged in the development and commercialisation of innovative and cost effective products addressing

female fertility. Finox Holding's product Bemfola® is a recombinat human follicle stimulating hormone (r-hFSH), the first biosimilar r-hFSH product to be granted marketing authorisation in Europe. Richter has obtained global rights for the commercialisation of Bemfola® (with the exception of the United States) thereby intending to emphasize its commitment to biosimilar products.

-In a joint press release in May 2016 Richter and Allergan plc announced positive results from the Venus I pivotal Phase III clinical trials that evaluated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids.

-Following the lines of the "specialty pharma" strategy developed in 2007, in 2015 Richter signed a license and distribution agreement with Bayer HealthCare to commercialize Bayer's transdermal contraceptive patch under the trade name Lisvy. In October 2016 Richter initiated immediate withdraw after receiving Bayer's notification that the results of certain stability tests conducted with the product had not met the product specifications. The two companies are working together to identify the causes leading to the test results.

-As another step towards the implementation of its biosimilar strategy, in October 2016 Richter signed an agreement on the technology transfer to manufacture trastuzumab, a monoclonal antibody developed by DM Bio of Korea, and to take over the licence of development and commercialisation. Richter will secure exclusive distribution rights for the territory of Europe, the CIS region and Latin America.

-To bring development and manufacture of biosimilar products to new heights the Company set up an independent organisational unit named Biotechnology Business, which has been in operation since 1 July 2016.

-In December 2010 Richter announced the foundation of Gedeon Richter Rxmidas Joint Venture Co. Ltd. with an initial equity share of 50%. On 22 January 2016 it was announced that Richter acquired from its partner, Rxmidas Pharmaceuticals Holdings Ltd. its outstanding 50% stake in the joint venture company. Consequently, with its 100% holding Richter will be in full charge of its contraceptive and OTC business in China.

-The Accounting Act provided for the mandatory application, as of 1 January 2017, of the International Financial Reporting Standards for the purpose of stand alone financial statements for companies whose securities are traded in the regulated market of any of the EEA member states. Pursuant to this provision. from 1 January 2017 Richter must apply the IFRS for the purpose of financial reporting. From 1 January 2017 Richter prepares its reports and statements in accordance with its stand alone IFRS.

-In 2016 Richter took further steps to expand its international business through a capital increase in its manufacturing companies and continuing its investments. Driven by the goal of adapting to the Russian economic policy of favouring local production. Richter made supporting investments into the Russian subsidiary a special priority.

1.3 Share structure of Gedeon Richter Plc.

	Ordinary shares Number	Voting rights * %	Share capital %
Domestic ownership	59,832,738	32.15	32.11
State ownership total	47,051,817	25.28	25.25
including MNV Zrt,	*47,051,668*	*25.28*	*25.25*
including Municipality	*149*	*0.00*	*0.00*
Institutional investors	6,070,053	3.26	3.26
Retail investors	6,710,868	3.61	3.60
International ownership	126,289,476	67.84	67.75
Institutional investors	124,591,828	66.93	66.84
including Aberdeen Asset Management Plc,	*18,243,530*	*9.80*	*9.79*
including Harding Loevner LP ***	*9,367,925*	*5.03*	*5.03*
Retail investors	1,697,648	0.91	0.91
Treasury shares**	241,634	0.00	0.13
Undisclosed ownership	11,012	0.01	0.01
Share capital	**186,374,860**	**100.00**	**100.00**

* Article 13,8 of the Statutes restricts the voting rights of shareholders, alone or together with other related persons to no more than 25%.

**Treasury shares include the combined ownership of the parent company and subsidiaries.

***On 21 October 2016 Harding Loevner LP's influence increased to 5.03%.

The data in the table above were compiled based on the share registry adjusted by information provided by KELER Zrt. as clearing company, global custodians and nominees, Given the confidentiality of investors' interests, the records of some investment funds may contain ownership and/or voting rights data that differ from those above.

There are no shares in issue that involve special control rights.
Gedeon Richter Plc, has no shares whose market trading is not permitted.
There is no restriction regarding the transfer of shares in issue representing the share capital.
The Company is not aware of any agreement between shareholders that would result in restricting shares issued or the transfer of voting rights,
Each share with a face value of HUF 100 entitles the holder to one vote; however, the Statutes restrict the exercise of shareholders' rights by stipulating that at the AGM no shareholder shall exercise voting rights, in their own right or as a proxy of another shareholder, alone or together with other related person(s) in excess of 25% of the voting rights represented by the shareholders attending in person or by proxy.

As of 1 January 2016 the number of ordinary shares comprising the Company's subscribed capital was 186,374,860. The number of shares did not change in the course of 2016.

The closing price of shares as of 30 December 2015 was HUF 5,498 compared to HUF 6,210 as of 30 December 2016, Average monthly share prices in 2016 varied between the minimum of HUF 5,110 per share (in February) and the maximum of HUF 6,062 per share (in December).

1.4 Treasury shares held by the Group

Group	Ordinary shares	
	31.12.2015	31.12.2016
Shares	811,655	241,634
Nominal value HUF`000	81,166	24,163
Book value HUF`000	3,206,496	1,285,077

Gedeon Richter Plc. purchased 50,000 ordinary shares in June 2016, than 600,000 ordinary shares in November 2016 from its affiliated company Richter Gedeon Befektetéskezelő Kft., thus the number of Richter shares held by subsidiaries was 60,284 as of 31 December 2016.

Following the decision of the Board of Directors 604,789 ordinary shares were granted as a bonus to employees whose outstanding performance contributed to Richter's earnings for the year.

In keeping with the programme approved by the National Tax and Customs Administration of Hungary (NAV) related to employee share bonuses the Company granted 285,459 Treasury shares to 4,342 employees on 16 December 2016.

1.5 Corporate governance

Statement on corporate governance

Corporate Governance principles and practice implemented by the Company are in accordance both with the guidelines set by the Budapest Stock Exchange, the directives of the capital market, the provisions of the Civil Code and the Statutes. In addition, the Company reviews from time to time the principles applied to ensure, on an ongoing basis, in order to appropriately control the Group's operation in compliance with continuously developing international practices. In matters where the Company does not apply the guidelines of the Budapest Stock Exchange or the directives of the capital market, or does not apply them in their entirety, the Annual Report on Corporate Governance is applicable. The Report on Corporate Governance is part of the Annual Report; it is

deliberated and approved by the AGM as a separate agenda item, and it is published on the website of the Budapest Stock Exchange as well as on the Company websites.

In 2016 the Company did not depart from the regulatory methods described above.

Gedeon Richter's key principles of Corporate Governance are to create and maintain satisfactory dialogue with shareholders so as to enhance shareholder value, to differentiate the roles and responsibilities of the Board of Directors, the Executive Board and the Supervisory Board, and to operate the Group's business in compliance with legal and regulatory requirements and to maintain the highest ethical standards.

Corporate bodies

The Annual General Meeting is the supreme decision making body of the Company, and comprises all shareholders. The Annual General Meeting decides, inter alia, on the adoption of the annual financial statements and the appropriation of profit, the election or removal of members of the Board of Directors, Supervisory Board and Audit Committee, the appointment of the statutory auditor, amendments to the Statutes, changes that have a significant impact on the Company's share capital and other issues within its competence under the Statutes.

Rules of amendment to the Statutes:

- As a general rule, unless otherwise provided for by the Statutes, modification of the Statutes require a three-quarter majority of the votes present at the General Meeting, but at least 20% + 1 vote;
- The following decisions require a greater majority pursuant to the Statues (90% majority of the votes present at the General Meeting, but at least 45% + 1 vote of all the voting shares):
  - Changing the form of the Company,
  - Transformation and termination of the Company without succession,
  - Possible major cutback or discontinuation of the Company's R&D or manufacturing activities in Hungary,
  - Any change in the name, the registered company name and/or trade name of the Company,
  - Changing the seat of the Company,
  - Discontinuation or deletion from the Companies Register of the Company's core business,

- Articles 12.1 d) and y) of the Statutes specifically provide for the election, removal and remuneration of the members of the Board of Directors, the Supervisory Board, the Audit Committee and of the Auditor,
- In matters falling within the exclusive competence of the General Meeting as defined by Article 12.1 of the Statutes (except for the matters listed above) the following rules are applicable:
  - a three-quarter majority of the votes present at the General Meeting, but at least 35% + 1 vote;
  - a three-quarter majority of the votes present at the General Meeting, but at least 20% + 1 vote;
  - a simply majority of the votes present at the General Meeting, but at least 20% + 1 vote;

The **Board of Directors** is the supreme decision-making body of the Company except with respect to those matters reserved for shareholders. A majority of Directors of the Board are Non-Executive Directors. All the non-executive directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The offices of Managing Director and Chairman are held separately until at the end of 2016. The latter is elected from among the non-executive directors, Directors of the Board are not entitled to issue or redeem shares. The Board works based on an agreed agenda in reviewing the key activities of the Company's business. The Company Secretary is responsible to the Board and is available to individual Directors in respect of Board procedures. Board members are elected by the AGM for a maximum term of five years. In 2004 the Board decided to set up two subcommittees which prepare and submit proposals contributing to the Board's decision making process. The subcommittees each consist of at least three non-executive independent Board directors.

The **Corporate Governance** and **Nomination Subcommittee** is responsible for considering and making recommendations to the Board concerning the appropriate size, functions and needs of the Board. This responsibility includes establishing the criteria for Board membership; conducting appropriate inquiries into the background and qualifications of possible candidates; considering matters of corporate governance and reviewing periodically our Corporate Governance Principles. The Board of Directors

discusses the recommendations of the Corporate Governance and Nomination Subcommittee and drafts a proposal for the election on officers for the consideration of the General Meeting.

The **Remuneration Subcommittee** is responsible for establishing annual and long-term performance goals and objectives for elected officers. This responsibility includes preparing proposals for the compensation of the Managing Director.

The **Executive Board** is responsible for the executive management of the Company's business. The Executive Board is chaired by the Managing Director, In order to maintain a sharp focus on strategic management the board comprises only the Executive Directors.

Overseeing the management of the Company is performed by the **Supervisory Board**. It meets on a regular basis in accordance with statutory provisions and at other times when necessary to consider details of the Company's operating activities. It submits proposals to the Board of Directors and discusses the Company's strategy, financial results, investment policy and systems of internal audit and control. The Supervisory Board is provided with regular and detailed information about the management of the Company, and the chairman is entitled to attend the meetings of the Board of Directors with the right to consultation. The members of the Supervisory Board are elected or re-elected by the AGM for a maximum term of three years,

The Company has an **Audit Committee** comprising three members elected by the General Meeting from among the independent members of the Supervisory Board. The Audit Committee is responsible for the oversight of the Company's internal accounting standards.

The company has no agreement with its officers or employees that provide for indemnification in the event the officer resigns or the employee terminates their employment, or the officer or employee terminate their legal relationship illegally or the legal relationship ceases as a result of a public bid.

Risk management and internal control

Richter undertakes risk management in the context of running its business efficiently. We aim at the timely recognition, the precise understanding and the assessment of the risks, and to implement effective countermeasures. Our risk management activity includes the evaluation of internal controls so that our risk assessment supports the Company in maintaining efficient internal control.

Richter's view is that not all risk management aspects can be formalised, and in our risk-related decisions and in the implementation of internal requirements and rules we rely on the Company's relevant bodies and trust the skills, experience and judgement of our decision-makers.

Accountability and control related to risk management

- The Board of Directors is responsible for the overseeing and control of the Company's risk management and calls on the Executive Board to report in order to identify the main risk areas; in collaboration with the management it develops the basic risk management requirements, and regularly acquires information on the effectiveness of related risk management procedures and internal control processes.
- The Executive Board is answerable to the Board of Directors in respect of the implementation of risk management procedures and is ultimately accountable for risk management. Moreover, it is the duty of the Executive Board to to develop and maintain an internal control system to manage risks associated with the Company's business and to promote Company's goals.
- Strategic risk management is directly a duty of the Executive Board.
- The operational areas are responsible for managing their own operational and compliance risks. In meeting this duty the heads of the areas of operation are supported by the meetings of the corporate bodies. In the context of the company's internal reporting procedure heads of the operational areas report to the Executive Board on risks arising in their particular area.
- Financial risks are managed in a centralised fashion by the Company's financial management.

- The key components of control are management control, integrated process control, independent internal audits, and external auditors.
- Internal audits are conducted by the Audit Department based on a preliminarily approved annual schedule and aim to ascertain by an independent and objective assessment whether the internal control system is suitable for efficient risk management. When drawing up the annual audit plan the Company's risks are taken into consideration (on the basis of importance and by rota), as are the Executive Board's recommendations.
- Risk management, internal controls and corporate governance are evaluated annually in the context of the Annual Report.
- The Supervisory Board and the Audit Committee reviews the defined risks and risk management mechanisms once a year.

Other information

Over the past years Richter has grown from a regional player to a global company despite a keen competition in the pharmaceutical market. Besides the advantages of expansion the Company faces day by day the challenges of compliance with a complex regulatory environment brought by global operation. In keeping with international industrial practice a Global Compliance Program was introduced in November 2016 with the main goal of following, compliance and enforcing compliance with European and national regulations, industrial standards, and internatioal business standards and ethics. As a first step the Global Compliance Program was introduced in Hungary and in the European Economic Area states, to be followed in the near future by China and Latin America, where strict anti-corruption legislation and other local regulations also require guidance by the parent company.

The Board of Directors announced that Mr. Gábor Orbán, member of the Executive Board was appointed Director of Corporate Strategy (6 September 2016), and Chief Operating Officer from 1 January 2017 (appointed on 6 December 2016).

On 5 December 2016 the Board of Directors informed the shareholders that Mr. William de Gelsey resigned of his position as Chairman from 1 January 2017 whilst continuing to

serve on the Board. At its meeting held on the same day the Board of Directors elected Mr. Erik Bogsch, CEO of the Company to serve as Chairman with effect from 1 January 2017.

1.6 Other information

In 2007 the Company commenced construction of a new plant in Debrecen to develop and manufacture biotechnology products, and announced its involvement of tax benefit with the contents set out in the relevant Government Decree. The investment that meets the condition in Section 22/B (1) b) of the Act on Corporate Tax and Dividend Tax was concluded in 2011 and all the equipment that formed part of the project was commissioned. The Company made use of the tax incentive related to the investment project in the 2012 and 2013 business years. The unexpected economic troubles of 2014 (Ukraine crisis, devaluation of the rouble) had a negative impact on the Company's finances, therefore in 2014 it did not utilise the development related tax incentive. The outstanding tax incentive facility was again used in 2015.

The parent company prepared consolidated audited financial statements for the first time for the 2002 fiscal year. Since 2003 the quarterly reports to the Stock Exchange have included consolidated non-audited balance sheet, income statement and cash flow statement data according to IFRS. Availing itself with the option provided by the Hungarian Accounting Act, since 2005 Richter has only prepared consolidated financial statements in accordance with IFRS, involving its subsidiaries, joint ventures and associated companies with the parent company.

With effect from 1 January 2017 stand-alone IFRS reporting also became compulsory for Gedeon Richter Plc.The Company implemented changes to the IT system supporting the transition. As part of this development the Company reviewed its methodology to eliminate intra-group profit on sale of inventories. This review discovered that previously applied average margin for elimination was not precise on purchased inventories and that intra-group profit on own manufactured inventories was not fully eliminated. As a consequence, the inventory had been incorrectly overstated and cost of sales understated.

The above described IT development enabled the Group to fully eliminate intra-group profit on sale of inventory.

Additionally, the preparation of stand-alone IFRS report of Gedeon Richter Plc. has revealed that the book value of previously identified difference between the IFRS and statutory value of property plant and equipment and its depreciation have not been reviewed annually. As a consequence, the balance of property, plant and equipment was understated and previous years' depreciation was overstated. The review resulted in correction of the value of property plant and equipment and retained earnings.

In accordance with IAS 8 standard the corresponding figures for previous periods have been restated accordingly.

2. The Group's 2016 operating review

2.1 The balance sheet as of 31 December 2016

ASSETS

The Group's assets amounted to HUF 813,877 million, HUF 66,883 million (9,0%) higher than the opening value. Fixed assets were up by HUF 64,966 million, and current assets by HUF 1,917 million.

Fixed assets

Non-current assets amounted to HUF 503,931 million in the reported period, HUF 64,966 million (or 14.8%) up from the reference figure. Other intangibles assets were HUF 41,850 (or 27.7%) up million year-on-year mainly as a result of the acquisition of property rights attached to Bemfola® in the wake of the Finox Holding transaction reduced by the impairment consequent to the withdraw of the contraceptive patch Lisvy®, and the depreciation and year-end currency related restatement of Esmya. The HUF 13,052 million (or 7.3%) growth of Property, plant and equipment is attributed primarily to the development of the new state-of-the-art freeze-drying unit and the injectables packaging plant. The HUF 3,744 million (or 5.8%) increase in Goodwill is the net result

of the settlement of the Chinese acquisition, the revaluation of goodwill on acquisitions in previous years, and the impairment of goodwill related to Mediplus Group. The fair valuation of the Russian wholesale and retail group Protek upped the value of the Other financial assets item.

Current assets

Current assets were 0,6% or HUF 1,917 million above the reference figure of HUF 308,029 million. Mention should be made of the fall in Cash and cash equivalents (HUF -36,321 million or -27.4%) explained by the Finox Holding acquisition and the EUR 21 million loan repayment. Conversely, the value of current assets rose mainly due to an increase in Inventories in the wake of Finox Holding's consolidation (HUF +16,566 million or +25.6%) and the HUF 23,684 million (25.6%) rise in Trade receivables. The latter includes the exchange rate impact of trade receivables in Russia.

SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity

In 2016 shareholders' equity was HUF 681,873 million, or 10.3%, higher compared to the 31 December 2015 figure.

Liabilities

The Group's total liabilities amount to HUF 132,004 million.

Non-current liabilities were HUF 42,792 million, HUF 14,080 million below the 31 December 2015 figure. Liabilities are reduced by a EUR 25 million loan portfolio the parent company reclassified as current liabilities. The combined value of Other long-term liabilities and Accrued and deferred liabilities is HUF 3,369 million less year-on-year due mainly to reclassification of the deferred Chinese and Mexican acquisition prices as a liability due and payable within one year. The decrease was partly offset by the advance amount of subvention granted by the Ministry of National Economy to fund innovative pharmaceutical research and development.

Current liabilities amounted to HUF 89,212 million as of 31 December 2016, 24.4% above of the 31 December 2015 figure, primarily as a result of the reclassification of the

items described above and the HUF 7,717 million (or 20.2%) increase of the Trade payable item.

2.2 The 2016 income statement

The Group's profit for 2016 is HUF 67,023 million, 24.4%, or HUF 13,160 million, higher year-on-year. Declining margin (due to the weakening EUR-RUB rate and Bemfola's depreciation), increase in Sales and marketing costs, write-off related to Lisvy's withdraw and impairment of Mediplus' goodwill were only partially offset by the one-off fair valuation difference related to Gedeon Richter Rxmidas JV Co. Ltd., and the Recordati milestone reported in the Other income and expenditure item, and the decrease in R&D costs. These processes had a negative impact on operating profit, however, this was compensated for net financial income (after a significant loss in the reference period attributed to the devaluation of the rouble and the Kazakhstani tenge).

Richter Group's activity can be classified into three operating segments. The Pharmaceutical Production segment includes the companies that are involved in the Group's core business, i.e. research, development and production of pharmaceutical products; it also includes the distribution and marketing companies that are directly involved in the sales and promotion of products. The wholesale and retail segment includes the performance of distribution companies and pharmacies that are part of the sales network in the various regional markets and, as such, convey our products to consumers. The third operating segment (Other segment) presents all the other consolidated companies that provide services in support of the production members of the Group, and are also engaged in non-pharmaceutical activities.

	Pharmaceutical Production segment		Wholesale and Retail Trade segment		Other segment		Eliminations		Group total	
	2015* HUF million	2016 HUF million	2015 HUF million	2016 HUF million	2015 HUF million	2016 HUF million	2015 HUF million	2016 HUF million	**2015* HUF million**	**2016 HUF million**
Total sales	308,910	323,839	63,691	74,464	4,602	4,603	(11,983)	(13,216)	**365,220**	**389,690**
Gross profit	212,170	217,283	7,776	7,629	911	571	(248)	205	**220,609**	**225,688**
Operating profit	66,148	55,204	893	1,158	(98)	151	(261)	(1,897)	**66,682**	**54,616**
Share of profit of associates	228	(835)	1,308	2,566	4	41	(38)	26	**1,502**	**1,798**
Closing headcounts	9,649	10,073	1,443	1,475	339	344	-	-	**11,431**	**11,892**

* Data restated (See 1.6 Other information).

2.2.1 Income from sales

Income from the pharmaceutical production segment

Region	2015 HUF million	2016 HUF million	Variance	
			HUF million	%
Hungary	34,038	34,979	941	2.8
Export				
CIS	111,964	111,598	-366	-0.3
EU *	107,378	114,631	7,253	6.8
USA	18,103	18,813	710	3.9
China	16,849	21,616	4,767	28.3
Latin America	5,997	5,819	-178	-3.0
Other countries	14,581	16,383	1,802	12.4
International markets total	274,872	288,860	13,988	5.1
Total	*308,910*	*323,839*	*14,929*	*4.8*

* Excluding Hungary

The 2016 net income from sales **totalled** HUF 323,839 million, HUF 14,929 million in excess of the 2015 reference figure.

Income from the 2016 pharmaceutical production segment's sales was 2.8% higher compared to the reference year. International markets in HUF was 4.8% up; and in EUR, 4.2% up year-on-year.

There were changes in the breakdown of export by regions compared to the reference year: after a decrease of two percentage points the CIS markets' share was 34%. The EU

states' share remained the same and contributed 35%. The contribution of Hungary, the United States and the Other Countries region was 11%, 6 % and 5 % respectively. China's turnover contributed 7% in 2016 and grew two percentage point year-on-year. Latin America's share from sales was 2% in both the reference and the reported period.

Based on the 2016 year-end figures, the pharmaceutical production segment realized HUF 34,979 million sales **in the Hungarian market**, 2.8% (or HUF 941 million) above the 2015 figure.
The main factor was increasing Suprax, Esmya, Vidotin Komb, Xilomare and Duamild sales, reduced by dropping Kalmopyrin, Lisonorm, Klion and oral contraceptives. In 2016 oral contraceptives were the leading item in terms of sales contributing 8.8% to sales income.

In 2016 no significant changes took place in terms of price regulations in the domestic pharmaceutical market. Pharmaceutical representatives' registration fee was reintroduced as of 15 February 2009 and cost Richter HUF 219 million in 2015 and HUF 253 million in 2016.

With this performance the Company's market share was 5.4% in 2016, 0.1% above the reference year's figure. Richter ranked second in the prescription drugs market with a share of 7.4%.

The pharmaceutical production segment's income for **international markets** increased from HUF 274,872 million (EUR 887.6 million) in 2015 to HUF 288,860 million (EUR 927.4 million) in 2016.

Russia continues to the leading market of the **CIS** region and also of the Company with turnover denominated in RUB 12.8% above the reference year figure and the same in EUR terms, largely influenced by the massive devaluation of the rouble against the euro. The main pull products contributing to the increase were oral contraceptives, Mydocalm, Verospiron and Airtal curbed by dropping Panangin and Pregabalin-Richter sales.
Sales in Ukraine rose by EUR 3.0 million compared to 2015 resulting in an 11.3% boost in sales income. Growth leaders in Ukraine included Groprinosin, Verospiron and Quamatel, while Ekvator sales were lagging. Richter has introduced a more stringent receivables management policy and has reduced shipments to Ukraine because of the

volatile political and economic environment since the beginning of 2014. As regards Other CIS countries, Belarus, Kazakhstan and Turkmenistan achieved lower year-on-year turnover while Moldovan sales increased.

The total turnover achieved in the CIS market was HUF 111,598 million and contributed 39% to total export. Year-on-year decrease was 0.3% (HUF 366 million). Expressed in Forex, the turnover was EUR 358.3 million with a 0.9% decrease year-on-year.

Sales in the **European Union** totalled HUF 114,631 million, 6.8% above the 2015 figure. The region's contribution to exports grew to 40 %. Expressed in Forex, the increase amounted to EUR 368.0 million with a 6.1% increase y/y.

The turnover realized in the pharmaceutical markets of the EU15 region was HUF 58,980 million (EUR 189.4 million), 11.8% (in EUR 11.2 %) above the reference year figure. Owing to the efficient promotion efforts of the Western European network of pharmaceutical representatives the Company's strategic product Esmya realised a significant sales increase, which greatly contributed to the increase in the EU15 region. On the other hand, the CEE Member States decreased their contribution to total sales in the EU region to approximately 49% in 2016 with a 1.2% increase in sales income in euro. The increase is attributed primarily due to the performance of Groprinosin, Grofibrat in Poland as well as Bemfola and Esmya, worsened by declining oral contraceptive sales income and, in the Baltic states, dropping Avonex sales due to the expiry of the relevant license agreement.

The turnover realised in the **United States of America** was up by 3.9% (HUF 710 million), or expressed in dollar, by 3.2% (USD 2.1 million). Outstanding in dollar terms, royalty related to Vraylar™ sales were held back by decreasing income based on profit sharing agreements due to mounting generic competition in the category if women's healthcare products.

Turnover in the **Chinese market** was HUF 21,616 million (EUR 69.4 million) with a y/y increase of HUF 4,767 million (or EUR 15.0 million). Increasing sales income generated by Cavinton and Escapelle should be particularly noted. The latter is the result of the acquisition of our OTC joint venture. The price difference compensation due to the strengthening of the yuan against the euro accounted for retrospectively is reported in the

Sales income line item, and the exchange rate compensation is reported in the Other incomes item.

Latin American sales dropped by 3.0% in HUF and 3.7% in USD. The sales decrease is attributed mainly to oral contraceptives. The region's share from the total income achieved in international markets is 2%.

In the category of **Other countries**, oral contraceptives were the leading products. In the Other countries region the turnover was HUF 16,383 million (EUR 52.6 million). Compared to 2015, turnover was 12.4% higher (in Forex, 11.7%). The contribution of the region to international sales was 6 %.

The contribution of priority products to the pharmaceutical production segment's sales

Finished products contributed 92% to the 2016 sales revenues; the contribution of services was 3%, that of APIs was 2%, and sales of royalties and purchased materials contributed 2% and 1% respectively.

The following table contains the Top Ten product groups based on their contribution to total sales revenues:

2015				2016			
Rank Rank		Sales HUF million	Share %	Rank Rank		Sales HUF million	Share %
1	Oral contraceptives	90,680	29.3	1	Oral contraceptives	87,002	26.9
2	Cavinton/vinpocetine	26,567	8.6	2	Cavinton/vinpocetine	28,760	8.9
3	Mydeton/tolperisone	17,086	5.5	3	Esmya /ulipristal acetate	21,504	6.6
4	Esmya /ulipristal acetate	15,406	5.0	4	Mydeton/tolperisone	17,647	5.4
5	Panangin/asparaginates /enalapril, lisinopril	15,084	4.9	5	Panangin/asparaginates /enalapril, lisinopril	13,150	4.1
6	Verospiron/ /spironolactone	12,012	3.9	6	Verospiron/ /spironolactone	12,239	3.8
7	ACE inhibitors /enalapril, lisinopril	11,128	3.6	7	ACE inhibitors /enalapril, lisinopril	10,344	3.2
8	Lisonorm/ /lisinopril, amlodipine	8,556	2.8	8	Groprinosin/ inisine pranobex	9,108	2.8
9	Aflamin/aceclofenac	7,042	2.3	9	Aflamin/aceclofenac	7,562	2.3
10	Quamatel/famotidine	6,757	2.2	10	Lisonorm /lisinopril, amlodipine	7,175	2.2
	Total	210,318	68.1		Total	214,491	66.2
	Net income from sales	308,910	100.0		*Net income from sales*	*323,839*	*100.0*

The contribution of the ten leading product categories to total sales was 66.2 %, 1.9 percentage points lower than the reference year's figure.

Oral contraceptives are the leading products with a turnover of HUF 87.0 billion, 4.1% lower than in 2015. The change was primarily due to declining sales of the German Drospirenone and Grünenthal portfolio and income based on profit sharing agreements, and was reduced by the royalty relating to Vraylar™ sales. The contribution of this product category to the 2016 total turnover was 26.9%, 2.4 percentage points below the reference year. The second most important product is original Cavinton with 8.3% higher

turnover compared to the reference year (rising sales income in China). Esmya's turnover was 39.6% higher year-on-year; the product advanced one place and managed to secure the outstanding third place. The growth in turnover is due primarily to an increase in sales income in the Spanish, German, French and British markets. While Mydeton sales (in Russia) were marginally higher, the product slipped one place. Panangin kept its fifth place despite an approximately 13% decline in sales (in Russia). As opposed to keener turnover in Russia and Ukraine, the market in Spain and Belarus was sluggish, which resulted in Verospiron keeping its sixth place. ACE inhibitors also kept their place achieved last year (7th) primarily as a result of declining Russian sales. Due to outstanding sales in Poland and Ukraine Groprinosin's turnover was 44.9% up and the product made it to the Top Ten list achieving eighth place. In 2015 it was 11th. Aflamin (Russian increase) kept its ninth place on the list. Conversely declining sales in Ukraine were the main factor contributing to Lisonorm's slip by two places, 10th in 2016. Tenth in 2015, Quamatel finished 11th in 2016.

The contribution of leading markets to the sales of the pharmaceutical production segment

In 2016 the Pharmaceutical Production segment's ten leading markets were as follows:

	2015				2016	
	HUF million	EUR million			HUF million	EUR million
1, Russia	79,781	257.7	1,	Russia	80,240	257.6
2, Hungary	34,038	109.9	2,	Hungary	34,979	112.3
3, Poland	21,577	69.7	3,	Poland	22,220	71.3
4, Germany	19,818	64.0	4,	China	21,557	69.2
5, United States of America	18,103	58.5	5,	Germany	19,833	63.7
6, China	16,756	54.1	6,	United States of America	18,813	60.4
7, Romania	8,898	28.7	7,	Romania	9,606	30.8
8, Ukraine	8,235	26.6	8,	Ukraine	9,216	29.6
9, Kazakhstan	7,638	24.6	9,	Spain	7,251	23.3
10, Czech Republic	7,396	23.9	10,	Czech Republic	7,092	22.8
Total	222,240	717.7		Total	230,807	741.0
Net income from sales	*308,910*	*997.5*		*Net income from sales*	*323,839*	*1,039.7*

The ten leading countries jointly contributed 71.3% to Richter Group's total pharmaceutical sales. Russian continues to head the list with almost unchanged sales income. Similarly to the reference year, Hungary finished second and Poland third in 2016. With a massive increase in sales income (Escapelle as a result of the OTC company's acquisition) China advanced two places (4th). On the other hand, Germany and the USA each slipped a place. Growing sales allowed Romania and Ukraine to retain their 2015 positions and finished 7th and 8th. Respectively Kazakhstan did not make it to the Top Ten and yielded its place to Spain, which finished 9th on the list. The Top Ten list was closed by Czech Republic in both periods.

Turnover of the wholesale and retail segment

	2015 HUF million	2016 HUF million	Variance HUF million	Variance %
Hungary	133	121	-12	-9.0
Export				
CIS	13,143	13,523	380	2.9
EU *	46,353	56,758	10,405	22.4
USA	-	-	-	-
China	-	-	-	-
Latin America	4,062	4,062	0	0.0
Other countries	-	-	-	-
International markets total	63,558	74,343	10,785	17.0
Total	*63,691*	*74,464*	*10,773*	*16.9*

* Excluding Hungary

Based on the year-end figures for 2016 the Wholesale and Retail segment realized HUF 74,464 million (EUR 239.1 million) income from sales, HUF 10,773 million (or 16.9%) above the 2015 figure.

The most significant portion of income generated by this segment was contributed by the Romanian pharmaceutical wholesale company (Pharmapharm S.A.) and Gedeon Richter Farmacia network of pharmacies. Sales in Romania increased by 22.4% in HUF terms. The driver of the growth was the wholesale company's rising sales. While delays in

payments to pharmacies eased, the Romanian pharmaceutical market is still characterized by massive delays in paying outstanding dues to pharma companies.

The rise in the Romanian region was slightly boosted by the performance of the wholesale and retail networks in the CIS (Moldova and Armenia).

Among the leading products of Wholesale and Retail, income from the sales of oral contraceptives, Lunaldin and Pregabalin increased.

Turnover of the other segment

	2015 HUF million	2016 HUF million	Variance HUF million	Variance %
Hungary	4,457	4,480	23	0.5
Export				
CIS	99	82	-17	-17.2
EU *	46	29	-17	-37.0
USA	-	-	-	-
China	-	-	-	-
Latin America	-	-	-	-
Other Countries	-	12	12	-
International markets total	145	123	-22	-15.2
Total	*4,602*	*4,603*	*1*	*0.0*

* Excluding Hungary

The turnover of the Other consolidated companies segment was almost the same as in the reference year (0.0%, -0.7% and -1.2%) in HUF, EUR and USD.

2.2.2 Costs of sales; operating profit

Costs of sales in 2016 amounted to HUF 164,002 million, HUF 19,391million more than the figures achieved in 2015. Costs of sales included depreciation in European markets on the intangible asset Esmya amounting to HUF 2,887 million and amortization of other intangible asset Bemfola amounting to HUF 1,010 million.

Gross profit from sales was HUF 225,688 million, approximately the same as the reference year figure (HUF 220,609 million). The **gross margin** was down from 60.4%

in the reference year to 57.9% in 2016. Devaluation of the rouble against the forint and the euro on an annual basis, dropping sales in the Other CIS countries market in the wake of deteriorating exchange rates, and depreciation on Esmya and Bemfola narrowed the margin. In addition, the contribution of the lower margin Romanian wholesale turnover increased, which also deteriorated the gross margin for the reported period. These impacts were only partially offset by royalty related to Vraylar™ sales from Allergan and increasing sales in the above-the-average margin EU15 and Chinese markets.

Within the operating costs item **Sales and marketing expenses** amounted to HUF 107,564 million in 2016, 9.4% higher year-on-year. Sales and marketing costs were 27.6% of sales revenues in the period of reporting. Increasing marketing costs in the EU15, China and Latin America and the cost booster effect of the consolidation of Finox Group was only partially compensated for by marketing costs containment in Russia, Ukraine and Other CIS countries (accompanies gy downsizing the sales network staff in the latter two countries), and additional annual based devaluation of the rouble and other CIS currencies.
Depreciation of marketing and brand related rights of the contraceptives acquired from Grünenthal added HUF 4,427 million to the level of costs and contributed 1.1% to total sales.

In 2016 **Administration and general expenses** amounted to HUF 20,339 million, 4.9% in excess of the 2015 figure. The increase is attributed to rising legal assistance and other advisory fee.

The rate of **R&D expenses** to sales incomes was 9.0% in the reported year and amounted to HUF 35,153 million, 1.0% above the reference year figure. The costs are partly imputable to biotechnology studies, and partly to the clinical trials in progress, conducted jointly with Allergan (Forest Laboratories). The research expenditure of the subsidiaries PregLem, Gedeon Richter Polska and Gedeon Richter Romania also contributed to the Group's R&D expenses.

The balance of **Other income and other expenses** increased from HUF 1,398 million expense in the reference year to HUF 8,016 million expense in 2016. The Company achieved an outstanding milestone related to the marketing authorisation of cariprazine in

the United States and biosimilar product development from Stada in the reference period. In Q3 of 2016 a one-off HUF 3,112 million milestone income was achieved on the bases of the exclusive licence agreement signed with Recordati to commercialise cariprazine in Europe. In the Chinese market a one-off income amounting to HUF 3,453 million was realized in conjunction with the acquisition of a 100% stake in the OTC sales company Gedeon Richter Rxmidas JV Co. Ltd. Applying IFRS 3 Business Combinations standard, Richter's initial 50% holding was reassessed at fair value. The resulting gains was reported in the income statement.
Impairment related to Lisvy's withdraw was HUF 2,405 million and to inventories, an additional HUF 849 million; based on information from Bayer, Richter is entitled to claim the latter amount in damages. Additional indemnification is currently negotiated by the parties.

The 20% tax payable in Hungary on the full-year subsidy calculated on the producer prices of subsidized products under the Drug Economy Act amounted to HUF 379 million in 2016.
The 2016 Other income and other expenses line item included HUF 5,432 million claw-back payments in Romania, Germany, France, Spain, Portugal, Belgium, Italy, Bulgaria and Latvia.

Impairment of the entire goodwill in conjunction with the Mediplus acquisition amounted to HUF 1,720 million.

In December 2016 Richter withdrew the licensing application for PEG-GCSF and accounted for HUF 660 million impairment on inventories.

The 2016 *operating profit* was HUF 54,616 million, 18.1% below the reference year figure. The decrease resulted from a declining margin due to weakening EURRUB rate on an annual basis, Bemfola's depreciation, increase in Sales and marketing expenses, write-off related to Lisvy's withdraw, impairment of Mediplus' goodwill, and the consolidation of Finox Group in the consolidation.

These impacts were partially offset by the royalty related to Vraylar™ sales, the one-off fair valuation difference, the Recordati milestone reported in the Other income and other expenses item, and the decrease in R&D expenses.

2.2.3 Other income statement items

Net financial income

The net financial gain in 2016 was HUF 11,812 million, reflecting an increase of HUF 20,119 million when compared to a net financial loss of HUF 8,307 million reported in 2015.

At year-end Forex assets and liabilities were reassessed and reported under Unrealised financial items. The balance of revaluation was HUF 5,694 million gain in the reported year, HUF 11,700 million higher than the HUF 6,006 million loss in 2015. The significant loss on the revaluation of trade receivables in the reference period was attributed to the devaluation of the Russian rouble and Kazakh tenge. Conversely, in 2016 the higher closing rate of the rouble (23.2% appreciation against the forint) resulted in a significant profit from the currency translation trade receivables item.

The 2016 gains on the trade receivables and payables reported in Realised financial items was HUF 2,670 million. The main source of the gains is the strengthening of the rouble against the forint in H2 of the reported period compared to H1 while the combined effect of the other main currencies was insignificant. Dividend received contributed HUF 2,792 million and net interest income contributed HUF 1,739 million to earnings. The change of the fair value of the "exchangeable bond" option connected to MNV bond was HUF 1,016 million.

	2015 HUF million	2016 HUF million	Variance HUF million
Unrealised financial items	**(6,568)**	**4,679**	**11,247**
Reassessment of currency related trade receivables and trade payables	(5,984)	3,658	9,642
Reassessment of currency loans given	1,360	(148)	-1,508
Reassessment of borrowings	243	245	2
Reassessment of other currency related items	(1,625)	1,939	3,564
Liabilities from deferred purchase price, time value change	(573)	(948)	-375
Unrealised forward contracts as of 1 January *	(6)	(17)	-11
Unrealised forward currency related contracts as of the balance date *	17	13	-4
Impairment loss on investments	-	(63)	-63
Realised financial items	**(1,739)**	**7,133**	**8,872**
Result of forward exchange contracts	621	-	-621
Exchange losses/gains realised on trade receivables and trade payables	(2,867)	2,670	5,537
Foreign exchange difference on conversion of cash	(1,062)	218	1,280
Dividends	1	2,792	2,791
Interest received	2,641	2,566	-75
Interest paid	(1,160)	(827)	333
Other	87	(286)	-373
Net financial income	**(8,307)**	**11,812**	**20,119**

* Contains only the result of the net settled (settling through mark to market procedures) forward exchange contracts. Gain and loss of delivery fx deal is presented as "Foreign exchange difference on conversion of cash".

Closing rates applied in revaluation:

	31.12.2015	31.03.2016	30.06.2016	30.09.2016	31.12.2016
EURHUF	313.12	314.16	316.16	309.15	311.02
USDHUF	286.63	276.62	284.29	276.35	293.69
RUBHUF	3.88	4.09	4.43	4.36	4.78
CHFHUF	289.38	287.25	290.57	285.25	289.41

Profit before income tax

The 2016 profit before income tax amounted to HUF 68,226 million, HUF 8,349 million higher than in 2015.

As of 1 January 2012 Gedeon Richter Plc.'s 100% corporate tax incentive ceased. Henceforth the parent company pays taxes in accordance with the general Hungarian provisions on taxation, however, it is entitled to write off the direct costs of R&D from its taxable income and 50 % of royalties received. Furthermore, the parent company utilized the development related tax allowance in conjunction with the Debrecen biosimilar plant

investment in 2013. The unexpected economic troubles of 2014 (Ukraine crisis, devaluation of the rouble) had a negative impact on the Company's finances, therefore in 2014 it did not utilise the development related tax incentive. The outstanding tax incentive facility was again used from 2015. Other Group companies are taxed in accordance with the general taxation regulations of their domicile.

Profit for the period

Profit for the period was HUF 67,023 million in the reported period, HUF 13,160 million above the 2015 Group profit.

After a HUF 12,337 million increase, profit attributable to owners of the parent was HUF 66,200 million by the end of December 2016, and was 17.0% of the sales revenues as opposed to 14.7% in the reference period.

3. Functional activities of the Group

3.1 Research and development

Innovation and the research of proprietary drug molecules have been key elements in the parent company's strategy since its foundation in 1901. Gedeon Richter Plc is the only Hungarian-based pharma company today with R&D staff exceeding 1000 and is the most significant pharmaceutical R&D base in the Central and Eastern European region. R&D is focused on three strategic areas: research and development of new small molecules, biotechnology and generic research and development.

Small molecular R&D is focused on women's healthcare products on the one hand, and molecules effective in treating CNS diseases on the other hand. In the latter category, in addition to cariprazine, Richter currently has two products in the clinical phase.

The Company continued to handle cariprazine related activities as a priority in 2016. On 17 September 2015 FDA granted approval of cariprazine for the treatment of manic or mixed episodes of bipolar I disorder and schizophrenia in adults. From the first quarter of 2016 the product will be sold in pharmacies of the United States under the trade name of

Vraylar™. The clinical trials continued with Richter's American partner Allergan (formerly Forest Laboratories, Inc.) as a result of which the product will hopefully be granted marketing authorization for the treatment of other diseases such as major and bipolar depression. As a result, in March 2016 the European Medicines Agency (EMA) started assessment of the marketing authorisation of cariprazine for the indication of schizophrenia. In August of the same year Richter and Recordati signed an agreement granting Recordati exclusive sales license for the product in Western Europe as well as Algeria, Tunisia and Turkey.

Our Japanese partner Mitsubishi-Tanabe Pharma Co. continued regulatory consultations and clinical development in the interest of launching its cariprazine product in its geographical area as soon as possible.

One of the world's leading manufacturers of steroid products, Richter has been traditionally strong in the women's healthcare market. As a result of the acquisition of the Swiss company PregLem S.A. in 2010 the Group has also been active in women's healthcare development primarily in the field of uterine myoma indications. According to Richter's announcement on 27 February 2012, Esmya, a proprietary product developed by PregLem S.A., a company solely owned by Richter had been granted marketing authorisation for the EU member states for its indication of pre-operative treatment of uterine fibroids. At the end of 2013 the EMA adopted a positive opinion regarding the use of Esmya to up to two courses of treatment. As a result, marketing authorization of the product extended for this indication was granted in January 2014. In May 2015 EMA extended marketing authorisation for its indication of in the long term management of uterine fibroids. The extension is an opportunity for long term medication in the management of uterine fibroids and possibly helps to avoid surgical intervention. In a joint press release in May 2016 Richter and Allergan plc announced positive results from the Venus I pivotal Phase III clinical trials that confirmed the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids. Application for registration of ulipristal acetate is expected to be submitted to the United States Food and Drug Administration (FDA) in the second half of 2017.

The product has already been commercialised in Canada for three years under the name Fibristal and the Canadian drug agency also approved its long-term application in November 2016.

As has been the case so far, the Company considers it essential to identify R&D partners for cooperation. We join forces with academic and university institutes, as well as the Finnish firm Orion in the early stages of our research activities. Other partners from the pharmaceutical industry are involved primarily in the clinical phases. In an effort to strengthen our women's healthcare portfolio Richter has signed development collaboration agreements with several companies (for example. Evestra). Richter Group intends to expand the scope of collaboration in the coming years.

Richter Group's development activities are undertaken by four members: the parent company, Gedeon Richter Polska, Gedeon Richter Romania and Richter-Helm BioLogics GmbH & Co. KG. Allocation of tasks to the development sites is determined by the development and business development concept, taking into consideration availability of capacities, patent conditions and the need for specialized skills. The Group's Indian member Richter-Themis is active in API development.

At the close of 2016 Richter had over 42 generic development and 17 licence topics in progress. In the course of the year Richter had 36 renewal and maintenance projects, while support of original and transfer projects slightly decreased compared to the reference year's level (10 projects in total). As biotechnology and original development projects are conducted predominantly at the parent company, development sites of the subsidiaries have been appreciated as regards generic R&D (Gedeon Richter Romania S. A., Gedeon Richter Polska Sp. z o. o.), These companies undertake over a quarter of the generic R&D projects.

The Company launched four proprietary products and ten licensed products in 2016, all of which are new in the markets where they were launched.

As a result of registration activities a total of 53 marketing authorizations were granted to Richter in 2016 in the EU, including Hungary (taking different dosage forms into consideration). The positive assessment of teriparatide and the submission, in March 2016, of the application for the European registration cariprazine, the result of which is expected in 2017 - both in the context of centralised procedures.

In this region 106 renewal applications were submitted, 125 were acquired by the Company, and 63 licenses were returned.

A total of 39 new authorizations and 302 renewal applications were submitted in the twelve CIS countries, Richter secured 30 new authorizations during the year.

In the Other countries region the Company submitted 112 new applications and 30 renewals in 2016. In the course of the year the Company secured 28 new authorizations and 37 renewals, and withdrew 12 applications for authorisation.

Biotechnology

To bring development and manufacture of biosimilar products to new heights the Company set up an independent organisational unit named Biotechnology Business, which has been in operation since 1 July 2016.

In 2004 Richter launched its recombinant biotechnology R&D by creating a biotechnology research laboratory. In Germany Richter and Helm AG jointly acquired the predecessor Richter-Helm BioLogics GmbH & Co. KG in 2007, which develops and manufactures pharmaceuticals based on proteins derived by microbial biotechnology processes. Started in 2007, the construction of the Debrecen plant creating capacities for mammalian cell biotechnology based pharmaceutical manufacturing was concluded, the related assets were capitalized. Trial runs commenced in 2012, followed by production for clinical trials in 2014; thus, the most complex protein-based pharmaceuticals can be manufactured on a commercial scale. In the course of 2015 the last clinical trials of two biotechnology products, pegfilgrastim and teriparatide were successfully concluded and in the autumn regulatory applications for marketing authorization for both products were submitted to EMA. In November 2016 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion, and accordingly proposes the granting of marketing authorisation for the biosimilar teriparatide Terrosa. Following on the positive opinion on 4 January 2017 the European Commission granted marketing authorisation for Terrosa. In December 2016 Richter withdrew the application following the CHMP's notification in November that the data submitted were not sufficient for a positive evaluation of the risk/benefit analysis related to the product. In October 2016 Richter signed an agreement on the technology transfer to manufacture trastuzumab, a

monoclonal antibody developed by DM Bio of Korea, and on taking over the licence of development and commercialisation.

Development and distribution of biotechnology products is supported in Europe by Stada, in Japan by Mochida, and in Korea by DM Bio in the context of cooperation agreements.

3.2 Quality assurance

The Company continued the major investment programme commenced in previous years with a view to safeguarding the products' superior quality. In the course of creation of new facilities as well as refurbishments rigorous quality assurance criteria are observed from planning to commissioning, which ensures that the products manufactured in the new or upgraded facilities fully meet international quality standards in every respect.

In 2016 the main direction of the quality assurance effort was the continued upgrading of production processes in accordance with the current Good Manufacturing Practice cGMP (API and finished products), and quality assurance support to a number of ongoing investment projects (the Debrecen biotechnology project and the Dorog Steroid Plant).

Ensuring compliance with the Good Laboratory Practice (GLP) and IT GXP, as well as supporting quality management of the subsidiaries continues to be a priority task. In 2016 special emphasis was laid on enhancement of the quality assurance system focussed on the upgrading of production processes and improving their transparency, as well as on further development of the IT system.

Similarly to previous years, Group companies had regular inspections by the locally competent authorities in 2016; in addition, the partners conducted 18, and the authorities another five inspections at the parent company.

3.3 Production

Production in the manufacturing plants was in line with the amounts required by the market; measured in terms of packaging units, the output of plants was somewhat higher (1.7%) than the reference year level for the Group as a whole.

As regards finished products manufactured by affiliated companies, both the Romanian and the Polish company achieved higher numbers in terms of packaging units. The Russian subsidiary's increasing volume of production is the result of technology transfers and outsourcing of production.
The utilisation of capacities of the Indian API and intermediate product manufacturing company did not change significantly.

Cooperation between the parent company and the subsidiaries that are active in the pharmaceutical production business has been intensive and involves an increasing number of products; in addition to manufacturing own-produced products, it takes the shape of product transfer, sourced production and development; as a result, the Group's Polish, Russian and Romanian members are becoming reliable sourcing companies.

3.4 Technology

In recent years the Company has developed a new sourcing management system and separated special procurement tasks from the professional activities of the management of the various organizational units, In the new structure all machines, equipment, technological materials and general devices as well as some of the services are sourced centrally. The same applies to utilities such as natural gas, electricity and steam supply, as well as waste disposal. Similarly to the preceding year, optimization of centralized sourcing resulted in substantial savings on funds, capacities and time in 2016. In certain areas of sourcing the parent company and its subsidiaries cooperated successfully.

Environmental protection, occupational health and safety

Operating in accordance with environmental standards is a priority for Richter Group particularly in countries where the Group has production facilities.
The Budapest premises, as well as the Dorog and Debrecen sites have secured an Integrated Pollution Prevention Control (IPPC) permit.
The 2016 audits of the Environmental Management System (KIR-ISO 14001) and the Occupational Safety and Health Management System (MEBIR-MSZ 28001) by the supervisory agencies, as well as the certification of the Safety and Environmental Labs

were successful and proved that internal audits, education and training, regulations, performance evaluation, risk management and occupational hazard measurements are appropriate and in keeping with the rules and regulations. For the first time, in 2016 certification also included the Debrecen Branch.

Environmental and security related expenditure were at the 2015 level in the reported period.

There were no technology related fatal, serious or mass accidents in the course of the year of reporting, no deficiencies of note were found by the relevant authorities, and no fine was imposed. Employees apply individual protective devices on an ongoing basis.

Operation of the production subsidiaries is in full conformity with the environmental, health and safety regulations, as proved by regular inspections by the competent authorities.

3.5 IT support

The Group's business processes are captured in the SAP system. SAP tracks every step of the process from sourcing to sales and provides interfaces to other special systems supporting operation. Over the past years, major Group level IT development took place primarily in order to achieve the most important strategic goal of creating a central IT architecture that controls and supervises Richter Group's IT systems and is suitable for communicating Group level strategy and control and serving operation.

IT infrastructure development has been in keeping with Group-level needs; the emerging IT background is a uniform and transparent system for Group users. A dynamic VPN network created between Group companies overarching the Internet network provides access to distant systems via audio and video connection as necessary.

Similarly to the previous year, major Group level IT development took place in 2016, the most important achievements and events were as follows:

- The biggest SAP project in 2016 was the version update, Conversion to the new version was successful and did not cause any significant disturbance in Richter's operation,

- As of 2017 the parent company will apply the IFRS, Depiction of the accounting, sales and controlling processes in SAP in compliance with the IFRS was another a priority task for 2016,

- The Serialisation, Track and Trace project was launched; its goal is to install a unique bar code writer and reader in all production lines of Richter Group,

- In the context of the IT development started in 2016 Richter's German company Richter-Helm BioLogics GmbH & Co. will introduce the SAP FI, CO, AM and MM modules.

- The IT support to Quality Assurance commenced in 2014 continued with several projects in progress,

- This year further development and upgrading to later versions of existing systems took place in several areas (commercialisation, research and logistics),

- IT infrastructure development aiming to serve the Company's growing data storage needs engaged a considerable amount of capacities in the course of the year,

4. Human resource

One of Richter Group's strategic goals is to develop operability with an organization that is best suited to changing environment, tasks and even greater challenges. Human resource, the people who are at the basis of Richter's continued success in business and science play a key part in this effort.
Careful recruitment policy is critical for enhancing and sustaining the performance of each member of Richter Group. Supporting the professional development and improving the quality of life of staff and retention of high performers are priority tasks.

As of 31 December 2016 the Group's closing headcount was 11,892, 7,979 of whom work in white-collar positions including 6,806 university or college graduates. The closing headcount of the parent company was 6,728 at the same time.

5. Capital expenditure

The Group's capital expenditure and intangible assets amounted to HUF 36,453 million in 2016 as opposed to HUF 33,302 million in 2015. Capital expenditure was dominated by the projects deployed by the parent company.

A Molecular Biology Lab will be constructed in Debrecen in the context of an application for funds tender. The conceptual plans and the plans to be submitted with the application for a planning permission have been completed. At the Budapest biotechnology R&D unit significant amounts were spent on the procurement of equipment.

In the field of traditional finished products manufacturing, project RGK VI was continued at the Group's Budapest production site; it envisions a greenfield development of a new, state-of-the-art freeze-drying unit, an injectables packaging plant, as well as high rack warehouses ancillary to these new facilities, and land for development purposes. The building has been erected and building installations and technological pipe fitting have been completed. Currently the commissioning of the filling and freeze-drying line is in progress. In the field of API manufacturing, capex projects were basically aimed at maintaining production capacities in both Budapest and Dorog. In Dorog an important, multi-year project in progress in Steroid Plant II envisions to expand intermediate product and chromatography capacities.

Environmental and safety projects included the upgrading of the wastewater system in Dorog as well as energetics projects to upgrade central systems in order to improve safe energy supply.

Major capex projects of the subsidiaries included expenditures on production companies. After the completion of capacities expansion at the Russian subsidiary, the next important capex project was the procurement of production equipment including specifically the machines and instrument necessary for the packaging of Panangin tablet. At the Romanian subsidiary the ground floor production area was upgraded, which included the relocation of the microbiology laboratory and landscaping on the premises (pavement of roads, upgrading the water and wastewater networks, and replacement of the firewater system).

6. Risk management

During the year Richter Gedeon Plc. completed a company-level risk assessment in-line with its risk management policy. As part of the risk assessment the Company has identified its relevant strategic, operational, compliance and financial risks following the risk management approach elaborated with a consultant, The identified risks have been evaluated by the management of the Company.

The following risks proved to be the most typical in each category based on the assessment.

Strategic risks

Risk	Description	Key risk management methods
Macroeconomic Factors	The impact of changes in macroeconomic factors affecting the company's markets with special regard to the deterioration of solvency due to the continued Russia-Ukraine crisis and chronically low oil prices	- Monitoring changes in major macroeconomic factors, incorporating their effects into the planning - Tightening cost containment and customer relations - Flexible utilisation of local production capacities
Competition and Pricing	The impact on the company's market position and results of decreasing prices resulting from mounting generic competition	- Identifying competitive advantages - Focusing on new proprietary and value added products - Launching new generic products - Regularly performed industry and competitor assessment and effectiveness analysis
Healthcare Budget	Potential impact of negative changes in the healthcare budget and regulation (price cuts, increasing industry surtaxes, subsidy cuts and protracted procedure to accept subsidy applications)	- Regular analysis of market environment, monitoring changes in the legal and pharmaceutical subsidy system - Communication with authorities - Cost management adaptation

Operational risks

Risk	Description	Key risk management methods
Development of original and biosimilar R&D and production	Risk attached to the success of proprietary research and of the development and manufacturing of biosimilar products	- Focusing on CNS R&D and gynaecology development - Determining milestones of original research and biosimilar development - Assessment of programs and decision-making according to international standards with the involvement of advisory bodies and international experts - Involvement of collaborating partners to reduce risk and ensure co-financing
The complexity of the Group's activities is increasing, more diversified markets	Risks related to the development of specialized sales and marketing support of women's healthcare products in Western Europe, China and Latin America	- Company-level projects for the acquired women's healthcare portfolio, the integration of Finox Group, and the coordination of the launch of Esmya - Strengthening market positions and the marketing network in Western Europe - Developing the company's own marketing network in Latin America - Increasing stakes in Chinese and Latin American investments
Qualified Workforce	Risk relating to retention of employees in key positions and ensuring qualified workforce	- Periodic revision of HR strategy - Training plans, career and succession programs - Incentive and performance assessment system - Determination of optimal headcount - Staff replacement to improve quality; retention of staff performing high-quality work

Compliance risks

Risk	Description	Key risk management methods
Regulatory oversight High quality standards required by customers	Risk of non-compliance with relevant regulations relating health and quality More frequent inspections due to proprietary product launches	- Implementing Quality systems and Standard Operational Processes (SOPs) - Monitoring compliance with health authority regulations - Special projects to prepare for inspections
Intellectual Property, Patents and Litigations	Risk relating to patents and patent rights	- Continuous assessment and monitoring of intellectual property and patents - Enforcement of intellectual property rights - Conclusion of risk mitigation agreements
Contracts and Liabilities	Risk relating to managing contractual liabilities and enforcing contractual terms	- Centralised contracting processes - Special treatment of unique contracts - Introduction of a global compliance program

Financial risks

Risk	Description	Key risk management methods
Credit and Collections	Risk relating to collection of cash and receivables from customers Region-specific risks related to customers	- Customer rating and establishing payment terms and sales limits - Regular review of receivables - Increasing insurance of CIS customers' credits with MEHIB
Foreign Exchange Rate	Exchange rate risk management in the changing currency structure	Calculating annual open FX positions and monitoring key FX rates
Capital Structure, Cash Management and Financial Investment Taxation risks	Risk related to the management of the Company's cash needs and cash funds Maintaining security of funding besides acquisition expenditure	- Developing and monitoring cash-flow plans - Financial Investment Rules to manage investment risk - Introduction of a Cash Pool system - Preparation for a tax relief related audit by the tax authorities

7. Post-balance sheet date events

On 4 January 2016 Richter announced that the European Medicines Agency (EMA) has accepted Richter's regulatory submission for the proposed biosimilar teriparatide with the reference product of Eli Lilly's Forteo. The biosimilar teriparatide has been developed by the Company's subsidiary Richter-Helm BioTec GmbH & Co. KG. According to the relevant license agreements, biosimilar teriparatide is expected to be launched under both Richter-Helm BioTec GmbH & Co. and Stada labels in geographical Europe following the patent expiry of the original product. On 14 November 2016 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion on the product and accordingly proposes the granting of marketing authorisation for the biosimilar teriparatide Terrosa. Following on the positive opinion on 4 January 2017 the European Commission granted marketing authorisation for Terrosa.

On 17 January 2017 Richter and Allergan plc announced positive results from Venus II, the second pivotal Phase III clinical trials. The trial investigated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids causing irregular uterine bleeding and confirmed the result of the Venus I study published in May 2016. Application for registration of ulipristal acetate is expected to be submitted to the United States Food and Drug Administration (FDA) during the second half of 2017.

On 19 January 2017 Richter announced that it had signed an agreement with Allergan plc for the distribution of Allergan's levonorgestrel releasing Intrauterine System. Richter will distribute the product under the brand name Levosert® in Western Europe and other European countries. The product has already been granted national marketing authorisations in Western and Northern European countries, and has been launched in most countries by Allergan, Richter is currently selling Levosert® in most CEE markets in accordance with the relevant agreement signed with Uteron Pharma in 2011. According to the agreement Richter makes a milestone payment upon signature. After the product is launched, Allergan will also be entitled to sales related royalty and milestone payments.

In early 2017 Richter and Bayer reached an agreement on reimbursement of the costs of inventories in conjunction with the withdraw of Lisvy.

The Accounting Act provided for the mandatory application, as of 1 January 2017, of the International Financial Reporting Standards for the purpose of stand alone financial statements for companies whose securities are traded in the regulated market of any of the EEA member states. Pursuant to this provision, from 1 January 2017 Richter must apply the IFRS for the purpose of financial reporting. From 1 January 2017 Richter prepares its reports and statements in accordance with its stand alone IFRS.

After acquiring the remaining 9% share in February 2017 Richter became 100% shareholder of GRMed Company Limited. With this payment the Company has fully paid the deferred purchase price kept on the books among liabilities.

The management is not aware of other post-balance sheet date events that might be material to the Company's business.

8. Future outlook

Retaining and strengthening the Group's position in the Hungarian and the traditional markets (CIS, Central and Eastern Europe) despite increasingly difficult environment whose problems fall hard on the entire pharmaceutical industry (price erosion, tightening subsidies and price control) continue to feature among Richter's strategic goals.

The Group focuses on strengthening its presence in, and increasing exports to, European Union, primarily in the EU15, and China, retaining and strengthening positions acquired in the United States, and developing new long-term research and development cooperation with existing and new partners.

The main tool to achieve these goals in the context of Hungary, the CIS and the European countries is to improve the efficiency of Richter's sales networks. In Western Europe and the United States the strategy is implemented through long-term agreements concluded with strategic partners. Through a variety of acquisitions Richter is directly present in the world's fastest growing pharmaceutical markets (China and the Latin American region).

The success of proprietary research and development aimed at CNS products is crucial for Richter Group's future and for strengthening its market positions. The second pillar of the specialty strategy is the expansion of the women's healthcare portfolio. The future added value from the women's healthcare portfolio acquired in 2010 from Grünenthal, coupled with Esmya resulting from the Swiss acquisition and Bemfola acquired in 2016 to treat infertility will boost the Group's niche: gynaecology, which is best supported by the units operating in the traditional markets and through the newly established Western European marketing network. The Group's ongoing objective is to achieve faster growth and to present higher rate of annual sales in its special niche of oral contraceptives and steroid-based women's healthcare products - in 2012 this line was completed with Richter's original product Esmya and in 2016 with Bemfola.
The third pillar of the Group's "specialty" strategy is the development of biosimilar products and the high-value investment to create conditions for their manufacture.
Besides the above, Richter is striving to exploit the opportunities provided by marketing the portfolio of traditional products to a maximum extent.

In order to ensure and increase sales and profitability, another priority task for the future is the improvement of research and development and the Company's organizational functioning in all areas of operation on an ongoing basis.

2.

Report of the Statutory Auditor on the draft Consolidated Annual Report pursuant to the IFRS

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Gedeon Richter Plc.

Opinion

We have audited the accompanying consolidated financial statements of Gedeon Richter Plc. ("the Company") and its subsidiaries (together "the Group") which comprise the consolidated balance sheet as of 31 December 2016 (in which the consolidated balance sheet total is MHUF 813,877), the consolidated income statement, the consolidated statement of comprehensive income (in which the total comprehensive income for the year is MHUF 74,061), the consolidated statement of changes in equity, the consolidated cash flows statement for the year then ended and the notes to the consolidated financial statements including a summary of the significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with Hungarian National Standards on Auditing ("HNSA") and with applicable laws and regulations in force in Hungary. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Hungary. We have fulfilled our other ethical responsibilities in accordance with those requirements.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in formiug our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Impairment test on goodwill The Group has goodwill balance of MHUF 68,632 as of 31 December 2016. See the notes in the accounting policy section VI, Note 3.1 (key sources of estimation uncertainty); and Note 18 of the consolidated financial statements for management's disclosures on the balances, judgments and estimates on goodwill.	We focused on goodwill recognized as a result of the acquisitions of PregLem S.A., GRMed Company Ltd., GR Mexico and Gedeon Richter Rxmidas Co. Ltd. which together represent more than 96% of the entire goodwill balance of the Group. Our audit procedures included challenging management on the appropriateness of the impairment models and reasonableness of the assumptions used by performing the following:

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Key audit matter	*How our audit addressed the key audit matter*
Goodwill must be tested for impairment at least on an annual basis. The determination of recoverable amount, being the higher of value in-use and fair value less costs to dispose, requires judgement from management when identifying and valuing the relevant cash-generating units. Recoverable amounts are based on management's view of variables and market conditions such as future price and volume growth rates, the timing of future operating expenditure, and the most appropriate discount and long term growth rates. We focused on this area because of the significance of the goodwill balance and because the impairment assessment involves significant amount of management's judgements about the future results and the discount rates applied to future cash flow forecast.	• Benchmarking the Group's key market-related assumptions in the models against external data. Key assumptions that we focused on were discount rates, long term growth rates and foreign exchange rates. Where it was considered necessary we involved our valuation experts; • Assessing the reliability of cash flow forecasts by checking actual past performance and comparing to previous forecasts; • Testing the mathematical accuracy and checking sensitivity analyses of the models; • Understanding the commercial prospects of the assets, and where possible comparing assumptions to external data sources; • In respect of the goodwill arising from current year's acquisition (Gedeon Richter Rxmidas Co. Ltd.) we focused on whether there were any significant adverse changes in the circumstances since the acquisition date. We have recalculated the year end foreign exchange translation of the goodwill balance and compared our calculation to the balance recorded by the Group. We have read disclosures in Note 3.1 and Note 18 and compared to the requirements in IAS 1 and IAS 36. Based on our procedures, we noted no material exceptions and considered management's key assumptions to be within reasonable ranges.
Follow up accounting of business combinations other than impairment test on goodwill. The Group has acquired several businesses in prior years where the purchase price was contingent on future events. The purchase price of the acquisition of GRMed Company Ltd., GR Mexico and Mediplus (Economic Zone) N.V was not fully settled at the beginning of the current period. See the notes in the accounting policy section XII, Notes 3.1 (key sources of estimation uncertainty); and 11 of the consolidated financial statements for management's disclosures of the balances, judgments and estimates on contingent consideration. We focused especially on the purchase price of the acquisition of GRMed Company Ltd. due to the significance of	IFRS 3 Business Combinations standard requires specific accounting for contingent purchase prices. Therefore, we assessed the compliance of the accounting policy applied by the Group that is disclosed in Note 2 section XII. Since the acquisition agreements were signed in prior periods, we inquired management if there were any amendments made to the agreements. Further audit procedures included assessing the reasonableness of the assumptions used by performing the following procedures in respect of the purchase price of GRMed Company Ltd.: • Comparing the amount of the liability to the present value of the cash flow forecast of the predetermined products approved by the board of GRMed Company Ltd.; • Recalculating the change in the liability to change in different components including effect of

Key audit matter	*How our audit addressed the key audit matter*
the balance and because the acquisition agreement determined a portion of the purchase price to be contingent upon future performance of predetermined products. The valuation of the liability therefore involved significant amount of management's judgement about the future results and the discount rates applied to future cash flow forecast. The last instalment of this purchase price was due in the first half of 2017. The maximum exposure from the contingent purchase price originating from other acquisitions (GR Mexico and Mediplus (Economic Zone) N.V) is not material as disclosed in Note 3.1 and 11.	payment, unwinding of the interest, the change in the foreign currency rate and the effect of change in cash-flow estimates; • Benchmarking the Group's key market-related assumptions in the models, including discount rates and foreign exchange rates against external data. We involved valuation experts where it was considered necessary. • Comparing the liability presented with the payment made in 2017. We have assessed the classification of the liability in the consolidated balance sheet. We have read disclosures related to contingent considerations presented in Note 3.1 and Note 11 to the consolidated financial statements. Based on our procedures, we noted no material exceptions and considered management's key assumptions to be within reasonable ranges.
Accounting for acquisitions The Group has performed two significant acquisitions in the reporting period: acquiring 100% of Finox Holding AG and the remaining 50% of Gedeon Richter Rxmidas Co Ltd. as disclosed in Note 36 to the consolidated financial statements. The acquisition of Finox Holding AG resulted in a gain from bargain purchase of MHUF 268. As a result of the purchase price allocation the Group recognized intangible assets in the amount of MHUF 52,513. The acquisition of Gedeon Richter Rxmidas Co Ltd. resulted in recognition of a gain of MHUF 3,453 relating to the remeasurement of previously held interest to fair value as at the acquisition date and recognition of goodwill in the amount of MHUF 7,226 presented in Notes 5 and 36 respectively. We focused on this area due to the significance of the transactions and because such agreements often require complex accounting knowledge and significant amount of judgement from	We have read the share purchase agreements, checked the bank statements related to the acquisitions and assessed the appropriateness of the accounting of the acquisitions. Relating to the Finox Holding AG acquisition we have assessed management's treatment of identifying a separate asset (a loan of the acquirer) and eliminating during the consolidation as disclosed in Note 36. Relating to the acquisition of Gedeon Richter Rxmidas Co Ltd., we have assessed the appropriateness of management's approach of remeasuring previously held interest and recognizing the resulting gain in income statement as disclosed in Note 5. We have challenged management on the reasonableness of assumptions used to determine the fair value of the intangible asset, especially relating to BEMFOLA. We performed following procedures: • Benchmarking the Group's key market-related assumptions in the models, including discount rates and foreign exchange rates, against external data. We involved our valuation experts where it was considered necessary; • Testing the mathematical accuracy and checking sensitivity analyses of the model; and • Understanding the commercial prospects of the asset, and where possible comparing the assumptions to external data sources.

Key audit matter	*How our audit addressed the key audit matter*
the management. Additionally, the determination of the fair value of the intangible asset BEMFOLA involves managements' judgements about the future results and the discount rates applied to future cash flow forecast.	Based on our procedures no material exceptions were identified.

Other information: the consolidated business report and the annual report

The other information comprises the consolidated business report and the annual report of the Group. Management is responsible for the preparation of the consolidated business report and the annual report in accordance with the provisions of the Act C of 2000 on Accounting ("Accounting Act") in force in Hungary and other relevant regulations. Our opinion on the consolidated financial statements does not cover the consolidated business report and the annual report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the consolidated business report and the annual report and, in doing so, consider whether the consolidated business report and the annual report is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based on the Accounting Act, in respect of the consolidated business report, our responsibility is to read the consolidated business report identified above and, in doing so, consider whether the consolidated business report has been prepared in accordance with the provisions of the Accounting Act and other relevant regulations, if any.

Because the Company's transferable securities are admitted to trading on a regulated market of a Member State of the European Economic Area, our opinion on the business report shall cover the information prepared under Paragraphs e) and f) of Subsection (2) of Section 95/B of the Accounting Act, and state whether the information referred to in Paragraphs a)-d) and g) of Subsection (2) of Section 95/B has been provided.

In our opinion, the 2016 consolidated business report of the Group, also including the information prepared under Paragraphs e) and f) of Subsection (2) of Section 95/B, is consistent with the 2016 consolidated financial statements and the consolidated business report has been prepared in accordance with the Accounting Act.

As there is no other regulation prescribing further requirements for the consolidated business report, in respect of this, our opinion on the consolidated business report does not express the opinion required by Section (5) h) of 156 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated business report and the annual report, and shall give an indication of the nature of any such misstatements. We have nothing to report in this respect.

Further, we state that the information referred to in Paragraphs a)-d) and g) of Subsection (2) of Section 95/B of the Accounting Act has been provided.

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Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HNSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to hear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Budapest, 22 March 2017

Barsi Éva
Partner
PricewaterhouseCoopers Auditing Ltd.
1055 Budapest, Bajcsy-Zsilinszky út 78.
Licence Number: 001464

Szabados Szilvia
Statutory auditor
Licence number: 005314

3.

Report of the Supervisory Board including the report of the Audit Board on the draft Consolidated Annual Report pursuant to the IFRS

The supervisory Board of
Gedeon Richter Plc.

Report

to the 2017 Annual General Meeting of Gedeon Richter Plc.

on the 2016

Consolidated Annual Financial Statements of Richter Group

The Supervisory Board reviewed the 2016 Consolidated Annual Financial Statements of Richter Group, which had been produced by Gedeon Richter Plc. as parent company. As the Board of Directors regularly presented the quarterly financial reports during the year, the Supervisory Board could gain insight into the interim consolidated financial statements.

In accordance with the International Financial Reporting Standards, the Consolidated Annual Financial Statements consisting of the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement and consolidated notes to the financial statements contain statements of equity, finances and income generation for the entire Group, including balance sheet figures for Gedeon Richter Plc. and figures for the subsidiaries, companies under joint management and associate companies which constitute the Group, with the elimination of inter-company transactions.

On consolidation, the data for Gedeon Richter Plc. and subsidiaries were amalgamated in full.The data for joint ventures were consolidated on the basis of their capital share, and the data for associate companies were amalgamated using the equity method.

In compliance with the International Financial Reporting Standards, the consolidation process eliminated any inter-company transactions between Gedeon Richter Plc. and its companies involved in consolidation, as well as the transactions between such companies. As a result, the Consolidated Annual Financial Statements presents the Group as a single business entity. Inter-company investments, accounts receivable, accounts payable, income and expenditure items and interim earnings have all been eliminated.

According to the audited Consolidated Annual Financial Statements, Gedeon Richter Plc. performed the consolidation in compliance with the relevant statutory provisions and standards.

Proposal for the approval of the 2016 Consolidated Annual Financial Statements of Gedeon Richter Plc.

Having reviewed the Consolidated Audited Financial Statements of Richter Group for 2016 prepared by Gedeon Richter Plc. as parent company and submitted to the Annual General Meeting, the analysis and statement of authentication made by the Auditor PricewaterhouseCoopers, and the insight gained during the discussion of the Report, the SB proposes that the distinguished members of the Annual General Meeting approve:

- The Consolidated Annual Financial Statements for 2016 submitted to the AGM (with total assets and total liabilities in the Balance Sheet being equally HUF 813,877 million), duly audited in compliance with the International Accounting Standards.

- The after-tax profit specified in the audited Consolidated Income Statement for 2016 (before dividend payment) being HUF 67,023 million.

Budapest, 22 March 2017

Dr. Attila Chikán
Chairman of the Supervisory Board

4.

Approval of the draft 2016 Consolidated Annual Report pursuant to the IFRS

Proposal to Item No.:4
on the Agenda of the AGM

Resolution of the Board of Directors No.: 26/2017

The Board of Directors proposes to the AGM to approve the Company's draft 2016 consolidated annual report pursuant to the IFRS.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

5.

Report of the Board of Directors on the 2016 business activities of the Company (on the management, the Company's financial situation and business policy) and presentation of the draft individual annual report prepared in accordance with the Hungarian Accounting Act

Gedeon Richter Plc.

Financial statements

31 December 2016

Budapest, 22 March 2017

1	0	4	8	4	8	7	8	2	1	2	0	1	1	4	0	1

Statistical number

0	1

Gedeon Richter Plc.
Balance Sheet (Assets)
"A" Type

31 December 2016

Data in HUF Million

	Description	Previous year	Current year
		31.12.2015 (amendment of the Accounting Act)	31.12.2016 audited
A.	Fixed Assets	457 590	531 266
I.	Intangible Assets	104 990	64 948
1.	Capitalised value of reorganization		
2.	Capitalised value of research and development	254	169
3.	Rights	67 807	64 032
4.	Intellectual property	949	747
5.	Goodwill	35 980	
6.	Advances given for intangibles		
7.	Adjusted value of intangible assets		
II.	Tangible Assets	139 748	150 048
1.	Land and buildings	83 974	90 404
2.	Technical equipment	22 727	25 932
3.	Other equipment	14 068	15 970
4.	Animals		
5.	Investments	18 592	17 336
6.	Advances given for tangible assets	387	406
7.	Adjusted value of tangible assets		
III.	Financial Investments	212 852	316 270
1.	Long-term shares in subsidiaries	140 049	209 520
2.	Long-term loans given to subsidiaries	43 449	69 198
3.	Long-term major participating interest	1 201	2 523
4.	Long-term loans given to major participating companies	1 061	3 207
5.	Other long-term shares	4 165	5 123
6.	Long-term loans given to other affiliates	748	561
7.	Other long-term loans	2 014	711
8.	Long-term bonds	18 048	17 982
9.	Adjusted value of financial investments		
10.	Valuation difference of non-current assets	2 117	7 445

Data in HUF Million

	Description	Previous year 31.12.2015 (amendment of the Accounting Act)	Current year 31.12.2016 audited
B.	Current Assets	276 758	248 212
I.	Inventories	47 042	48 514
1.	Raw materials	9 153	10 052
2.	Work in progress, semi-finished products	23 327	23 945
3.	Live stock		
4.	Finished products	10 536	9 707
5.	Goods	4 022	4 606
6.	Advances given for inventories	4	204
II.	Receivables	114 891	132 661
1.	Trade receivables	43 148	48 501
2.	Receivables due from subsidiaries	58 424	66 798
3.	Receivables from other companies linked by virtue of participating interests	4 344	1 571
4.	Receivables due from other affiliates	5 268	10 380
5.	Bills receivable		
6.	Other receivables	3 703	5 411
7.	Valuation difference of receivables		
8.	Positive fair value difference of derivative instruments	4	
III.	Securities	4 502	1 068
1.	Shares in subsidiaries		
2.	Major participating interests	0	
3.	Other shares	2 426	
4.	Own shares	550	1 068
5.	Short-term bonds	1 526	
6.	Fair value difference of securities	0	
IV.	Cash	110 323	65 969
1.	Cash	43	39
2.	Bank deposits	110 280	65 930
C.	Prepayments	2 719	2 527
1.	Accured income	937	1 165
2.	Prepaid expenses	1 782	1 362
3.	Deferred expenses		
	Total Assets	737 067	782 005

Budapest, 22 March 2017

Managing
Director

1	0	4	8	4	8	7	8	2	1	2	0	1	1	4	0	1

Statistical number

0	1

Gedeon Richter Plc.

Balance Sheet (Equity and Liabilities)

"A" Type

31 December 2016

Data in HUF Million

	Description	Previous year 31.12.2015 (amendment of the Accounting Act)	Current year 31.12.2016 audited
D.	Shareholder's Equity	634 395	680 699
I.	Issued capital	18 637	18 637
	- including own-shares repurchased at face value	*10*	*18*
II.	Issued unpaid capital (-)		
III.	Share premium	19 256	19 256
IV.	Retained earnings	532 101	579 649
V.	Tied-up reserve	804	1 238
VI.	Revaluation reserve	2 117	7 445
1.	Valuation reserve		
2.	Fair value reserve	2 117	7 445
VII.	Profit or Loss for the year	61 480	54 474
E.	Provisions	4 217	4 021
1.	Provision for expected liabilities	4 217	4 021
2.	Provision for expected expenses		
3.	Other provisions		
F.	Liabilities	89 070	85 692
I.	Subordinated liabilities	0	0
1.	Subordinated liabilities due to subsidiaries		
2.	Subordinated liabilities to companies linked by virtue of major participating interests		
3.	Subordinated liabilities due to other affiliates		
4.	Other subordinated liabilities		
II.	Long-term liabilities	42 225	31 073
1.	Long-term loans		
2.	Convertible bonds		
3.	Debts on issue of bonds		
4.	Investment and development loans		
5.	Other long-term loans	36 531	28 510
6.	Long-term liabilities due to subsidiaries		
7.	Long-term liabilities to companies linked by virtue of major participating interest		
8.	Long-term liabilities due to other affiliates		
9.	Other long-term liabilities	5 694	2 563

Data in HUF Million

	Description	Previous year 31.12.2015 (amendment of the Accounting Act)	Current year 31.12.2016 audited
III.	Current liabilities	46 845	54 619
1.	Short-term loans		
	- including: convertible bond		
2.	Other short-term loans	6 523	7 776
3.	Advances received from customers	113	145
4.	Trade payables	16 399	19 553
5.	Bills payable		
6.	Short-term liabilities due to subsidiaries	14 412	15 611
7.	Short-term liabilities to companies linked by virtue of major participating	3	46
8.	Short-term liabilities due to other affiliates		4
9.	Other short-term liabilities	9 395	11 484
10.	Valuation difference of current liabilities		
11.	Negative fair value difference of derivative instruments		
G.	Accruals	9 385	11 593
1.	Accrued income		
2.	Accrued expenses	8 366	10 786
3.	Deferred income	1 019	807
	Total Liabilities and Equity	737 067	782 005

Budapest, 22 March 2017

Managing
Director

1	0	4	8	4	8	7	8	2	1	2	0	1	1	4	0	1

Statistical number

0	2

Gedeon Richter Plc.

Income Statement

31 December 2016

Data in HUF Million

	Descriptions	Previous year	Current year
		12 months (amendment of the Accounting Act)	12 months audited
01.	Domestic sales	33 939	34 840
02.	Export sales	248 157	248 402
I.	Total Sales (01+02)	282 096	283 242
03.	Direct cost of production	48 552	50 871
04.	Cost of goods sold	10 200	11 712
05.	Value of services sold	827	1 575
II.	Direct costs of sales (03+04+05)	59 579	64 158
III.	Gross profit (I-II)	222 517	219 084
06.	Sales and marketing expenses	95 121	99 838
07.	Administration and general expenses	26 483	27 642
08.	Other general expenses	42 082	42 802
IV.	Indirect costs of sales (06+07+08)	163 686	170 282
V.	Other income	23 291	9 434
	including revesal of impairment	*957*	*343*
VI.	Other expenditures	22 544	23 106
	including impairment	*1 830*	*4 405*
A.	Operating results (III-IV+V-VI)	59 578	35 130

Data in HUF Million

	Descriptions	Previous year 12 months (amendment of the Accounting Act)	Current year 12 months audited
13.	Dividends and profit-sharing (received or due)	1 002	7 820
	including from affiliated undertakings	*849*	*4 819*
14.	Capital gains on the sale of investments	7	
	including from affiliated undertakings		
15.	Interest income and capital gains on financial investments	2 601	3 526
	including from affiliated undertakings	*1 823*	*2 789*
16.	Other interest and similar income	1 863	826
	including from affiliated undertakings	*0*	*0*
17.	Other financial income	15 624	20 096
	including from valuation difference	*117*	
VIII.	Income from financial transactions (13+14+15+16+17)	21 097	32 268
18.	Expenses and losses on participating interests	2	
	including to affiliated undertakings		
19.	Losses on financial investments		
	including to affiliated undertakings		
20.	Interests payable and similar expenses	1 135	811
	including to affiliated undertakings	8	18
21.	Losses on shares, securities and bank deposits	-153	2 815
22.	Other financial expenses	17 444	8 962
	including from valuation difference	*107*	*4*
IX.	Expenses on financial transactions (18+1+20+21+22)	18 428	12 588
B.	Profit or loss from financial transactions (VIII-IX)	2 669	19 680
	Profit or loss of ordinary activities (±A±B)		
	Extraordinary income		
	Extraordinary expenses		
	Extraordinary result		
C.	Income before taxes (±A±B)	62 247	54 810
X.	Taxes payable	767	336
D.	Profit after taxes (±C-X)	61 480	54 474
	Profit reserves used for dividends and profit-sharing		
	Dividends and profit-sharing paid (payable)		
	Profit or loss for the year	*61 480*	*54 474*

Budapest, 22 March 2017

Managing
Director

GEDEON RICHTER PLC.

Notes to the Financial Statement
31 December 2016

Erik Bogsch
Managing Director

Budapest, 22 March 2017

CONTENTS

I. General Section

I/1 Company data

Company name:	**Chemical Works of Gedeon Richter Plc.**
Short name of the Company:	**Gedeon Richter Plc.**
Date of foundation of legal predccessor:	**2 October 1923**
Address of the Company:	**1103 Budapest, Gyömrői út 19-21.**
Sites:	**2510 Dorog, Esztergomi út 27.** **4031 Debrecen, Medvefű utca 20.**
Company website:	**www.richter.hu**
Date of the first Articles of Association:	**24 July 1923**
Date of the effective Articles of Association:	**26 April 2016**
Reference and place of last Company Court registration:	**Cg. 01-10-040944 Budapest**
Current registered capital:	**HUF 18,637,486,000**
Principal activity:	**Manufacture of pharmaceutical products**
TEÁOR No.:	**2120**
Duration of the Company:	**indefinite**
Business year:	**corresponding to the calendar year**
Name and address of the auditor company:	**PricewaterhouseCoopers** **Auditing Ltd.** **1055 Budapest, Bajcsy-Zsilinszky út 78.**
The person responsible for the audit is:	**Szilvia Szabados**
Registration number at the Chamber of Hungarian Auditors:	**005314**
Company announcements are published in:	**Company Gazette** **www.richter.hu** **www.bet.hu**
Name of the person authorised to sign on behalf of the Company:	**Erik Bogsch**
Address:	**Budapest**
The person responsible for the management and supervision of the tasks relating to book-keeping is:	**Judit Kozma**
Address:	**Budapest**
Registration number:	**184862**

I/2 Summary description of the accounting policy, general information

2.1 Preparation of the financial statements

The financial statements are prepared on the basis of "Act C of 2000 on Accounting".

Balance sheet date: **31 December 2016**

Balance sheet preparation date: **30 January 2017**

All figures of the financial statements are presented in HUF million unless stated otherwise.

2.2 Selected form of the balance sheet and the income statement

The balance sheet is prepared according to version „A". The income statement is prepared pursuant to the function of expense method.

2.3 Valuation procedures

Upon initial recognition of assets and liabilities denominated in foreign currencies, the Company applies the foreign exchange rate announced by Magyar Nemzeti Bank / the National Bank of Hungary (hereinafter „MNB") on the day of performance.

At year-end all the assets and liabilities denominated in foreign currencies are to be disclosed in a HUF value calculated at MNB exchange rate effective on the balance sheet date.

Conversion into forints of any assets or liabilities denominated in a currency not listed by the National Bank of Hungary is made at the cross rate calculated from Bloomberg's published rate of the given currency to the dollar and MNB's rate of the forint to the dollar.

Available for sale and held for trading financial instruments are stated at fair value by the Company.

The Company's transactions with affiliated undertakings are conducted in accordance with the usual market conditions.

2.3.1 Fixed assets

Since the Hungarian Accounting Act does not include specific guidance, for accounting of deferred purchase price of acquisitions the Company applies the analogy of regulations of IFRS 3 Standard.

2.3.2 Current assets

Inventories

Purchased inventories are valued by article units based on the volume of the closing inventories (applying the FIFO method) taking into account the related impairment as well.

The Company measures self-manufactured inventories at production costs less the impairment accounted for in accordance with the Accounting Act.

Content of direct manufacturing costs:

- direct material costs,
- direct wages and contribution costs,
- other direct costs, costs of contract work,
- depreciation of production equipment,
- operational expenses.

2.3.3 Measurement of equity and liabilities

Richter Gedeon Plc measures issued capital at a book value, which corresponds to the amount of capital registered at the Registry Court. Capital reserve, retained earnings, provision and liabilities are measured at book value in the balance sheet. The liability of the deferred purchase prices of the acquisitions are presented at probability weighted discounted value.

2.4 Accounting for impairment

Market rating of investments involving ownership shares can be derived from the stock market price or the company's shareholders' equity. Impairment should be accounted for if the item-by-item valuation of investments finds that the book value is significantly higher than the portion of shareholders' equity held by the parent company or the market value and the difference appears permanent or prolonged based on the available information. In case the shareholders' equity does not represent accurately the market value, we analyze the necessity of the impairment based on future cash-flow.

If the purchase price of goods is higher than the actual market value at the reporting date, then such inventories shall be shown in the balance sheet at the actual market value, and if the production costs of self-manufactured inventories are higher than the selling price known and expected at the reporting date, then they shall be shown in the balance sheet at the selling price less costs expected to be incurred.

Impairment is also required on the purchase price of purchased inventories and the production costs of self-manufactured inventories - in addition to the described above - if such inventories are not compliant with the relating requirements or not suitable for the original purpose, if damaged, redundant or their use or sale is doubtful.

In such case the value of inventories shall be decreased to the extent that they are shown in the balance sheet at a market value effective at the reporting date, reflecting the usability of the inventories.

Accounts receivable are assessed on individual basis, in accordance with the Accounting Act.

Review of domestic receivables

Based on the aging list of trade receivable accounts the Accounting and Finance Department puts forward a proposal on receivables for impairment, with the customers rated. The proposal is reviewed by the CFO

and the Chief Accountant, who then make a written recommendation regarding the rate of allowance with detailed analyses of the individual customers attached. The recommendation shall be approved by the company's CEO.

Review of export receivables

Based on the aging list of the trade receivable accounts the Accounting, Finance and Foreign Trade Department put forward a proposal on receivables for impairment broken down by relations (CIS, EU, USA, Other markets), with the customers rated. The proposal is reviewed by the CFO, the Chief Accountant, and the Director of Foreign Trade who then make a recommendation regarding the rate of allowance on a customer level. The Deputy Chief Executive Officer forwards the recommendation to the CEO for approval.

2.5 Depreciation method

Ordinary depreciation is recognised by the Company on a monthly basis, by daily depreciation calculation. The yearly amount of depreciation is based on the expected useful life of assets, physical wear and tear, obsolescence, other typical circumstances, and the residual value.

Based on the assessment of the Company, the realisable value of assets at the end of their useful life - except for cars - is insignificant, the residual value is 0. Residual value is 20% of the gross value in case of cars.

Based on the expected useful life - with the necessity of technological and environmental developments and technical obsolescence taken into account - the Company determined the applicable depreciation rates.

Depreciation and amortization is applied for tangible and intangible assets. Depreciation is recognised by the straight-line method. The amount of depreciation and amortization is planned in advance by the Company and is recognised as of the date of capitalization.

Description	Typical rates %
Intangible assets	4-20
Land	0
Buildings	1-8
Machineries	14-33,33
Office furniture and equipments	33,33
Vehicles	20

Tangible assets below an individual historical cost of HUF 100,000 are immediately recognised as depreciation on capitalisation.

The IT system recording tangible assets enables a two dimensional parallel treatment of depreciation and amortisation (in accordance with the tax laws and the Accounting Act).

2.6 Margins of material and minor errors

Material errors

Errors referring to the reported year identified in the course of audits or self-audits and which necessitate the preparation of a three-column balance sheet shall be considered material if the aggregate impact of such errors in the year in which the errors were disclosed result in any changes (increases or decreases) in earnings or shareholders' equity in excess of 2% of the audited business year's balance sheet total.

Minor errors

Errors shall be considered minor if their aggregate impact in the year in which the errors were disclosed result in any changes (increases or decreases) in earnings or shareholders' equity not exceeding the margin of material errors.

Income, costs and expenditure of exceptional or significant amount or occurrence

The Company determines the significant items of the costs of services and exceptional income, costs and expenditure on a case-by-case basis.

Exceptionally occurring income and expenditure are not part of the Company's ordinary business activity and are not directly related to it.

Income, costs and expenditure of exceptional or significant amount or occurrence are disclosed in the relevant section of the notes to the finacial statements.

2.7 Accounting policy

In 2016 the Company modified its accounting policy solely because of the amendment of the provisions of the Accounting Act effective from 1 January 2016.

2.8 Tax audit

In 2014 a full-fledged tax audit of the business years 2011 and 2012 was conducted at the Company. Books and ledgers of the company may be audited by the tax office in a period of up to six years following the current year.

The Management of the Company is unaware of any circumstances which could result in material liabilities for the Company in this respect.

2.9 Audit fees

The Company signed a contract with PricewaterhouseCoopers Auditing Ltd to perform the financial audit in respect of 2016. The annual fee due to this activity amounts to HUF 19 million + VAT.

I/3 Evaluation of the 2016 activities

All amounts are expressed in HUF million (unless otherwise stated), the reference figures used for evaluating the 2016 business of Gedeon Richter Plc. are taken from the 2015 audited annual report as approved by the General Meeting adjusted by the change in requirements of Act on Accounting.

3.1 Main objectives for 2016

In 2016 significant advancement was achieved in the following areas:

- Income from sales increased in the U.S. and Chinese markets as well as in the EU, particularly in the EU 15 member states.

- On 17 September 2015 Richter and Allergan were pleased to announce that FDA granted Allergan marketing authorization of cariprazine for the treatment of manic or mixed episodes of bipolar I disorder and schizophrenia in adults. From the first quarter of 2016 the product will be sold in pharmacies of the Unitede States under the trade name of Vraylar™. Besides its long term positive financial impact this event has an obvious significance in terms of industrial history. The two companies released a clinical and regulatory update on the cariprazine programme in August 2016. Topline results from the MD-72 trial indicate that flexible doses of cariprazine did not separate significantly from placebo as an add-on treatment in adults with major depressive disorder (MDD) in this trial, therefore the companies will continue to work on a subsequent Phase III trial to prove efficacy.

- On 29 March 2016 the European Medicines Agency (EMA) started assessment of the marketing authorisation of cariprazine for the indication of schizophrenia. In August of the same year Richter and Recordati signed a licence agreement granting Recordati exclusive sales license to commercialise the product in Western Europe as well as Algeria, Tunisia and Turkey.

- In the context of a HUF 15 billion investment programme Richter is expanding the Debrecen biotechnology plant constructed in 2012 for the development and manufacturing of biosimilar products. A government grant has been received amount of HUF 5 billion. By creating new jobs the project will almost double the biotech manufacturing capacity.

- On 4 January 2016 Richter announced that the European Medicines Agency (EMA) has accepted Richter's regulatory submission for the proposed biosimilar to Eli Lilly's Forteo (teriparatide). The biosimilar teriparatide has been developed by the Company's subsidiary Richter-Helm BioTec GmbH & Co. KG. According to the relevant license agreements, biosimilar teriparatide is expected to be launched under both Richter-Helm BioTec GmbH & Co. and Stada labels in Europe following the patent expiry of the original product. On 14 November 2016 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion on the product and accordingly proposes the granting of marketing authorisation for the biosimilar teriparatide Terrosa. Following on the positive opinion on 4 January 2017 the European Commission granted marketing authorisation for Terrosa.

- In December 2015 it was announced that the EMA had accepted Richter's regulatory submission for its proposed biosimilar to Amgen's Neulasta (pegfilgrastim). In December 2016, the Company withdrew the application after the CHMP's notification in November that the data submitted were not sufficient for a positive evaluation of the risk/benefit analysis related to the product. Richter is committed to continue with the clinical development programme and registration of pegfilgrastim.

- With a view to expanding its Women's Healthcare portfolio, at the end of June 2016 Richter acquired Finox Holding, a Swiss based biotech company engaged in the development and commercialisation of innovative and cost effective products addressing female fertility. Finox Holding's product Bemfola® is a recombinat human follicle stimulating hormone (r-hFSH), the first biosimilar r-hFSH product to be granted marketing authorisation in Europe. Richter has obtained global rights for the commercialisation of Bemfola® (with the exception of the United States) thereby intending to emphasize its commitment to biosimilar products.

- In a joint press release in May 2016 Richter and Allergan plc announced positive results from the Venus I pivotal Phase III clinical trials that evaluated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids.

- Following the lines of the "specialty pharma" strategy developed in 2007, in 2015 Richter signed a license and distribution agreement with Bayer HealthCare to commercialize Bayer's transdermal contraceptive patch under the trade name Lisvy. In October 2016 Richter initiated immediate withdraw after receiving Bayer's notification that the results of certain stability tests conducted with the product had not met the product specifications. The two companies are working together to identify the causes leading to the test results.

- As another step towards the implementation of its biosimilar strategy, in October 2016 Richter signed an agreement on the technology transfer to manufacture trastuzumab, a monoclonal antibody developed by DM Bio of Korea, and to take over the licence of development and commercialisation. Richter will secure exclusive distribution rights for the territory of Europe, the CIS region, and Latin America.

- To bring development and manufacture of biosimilar products to new heights the Company set up an independent organisational unit named Biotechnology Business, which has been in operation since 1 July 2016.

- In December 2010 Richter announced the foundation of GR Rxmidas Joint Venture Co. Ltd. with an initial equity share of 50%. On 22 January 2016 it was announced that Richter acquired from its partner, Rxmidas Pharmaceuticals Holdings Ltd. its outstanding 50% stake in the joint venture company. Consequently, with its 100% holding Richter will be in full charge of its contraceptive and OTC business in China.

- In 2016 Richter took further steps to expand its international business through a capital increase in its manufacturing companies and continuing its investments. Driven by the goal of adapting to the Russian economic policy of favouring local production, Richter made supporting investments into the Russian subsidiary a special priority.

Retaining and strengthening the Company's position in the Hungarian and the traditional markets (CIS, Central and Eastern Europe) despite increasingly difficult environment whose problems fall hard on the entire pharmaceutical industry (price erosion, tightening subsidies and price control) continue to feature among Richter's strategic goals.

The Company focuses on strengthening its presence in, and increasing exports to, European Union, (primarily in the EU15) and China, retaining and strengthening positions acquired in the United States, and developing new long-term research and development cooperation with existing and new partners.

The main tool to achieve these goals in the context of Hungary, the CIS and the European countries is to improve the efficiency of Richter's sales networks. In Western Europe and the United States the strategy is implemented through long-term agreements concluded with strategic partners. Through a variety of acquisitions Richter is directly present in the world's fastest growing pharmaceutical markets (China and the Latin American region).

The success of proprietary research and development aimed at CNS products is crucial for Richter Group's future and for strengthening its market positions. The second pillar of the specialty strategy is the expansion of the women's healthcare portfolio. The future added value from the women's healthcare portfolio acquired in 2010 from Grünenthal, coupled with Esmya resulting from the Swiss acquisition and Bemfola acquired in 2016 to treat infertility will boost the Group's niche: gynaecology, which is best supported by the units operating in the traditional markets and through the newly established Western European marketing network. The Group's ongoing objective is to achieve faster growth and to present higher rate of annual sales in its special niche of oral contraceptives and steroid-based women's healthcare products - in 2012 this line was completed with Richter's original product Esmya and in 2016 with Bemfola.

The third pillar of the Group's specialty strategy is the development of biosimilar products and the high-value investment to create conditions for their manufacture.

Besides the above, Richter is striving to exploit the opportunities provided by marketing the portfolio of traditional products to a maximum extent.

In order to ensure and increase sales and profitability, another priority task for the future is the improvement of research and development and the Company's organizational functioning in all areas of operation on an ongoing basis.

3.2. Post balance sheet date events

On 17 January 2017 Richter and Allergan plc announced positive results from Venus II, the second pivotal Phase III clinical trials. The trial investigated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids causing irregular uterine bleeding and confirmed the result of the Venus I study published in May 2016. Application for registration of ulipristal acetate is expected to be submitted to the United States Food and Drug Administration (FDA) during the second half of 2017.

On 19 January 2017 Richter annuonced that it had signed an agreement with Allergan plc. for the distribution of Allergan's levonorgestrel releasing Intrauterine System. Richter will distribute the product under the brand name Levosert® in Western Europe and other European countries. The product has already been granted national marketing authorisations in Western and Northern European countries, and has been launched in most countries by Allergan. Richter is currently selling Levosert® in most CEE markets in accordance with the relevant agreement signed with Uteron Pharma in 2011. According to the agreement Richter makes a milestone payment upon signature. After the product is launched, Allergan will also be entitled to sales related royalty and milestone payments.

After acquiring the remaining 9% share in February 2017 Richter became 100% shareholder of GRMed Company Limited. With this payment the Company has fully paid the deferred purchase price kept on the books among liabilities.

The Accounting Act provided for the mandatory application, as of 1 January 2017, of the International Financial Reporting Standards for the purpose of stand alone financial statements for companies whose securities are traded in the regulated market of any of the EEA member states. Pursuant to this provision, from 1 January 2017 Richter must apply the IFRS for the purpose of financial reporting. From 1 January 2017 Richter prepares its reports and statements in accordance with its stand alone IFRS.

In early 2017 Richter and Bayer reached an agreement on reimbursement of the costs of inventories in conjunction with the withdraw of Lisvy.

The management is not aware of other post-balance sheet date events that might be material to the Company's business.

3.3 Revenue by geographical segment

	2015	2016	Variance	
	MHUF	MHUF	MHUF	%
Hungary	33,939	34,840	901	2.7
Export				
CIS	109,275	102,235	-7,040	-6.4
EU *	91,983	92,503	520	0.6
USA	13,472	16,376	2,904	21.6
China	16,518	19,145	2,627	15.9
Latin America	3,749	3,703	-46	-1.2
Other countries	13,160	14,440	1,280	9.7
Export total	248,157	248,402	245	0.1
Total	**282,096**	**283,242**	**1146**	**0.4**

* Excluding Hungary

Income from the 2016 domestic sales was 2.7% up compared to the reference year. Sales in international markets were approximately the same as in 2015.

There were some changes in the breakdown of export by regions compared to the reference year: With some decrease, the CIS markets continue to retain the biggest share (36.1 %). The EU states' share increased by 0.1 percentage points and contributed 32.7%. China's share was 0.8 percentage points higher (6.7%) than prior year. The USA increased its share by 1.0 percentage point over 2015 and achieved to 5.8%. The share of Other countries was 0.4 percentage points higher (5.1%) than prior year. The contribution of Latin America to sales income was 1.3%, the same as the reference period figure. Income from domestic sales grew by 0.3 percentage points achieving 12.3 %.

Based on the year-end figures for 2016 the Company realized HUF 34,840 million income from sales in the domestic market, 2.7 % (HUF 901 million) more than in 2015. With this performance the Company's market share was 5.4% in 2016, 0.1% above the reference year's figure. Richter ranked second in the prescription drugs market with a share of 7.4%.

The main factor was increasing Suprax, Esmya, Vidotin, Xilomare, Duamild and Flamborin sales, reduced by dropping Kalmopyrin, Lisonorm, Klion and oral contraceptives. In 2016 oral contraceptives were the leading item in terms of sales contributing 8.8% to sales income.

In 2016 no significant changes took place in terms of price regulations in the domestic pharmaceutieal market. Pharmaceutical representatives' registration fee was HUF 219 million in 2015 and HUF 253 million in 2016.

The company's income from sales in international markets is HUF 248,402 million, approximately the same as the 2015 figure of HUF 248,157 million. In euro, income from exports was 0.5 % down and amounted to EUR 797.6 million.

Russia continues to be the leading market of the CIS region and also of the Company, with turnover denominated in EUR 9.5% below the reference year figure, also largely influenced by the massive (12.8%) devaluation of the rouble against the euro. Sales in rouble were 2.1% of RUB 354.7 million up. The increase in rouble denominated sales was contributed by oral contraceptives, Airtal, Panangin, Verospiron and Esmya and dampened by lagging Diroton, Mydocalm and Stopdiar sales.

Euro denominated sales in Ukraine were 11.3%, or EUR 3.0 million, up year-on-year, with increasing Groprinosin and Verospiron sales and dropping Ekvator sales.

EUR sales income from other CIS countries dropped by 5.2% of EUR 3.9 million. Declining sales in Belarus and Turkmenistan were partially offset by rising sales in Moldova and Kyrgyzstan.

The total turnover achieved in the CIS market was HUF 102,235 million, 41.2% of total export. Year-on-year decrease was 6.4% (HUF 7,040 million). Expressed in Forex, the turnover was EUR 328.2 million (USD 363.5 million) with a 7.0 % decrease in EUR (7.1 % in USD) year-on-year.

The turnover achieved in the European Union was HUF 92,503 million, 0.6% up year-on-year. The EU region's share from the total income achieved in international markets is 37.2%. Expressed in Forex, the income amounted to EUR 297.0 million.

Owing to the efficient promotion efforts of the Western European network of pharmaceutical representatives the Company's strategic product Esmya realised a significant sales increase, which greatly contributed to the overall 2.5% increase in EUR term in the EU15 region. Bemfola® sales contributed to the 2016 income.

The CEE member states decreased their contribution to total sales in the EU region from 48.6% in 2015 to 47.3% in 2016. The decrease (2.6% in euro) is attributed primarily to the performance of oral contraceptives and Avonex.

Sales in the United States were 21.6% (or HUF 2,904 million) up; denominated in dollar, the increase was 20.5% (or USD 9.9 million) and was contributed mainly by Vraylar™ royalty income.

Turnover in the Chinese region was HUF 19,145 million (EUR 61.5 million) and was HUF 2,627 million (or EUR 8.2 million) higher year-on-year. Increase in Cavinton sales was especially outstanding.

Turnover in Latin America was approximately the same as in the reference year. The 2016 sales income amounted to HUF 3,703 million (USD 13.2 million). The region's share from the total income achieved in international markets is 1.5%.

In the region of Other countries oral contraceptives were the leading products. Other countries achieved a turnover of HUF 14,440 million (EUR 46.4 million). Compared to 2015, sales income was 9.7% higher (in euro, 9.2% higher). The contribution of the region to international sales was 5.8%.

Contribution of key products to sales revenues

Finished products contributed approximately 92% to the 2016 sales revenues.The contribution of APIs was 3%, that of sales of purchased materials and royalties was 2% each, and servicesy contributed 1%.

The following table contains the Top Ten product groups based on their contribution to total sales revenues:

2015				2016			
Rank	Product/ API	Sales MHUF	Share %	Rank	Product/ API	Sales MHUF	Share %
1	Oral contraceptives	85,407	30.3	1	Oral contraceptives	80,384	28.4
2	Cavinton/vinpocetine	25,403	9.0	2	Cavinton/vinpocetine	27,643	9.8
3	Mydeton/tolperisone	15,339	5.4	3	Esmya/ ulipristal acetate	20,890	7.4
4	Esmya /ulipristal acetate	14,995	5.3	4	Panangin/ / asparaginates	14,037	5.0
5	Panangin/ asparaginates	14,263	5.1	5	Mydeton/ tolperisone	12,312	4.3
6	Verospiron/ /spironolactone	11,317	4.0	6	Verospiron/ /spironolactone	11,280	4.0
7	ACE inhibitors /enalapril, lisinopril	11,303	4.0	7	ACE inhibitors /enalapril, lisinopril	8,580	3.0
8	Lisonorm /lisinopril, amlodipine	8,240	2.9	8	Aflamin/ aceclofenac	7,494	2.6
9	Aflamin/aceclofenac	6,642	2.4	9	Lisonorm/ lisinopril, amlodipine	7,487	2.6
10	Quamatel/famotidine	6,629	2.3	10	Quamatel/famotidine	6,673	2.4
	Total	**199,538**	**70.7**		**Total**	**196,780**	**69.5**
	Net income from sales	**282,096**	**100**		**Net income from sales**	**283,242**	**100**

The contribution of the ten leading product categories to total sales was 69.5%, slightly below the reference year's figure.

Oral contraceptives are the leading products with a turnover of HUF 80.4 billion, 5.9% below the 2015 figure. Decreasing income from the sales of oral contraceptives and Drospirenone. The contribution of this product category to the 2016 total turnover was 28.4%, 1.9 percentage points below the reference year.

Richter's most important original drug Cavinton is the second most important product achieved an increase in turnover (rising sales in China). Esmya advanced from 4th to 3rd place as a result of a 39.3% y/y increase in turnover contributed by expanding sales in Western Europe. Fifth in the reference year, Panangin managed to advance one place despite a slight drop in sales. Mydeton is ranked third with a 4.3% market share. Verospiron and ACE inhibitors were ranked 6th and 7th, same as in the reference year, with respective market shares of 4.0% and 3.0 %. Lisonorm and Aflamin, 8th and 9th in the reference year, swapped places in the 2016 league table. Quamatel finished 10th with approximately the same as in 2015. The composition of the list of TOP 10 products did not changed compared to the reference year.

Contribution of key markets to sales revenues

The Company's ten leading markets were as follows:

Company's ten leading markets		2015		Company's ten leading markets		2016	
		MHUF	MEUR			MHUF	MEUR
1.	Russia	77 685	250.9	1.	Russia	70 742	227.1
2.	Hungary	33 939	109.6	2.	Hungary	34 840	111.8
3.	Germany	16 688	53.9	3.	China	19 145	61.5
4.	China	16 518	53.3	4.	United States of America	16 376	52.6
5.	Poland	14 664	47.4	5.	Germany	15 344	49.3
6.	United States of America	13 472	43.5	6.	Poland	13 887	44.6
7.	Ukraine	8 236	26.6	7.	Ukraine	9 216	29.6
8.	Czech Republic	7 425	24.0	8.	Kazakhstan	7 155	23.0
9.	Kazakhstan	7 124	23.0	9.	Czech Republic	7 052	22.6
10.	Great Britain	6 502	21.0	10.	France	6 912	22.2
	Total	202 253	653.2		Total	200 669	644.3
	Net income from sales	**282 096**	**910.9**		**Net income from sales**	**283 242**	**909.4**

The ten leading countries jointly contributed approximately 70.8% to Richter's total sales.

Russian continues to head the list. Hungary kept its second place. China advanced to 3rd place as a result of rising Cavinton sales. Owing to increasing VraylarTM turnover, the United States advanced from 6th to 4th place. Germany slipped two places and Poland one place due to lagging sales of oral contraceptives. With a 11.3% increase in sales (in euro) Ukraine retained its 7th place. On the other hand, the Czech Republic and Kazakhstan swapped their respective 8th and 9th place. Great Britain did not make it to the TOP 10 and yielded its place to France among the leading markets.

The three main therapeutic areas contribute 77% to the 2016 sales income. The most important area is that of gynaecological products contributing 40% to turnover. The contribution of cardiovascular products is 21% and of CNS (Central Nervous System) products, 16%.

HUF 106,093 million was realised with associated enterprises including HUF 91,985 million from sales to subsidiaries.

3.4 Balance sheet

Assets

As of 31 December 2016 the Company's assets amounted to HUF 782,005 million, HUF 44,938 million (6.1 %) higher than the opening value. The main items on the asset side are as follows:

Fixed assets

The closing value of this item was HUF 531,266 million, HUF 73,676 million higher than the opening value. The growth in the value of fixed assets resulted the increasing of financial investments and the value of the tangible assets which was partially offset by the falling value of intangibles.

As of 31 December 2016 the combined value of the Company's equity investments amounted to HUF 224,611 million including fair value and rose by HUF 77,079 million year-on-year. The differences resulted from the reclassification of goodwill due to the amendment of the Hungarian Accounting Act, specifically: PregLem HUF +12,760 million, GRMed HUF +18,944 million (see the chapter on Equity investments for full details), acquisition of Finox Holding (HUF +25,855 million), Gedeon Richter Romania S.A.'s capital increase converted from a loan (HUF +5,405 million), revaluation of investment in Protek due to the change in share prices (HUF +5,328 million), acquisition of the second 50% ownership in GR Rxmidas Joint Venture Co. Ltd. (HUF +4,870 million).

The reassessment of equity investments as of the balance sheet date resulted in an increase of HUF 751 million.

Loans given amounted to HUF 73,677 million and included predominantly long-term loans extended to Finox Holding (provided at the aquisition), Preglem and pharmaceutical production companies.

The Company intends to hold until maturity (2019) the exchangable bond, which is exchangable to Richter's shares and reported under long-term bonds with a book value in 2016 of HUF 16,173 million.

There was a HUF 10,300 million increase in the value of tangible assets year-on-year (7.4 %). The increase is contributed by Rights and Technical equipment, machines and vehicles primarily in conjunction with the development of the new the injectables packaging plant and a project aimed at creating state-of-the-art freeze-drying capacities. The depreciation expense was HUF 15,970 million

in the reported period. The total value of capitalised capital expenditure is HUF 27,839 million. The total capitalised value includes group assets of minor value at HUF 67 million and completed refurbishment projects at HUF 2,293 million.

The value of intangibles was HUF 64,948 million, HUF 40,042 million lower than the opening value. The decrease was due primarily to the reclassification of goodwill (HUF 35,980) to be reported in equity investments following the change in the Hungarian Accounting Act, as well as to the write-off consequent to the withdraw of the contraceptive patch Lisvy (Valuable rights HUF -2,405 million).

The total value of the Company's capital expenditures including the acquisition of intangibles was HUF 32,250 million in 2016.

Current assets

The total value of current assets was HUF 248,212 million as of 31 December 2016, HUF 28,546 million below the opening value.

Inventories increased by HUF 1,472 million by the end of the year. This item includes a HUF 1,483 million increase in the combined value of purchased materials and goods. The combined value of work in progress, finished products and semi-finished goods was HUF 211 million below the opening value recorded on January 1. The advances given for inventories increased by HUF 200 million.

Receivables are HUF 17,770 million less than the opening figure. Trade receivables were HUF 19,327 million higher year-on-year. The growth was resulting mainly from increasing participatory receivables from the CIS and trade receivable from the European Union. The figure also contains a HUF 13,973 million increase in receivables from affiliated undertakings and undertakings linked by significant or other participating interest. Receivables from affiliated undertakings and undertakings linked by a significant share or other participating interest, and cash pool is HUF 3,261 million below the reference year's closing figure due mainly to the loan to Gedeon Richter Romania S.A. converted to capital increase and to the loans to Pharmapolisz Kft. and Richter-Helm BioLogics GmbH & Co. classified as long-term, reduced by the loan item extended to GR RUS becoming due within a year.

As of 31 December 2016 the value of cash drop by HUF 44,354 million. The main items contributing to the decrease are the acquisition of Finox Holding, the EUR 21 million repayment of the European Investment Bank credit and the HUF 13,419 million dividend in connection of the result of 2015 and approved by the Annual General Meeting.

The value of securities decreased by HUF 3,434 million compare to the opening value.

Total Equity and Liabilities

Shareholders' equity

There was a substantial, HUF 46,304 million increase in shareholders' equity, which resulted from a HUF 47,548 million in retained earnings, a HUF 5,328 million in fair value reserve, and a HUF 434 million in tied up reserve and a HUF 7,006 million decrease in profit for the year, while the value of registered capital and capital reserves remained unchanged.

MHUF

	Issued capital	Share premium	Retained earnings	Tied-up reserve	Fair value reserve	Profit or Loss fo the year	Shareholders' equity
Balance 31.12.2015	**18 637**	**19 256**	**532 101**	**804**	**2 117**	**61 480**	**634 395**
31.12.2015 Profit for the year			61 480			-61 480	0
Dividend payment in 2015			-13 419				-13 419
31.12.2016 Release and tie-up of repurchase value of treasury shares and experimental development			-434	434			0
31.12.2016 fair valuation reserve					5 328		5 328
Supplementary payment *			-79				-79
31.12.2016 Profit for the year						54 474	54 474
Balance 31.12.2016	**18 637**	**19 256**	**579 649**	**1 238**	**7 445**	**54 474**	**680 699**

*Pharmapolis Gyógyszeripari Tudományos Park Kft. to settle equity.

Changes in issued capital

Shares of the company

	31.12.2015			31.12.2016		
	Number	Nominal value HUF'000	Ratio %	Number	Nominal value HUF'000	Ratio %
Ordinary shares	186 374 860	18 637 486	100.00	186 374 860	18 637 486	100.00
Total shares	**186 374 860**	**18 637 486**	**100.00**	**186 374 860**	**18 637 486**	**100.00**

Fair valuation reserve

MHUF

	31.12.2015	31.12.2016	Variance
Financial investments	2 117	7 445	5 328

The fair valuation of the share in Protek Holding was based on the basis of the share price on the stock exchange.

Ownership structure as known by the Company

	Ordinary shares *		Voting capital ** %		Subscribed capital %	
	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016
Domestic shareholders						
MNV ZRt.	47 051 668	47 051 668	25.36	25.28	25.25	25.25
Local government	149	149	0.00	0.00	0.00	0.00
Institutional investors	5 498 517	6 070 053	2.96	3.26	2.95	3.26
Private investors	5 859 126	6 710 868	3.16	3.61	3.14	3.60
Total	**58 409 460**	**59 832 738**	**31.48**	**32.15**	**31.34**	**32.11**
Foreign shareholders						
Private investors	2 451 470	1 697 648	1.32	0.91	1.32	0.91
Institutional investors	124 293 699	124 591 828	66.98	66.93	66.68	66.84
Aberdeen Asset M. PLC.	*18 243 530*	*18 243 530*	*9.83*	*9.80*	*9.79*	*9.79*
Harding Loevner LP. ***		*9 367 925*		*5.03*		*5.03*
Total	**126 745 169**	**126 289 476**	**68.30**	**67.84**	**68.00**	**67.75**
Non-specified shareholder	408 576	11 012	0.22	0.01	0.22	0.01
Treasury shares *	811 655	241 634	0.00	0.00	0.44	0.13
Subscribed capital	**186 374 860**	**186 374 860**	**100.00**	**100.00**	**100.00**	**100.00**

*It includes the 60,284 ordinary shares held by subsidiaries. Treasury shares carry no voting rights.
** Article 13.8 of the Statutes restricts the voting rights of shareholders, alone or together with other related persons to no more than 25%.
*** On 21 October 2016 Harding Loevner LP's influence increased to 5.03%.

The book value of treasury shares held by Richter is HUF 1.068 million.

The table is based on data from the Shareholders' Register modified after establishment of eligibility as provided by KELER Zrt. and the fund managers.

The State Holding Company (MNV Zrt.), as a business organisation is having a significant interest over Richter nevertheless the Parent Company has no other transactions with the State Holding Company, than the regular dividend payments.

MHUF

	31.12.2015	31.12.2016
Dividend paid to MNV Zrt.	1 564	3 403

The Group does not perform significant transactions with other entities controlled or significantly influenced by the Hungarian State. The cumulative effect of these transactions is also not significant therefore it is not presented separately in the financial statements

Changes in treasury shares

	Number of shares	MHUF
Opening 01.01.2016	**101 371**	**550**
Share purchase*	952 831	5 673
Transferred in the context of bonus program	-217 189	-1 221
Transferred as premium	-387 600	-2 294
Transferred in the context of PM program	-285 459	-1 737
Repurchased in the context of PM program	17 396	97
Closing 31.12.2016	**181 350**	**1 068**

* Richter bought 650,000 ordinary shares from its affiliated undertaking Gedeon Richter Befektetéskezelő Kft.

It is the intention of the Company to grant Treasury shares to management and employees as part of its remuneration policy.

The Company is operating three share based payment programs, described below in more details.

From these programs, the individual bonuses and the bonus program vest immediately, while the shares granted under the Finance Ministry program have a vesting condition of employment at the end of the deposit period also described below.

Bonus program

Richter operates a bonus share programme since 1996 to further incentive managers and key employees of the Company. In 2016 217,189 shares were granted to 440 employees of the Company while in 2015 323,378 shares were granted to 454 employees.

Individual bonuses

387,600 ordinary shares were granted to qualified employees as bonuses during the year while 422,917 ordinary shares were granted in 2015.

Staff Stock Bonus Plan

Pursuant to a programme approved by the National Tax and Customs Administration related to employee share bonuses (Staff Stock Bonus Plan), the Company granted 285,459 treasury shares to 4,342 employees in 2016. The shares will be deposited on the employees' security accounts with UniCredit Bank Hungary Ltd. until 2 January 2019. In 2015 350,694 shares were granted to 4,356 employees deposited on their accounts until 2 January 2018.

The AGM held on 26 April 2016 approved that the Company may purchase its own shares for the treasury, the aggregated nominal value of which shall not exceed 10 percent of the registered capital of the Company. Based on this approval, the Company purchased 302,831 treasury shares on the OTC market.

Liabilities

As of 31 December 2016 total liabilities amounted to HUF 85,692 million and included HUF 31,073 million long-term liabilities. Long-term liabilities were HUF 11,152 million below the opening value.

The reduction was due primarily to EUR 25 million borrowings and the deferred purchase price in relation to the Chinese and Mexican acquisition were reclassified as short term liabilities due within the year. The Company received advance support amounting to HUF 2,563 million extended by the Ministry of National Economy to fund innovative pharmaceutical research and development.

At the end of 2016 the Company's only long-term borrowings was the EIB loan amounting to EUR 92 million.

Accounts payable increased by HUF 4,400 million. This figure also contains changes in liabilities to other related parties and of the cash pool.

The HUF 7,774 million increase in short-term borrowed capital, is the impact of the above-mentioned conversions reduced by the deferred payment in conjunction with the acquisitions in China and the EUR 21 million EIB repayment.

3.5 Cash Flow Statement

MHUF

			2015	2016
I.	Net cash flow from ordinary business (Operating cash flow, lines 1-13)		98 824	49 822
1.	Profit before taxation	±	63 105	55 886
1/a.	Dividends received	-	-1 002	-7 820
1b.	Other profit items that do not imply cash movements		1 332	-1 750
2.	Depreciation charge	+	22 536	23 396
3.	Impairment charge and reversal	±	4 143	7 837
4.	Difference in recognition and reversal of provisions	±	878	-196
5.	Gains and losses of selling non-current assets	±	-35	-29
5/a	Change of non-current assets without cash flow generating effect	±	-1 537	866
6.	Change of trade payables	±	6 074	4 400
7.	Change of other short term liabilities	±	-774	45
8.	Change of accruals	±	20	2 205
9.	Change of trade receivables	±	-2 473	-20 681
10.	Change in current assets (less receivables and liquid assets)	±	14 904	1 536
10/a.	Change of other current assets without cash flow generating effect	±	-1 181	-2 310
11.	Change of prepayments	±	-248	192
12.	Taxes paid or payable (on profits)	-	-767	-336
13.	Dividends paid or payable	-	-6 151	-13 419
II.	Cash flow from investing activities (lines 14-16)		-57 998	-92 804
14.	Purchasing of non-current assets	-	-28 536	-32 061
15.	Sales of non-current assets	+	206	112
16.	Change of financial investments	±	-30 670	-68 675
16/a.	Dividends received	+	1 002	7 820
III.	Cash flow from financing activities (lines 17-27)		-9 292	-1 372
17.	Proceeds from issuing shares	+		
18.	Proceeds from issuing bonds	+		
19.	Taking credits or loans	+		
20.	Repayment of long term loans	+	9 189	4 882
21.	Liquid assets received without the obligation of repayment	+		2 563
22.	Withdrawal of shares	-		
23.	Repayment of bonds	-		
24.	Repayment of loans and credit	-	-14 432	-6 523
25.	Long term loans extended and bank deposits	-	-3 191	-1 218
26.	Liquid assets given without the obligation of repayment	-	-858	-1 076
27.	Change of liabilities in connection with founders	±		
IV.	Net cash flow (lines I+II+III)	±	31 534	-44 354

3.6 Financial performance indicators

Dividend paid on the 2015 earnings has been removed from the reference year's data so that the following indicators are calculated with the same contents as a result of the amendment to the Accounting Act.

Profitability indicators

Indicators	Formula	2015		2016		Variance
EBITDA	Operating profit + Depreciation / Net sales income	59 578+22 536 / 282 096	= 29.11%	35 130+23 182 / 283 242	= 20.59%	-8.52
ROE	After-tax profit / Shareholders' equity	61 480 / 634 395	= 9.69%	54 474 / 680 699	= 8,00%	-1.69
ROA	After-tax profit / Total assets	61 480 / 737 067	= 8.34%	54 474 / 782 005	= 6,97%	-1.37

Due to the increase in the Company's operation and after-tax profit the profitability indicators were more unfavourable than in the reference year.

EBITDA was 20.59% in the reported period, 8.52 percentage points under the 2015 figure. With a sales income approximately the same as in the reference year operating profit decreased significantly (+41.0%).

At the end of 2016 return on equity was 8.00%, with return on assets being 6.97%. Both ROE and ROA worsened year-on-year due to a 11.4% decreased in after-tax profit.

The Company's gearing

Indicators	Formula	2015		2016		Variance
Debt ratio	Total liabilities / Total equity and liabilities	89 070 / 737 067	= 12.08%	85 692 / 782 005	= 10.96%	-1.12
Equity to debt ratio	Shareholders' equity / Total equity and liabilities	634 395 / 737 067	= 86.07%	680 699 / 782 005	= 87.05%	0.98
Fixed assets coverage ratio	Shareholders' equity + Long-term liabilities / Fixed assets	634 395 + 42 225 / 457 590	= 147.87%	680 699 + 31 073 / 531 266	= 133.98%	-13.89
Working capital ratio	Current assets - Short-term liabilities / Total assets	176 758-46 845 / 737 065	= 31.19%	248 212 - 54 619 / 782 005	= 24.76%	-6.43

Debt ratio was 10.96% in 2016, 1.12 percentage points less than in the reference year because of a 3.8% drop in liabilities and a 6.1% increasing in total equity and liabilities.

Equity ratio has been increased to 87.05% parallel with the reduction of debt ratio. Fixed assets coverage ratio and net current assets rate decreased year-on-year, their respective values at 133.98% and 24.76% reflecting an extremely stable assets position.

The Company's liquidity

Indicators	Formula	2015		2016		Variance
Liquidity ratio	Current assets / Short-term liabilities	276 758 / 46 845	= 5.91	248 212 / 54 619	= 4.54	-1.37
Cash ratio	Cash / Short-term liabilities	110 323 / 46 845	= 2.36	65 969 / 54 619	= 1.21	-1.15
Quick ratio	Cash + Accounts receivable + Short-term marketable securities / Short-term liabilities	110 323+114 891+4 502 / 46 845	= 4.90	65 969+132 661+1 068 / 54 619	= 3.66	-1.24

The liquidity position is characterised by a slight drop in all indicators by the end of 2016.

A major factor in the drop in cash funds was the Finox Holding acquisition, the EUR 21 million repayment to the EIB and the dividend in connection of the result of 2015.

Stock market indicators

Indicators	Formula	2015		2016		Variance
Earnings per share ratio (EPS)	Profit after taxes / Number of common shares (Mn)	61 480 / 186.375	= 329.87	54 474 / 186.375	= 292.28	-37.59
Price - earnings (P/E)	Average market value per share (HUF) x Number of common shares (Mn) / Profit after taxes	35 573 x 186.375 / 61 480	= 16.89	6 309 x 186.375 / 54 474	= 21.59	4.70

*Average share price is the average price of shares in the period 1 to 30 January.

As a listed company, Richter considers it important to present the EPS and P/E indicators.

As of 31 December 2015 P/E was 16.89 compared to 21.59 in 2016.

Due to the decrease in the 2016 after-tax profit the earnings per share was HUF 292.28, which was HUF 37.59 less compare to the previous year.

3.7 Proposal for the appropriation of after-tax profit

The Company is planning to pay shareholders HUF 19,756 million dividend from the after-tax profit (HUF 54,474) for 2016.

II. Specific section

Changes that can not be expressed in MHUF are shown at a 0 value in the table.

II/1 Fixed assets

1.1 Intangible assets

MHUF

Intangible assets	Account groups				
	Rights	Intellectual property	Goodwill	Capitalised R&D	**Total**
Gross value					
Opening balance, 01.01.2016.	**109 215**	**2 081**	**36 326**	**804**	**148 426**
Capitalization	5 678				**5 678**
Sale					**0**
Scrapping	-2 520	-42			**-2 562**
Transferred without payment	-14				**-14**
Reclassification, other	12		-36 325		**-36 313**
Closing balance, 31.12.2016	**112 371**	**2 039**	**1**	**804**	**115 215**
Accumulated amortization					
Opening balance, 01.01.2016.	**-41 408**	**-1 132**	**-346**	**-550**	**-43 436**
Amortization accounted in respect of the current year	-6 967	-160		-85	**-7 212**
Extraordinary depreciation	-214				**-214**
Sale					**0**
Scrapping	245				**245**
Transferred without payment	5				**5**
Asset contribution					**0**
Reclassification, other			345		**345**
Closing balance, 31.12.2016	**-48 339**	**-1 292**	**-1**	**-635**	**-50 267**
Net book value					
01.01.2016	67 807	949	35 980	254	104 990
31.12.2016	**64 032**	**747**		**169**	**64 948**

The value of intangibles was HUF 64,948 million, HUF 40,042 million lower than the opening value. The decrease was due primarily to the reclassification of goodwill (HUF 35,980) to be reported in Investments following the change in the Hungarian Accounting Act, as well as to the scrapping consequent to the withdraw of the contraceptive patch Lisvy (Valuable rights HUF -2,405 million).

The product rights acquired from Grünenthal containing market authorisation and manufacturing rights, which are presented as Rights, with net book value of HUF 39,089 million as of 31 December 2016 and HUF 43,516 million as of 31 December 2015. It contains the rights in connection with Esmya (HUF 10,208 million), other commercial rights and marketing authorization (HUF 10,531 million) and softwares (HUF 4,208 million) as well.

1.1.1 Goodwill

In accordance with the Accounting Act effective from 1 January 2016 the items carried forward on the first day of the new business year reflect the original value of affiliated participation has been adjusted with the amount of goodwill. The figures in the Investments chapter reflect the effect of the statutory changes.

1.2 Tangible assets

MHUF

Tangible assets	Account groups					
	Land and buildings	Technical equipment	Other equipment	Recorded in groups	Construction in progress	**Total***
Gross value						
Opening balance, 01.01.2016	**115 026**	**134 926**	**63 168**	**502**	**18 592**	**332 214**
CAPEX					26 572	**26 572**
Capitalization	9 057	9 767	6 655	67	-25 546	**0**
Renovation	886	1 211	196		-2 293	**0**
Received without payment					11	**11**
Sale	-3	-1 074	-470			**-1 547**
Scrapping	-17	-1 082	-1 058	-23		**-2 180**
Loss event			-17	-1		**-18**
Shortage		-6	-9	-16		**-31**
Transferred without payment		-7	-241			**-248**
Asset contribution			-351			**-351**
Reclassification, other	-22	12	-3			**-13**
Closing balance, 31.12.2016	**124 927**	**143 747**	**67 870**	**529**	**17 336**	**354 409**
Accumulated depreciation						
Opening balance, 01.01.2016	**-31 052**	**-112 199**	**-49 100**	**-502**	**0**	**-192 853**
Depreciation charged to date	-3 490	-7 782	-4 632	-66		**-15 970**
Extraordinary depreciation	-2					**-2**
Sale	3	1 074	387			**1 464**
Scrapping	17	1 081	1 056	23		**2 177**
Loss event			12			**12**
Shortage		6	9	16		**31**
Transferred without payment		7	233			**240**
Asset contribution			133			**133**
Reclassification, other	1	-2	2			**1**
Closing balance, 31.12.2016	**-34 523**	**-117 815**	**-51 900**	**-529**	**0**	**-204 767**
Net book value						
01.01.2016	83 974	22 727	14 068	0	18 592	**139 361**
31.12.2016	**90 404**	**25 932**	**15 970**	**0**	**17 336**	**149 642**

* It does not include the value of advances given for tangible assets (HUF 406 million, HUF 387 million as of 31 December 2015).

The value of tangible assets was HUF 10,300 million above the reference year figure (+7.4%). The increase is contributed by Valuable rights and Technical equipment, machines and vehicles primarily in conjunction with

the development of the new the injectables packaging plant and a project aimed at creating state-of-the-art freeze-drying capacities.

Depreciation and amortization on tangibles and intangibles was HUF 23,182 million in 2016, HUF 646 million in excess of the 2015 figure.

1.2.1 Tangible assets directly used for environment protection

MHUF

Tangible assets	Account groups			
	Land and buildings	Technical equipment	Other equipment	**Total**
Gross value				
Opening balance, 01.01.2016	**2 258**	**885**	**648**	**3 791**
Capitalization	154	19	44	**217**
Renovations	2	6	2	**10**
Scrapping		-5		**-5**
Reclassification, other				**0**
Closing balance, 31.12.2016	**2 414**	**905**	**694**	**4 013**
Depreciation change				
Opening balance, 01.01.2016	**-503**	**-833**	**-563**	**-1 899**
Depreciation charged to date	-60	-24	-22	**-106**
Scrapping	0	5		**5**
Reclassification, other			1	**1**
Closing balance, 31.12.2016	**-563**	**-852**	**-584**	**-1 999**
Net book value				
01.01.2016	1 755	52	85	**1 892**
31.12.2016	**1 851**	**53**	**110**	**2 014**

1.2.2 Construction in progress

MHUF

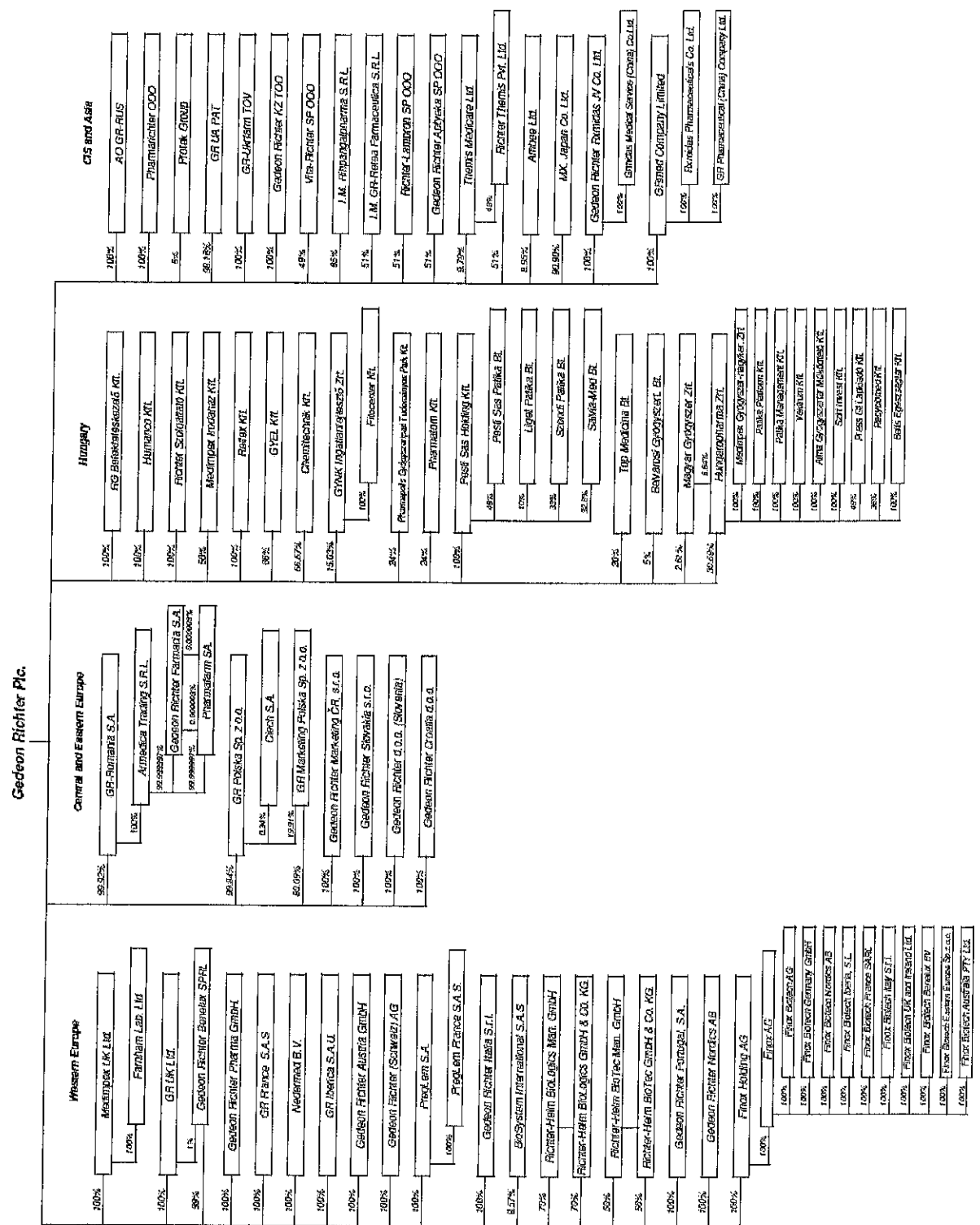
Description	Variance				
	Opening balance 01.01.2016	CAPEX	Capitalisation	Transferred without payment	**Closing balance 31.12.2016**
CAPEX	**17 641**	24 142	-25 479		**16 304**
Renewal	**835**	2 359	-2 293		**901**
Grouped	**116**	71	-67	11	**131**
Total	**18 592**	**26 572**	**-27 839**	**11**	**17 336**

The value of construction in progress as at 31 December was HUF 17,336 million. A significant part of the balance relates to the new injectables packaging plant and a project aimed at creating state-of-the-art freeze-drying capacities that are not yet put into use.

The amount of intangible assets capitalised during 2016 is HUF 7,433 million.

1.3. Investments relationship

1.3.1 Investments of GR Plc. according to ownership rates as on 31st December, 2016



1.3.2 Related parties in a breakdown by degree of participation 31.12.2016.*

Description	Head office	RG direct and indirect participation	
		ownership (%)	votes (%)
Subsidiary companies			
Direct participation			
Humanco Szolgáltató Kft.	1103 Bp., Gyömrői út 19-21. Hungary	100.00	100.00
Pesti Sas Holding Vagyonkezelő Kft.	1103 Bp., Gyömrői út 19-21Hungary.	100.00	100.00
Reflex Kft.	1107 Bp., Szava u. 9. Hungary	100.00	100.00
Richter Befektetéskezelő Kft.	1103 Bp., Gyömrői út 19-21. Hungary	100.00	100.00
Richter Szolgáltató Kft.	1103 Bp., Gyömrői út 19-21. Hungary	100.00	100.00
Chemitechnik Pharma Mér. Szolg.	1103 Bp., Gyömrői út 19-21. Hungary	66.67	66.67
Gyógyszerip. Ell. és Fejl. Labor Kft.	1149 Bp., Mexikói út Hungary 9.	66.00	66.00
Pharmarichter O.O.O	115201 Moszkva, Kasirszkoje 22. Russia	100.00	100.00
PregLem SA	1228 Plan-les Ouates, 3 chemin de Pré-Fleuri Schweiz	100.00	100.00
GR Marketing CR s.r.o.	Prága 4, Nusle, Na Strzi 1702/65 Czech R.	100.00	100.00
GR Slovakia, s.r.o.	Bratislava 81108, Soltésovej 14 Slocakia	100.00	100.00
GR Ausztria GmbH	1030 Wien, Hainburgerstraße 20, Top 17 Austria	100.00	100.00
GR Schweiz AG	6330 Cham, Gewerbestrasse 5 Schweiz	100.00	100.00
GR Portugal Lda	1000-012 Lisboa, Rua Almirante Barroso 7-A Portugal	100.00	100.00
Gedeon Richter d.o.o. (Slovenia)	Verovškova ulica 55, 1000 Ljubljana Slovenia	100.00	100.00
Gedeon Richter Croatia d.o.o.	Radnicka cesta 80, 10 000 Zagreb Croatia	100.00	100.00
GR RUS ZAO	Jegorjevszk Suvoje, Lesnaja u. 40. Russia	100.00	100.00
GR Ukrfarm T.O.V.	Kijev, Turgenyevszkaja u. 17/b. Ukraine	100.00	100.00
Medimpex UK Ltd	127 Shirland Road, London W9 2EP, Great-Britain	100.00	100.00
GR Italia S.r.l	Milano, Viale Cassala 16 Italy	100.00	100.00
GR Benelux S.p.r.i.	Mommaertslaan 18B á 1831 Diegem, Brussels, Belgium	100.00	100.00
GR Nordics	c/o Advokatfirman Lindahl KB 10139 Stockholm Sweden	100.00	100.00
GR Marketing Polska Sp.z.o.o.**	Warszawa, ul. Królowej Marysienki 70, 02-954 Poland	99.97	99.97
GR Polska Sp.z.o.o.	Grodzisk Mazowiecki 05-825 Poniatowskiego u. 5.Poland	99.84	99.84
GR România S.A.	Tirgu Mures, Cuza Voda 99-105., Romania	99.92	99.92
GR UA P.A.T.	Chernovola 2/A, 08133 Vyshneve, Ukraine	98.16	98.16
Medimpex Japan Co.Ltd.**	Noyori Bldg. 2-17., Tokyo 105, Japan	90.90	90.90
Richter Helm BioLogics Man GmbH.	Bovenau Gut Dengelsberg Germany	70.00	70.00
Richter Helm BioLogics GmbH&.Co.KG	Bovenau Gut Dengelsberg Germany	70.00	70.00
Richpangalpharma S.R.L.	N. Mmilescu-Spataru str, 36 Chisinau 2075 Moldova	65.00	65.00
Richter-Lambron S.P.O.O.O.	375002 Jereván Kazara Parpeci 22. Armenia	51.00	51.00
GR APTYEKA S.P.O.O.O.	22, K. Parpetsi Str., 0002, Jerevan, Armenia	51.00	51.00
I.M. GR Retea S.R.L	N. Mmilescu-Spataru str, 36 Chisinau 2075 Moldova	51.00	51.00
Richter Themis Pvt.Ltd. *	69, GIDC Industrial Estate Vapi, Gujarat, India	55.80	55.80
Gedeon Richter Colombia S.A.S	CL 67 No. 7 35 OF 1204, Bogota D.C., Colombia	100.00	100.00
Gedeon Richter KZ LLP	R. of Kazakhstan, 040706 Almaty Reg. Pervomaiskii ,Industrial Zone	100.00	100.00
GRmed Company Ltd.	Des Voeux Road Central, Hong Kong	100.00	91.00
Gedeon Richter Mexico, S.A.P.I. de C.V.	Cerrada de Galeane No.4, Colonia La Loma, Tlalnepantla, Esta Mexico	100.00	80.00
Gedeon Richter do Brasil Imp.,Exp.e Dis.S.A.	Rua Redencáo, No.97'Chácara Tatuapé, Sáo Paulo, Zip Code Brasil	51.00	51.00

Description	Head office	RG direct and indirect participation	
		ownership (%)	votes (%)
Subsidiary companies			
Mediplus (Economic Zone) N.V.	Economische Zone Hato unit F.II.1., Curacao	100.00	100.00
GR Ibérica S.A.	c/dr. Ferran 6-8.,Barcelona 08034, Spain	100.00	100.00
Nedermed B.V	Amstelveen, Straat van Magelhaens 13, 1183 Netherlands	100.00	100.00
GR Pharma GmbH	Frankfurter Str. 13-15., Eschborn, 65760, Germany	100.00	100.00
GR UK Ltd.	127 Shirland Road, London W9 2EP, Great-Britain	100.00	100.00
GR USA Inc.	1200 E.Ridgewood Avenue, New Jersey 07450.USA	100.00	100.00
GR France S.A.S.	1/3 Rue Caumartin, Paris 75009, France	100.00	100.00
Medimpex Jamaica Ltd.	Kingston 5, Ripon Road 10, Jamaica	60.00	60.00
Medimpex West Indies Ltd.	Kingston 5, Ripon Road 10, Jamaica	60.00	60.00
GR Rxmidas JVCo.Ltd	2/F., Dah Sing Life Building. 99-105 Des Voeux Road Central, Hong Kong	100.00	100.00
Finox Holding AG	Industrie Neuhof 23, 3422 Kirchberg Switzerland	100.00	100.00
Indirect participation			
Armedica Trading S.A	Tirgu Mures, Cuza Voda 99-105., Romania	99.92	99.92
Pharmafarm S.A	Str. Majakovski Nr.2. Jud. Cluj, Romania	99.92	99.92
GR Farmacia S.A	TG MURES, STR. CUZA VODA Nr.99-105, Romania	99.92	99.92
Farnham Lab. Ltd.**	127 Shirland Road, London W9 2EP, Great-Britain	100.00	100.00
Preglem France	1/3 Caumartin Paris 75009 Paris France	100.00	100.00
Rxmidas Pharmaceutical Co. Ltd.	650 Dingxi Road, Changning dist., Shanghai, China	100.00	91.00
GR Pharmaceutical (China) Company Ltd.	650 Dingxi Road, Changning dist., Shanghai, China	100.00	91.00
Grmidas Medical Service (China) Co. Ltd.	Shanghai Waigaoqiao Free Trade Zone in 116 South Building, 1 South A2 site	100.00	100.00
Gedeon Richter Peru S.A.C.	Av. Javier Prado Oeste 1586 Of. 201, San Isidro, Lima 27, Peru	100.00	100.00
Gedeon Richter Bolivia S.R.L.	Av. 6 de Agosto, No. 2455, Edificio: Hilda, Piso: 11, Oficina: 1102, Zona: Sopocachi, La Paz, Bolivia	100.00	100.00
Gedeon Richter Chile SpA	Dr. Manuel Barros Borgoño # 187, Comuna de Providencia, Ciudad de Santiago, Región Metropolitana, Chile	100.00	100.00
Gedeon Richter Ecuador S.A.	Provincia: Pichincha, Cantón: Quito, Parroquia: Santa Prisca, Av. Cristobal Colon, No. E8-85, Ecuador	100.00	100.00
Finox AG	Industrie Neuhof 23, 3422 Kirchberg Switzerland	100.00	100.00
Finox Biotech AG	Gewerbestrasse 7, 9496 Balzers Fürstentum Liechtenstein	100.00	100.00
Finox Biotech Germany GmbH	Hoechster Strasse 70, 65835 Liederbach Germany	100.00	100.00
Finox Biotech Nordics AB	Adolfsbergvagen 31, 168 67 Bromma Sweden	100.00	100.00
Finox Biotech Iberia, S.L.	C\Francisco Silvela 42, 1° 28028 Madrid Spain	100.00	100.00
Finox Biotech France SARL	31, Rue Elsa Triolet 21000 Dijon France	100.00	100.00
Finox Biotech Italy S.r.l.	Via Cassia, 1081 00189 Roma Italy	100.00	100.00
Finox Biotech UK and Ireland Ltd.	Convention House St. Mary's St. Leeds LS9 7DP United Kingdom	100.00	100.00
Finox Biotech Benelux BV	Perkinsbaan 14, 3439 ND Nieuwegein The Netherlands	100.00	100.00
Finox Biotech Eastern Europe	Ul. Rzymowskiego 53, 02-697 Warszawa Poland	100.00	100.00
Finox Biotech Australia PTY Ltd.	Garigal Road Belrose NSW 2085 Australia	100.00	100.00

Description	Head office	RG direct and indirect participation	
		ownership (%)	votes (%)
Joint venture companies			
Direct participation			
Medimpex Irodaház Ingatlankezelő Kft.	1051 Bp., Vörösmarty tér 4. Hungary	50.00	50.00
Richter Helm BioTec Management GmbH	Hamburg, Nordkanal str. Germany	50.00	50.00
Richter Helm BioTec GmbH&Co.KG.	Hamburg, Nordkanal str. Germany	50.00	50.00
Associated companies			
Direct participation			
Hungaropharma Zrt. **	1061 Bp., Király u. 12 Hungary	30.85	30.85
Cerorin Kft.	4025 Debrecen, Bartók Béla út 226 Hungary	24.00	24.00
Pharmapolis Gyógyszeripari Tud. Park Kft.	4025 Debrecen, Petőfi tér 10. Hungary	24.00	24.00
Pharmatom Kft.	4025 Debrecen, Bem tér 18/c Hungary	24.00	24.00
Top Medicina Bt.	3200 Gyöngyös, Hanisz tér 1. Hungary	20.00	20.00
VITA - Richter S.P.O.O.O.	Baku, 7-aya Chernogorodskaya 5. Azerbaian	49.00	49.00
Other related companies			
Direct participation			
Gyógynövénykutató Ingatlanfejlesztő Zrt.	2011 Budakalász,József A. u 68 Hungary	15.03	15.03
Belvárosi Gyógyszertár Bt.	1052 Bp., Szervita tér 5. Hungary	5.00	14.28
Magyar Gyógyszer Zrt.	8200 Veszprém Bajcsy Zsilinszky u. 8. Hungary	2.61	2.61
Themis Medicare Ltd.		9.79	9.79
Ambee Pharmaceuticals Ltd.	Dhaka G.P.O.B. 957. Bangladesh	8.95	8.95
BioSystem International SAS	4, rue Pierre Fontaine, 91000 Evry, France	8.57	8.57
Protek Group	Moszkva, Kasirszkoje 22. Russia	5.00	5.00

* In case of the subsidiaries and the joint venture companies the table contains also the indirect participation companies.
** Direct + indirect ownership

1.3.3. Changes in Direct Investments 31.12.2016

	01.01.2016		Changes in 2016			31.12.2016		Dividends received (MHUF)	
	Book value (MHUF)	Ownership ratio (%)	MHUF	Description	Revaluation as of 31.12.2016.	Book value (MHUF)	Ownership ratio (%)	2015	2016
Subsidiaries:									
Humanco Szolgáltató Kft	3	100.00				3	100.00	1	1
Pesti Sas Holding Vagyonkezelő Kft.	161	100.00				161	100.00	17	20
Reflex Kft.	220	100.00				220	100.00	30	50
Richter Befektetéskezelő Kft.	328	100.00				328	100.00		2 800
Richter Szolgáltató Kft.	3	100.00	3	impairment reversal		6	100.00	0	0
Chemitechnik Pharma Mérnöki Kft.	8	66.67				8	66.67	5	11
Gyógyszeripari Ellenőrző és Fejl. Labor Kft.	78	66.00				78	66.00		
Medimpex Uk Rt.	815	100.00			-121	694	100.00		
Pharmarichter Kft.	1	100.00				1	100.00		
RG Italia	35	100.00			-1	34	100.00		73
RG Marketing CR Kft.	325	100.00			-2	323	100.00		
RG Szlovákia Kft.	221	100.00			-2	219	100.00		
RG Ausztria Kft.	34	100.00				34	100.00	19	
RG Svájc Rt.	29	100.00				29	100.00	30	
RG Portugália Kft.	28	100.00				28	100.00		
RG Szlovénia Kft.	10	100.00				10	100.00		
RG Benelux *	2	100.00				2	100.00		
RG Nordics	2	100.00				2	100.00		
PregLem Holding Rt.	90 092	100.00	12 760	goodwill reclassification	11	102 863	100.00		
RG-RUS Rt.	10 954	100.00	-1 331	impairment	2 232	11 855	100.00		
RG-Ukrfarm Kft.	0	100.00				0	100.00		
RG-Románia Rt.	10 304	99,90	5 405	capital increase	-218	15 491	99,90		
RG Polska Kft.	10 892	99.84	910	goodwill reclassification	-509	11 293	99.84	377	1 084
RG Marketing Polska Kft. *	1 353	99.97			-58	1 295	99.97		
RG-UA Rt.	202	98.16			-19	183	98.16		
Richter Helm Biologics Management Kft.	10	70.00				10	70.00		
Richter Helm Biologics Bt.	3 308	70.00			-23	3 285	70.00		
Richpangalpharma Kft.	192	65.00			3	195	65.00		
Richter Themis Rt. *	309	56.10				309	55.8	70	77
RG-Retea Kft.	0	51.00				0	51.00		
RG-Aptyeka Kft.	0	51.00				0	51.00		
Richter Lambron Kft.	80	51.00			2	82	51.00		

	01.01.2016		Changes in 2016			31.12.2016		Dividends received (MHUF)	
	Book value (MHUF)	Ownership ratio (%)	MHUF	Description	Revaluation as of 31.12.2016.	Book value (MHUF)	Ownership ratio (%)	2015	2016
Grmed Company Limited	3 730	100.00	18 944	goodwill reclassification	-956	21 718	100.00		
GR Rxmidas JVCo.Ltd.			5 268	share purchase + reclassification	-298	4 970	100,00		
Gedeon Richter KZ TOO	97	100,00	221	capital increase	24	342	100,00		
GR D.O.O. (Croatia)	9	100.00				9	100.00		
GR Colombia S.A.S.	13	100.00	35	capital increase	3	51	100.00		
GR Mexico, S.A.P.I. de C.V.	557	100.00	2 061	goodwill reclassification	-367	2 251	100.00		
Gedeon Richter do Brasil Imp., Exp. e Dis.S.A.	135	51,00	20	capital increase	34	189	51,00		
Mediplus (Economic Zone) N.V.	75	100.00	-75	goodwill reclassification + capital increase + impairment		0	100.00		
GR USA Inc.	338	100,00			8	346	100,00	34	35
GR Pharma GmbH	488	100,00			-3	485	100,00	124	377
GR France SAS	485	100,00			-3	482	100,00		95
GR UK Ltd.	248	100,00			-37	211	100,00	84	
GR Iberica S.A.S.	784	100,00			-5	779	100,00	48	112
Nedermed B-V.	367	100,00			-2	365	100,00		
Medimpex Jamaica Ltd.	123	60,00			-6	117	60,00		
Medimpex WestIndies Ltd.	1 583	60,00			40	1 623	60,00	10	84
Medimpex Japan Rt. *	0	90,90				0	90,90		
Finox Holding AG	0		25 855	share purchase	68	25 923	100,00		
Subsidiaries total	139 031		70 076		-205	208 902		849	4 819
Joint ventures									
Medimpex Irodaház Ingatlankezelő Kft.	303	50,00				303	50,00		
Richter Helm BioTec Managment Kft	4	50,00				4	50,00		
Richter Helm BioTec Bt.	313	50,00			-2	311	50,00		
RG Rxmidas Kft.	398	50,00	-398	reclassification					
Joint ventures total	1 018		-398		-2	618		0	0
Total	**140 049**		**69 678**		**-207**	**209 520**		**849**	**4 819**

* direct + indirect ownership

1.3.4 Impairment of equity investments

MHUF

Investments	31.12.2015	Impairment / *reversal* (book value)	31.12.2016
ZAO GR-RUS	1 409	1 331	2 740
VITA-Richter S.P.O.O.O	14	6	20
Richter Szolgáltató Kft.	3	-3	0
Pesti Sas Holding Vagyonkezelő Kft.	42		42
Medimpex Japán Co. Ltd.	17		17
GR-Aptyeka S.P.O.O.O	16		16
GR-Retea Kft.	10		10
GR-Ukrfarm T.O.V	104		104
GR-România S.A.	25 633		25 633
Richter Helm Biologics GmbH & Co.KG	1 358		1 358
Mediplus (Economic Zone) N.V.		1 657	1 657
Protek Group	72		72
BioSystem International SAS	416		416
Pharmatom Kft.		1	1
Hungaropharma Rt.	1 330	-1 330	0
Total	**30 424**	**1 662**	**32 086**

1.4 Other financial investments

MHUF

Description	31.12.2015	31.12.2016
Long term loans given to affiliated companies	43 449	69 198
Long term loans given to major participating companies	1 061	3 207
Long term loans given to other affiliates	748	561
Other long term loans	2 014	711
Long term major participating interest	1 201	2 523
Other long-term interests	4 165	5 123
Long term bonds	18 048	17 982
Valuation difference of non-current assets *	2 117	7 445
Total	**72 803**	**106 750**

* Valuation difference of non-current assets contains the fair value differences in connection with Protek Group.

The value of loans given amounted to HUF 73,677 million and included predominantly loans extended to Finox Holding Ag, ZAO Gedeon Richter-RUS and to PregLem S.A., to our production companies, mainly, Richter-Helm BioTec GmbH & Co. KG, Pharmapolis Gyógyszeripari Tudományos Park Kft and the Indian subsidiary.

The Company intends to hold until maturity (2019) the MNV bonds (exchangable to Richter shares), which is reported under long term bonds with a book value in 2016 of HUF 16,173 million.

The most significant amount from long term major participating interest is Hungaropharma Zrt, from the other long-term investments is Protek Group.

Long term bonds include Hungarian goverment bonds classified as held to maturity as well.

II/2 Inventories

2.1 Purchased materials, stock

MHUF

Description	31.12.2015	31.12.2016
Chemicals	4 573	4 754
Fine chemicals	63	59
Herbs	37	63
Finishing materials	1 338	1 623
Recycled raw material waste	614	455
Invoiced raw materials not received	76	634
Auxiliary substances	1 250	1 231
Technical materials	637	629
Spare parts	324	367
Gifts	36	29
Brochures	31	34
Fuels	1	1
Other assets	161	143
Invoiced materials not received	12	30
Total materials	9 153	10 052
Mediated services		20
Purchased medicines	4 022	4 586
Purchased inventories total	**13 175**	**14 658**

2.2 Self-manufactured inventories

MHUF

Description	31.12.2015	31.12.2016
Work in progress	298	401
Services in progress	70	50
Materials self manufactured	34	28
Total WIP and materials self manufactured	*402*	*479*
Semi-finished raw materials	19 593	20 429
Semi-finished lose products	3 301	3 037
Total semi-finished products	*22 894*	*23 466*
Services	*31*	
Total WIP and semi-finished products and services	23 327	23 945
Domestic finished	1 871	1 881
Export finished	8 665	7 826
Total finished goods	10 536	9 707
Total self produced inventories	**33 863**	**33 652**

2.3 Hazardous waste

31.12.2015		Change of inventories				31.12.2016	
		Increase		Decrease			
Tons	MHUF	Tons	MHUF	Tons	MHUF	Tons	MHUF
0	0	19 959	2	19 959	2	0	0

The costs of waste neutralisation amounted to HUF 878 million in the current year.

2.4 Impairment of inventories

2.4.1 Impairment of materials purchased

MHUF

Changes in inventories		
Description	2015	2016
Scrapping	271	212
Devaluation	49	910
Loss event	42	25
Shortage, drainage loss	13	8
Total	**375**	**1 155**

2.4.2 Impairment of self-manufactured inventories

MHUF

Changes in inventories		
Description	2015	2016
Scrapping	742	681
Devaluation	377	703
Loss event	12	2
Shortage, drainage loss	53	48
Total	**1 184**	**1 434**

Reversal of impairment loss related to self manufactured stocks amounted to HUF 70 million in 2016. HUF 849 million impairment of Inventories was reported in connection with Lisvy's withdrawal in 2016 and included HUF 599 million reported in produced inventories and HUF 250 million reported among purchased inventories.

II/3 Receivables

3.1 Accounts receivable

MHUF

Segment	31.12.2015	31.12.2016	Variance
Domestic trade receivables	* 1 625	2 314	689
- incuding overdue:	*3*	*55*	*52*
- impairment	-8	-8	0
Domestic trade receivables balance	**1 617**	**2 306**	*689*
Foreign trade receivables	** 43 935	48 991	5 056
- incuding overdue:	*6 918*	*10 433*	*3 515*
- impairment	-2 404	-2 796	-392
Foreign trade receivables balance	**41 531**	**46 195**	*4 664*
Total trade receivables	**43 148**	**48 501**	**5 353**

* of which HUF 1,332 million was collected by 30 January 2017
** of which HUF 8,368 million was collected by 30 January 2017

3.2 Receivables from other related parties

MHUF

Segment	31.12.2015	31.12.2016	Variance
Domestic trade receivables	* 1 950	1 587	-363
- incuding overdue:			*0*
- impairment			
Domestic trade receivables balance	**1 950**	**1 587**	*-363*
Loans given for controlled domestic account	2 400	239	-2 161
Foreign trade receivables	** 45 686	60 201	14 515
- incuding overdue:	*3 477*	*7 697*	*4 220*
- impairment	-167	-345	-178
Total receivables from related parties	**45 519**	**59 856**	*14 337*
Loans given and unregistered capital increase, share purchase in controlled foreing account	18 167	17 067	-1 100
Total trade receivables from related parties	**68 036**	**78 749**	**10 713**

* of which HUF 977 million was collected by 30 January 2017
** of which HUF 8,255 million was collected by 30 January 2017

3.3 Receivables due from associated parties*

MHUF

	31.12.2015**	31.12.2016	Variance
Domestic trade receivables	6	16	10
Foreign trade receivables	41 258	50 694	9 436
Loans given for related companies	18 071	17 877	-194
Related companies' non registered capital increase			
Total	**59 335**	**68 587**	**9 252**

* The table includes the figures without the values of impairment.

** The change in the 31.12.2015 reference figure is the result of the change in the definition of affiliated undertakings under the amended Accounting Act.

3.4 Changes in impairment of receivables

MHUF

	31.12.2015	Reversal	Recognition	31.12.2016
Domestic trade receivables	8			8
Foreign trade receivables	2 404	-187	580	2 797
Related parties	167	-29	208	346
Total	**2 579**	**-216**	**788**	**3 151**

3.5 Changes in impairment of loan receivables

MHUF

	31.12.2015	Reversal	Recognition	Reassessment	31.12.2016
RG Ukrfarm Kft.	717			17	734
RG Retea Kft	744	-31	712	-10	1 415
Pharmapolis Debrecen Kft.	300				300
GR Aptyeka S.P.O.O.O.			1 003	25	1 028
Pharmatom Kft			150		150
RG UA P.A.T.			29		29
Total	**1 761**	**-31**	**1 894**	**32**	**3 656**

II/4 Securities and cash

MHUF

Description	31.12.2015	31.12.2016
Open-ended investment funds	2 426	
Government securities	1 526	
Treasury shares	550	1 068
Securities total	**4 502**	**1 068**
Bank deposits	110 280	65 930
Cash on hand	43	39
Cash total	**110 323**	**65 969**
Securities and cash total	**114 825**	**67 037**

The value of cash and securities decreased by HUF 47.788 million compared to 31 December 2015.

The decrease is atributed primarily to the payment of the acquisitions price of Finox and the EUR 21 million EIB repayment.

The significant decrease of the Securities was caused by the maturity of government paper and the sale of the open-end investment funds.

II/5 Tied-up reserve, provisions

5.1 Tied-up reserve

MHUF

	31.12.2015	31.12.2016
Repurchase value of treasury shares	550	1 069
Capitalized value of R&D	254	169
Total tied up reserve	**804**	**1 238**

5.2 Provision for expected liabilities

MHUF

	31.12.2015	Reversal	Recognition	31.12.2016
Liabilities in connection with retirement	1 394	-144	275	1 525
Liabilities of jubilee service period	579	-52	16	543
Expected liabilities *	2 215	-1 890	1 599	1 924
CO_2 quota	29			29
Total	**4 217**	**-2 086**	**1 890**	**4 021**

*The line item Expected liabilities includes provisions created to cover customer bonuses (HUF 1,208 million) and to other expected liabilities (HUF 717 million).

Retirement benefit program

According to the Union Agreement of Gedeon Richter Plc. the retiring employees are entitled to the following additional benefit in case the employment contract ends with mutual agreement or regular dismissal:

- 1 month absentee fee in case of min. 15 years consecutive employment
- 2 month absentee fee in case of min. 30 years consecutive employment
- 3 month absentee fee in case of min. 40 years consecutive employment
- 4 month absentee fee in case of min. 45 years consecutive employment

If the employee meets the conditions mentioned above, and has for at least 20 years of continuous employment at Richter is entitled to additional benefit - 45 days of absentee fee.

The Company created provisions in connection with retirement based on actuary calculation to cover expected liabilities, which is HUF 1,525 million on the 31.12.2016.
The calculation is applied for all employees employed at 31 December 2016.

II/6 Liabilities

6.1 Long-term liabilities

MHUF

	31.12.2015	31.12.2016
Credit	36 531	28 510
Other liabilities	5 694	2 563
Total long-term liabilities	**42 225**	**31 073**

6.2 Short-term liabilities

MHUF

	31.12.2015*	31.12.2016
Short term loans	6 523	7 776
Advances received	113	145
Trade payables	16 399	19 553
Payables to related companies	14 415	15 661
Other	9 395	11 484
Total current liabilities	**46 845**	**54 619**

* The change in the 31.12.2015 reference figure is the result of the amendment of the Accounting Act pertaining to the time of accounting for dividend.

Of the European Investment Bank R&D support loans EUR 91.7 million is reported in long term liabilities and EUR 25 million in short term liabilities. In 2015 the Company repaid EUR 20.83 million of the EIB loan.

The contingent and deferred purchase price payment obligations in conjunction with the acquisition agreements concluded in recent years are reported in the Other liabilities item. The liabilities that are reported as either long term or short term depending on their due date are presented below.

GRMed contingent and deferred purchase price payments

In 2013 Richter Gedeon Plc. announced that it signed a series of agreements with the owners of its marketing partner, Rxmidas Pharmaceuticals Co. Ltd. ('Rxmidas'), targeting a reshaped and stronger direct presence on the Chinese pharmaceutical market. Richter acquired majority interest in the company (GRMed Company Ltd., hereinafter "GRMed") and the agreement terms included an upfront payment together with milestone payments in the forthcoming years. Contingent and deferred purchased price is presented as long term and current liability, and it is accounted for at probability-weighted discounted present value. The next portion of the purchase price was paid in February 2016 (CNY 138 million). As of the balance sheet date the maximum value of the outstanding liability in respect of this transaction is approximately CNY 179 million (HUF 7,569 million).

GRMexico contingent and deferred purchase price payments

As part of its expansion in Central and South America the Company has signed an agreement with the owner of DNA Pharmaceuticals, S.A. de C.V. („DNA"), to establish its direct presence on the pharmaceutical market in Mexico. Under the terms of the agreement Richter acquired 100% stake and 70% voting rights, in the company that changed its name Gedeon Richter México S.A.P.I. de C.V following the acquisition, and assumed an obligation for payment of the remaining and unpaid 30% portion in three years.

The targeted activities are sales, promotion and registration of Female Healthcare products. This partnership agreement between GR Mexico and Richter creates a perfect synergy for launching Esmya on the Mexican market. In case of this liability the contingent and deferred purchase price is also presented as long term and current liability, and it is disclosed at probability-weighted discounted present value. In December 2015 the portion of the purchase price due (USD 1.5 million) was paid. The maximum value of the outstanding payment is USD 3.0 million (HUF 881 million).

Mediplus Group contingent and deferred purchase price payments

In May 2014 Gedeon Richter Plc. signed an agreement with Andelam B.V. a Netherland based private limited liability company ("Andelam") to buy 100% stake and 51% voting rights in Mediplus N.V. a marketing company based in Curaçao ("Mediplus"). According to the agreement Richter is going to fulfill the liability originated from the contingent and deferred purchase price construction in connection with the unpaid 49% in the next three years. Further payments are connected to certain performance related targets to be reached by previous owner. In the view of Richter's management the preconditions for the milestone payment will not be met, therefore the Company does not report liability in respect of this transaction. Based on the agreement concluded with the original shareholder in 2015, Richter's voting rate increased to 100%. The maximum amount of exposure relating to the acquisition of the Mediplus Group was USD 5,880 thousand (HUF 1,727 million) as of 31 December 2016 and USD 5,880 thousand (HUF 1,685 million) as of 31 December 2015.

From the current liabilities HUF 8,446 million is in connection with the current payment of the deferred purchase price of the chinese and mexican aquisitions.

In keeping with its accounting policy, the Company reports contingent and deferred purchase prices of acquisitions at probability-weighted discounted present value. Subject to the occurrence of future events payments may be higher than the liabilities on the books.

6.3 Off balance items

MHUF

	31.12.2016
Guarantees provided by the Company	5 287

As the probability of calling in the guarantees is minimal, recognizing any provision is not deemed necessary.

II/7 Prepayments and accruals

7.1 Prepayments

MHUF

	31.12.2015	31.12.2016
Interest on securities	92	57
Bank interest	121	56
Interest on loans	706	876
Government grants	18	0
Other	0	176
Accrued income	**937**	**1 165**
Journals, reference books, CD	401	372
Foreign offices	412	285
Public transport		148
Insurance	144	135
Software renting and maintenance	121	130
Authority fee and authorisation costs	147	144
R&D costs	390	0
Other trade costs in connection	52	3
Other	115	146
Prepaid costs and expenses	**1 782**	**1 363**
Prepayments	**2 719**	**2 528**

7.2 Accruals

MHUF

	31.12.2015	31.12.2016
Rewards and bonuses	2 183	1 740
Licence	139	381
Research contract	278	1 015
Fee for inventions	373	395
Insurance	96	105
Endowment insurance	537	662
Payment of foreign medicine price subsidies	2 723	4 548
Foreign sales costs	593	304
Costs of foreign offices	703	784
Advertising and marketing expenses	492	312
Interests payable on bank loans	102	79
Other	147	461
Accrual of costs and expenses	**8 366**	**10 786**
Deferred income	1 019	807
Accruals	**9 385**	**11 593**

II/8 Costs, expenses, revenues

8.1 Costs and expenses

8.1.1 Function of expense method

MHUF

Description	2015	2016	Index %	Accounting Act Schedule 3
Direct cost of sales accounted	48 552	50 871	104.5	(03)
Original cost of goods sold	10 200	11 712	114.8	(04)
Value of services sold (mediated)	827	1 575	190.4	(05)
Direct cost of sales	**59 579**	**64 158**	**107.7**	**II.(03+04+05)**
Sales and marketing costs	95 121	99 838	105.0	(06)
Administration costs	26 483	27 642	104.4	(07)
Other general overhead	42 082	42 802	101.7	(08)
Indirect cost of sales	**163 686**	**170 282**	**104.0**	**III.(06+07+08)**

The aggregate year-on-year increased in direct and indirect costs of sales was HUF 11,175 million.

Direct costs of sales totalled HUF 64,158 million and were HUF 4,579 million above the 2015 figure due to the effect of sales decrease and the change in the portfolio of products.

Indirect costs amounted to HUF 170,282 million in 2016, exceeded the 2015 figure by HUF 6,596 million.

- Advertising and promotion costs increased by HUF 3,988 million year-on-year. The increase in marketing costs in Western Europe and China was not offset by dropping costs in Poland and in Other CIS countries.
- Increase in employees' wages and contributions amounted to HUF 1,701 million compared to the previous year. Besides the general increase of basic salaries, differentiated increase was also implemented taking into consideration individual performance, labour market conditions and the importance of the job. The differentiated increase was partially included in the basic salary.
- Licence fees are HUF 1,190 million above the 2015 figure, mainly because of the increasing licence costs related to Esmya (predominantly in the EU15 region).
- The 2016 material costs were HUF 519 million higher year-on-year due to the price difference in inventories valuation and higher costs of R&D and promotional materials.
- Attorneys' fees increased by HUF 460 million over 2015; the increase is partly attributed to the Finox Holding acquisition.
- In 2016 there was a HUF 577 million reduction in income from research commissions, explained only by significant development costs related to ulipristal acetate (Esmya) in the reference period coupled with a

sharp drop in the development costs of pegfilgrastim, partially countered by costs of proprietary and generic development topics related to EVE vaginal rings.

- The costs of vehicle leases was down by HUF 543 million y/y due to a significant reduction in the number of leased vehicles because of changes in the structure of financing and operating the vehicle stock in Russia.

8.1.2 Nature of expense method

MHUF

Item	2015	2016	Index %	Accounting Act Schedule 2
Raw materials and consumables	40 496	39 965	98.7	(05)
Contracted services	93 661	99 202	105.9	(06)
Other service activites	1 896	2 060	108.6	(07)
Original cost of goods sold	10 200	11 712	114.8	(08)
Value of services sold (mediated)	827	1 575	190.4	(09)
Material costs	**147 080**	**154 514**	**105.1**	**IV.(05+06+07+08+09)**
Wages and salaries	33 051	34 834	105.4	(10)
Other employee benefits	13 130	12 514	95.3	(11)
Contributions on wages and salaries	11 286	11 512	102.0	(12)
Staff costs	**57 467**	**58 860**	**102.4**	**V.(10+11+12)**
Depreciation and amortization	**22 536**	**23 182**	**102.9**	**VI.**
Total cost and expenditure	**227 083**	**236 556**	**104.2**	

- The Company's costs and expenses were HUF 9,473 million higher than in the reference year.
- Material type expenditures were up by HUF 7,434 million from the previous year's figure; contracted services were HUF 5,541 million higher than in 2015 due to increasing advertising, promotion costs and licence costs.
- The cost of goods sold was HUF 1,512 million above the 2015 figure due primarily to the increasing proportion of finished products among goods sold mainly in the EU and the CIS regions.
- Staff costs increased as a result of inflationary wage raise and increasing head count.
- The HUF 646 million increase in depreciation is mainly attributed to capex activities over the past period, and is specifically related to production and production control.

8.2 Value of own performance capitalized

MHUF

Description	31.12.2015	31.12.2016	Index %	Inn Annex 2 to Accounting Act
Change of self manufactured inventories	2 030	-211	-	(03)
Capitalised value of self manufactured assets	1 788	2 327	130.1	(04)
Value of capitalised own performance	**3 818**	**2 116**	**55.4**	**II.(±03+04)**

8.3 R&D expenditures

In 2016 the Company spent 12.2% of the revenue on R&D activities.

MHUF

Cost category	2015	2016
R&D expenses	34 608	34 514

8.4 Other income and expenditures

MHUF

	2015	2016
Total other income	**23 291**	**9 434**
Other expenditure		
Provisioning	2 369	1 695
Write-off unrecoverable receivables	1	0
Impairment of receivables	271	1 602
Impairment of inventories	1 559	2 589
Book value of tangible assets sold	171	83
Lisvy scrapping and impairment		2 405
Local business tax	3 270	3 161
Buildings tax	377	417
Innovation fee	493	475
Claw-back on reimbursed drugs payable to NHF	192	379
Registration fee of medical representatives	219	253
Claw-back on reimbursed drugs payable, Germany	2 112	1 751
Claw-back on reimbursed drugs payable, other countries	2 086	3 371
Other expenditure from changes of deferred purchase price	3 207	1 850
Other	5 136	1 708
Expenditure of exceptional incidence *		
Transferred inventories without consideration	79	115
Grant	780	1 010
Other	222	242
Total other expenditure	**22 544**	**23 106**
Balance of other income and expenditure	**747**	**-13 672**

* Transferred from Extraordinary items as a result of the amendment of the Accounting Act.

In 2016, the line of Other income included HUF 5 million from associated companies.

The balance of Other income and expenditure declined and was HUF 13,672 million after the positive balance of HUF 747 million in 2015.

Significant contributors to the decrease include milestone incomes of the previous period (from Allergan in conjunction with securing marketing authorization for Vraylar™ in the United States, and from Stada in connection with the development of biosimilar products), as well as the exchange rate compensation related to Chinese sales accounted for as expenditure in the reported period.

In conjunction with the withdraw of Lisvy HUF 2,405 million was reported in Intangibles and in Q3 of 2016 an additional HUF 849 million impairment was reported in Inventories. Indemnification is currently negotiated by the parties. The above negative effect was exacerbated by the impairment of inventories associated with the withdrawal of PEG-GCSF's application for registration.

On the other hand, the milestone income related to the European distribution of cariprazine (Recordati agreement) had a positive effect in the reported period, as did the release of provision created for additional reductions.

Claw-back in 2016 comprised payments related to the Hungarian, German, French, Spanish, Portuguese, Belgian, Italian, Bulgarian and Latvian markets totalling HUF 5,501 million.

In reported year the Company has incurred lower other expenditure related to the remeasurement of the contingent and deferred purchase price.

8.5 Profit on financial transactions

MHUF

	2015	2016
Income from financial operations		
Dividends and share of profits received	1 002	7 820
Interest and related income received	1 863	826
including income from securities	*546*	*29*
Interest income on financial investments	2 601	3 526
Exchange gains on selling participations	7	
Other income	15 624	20 096
gains on conversion at year end date		*9 276*
gains on converting receivables, payables and foreign currency	*14 742*	*10 683*
*gains on derivative transactions, closed **	*712*	
fair value of derivative transactions	*117*	
gains on securities sold	*-39*	*40*
*Repurchase of shares in program approved by Ministry of Finance***	*92*	*97*
Total income from financial operations	**21 097**	**32 268**
Expenses from financial operations		
Selling participations***	2	
Interest and related expense due	1 135	811
Impairment of participations	-153	2 815
Other expenditure	17 444	8 962
loss on conversion at year end date	*359*	
loss on coverting receivables, payables and foreign currency	*16 313*	*8 016*
*loss on derivative transactions, closed **	*91*	
release of fair value of derivative transactions	*107*	*4*
loss on securities sold	*2*	*-6*
Unwinding of discounted value related to liability in respect of def.purch.prices	*572*	*948*
Total expenses from financial operations	**18 428**	**12 588**
Result of financial operations	**2 669**	**19 680**

* Contains only the result of the net settled (settling through mark to market procedures) forward exchange contracts. Gain and loss of delivery fx deal is presented as "Foreign exchange difference on conversion of cash".

** The change in the 31.12.2015 reference figure is the result of the amendment of the Accounting Act. Transferred from Extraordinary income.

*** The change in the 31.12.2015 reference figure is the result of the amendment of the Accounting Act. Transferred from Other expenditures of financial transactions.

Net financial income was a profit in both 2016 and 2015 (HUF 19,680 million and HUF 2,669 million respectively).

In light of the changes during the reported year, Richter's financial income was greatly affected by the weakening of the forint against the rouble and the dollar, and the strengthening of the forint against the euro. As of the 2016 balance sheet date, the exchange rate (NBH rate) was 4.78 forints to the rouble (+23.2%), 293.69 forints to the dollar (+2.5 %), and 311.02 forints to the euro (-0.7 %).

Revaluation as of the balance sheet date closed with a loss in 2015 (HUF 359 million) and a profit in 2016 (HUF 9,276 million, which is an increase of HUF 9,635 y/y). The item includes revaluation of investments, loans receivable, advances, cash, loans payable, trade receivables and payables, as well as as well as accrued and deferred items.

Dividends received contributed HUF 7,820 million to the 2016 financial income, HUF 6,818 million higher than the HUF 1,002 million realized in 2015 (mainly thanks to Protek and Befektetéskezelő Kft.).

Exchange rate profit realized from trade on receivables, payables and other items were HUF 2,324 million as opposed to a HUF 2,935 million loss in the preceding year. The aggregate gain contributed HUF 5.3 billion to a year-on-year decrease in earnings.

In 2015 there was a reversal of impairment of investments related to Protek (HUF 153 million) followed by reversal of impairment related to Hungaropharma and Richter Szolgáltató, impairment on GR-RUS, Mediplus N.V., Pharmatom and Vita-Richter, and impairment on the loan agreements with Gedeon Richter Aptyeka and Pharmatom in 2016 (totalling HUF 2,815 million loss from financial transactions).

Exchange rate gains amounted to HUF 1,364 million in 2015 followed by HUF 280 million in 2016, which is a HUF 1.1 billion decrease year-on-year.

The Company made a profit on forward transactions amounting to HUF 631 million in 2015 and incurred a loss of HUF 4 million in 2016.

Extraordinary items

As a result of the 2016 amendment to the Accounting Act Extraordinary items ceased from 2016. These items were reported in Other income and expenditure and Financial income and expenditure.

8.6 Exceptional income and expenditure

MHUF

	2015	2016
Exceptional income		
Asset as in-kind contribution		3
Materials and goods received without consideration	49	105
Other	243	5
Exceptional income total	**292**	**113**
Exceptional expenditure		
Inventories transferred without consideration	79	115
Reducing of capital, termination of participation		
Subsidies	780	1 010
Other	222	242
Exceptional expenditure total	**1 081**	**1 367**
Total	**-789**	**-1 254**

8.7 Wage costs, headcount, remuneration

8.7.1 Wage costs

MHUF

Employment type	Employee groups					
	Blue collar		White collar		Total	
	2015	2016	2015	2016	2015	2016
Full time wage mass	8 882	9 308	22 958	24 192	31 840	33 500
Part time wage mass	4	5	230	268	234	273
Pensioner wage mass	7	6	89	50	96	56
Wages to non-employees					881	1 005
Wage cost per balance sheet	**8 893**	**9 319**	**23 277**	**24 510**	**33 051**	**34 834**
Annual wage mass per (full time) employee	3.7	3.9	5.4	5.7	4.8	5.0

8.7.2 Social security and pension schemes

The Company has provided in relation to the employees in Hungary social contribution tax amounting to 27 percent and vocational training contribution amounting to 1.5 percent of gross salaries were paid during 2016 to the National Tax and Customs Administration by the Company. The Company has no further obligations beyond the statutory rates in force during the year. In relation to employees employed in abroad, the social insurance contributions have been paid in accordance with the laws of that country.

The Company contributes 6 percent of the monthly gross wages (maximum 50 percent of the current minimum wage) for those employees who decided to participate in the scheme. In addition, a one-off contribution is made in respect of employees who are reaching the age limit of 55;57;59;61;63;65 years. The total cost of the contributions made by the Company was HUF 1,218 million in 2016 (in 2015: HUF 1,106 million).

The Company has contributed to a private health insurance fund for the benefit of its employees since 1 September 2003. Amounts paid increased to HUF 5,500/person/month in 2016 since 1 March 2016. The total amount paid for employees was HUF 313 million during 2016 (in 2015 it was HUF 242 million).

MHUF

Contributions on wages and salaries	2015	2016
Social contribution tax	7 394	7 695
Healthcare contribution	959	987
Vocational training contribution	397	413
Rehabilitation contribution	305	306
Contributions paid abroad	2 231	2 111
Total	**11 286**	**11 512**

8.7.3 Average statistical headcount

person

Employment type	Employee groups					
	Blue collar		White collar		Total	
	2015	2016	2015	2016	2015	2016
Full time employees	2 389	2 395	4 214	4 252	6 603	6 647
Part time employees	2	2	51	56	53	58
Pensioners	3	3	14	9	17	12
Total:	**2 394**	**2 400**	**4 279**	**4 317**	**6 673**	**6 717**

8.7.4 Remuneration of the members of the Board of Directors and the Supervisory Board

MHUF

	Remuneration	
	2015	2016
Board of Directors	70	68
Supervisory Board	24	24
Total:	**94**	**92**

II/9 Calculation of the income tax

MHUF

	Corporate income tax	2015	2016
1.	**Profit before taxation**	**62 247**	**54 810**
	- total of items reducing tax base	73 033	72 651
	- total of items added tax base	30 616	32 101
2.	Income from abroad		
3.	**Tax base**	**19 830**	**14 260**
4.	Calculated tax	3 723	2 664
5.	Investment tax relief	2 978	2 131
6.	Olimpia grant		90
7.	Tax paid abroad deductible in Hungary	8	26
8.	**Calculated tax after tax relief**	**753**	**417**
9.	Tax paid abroad		315
10.	Tax in connection with the previous year	14	-396
11.	**Total tax charge**	767	**336**
12.	**Profit after taxation**	**61 480**	**54 474**

1.	Amount of used tax loss	9373	
2.	Amounts of provision against future liabilities and costs reversed and stated as income	1 491	1 890
3.a.	Depreciation charged under Tax Act	26 071	25 771
3.b.	Calculated book value of the sale and scrapping of intangible propery and tangible assets, etc.		
4.	Dividends, share of profits received	1 002	7 820
5.	Relief due to apprentices	13	13
6.	Reversed impairment of receivables, collected bad debt	835	248
7.	Cancellation of penalties	2	2
8.	50% of royalties received	86	4 067
9.	Direct cost of R&D	27 376	28 178
10.	Amount identified by tax audit, self-review and stated as income	1 113	366
11.	Amount of donation	244	255
12.	Unrealised exchange differences	5 427	4 041
	Total of items reducting tax base	**73 033**	**72 651**
1.	Amounts of provision against future liabilities and costs reversed and stated as expenditure	2 370	1 695
2.a.	Depreciation charged under Accounting Act	26 128	25 807
2.b.	Book value of intangible propery and tangible assets, sold, scrapped etc.		
3.	Costs not recognised for the purposes of doing business	730	1 067
4.	Penalties and fines	77	15
5.	Impairment of receivables	271	2 755
6.	Cancellation of receivables	29	17
7.	Amount identified by self-review and stated as expenditure	1 011	261
8.	Unrealised loss type exchange rate difference		462
9.	Difference between the normal market price used among affiliated		22
	Total of items added to tax base	**30 616**	**32 101**

9.1 Eligibility to investment tax incentive

In 2007 Richter notified the Ministry of Finance of its intent to take advantage of the tax relief in connection with the capital expenditure project to construct a new plant in Debrecen to develop and manufacture biotechnology products.

The project was concluded in 2011 and all the equipment that formed part of the project was commissioned. The Company has so far taken advantage of the investment tax relief for the 2012, 2013 and 2015 fiscal years in the combined current amount of HUF 5,805,980 thousand. The Company was not liable to pay corporate tax for the 2014 business year, so it did not utilize investment tax relief in that period. The tax relief to be applied for the 2016 fiscal year amounts to HUF 2,131,448 thousand.

The terms and conditions of having recourse to the present investment tax relief are regulated by the provisions of Sections 22/B and 23 of Act on Corporate Tax and Dividend Tax, Government Decree No. 206 of 2006 (16 October) /165/2014. (17 July) Gov.Decree/ on the investment tax incentive, Government Decree No. 85 of 2004 (19 April) /37/2011 (22 March) Gov.Decree/ on the procedure related to State aids pursuant to Article 87 (1) of the Treaty establishing the European Community and on the regional support map /entered into effect by virtue of Government Decree No. 37 of 2011 (22 March/, and Decree No. 8 of 2007 (24 January) of the Minister of Economy and Transport on the provisions for granting state aid based on individual government decisions /entered into effect by virtue of Decree No. 210/2014 (27 August) of the Minister of National Development.

Richter's Debrecen capex project satisfies condition set out in Section 22/B (1) b) of the Act on Corporate Tax and Dividend Tax ("the Act"), whereby for projects started and operated within the administrative jurisdiction of a preferential local self-government that satisfies the criteria specified in the Government Decree adopted under authorization conferred by the Act, valued at 1 billion forints or more at current prices, specifically:

1. Pursuant to Section 3 (1) of Government Decree No. 206 of 2006 (16 October) the taxpayer shall commission and take use of all tangible and intangible assets forming part of the investment, and (the large enterprise) shall continue to operate and use the same in the region concerned for at least five years after commissioning. Pursuant to Section 8 (2) in case the taxpayer derecognizes the assets within the mandatory period of operation without supplementing them or discontinues operating the assets, the taxpayer shall reduce the eligible costs constituting the basis of the tax relief with the historical costs of such assets.
2. Pursuant to the optional condition set out in Section 22/B (9) of the Act, in the four fiscal years following the first year of the tax relief the average work force employed should exceed the average number of persons employed by the taxpayer during the fiscal year prior to the commencement of the project (or the mathematical average headcount of the three years preceding the commencement of the project) by at least

75 workers if the project is started and operated within the administrative jurisdiction of a preferential local government specified in the relevant Government Decree.

Pursuant to Section 5 (1) of Government Decree No. 206 of 2006 (16 October) the tax relief and the present value of State support to be considered in cumulative subsidy cannot exceed the value of notified but no more than the actually incurred eligible costs adjusted with a pre-determined support intensity.

When it comes to calculating the amount of tax relief in conjunction with the Debrecen project, the starting point can be the present value of notified costs as these costs were exceeded by the present value of the actually incurred costs even taking the adjustment condition set out in Section 8 (2) of Government Decree No. 206 of 2006 (16 October). In the case of major projects the support intensity under Section 30 (1) of Government Decree No. 85 of 2004 (19 April) established for the North Great Plains region is 100% of 50% for the portion between the HUF equivalent of EUR 50 to 100 million up to the HUF amount equivalent of a maximum of EUR 50 million at present value. In consideration of the above, the present value of the project's eligible costs for 2007 adjusted with support intensity is HUF 6,966,858 thousand.

Under the support contract mentioned above between 2008 and 2016 the Company received a total of HUF 1,383,799 thousand non-refundable State support, at a present value for 2008 of HUF 1,149,384 thousand.

According to the above formula the present value of the investment related tax relief is the difference of the two figures above (the allowed costs and the present value of the support) HUF 5,817,474 thousand of which the Company uses HUF 5,029,346 thousand at present value in the 2012, 2013, 2015 and 2016 business years. Thus the remaining tax relief open for subsequent years amounts to HUF 788,128 thousand at present value.

The Company can take advantage of tax relief in the tax year following the year when the project was completed and in the following nine years (at the latest during the fourteenth tax year following the tax year in which the notification or the application was submitted). Therefore Richter can take advantage of the tax relief in connection with the Debrecen capex project in 2021 at the latest.

GEDEON RICHER PLC.

CONFIDENTIAL

Business Report
2016

Erik Bogsch
Managing Director

Budapest, 22 March 2017

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1. General data

1.1 Brief history of the Company

Gedeon Richter Plc. is a leading pharmaceutical company in the Central and East European region. Its activity encompasses every aspect of the pharmaceutical industry from research and development through the manufacturing of active substances (produced synthetically, by fermentation or extraction) and finished drugs to packaging, marketing and sales. Richter's wide product range encompasses virtually all therapeutic fields. At the same time, the therapeutic breakdown of sales shows a high degree of concentration: more than three-quarters of Richter's turnover are contributed by three major therapeutic areas.

The Company's predecessor was founded in 1901 by pharmacist Gedeon Richter, who bought a pharmacy, then turned his business into a share company two decades later, in October 1923. After World War II the Company was nationalized and while it continued operating as a share company, the sole shareholder was the Hungarian State. In June 1950, while maintaining Gedeon Richter Ltd. in terms of corporate law, the State established Richter Gyógyszer és Vegyészeti Gyár Nemzeti Vállalat (Richter National Pharmaceutical and Chemical Company), which later became known as Kőbányai Gyógyszerárugyár (Kőbánya Pharmaceutical Factory). It existed alongside Gedeon Richter Ltd. without affecting its operation.

In 1990 Kőbánya Pharmaceutical Factory merged with Gedeon Richter Ltd. as part of the transformation from a state-owned company to a share company. The merger was registered by the Budapest Court of Registration on 18 March 1991. The total registered capital of the share company amounted to HUF 13,223,974,000.

Privatization

(The number of the shares didn't restate in order to reflect the impact of the share split realized in July 2013.)

Due to the involvement of Hungarian and international investors the Company's capital was increased by HUF 4.4 billion to reach HUF 17.6 billion on 28 September 1994 and its shares were listed on the Budapest Stock Exchange. Privatization connected with the capital increase resulted in the expansion of sources of financing.
Commenced in 1994, the privatization process continued in the fourth quarter of 1995, enlarging the Company's basis of domestic and international investors.

In 1997 another 2,600,000 shares owned by the State Privatization and Holding Company (ÁPV Rt.) were offered to institutional investors in the context of a private placement, and 200,000 shares were sold to domestic private investors in the context of a public offering.
The Extraordinary General Meeting approved a HUF 1,000 million capital increase to HUF 18,637,486,000 by the issuance of 1,000,000 new shares. As a result of these transactions the State's share in Richter was reduced to 25%.

On 14 September 2004 the State Privatization and Holding Company (ÁPV Rt.) launched 4,659,373 bonds convertible to state-owned Richter shares with maturity in 2009 in the context of a private offering that involved institutional investors specialized in this type of investment. The bonds matured on 28 September 2009. The government exercised its option to redeem the bonds for cash instead of converting them to shares. At the same time, the government supported the idea that Hungarian National Asset Management Inc. (MNV Zrt.), ÁPV Rt.'s legal successor should handle financing by issuing new bonds convertible to Richter shares. As a result of the subscription that was concluded on 25 September 2009, bonds with 2014 maturity amounting to EUR 833.3 million were issued to institutional investors, convertible to 4,680,672 state-owned Richter ordinary shares. On 6 November 2013 MNV Zrt. announced its intention to repurchase the convertible bonds before their maturity in 2014 and would finance the repurchase by issuing new State-owned bonds convertible to Richter shares in the amount of EUR 903.8 million maturing in 2019. The transaction was successfully concluded on 6 December 2013. The

new bonds with maturity of 2 April 2019 were launched on the Frankfurt Stock Exchanges Open Market (Freiverkehr). By retaining its shares in Richter the Hungarian State ensures the continuation of Richter's strategy, which relies on the Company's continued independence.

Major acquisitions to promote the expansion of the Company

Through the establishment of greenfield investments from the mid-1990s the parent company has expanded its network of manufacturing bases in Russia (1996) and India (2004) and through acquisitions in Romania (1998), Poland (2002). Acquisitions were aimed at a biotechnology company in Germany (2007), and Swiss women's healthcare product development firms (2010 and 2016).

Richter's recent acquisitions, the purchase of 100% of the shares of the Swiss PregLem Group (October 2010) and the buyout of Grünenthal, a German generic pharma company's women's healthcare portfolio (November 2010) enables the Company to carve out a share of the market of innovative women's healthcare products while geographically expanding the market of Richter's traditional women's healthcare products. The two transactions gave an impetus to develop a Western European marketing network and capture a greater share of the market of women's healthcare products, relying on Richter's trading companies that have been active in the field for a long time as well as on the newly established marketing companies. The change has strategic importance for the Company.

With its seat located in Geneva, PregLem was established in 2006 for the purpose of research, development and clinical trials of proprietary products for special gynaecological indications (uterine myoma, endometriosis, infertility) that have reached the clinical stage. Of its active product lines, the leading product is Esmya with ulipristal acetate as active ingredient. According to Richter's announcement on 27 February 2012, Esmya had been granted marketing authorisation valid for all EU member states for its first indication (pre-operative treatment of uterine myoma) and was launched in most markets in the course of the year.

In 2014 in an extraordinary communication Richter announced that the European Commission had granted marketing authorization for the use of Esmya for up to two courses of preoperative treatment of uterine fibroid (extension of the first indication). In

keeping with its strategy, in June 2014 Richter signed a license and distribution agreement to commercialize ulipristal acetate in Latin America.

In April 2015 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion on Richter's request for an extension of indication, and following on this decision, the European Commission granted approval for the intermittent use of Esmya in the long term management of uterine fibroids in May 2015. The marketing authorization is applicable in all countries of the European Union.

In a joint press release in May 2016 Richter and Allergan plc announced positive results from Venus I clinical trials, then in January 2017 they announced that Venus II had confirmed the results of Venus I. Both pivotal Phase III clinical trials evaluated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids. The two successful trials enable our licence partner Allergan plc to put together the regulatory dossier for securing marketing authorisation for the United States.

The women's healthcare portfolio acquired from Grünenthal AG contains seven brands. Their main sales areas are the major Western European countries but sales are also aimed at Central and Eastern Europe and have also been launched in the Middle East. Sales of the brands in the Russian market started in Q4 of 2012.

At the end of June 2016 Richter announced the acquisition of Finox Holding, a Swiss based biotech company engaged in the development and commercialisation of innovative and cost effective products addressing female fertility. Finox Holding's product Bemfola® is a recombinant human follicle stimulating hormone (r-hFSH), the first biosimilar r-hFSH product for which marketing authorisation was granted in Europe. Richter has obtained global rights for Bemfola® (with the exception of the United States). Consequent to this acquisition Richter added female fertility to its growing specialised Women's Healthcare business, and also managed to enhance its opportunities in the biolsimilar market.

Shares of the Company in Q1 of 2013 Richter took control of selling its traditional products and acquired a majority holding in its Chinese marketing partner. The company will be active in the promotion and marketing of prescription drugs. With this move Richter has fundamentally transformed and strengthened its presence in the Chinese market. To expand its scope of business, in January 2016, Richter bought out its partner's

50% share in the joint venture, which was founded in 2010, as a result of which the Company now has full control of distribution of oral contraceptives and the OTC line in China.

In the second half of 2013 Richter started to expand in the Central and South American region by founding a company in Colombia as a first step, followed by acquisitions in Brazil and Mexico. In May 2014 an agreement was signed for the acquisition of a majority stake in Mediplus N.V. registered in Curaçao, Mediplus is a marketing company covering Ecuador, Peru, Chile and Bolivia through its subsidiaries and also sells products to Central American and Caribbean countries. The acquisition process was concluded in October 2015 and resulted in Richter's holding 100% of the shares of Mediplus Group.

As a result of these transactions the Company has appeared directly in the world's fastest growing pharmaceutical markets (China and the Latin American region), and has taken strategic steps to increase its geographical penetration. Richter's women's healthcare portfolio is given a prominent role in every market.

Impact of the market environment; the Company's global strategy and activity

With its global business comprising five continents, Gedeon Richter is unique among the Central Eastern European pharma companies as its primary activities of the research and development, manufacturing and marketing of pharmaceutical products are supported by a number of subsidiaries, joint ventures and associated companies. Our manufacturing subsidiaries, which operate in our traditional markets, together with our specialized marketing network have created the foundation for a strong regional multinational Group. As a result of developments that started in the early 1990s today a number of marketing and service companies support the presence and activity of the Richter Group and strengthen its market positions in a number of countries around the world.

In response to the economic crisis in Russia, in the late 1990s the Company has re-tailored its long-term strategic goals and has been aiming at strengthening its regional-multinational activities whilst maintaining stable positions in its traditional markets on the one hand, and strengthening its presence in the EU and the United States on the other

hand with proprietary and generic products, and has sought to build long-term co-operation in supplying active pharmaceutical ingredients. The primary focus of the Company is on the expansion of the women's healthcare business and an increase in generic sales, the latter in preparation for upcoming patent expiries. In the United States we concluded long-term supply contracts with manufacturers specialized in women's healthcare products.

Revamped in 2007, Richter's strategy has raised the support of the so-called specialty pharma products, i.e. development, manufacture and sales of pharmaceutical products with high value added a priority strategic goal. This goal is served by R&D projects conducted in connection with the central nervous system and in the field of biotechnology, and also by the ongoing development and expansion through acquisitions of the women's healthcare portfolio.

Implementation of the above strategy resulted in a significant increase of sales income in the EU markets. Income from sales increased likewise in the countries that have been Richter's traditional markets and who joined the EU after 2004. The latter trend is particularly significant as drug subsidies in the new accession countries are generally underfinanced, which led the Company to reduce the price of some of its products. The 2014 Ukraine crisis and the massive devaluation of the rouble curbed the dynamic growth of the pharmaceutical market that had characterised the CIS region in recent years and resulted in plummeting sales revenues mainly in Russia and Ukraine. As a result of the new sales scheme Richter strengthened its position in the Western European and Chinese markets and due to acquisitions, also in the Central and South American region. As a result, the contribution of international markets to total sales was approximately 90% in 2016.

Richter developed a long-term collaboration with several large international companies in research and development, sales and production in various markets (the EU, the U.S., Japan and Russia).

After years of perpetual uncertainties and repeated cuts since 2006, the Hungarian pharmaceutical market was characterised by relative stability in 2016. The surtaxes affecting the pharmaceutical industry were offset up to 90% by the tax benefits the Company was granted on account of its R&D activities. While the semi-annual blind

bidding process introduced in 2011 designed to force the pharma companies to cut their prices resulted in a loss of HUF 35 million in 2016, the Company was able to compensate for it by introducing new products.

1.2 Main objectives for 2016

The Company's main objectives for 2016 were as follows: to expand sales despite a difficult market environment; to retain and improve market shares; and to strengthen the strategy of standing on multiple legs in the market; based on the strategic principles, to shift business to enhance the contribution of high value added products; to expand the women's healthcare business; to develop a new original CNS product; and to take further steps in the development of biosimilar products.

In 2016 significant advancement was achieved in the following areas:

- Income from sales increased in the U.S. and Chinese markets as well as in the EU, particularly in the EU 15 member states.

- On 17 September 2015 Richter and Allergan were pleased to announce that FDA granted Allergan marketing authorization of cariprazine for the treatment of manic or mixed episodes of bipolar I disorder and schizophrenia in adults. From the first quarter of 2016 the product will be sold in pharmacies of the United States under the trade name of Vraylar™. Besides its long term positive financial impact this event has an obvious significance in terms of industrial history. The two companies released a clinical and regulatory update on the cariprazine programme in August 2016. Topline results from the MD-72 trial indicate that flexible doses of cariprazine did not separate significantly from placebo as an add-on treatment in adults with major depressive disorder (MDD) in this trial, therefore the companies will continue to work on a subsequent Phase III trial to prove efficacy.

- On 29 March 2016 the European Medicines Agency (EMA) started assessment of the marketing authorisation of cariprazine for the indication of schizophrenia. In August of the same year Richter and Recordati signed a licence agreement granting Recordati

exclusive sales license to commercialise the product in Western Europe as well as Algeria, Tunisia and Turkey.

- In the context of a HUF 15 billion investment programme Richter is expanding the Debrecen biotechnology plant constructed in 2012 for the development and manufacturing of biosimilar products. A Government grant has been received in amount of HUF 5 billion. By creating new jobs the project will almost double the biotech manufacturing capacity.

- On 4 January 2016 Richter announced that the European Medicines Agency (EMA) has accepted Richter's regulatory submission for the proposed biosimilar to Eli Lilly's Forteo (teriparatide). The biosimilar teriparatide has been developed by the Company's subsidiary Richter-Helm BioTec GmbH & Co. KG. According to the relevant license agreements, biosimilar teriparatide is expected to be launched under both Richter-Helm BioTec GmbH & Co. and Stada labels in Europe following the patent expiry of the original product. On 14 November 2016 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion on the product and accordingly proposes the granting of marketing authorisation for the biosimilar teriparatide Terrosa. Following on the positive opinion on 4 January 2017 the European Commission granted marketing authorisation for Terrosa.

- In December 2015 it was announced that the EMA had accepted Richter's regulatory submission for its proposed biosimilar to Amgen's Neulasta (pegfilgrastim). In December, 2016 the Company withdrew the application after the CHMP's notification in November that the data submitted were not sufficient for a positive evaluation of the risk/benefit analysis related to the product. Richter is committed to continue with the clinical development programme and registration of pegfilgrastim.

- With a view to expanding its Women's Healthcare portfolio, at the end of June 2016 Richter acquired Finox Holding, a Swiss based biotech company engaged in the development and commercialisation of innovative and cost effective products addressing female fertility. Finox Holding's product Bemfola® is a recombinat human follicle stimulating hormone (r-hFSH), the first biosimilar r-hFSH product to be granted marketing authorisation in Europe. Richter has obtained global rights for the

commercialisation of Bemfola® (with the exception of the United States) thereby intending to emphasize its commitment to biosimilar products.

- In a joint press release in May 2016 Richter and Allergan plc announced positive results from the Venus I pivotal Phase III clinical trials that evaluated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids.

- Following the lines of the "specialty pharma" strategy developed in 2007, in 2015 Richter signed a license and distribution agreement with Bayer HealthCare to commercialize Bayer's transdermal contraceptive patch under the trade name Lisvy. In October 2016 Richter initiated immediate withdraw after receiving Bayer's notification that the results of certain stability tests conducted with the product had not met the product specifications. The two companies are working together to identify the causes leading to the test results.

- As another step towards the implementation of its biosimilar strategy, in October 2016 Richter signed an agreement on the technology transfer to manufacture trastuzumab, a monoclonal antibody developed by DM Bio of Korea, and to take over the licence of development and commercialisation. Richter will secure exclusive distribution rights for the territory of Europe, the CIS region, and Latin America.

- To bring development and manufacture of biosimilar products to new heights the Company set up an independent organisational unit named Biotechnology Business, which has been in operation since 1 July 2016.

- In December 2010 Richter announced the foundation of Gedeon Richter Rxmidas Joint Venture Co. Ltd. with an initial equity share of 50%. On 22 January 2016 it was announced that Richter acquired from its partner, Rxmidas Pharmaceuticals Holdings Ltd. its outstanding 50% stake in the joint venture company. Consequently, with its 100% holding Richter will be in full charge of its contraceptive and OTC business in China.

- The Accounting Act provided for the mandatory application, as of 1 January 2017, of the International Financial Reporting Standards for the purpose of stand alone financial statements for companies whose securities are traded in the regulated market of any of

the EEA member states. Pursuant to this provision, from 1 January 2017 Richter must apply the IFRS for the purpose of financial reporting. From 1 January 2017 Richter prepares its reports and statements in accordance with its stand alone IFRS.

- In 2016 Richter took further steps to expand its international business through a capital increase in its manufacturing companies and continuing its investments. Driven by the goal of adapting to the Russian economic policy of favouring local production, Richter made supporting investments into the Russian subsidiary a special priority. Details are described in Chapter 6: Foreign investment.

1.3 Share structure of the Company

	Ordinary shares Number	Voting rights * %	Share capital %
Domestic ownership	59,832,738	32.15	32.11
State ownership total	47,051,817	25.28	25.25
including MNV Zrt.	*47,051,668*	*25.28*	*25.25*
including Municipality	*149*	*0.00*	*0.00*
Institutional investors	6,070,053	3.26	3.26
Retail investors	6,710,868	3.61	3.60
International ownership	126,289,476	67.84	67.75
Institutional investors	124,591,828	66.93	66.84
including Aberdeen Asset Management Plc.	*18,243,530*	*9.80*	*9.79*
including Harding Loevner LP ***	*9,367925*	*5.03*	*5.03*
Retail investors	1,697,648	0.91	0.91
Treasury shares**	241,634	0.00	0.13
Undisclosed ownership	11,012	0.01	0.01
Share capital	**186,374,860**	**100.00**	**100.00**

* Article 13.8 of the Statutes restricts the voting rights of shareholders, alone or together with other related persons to no more than 25%.

**Treasury shares include the combined ownership of the parent company and subsidiaries.

***On 21 October 2016 Harding Loevner LP's influence increased to 5.03%.

The data in the table above were compiled based on the share registry adjusted by information provided by KELER Zrt. as clearing company, global custodians and nominees. Given the confidentiality of investors' interests, the records of some investment funds may contain ownership and/or voting rights data that differ from those above.

There are no shares in issue that involve special control rights.
Gedeon Richter Plc. has no shares whose market trading is not permitted.
There is no restriction regarding the transfer of shares in issue representing the share capital.
The Company is not aware of any agreement between shareholders that would result in restricting shares issued or the transfer of voting rights.
Each share with a face value of HUF 100 entitles the holder to one vote; however, the Statutes restrict the exercise of shareholders' rights by stipulating that at the AGM no shareholder shall exercise voting rights, in their own right or as a proxy of another shareholder, alone or together with other related person(s) in excess of 25% of the voting rights represented by the shareholders attending in person or by proxy.

As of 1 January 2016 the number of ordinary shares comprising the Company's subscribed capital was 186,374,860. The number of shares did not change in the course of 2016.

The closing price of shares as of 30 December 2015 was HUF 5,498 compared to HUF 6,210 as of 30 December 2016. Average monthly share prices in 2016 varied between the minimum of HUF 5,110 per share (in February) and the maximum of HUF 6,062 per share (in December).

1.4 Treasury shares

	Ordinary shares	
	31.12.2015	31.12.2016
Shares	101,371	181,350
Nominal value HUF`000	10,137	18,135
Book value HUF`000	549,820	1,068,477

Following the decision of the Board of Directors 604,789 ordinary shares were granted as a bonus to employees whose outstanding performance contributed to Richter's earnings for the year.

In keeping with the programme approved by the National Tax and Customs Administration of Hungary (NAV) related to employee share bonuses the Company granted 285,459 Treasury shares to 4,342 employees on 16 December 2016.

1.5 Corporate governance

Statement on corporate governance

Corporate Governance principles and practice implemented by the Company are in accordance both with the guidelines set by the Budapest Stock Exchange, the directives of the capital market, the provisions of the Civil Code and the Statutes. In addition, the Company reviews from time to time the principles applied to ensure, on an ongoing basis, in order to appropriately control the Group's operation in compliance with continuously developing international practices. In matters where the Company does not apply the guidelines of the Budapest Stock Exchange or the directives of the capital market, or does not apply them in their entirety, the Annual Report on Corporate Governance is applicable. The Report on Corporate Governance is part of the Annual Report; it is deliberated and approved by the AGM as a separate agenda item, and it is published on the website of the Budapest Stock Exchange as well as on the Company websites.

In 2016 the Company did not depart from the regulatory methods described above.

Gedeon Richter's key principles of Corporate Governance are to create and maintain satisfactory dialogue with shareholders so as to enhance shareholder value, to differentiate the roles and responsibilities of the Board of Directors, the Executive Board

and the Supervisory Board, and to operate the Group's business in compliance with legal and regulatory requirements and to maintain the highest ethical standards.

Corporate bodies

The Annual General Meeting is the supreme decision making body of the Company, and comprises all shareholders. The Annual General Meeting decides, inter alia, on the adoption of the annual financial statements and the appropriation of profit, the election or removal of members of the Board of Directors, Supervisory Board and Audit Committee, the appointment of the statutory auditor, amendments to the Statutes, changes that have a significant impact on the Company's share capital and other issues within its competence under the Statutes.

Rules of amendment to the Statutes:

- As a general rule, unless otherwise provided for by the Statutes, modification of the Statutes require a three-quarter majority of the votes present at the General Meeting, but at least 20% + 1 vote;
- The following decisions require a greater majority pursuant to the Statues (90% majority of the votes present at the General Meeting, but at least 45% + 1 vote of all the voting shares):
  - Changing the form of the Company,
  - Transformation and termination of the Company without succession,
  - Possible major cutback or discontinuation of the Company's R&D or manufacturing activities in Hungary,
  - Any change in the name, the registered company name and/or trade name of the Company,
  - Changing the seat of the Company,
  - Discontinuation or deletion from the Companies Register of the Company's core business.
- Articles 12.1 d) and y) of the Statutes specifically provide for the election, removal and remuneration of the members of the Board of Directors, the Supervisory Board, the Audit Committee and of the Auditor,
- In matters falling within the exclusive competence of the General Meeting as defined by Article 12.1 of the Statutes (except for the matters listed above) the following rules are applicable:

- a three-quarter majority of the votes present at the General Meeting, but at least 35% + 1 vote;
- a three-quarter majority of the votes present at the General Meeting, but at least 20% + 1 vote;
- a simply majority of the votes present at the General Meeting, but at least 20% + 1 vote;

The **Board of Directors** is the supreme decision-making body of the Company except with respect to those matters reserved for shareholders. A majority of Directors of the Board are Non-Executive Directors. All the non-executive directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The offices of Managing Director and Chairman are held separately until at the end of 2016. The latter is elected from among the non-executive directors. Directors of the Board are not entitled to issue or redeem shares. The Board works based on an agreed agenda in reviewing the key activities of the Company's business. The Company Secretary is responsible to the Board and is available to individual Directors in respect of Board procedures. Board members are elected by the AGM for a maximum term of five years. In 2004 the Board decided to set up two subcommittees which prepare and submit proposals contributing to the Board's decision making process. The subcommittees each consist of at least three non-executive independent Board directors.

The **Corporate Governance** and **Nomination Subcommittee** is responsible for considering and making recommendations to the Board concerning the appropriate size, functions and needs of the Board. This responsibility includes establishing the criteria for Board membership; conducting appropriate inquiries into the background and qualifications of possible candidates; considering matters of corporate governance and reviewing periodically our Corporate Governance Principles. The Board of Directors discusses the recommendations of the Corporate Governance and Nomination Subcommittee and drafts a proposal for the election on officers for the consideration of the General Meeting.

The **Remuneration Subcommittee** is responsible for establishing annual and long-term performance goals and objectives for elected officers. This responsibility includes preparing proposals for the compensation of the Managing Director.

The **Executive Board** is responsible for the executive management of the Company's business. The Executive Board is chaired by the Managing Director. In order to maintain a sharp focus on strategic management the board comprises only the Executive Directors.

Overseeing the management of the Company is performed by the **Supervisory Board**. It meets on a regular basis in accordance with statutory provisions and at other times when necessary to consider details of the Company's operating activities. It submits proposals to the Board of Directors and discusses the Company's strategy, financial results, investment policy and systems of internal audit and control. The Supervisory Board is provided with regular and detailed information about the management of the Company, and the chairman is entitled to attend the meetings of the Board of Directors with the right to consultation. The members of the Supervisory Board are elected or re-elected by the AGM for a maximum term of three years.

The Company has an **Audit Committee** comprising three members elected by the General Meeting from among the independent members of the Supervisory Board. The Audit Committee is responsible for the oversight of the Company's internal accounting standards.

The company has no agreement with its officers or employees that provide for indemnification in the event the officer resigns or the employee terminates their employment, or the officer or employee terminate their legal relationship illegally or the legal relationship ceases as a result of a public bid.

Risk management and internal control

Richter undertakes risk management in the context of running its business efficiently. We aim at the timely recognition, the precise understanding and the assessment of the risks, and to implement effective countermeasures. Our risk management activity includes the

evaluation of internal controls so that our risk assessment supports the Company in maintaining efficient internal control.

Richter's view is that not all risk management aspects can be formalised, and in our risk-related decisions and in the implementation of internal requirements and rules we rely on the Company's relevant bodies and trust the skills, experience and judgement of our decision-makers.

Accountability and control related to risk management

- The Board of Directors is responsible for the overseeing and control of the Company's risk management and calls on the Executive Board to report in order to identify the main risk areas; in collaboration with the management it develops the basic risk management requirements, and regularly acquires information on the effectiveness of related risk management procedures and internal control processes.
- The Executive Board is answerable to the Board of Directors in respect of the implementation of risk management procedures and is ultimately accountable for risk management. Moreover, it is the duty of the Executive Board to to develop and maintain an internal control system to manage risks associated with the Company's business and to promote Company's goals.
- Strategic risk management is directly a duty of the Executive Board.
- The operational areas are responsible for managing their own operational and compliance risks. In meeting this duty the heads of the areas of operation are supported by the meetings of the corporate bodies. In the context of the company's internal reporting procedure heads of the operational areas report to the Executive Board on risks arising in their particular area.
- Financial risks are managed in a centralised fashion by the Company's financial management.
- The key components of control are management control, integrated process control, independent internal audits, and external auditors.
- Internal audits are conducted by the Audit Department based on a preliminarily approved annual schedule and aim to ascertain by an independent and objective assessment whether the internal control system is suitable for efficient risk management. When drawing up the annual audit plan the Company's risks are taken

into consideration (on the basis of importance and by rota), as are the Executive Board's recommendations.

- Risk management, internal controls and corporate governance are evaluated annually in the context of the Annual Report.
- The Supervisory Board and the Audit Committee reviews the defined risks and risk management mechanisms once a year.

Other information

Over the past years Richter has grown from a regional player to a global company despite a keen competition in the pharmaceutical market. Besides the advantages of expansion the Company faces day by day the challenges of compliance with a complex regulatory environment brought by global operation. In keeping with international industrial practice a Global Compliance Program was introduced in November 2016 with the main goal of following, compliance and enforcing compliance with European and national regulations, industrial standards, and internatioal business standards and ethics. As a first step the Global Compliance Program was introduced in Hungary and in the European Economic Area states, to be followed in the near future by China and Latin America, where strict anti-corruption legislation and other local regulations also require guidance by the parent company.

The Board of Directors announced that Mr. Gábor Orbán, member of the Executive Board was appointed Director of Corporate Strategy (6 September 2016), and Chief Operating Officer from 1 January 2017 (appointed on 6 December 2016).

On 5 December 2016 the Board of Directors informed the shareholders that Mr. William de Gelsey resigned of his position as Chairman from 1 January 2017 whilst continuing to serve on the Board. At its meeting held on the same day the Board of Directors elected Mr. Erik Bogsch, CEO of the Company to serve as Chairman with effect from 1 January 2017.

1.6 Branches

The sites of Richter Gedeon Vegyészeti Gyár Rt. (Gedeon Richter Chemical Plant Ltd.) are as follows:

27 Esztergomi út, H-2510 Dorog

20 Medvefű utca, H-4031 Debrecen

1.7 Other information

In 2007 the Company commenced construction of a new plant in Debrecen to develop and manufacture biotechnology products, and announced its involvement of tax benefit with the contents set out in the relevant Government Decree. The investment that meets the condition in Section 22/B (1) b) of the Act on Corporate Tax and Dividend Tax was concluded in 2011 and all the equipment that formed part of the project was commissioned. The Company made use of the tax incentive related to the investment project in the 2012 and 2013 business years. The unexpected economic troubles of 2014 (Ukraine crisis, devaluation of the rouble) had a negative impact on the Company's finances, therefore in 2014 it did not utilise the development related tax incentive. The outstanding tax incentive facility was again used in 2015.

The Accounting Act provided for the mandatory application, as of 1 January 2017, of the International Financial Reporting Standards for the purpose of stand alone financial statements for companies whose securities are traded in the regulated market of any of the EEA member states. Pursuant to this provision, from 1 January 2017 Richter must apply the IFRS for the purpose of financial reporting. From 1 January 2017 Richter prepares its reports and statements in accordance with its stand alone IFRS.

About previous years:

The Company prepared consolidated audited financial statements according to the IFRS for the first time for the 2002 fiscal year. Since 2003 the quarterly flash reports to the Stock Exchange have included consolidated non-audited balance sheet, income statement and cash flow statement data according to IFRS. Availing itself with the option provided

by the Hungarian Accounting Act, since 2005 the Company has only prepared financial statements in accordance with IFRS, consolidating all of its subsidiaries, joint ventures and associated companies with the parent company.

2. 2016 operating review

2.1 The balance sheet as of 31 December 2016

ASSETS

The Company's assets amounted to HUF 782,005 million, HUF 44,938 million (6.1%) higher than the opening value. Fixed assets were up by HUF 73,676 million, and current assets decreased by HUF 28,546 million.

Fixed assets

Intangible assets amounted to HUF 64,948 million in the reported period, 38.1% down from the reference figure.

The decrease was due primarily to the reclassification of goodwill (HUF 35,980) to be reported in Equity investments following a change in the Hungarian Accounting Act, as well as to the write-off consequent to the withdrawal of the contraceptive patch Lisvy (Valuable rights HUF -2,405 million).

The value of tangible assets was HUF 10,300 million above the reference year figure (+7.4 %). The increase is contributed by Rights and Technical equipment, machines and vehicles primarily in conjunction with the development of the new the injectables packaging plant and a project aimed at creating state-of-the-art freeze-drying capacities.
Depreciation on tangibles and intangibles was HUF 23,182 million in 2016, HUF 646 million in excess of the 2015 figure.

As of 31 December 2016 the combined value of the Company's Equity investments amounted to HUF 224,611 million including fair value, and rose by HUF 77,079 million year-on-year. The difference is attributed to reclassification of goodwill as a result of the amendment of the Hungarian Accounting Act, specifically: PregLem HUF +12,760

million, GRMed HUF +18,944 million, acquisition of Finox Holding (HUF +25,855 million), Gedeon Richter Romania S.A.'s capital increase converted from a loan (HUF +5,405 million), revaluation of investment in Protek due to the change in share prices (HUF +5,328 million), acquisition of the second 50% share in GR Rxmidas (HUF +4,870 million). The reassessment of Equity investments as of the balance sheet date resulted in an increase of HUF 751 million.

The Company intends to hold the bond bought by the Company until maturity in 2019, when it can be exchanged to Richter Treasury shares. The bond is reported under Investments with a book value of HUF 16,173 million in 2016.

Loans receivable amounted to HUF 73,677 million and comprise mainly long-term loans extended to Finox Holding, PregLem and production companies.

Current assets

Inventories amounted to HUF 48,514 million, 3.1% above the opening figure.

Receivables amounted to HUF 132,661 million, HUF 17,770 million above the opening figure. Trade receivables were HUF 19,327 million up year-on-year, resulting mainly from increasing participatory receivables from the CIS and trade receivable from the European Union. The figure also contains a HUF 13,973 million increase in receivables from affiliated undertakings and undertakings linked by significant or other participating interest. Receivables from affiliated undertakings and undertakings linked by a significant share or other participating interest and cash pool is HUF 3,261 million below the reference year's closing figure due mainly to the loan to Gedeon Richter Romania S.A. converted to capital increase and to the loans to Pharmapolisz Kft. and Richter-Helm BioLogics GmbH & Co. classified as long-term, reduced by the loan item extended to GR RUS becoming due within a year.

The value of **cash and securities is** HUF 47,788 million below the opening value. The main items contributing to the decease are the acquisition of Finox Holding, the EUR 21 million repayment of the European Investment Bank credit, and the dividend in connection of the result of 2015 and approved by the Annual General Meeting was HUF 13,419 million.

As of 31 December 2016 the Company does not hold Securities held for trading or other equity investments.

LIABILITIES

Shareholders' equity

In 2016 **shareholders' equity** increased by 7.3 % to reach HUF 680,699 million, as a result of retained earnings.

Liabilities

The Company's total liabilities amount to HUF 85,692 million and include the **long-term liabilities** items of HUF 28,510 million, EUR 91.7 million drawdown to finance R&D, and the advance support amounting to HUF 2,563 million extended by the Ministry of National Economy to fund innovative pharmaceutical research and development. Current liabilities were HUF 7,774 million up and comprised HUF 35,214 million liabilities to suppliers and affiliated undertakings as the main item (HUF +4,400 million) including cash pool. Increase off the short-term borrowings, the impact of the above-mentioned reclassifications is reduced by the deferred payment in conjunction with the acquisitions in China and the EUR 21 million EIB repayments.

2.2 The 2016 income statement

The Group's profit after taxes for 2016 was HUF 54,474 million, 11.4%, or HUF 7,006 million, lower year-on-year. With approximately the same turnover the increase in Costs of sales and marketing and the different breakdown of the one-off items under Other income and expenditure are worth mentioning, attenuated by an increase in the Profit on financial transaction, mainly because of favourable exchange rates.

2.2.1 Income from sales

	2015 HUF million	2016 HUF million	Variance HUF million	Variance %
Hungary	33,939	34,840	901	2.7
International markets				
CIS	109,275	102,235	-7,040	-6.4
EU *	91,983	92,503	520	0.6
USA	13,472	16,376	2,904	21.6
China	16,518	19,145	2,627	15.9
Latin America	3,749	3,703	-46	-1.2
Other countries	13,160	14,440	1,280	9.7
International markets TOTAL	248,157	248,402	245	0.1
Total	**282,096**	**283,242**	**1,146**	**0.4**

* Excluding Hungary

Income from the 2016 domestic sales was 2.7% up compared to the reference year. Sales in international markets were approximately the same as in 2015.

There were some changes in the breakdown of export by regions compared to the reference year: With some decrease, the CIS markets continue to retain the biggest share (36.1 %). The EU states' share increased by 0.1 percentage points and contributed 32.7%. China's share was 0.8 percentage points higher (6.7%) than prior year. The USA increased its share by 1.0 percentage point over 2015 and achieved to 5.8%. The share of Other countries was 0.4 percentage points higher (5.1%) than prior year. The contribution of Latin America to sales income was 1.3%, the same as the reference period figure. Income from domestic sales grew by 0.3 percentage points achieving 12.3 %.

Based on the year-end figures for 2016 the Company realized HUF 34,840 million income from sales **in the domestic market**, 2.7 % (HUF 901 million) more than in 2015. With this performance the Company's market share was 5.4% in 2016, 0.1%p above the reference year's figure. Richter ranked second in the prescription drugs market with a share of 7.4%.

The main factor was increasing Suprax, Esmya, Vidotin, Xilomare, Duamild and Flamborin sales, reduced by dropping Kalmopyrin, Lisonorm, Klion and oral contraceptives. In 2016 oral contraceptives were the leading item in terms of sales contributing 8.8% to sales income.

In 2016 no significant changes took place in terms of price regulations in the domestic pharmaceutical market. Pharmaceutical representatives' registration fee was HUF 219 million in 2015 and HUF 253 million in 2016.

The company's income from sales in **international markets** is HUF 248,402 million, approximately the same as the 2015 figure of HUF 248,157 million. In euro, income from exports was 0.5 % down and amounted to EUR 797.6 million.

Russia continues to be the leading market of the **CIS region** and also of the Company, with turnover denominated in EUR 9.5% below the reference year figure, also largely influenced by the massive (12.8%) devaluation of the rouble against the euro. Sales in rouble were 2.1% of RUB 354.7 million up. The increase in rouble denominated sales was contributed by oral contraceptives, Airtal, Panangin, Verospiron and Esmya and dampened by lagging Diroton, Mydocalm and Stopdiar sales.

Euro denominated sales in Ukraine were 11.3%, or EUR 3.0 million, up year-on-year, with increasing Groprinosin and Verospiron sales and dropping Ekvator sales.

EUR sales income from other CIS countries dropped by 5.2% of EUR 3.9 million. Declining sales in Belarus and Turkmenistan were partially offset by rising sales in Moldova and Kyrgyzstan.

The total turnover achieved in the CIS market was HUF 102,235 million, 41.2% of total export. Year-on-year decrease was 6.4% (HUF 7,040 million). Expressed in Forex, the turnover was EUR 328.2 million (USD 363.5 million) with a 7.0 % decrease in EUR (7.1 % in USD) year-on-year.

The turnover achieved in the **European Union** was HUF 92,503 million, 0.6% up year-on-year. The EU region's share from the total income achieved in international markets is 37.2%. Expressed in Forex, the income amounted to EUR 297.0 million.

Owing to the efficient promotion efforts of the Western European network of pharmaceutical representatives the Company's strategic product Esmya realised a significant sales increase,

which greatly contributed to the overall 2.5% increase in EUR term in the EU15 region. Bemfola® sales contributed to the 2016 income.

The CEE member states decreased their contribution to total sales in the EU region from 48.6% in 2015 to 47.3% in 2016. The decrease (2.6% in euro) is attributed primarily to the performance of oral contraceptives and Avonex.

Sales in the **United States** were 21.6% (or HUF 2,904 million) up; denominated in dollar, the increase was 20.5% (or USD 9.9 million) and was contributed mainly by Vraylar™ royalty income.

Turnover in the **Chinese region** was HUF 19,145 million (EUR 61.5 million) and was HUF 2,627 million (or EUR 8.2 million) higher year-on-year. Increase in Cavinton sales was especially outstanding.

Turnover in **Latin America** was approximately the same as in the reference year. The 2016 sales income amounted to HUF 3,703 million (USD 13.2 million). The region's share from the total income achieved in international markets is 1.5%.

In the region of **Other countries** oral contraceptives were the leading products. Other countries achieved a turnover of HUF 14,440 million (EUR 46.4 million). Compared to 2015, sales income was 9.7% higher (in euro, 9.2% higher). The contribution of the region to international sales was 5.8%.

Net income from sales **totalled** HUF 283,242 million in 2016, a HUF 1,146 million increase over the 2015 figure.

2.2.2 Direct and indirect costs of sales; operating profit

Aggregate direct and indirect costs of sales were HUF 11,175 million higher year-on-year.

Direct costs of sales totalled HUF 64,158 million and were HUF 4,579 million over the 2015 figure due to an increase in volume and a change in the portfolio of products. Gross

profit from sales was HUF 219,084 million, HUF 3,433 million short of the reference year figure with the gross margin down from 78.9% to 77.3%.

Indirect costs amounted to HUF 170,282 million in 2016, HUF 6,596 million above the 2015 figure.

- Advertising and promotion costs increased by HUF 3,988 million year-on-year. The increase in marketing costs in Western Europe and China was not offset by dropping costs in Poland and in Other CIS countries.

- Increase in employees' wages and contributions amounted to HUF 1,701 million compared to the previous year. Besides the general increase of basic salaries, differentiated increase was also implemented taking into consideration individual performance, labour market conditions and the importance of the job. The differentiated increase was partially included in the basic salary.

- Licence fees are HUF 1,190 million above the 2015 figure, mainly because of the increasing licence costs related to Esmya (predominantly in the EU15 region).

- The 2016 material costs were HUF 519 million higher year-on-year due to the price difference in inventories valuation and higher costs of R&D and promotional materials.

- Attorneys' fees increased by HUF 460 million over 2015; the increase is partly attributed to the Finox Holding acquisition.
- In 2016 there was a HUF 577 million reduction in income from research commissions, explained only by significant development costs related to ulipristal acetate (Esmya) in the reference period coupled with a sharp drop in the development costs of pegfilgrastim, partially countered by costs of proprietary and generic development topics related to EVE vaginal rings.

- The costs of vehicle leases was down by HUF 543 million y/y due to a significant reduction in the number of leased vehicles because of changes in the structure of financing and operating the vehicle stock in Russia.

Other income and expenditure had a negative balance of HUF 13,672 million in 2016 compared to HUF 747 million income in the reference year.

The drop is attributed to a large extent to milestone incomes in the reference period (from Allergan in conjunction with the marketing authorisation of Vraylar™ for the USA, and from Stada in connection with biosimilar product development), as well as to exchange rate compensation related to Chinese sales.

In conjunction with the withdraw of Lisvy HUF 2,405 million was reported in Intangibles and in Q3 of 2016 an additional HUF 849 million impairment was reported in Inventories. Indemnification is currently negotiated by the parties.

The above negative effect was enhanced by the write-off of inventories associated with the withdrawal of PEG-GCSF's application for registration.

On the other hand, the milestone income related to the European distribution of cariprazine (Recordati agreement) had a positive effect in the reported period, as did the release of provision created for additional reductions.

Claw-back in 2016 comprised payments related to the Hungarian, German, French, Spanish, Portuguese, Belgian, Italian, Bulgarian and Latvian markets totalling HUF 5,501 million.

The Company's *operating profit* was HUF 35,130 million, 41.0% down compared to 2015. After a 8.7 percentage point decrease, the operating margin was 12.4%.

2.2.3 Other income statement items

Net financial income

Net financial income was a profit in both 2016 and 2015 (HUF 19,680 million and HUF 2,669 million respectively).

In light of the changes during the reported year, Richter's financial income was greatly affected by the weakening of the forint against the rouble and the dollar, and the strengthening of the forint against the euro. As of the 2016 balance sheet date, the exchange rate (NBH rate) was 4.78 forints to the rouble (+23.2%), 293.69 forints to the dollar (+2.5 %), and 311.02 forints to the euro (-0.7 %).

Revaluation as of the balance sheet date closed with a loss in 2015 (HUF 359 million) and a profit in 2016 (HUF 9,276 million, which is an increase of HUF 9,635 y/y). The item includes revaluation of investments, loans receivable, advances, cash, loans payable, trade receivables and payables, as well as as well as accrued and deferred items.

Dividends received contributed HUF 7,820 million to the 2016 financial income, HUF 6,818 million higher than the HUF 1,002 million realized in 2015 (mainly thanks to Protek and Befektetéskezelő Kft.).

Exchange rate profit realized from trade on receivables, payables and other items were HUF 2,324 million as opposed to a HUF 2,935 million loss in the preceding year. The aggregate gain contributed HUF 5.3 billion to a year-on-year decrease in earnings.

In 2015 there was a reversal of impairment of investments related to Protek (HUF 153 million) followed by reversal of impairment related to Hungaropharma and Richter Szolgáltató, impairment on GR-RUS, Mediplus N.V., Pharmatom and Vita-Richter, and impairment on the loan agreements with Gedeon Richter Aptyeka and Pharmatom in 2016 (totalling HUF 2,815 million loss from financial transactions).

Exchange rate gains amounted to HUF 1,364 million in 2015 followed by HUF 280 million in 2016, which is a HUF 1.1 billion decrease year-on-year.

Extraordinary items

As a result of the 2016 amendment to the Accounting Act Extraordinary items ceased from 2016. These items were reported in Other income and expenditure and Financial income and expenditure.

Profit before taxes

The 2016 earnings before taxes amounted to HUF 54,810 million, HUF 7,437 million less than in 2015.

Taxes

In 2007 Richter announced its intent to take advantage of the tax relief in connection with the capital expenditure project to construct a new plant in Debrecen to develop and

manufacture biotechnology products. The Company had resort to the investment related tax relief in 2012 and 2013. As the Company had no corporate tax payment liability in 2014 it could not use the tax relief either.

Taking the investment related tax relief, the 2016 taxes payable amounted to HUF 336 million compared to HUF 767 million in 2015.

Profit after taxes

The Company's profit after taxes for 2015 was HUF 61,480 million and HUF 54,474 million in 2016.

2.2.4 Contribution of key products to sales revenues

Finished products contributed approximately 92% to the 2016 sales revenues. The contribution of APIs was 3%, that of sales of purchased materials and royalties was 2% each, and services contributed 1%.

The following table contains the Top Ten product groups based on their contribution to total sales revenues:

2015				2016			
Rank		Sales HUF million	Share %	Rank		Sales HUF million	Share %
1	Oral contraceptives	85,407	30.3	1	Oral contraceptives	80,384	28.4
2	Cavinton/vinpocetine	25,403	9.0	2	Cavinton/vinpocetine	27,643	9.8
3	Mydeton/tolperisone	15,339	5.4	3	Esmya /ulipristal acetate	20,890	7.4
4	Esmya /ulipristal acetate	14,995	5.3	4	Panangin/asparaginates	14,037	5.0
5	Panangin/asparaginates	14,263	5.1	5	Mydeton/tolperisone	12,312	4.3
6	Verospiron/ /spironolactone	11,317	4.0	6	Verospiron /spironolactone	11,280	4.0
7	Ace inhibitors/ /enalapril, lisinopril	11,303	4.0	7	Ace inhibitors/ /enalapril, lisinopril	8,580	3.0
8	Lisonorm /lisinopril, amlodipine	8,240	2.9	8	Aflamin/aceclofenac	7,494	2.6
9	Aflamin/aceclofenac	6,642	2.4	9	Lisonorm/ lisinopril, amlodipine	7,487	2.6
10	Quamatel/famotidine	6,629	2.3	10	Quamatel/famotidine	6,673	2.4
	Total	**199,538**	**70.7**		**Total**	**196,780**	**69.5**
	Net income from sales	*282,096*	*100.0*		*Net income from sales*	*283,242*	*100.0*

The contribution of the ten leading product categories to total sales was 69.5%, slightly below the reference year's figure.

Oral contraceptives are the leading products with a turnover of HUF 80.4 billion, 5.9% below the 2015 figure. Decreasing income from the sales of oral contraceptives and Drospirenone were not offset by rising Diegonest sales. The contribution of this product category to the 2016 total turnover was 28.4%, 1.9 percentage points below the reference year.

Richter's most important original drug Cavinton is the second most important product achieved an increase in turnover (rising sales in China). Esmya advanced from 4th to 3rd place as a result of a 39.3% y/y increase in turnover contributed by expanding sales in Western Europe. Fifth in the reference year, Panangin managed to advance one place despite a slight drop in sales. Mydeton is ranked third with a 4.3% market share. Verospiron and ACE inhibitors were ranked 6th and 7th, same as in the reference year, with respective market shares of 4.0% and 3.0 %. Lisonorm and Aflamin, 8th and 9th in the reference year, swapped places in the 2016 league

table. Quamatel finished 10th with approximately the same as in 2015. The composition of the list of TOP 10 products did not changed compared to the reference year.

2.2.5 Contribution of key markets to sales revenues

The Company's ten leading markets were as follows:

Country		2015		Country		2016	
		HUF million	EUR million			HUF million	EUR million
1.	Russia	77,685	250.9	1.	Russia	70,742	227.1
2.	Hungary	33,939	109.6	2.	Hungary	34,840	111.8
3.	Germany	16,688	53.9	3.	China	19,145	61.5
4.	China	16,518	53.3	4.	United States of America	16,376	52.6
5.	Poland	14,664	47.4	5.	Germany	15,344	49.3
6.	United States of America	13,472	43.5	6.	Poland	13,887	44.6
7.	Ukraine	8,236	26.6	7.	Ukraine	9,216	29.6
8.	Czech Republic	7,425	24.0	8.	Kazakhstan	7,155	23.0
9.	Kazakhstan	7,124	23.0	9.	Czech Republic	7,052	22.6
10.	Great Britain	6,502	21.0	10.	France	6,912	22.2
	Total	202,253	653.2		Total	200,669	644.3
	Net income from sales	**282,096**	**910.9**		**Net income from sales**	**283,242**	**909.4**

The ten leading countries jointly contributed approximately 70.8% to Richter's total sales. Russian continues to head the list. Hungary kept its second place. China advanced to 3rd place as a result of rising Cavinton sales. Owing to increasing VraylarTM turnover, the United States advanced from 6th to 4th place. Germany slipped two places and Poland one place due to lagging sales of oral contraceptives. With a 11.3% increase in sales (in euro) Ukraine retained its 7th place. On the other hand, the Czech Republic and Kazakhstan swapped their respective 8th and 9th place. Great Britain did not make it to the TOP 10 and yielded its place to France among the leading markets.

3. Functional activities of the Company

3.1 Research and development

Innovation and the research of proprietary drug molecules have been key elements in the parent company's strategy since its foundation in 1901. Gedeon Richter Plc is the only Hungarian-based pharma company today with R&D staff exceeding 1000 and is the most significant pharmaceutical R&D base in the Central and Eastern European region. R&D is focused on three strategic areas: research and development of new small molecules, biotechnology and generic research and development.

Small molecular R&D is focused on women's healthcare products on the one hand, and molecules effective in treating CNS diseases on the other hand. In the latter category, in addition to cariprazine, Richter currently has two products in the clinical phase.

The Company continued to handle cariprazine related activities as a priority in 2016. On 17 September 2015 FDA granted approval of cariprazine for the treatment of manic or mixed episodes of bipolar I disorder and schizophrenia in adults. From the first quarter of 2016 the product will be sold in pharmacies of the United States under the trade name of Vraylar™. The clinical trials continued with Richter's American partner Allergan (formerly Forest Laboratories, Inc.) as a result of which the product will hopefully be granted marketing authorization for the treatment of other diseases such as major and bipolar depression. As a result, in March 2016 the European Medicines Agency (EMA) started assessment of the marketing authorisation of cariprazine for the indication of schizophrenia. In August of the same year Richter and Recordati signed an agreement granting Recordati exclusive sales license for the product in Western Europe as well as Algeria, Tunisia and Turkey.
Our Japanese partner Mitsubishi-Tanabe Pharma Co. continued regulatory consultations and clinical development in the interest of launching its cariprazine product in its geographical area as soon as possible.

One of the world's leading manufacturers of steroid products, Richter has been traditionally strong in the women's healthcare market. As a result of the acquisition of the Swiss company PregLem S.A. in 2010 the Group has also been active in women's

healthcare development primarily in the field of uterine myoma indications. According to Richter's announcement on 27 February 2012, Esmya, a proprietary product developed by PregLem S.A., a company solely owned by Richter had been granted marketing authorisation for the EU member states for its indication of pre-operative treatment of uterine fibroids. At the end of 2013 the EMA adopted a positive opinion regarding the use of Esmya to up to two courses of treatment. As a result, marketing authorization of the product extended for this indication was granted in January 2014. In May 2015 EMA extended marketing authorisation for its indication of in the long term management of uterine fibroids. The extension is an opportunity for long term medication in the management of uterine fibroids and possibly helps to avoid surgical intervention. In a joint press release in May 2016 Richter and Allergan plc announced positive results from the Venus I pivotal Phase III clinical trials that confirmed the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids. Application for registration of ulipristal acetate is expected to be submitted to the United States Food and Drug Administration (FDA) in the second half of 2017.
The product has already been commercialised in Canada for three years under the name Fibristal and the Canadian drug agency also approved its long-term application in November 2016.

As has been the case so far, the Company considers it essential to identify R&D partners for cooperation. We join forces with academic and university institutes, as well as the Finnish firm Orion in the early stages of our research activities. Other partners from the pharmaceutical industry are involved primarily in the clinical phases. In an effort to strengthen our women's healthcare portfolio Richter has signed development collaboration agreements with several companies (for example. Evestra). Richter Group intends to expand the scope of collaboration in the coming years.

R&D expenditure was 12.2% of sales income in 2016 and amounted HUF 34,514 million.

At the close of 2016 Richter had over 42 generic development and 17 licence topics in progress. In the course of the year Richter had 36 renewal and maintenance projects, while support of original and transfer projects slightly decreased compared to the reference year's level (10 projects in total). As biotechnology and original development

projects are conducted predominantly at the parent company, development sites of the subsidiaries have been appreciated as regards generic R&D (Gedeon Richter Romania S.A., Gedeon Richter Polska Sp. z o.o.). These companies undertake over a quarter of the generic R&D projects.

The Company launched four proprietary products and ten licensed products in 2016, all of which are new in the markets where they were launched.

As a result of registration activities a total of 53 marketing authorizations were granted to Richter in 2016 in the EU, including Hungary (taking different dosage forms into consideration). The positive assessment of teriparatide and the submission, in March 2016, of the application for the European registration cariprazine, the result of which is expected in 2017 - both in the context of centralised procedures.

In this region 106 renewal applications were submitted, 125 were acquired by the Company, and 63 licenses were returned.

A total of 39 new authorizations and 302 renewal applications were submitted in the twelve CIS countries. Richter secured 30 new authorizations during the year.

In the Other countries region the Company submitted 112 new applications and 30 renewals in 2016. In the course of the year the Company secured 28 new authorizations and 37 renewals, and withdrew 12 applications for authorisation.

Biotechnology

To bring development and manufacture of biosimilar products to new heights the Company set up an independent organisational unit named Biotechnology Business, which has been in operation since 1 July 2016.

In 2004 Richter launched its recombinant biotechnology R&D by creating a biotechnology research laboratory. In Germany Richter and Helm AG jointly acquired the predecessor Richter-Helm BioLogics GmbH & Co. KG in 2007, which develops and manufactures pharmaceuticals based on proteins derived by microbial biotechnology processes. Started in 2007, the construction of the Debrecen plant creating capacities for mammalian cell biotechnology based pharmaceutical manufacturing was concluded, the

related assets were capitalized. Trial runs commenced in 2012, followed by production for clinical trials in 2014; thus, the most complex protein-based pharmaceuticals can be manufactured on a commercial scale. In the course of 2015 the last clinical trials of two biotechnology products, pegfilgrastim and teriparatide were successfully concluded and in the autumn regulatory applications for marketing authorization for both products were submitted to EMA. In November 2016 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion, and accordingly proposes the granting of marketing authorisation for the biosimilar teriparatide Terrosa. Following on the positive opinion on 4 January 2017 the European Commission granted marketing authorisation for Terrosa. In December 2016 Richter withdrew the application following the CHMP's notification in November that the data submitted were not sufficient for a positive evaluation of the risk/benefit analysis related to the product. In October 2016 Richter signed an agreement on the technology transfer to manufacture trastuzumab, a monoclonal antibody developed by DM Bio of Korea, and on taking over the licence of development and commercialisation.

Development and distribution of biotechnology products is supported in Europe by Stada, in Japan by Mochida, and in Korea by DM Bio in the context of cooperation agreements.

3.2 Quality assurance

The Company continued the major investment programme commenced in previous years with a view to safeguarding the products' superior quality. In the course of creation of new facilities as well as refurbishments rigorous quality assurance criteria are observed from planning to commissioning, which ensures that the products manufactured in the new or upgraded facilities fully meet international quality standards in every respect.

In 2016 the main direction of the quality assurance effort was the continued upgrading of production processes in accordance with the current Good Manufacturing Practice cGMP (API and finished products), and quality assurance support to a number of ongoing investment projects (the Debrecen biotechnology project and the Dorog Steroid Plant).

Ensuring compliance with the Good Laboratory Practice (GLP) and IT GXP, as well as supporting quality management of the subsidiaries continues to be a priority task. In 2016 special emphasis was laid on enhancement of the quality assurance system focussed on the

upgrading of production processes and improving their transparency, as well as on further development of the IT system.

Over the past year Richter was inspected on 18 occasions by its partners and five times by the competent supervisory authorities.

3.3 Production

Production in the manufacturing plants was in line with the amounts required by the market: the output of plants manufacturing semi-finished products increased by 3.2% while the 12.2% drop of injectables was offset by a 3.6% increase in the production of solid drugs.

The production value, at settlement price, of own-produced APIs for non-steroid products was down by 2.4% and for steroids by in 1.8% in 2016.

Richter works in close cooperation with its subsidiaries in the fields of product and technology transfer, outsourcing and development.

Inventories

As of the balance sheet date of 31 December 2016 the value of inventories was HUF 48,514 million, exceeding the opening balance by 3.1%; the increase resulted from rising turnover and changes in the portfolio of products.

3.4 Technology

In recent years the Company has developed a new sourcing management system and separated special procurement tasks from the professional activities of the management of the various organizational units. In the new structure all machines, equipment, technological materials and general devices as well as some of the services are sourced centrally. The same applies to utilities such as natural gas, electricity and steam supply, as well as waste disposal. Similarly to the preceding year, optimization of centralized sourcing resulted in substantial savings on funds, capacities and time in 2016. In certain areas of sourcing the parent company and its subsidiaries cooperated successfully.

In 2015 Richter developed a uniform sourcing policy along with unified Company-wide regulation of sourcing processes and the general terms and conditions of contracts with a view to promoting efficiency and enhancing control.

3.4.1 Energy supply

Smooth energy supply ensured uninterrupted production throughout the year and met users' demand in terms of both quality and quantity. Implementation of specific tasks under the long-term energetics concept drawn up for Budapest and Dorog in previous years continued in 2016 with the upgrading of the refrigeration system, revamping the cooling water system and installation of a new deep-freeze plant.

In compliance with the regulation pertaining to the risk and prevention of legionella and legionellosis Richter registered its cooling water towers and started the monitoring tests. The results are within the range required by the regulation.

Richter has passed a decision to prepare the development of an energy management system by expanding and upgrading existing monitoring systems and purchasing new measuring and IT devices.

Compared to the reference year, the volume of energy utilized in 2016 increased across the Company as a whole while energy prices decreased. The 10.0 % drop emerged as the balance of 0.7 % increase in energy use and 10.7 % decrease in energy prices. Energy and water costs amounted to HUF 7.8 billion for the entire Company and included HUF 100.6 million energy and water load taxes.

3.4.2 Environmental protection, occupational health and safety

The Budapest premises, as well as the Dorog and Debrecen sites have secured an Integrated Pollution Prevention Control (IPPC) permit.

The 2016 audits of the Environmental Management System (KIR-ISO 14001) and the Occupational Safety and Health Management System (MEBIR-MSZ 28001) by the supervisory agencies, as well as the certification of the Safety and Environmental Labs

were successful and proved that internal audits, education and training, regulations, performance evaluation, risk management and occupational hazard measurements are appropriate and in keeping with the rules and regulations. For the first time, in 2016 certification also included the Debrecen Branch.

Environmental and security related expenditure were at the 2015 level in the reported period.

There were no technology related fatal, serious or mass accidents in the course of the year of reporting, no deficiencies of note were found by the relevant authorities, and no fine was imposed. Employees apply individual protective devices on an ongoing basis.

A uniquely novel feature in Hungary, Richter has put occupational health risk management on a new basis: risk assessment is conducted in a workplace/job structure, and the aptitude test protocol is determined by individualised risks.

Water pollution, protection of water quality and noise management

The review and necessary repair of the waste water system in Budapest and Dorog was concluded according to plans. Intervention plan eliminate past contamination of groundwater are implemented in accordance with the order of the competent authority. The revamping of the Dorog Waste water management plant is an ongoing process.

The Company checks the quality of its waste waters in the context of the statutory monitoring system.

Waste management

In 2016 hazardous wastes were incinerated, deposited or composted. Waste has been collected selectively since 2012. After a 0.7% drop the costs of waste management amounted to HUF 878 million in 2016.

3.5 IT support

The Company's business processes are captured in the SAP system. SAP tracks every step of the process from sourcing to sales and provides interfaces to other special systems supporting operation. Over the past years, major Group level IT development took place primarily in order to achieve the most important strategic goal of creating a central IT

architecture that controls and supervises Richter Group's IT systems and is suitable for communicating Group level strategy and control and serving operation.
IT infrastructure development has been in keeping with Group-level needs; the emerging IT background is a uniform and transparent system for Group users. A dynamic VPN network created between Group companies overarching the Internet network provides access to distant systems via audio and video connection as necessary.

Similarly to the previous year, major Group level IT development took place in 2016, the most important achievements and events were as follows:

- The biggest SAP project in 2016 was the version update. Conversion to the new version was successful and did not cause any significant disturbance in the Company's operation.

- As of 2017 the company will apply the IFRS. Depiction of the accounting, sales and controlling processes in SAP in compliance with the IFRS was another a priority task for 2016.

- The Serialisation, Track and Trace project was launched; its goal is to install a unique bar code writer and reader in all production lines of Richter Group.

- The IT support to Quality Assurance commenced in 2014 continued with several projects in progress.

- This year further development and upgrading to later versions of existing systems took place in several areas (commercialisation, research and logistics).

- IT infrastructure development aiming to serve the Company's growing data storage needs engaged a considerable amount of capacities in the course of the year.

4. Human resource

One of Richter's strategic goals is to develop operability with an organization that is best suited to changing environment, tasks and ever greater challenges. Human resource, the people who are at the basis of Richter's continued success in business and science play a key part in this effort.

Careful recruitment policies are critical for enhancing and sustaining Richter's performance. Supporting the professional development and improving the quality of life of staff and retention of high performers are priority tasks.

Employees' performance is measured by means of a uniform performance assessment system applied across the entire Company, which takes into consideration individualized tasks and goals and evaluates the discharge of duties on an ongoing basis.

In 2014 Richter introduces a Professional Career System for its degree holder employees offering advancement for both current and newly joining staff. After gradual expansion the system will be rolled out from 2016 to include blue-collar staff and white-collar staff with secondary qualifications. In an effort to adapt to the market as well as to promote high standards of performance and corporate goals, in 2016 the Company increased the proportion of the basic salary within emoluments.

As of 31 December 2016 headcount was 6,728 including 5,083 persons employed in Hungary. Of the Hungarian headcount 2,643 work in white-collar positions including 2,039 university or college graduates.

5. Capital expenditure on tangibles and intangibles

In 2016 capital expenditure on tangible and intangible assets amounted to HUF 32,250 million and included HUF 35,271 million capitalization. Tangible assets in the course of construction amounted to HUF 17,336 million as of 31 December 2016.

The Company's main capex areas in 2016 were as follows:

Biotechnology

Richter spent a total of HUF 1,941 million on investments related to the biotechnology business in 2016. A Molecular Biology Lab will be constructed in Debrecen in the context of an application for funds. The conceptual plans and the plans to be submitted with the application for a planning permission have been completed. At the Budapest biotechnology R&D unit significant amounts were spent on the procurement of equipment and the creation of a functional setting in a building made available recently.

Production

The 2016 investments related to production plants amounted to HUF 14,955 million.

In the field of finished products manufacturing, project RGK VI was continued: it envisions a greenfield development of a new, state-of-the-art filling and freeze-drying unit, an injectables packaging plant, as well as high rack warehouses ancillary to these new facilities, and land for development purposes. The building has been installed and building installations and technological pipe fitting have been completed. Currently the commissioning of the filling and freeze-drying line is in progress. Decision was made to upgrade ampoule manufacturing next to the new building. The technical blueprint and the plans required for the application for the building permit are in the making. Implementation of the plans to expand the capacities of the hormones unit of the Packaging Plant has started. In the Galenic Formulations Plant conversions required for the manufacturing of estradiol products involved substantial funds.

In the field of API manufacturing, capex projects were basically aimed at maintaining production capacities and in some cases at upgrading the infrastructure serving production. In Dorog a very important, multi-year project is in progress in Steroid Plant II to expand intermediate product and preparative chromatography capacities. After the installation of the technological equipment (18 reactors, 4 filter-dryers, clean room) the plant will have a capacity to manufacture approximately 900 kg finished products.

As regards API production in Budapest, installation of a modern vertical centrifuge in Biological Plant II, continuation of the experimental line to process reactor contents, Stage IV of the works necessitated by more stringent GMP requirements at the finishing line of Chemical Plant I, and upgrading the ventilation system of of Hall 3 should be highlighted.

Production support

Investment projects related to production support amounted to HUF 4,727 million in 2016.

In the context of environmental and safety projects the multi-year renovation of the wastewater system and the replacement of the liquid ring vacuum pumps are in progress at the Dorog facility.

Tasks related to the Environmental and Occupational Safety and Health Management Systems (KIR-MEBIR) involved expenditure commensurate with previous years at the Budapest and Dorog facilities.

Energy supply related projects included the upgrading of the firmer AD engine room at headquarters in order to meet higher energy needs in the wake of the transformation of finished products manufacturing.

At the Dorog site conversion of the recirculating cooling water system was continued and the new deep-freeze centre required by expanding manufacturing capacities was completed.

In the field of warehousing planning is in progress to relocate the functions of the obsolete Warehouse 1 in the building of the Parts and Accessories Warehouse.

In quality management instruments were purchased (in order to improve the conditions of quality control and reduce lead time of tests) with the deployment of more substantial amounts.

R&D

In 2016 Richter deployed a total of HUF 1,930 million investment to maintain the level and quality of research and development. A significant portion of the investment was related to device and instrument purchase. In Budapest some of the pharmacological tests applied currently had to be relocated in a new building that is in conformity with tightening international regulations. Construction has been completed and the occupancy permit has been granted.

Licences and other intangibles

The 2016 expenditure on licenses and other intangibles amounted to HUF 4.150 million and comprised expenditure on the acquisition of licences (trastuzumab, teriparatide), as well as on new registrations and renewals.

Other

In 2016 Richter spent HUF 1,066 million on IT development supporting operation, and HUF 1,130 million on improving the conditions of the representative offices distribution network.

6. Foreign investment

6.1. Pharmaceutical companies

Manufacturing companies

The Group's Romanian manufacturing subsidiary, **Gedeon Richter Romania S. A.** manufactures and distributes finished products for the Romanian market and is also actively involved in Group sourcing of manufacturing, product development and marketing services.

The distribution companies in the Romanian pharmaceutical market still struggles with partners faced with prolonged liquidity problems. The term of payment improved to an average of 210-240 days as the national Insurance House reduced its payment term to 120-150 days while generic manufacturers still offer longer deadlines. Due to the government's regulations to reduce prices, mounting competition and continuously increasing allowances Gedeon Richter Romania S. A. is faced with great challenges; nevertheless, its domestic turnover increased year-on-year. Group level turnover increased, including the Romanian wholesale and retail segment, so the company's tasks within the Group continue to be highly important.

The company's operating profit is positive due increasing sales and also to the fact that the claw-back tax was considerably lower.

In 2016 capex projects deployed by the Romanian subsidiary relied primarily on the company's strategic projects supporting Gedeon Richter Romania S. A.'s role within the Group. Capex projects to be highlighted include the expansion of the tablets plant and the development of the solutions unit besides improvement of the IT system and landscaping and building renovation works on the factory premises.

In 2016 the parent company increased the capital of its Romanian manufacturing subsidiary by RON 77,196 thousand through the conversion of its loans amounting to EUR 8,000 thousand and RON 41,000 thousand.

Gedeon Richter Romania S. A. continues to hold an indirect majority share in the wholesale and retail network.

Richter's Polish production subsidiary, **Gedeon Richter Polska Sp. z o. o.** is also responsible for Richter Group's registration, pharmacovigilance and PR activities in Poland. The subsidiary offering outsourced production and development services has

grown to be a strategically highly important site for the Group. With a clear-cut organisational structure and a consolidated staff of 450 the company is increasingly efficient; its Polish marketing subsidiary is also effective in supporting the commercialization of proprietary products.

In the 2016 business year Richter's sales income exceeded expectations and was 8% above the reference year figure despite the keen competition and aggressive price war characterizing the Polish market. Total income from sales was PLN 240 million due primarily to outstandingly high Groprinosin sales.

The economic crisis in Russia continued to affect the 2016 performance of Richter's Russian manufacturing subsidiary **ZAO Gedeon Richter-RUS**. This is reflected primarily in the liquidity problems of the pharma wholesale companies featuring among the Top 10 buyers and deteriorates the company's earnings forecast. Conversely, the noticeable strengthening of the rouble in the second half contributed to the increase of the 2016 turnover denominated not only in rouble but also in euro and the company managed to meet its target sales income.

The company's main function will continue to be production and distribution supported by the parent company's marketing activity. The production portfolio continued to expand and in the next two years full-cycle manufacturing of several leading products will be started, for which preparations were progressing in great strides in 2016.

The company financed its 2016 capex through its own funds, and after conversion of trade receivables to loans at the end of the previous year it has no significant arrears in payment of the parent company's supplier invoices.

Richter Themis Ltd. continued to be active as a manufacturer and distributor of intermediate products and APIs mostly for Group members in 2016. There were only minor changes in the portfolio of products compared to the reference year; the company managed to make up for the products dropped from the portfolio by adding new APIs, thus its production capacities were fully utilized throughout the year. In addition, it also supplied a considerable amount of products to external buyers.

In addition to API production the company is also active in development. Production and development are economical, so the company enhances the cost effectiveness of the Group's API production.

In biotechnology services **Richter-Helm BioLogics** GmbH & Co's turnover in 2016 was above the previous year figure and achieved sales exceeding forecasts. The microbial biotechnology company is engaged partly in sourced development and partly in production. Intra-Group development is a significant aspect of its activity (in 2016 it produced three batches of filgrastrim) but its external relations are also expanding. The company's profitability has improved considerably over the past years and closed its business year with a substantial after-tax profit.

In 2016 **PregLem S.A.** continued to support the European commercialisation of Esmya, the women's healthcare product with ulipristal acetate as its active ingredient. In addition, R&D continues to be a key activity for the company with the development of Esmya's indications being top priority, albeit to a decreasing extent.

On 30 June 2016 Richter acquired **Finox Holding**, a Swiss based biotech company engaged in the development and commercialisation of innovative and cost effective products addressing female fertility. Their product Bemfola® is a recombinat human follicle stimulating hormone (r-hFSH), which stimulates the ovaries in order to treat infertility. Richter has obtained global rights for the commercialisation of Bemfola® (with the exception of the United States). The product was granted marketing authorisation for the EU in May 2014 and is sold in over 20 countries.

As a result of the volatile situation and high exposure in Ukraine decision has been taken to discontinue the project related to **GRUA P.A.T.**'s production facilities so far out of operation.

Other consolidated companies providing sales and marketing services for the pharmaceutical segment:

In 2011 the scope of activities of the subsidiaries **Gedeon Richter Iberica S.A.U.** of Spain, **Gedeon Richter Italia S.R.L.** of Italy and **Gedeon Richter Pharma GmbH** of Germany was expanded by marketing. Besides marketing and PR services these companies are also engaged in so-called pre-distribution activities. In 2016 the companies continued to maintain the efficiency of the network of women's healthcare pharma representatives in Western Europe.

To promote marketing Richter established a subsidiary each in Switzerland (**Gedeon Richter (Schweiz) AG**), Portugal (**Gedeon Richter Portugal, Unipessoal Lda.**) and Austria (**Gedeon Richter Austria GmbH**). In 2012 Richter expanded in Belgium, the Netherlands and Luxemburg (**Gedeon Richter Benelux SPRL**) as well as in the Nordic countries (**Gedeon Richter Nordics AB**), and involved its already existing British and French companies (**Gedeon Richter UK Ltd.** and **Gedeon Richter France S. A R. L.**) in the network. The portfolio of the already developed network continued to expand by other women's healthcare products in 2016.

In 2016 Gedeon **Richter Marketing Polska Sp. z o. o.** efficiently promoted Richter's Polish manufacturing company against a background of increasingly aggressive price competition in the Polish market. With a stable turnover, reduced costs and significantly improved per capita performance and more efficient utilisation of its resources the company conducted successful marketing activities for both of its owners, Gedeon Richter Plc. and Gedeon Richter Polska Sp. z o. o.

After transforming its Polish agency into a subsidiary, the parent company decided to make a similar move in 2010 in the Czech Republic and Slovakia, and transformed its representative offices into **Gedeon Richter Marketing ČR s.r.o.** and **Gedeon Richter Slovakia s.r.o.** respectively. Richter also established **Gedeon Richter Slovenija, trženje, d.o.o.**, its subsidiary in Slovenia at the end of 2011. This was followed by the establishment, at the end of 2013 of a Croatian subsidiary **Gedeon Richter Croatia d.o.o.** The Czech, Slovak, Slovenian and Croatian companies support the sales of Richter products by operating efficient networks of representatives. The companies operate on a basis of invoicing costs plus margin, which ensures cost coverage and stable liquidity on a continuous basis.

In 2016 **Gedeon Richter (China) Pharmaceuticals Co. Ltd.** again delivered the expected results despite the widely varied sales performance of the promoted products. and an increasingly strong need to expand the portfolio of products for the future. Hopefully the approval process for registration can be shortened. OTC products and their marketing was transferred from GRmidas Medical Service (China) Co. Ltd. to Gedeon Richter (China) Pharmaceuticals Co. Ltd. once Richter fully acquires this company too in early 2017.

Active in promotional purchases, storage and distribution, Moscow based **Pharmarichter O.O.O.** proved to be a high-performing company in 2016 in both technical and financial terms.

Devaluation of the national currency has a major effect on the figures of Richter's fully owned exclusive Kazakh importer **Gedeon Richter KZ L.L.P.** After the devaluation impacts of previous periods, the Kazakh company's financial status was stabilised in 2016. Furthermore, since 1 October 2016 the distribution company has undertaken agency activities for Gedeon Richter Plc. in Kazakhstan, therefore the company now generates income from marketing services too. The outstanding investment expenditure resulted from the addition of the new business (transfer of 94 vehicles belonging to the network of pharmaceutical representatives as in-kind contribution).

The core business of **Richter-Helm BioTec GmbH & Co. KG** has been project management and business development in the field of microbial biotechnology over the past years, focusing on Group projects (teriparatide). Similarly to the previous year, the 2016 performance of the company was in keeping with development plans.

The priority task of U.S. based **Gedeon Richter USA Inc.** continues to be the support of business development and strengthen strategic partnerships in the region.

Medimpex UK Ltd. is active in traditional trading in the United Kingdom.

As a first step of expansion in Central and South America started in the second half of 2013, the parent company established a company in Colombia named **Gedeon Richter Colombia S.A.S.**, with the main function to provide marketing and registration related services for the introduction of Richter's products in the region. Securing the necessary registrations and authorizations was started in 2015 and Esmya was launched in 2016.

In Mexico Richter has 80% share as a result of a two-stage transaction in **Gedeon Richter Mexico SAPI de CV.** With its portfolio limited for the time being, the Mexican company met the projected turnover in 2016. Esmya was added to the portfolio of products and generated steadily rising sales. With a view to portfolio expansion, securing the regulatory

authorizations required for registration is in process. Gradual devaluation of the Mexican peso dampens the otherwise successful company's performance.

Richter has a 51% share in the Brazilian company **Gedeon Richter do Brasil Importadora Exportadora e Distribuidora SA** which continued its marketing and registration related activities in 2016 in addition to commercialization of the existing portfolio of products; however, product sales were highly volatile because of the instability of the market. In an effort to offset the negative effect the owners increased the company's capital by BRL 453,675.37 at the end of the year.

In May 2014 Richter signed an acquisition agreement in respect of **Mediplus N.V.**, which resulted in holdings in Curaçao, Bolivia, Chile, Peru and Ecuador and strengthens Richter's penetration in Latin America. In 2015 became the sole shareholder of Mediplus Group. In the course of 2016 Esmya was sold by all companies and the portfolio of Richter's product expanded in the countries of the region.

6.2. Wholesale and retail

Romania

Armedica Trading S. R. L. is the holding company of Richter Group's Romanian pharmaceutical wholesale and retail trade segments.

The Hungarian parent company developed a full-fledged vertical sales network in Romania with the companies owned by Armedica as endpoints. The two outlets continues to play an important role in implementing the strategic goals of the Romanian and Hungarian parents, predominantly in the distribution of the Group's finished products and promoting Richter Group in Romania.

The Group's wholesale company in Romania is **Pharmafarm S.A.** In 2016 the company continued the trading policy started in 2015, and as a result it closed the year with an increase in sales income as well as a stable margin. The company maintained its cost containment and its strong and balanced customer management, inventories and sourcing policies. Thanks to a strict customer rating system customer-side impairment was kept lower than in previous years and impairment reversals dominated. The company generated

a stable operating profit throughout the year. Collaboration continues to ensure Pharmafarm S.A.'s prominence among the suppliers of Gedeon Richter Farmacia S.A.

Gedeon Richter Farmacia S.A. is the Romanian group's retail company. Steps to streamline GRFA S.A.'s portfolio in order to improve efficiency were completed. In 2016 only one pharmacy licence was sold and the network consisted on 88 pharmacies in December. Turnover per outlet was 5% higher on the average year-on-year. There are still loss generating pharmacies, but impairment reported in previous years is now superseded by reversals related to the licences of the increasingly profitable pharmacies.

Ukraine and the CIS

After the termination of wholesale and retail, the only activity of **Gedeon Richter Ukrfarm O.O.O.**, Richter's fully owned Ukrainian subsidiary is to operate the Kiev headquarters owned by Gedeon Richter Group.

In the Moldovan pharmaceutical market the presence of Richter has become a dominant feature, as the Company has secured outstanding market shares for years. This success is the result of Richter's Moldovan agency and the excellent and successful cooperation of the retail and wholesale companies. Sales of Richter's products are efficiently supported by **Richpangalfarma S.R.L.,** a key player in the pharmaceutical wholesale market since 1996 in which Richter holds a 65% stake.

Moldova introduced regulations to maximise price margins but this did not cause a significant setback in the operation of **GR-Retea Farmaceutica S.R.L.** operating the network of pharmacies. After revamping the sales and inventories policies and redesignin the portfolio of products the 41-strong network's performance was reliable.

The economy of Armenia was hit hard when the annual GDP shrank to 2.6% in Q3. In these circumstances Richter' Armenian wholesale and retail holdings had to reckon with plummeting sales in 2016. On the positive side, the wholesale subsidiary **Richter-Lambron O.O.O.** made a successful appearance in the market of third-party products and continued to expand its network of suppliers and customers.

With its expanded network of 26 pharmacies, the sales of **Gedeon Richter Aptyeka Sp O.O.O.** declined drastically and profits dropped likewise. The outstanding profitability of previous years fell so much by the end of 2016 that the company needed a significant support from the associated wholesale company. The retail company tries to compensate for the situation by quality-driven exchanges of pharmacy units and cost containment.

The performance of the two wholesale companies with Richter's majority share operating in *Jamaica* (**Medimpex Jamaica Ltd.** and **Medimpex West Indies Ltd.**) resulted in a steadily improving turnover. As a result of the wholesalers' activities Richter managed to step up the distribution of its products in the region in 2016. On the negative side, successful operation is hampered by the devaluation of the Jamaican currency against the dollar.

There was no change in the *domestic* wholesale share: the parent company continues to be a shareholder of the biggest pharmaceutical distributor in Hungary.
As a result of steps taken in previous years to enhance efficiency, **Hungaropharma Zrt.** continued to improve its earnings in 2016. Richter directly holds 30.68% of the company's shares.

6.3. Other consolidated companies

There has been no change in the profiles of the other consolidated companies of Richter Group (engineering, real estate management, quality control, forwarding, etc.); they provided continuous support fully in line with expectations and with good performance throughout 2016. Operation of these affiliated undertakings is focused predominantly to Hungary.
Richter's undertakings in this segment with foreign sites continue to be dormant. (Nedermed B.V., Medimpex Japan Co. Ltd. and Ambee Pharmaceuticals Ltd.)

7. Risk management

During the year Richter Gedeon Plc. completed a company-level risk assessment in-line with its risk management policy. As part of the risk assessment the Company has identified its relevant strategic, operational, compliance and financial risks following the risk management approach elaborated with a consultant. The identified risks have been evaluated by the management of the Company.

The following risks proved to be the most typical in each category based on the assessment.

Strategic risks

Risk	Description	Key risk management methods
Macroeconomic Factors	The impact of changes in macroeconomic factors affecting the company's markets with special regard to the deterioration of solvency due to the continued Russia-Ukraine crisis and chronically low oil prices	- Monitoring changes in major macroeconomic factors, incorporating their effects into the planning - Tightening cost containment and customer relations - Flexible utilisation of local production capacities
Competition and Pricing	The impact on the company's market position and results of decreasing prices resulting from mounting generic competition	- Identifying competitive advantages - Focusing on new proprietary and value added products - Launching new generic products - Regularly performed industry and competitor assessment and effectiveness analysis
Healthcare Budget	Potential impact of negative changes in the healthcare budget and regulation (price cuts, increasing industry surtaxes, subsidy cuts and protracted procedure to accept subsidy applications)	- Regular analysis of market environment, monitoring changes in the legal and pharmaceutical subsidy system - Communication with authorities - Cost management adaptation

Operational risks

Risk	Description	Key risk management methods
Development of original and biosimilar R&D and production	Risk attached to the success of proprietary research and of the development and manufacturing of biosimilar products	- Focusing on CNS R&D and gynaecology development - Determining milestones of original research and biosimilar development - Assessment of programs and decision-making according to international standards with the involvement of advisory bodies and international experts - Involvement of collaborating partners to reduce risk and ensure co-financing
The complexity of the Group's activities is increasing, more diversified markets	Risks related to the development of specialized sales and marketing support of women's healthcare products in Western Europe, China and Latin America	- Company-level projects for the acquired women's healthcare portfolio, the integration of Finox Group, and the coordination of the launch of Esmya - Strengthening market positions and the marketing network in Western Europe - Developing the company's own marketing network in Latin America - Increasing stakes in Chinese and Latin American investments
Qualified Workforce	Risk relating to retention of employees in key positions and ensuring qualified workforce	- Periodic revision of HR strategy - Training plans, career and succession programs - Incentive and performance assessment system - Determination of optimal headcount - Staff replacement to improve quality; retention of staff performing high-quality work

Compliance risks

Risk	Description	Key risk management methods
Regulatory oversight High quality standards required by customers	Risk of non-compliance with relevant regulations relating health and quality More frequent inspections due to proprietary product launches	- Implementing Quality systems and Standard Operational Processes (SOPs) - Monitoring compliance with health authority regulations - Special projects to prepare for inspections
Intellectual Property, Patents and Litigations	Risk relating to patents and patent rights	- Continuous assessment and monitoring of intellectual property and patents - Enforcement of intellectual property rights - Conclusion of risk mitigation agreements
Contracts and Liabilities	Risk relating to managing contractual liabilities and enforcing contractual terms	- Centralised contracting processes - Special treatment of unique contracts - Introduction of a global compliance program

Financial risks

Risk	Description	Key risk management methods
Credit and Collections	Risk relating to collection of cash and receivables from customers Region-specific risks related to customers	- Customer rating and establishing payment terms and sales limits - Regular review of receivables - Increasing insurance of CIS customers' credits with MEHIB
Foreign Exchange Rate	Exchange rate risk management in the changing currency structure	Calculating annual open FX positions and monitoring key FX rates
Capital Structure, Cash Management and Financial Investment Taxation risks	Risk related to the management of the Company's cash needs and cash funds Maintaining security of funding besides acquisition expenditure	- Developing and monitoring cash-flow plans - Financial Investment Rules to manage investment risk - Introduction of a Cash Pool system - Preparation for a tax relief related audit by the tax authorities

8. Post-balance sheet date events

On 4 January 2016 Richter announced that the European Medicines Agency (EMA) has accepted Richter's regulatory submission for the proposed biosimilar teriparatide with the reference product of Eli Lilly's Forteo. The biosimilar teriparatide has been developed by the Company's subsidiary Richter-Helm BioTec GmbH & Co. KG. According to the relevant license agreements, biosimilar teriparatide is expected to be launched under both Richter-Helm BioTec GmbH & Co. and Stada labels in geographical Europe following the patent expiry of the original product. On 14 November 2016 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion on the product and accordingly proposes the granting of marketing authorisation for the biosimilar teriparatide Terrosa. Following on the positive opinion on 4 January 2017 the European Commission granted marketing authorisation for Terrosa.

On 17 January 2017 Richter and Allergan plc announced positive results from Venus II, the second pivotal Phase III clinical trials. The trial investigated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids causing irregular uterine bleeding and confirmed the result of the Venus I study published in May 2016. Application for registration of ulipristal acetate is expected to be submitted to the United States Food and Drug Administration (FDA) during the second half of 2017.

On 19 January 2017 Richter annuonced that it had signed an agreement with Allergan plc for the distribution of Allergan's levonorgestrel releasing Intrauterine System. Richter will distribute the product under the brand name Levosert® in Western Europe and other European countries. The product has already been granted national marketing authorisations in Western and Northern European countries, and has been launched in most countries by Allergan. Richter is currently selling Levosert® in most CEE markets in accordance with the relevant agreement signed with Uteron Pharma in 2011. According to the agreement Richter makes a milestone payment upon signature. After the product is launched, Allergan will also be entitled to sales related royalty and milestone payments.

In early 2017 Richter and Bayer reached an agreement on reimbursement of the costs of inventories in conjunction with the withdraw of Lisvy.

The Accounting Act provided for the mandatory application, as of 1 January 2017, of the International Financial Reporting Standards for the purpose of stand alone financial statements for companies whose securities are traded in the regulated market of any of the EEA member states. Pursuant to this provision, from 1 January 2017 Richter must apply the IFRS for the purpose of financial reporting. From 1 January 2017 Richter prepares its reports and statements in accordance with its stand alone IFRS.

After acquiring the remaining 9% share in February 2017 Richter became 100% shareholder of GRMed Company Limited. With this payment the Company has fully paid the deferred purchase price kept on the books among liabilities.

The management is not aware of other post-balance sheet date events that might be material to the Company's business.

9. Future outlook

Retaining and strengthening the Company's position in the Hungarian and the traditional markets (CIS, Central and Eastern Europe) despite increasingly difficult environment whose problems fall hard on the entire pharmaceutical industry (price erosion, tightening subsidies and price control) continue to feature among Richter's strategic goals.

The Company focuses on strengthening its presence in, and increasing exports to, European Union, primarily in the EU15, and China, retaining and strengthening positions acquired in the United States, and developing new long-term research and development cooperation with existing and new partners.
The main tool to achieve these goals in the context of Hungary, the CIS and the European countries is to improve the efficiency of Richter's sales networks. In Western Europe and the United States the strategy is implemented through long-term agreements concluded with strategic partners. Through a variety of acquisitions Richter is directly present in the world's fastest growing pharmaceutical markets (China and the Latin American region).

The success of proprietary research and development aimed at CNS products is crucial for Richter Group's future and for strengthening its market positions. The second pillar of the

specialty strategy is the expansion of the women's healthcare portfolio. The future added value from the women's healthcare portfolio acquired in 2010 from Grünenthal, coupled with Esmya resulting from the Swiss acquisition and Bemfola acquired in 2016 to treat infertility will boost the Group's niche: gynaecology, which is best supported by the units operating in the traditional markets and through the newly established Western European marketing network. The Group's ongoing objective is to achieve faster growth and to present higher rate of annual sales in its special niche of oral contraceptives and steroid-based women's healthcare products - in 2012 this line was completed with Richter's original product Esmya and in 2016 with Bemfola.

The third pillar of the Group's "specialty" strategy is the development of biosimilar products and the high-value investment to create conditions for their manufacture.

Besides the above, Richter is striving to exploit the opportunities provided by marketing the portfolio of traditional products to a maximum extent.

In order to ensure and increase sales and profitability, another priority task for the future is the improvement of research and development and the Company's organizational functioning in all areas of operation on an ongoing basis.

6.

Report of the Statutory Auditor on the draft individual Annual Report prepared in accordance with the Hungarian Accounting Act

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Gedeon Richter Plc.

Opinion

We have audited the accompanying financial statements of Gedeon Richter Plc. ("the Company") which comprise the balance sheet as of 31 December 2016 (in which the balance sheet total is MHUF 782,005, the profit after tax is MHUF 54,474), the related income statement for the year then ended and the notes to the financial statements including a summary of the significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance for the year then ended in accordance with the provisions of Act C of 2000 on Accounting ("Accounting Act") in force in Hungary.

Basis for opinion

We conducted our audit in accordance with Hungarian National Standards on Auditing ("HNSA") and with applicable laws and regulations in force in Hungary. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Hungary. We have fulfilled our other ethical responsibilities in accordance with those requirements.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Valuation of Long-term shares in subsidiaries The Company has long-term shares in subsidiaries of MHUF 209,520. See Notes II/1.3.3-1.3.4 and I.2/2.4 of the financial statements for management's disclosures of the balances, judgments and estimates on these investments. We focused on this area because of the	We focused on long term shares recognized as a result of the acquisitions of PregLem S.A., GRMed Company Ltd., and GR Mexico S.A.P.I de C.V and GR Rxmidas Joint Venture Co. Ltd. where the Company is performing the impairment assessment based on estimated future cash-flows. Our audit procedures included challenging management on the appropriateness of the impairment models and reasonableness of the assumptions used by performing the following: • Benchmarking the Company's key market-related

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Key audit matter	*How our audit addressed the key audit matter*
significance of the Long-term shares balance and because the impairment assessment of certain investments involves management's judgement about the future results and the discount rates applied to future cash flow forecast. Such judgement was required for the impairment assessment of PregLem S.A., GRMed Company Ltd., GR Mexico S.A.P.I de C.V and GR Rxmidas Joint Venture Co. Ltd. because the recoverable amount of these investments are represented by their future cash generating ability rather than by their current equity level.	assumptions in the models against external data. Key assumptions that we focused on were discount rates, long term growth rates and foreign exchange rates. Where it was considered necessary we involved our valuation experts; • Assessing the reliability of cash flow forecasts by checking of actual past performance and comparing to previous forecasts; • Testing the mathematical accuracy and checking sensitivity analyses of the models; • Understanding the commercial prospects of the assets, and where possible comparing assumptions to external data sources; • In respect of the investment in GR Rxmidas Joint Venture Co. Ltd. (where the most significant portion of the investment arises from current year acquisition) we focused on whether there were any significant adverse changes in the circumstances since the acquisition date. We have recalculated the year end foreign exchange revaluation of the investments and compared our calculation with the balance recorded by the Company. Based on our procedures, we noted no material exceptions and considered management's key assumptions to be within reasonable ranges.
Follow up accounting of business combinations other than valuation of Long term shares in subsidiaries. The Company has acquired several businesses in prior years where the purchase price was contingent on future events. The purchase price of the acquisition of GRMed Company Limited, GR Mexico S.A.P.I de C.V and Mediplus (Economic Zone) N.V as disclosed in Note II/6.2 was not fully settled at the beginning of the current period. We focused especially on the purchase price of the acquisition of GRMed Company Limited due to the significance of the balance and because the acquisition agreement determined a portion of the purchase price to be contingent upon future performance of	The Accounting Act does not contain specific regulation for accounting of contingent purchase prices, therefore we assessed the accounting policy applied by management disclosed in Note I/2.3.3. Since the acquisition agreements were signed in prior periods, we inquired management if there were any amendments made to the agreements. Further audit procedures included assessing the reasonableness of the assumptions used by performing the following procedures in respect of the purchase price of GRMed Company Limited: • Comparing the amount of the liability to the present value of the cash flow forecast of the predetermined products approved by the board of GRMed Company Limited;

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Key audit matter	*How our audit addressed the key audit matter*
predetermined products. The valuation of the liability therefore involved management's judgement about the future results and the discount rates applied to future cash flow forecast. The last instalment of this purchase price was due in the first half of 2017. The maximum exposure of the contingent purchase price originating from other acquisitions (GR Mexico S.A.P.I de C.V and Mediplus (Economic Zone) N.V) is not material as disclosed in Note II/6.2	• Recalculating the change in the liability to change in different components including effect of payment, unwinding of the interest, the change in the foreign rate and the effect of change in cash-flow estimate; • Benchmarking the Company's key market-related assumptions in the models, including discount rates and foreign exchange rates against external data. We involved valuation experts where it was considered necessary; • Comparing the liability presented with the payment made in 2017. We have assessed the classification of the liability in the balance sheet. We have read the disclosures related to contingent consideration presented in Note II/6.2 of the financial statements. Especially, we assessed additional disclosed information not explicitly required by the Accounting Act, but necessary for users to understand the transaction. Based on our procedures, we noted no material exceptions and considered management's key assumptions to be within reasonable ranges.
Accounting for acquisitions The Company has performed two significant acquisitions in the reporting period: acquiring the remaining 50% of GR Rxmidas Joint Venture Co. Ltd. and 100% of Finox Holding AG as disclosed in Note I/3.1 to the financial statements. We focused on this area due to the significance of the transactions and because such agreements often require complex accounting knowledge and significant amount of judgement from the management.	We have read the share purchase agreements, checked the bank statements related to the acquisitions and assessed the appropriateness of the accounting of the acquisition. Relating to the Finox Holding AG acquisition we have assessed management's treatment of identifying a separate asset (a loan of the acquirer) as disclosed in Note I/3.4. Relating to the acquisition of GR Rxmidas Joint Venture Co. Ltd., we have assessed the appropriateness of management's approach of not revaluing any previously held interest in the stand alone financial statement prepared in accordance with the Accounting Act as opposed to the requirements of IFRS in the consolidated financial statements. Based on our procedures, we noted no material exceptions.

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Other information: the business report

The other information comprises the business report of the Company. Management is responsible for the preparation of the business report in accordance with the provisions of the Accounting Act and other relevant regulations. Our opinion on the financial statements does not cover the business report.

In connection with our audit of the financial statements, our responsibility is to read the business report identified above and, in doing so, consider whether the business report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based on the Accounting Act, in respect of the business report, our responsibility is to read the business report identified above and, in doing so, consider whether the business report has been prepared in accordance with the provisions of the Accounting Act and other relevant regulations, if any.

Because the Company's transferable securities are admitted to trading on a regulated market of a Member State of the European Economic Area, our opinion on the business report shall cover the information prepared under Paragraphs e) and f) of Subsection (2) of Section 95/B of the Accounting Act, and state whether the information referred to in Paragraphs a)-d) and g) of Subsection (2) of Section 95/B has been provided.

In our opinion, the 2016 business report of the Company, also including the information prepared under Paragraphs e) and f) of Subsection (2) of Section 95/B, is consistent with the 2016 financial statements and the business report has been prepared in accordance with the Accounting Act.

As there is no other regulation prescribing further requirements for the business report, in respect of this, our opinion on the business report does not express the opinion required by Section (5) h) of 156 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the business report, and shall give an indication of the nature of any such misstatements. We have nothing to report in this respect.

Further, we state that the information referred to in Paragraphs a)-d) and g) of Subsection (2) of Section 95/B of the Accounting Act has been provided.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HNSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Budapest, 22 March 2017

Barsi Éva
Partner
PricewaterhouseCoopers Auditing Ltd.
1055 Budapest, Bajcsy-Zsilinszky út 78.
Licence Number: 001464

Szabados Szilvia
Statutory auditor
Licence number: 005314

Note:
Our report has been prepared in Hungarian and in English. In all matters of interpretation of information, views or opinions, the Hungarian version of our report takes precedence over the English version. The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in jurisdictions other than Hungary.

7.

Report of the Supervisory Board including the report of the Audit Board on the draft individual Annual Report prepared in accordance with the Hungarian Accounting Act

The supervisory Board of
Gedeon Richter Plc.

REPORT

to the 2017 Annual General Meeting of Gedeon Richter Plc.

Budapest, 22 March 2017

Table of Contents

1. Report on the Supervisory Board's work for the year

1.1 Brief presentation of the work performed by Supervisory Board in 2016

As in previous years, in 2016 the Supervisory Board (hereinafter: SB) worked in compliance with the provisions of the Hungarian civil Code and the Statutes of Gedeon Richter Plc. (hereinafter: the Company), following its rules of procedure and work plan. There was no change in the composition of the SB in 2016.
The SB proceeded in accordance with its Rules of Procedure. In addition to discharging its duties in keeping with the relevant statutory provisions the SB worked in the areas identified in its regularly updated annual work plan determined for the period between AGMs. It discussed the subjects on its agenda.
It held nine meetings in the interval between the Annual General Meetings. All the meetings convened had a quorum, and none of the meetings previously scheduled and announced were cancelled; some of the items on the agenda were reshuffled. The SB's Rules of Procedure allow adaptation to the changing economic environment and flexible management of the changes in the Company and its business – a possibility which the SB fully utilized.
Pursuant to the relevant legal regulations, the Company's Statutes and the Corporate Governance Recommendations of the Budapest Stock Exchange, the key responsibility of the SB as a body of ownership control is to supervise the Company's finance and to examine the risk factors affecting it. By doing so, the SB wishes to help the owners form a judgement of the Executive Management's performance.
The SB finds that during its operation it has never encountered any actions that were in conflict with legal regulations, the Company's Statutes or any AGM Regulation, or with the Company's and the shareholders' interests.
It is to be noted that the Executive Management helped the supervisory activity of the SB in every possible way by providing the requested information in time and fulfilling its statutory obligation under the Companies Act to disclose information regularly. The Executive Management provided all the conditions required for the SB's undisturbed operation.
In addition to overseeing the Company's finance, the Supervisory board also discussed the Company's and Richter Group's annual Business Plan and the issues affecting their future in the short and long run. It also attached high priority to looking at the main actions that would have to be taken to implement such long term goals.

1.1.1 Key issues addressed by the Supervisory Board in 2016

In compliance with the legal regulations, the SB discussed each of the quarterly reports and achievements. It also deliberated on all the significant documents and business policy reports that had been submitted to the AGM. It discussed the 2017 business plans of the parent company and of Richter Group (including the consolidated plans), the interim balance of 31.08.2016, the Financial Statements and the Consolidated Financial Statements for 2016, as well as the Report on Corporate Governance the Independent Auditor's Report, and the annual report of the Audit Board.
While discussing the quarterly reports, CEO Mr. Erik Bogsch and Deputy CEO Dr. Gábor Gulácsi gave an account of not only the relevant past events but also outlined the challenges that the Company would have to face amidst the current economic

environment. Assessment of the risks associated with economic events and the Company's responses were highlighted on several occasions. The SB found that the reports and accounts were informative and of a high standard, and acknowledged them.

In accordance with its work plan prepared for the period between the AGMs, among the many issues that affect the Company's efficiency and future in the short and long run, in 2016 the SB discussed the following issues: Richter Group's manufacturing companies; Environmental protection; Wages and benefits policy; Biotechnology portfolio, product launches and partnerships; Components of Richter share price and factors affecting them; Current issues of risk assessment, achievements and tasks; Activity of the Audit Department; Proprietary research; Sales network and achievements in Latin America and China.

Preparation and presentation of the topics was of a high standard; in terms of their content, they supported trustworthy assessment of the situation and drawing reliable conclusions. Having listened to the presentations the SB discussed and evaluated the proposals in detail. Responses to the questions were acknowledged and the proposals were approved and the related resolutions were passed, taking into consideration the evaluations and proposals. Some of the topics discussed will be presented in more detail in Section 1.2.1.

The Chairman of the SB personally attended the Board of Directors meetings, therefore the SB was always represented.

1. 1 2 Presentation of the Audit Board's operation

Pursuant to Act V of 2013 on the Civil Code (hereinafter: Civil Code), the Annual General Meeting elected the Audit Board (hereinafter: AB) consisting of three members from among the independent members of the SB.
The AB determined its Rules of Procedure in compliance with the provisions of Section 3:291 of the Civil Code, Section 3:289 of the Civil Code on corporate governance, and Article 16 of the Company Statues.

Under the Civil Code and the Company's Statutes, the competence of the AB includes the following:

- to give an opinion on the annual report prepared pursuant to the Accounting Act,
- to monitor the audits of the annual report prepared pursuant to the Accounting Act,
- to make a recommendation concerning the person and remuneration of the auditor,
- to prepare the contract to be concluded with the auditor,
- to monitor and implement professional requirements and conflict of interest in respect of the auditor,
- to perform duties related to cooperation with the auditor,
- to evaluate the functioning of the financial reporting system,

- to assist the Board of Directors and the Supervisory Board so as to exercise proper control of the financial reporting system.

In the period since the last AGM the AB discussed and took decisions on the following topics:

1. Discussion and approval of the Interim Balance Sheet and Auditor's Report dated 31 August 2016.
2. Biotechnology portfolio, product launches and partnerships;
3. Liability of audit boards;
4. Discussion and approval of the Report on Corporate Governance.
5. Discussion and approval of the 2016 financial statements, operating report, and the Independent Auditor's Report.
6. Discussion and approval of Richter Group's 2016 consolidated financial statements, operating report, and the Independent Auditor's Report.
7. Discussion and approval of the report to the SB on the AB's activities in 2016.

All AB meetings were attended by all AB members and the meetings had a quorum at all times. None of the meetings previously scheduled and announced were ever cancelled.
Some of the issued discussed and debated by the AB are also discussed and approved by the Supervisory Board under its Rules of Procedure. Such issues include the Annual Financial Reports (Corporate and Consolidated), the related Auditor's Reports and the Interim Balance Sheet and the related Auditor's Report. Considering that the same persons are responsible for presenting such reports, it was deemed expedient and practical to discuss them in a joint meeting with the SB.

1. 2 Brief evaluation of the Company's performance in 2016 and feedback on the Board of Directors' Report to the Annual General Meeting

The Company's main objectives for 2016 were as follows: to expand sales despite a difficult market environment; to retain and improve market shares; and to strengthen the strategy of standing on multiple legs in the market; based on the strategic principles, to shift business to enhance the contribution of high value added products; to expand the gynaecological business; to develop a new original CNS product; and to take further steps in the development of biosimilar products.

The Company made great efforts to achieve these objectives as a result of which in 2016 significant advancement was made in, but not limited to, the following areas:
- Income from sales increased in the U.S. and Chinese markets as well as in the EU, particularly in the EU 15 member states.
On 17 September 2015 the FDA granted marketing authorization, for the United States, of the new CNS proprietary product with cariprazine as the active ingredient; the product has been commercialized in the U.S. from Q1 of 2016 under the name Vraylar™. Besides its long term positive financial impact this event has an obvious significance in terms of industrial history. In August 2016 the new development related to the clinical trial of cariprazine.

In March 2016 the European Medicines Agency (EMA) started assessment of the marketing authorisation of cariprazine for the indication of schizophrenia. In August it was announced that Richter and Recordati signed a license agreement for the commercialisation of the product.
Based on the opinion of the Committee for Medicinal Products for Human Use (CHMP) the European commission granted marketing authorisation for the biosimilar teriparatide product in November 2016. The product was developed by Richter-Helm BioTec and is commercialised by Stada based on a relevant license agreement.
In May 2016 Richter announced the positive results of the Phase III clinical study of ulipristal acetate (Esmya) in the United States.
With a view to expanding its Women's Healthcare portfolio, in June 2016 Richter acquired the Swiss biotechnology firm Finox which launched the first biosimilar r-hFSH product in Europe to treat infertility.
In the context of a HUF 15 billion investment programme Richter is expanding the Debrecen biotechnology plant. The Hungarian state contributes HUF 5 billion.
As another step towards the implementation of its biosimilar strategy, in October 2016 Richter signed an agreement on the technology transfer to manufacture trastuzumab, a monoclonal antibody developed by DM Bio of Korea.
Following the lines of the "specialty pharma" strategy, in 2015 Richter signed a license and commercialisation agreement with Bayer to commercialize Bayer's transdermal contraceptive patch Lisvy. In October 2016 the product had to be withdrawn from the market with immediate effect as Bayer indicated stability problems. Investigation is in progress.
In January 2016 Richter announced buyout of its partner's share in the joint venture company Rxmidas Pharm. Holdings and thus increased its holdings to 100%. As a result, the Company now has full control of the distribution of oral contraceptives and the OTC line in China.
Richter intended to expand its international business through a capital increase in its manufacturing companies and through continued capital investment (with special regard to the Russian subsidiary).

The Company's earnings for 2016:

The Company's after-tax profit was HUF 54,474 million 11.4% lower year-on-year.
With approximately the same turnover the increase in costs of sales and marketing and the negative effect of the different breakdown of one-off items under other income and expenditure are worth mentioning, attenuated by an increase in the profit on financial transaction, up mainly because of favourable exchange rates.
Richter's 2016 income from sales (HUF 283.242 million) was approximately the same as in 2015, with a minimal, 0.4% increase (calculated in HUF; in what follows currencies will only be indicated if there is a difference compared to the item denominated in HUF).
Income realised in the domestic market was 2.7% up year-on-year (HUF 34,840 million) with a market share of 5.4% (and 7.4% in the prescription drugs market). The highest contribution to sales was made by oral contraceptives (8.8%) although sales declined to some extent over 2016; on the other hand, there was a rise in Suprax, Esmya and Vidotin sales.
The company achieved HUF 248,402 million in international markets, approximately the same as in the reference year (0.5% decrease in EUR).

Russia continues to be the Company's most important export market notwithstanding a 9.5% drop in sales in EUR, strongly influenced by the appreciation of the rouble. Denominated in rouble, sales were 2.1% higher led by oral contraceptives, Airtal, Panangin, Verospiron and Esmya; conversely, Diroton and Mydocalm sales decreased In Ukraine trade in EUR increased by 11.3%. The total turnover achieved in the CIS market contributed 41.2% to export, 6.4% down from the 2015 figure.
The turnover realised in the EU increase by 0.6% year-on-year and contributed 37.2% to export. There was 2.5% rise in sales in the EU15 markets significantly contributed by outstanding Esmya sales.
Sales in the United States were 21.6%, and in China 15.9% up from the reference year (resulting from Vraylar™ royalty income and outstanding income from Cavinton sales). There was practically no change in sales in Latin American countries. Sales in the Other countries category were up by 9.7%, with contraceptives generating the highest turnover contributing 5.8%.
Aggregate direct and indirect costs of sales were HUF 11,175 million higher year-on-year.
Direct costs of sales totalled HUF 64,158 million and exceeded the 2015 figure due to an increase in volume and a change in the portfolio of products.
Gross income from sales was HUF 219,084 million, below the reference year figure. The gross margin was down from 78.9% to 77.3%.
Indirect costs amounted to HUF 170,282 million, HUF 6,596 million higher than in 2015. The main items contributing to the increase were increasing promotion and wage costs and rising license fees.
Other income and expenditure had a negative balance of HUF 13,672 million in 2016 compared to HUF +747 million in the reference year. The drop is attributed to a large extent to the absence of milestone incomes in the reference period and the write-off relating to the withdrawal of Lisvy.
Operating profit was HUF 35,130 million, 41.0% down year-on-year.
Net financial income was a profit of HUF 19,680 million in 2016 and HUF 2,669 million in 2015. Financial income was greatly affected by the weakening of the forint against the rouble and the dollar, and its strengthening against the euro.

The above statements are supported with detailed information by the Report of the Board of Directors and the Independent Auditor's Report. Based on a review and discussion of the reports and the experience gained over the year, the SB deems the figures stated in the mentioned documents as justified and reliable.

1. 2 1 Description of the Company's activity in 2016 highlighting some of the key issues addressed by the Supervisory Board in the course of the year

Environmental protection
The SB was updated on the Company's efforts in the field of environmental protection As regards water quality protection, the Company puts a strong emphasis on prevention (e.g. closed technologies and pre-treatment of aqueous phases) as well as on the treatment of waste waters. Every site is complete with a waste water treatment or pre-treatment facility. The effectiveness of water quality protection is indicated by the fact that all discharge values are in compliance with the provisions of the competent authority and the Company has not been levied an environmental fine for many years. In terms of air protection, Richter's most important task is to prevent

the escape of vapour and fumes of the large amounts of solvents used in pharma technologies. The amount of solvent fumes which escaped into the atmosphere in the course of technological operations is well below the limits determined by law. In all of the plants technological steps involving solvents are carried out in closed-system equipment with the application of centrifuges and driers. Escape of air containing solvent fumes is prevented by gas pendulum systems. No problem was registered in the field of waste management. Hazardous wastes are transferred for disposal to multiple contractors thereby reducing disposal costs and enhancing operational safety, as no setback is caused if a contractor drops out. Selective waste collection for staff has proved to be effective; the system has been in operation for years. As regards soil and groundwater protection, decontamination is in progress. Thanks to timely intervention, elimination of contamination is under control and its spread has been prevented. A groundwater monitoring system has been installed to monitor the interventions. Richter complies with the statutory provisions relating to noise control. Ongoing noise control measures are implemented in order to ensure compliance with the relevant regulations; they include low-noise machines and equipment, seeking expert opinion on noise prior to investment projects, and regular noise level measurements. In 2016 all of the Richter units in Hungary were granted an Environmental Management System (KIR) certificate for another three years. The Inspectorate for Environmental Protection conducted a complex audit at Richter's business premises to verify the implementation of obligations contained in the Integrated Environmental Authorisation and the full scope of environmental protection activities of the premises. The audit was concluded with a positive result.

Wages and benefits policy

The SB heard a report on the Company's wages and remuneration policy. The Company's wages and benefits policy is aimed at securing adequate numbers and quality of staff for the implementation of the strategic goals. In 2015 Richter participated in Hay Group's income survey. The findings revealed that in comparison with figures from the pharma industry, basic wages were below, while remuneration was at or above the market median. Based on the results, a decision was made to change the wage structure and raise the rate of the basic wage within remuneration in order to improve the Company's competitiveness. The basic wage raise included incorporation of the language allowance, and determination of the minimum value of the basic wage raise, the latter resulting in a higher-than-average wage raise for employees in the lower basic wage categories; furthermore, a portion of executive and job-related bonuses and of performance bonuses were also integrated into the basic wage. Approximately three hundred degree holder employees received priority wage raise. Extra funds were allocated to raise the wages of employees in jobs requiring secondary level qualifications. Benefits in kind are well above the level extended by other actors within the industry. In 2015 housing loan support and accommodation appeared as parts of the Cafeteria scheme. To assess the impact of these measures Richter will again participate in Hay's upcoming income survey.

Biotechnology portfolio, product launches and partnerships

The SB was updated on the Company's biotechnology activities. Biologic preparations consist of large molecules of complex structures produced predominantly in the form of injectables. The therapeutic application currently focuses on oncology and immunology. The advent of biosimilar drugs can open the door to state-of-the-art treatments for large groups of patients. To give an idea of the status

of the market, in 2015 seven of the top ten best-selling drugs were biotech products. According to market analysts, by 2017 approximately 20% of drug sales will be contributed by biologics with a steadily growing rate of biosimilar products. Not only the development but also the manufacture of biotechnology products is capital intensive. The time frame of a biosimilar development is 7 to 10 years and its costs are between 30-100 million euros (between the costs of original and generic development). there is a significant difference between small-molecule drugs and proteins for biotechnology: while small molecules can be clearly defined, the definition and comparison of proteins are considerably more complicated. Richter took a strategic decision to embark on biosimilar research and manufacturing in 2007. The biotech facilities in operation today include the Budapest development and analytical labs, a pilot plant, the Debrecen mAbs manufacturing plant (with technical standards and technology unparalleled in Central and Eastern Europe), and the bacterial R&D and manufacturing facilities in Germany (RHB, Richter-Helm). Among the biotechnology products, regulatory applications for marketing authorization for microbial fermentation-based pegfilgrastim and teriparatide is pending with the EMA (since the report, teriparatide has been granted marketing authorisation and Richter signed a license agreement with Stada for commercialisation). Several biosimilar monoclonal antibodies are in the state of development relying on fermentation mammalian cell culture technology. In October 2016 Richter and DM Bio of Korea signed an agreement on the technology transfer to manufacture trastuzumab. The Company is facing keen competition in the biosimilar pharmaceutical market with competitors including, for instance, South Korean firms, Amgen, Pfizer, Sandoz and Mylan). A Biotechnology Business Unit was set up in order to enhance efficiency as well as to tighten collaboration and decision-making between organisational units in biotechnology.

Sales network and achievements in Latin America and China

The SB was advised on the Latin American and Chinese sales networks and related achievements. The Company decided to develop a network in the Latin American market in 2013 through acquisitions and establishment of new companies. After successive steps of acquisition Richter now has 100% holdings in Mediplus Group with its headquarters in Curaçao and four affiliated companies in Peru, Chile, Ecuador and Bolivia, and operates it as a financial, administrative, marketing and logistics centre. Its export markets are Central America and the Caribbean. After a two-stage acquisition Richter holds an 80% stake in GR Mexico. The company is specialised in trading. Established by Richter, GR Colombia's structure and operation is similar to those of Richter's European affiliates. GR do Brasil in a joint venture company in which Richter has a 51% majority holding. The company is responsible for the trading of oral contraceptives and the registration of Esmya. Venezuela and Argentina are also part of Richter's market though with no direct presence. The Latin American portfolio focuses on women's healthcare products. The main achievements for 2016 included development of corporate structures, consolidation of management, Esmya launches, registrations, finding Argentinian partners, as well as protection and reinforcement of the portfolio. The 2016 Esmya sales amounted to USD 1.3 million (Mexico being the pull country), and total sales were at USD 13.4 million with increase expected in Colombia and from Mediplus Group.

By 2013 China grew to be the second largest pharmaceutical products market of the world with a current growth rate of about 6%. The main feature of the Chinese market is a huge (almost two-thirds) hospital segment and relatively small but growing usage

by pharmacies. Forecasts suggest the growth rate continues to exceed the global market average and will be strong in both the branded and the generic segment, and price erosion will be slow due to a price regulation based on bids. A big obstacle for foreign pharma manufacturers is the excessively long licensing and launch period. Cavinton is the most outstanding product in Richter's portfolio. Bromocriptin, Panangin and Plan B contraceptives are also strong. Over the past few years Richter's market growth has been above the global growth rate. The Company started its business in China in the 1990s and opened a representative office in 1996. It signed a sales and marketing support contract with MedMidas Group in 2006. In 2012 Richter took the first step towards controlling the prescription drugs business through a series of acquisitions, which led to 100% ownership in Rxmidas in Q1 of 2017. Richter also bought out its partners in OTC JV and secured 100% holding in the Chinese company.

1. 2. 2 Summary and the Supervisory Board's recommendation to the Annual General Meeting

The documents supporting the 2016 Board of Directors Report to the Annual General Meeting and the Independent Auditor's Report were reviewed and discussed by the SB. Based on those and the information gained during the year, the SB was in a position to judge the figures and statements set out in the reports. We hereby present the following summary report, as jointly agreed by the Committee, and a unanimous opinion of the SB to the distinguished members of the General Meeting.

The Company's 2016 income from sales (HUF 283,242 million) was approximately the same as the 2015 figure. The domestic market was 2.7% up. Russia continues to be the most important export market with a turnover down by 9.5% in euro (mainly due to the devaluation of the rouble), and 2.1% up in rouble. The total turnover realised in the CIS market was 6.4% down and contributed 41.2% to total export. The turnover achieved in the EU increased by 0.6% year-on-year and contributed 37.2% to export. Sales in the EU15 region were 2.5% up in euro. Sales in the United States were 21.6%, and in China 15.9% up from the reference year (resulting from Vraylar™ and Cavinton sales). There was practically no change in sales in Latin American countries. Sales in the Other countries segment increased by 9.7%. Mention should be made of the substantial income generated by oral contraceptives and Esmya.
Aggregate direct and indirect costs of sales were HUF 11,175 million higher year-on-year.
Other income and expenditure had a negative balance of HUF 13,672 million as opposed to a positive balance in the reference year (absence of milestone income and Lisvy recall).
Operating profit was HUF 35,130 million, 41.0% down year-on-year.
Net financial income was a profit of HUF 19,680 million in 2016 as opposed to HUF 2,669 million in 2015, mainly as a result of favourable exchange rate movements.
The Company's after-tax profit was HUF 54,474 million 11.4% lower year-on-year. The increase in costs of sales and marketing and the negative effect of the different breakdown of one-off items under other income and expenditure are worth mentioning, attenuated by an increase in the profit on financial transactions.

The Company fulfilled its obligations at all times to the state, the banks, authorities and its partners in the market and elsewhere. It had a well-balanced financial status throughout the year.
The SB agrees with the contents of the Company's Annual Financial Report for 2016 and the statements made in the Independent Auditor's Report. Hence, it proposes the Company's 2016 Balance Sheet, Income Statement, Notes and Annual Report, with their truthfulness and compliance confirmed by the independent auditor, to the distinguished members of the General Meeting for approval.

2. Proposals for the approval of the 2016 Annual Report

2. 1 Proposal for the appropriation of Gedeon Richter Plc's Balance Sheet and after-tax profit for 2016

Based on the Company's audited Annual Financial Statement for 2016 submitted to the Annual General Meeting, the analysis and Auditor's Statement issued by the auditor PricewaterhouseCoopers Ltd., and the SB's own analysis, the Supervisory Board proposes that the distinguished members of the Annual General Meeting approve the following:

- The Annual Financial Report for 2016 submitted to the AGM (with total assets and total liabilities in the Balance Sheet being equally HUF 782,005 million), duly audited in compliance with the Accounting Act;
- The after-tax profit specified in the audited Profit and Loss Statement for 2016 (before dividend payment) being HUF 54,474 million.

2. 2 Proposal for the appropriation of Gedeon Richter Plc.'s 2016 after-tax profit to pay dividend, and to transfer the balance sheet profit to retained earnings

The proposals made by the Board of Directors are approved and supported by the Supervisory Board.

Hence, the Supervisory Board makes the following proposals to the distinguished members of the Annual General Meeting:

- To approve the payment of 106% dividend, i.e. HUF 106 on each ordinary share;
- Having paid the above dividends, to transfer the remaining part of the after tax profit (defined as balance sheet profit in accordance with the relevant statutory provisions) to retained earnings.

Budapest, 22 March 2017

Dr. Attila Chikán
Chairman of the Supervisory Board

8.

Resolution on the determination and allocation of the 2016 after-tax profit declaration of dividends for the 2016 business year on the common shares

Proposal to Item No.:8
on the Agenda of the AGM

Resolution of the Board of Directors No.: 30/2017

The Board of Directors proposes to the AGM to state HUF 106 as a dividend relating to the common shares (which is equal to 106% of the face value of the common shares) and approve the payment.
The Board of Directors proposes to the AGM to approve that the total amount remained after the payment of the stated dividend shall be deposited into the accumulated profit reserves of the Company.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

9.

Approval of the 2016 draft individual Annual Report of the Company prepared in accordance with the Hungarian Accounting Act, including the 2016 Balance Sheet

Proposal to Item No.:9
on the Agenda of the AGM

Resolution of the Board of Directors No.: 31/2017

The Board of Directors proposes to the AGM to approve the Company's draft 2016 individual annual report in accordance with the Hungarian Accounting Act, including the 2016 balance sheet.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

10.

Corporate Governance Report

DRAFT !!!

RICHTER GEDEON

Report on Corporate Governance[1]

In order to comply with international and domestic legal and regulatory requirements and the highest ethical standards in all of its operations Gedeon Richter Plc. is committed to developing and maintaining a corporate governance system. This commitment is highlighted by the practice of transparent and efficient differentiation of the rights and responsibilities of the General Meeting, the Board of Directors (which has operated two subcommittees since 2004, the Corporate Governance and Nomination Subcommittee and the Remuneration Subcommittee), the Supervisory Board, and the Executive Management.

The corporate governance system and practice developed and applied by Richter is in keeping with the Corporate Governance Recommendations of the Budapest Stock Exchange as well as with the stock market regulations currently in force. The Company reviews its corporate governance principles from time to time to keep abreast with continuously evolving international practice.

The Company's governing bodies:

General Meeting

The supreme body of the Company is the General Meeting, which consists of all shareholders. The Company's Annual General Meeting is convened no later than by the last day of the fifth month of every business year. The Annual General Meeting addresses, among other points on the agenda, the following subjects:

- the Board of Directors' report on the Company's consolidated annual report for the previous business year pursuant to the International Financial Reporting Standards;
- the Supervisory Board's report on the Company's consolidated annual report for the previous business year pursuant to the International Financial Reporting Standards;
- the Auditor's report on the Company's consolidated annual report for the previous business year pursuant to the International Financial Reporting Standards;
- Approval of the Company's consolidated annual report for the previous business year pursuant to the International Financial Reporting Standards;
- the Board of Directors' report on the Company's individual annual report prepared pursuant to the Accounting Act for the previous business year; on the management, the financial situation and the business policy of the Company;

[1] The report concerns the 2016 business year.

Törölt: R

Törölt: prepared pursuant to the Accounting Act

Törölt: presented by the Board of Directors

Törölt: , on the management, the financial situation and the business policy of the Company

Törölt: Board of Directors' report on the practice of corporate governance and on the departures made by the Company in applying the Corporate Governance Recommendations of the Budapest Stock Exchange;

Törölt: 5

- the Supervisory Board's report on the Company's individual annual report for the previous business year prepared pursuant to the Accounting Act, including also the recommendation regarding the appropriation of after-tax profits;
- the Auditor's report on the Company's individual annual report prepared pursuant to the Accounting Act for the previous business year;
- Approval of the Company's individual annual report for the previous business year prepared pursuant to the Accounting Act, including the resolution on the appropriation of the after-tax profits;
- Board of Directors' report on the practice of corporate governance and on the departures made by the Company in applying the Corporate Governance Recommendations of the Budapest Stock Exchange;
- Resolution on the remuneration of elected officers.

Törölt: Comments of the

Törölt: Comments of the

Törölt: , including also the recommendation regarding the appropriation of after-tax profits;

Törölt: also the decision

Törölt: regarding

Törölt: - . Approval of the consolidated report in line with IFRS;

The Company shall publish the key data of the Company's consolidated annual report for the previous business year pursuant to International Financial Reporting Standards and its draft individual annual report prepared pursuant to the Accounting Act and of the report of the Board of Directors and the Supervisory Board, the total number (proportion) of shares and voting rights at the date of convening the General Meting, including separate summaries of the individual share classes, together with a summary of the proposals relating to the items on the agenda, the supervisory board report on these, and draft resolutions, as well as forms for voting by proxy, on the Company's website at least twenty-one days prior to the annual General Meeting. The Company shall publish the names of the members of the Board of Directors and the Supervisory Board and all monetary and non-monetary benefits granted to these members in this role, detailed by members and legal title to said benefit simultaneously with the notice convening the General Meeting.

The General Meeting is chaired by the Chairman of the Board of Directors or another person previously invited by the Board of Directors to take the chair. The General Meeting shall approve the identity of the chairman of the General Meeting prior to substantive discussion of further items on the agenda and until this has happened the General Meeting cannot make a further substantive decision in respect of the items on the agenda.

Shareholders' rights and treatment of shareholders

All shareholders are entitled to participate in the General Meeting, and to request information and to make observations and to submit motions as set out in the Civil Code.

The Board of Directors shall provide every shareholder who makes a written request with information necessary to enable the shareholder to evaluate items on the General Meeting agenda, so that the shareholder making such request at least eight days before the General Meeting shall receive the requested information at least three days prior to the General Meeting.

At the request of a shareholder the Board of Directors shall grant that shareholder access to the relevant documents and data of the Company. The Board of Directors may decide that it will disclose information or grant access to documents on condition that the requesting shareholder makes a written declaration of confidentiality. The Board of Directors may refuse to disclose information or to grant access to documentation or data if its dissemination would compromise the business secrets of the Company, if the shareholder abuses this right or does not make a declaration of confidentiality after being requested by the Board of Directors. If

the shareholder finds that the refusal of his request is unfounded, then he may request the Court of Registration to compel the Company to provide the requested information.

Shareholders may practise their rights after entitlement verification by way of the identification procedure. No certificate of ownership is required for the practice of shareholders' rights. The date of registration in the Share Register shall be the same as the date of the identification of ownership.

At the General Meeting, shareholders' rights can be exercised by means of the voting card. The voting card shall contain the name of the shareholder or the shareholder's representative and the number of votes to which he is entitled to. The Company shall only issue a voting card to a shareholder or shareholder's representative who is registered in the Share Register as the owner of the shares or as the shareholder's representative, or in case of jointly owned shares, as joint representative.

Shareholders may exercise their rights at the General Meeting through an authorized representative. Representatives may obtain voting cards if they present authorization contained in an official deed or private deed of full probative value to the Company at the place and time indicated in the announcement regarding the General Meeting.

The name of a shareholder or shareholder's representative who wishes to participate in the General Meeting shall be recorded in the Share Register by the second working day preceding the first day of the General Meeting.

Only those shareholders may exercise their rights at the General Meeting who are the owners of the shares on the reference date for the identification of ownership and whose names are contained in the Share Register on the second business day before the first day of the General Meeting. The keeper of the Share Register shall ensure the possibility of exercising of the right of registration until 6.00 PM (Budapest time) on the second business day before the first day of the General Meeting.

Every share of nominal value HUF 100 shall entitle its holder to one vote. At general meetings a shareholder may not exercise voting rights on his own account or as a representative of another shareholder, alone or in concert with affiliated persons, in excess of twenty-five percent (25%) of the voting rights attached to the shares by shareholders present or represented at the General Meeting. A shareholder shall not be entitled to exercise voting rights prior to having effected full payment of its contribution in cash.

Shareholders are entitled to receive a share of the Company's profits that are distributable and where a dividend is declared by the General Meeting. Such dividend shall be in proportion to the number of nominal shares held by the shareholder (right to a dividend). However, dividends with respect to treasury shares shall be divided to shareholders entitled to dividends, payable in proportion of the nominal value of their shares. Shareholders that have been registered in the Share Register as a result of the identification of ownership prepared on the reference date established and announced by the Board of Directors regarding the payment of dividends are entitled to dividends. The date relevant with respect to the entitlement to dividends established by the Board of Directors may differ from the date of the General Meeting adopting the resolution for the payment of dividends.

In the event of termination of the Company without legal successor, the shareholder shall be entitled - based on the payments and in-kind contributions made by the shareholder for the

shares - to a proportion of any remaining assets of the Company following the satisfaction of creditors. Such proportion of the remaining assets shall be distributed to the shareholder in proportion to the ratio of the nominal value of its shareholding in the Company's registered capital and the total registered capital of the Company (proportional right to liquidation assets).

The Board of Directors

The Board of Directors of Gedeon Richter Plc. is the ultimate decision making body of the Company in matters other than those that are within the exclusive remit of the General Meeting.

Increasing value for shareholders, profitability, enhancing efficiency and transparency of operation and providing the conditions for environmental protection and safe operation as well as good shareholder relations based on consistent information are priority considerations and goals for the Board of Directors.

The structure, remit and operation of the Board of Directors

Pursuant to the Company's Statutes the Board of Directors is made up of at least three and not more than eleven members. Members of the Board of Directors are elected by the General Meeting for a definite term of not more than five years. Currently the Board of Directors consists of eleven members, seven of whom are independent. The Company applies the criteria of independence of the Civil Code. The Company's Managing Director is a member of the Board of Directors. Separation of the office of chairman of the Board of Directors and the Managing Director is a key aspect of corporate governance; the chairman of the Board of Directors is always elected from among the external (independent) members. The Board of Directors elects its chairman and deputy chairman from among its members.

Törölt: eight

Chairman of the Board of Directors: William de Gelsey
Members of the Board of Directors: Erik Bogsch
János Csák
Dr. Gábor Gulácsi
Dr. László Kovács
Csaba Lantos
Christopher William Long
Dr. Gábor Perjés
Dr. Csaba Polacsek /until January 11, 2016/
Dr. Norbert Szivek /from April 26, 2016/
Prof. Dr. Szilveszter E. Vizi
Dr. Kriszta Zolnay

Törölt: 2

A detailed introduction of the members of the Board of Directors and their independent status is available on the Company's website at www.richter.hu.

The business activity of the Company is controlled by the Board of Directors in accordance with the Company's Statutes, the resolutions of the General Meeting and the relevant effective legal regulations. The Board's remit includes review and approval of the Company's future outlook, strategic principles and programmes, and its transactions beyond the

boundaries of regular business. It monitors and regularly evaluates the Company's performance and the management's operation. It selects and contracts the Managing Director; it evaluates the Managing Director's performance and determines the Managing Director's remuneration. It ensures compliance with the statutory provisions and the Code of Corporate Ethics.

The Board of Directors acts and passes resolutions as a body. The Board of Directors keeps minutes of its meetings and its resolutions are documented. Besides the recurrent items on its agenda the Board discusses and evaluates the performance of each of the key business segments.

In 2016 the Board of Directors held twelve (12) meetings with an average attendance rate of 89.19 %.

Törölt: 5
Törölt: ten
Törölt: 10
Törölt: 95.45

The Board of Directors has the quorum required for decisions on the merit of matters if at least two-thirds but at least three of its current members are present. The current number of members shall mean the number of members in office at the given time. If the Board does not have a quorum when it is first called, the Chairman shall call a repeated meeting for a date within three days from the original date. The reconvened meeting shall have a quorum if the majority of, but not less than three, members of the Board are present. The Board of Directors shall pass its resolutions by simple majority.

Pursuant to the resolution of the Annual General Meeting of 26 April, 2016 the remuneration of the Chairman of the Board of Directors was set at HUF 625,000.00 per month and that of the members of the Board of Directors at HUF 520,000.00 per month.

Törölt: 28 April 2015

Subcommittees of the Board of Directors

In order to improve efficiency of decision-making processes the Board of Directors set up two subcommittees in 2004. The subcommittees consist of at least three Board members. The members of the subcommittees are elected by the Board for a term equal to the member's term on the Board. The duties of the subcommittees are determined by the Board of Directors.

Törölt: independent
Törölt: chairmen and

The following subcommittees are in operation:

Corporate Governance and Nomination Subcommittee

The Corporate Governance and Nomination Subcommittee consist of three independent members not employed by the Company.

Chairman:	Christopher William Long (until November 28, 2016) Prof. Dr. Szilveszter E. Vizi (from November 28, 2016)
Members:	János Csák Dr. Gábor Perjés
Permanent invitee:	William de Gelsey, Chairman of the Board of Directors

Within its sphere of competence the Corporate Governance and Nomination Subcommittee

- makes proposals to the Board of Directors on the number and composition of the Board of Directors and the Supervisory Board in accordance with needs as they arise, and makes proposals on the requirements of independence, qualification and professional experience of proposed candidates;
- prepares decisions of the Board of Directors on candidates for the Board of Directors and the Supervisory Board by recommending suitable candidates and by evaluating candidates proposed by the shareholders' representatives;
- monitors the implementation of the approved principles of corporate governance, prepares annual reports to the Board of Directors, and proposes necessary changes and additions to them.

The Corporate Governance and Nomination Subcommittee acts and makes decisions as a body. The Subcommittee keeps minutes of its meetings and its decisions are recorded.

In the 2016 business year the Corporate Governance and Nomination Subcommittee held two (2) meetings with an average attendance rate of 83.33%.

Törölt: 5
Törölt: three
Törölt: 3
Törölt: 88.88

Remuneration Subcommittee

The Remuneration Subcommittee consists of three members. The majority of the members of the Subcommittee are independent, not employed by the Company.

Chairman: Prof. Dr. Szilveszter E. Vizi (until November 28, 2016)

Members: Csaba Lantos
William de Gelsey
Dr. László Kovács (from November 28, 2016)

Within its sphere of competence the Remuneration Subcommittee

- evaluates experiences related to the remuneration system of members of the Board of Directors and the Supervisory Board, and makes proposals as to its amendment taking into consideration the relevant effective legal regulations;
- makes proposals to the Board on the evaluation of the performance of the Managing Director and his remuneration.

The Remuneration Subcommittee acts and makes decisions as a body. The Subcommittee keeps minutes of its meetings and its decisions are documented.

In the 2016 business year the Remuneration Subcommittee held two (2) meeting with an average attendance rate of 100%.

Törölt: 5
Törölt: two
Törölt: 2

Division of responsibilities and duties between the Executive Management and the Board of Directors

The Executive Management is responsible for management and control of the Company's operative activities. The chairman of the Executive Management is the Managing Director of the Company. The Board of Directors shall charge one of its members with the duty of controlling the operative activities of the Company in the capacity of Managing Director for a period determined by the Board of Directors. Except for the rights assigned to the General Meeting, the employer's rights over the Managing Director shall be exercised by the Board of Directors.

The Executive Management is a forum for the preparation of decisions, where all members have the right and obligation to provide an opinion. Based on the opinions of the members of the Executive Management the final decision shall be made by the Managing Director or the Board of Directors, depending on their competence.

As set out by the Statutes the Board of Directors shall determine the remit of the Managing Director and shall approve the Company's Rules of Organization and Procedure. The Board of Directors may assign any of its powers related to day-to-day management to the Managing Director with terms and conditions as its discretion, and may from time to time revoke or change all or any of the powers so assigned; however, the assignation shall not affect the liability of the Board of Directors.

Under the Rules of Organization and Operation the Managing Director may assign some of his duties relating to the Company's internal administration to the Company's officers and employees by means of job descriptions, or by general or ad hoc orders. The Managing Director is competent to make decisions on any issues that are not within the sphere of competence of the General Meeting or the Board of Directors. The Managing Director may exercise and delegate employer's rights in respect of employees within the scope of and in such manner as defined in Annex B of the Company's Statutes and in the Company's Rules of Organization and Procedure.
The Managing Director makes decisions regarding the evaluation and remuneration of the work of the Executive Management in the context of the annual plan and the bonus system. The Board of Directors makes decisions regarding the evaluation and remuneration of the work of the Managing Director in the context of the annual plan and the bonus system and on the basis of the proposal of the Remuneration Subcommittee.

Members of the Executive Management:

Erik Bogsch	- Managing Director
Dr. Gábor Gulácsi	- Deputy Managing Director of Finance
Lajos Kovács	- Technical Director
András Radó	- Deputy Managing Director of Production and Logistics
Gábor Orbán	- Director of Corporate Strategy /from September 5, 2016/
Dr. István Greiner	- Director of Research
Dr. György Thaler	- Director of Development

Töröit: Sándor Kováts - Director of Commercial Services (died in 2015)¶

A detailed introduction of the members of the Executive Management is available on the Company's website at www.richter.hu.

Conflict of interest and independence

In order to avoid conflict of interest of members of the Board of Directors and of the Executive Management in their relations to third parties the employment contract of members of the Executive Management prohibits employment or other legal relationship of a similar nature with an undertaking of a similar profile. Members of the Board of Directors and of the Supervisory Board shall make a declaration of no conflict of interest between their elected position and their other commitments upon their election. The Company applies the criteria of independence provided by the Civil Code in respect of members of the Board of Directors and of the Supervisory Board.

Supervisory Board

Pursuant to the Company's Statutes the Supervisory Board is made up of at least five and not more than nine members. Members of the Supervisory Board are elected by the General Meeting for a definite term of not more than three years.

Based upon the Statutes, as long as the number of the Company's full time employees exceeds a yearly average of two hundred, employees shall participate in the control of the Company's activities through the Supervisory Board. In such case, one third of the members of the Supervisory Board shall be comprised of the employees' representatives. In the event of a number indivisible by three, such third shall be calculated in such manner as to be more favourable to the employees.

Currently the Supervisory Board consists of five members. Two of its members represent the employees and the remaining three members are independent (external) persons.

Chairman of the
Supervisory Board: Dr. Attila Chikán

Members of the
Supervisory Board: Prof. Dr. Jonathán Róbert Bedros
Mrs. Tamásné Méhész
Dr. Éva Kozsda Kovácsné (employees' representative)
Mrs. Klára Csikós Kovácsné (employees' representative)

Törölt: Jenő Fodor (employees' representative) /until April 28, 2015/¶

Törölt: Gábor Tóth (employees' representative) /until April 28, 2015/¶

Törölt: /since April 28, 2015/

Törölt: /since April 28, 2015/

A detailed introduction of the members of the Supervisory Board and their independent status is available on the Company's website at www.richter.hu.

The Supervisory Board monitors the operations of the Company. The Supervisory Board holds meetings regularly in accordance with the relevant legal regulations and its agenda, passes resolutions on the topics determined in its work plan, and takes action whenever the Company's operative activity so requires. The Supervisory Board keeps minutes of its meetings and its decisions are recorded.

Within its remit the Supervisory Board submits proposals to the Board of Directors, discusses the Company's strategy, financial results, capital expenditure policies, and internal control, risk management and audit systems. At its meetings the Supervisory Board receives regular and suitably detailed information about the Company's management. The Chairman of the

Supervisory Board is entitled to participate in the meetings of the Board of Directors with the right to give advice.

In the 2016 business year the Supervisory Board held nine (9) meetings with an average attendance rate of 95.55 %.

Törölt: 5
Törölt: ten
Törölt: 10
Törölt: 96

The Supervisory Board shall have a quorum if at least each of its members has been duly invited thereto and at least two-thirds, but at least four members are present. The reconvened meeting originally adjourned due to the absence of a quorum shall have a quorum if at least three (3) members of the Supervisory Board - in the ratio defined in Section 16.8 of the Statutes - are present. The Supervisory Board shall pass its resolutions by simple majority of those present.

At the Annual General Meeting of April 26, 2016 the remuneration of the Chairman of the Supervisory Board was set at HUF 460,000.00 per month and that of the members of the Supervisory Board at HUF 375,000.00 per month.

Törölt: 28 April 2015

Audit Board

The Company has an Audit Board consisting of three members. Its members are elected by the General Meeting from among the independent members of the Supervisory Board. At least one member of the Audit Board shall have a professional certificate in accounting or auditing.

Members of the Audit Board: Dr. Attila Chikán
Prof. Dr. Jonathán Róbert Bedros
Mrs. Tamásné Méhész

The Audit Board is responsible for the supervision of the Company's internal accounting rules. Accordingly, the remit of the Audit Board includes the following:

- to give an opinion on the Company's consolidated annual report for the previous year pursuant to the International Financial Reporting Standards;
- to give an opinion on the Company's individual annual report prepared pursuant to the Accounting Act for the previous business year;
- monitoring the statutory audit of the consolidated and the individual annual report;
- making a recommendation concerning the person and remuneration of the auditor;
- preparation of the contract to be concluded with the auditor;
- monitoring compliance with the qualification requirements, regulations on conflict of interest and independency on the part of the auditor, discharging the duties relating to cooperation with the auditor, monitoring other services provided by the auditor to the company besides the auditing of the consolidated and individual annual reports, and - where necessary - tabling recommendations to the Supervisory Board for taking measures;
- analysis of the financial reporting system and making recommendations when any action is deemed necessary;
- assisting the work of the Supervisory Board so as to exercise proper control of the financial reporting system as well as
- monitoring the effectiveness of the company's internal control and risk management.

Törölt: prepared pursuant to the Accounting Act

Törölt: prepared pursuant to the Accounting Act

The Audit Board acts and makes decisions as a body. The Board keeps minutes of its meetings and its decisions are recorded.

In the 2016 business year the Audit Board held two (2) meetings with an average attendance rate of 100%.

Törölt: 5
Törölt: four
Törölt: 4

Internal controls and risk management system of the Company

Richter considers risk management a tool of effective corporate governance. Our goal is to identify, understand and assess risks in a timely fashion and to take steps to manage them. Evaluation of internal controls is part of risk assessment; hence the risk assessment function supports the Company in maintaining more efficient internal control mechanisms.

Richter's position is that it is impossible to devise a uniform system for all aspects of risk management; consequently, we rely on the meetings of the Company's various bodies in risk related decision-making and trust the skills, experience and judgment of our decision-makers in the implementation of internal requirements and rules.

Accountability and controls related to risk management:

- The Board of Directors shall be responsible for the overall control and supervision of Richter's risk management. In this context, the Board of Directors holds the Executive Management accountable for the identification of major areas of exposure, develops the key risk management requirements together with the Executive Management, and requires regular information about the efficiency of related risk management and internal control procedures.
- The Executive Management shall report to the Board of Directors regarding the implementation of risk management procedures and is ultimately responsible for risk management. The duties and responsibilities of the Executive Management shall also cover the development and maintenance of internal controls that ensure the management of exposures arising from the Company's operation and help achieve the Company's goals.
- Management of strategic risks is the direct responsibility of the Executive Management.
- The various functional areas are responsible for operating and compliance risk management in their particular areas. The risk management efforts of the heads of functional areas are supported by the meetings of the Company's bodies. The heads of the functional areas report to the Executive Management about risks in their particular areas in the context of the Company's internal reporting function.
- Financial risks are managed by the financial control function in a centralized fashion.
- The main elements of the Company's audit system are the audit by department leaders, appliance of process integrated controls, the activity of internal audit made to be independent and of external auditors.
- The Audit Department executing the internal audit made to be independent conducts independent and objective assessment of the suitability of the internal controls system for efficient risk management. The assessment is performed on the basis of approved annual plans. When drawing up the annual plan the Audit Department shall take into

consideration the Company's exposures (based on importance and rotation) as well as the proposals of the Executive Management.

- Risk management, internal controls and corporate governance functions shall be evaluated annually in the context of the Annual Report.

Statutory Auditor

In 2016 Gedeon Richter Plc.'s statutory Auditor was **PricewaterhouseCoopers Könyvvizsgáló Kft.** The individual auditor in charge appointed by the Auditor company, as responsible for fulfilment of tasks of the Auditor was Ms. Szilvia Szabados, member of the Hungarian Chamber of the Auditors.

In accordance with its contract, PricewaterhouseCoopers Könyvvizsgáló Kft. audits the Company's individual Annual Report prepared pursuant to Act C of 2000 on Accounting, and the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS, earlier IAS).

The audit of the financial statements mentioned above was conducted in accordance with the Hungarian Auditing Standards, the International Standards of Auditing (ISA) and the Accounting Act and other statutory provisions relevant to auditing.

The Statutory Auditor ensures continuity of auditing through regular on-site work and participation in meetings of the Board of Directors and the Supervisory Board, and through other forms of consultation. In addition, the Auditor reviews the Company's quarterly reports to BSE.

Pursuant to the resolution of the Annual General Meeting of 26 April 2016 the remuneration of the Statutory Auditor for the 2016 year is HUF 19,000,000.00 + VAT, which includes the fee for the auditing of the 2016 annual report in accordance with the Hungarian Accounting Act, the fee for examining the consonance between the non-consolidated annual report and business report for 2016, the fee for the auditing of the 2016 consolidated report and business report prepared in accordance with IFRS accounting principles, the fee for reviewing the quarterly reports serving the purpose of informing the investors and sent to the BSE (Budapest Stock Exchange) and the MNB (Central Bank of Hungary), and the fee for auditing the Company's interim financial statement, which shall be completed on the accounting date of August 31, 2016 in accordance with the Hungarian Accounting Act.

With the approval of the General Meeting, the business organization appointed as Auditor has audited the Company's financial statements prepared according to the Hungarian Accounting Act and also audited the Company's financial statements prepared according to the International Financial Reporting Standards.

Shareholder relations

The official formal contacts with shareholders include the annual reports and financial statements, the quarterly reports published through the Budapest Stock Exchange and other announcements. In addition, shareholders receive information about the Company's business, results and strategies at the Annual General Meeting. The Company organizes roadshows for

investors to inform shareholders and Global Depository Receipt (GDR) holders based in the United States, the United Kingdom and in all parts of Continental Europe. During the year investors may contact the Company with their inquiries and may put questions and make proposals at the General Meeting.

The Company's Investor Relations Department is responsible for coordinating the above activities. The Share Registration Department focuses primarily on small shareholder relations. In order to promote efficiency of information the Company designates special pages to issues of interest to shareholders and financial stakeholders on its website www.richter.hu.

The Company's disclosure practices

In accordance with the statutory provisions in force and the Regulations for Listing, Continued Trading and Disclosure of the Budapest Stock Exchange, the Company publishes its announcements and disclosures as well as its regular and extraordinary information on the website of the Budapest Stock Exchange (www.bet.hu), the website dedicated to capital market disclosures managed by the National Bank of Hungary (www.kozzetetelek.hu), and on the Company's own website (www.richter.hu), as well as in the Hungarian Companies Journal. The invitation to the General Meeting is also published in The Financial Times in addition to the above. Accordingly, the Company publishes quarterly reports and, following conclusion of the business year, an annual report, and provides extraordinary information in cases where it becomes aware of actual or expected changes in its business that may directly or indirectly affect the value or yield of its shares, or that are material for market players for making investment-related decisions. In addition, the Company's Investor Relations Department keeps in touch with investors on a regular basis.

The Company' policy regarding insider trading

The persons deemed to be insider regarding the Company shall be defined based upon the rules of 596/2014/EU Regulation. The Company has developed regulations on the prohibition of insider trading as provided by law.

Törölt: Act CXX of 2001 on the Capital Market Act

Törölt: defines insider persons

Törölt: ¶
The Company considers persons as insiders according to Sec. 201. (2) of the Capital Market Act.¶

Code of Ethics

In the course of 2016, the Company reviewed and amended its Code of Ethics as an elemental part of its Global Compliance Program. The Code of Ethics provides for the conduct expected of the Company's employees in subordinate positions and for the higher levels of conduct demands on executive staff. It also sets guidelines on communications within the Company and on relations between the Company and its business partners.

Törölt: The Company has a Code of Ethics.

Corporate Social Responsibility

The Company has a diverse commitment to its immediate environment and to society at large, and so feels it has a duty to support community goals as much as possible, both independently and together with other organizations. Richter is convinced that it must play a role in the areas

in which it is active. The Company is a committed sponsor of health care and education, which includes the training of chemists, pharmacists and doctors. Numerous cooperation agreements provide assistance to the research and educational activities of universities that offer training in the natural sciences. The Gedeon Richter Foundation for Hungarian Health Care provides support for Hungarian health care. The Company takes part in programmes in Hungary that help people achieve a greater understanding and awareness of particular health problems. This purpose is also served by the Richter Health City programme begun in 2009, whose end-of-year "health profit" in 2015 was support for 47 hospitals, which was allocated for improving their equipment.
As a major company in gynaecology, Richter embraces the psychological and social well-being of women as part of its social responsibility, as a result of which it devotes particular attention to supporting programmes that are of value to women. The Company launched its "Richter for Women Programme" in 2010. This includes the Mum Theresa project, a major part of which is the Richter Golden Mum award. A new component was added to the programme in 2015: the "Good to be a Woman" movement, which is aimed at recognizing women and boosting their self-esteem.
In 2015 the Company received the 2014 Medicine of the Year Award for its product for the treatment of uterine fibroids. It was honoured as the Figyelő Medicina TOP Outstanding Pharmaceutical Company of 2015 for its exceptional performance in health care. In 2015, for the second year running, Richter won the Most Attractive Employer Award in the pharmaceutical and chemical industry category.
Every two years – the last time being in 2014 – the Company issues a Sustainability Report, which describes the environmental and safety activity of Richter's manufacturing subsidiaries as well as their social responsibility.

The Company is committed to making future generations healthier through its activity.

Environmental awareness

Compliance with health, safety and environmental regulations is a priority for Richter, therefore the Company strictly observes the statutory provisions relevant to these areas in all of its operations. Gedeon Richter Plc. is convinced that efficient and successful production is the basis of preserving its employees' health, creating a safe working environment, and protecting the environment.

Economic development and operations which take into consideration the state of our environment and social expectations and are pursued in possession of government permits and in compliance with their provisions – in brief, this is Richter's environmental protection strategy. The Company complies with Hungarian and international environmental laws and regulations and has held an Integrated Pollution Prevention Control (IPPC) licence since 2004. With a view to continuously improving its environmental performance, the Company operates an Environmental Management System according to ISO 14001; its system has been awarded an internationally valid environmental certificate since 2001.

Gedeon Richter Plc. believes it is important to make its environmental efforts and achievements known to everybody interested. From 2001 to 2004 Gedeon Richter Plc. provided information in annual environmental reports. Since 2005 the Company has provided information on environmental protection to the authorities and general public in its regular Sustainability reports.

Budapest, 22 March, 2017

Törölt: 26 April, 2016

.....	.....
Member of the Board of Directors, Member of the Corporate Governance and Nomination Subcommittee	Member of the Board of Directors, Member of the Corporate Governance and Nomination Subcommittee

Törölt: William de Gelsey

Törölt: Dr. Gábor Perjés

Törölt: Chairman

CORPORATE GOVERNANCE DECLARATION

on Compliance with the Corporate Governance Recommendations of the Budapest Stock Exchange Ltd.

The Board of Directors of **Chemical Works of Gedeon Richter Plc.** (1103 Budapest, Gyömrői út 19-21., Register of Companies No.: 01-10-040944) (the "Company") makes the following declaration and provides the following information on behalf of the Company:

Level of compliance with the Recommendations

R 1.1.1
The Managing Body ensured that shareholders received access to information in time to enable them to exercise their rights.

Yes

R 1.1.2
The company applies the "one share – one vote" principle.

No. Each share of HUF 100 nominal value entitles to one vote. Under the Company's Statutes the maximum level of voting rights which may be exercised by a single shareholder independently or as a proxy or jointly with one or more person(s) shall be twenty-five percent (25%) of the total voting rights represented by the shareholders or their proxies attending the General Meeting.

R 1.2.8
The company ensures that shareholders must meet the same requirements in order to attend at the general meeting.

Yes

R 1.2.9
Items on the general meeting agenda only include matters that are correctly detailed and summarized clearly and unambiguously.

Yes

The draft resolutions included the proposals of the Supervisory Board and a detailed explanation of the effects of the decision.

Yes

R 1.2.10
Shareholders' comments on and supplements to the items on the agenda were published at least two days prior to the general meeting.

No, there were no comments or supplements.

R 1.3.8
Comments on the items of the agenda were made available to shareholders simultaneously with registration at the latest.

No, there were no such comments.

Written comments made on the items on the agenda were published two working days prior to the general meeting.

No, there were no such comments.

R 1.3.10
The election and dismissal of executives took place individually and by separate resolutions.

Yes

R 2.1.1
The responsibilities of the Managing Body include those laid out in 2.1.1.

Yes

R 2.3.1
The Managing Body held meetings regularly, at times designated in advance.

Yes

The Supervisory Board held meetings regularly, at times designated in advance.

Yes

The rules of procedure of the Managing Body provide for unscheduled meetings and decision-making through electronic communications channels.

Yes, they provide for extraordinary meetings called at short notice, and it is also possible to pass resolutions without a meeting; however, decision-making is not possible through electronic communications channels.

The rules of procedure of the Supervisory Board provide for unscheduled meetings and decision-making through electronic communications channels.

Yes, they provide for extraordinary meetings called at short notice, and it is also possible to pass resolutions without a meeting; however, decision-making is not possible through electronic communications channels.

R 2.5.1
The Board of Directors/Supervisory Board of the company has a sufficient number of independent members to ensure the impartiality of the board.

Yes

R 2.5.4
At regular intervals (in connection with the CG Report) the Board of Directors/ Supervisory Board requested a confirmation of their independent status from those members considered independent.

Yes

R 2.5.6
The company disclosed on its website the guidelines on the independence of the Board of Directors/Supervisory Board, as well as the criteria applied for assessing independence.

No, the Company applies the criteria of independence provided for by the Civil Code. Earlier the Company applied BSE's former recommendations for assessing independence of members of the Board of Directors and the Supervisory Board. The Company's position is that the relevant statutory provisions provide an adequate basis for assessment of independence.

R 2.6.1
Members of the Managing Body informed the Managing Body (Supervisory Board/Audit Committee) if they (or any other person in a close relationship to them) had a significant personal stake in a transaction of the company (or the company's subsidiary).

No, there was no such case.

R 2.6.2
Transactions between board and executive management members (and persons in close relationship to them) and the company (or its subsidiary) were conducted according to general rules of practice of the company, but with stricter transparency rules in place.

No, there was no such transaction.

Transactions which according to 2.6.2 fell outside the normal course of the company's business, and their terms and conditions were approved by the Supervisory Board (Audit Committee).

No, there was no such transaction.

R 2.6.3
Board members informed the Supervisory Board/Audit Committee if they received an offer of Board membership or an offer of an executive management position in a company which is not part of the company group.

No, there was no such case.

R 2.6.4
The Managing Body established its guidelines on information flow within the company and the handling of insider information, and monitored compliance with those guidelines.

Yes, the Company established and monitored.

The Managing Body established its guidelines regarding insiders' trading in securities and monitored compliance with those guidelines.

Yes, the Company established and monitored.

R 2.7.1
The Managing Body formulated remuneration guidelines regarding the evaluation and remuneration of the work of the Managing Body, the Supervisory Board and the executive management.

No. According to the Company's practice members of the Board of Directors and the Supervisory Board undertake their work against fixed remuneration whose amount is approved by the Company's Annual General Meeting under a separate item on the agenda. The Managing Director makes decisions regarding the evaluation and remuneration of the work of the Executive Management in the context of the annual plan and the bonus system and on the basis of the proposal of the Remuneration Subcommittee.

The Supervisory Board formed an opinion on the remuneration guidelines.

No, there are no remuneration guidelines (see above).

The guidelines regarding the remuneration for the Managing Body and the Supervisory Board and the changes in those guidelines were approved by the general meeting, as a separate item on the agenda.

No (see above). According to the Company's practice members of the Board of Directors and the Supervisory Board undertake their work against fixed remuneration whose amount is approved by the Company's Annual General Meeting from year to year under a separate item on the agenda.

R 2.7.2.
The Managing Body prepared an evaluation of the work it carried out in the given business year.

Yes

Törölt: No, in year 2015 such evaluation wasn't prepared.

R 2.7.2.1
The Supervisory Board prepared an evaluation of the work it carried out in the given business year.

Yes

R 2.7.3
It is the responsibility of the Managing Body to monitor the performance of and determine the remuneration for the executive management.

No. The Managing Director makes decisions regarding the evaluation and remuneration of the work of the Executive Management in the context of the annual plan and the bonus system.

The frameworks of benefits due to members of the executive management that do not represent normal practice, and the changes in those benefits were approved by the general meeting as a separate agenda item.

No, there was no deviation from the normal practice in respect of benefits.

R 2.7.4
The structure of share-incentive schemes were approved by the general meeting.

No, there were no such schemes.

Prior to the decision by the general meeting on share-incentive schemes, shareholders received detailed information (at least according to those contained in 2.7.4).

No, there were no such schemes (see above 2.7.4).

R 2.7.7
The Remuneration Statement was prepared by the company and submitted to the general meeting.

No. Members of the Board of Directors and the Supervisory Board undertake their work against fixed remuneration whose amount is approved by the Company's Annual General Meeting from year to year under a separate item on the agenda. The Notes to financial statements in the Annual Report submitted to the General Meeting contain the aggregate remuneration of the members of the Board of Directors, the Supervisory Board and the management. AGM resolutions regarding the remuneration of members of the Board of Directors and Supervisory Board have been published on the Company's website. Furthermore, according to Sec. 11.6. of the Statutes, the Company has published per member and described by virtue of the remuneration, all in cash and other (non cash) allowances given to the Members of the Board of Directors and of the Supervisory Board with reference to their such position in the previous business year.

The Remuneration Statement includes information about the remuneration of individual members of the Managing Body, the Supervisory Board, and the executive management.

No, there is no separate Remuneration Statement (see above).

R 2.8.1
The Managing Body or the committee operated by it is responsible for monitoring and controlling the company's entire risk management.

Yes. The Board of Directors and Supervisory Board are jointly responsible for directing risk management

The Managing Body requests information on the efficiency of risk management procedures at regnlar intervals.

No. Based upon the division of duties between the Board of Directors and the Supervisory Board, the Supervisory Board discusses the risk management in every year.

Törölt: ,

The Managing Body took the necessary steps to identify the major risk areas.

Yes

R 2.8.3
The Managing Body formulated the principles regarding the system of internal controls.

Yes

The system of internal controls established by the executive management guarantees the management of risks affecting the activities of the company, and the achievement of the company's performance and profit targets.

Yes

R 2.8.4
When developing the system of internal controls, the Managing Body took into consideration the viewpoints included in 2.8.4.

Yes

R 2.8.5
It is the duty aud responsibility of the executive management to develop and maintain the system of internal controls.

Yes

R 2.8.6
The company created an independent Internal Audit function, which reports to the Audit Committee/Supervisory Board.

No. According to the Internal Organizational and Operational Rules and Regulations approved by the Board of Directors the Company has an internal audit department supervised by the Managing Director, which reports regularly to the Board of Directors, and also undertakes special tasks assigned by the Audit Board and the Supervisory Board.

Törölt: T

The Internal Audit reported at least once to the Audit Committee/Supervisory Board on the operation of risk management, internal control mechanisms and corporate governance functions.

Yes. The internal Audit Department reports to the Audit Board/Supervisory Board too.

Törölt: No. See above under 2.8.6.

R 2.8.7
The internal audit activity is carried out by the Internal Audit function based on authorisation from the Audit Committee/Supervisory Board.

No. See above under 2.8.6.

As an organisation, the Internal Audit function is independent from the executive management.

No. See above under 2.8.6.

R 2.8.8
The Internal Audit schedule was approved by the Managing Body (Supervisory Board) based on the recommendation of the Audit Committee.

No. See above under 2.8.6.

R 2.8.9
The Managing Body prepared its report for shareholders on the operation of internal controls.

No. See above under 2.8.6.

The Managing Body developed its procedures regarding the receipt, processing of reports on the operation of internal controls, and the preparation of its own report.

No. See above under 2.8.6.

R 2.8.11
The Managing Body identified the most important deficiencies or flaws in the system of internal controls, and reviewed and re-evaluated the relevant activities.

Yes. See above under 2.8.6.

R 2.9.2
The Managing Body, the Supervisory Board and the Audit Committee were notified in all cases when an assignment given to the auditor may have resulted in significant additional expense, caused a conflict of interest, or affected normal business practices significantly in any other way.

No. There was no such case.

R 2.9.3
The Managing Body informed the Supervisory Board of any assignment given to the external auditor or an external advisor in connection with any event that had a significant bearing on the operations of the company.

Yes. With the approval of the Audit Board the auditor organization was commissioned to prepare impact study analyzing the accounting and taxation tasks and decision making questions of turning to the IFRS in the Company's individual audit report making process which will be obligatory executed from 2017.

Törölt: No. There was no such assignment.

The Managing Body pre-determined in a resolution what circumstances constitute "significant bearing".

No. The Audit Board's approval must be asked in each case where the statutory auditor or external advisor is given another assignment. See above under 2.9.2.

Törölt: of Directors
Törölt: notified
Törölt: external
Törölt:

R 3.1.6
On its website, the company disclosed duties delegated to the Audit Committee, as well as the committees targets, rules of procedure, composition (indicating the name, brief biography and the date of appointment of members).

Yes. Composition (list of members and short biographies) of the Audit Board is disclosed on the Company's website. Duties, targets and composition of the Audit Board are set out in the Company's Statutes and its Annex and in the Annual review and in the Report on Corporate Governance.

R 3.1.6.1
On its website, the company disclosed duties delegated to the Nomination Committee, as well as the committees targets, rules of procedure, composition (indicating the name, brief biography and the date of appointment of members).

Yes. Composition (list of members and short biographies) of the Corporate Governance and Nomination Subcommittee is disclosed on the Company's website. Duties and targets of the Subcommittee are set out in the Annual review and in the Report on Corporate Governance of the Company.

R 3.1.6.2
On its website, the company disclosed duties delegated to the Remuneration Committee, as well as the committees targets, rules of procedure, composition (indicating the name, brief biography and the date of appointment of members).

Yes. Composition (list of members and short biographies) of the Remuneration Subcommittee is disclosed on the Company's website. Duties and targets of the Subcommittee are set forth in the Annual review and the Report Corporate Governance of the Company.

R 3.2.1
The Audit Committee/Supervisory Board monitored the efficiency of risk management, the operation of internal controls, and the activity of the Internal Audit.

Yes

R 3.2.3
The Audit Committee/Supervisory Board received accurate and detailed information on the work schedule of the Internal Auditor and the independent auditor, and received the auditor's report on problems discovered during the audit.

Yes

R 3.2.4

The Audit Committee/Supervisory Board requested the new candidate for the position of auditor to submit the disclosure statement according to 3.2.4.

No, there was no new candidate for the position of auditor

R 3.3.1
There is a Nomination Committee operating at the company.

Yes. The Nomination Subcommittee currently operates in the context of the Corporate Governance and Nomination Subcommittee.

R 3.3.2
The Nomination Committee provided for the preparation of personnel changes.

Yes

The Nomination Committee reviewed the procedures regarding the election and appointment of members of the executive management.

No. Appointment of members of the Executive Management is the responsibility of the Managing Director.

The Nomination Committee evaluated the activity of board and executive management members.

Yes, in respect of year 2016 the Corporate Governance and Nomination Subcommittee discussed the evaluation of activity of the members of the Board of Directors.
Evaluation of the performance of members of the Executive Management is the responsibility of the Managing Director.

Törölt: No
Törölt: year
Törölt: 2015
Törölt: didn't

The Nomination Committee examined all the proposals regarding the nomination of board members which were submitted by shareholders or the Managing Body.

Yes

R 3.4.1
There is a Remuneration Committee operating at the company.

Yes

R 3.4.2
The Remuneration Committee made a proposal for the system of remuneration for the boards and the executive management (individual levels and the structure of remuneration), and carries out its monitoring.

Yes, in respect of remuneration of members of the Boards. As regards remuneration of the Executive Management, see 2.7.3 and 3.4.3.

R 3.4.3

The remuneration of the executive management was approved by the Managing Body based on the recommendation of the Remuneration Committee.

No. See 2.7.3.

The remuneration of the Managing Body was approved by the general meeting based on the recommendation of the Remuneration Committee.

Yes

The Remuneration Committee also monitored the share option, cost reimbursement and other benefits in the remuneration system.

Yes. There was no share option.

R 3.4.4
The Remuneration Committee made proposals regarding remuneration guidelines.

No. See 2.7.3

R 3.4.4.1
The Remuneration Committee made proposals regarding the remuneration of individual persons.

No. See 2.7.3.

R 3.4.4.2
The Remuneration Committee reviewed the terms and conditions of contracts concluded with the members of the executive management.

No. See 2.7.3.

R 3.4.4.3
The Remuneration Committee ascertained whether the company fulfilled its disclosure obligations regarding remuneration issues.

Yes

R 3.4.7
The majority of the members of the Remuneration Committee are independent.

Yes

R 3.5.1
The Managing Body disclosed its reasons for combining the Remuneration and Nomination Committees.

No. Combination of the two committees was not raised.

R 3.5.2

The Managing Body carried out the duties of the Nomination Committee and disclosed its reasons for doing so.

No. The duties were undertaken by the Corporate Governance and Nomination Subcommittee.

R 3.5.2.1
The Managing Body carried out the duties of the Remuneration Committee and disclosed its reasons for doing so.

No. The duties were undertaken by the Remuneration Subcommittee.

R 4.1.1
In its disclosure guidelines, the Managing Body established those priuciples and procedures which eusure that all relevant information about the operations of the company and circumstances influencing its share price are disclosed and made available accurately, in a timely fashion and in full.

Yes. In terms of disclosure the Company follows the guidelines and procedures provided for in the relevant legal regulations and the rules of disclosure of the Budapest Stock Exchange.

R 4.1.2
The company ensured iu its disclosure activities that all shareholders and market participants were treated equally.

Yes

R 4.1.3
The company's disclosure guidelines include the procedures governing electronic, on-line disclosure.

Yes, see 4.1.1.

The company develops its website taking into consideration disclosure guidelines and the provision of information to investors.

Yes, see 4.1.1.

R 4.1.4
The Managing Body assessed the efficiency of disclosure processes.

Yes

R 4.1.5
The company published its corporate events calendar on its website.

Yes

R 4.1.6

In the annual report and on the website of the company, the public was informed about the company's corporate strategy, its main business activities, business ethics and its policies regarding other stakeholders.

Yes

R 4.1.8

In the annual report the Managing Body disclosed the character and size of any other assignments given by the company or its subsidiaries to the auditing firm responsible for auditing the financial statements.

Yes. With the approval of the Audit Board the auditor organization was commissioned to prepare impact study analyzing the accounting and taxation tasks and decision making questions of turning to the IFRS in the Company's individual audit report making process which will be obligatory executed from 2017.

Törölt: No, there were no other assignments

R 4.1.9

In the annual report and on the website the company discloses information on the professional career of the members of the Managing Body, the Supervisory Board and the executive management.

Yes

R 4.1.10

The company provided information on the internal organisation and operation of the Managing Body and the Supervisory Board.

Yes, in the Annual Report and in the Report on Corporate Governance.

R 4.1.10.1

The company provided information on the criteria considered when evaluating the work of the Managing Body, the executive management and the individual members thereof.

No. The regarding information contained in the Corporate Governance Report of the Company. See 2.7.7.

R 4.1.11

In the annual report and in the Remuneration Statement on the company's website, the company informed the pnblic about the applied remuneration guidelines, including the remuneration and fees provided for members of the Managing Body, the Supervisory Board and the executive management.

No. The Notes to financial statements in the Annual Report submitted to the General Meeting contain the aggregate remuneration of the members of the Board of Directors and the Supervisory Board. The attachment of the Company's Report on Corporate Governance describes the guidelines and practices regarding the remuneration of members of the Board of Directors, the Supervisory Board and the Executive Management. (See also R 2.7.7 point.)

R 4.1.12

The Managing Body disclosed its risk management guidelines, including the system of internal controls, the applied risk management principles and basic rnles, as well as information abont major risks.

Yes, they are disclosed as a part of the Annual Report and the annual review.

R 4.1.13
In order to provide market participants with information, the company publishes its report on corporate governance at the same time that it publishes its annnal report.

Yes

R 4.1.14
The company discloses its gnidelines governing insider trading in the company's securities on its website.

No. The Company has the developed a set of rules comprising the prohibition of insider trading in accordance with the relevant legal provisions.

Törölt: statutory

The company published in the annual report and on its website ownership in the company's securities held by the members of the Managing Body, the Supervisory Board and the executive management, as well as any interests held in share-incentive schemes.

Yes, in the Notes to the Financial Statement in the Annual Report.

R 4.1.15
In the annual report and on its website, the company disclosed any relationship between members of the Managing Body and the executive management with a third party, which might have an influence on the operations of the company.

No, there was no such relationship.

Level of compliance with the Suggestions

S 1.1.3 The company has an investor relations department.

Yes

S 1.2.1 The company published on its website the summary document regarding the condncting of the general meeting and the exercise of shareholders' rights to vote (including voting via proxy).

Yes

S 1.2.2 The company's articles of association are available on the company's website.

Yes

S 1.2.3 The company disclosed on its website information according to 1.2.3 (on the record date of corporate events).

Yes

S 1.2.4 Information and documents according to 1.2.4 regarding general meetings (invitations, proposals, draft resolutions, resolutions, minutes) were published on the company's website.

Yes. The Company published the invitation to the General Meeting as well as proposals, draft resolutions and the resolutions adopted by the General Meeting through its website, and on the website of BSE.
The Company complied with its duties in respect of depositing the minutes of the General Meeting in accordance with the relevant provisions of the Civil Code.

S 1.2.5 The general meeting of the company was held in a way that ensured the greatest possible shareholder participation.

Yes

S 1.2.6 Additions to the agenda were published within 5 days of receipt, in the same manner as the publication of the original invitation for the general meeting.

No, there were no additions.

S 1.2.7 The voting procedure applied by the company ensured unambiguous, clear and fast decision-making by shareholders.

Yes

S 1.2.11 At the shareholders' request, the company also provided information on the general meeting electronically.

Yes

S 1.3.1 The person of the chairman of the general meeting was approved by the company's general meeting prior to the discussion of the items on the agenda.

Yes

S 1.3.2 The Managing Body and the Supervisory Board were represented at the general meeting.

Yes

S 1.3.3 The company's articles of association render possible that at the initiation of the chairman of the Managing Body or the shareholders of the company, a third party be invited to the company's general meeting and be granted the right of participation in the discussion of the relevant items on the agenda.

No, the Statutes do not expressly contain this possibility; however, the Company's practice has allowed it over the years.

S 1.3.4 The company did not prevent shareholders attending the general meeting from exercising their rights to request information, make comments and proposals, and did not set any pre-requisites to do so.

Yes

S 1.3.5 The company published on its website within three days its answers to those questions which it was unable to answer satisfactorily at the general meeting. Where the company declined to give an answer it published its reasons for doing so.

No, there were no such questions.

S 1.3.6 The chairman of the general meeting and the company ensured that in answering the questions raised at the general meeting, national laws and regulations of the Stock Exchange pertaiuing to disclosure were complied with.

Yes

S 1.3.7 The company published a press release and held a press conference on the decisions passed at the general meeting.

No. The Company has not published a press release nor held a press conference. The annual general meeting was open to representatives of the press based upon previous registration.

S 1.3.11 The company's general meeting decided on the different amendments of the articles of association in separate resolutions.

Yes

S 1.3.12 The minutes of the general meeting containing the resolutions, the presentation of draft resolutions, as well as the most important questions and answers regarding the draft resolutions were published by the company within 30 days of the general meeting.

Yes, the Company has published the resolutions and draft resolutions. Regarding the minutes of the AGM the Company fulfilled its obligation to deposit the minutes in accordance with the regulations of the Civil Code /See S 1.2.4/.

S 1.4.1 The dividend was paid within 10 days to those shareholders who had provided all the necessary information and documentation.

Yes

S 1.4.2 The company disclosed its policy regarding anti-takeover devices.

Yes, it is included in the Statutes.

S 2.1.2 The rules of procedure define the composition of the Managing Body and all procedures and protocols for the preparation and holding of meetings, the drafting of resolutions and other related matters.

Yes

S 2.2.1 The rules of procedure and the work schedule of the Supervisory Board gives a detailed description of its operation and duties, as well as procedures and processes which the Supervisory Board followed.

Yes

S 2.3.2 Board members had access to the proposals of a given meeting at least five days prior to the board meeting.

Yes

S 2.3.3 The rules of procedure regulate the regular or occasional participation at board meetings of persons who are not members of the boards.

Yes

S 2.4.1 The election of the members of the Managing Body took place in a transparent way, information on candidates was made public at least five days prior to the general meeting.

Yes

S 2.4.2 The composition of boards and the number of members complies with the principles specified in 2.4.2.

Yes

S 2.4.3 Newly elected, non-executive board members were able to familiarize themselves with the structure and operations of the company, as well as their duties as board members through a tailored induction programme.

Yes

S 2.5.2 The separation of the responsibilities of the Chairman of the Managing Body from those of the Chief Executive Officer has been outlined in the basic documents of the company.

Yes

S 2.5.3 The company has published a statement about the means it uses to ensure that the Managing Body gives an objective assessment of the executive management's work where the functions of Chairman and CEO are combined.

No, because the functions of Chairman and Managing Director are separated.

S 2.5.5 The company's Supervisory Board has no member who held a position in the Managing Body or the executive management of the company in the three years prior to his nomination.

Yes, this is the case, there are no such members.

S 2.7.5 The development of the remuneration system of the Managing Body, the Supervisory Board and the executive management serves the strategic interests of the company and thereby those of the shareholders.

Yes

S 2.7.6 In the case of members of the Supervisory Board, the company applies a fixed amount of remuneration and does not apply a remuneration component related to the share price.

Yes

S 2.8.2 The Managing Body developed its risk management policy and regulations with the cooperation of those executives who are responsible for the design, maintenance and control of risk management procedures and their integration into the company's daily operatious.

Yes

S 2.8.10 When evaluating the system of internal controls, the Managing Body took into consideration the aspects mentioned in 2.8.10.

Yes

S 2.8.12 The company's auditor assessed and evaluated the company's risk management systems and the risk management activity of the executive management, and submitted its report on the matter to the Audit Committee/Supervisory Board.

Yes, the Company's auditor has examined the Company's risk management systems and the risk management activities of the Executive Management, which was appraised in the auditor's report.

S 2.9.1 The rules of procedure of the Managing Body cover the procedure to be followed when employing an external advisor.

No. In this respect the Board of Directors follows its practice.

S 2.9.1.1 The rules of procedure of the Supervisory Board cover the procedure to be followed when employing an external advisor.

No. The Supervisory Board does not employ external advisors, however its Rules of Procedure cover this possibility.

S 2.9.1.2 The rules of procedure of the Audit Committee cover the procedure to be followed when employing an external advisor.

No. The Audit Board does not employ external advisors, however its Rules of Procedure cover this possibility.

S 2.9.1.3 The rules of procedure of the Nomination Committee cover the procedure to be followed when employing an external advisor.

No. The Corporate Governance and Nomination Subcommittee does not employ external advisors.

S 2.9.1.4 The rules of procedure of the Remuneration Committee cover the procedure to be followed when employing an external advisor.

No. The Remuneration Subcommittee does not employ external advisors.

S 2.9.4 The Managing Body may invite the company's auditor to participate in those meetings where it debates general meeting agenda items.

Yes

S 2.9.5 The company's Internal Audit function co-operated with the auditor in order to help it successfully carry out the audit.

Yes

S 3.1.2 The chairman of the Audit Committee regularly inform the Managing Body about the meetings of the committee, and the committee prepared at least one report for the Managing Body aud the Supervisory Board in the giveu business year.

Yes

S 3.1.2.1 The chairman of the Nomination Committee regularly inform the Managing Body about the meetings of the committee, and the committee prepared at least one report for the Managing Body and the Supervisory Board in the given business year.

Yes

S 3.1.2.2 The chairman of the Remuneration Committee regularly inform the Managing Body about the meetings of the committee, and the committee prepared at least one report for the Managing Body and the Supervisory Board in the given business year.

Yes

S 3.1.4 The company's committees are made up of members who have the capabilities, professional expertise and experience required to perform their duties.

Yes

S 3.1.5 The rules of procedure of committees operating at the company include those aspects detailed in 3.1.5.

Yes

S 3.2.2 The members of the Audit Committee/Supervisory Board were fully informed about the accounting, financial and operational peculiarities of the company.

Yes

S 3.3.3 The Nomination Committee prepared at least one evaluation for the chairman of the Managing Body on the operation of the Managing Body and the work and suitability of the members of the Managing Body.

Yes, the Corporate Governance and Nomination Subcommittee evaluated the operation of the Board of Directors, but formal written evaluation has not been prepared.

Törölt: No

Törölt: didn't prepared evaluation

Törölt: in year 2015

S 3.3.4 The majority of the members of the Nomination Committee are independent.

Yes. The Company applies the criteria of independence set forth in the Civil Code.

S 3.3.5 The rules of procedure of the Nomination Committee includes those details contained in 3.3.5.

Yes

S 3.4.5 The Remuneration Committee prepared the Remuneration Statement.

No. The Notes to financial statements in the Annual Report submitted to the General Meeting contain the aggregate remuneration of the members of the Board of Directors and the Supervisory Board (see points R 2.7.7 and R 4.1.11).

S 3.4.6 The Remuneration Committee exclusively consists of non-executive members of the Managing Body.

No. The participation of such member of the Board of Directors who has direct experience from the day to day operation of the Company is essential for the efficient operation of the Remuneration Committee.

Törölt: Yes

S 4.1.4 The disclosure guidelines of the company at least extend to those details contained in 4.1.4.

Yes, see R 4.1.1.

The Managing Body informed shareholders in the annual report on the findings of the investigation into the efficiency of disclosure procedures.

Yes

S 4.1.7 The company's financial reports followed IFRS guidelines.

Yes

S 4.1.16 The company also prepares and releases its disclosures in English.

Yes.

Dated in Budapest, 22 March, 2017

Törölt: 26 April, 2016

.....	.....
Member of the Board of Directors, Member of the Corporate Governance and Nomination Subcommittee	Member of the Board of Directors, Member of the Corporate Governance and Nomination Subcommittee

Törölt: William de Gelsey

Törölt: Dr. Gábor Perjés

Törölt: Chairman

11.

Resolution on establishing new branch offices and the related amendment of the Statutes

See the proposal under item No.:12 of the Agenda

12.

Further amendments to the Company's Statutes

(insertion of a new activity, modification of the Board of Directors' competences in connection with branch offices, business sites and activities, modification of rules regarding the Audit Board, correction of rules regarding the calculation of interim dividends and amendment of the rules on the exercise of employer's rights)

Richter Gedeon Vegyészeti Gyár Nyilvánosan Működő Rt.
Chemical Works of Gedeon Richter Plc.

Az Alapszabály 2017. évi rendes közgyűlésre javasolt módosításainak magyarázata
Explanation of the amendments of the Statutes proposed for the Annual General Meeting of 2017

Pont ***Section***	**Javasolt módosítás magyarázata**	**Explanation of proposed change**
2.	Lásd a 14.4 (m) pont módosításához fűzött magyarázatot.	See the explanation to the amendment of Section 14.4 (m).
5.	A Társaság nemzetközi üzleti tevékenysége során szükségessé válhat, hogy külföldi üzleti partnerei részére – azok Richterrel folytatott üzleti együttműködéséhez kapcsolódóan – Magyarországon adózással összefüggő képviseleti tevékenységet lásson el. Ennek jogszerű végzéséhez elengedhetetlen a 6920 TEÁOR-kódú tevékenység felvétele az Alapszabályba.	With regard to the international business activity of the Company, it can become necessary to provide tax-related representation activity in Hungary to its foreign business partners, with regard to their business cooperation with Richter. To perform this lawfully, it is indispensable to include the activity with the NACE code 6920 into the Statutes.
14.4 (m)	A Társaság kutatási és képzési programok keretében gyümölcsöző együttműködést folytat Budapesten kívüli egyetemekkel és ez időközönként szükségessé teszi a Társaság által létrehozott kutató- vagy munkavégzési helyek létesítését, bejegyeztetését. Mindemellett bizonyos állami támogatások és pályázatok elnyerése érdekében követelmény, hogy a támogatott üzem a Társaság telephelyeként vagy fióktelepeként legyen bejegyezve, vagy hogy a Társaság Alapszabálya tartalmazzon bizonyos tevékenységet. Mivel ezen pályázatok benyújtására általában rövidebb idő áll rendelkezésre, a közgyűlés ülésezése nem várható be. Végül, a cégnyilvánosságról, a bírósági cégeljárásról és a végelszámolásról szóló 2006. évi V. törvény szerint, amennyiben a cég telephellyel vagy fiókteleppel rendelkezik, úgy azt a cégjegyzékben fel kell tüntetni. A cégjegyzékben feltüntetendő telephelyeket és fióktelepeket a Polgári Törvénykönyv szerint az Alapszabályban is fel kell tüntetni. A cégbírósági változásbejegyzési kérelmet a változástól számított 30 napon belül kell benyújtani, így az év nagy részében a Társaság késedelembe esne új telephelye, fióktelepe bejelentésével, amennyibe az éves rendes közgyűlésig várna.	The Company has a fruitful cooperation with universities outside Budapest in the framework of research and training programs, and this makes it necessary from time to time to establish and register the places of research or work set up by the Company. Besides that, it is a requirement in order to obtain certain state aids and win tenders that the subsidized plant is registered as the business site or branch office of the Company or that a given activity is included in the Company's Statutes. As usually the deadline for filing these tender offers is short, the waiting until the next General Meeting is held is not viable. Finally, pursuant to Act V of 2016 on the Public Company Register, Company Registration and Winding-Up, if a company has a business site or a branch office, it shall be indicated in the company register. Pursuant to the Civil Code, business sites and branch offices to be indicated in the company register shall also be included in the Statutes. The request for registration shall be filed with the court of registration within 30 days from the change, thus in the greatest part of the year the Company would be in a delay with registering the new business site or branch office, if it would wait until the next annual general meeting.

	A fentiekre tekintettel javasolt, hogy a közgyűlés hatalmazza fel az Igazgatóságot az erről való döntésre. A hatáskör nem terjed ki a Társaság székhelyével és az alapvető tevékenységekkel kapcsolatos döntésekre, ezek vonatkozásában továbbra is a közgyűlés lesz jogosult dönteni.	With regard to the above, it is recommended that the General Meeting shall authorize the Board of Directors to decide on the above matters. The competence does not extend to decisions regarding the registered seat and core activities of the Company, in respect of these the decision shall continue to be in the General Meeting's competence.
15.5 és (B) melléklet	A korábbi szabályozással ellentétben jelenleg nem kötelező a munkáltatói jogkör gyakorlóját az alapszabályban meghatározni, ezért indokolt az Alapszabály egyszerűsítése, amely a munkaügyek rugalmasabb, életszerűbb kezelését teszi lehetővé. Mindemellett a Társaság gyakorlatában előfordul az a – teljesen jogszerű – helyzet, hogy egyes munkavállalók felett a munkáltatói jogokat nem a Társaság munkavállalója, hanem a Társaság javára más formában tevékenykedő vezető gyakorolja.	Opposed to former regulation, currently it is not mandatory to specify the person entitled to exercise employer's rights in the statutes; therefore it is reasonable to simplify the Statutes, which permits a more flexible, realistic management of employment issues. Besides that, the – fully lawful – situation occurs in the Company's practice that employer's rights over certain employees are not exercised by an employee of the Company, but an executive working for the Company in another legal form.
16.13	Az Audit Bizottság összetételére, elnökére vonatkozó szabályok módosítását a tőkepiacról szóló 2001. évi CXX. törvény ("**Tpt.**") 62. §-ának változása teszi szükségessé. Az új törvényi szabály lehetőséget biztosít választásra annak tekintetében, hogy az Audit Bizottság elnökét a Bizottság maga, vagy a Felügyelő Bizottság választja meg. A Felügyelő Bizottság nagyobb létszámára tekintettel indokolt ezt a döntést a Felügyelő Bizottsághoz telepíteni.	The amendment of the rules on the composition and chairman of the Audit Board is necessitated by the change of Section 62 of Act CXX of 2011 on the Capital Market ("**CMA**"). The new statutory rule provides a possibility to choose whether the Audit Board's Chairman is elected by the Board itself or the Supervisory Board. It is justified to grant this competence to the Supervisory Board with regard to the fact that it has more members.
16.14	Az Audit Bizottság feladat és hatáskörének pontosítását, kiegészítését részben a Tpt. változása, részben pedig a kiegészítő szövegben is említett 537/2014/EU rendelet hatályba lépése teszi szükségessé. Az 537/2014/EU rendelet további kötelező szabályokat tartalmaz az audit bizottság és a könyvvizsgáló viszonya, a könyvvizsgáló választása vonatkozásában, ezek maradéktalan átvétele azonban megterhelné az Alapszabályt.	The specification and complementation of the Audit Board's scope of competences and tasks in necessitated partially by the change of the CMA, and partially by entry into force of Regulation 537/2014/EU, also mentioned in the text. Regulation 537/2014/EU contains further mandatory rules on the relation of the audit board and the auditor and the election of the auditor, but full inclusion of these rules would overburden the Statutes.
19.5	Jogi és könyvelési technikai jellegű módosítás a Polgári Törvénykönyvről szóló 2013. évi V. törvény 3:263. §-a (1) bekezdés b) pontjának változása miatt.	Amendment of a technical nature (legal and accounting) due to a change in point b) of Section 3:263 (1) of Act V of 2013 on the Civil Code.

STATUTES

of

CHEMICAL WORKS OF GEDEON RICHTER PLC.

(This consolidated version contains the amendments of the Statutes approved by the Annual General Meeting of April 26, 2017.)

Törölt: 2016

Törölt: 6

CHEMICAL WORKS OF GEDEON RICHTER PLC.

STATUTES

This document prepared on the basis of Act V of 2013 on the Civil Code (the "Civil Code") is the consolidated version of the statutes ("Statutes") of the mid-sized Chemical Works of Gedeon Richter PLC ("Company"), a leading pharmaceutical company of the Central-Eastern European region with growing presence in Western Europe, that controls a multinational pharmaceutical company group ("Richter Group") with more than one hundred years' experience in the research and development, manufacturing and sale of pharmaceutical products carried out with the support of a number of subsidiaries as well as jointly controlled and affiliated companies.

(1) **The name of the Company:** **Richter Gedeon Vegyészeti Gyár Nyilvánosan Működő Rt.**

Abbreviated name of the Company: Richter Gedeon Nyrt.

The trade name of the Company in foreign languages:

in English:	Chemical Works of Gedeon Richter Plc.
abbreviated name:	Gedeon Richter Plc.
in German:	Chemische Fabrik Gedeon Richter Offene AG.
abbreviated name:	Gedeon Richter AG.
in French:	Fabrique de Produits Chemiques Gedeon Richter S.A.
abbreviated name:	Gedeon Richter S.A.
in Russian:	Otkritoye A.O. Chimichesky Zavod Gedeon Richter
abbreviated name:	Gedeon Richter O.A.O.
in Spanish:	Fábrica de Productos Quimicos Gedeon Richter S.A.
abbreviated name:	Gedeon Richter S.A.

Formázott: Francia (franciaországi)

(2) **Seat of the Company:** 1103 Budapest, Gyömrői út 19-21.

Branch Offices of the Company:

2510 Dorog, Esztergomi út 27.
4031 Debrecen, Medvefű u. 20.
4031 Debrecen, Kígyóhagyma u.8.
6720 Szeged, Eötvös u. 6.,
7673 Kővágószőlős, 513/2 hrsz.

Formázott: Térköz Utána: 0 pt

(3) **The Company is the General Legal Successor of Kőbányai Gyógyszerárugyár.**

(4) **The Company is Established for an Indefinite Period of Time.**

The Company shall commence its activities on the day of its foundation.

(5) **Scope of the Activities of the Company (TEÁOR'08):**

The main activity of the Company:

21.20 **Manufacture of pharmaceutical preparations**

Other scope of activities of the Company:

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10.86	Manufacture of homogenised food preparations and dietetic food
10.89	Manufacture of other food products n.e.c.
17.22	Manufacture of household and sanitary goods and toilet requisites
20.13	Manufacture of other inorganic basic chemicals
20.14	Manufacture of other organic basic chemicals
20.20	Manufacture of pesticides and other agrochemical products
20.42	Manufacture of perfumes and toilet preparations
20.59	Manufacture of other chemical products n.e.c.
21.10	Manufacture of basic pharmaceutical products
26.60	Manufacture of irradiation, electromedicinal and electrotherapeutic equipment
32.50	Manufacture of medicinal and dental instruments and supplies
35.11	Production of electricity
35.12	Transmission of electricity
35.13	Distribution of electricity
35.14	Trade of electricity
35.21	Manufacture of gas
35.22	Distribution of gas
35.23	Trade of gas
35.30	Steam and air condition supply
36.00	Water collection, treatment and supply
37.00	Sewerage
38.11	Collection of non-hazardous waste
38.12	Collection of hazardous waste
38.21	Treatment and disposal of non-hazardous waste
38.22	Treatment and disposal of hazardous waste
38.32.	Recovery of sorted materials
39.00	Remediation activities and other waste management services
41.10	Development of building projects
46.19	Agents involves in the sale of variety of goods
46.38	Wholesale of other food
46.44	Wholesale of china and glassware and cleaning materials
46.45	Wholesale of perfume and cosmetics
46.46	Wholesale of pharmaceutical goods
46.47	Wholesale of furniture, carpets, and lighting equipment
46 49	Wholesale of other household goods
46.52	Wholesale of electronic and telecommunications equipment and parts
46.69	Wholesale of other machinery and equipment
46.73	Wholesale of wood, construction materials and sanitary equipments
46.75	Wholesale of chemical products
46.76	Wholesale of other intermediate products
46.90	Not specialized wholesale trade
47.41	Retail sale of computers, peripheral units and software in specialized stores
47.42	Retail sale of telecommunication products in specialized stores
47.53	Retail sale of carpets, rugs, wall and floor coverings in specialized stores
47.59	Retail sale of furniture, lighting equipments and other household articles in specialized stores
47.73	Dispensing chemists in specialized stores
47.78	Other retail sale of new goods in specialized stores
49.20	Freight rail transport
49.41	Freight transport by road
52.10	Storage and warehousing
52.21	Service activities incidental to land transportation
52.24	Cargo handling
55.20	Holiday and other short-stay accommodation
55.90	Other accommodation
56.21	Event catering activities
56.29	Other food service activities
64.20	Activities of holding companies
64.30	Trusts, funds and similar financial activities
64.99	Other financial service activities, except insurance and pension funding n.e.c.
68.10	Buying and selling of own real estate
68.20	Renting and operation of own or leased real estate
68.32	Management of real estate on fee or contractual basis
69.20	Accounting, bookkeeping and auditing activities; tax consultancy
70.10	Activities of head offices
70.21	Public relations and communications activity
70.22	Business and other management consultancy activities
71.12	Engineering activities and related technical consultancy
71.20	Technical testing and analysis
72.11	Research and experimental development on biotechnology
72.19	Other research and experimental development on natural sciences and engineering

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72.20	Research and experimental development on social sciences and humanities
74.90	Other professional scientific and technical activities n.e.c.
77.12	Renting and leasing of trucks
77.32	Renting and leasing of construction and civil engineering machinery
77.33	Renting and leasing of office machinery and equipment (including computers)
77.39	Renting and leasing of other machinery, equipment and tangible goods n.e.c.
77.40	Leasing of intellectual property and similar products, except copyrighted works
81.10	Combined facilities support activities
81.29	Other cleaning activities
82.30	Organization of conventions and trade shows
82.92	Packaging activities
82.99	Other business support service activities n.e.c.
85.10	Pre-primary education
85.51	Sports and recreation education
91.01	Library and archives activities
96.01	Washing and (dry-)cleaning of textile and fur products

(6) The Registered Capital (Subscribed Capital) of the Company:

6.1 The registered capital (subscribed capital) of the Company is: **HUF 18,637,486,000,** i.e. eighteen-billion-six-hundred-thirty-seven-million-four-hundred-and-eighty-six-thousand Hungarian Forints, of which HUF 6,147,486,000 comprises cash contributions and HUF 12,490,000,000 comprises in-kind contributions.

The in-kind contributions consist of the assets of Kőbányai Gyógyszerárugyár (HUF 11,390,000,000) as determined in its transformation plan, and the in-kind contribution of Richter Gedeon Vegyészeti Gyár Rt., having been determined to have a value of HUF 100,000,000.

6.2 The in-kind contribution of Richter Gedeon Vegyészeti Gyár Rt. consists of certain intangible assets of Richter Gedeon Vegyészeti Gyár Rt. with a value of HUF 100,000,000. The founders shall accept the value of the in-kind contribution of the Company at the above specified value. Richter Gedeon Vegyészeti Gyár Rt. permits the Company to use the trade name "Richter Gedeon Vegyészeti Gyár Rt." free of charge.

6.3 (Deleted pursuant to the resolution passed by the General Meeting held on September 28, 1993)

(7) Shares and Shareholder Rights

7.1 The Company's registered capital:

186,374,860, that is one hundred eighty-six million three hundred seventy-four thousand eight hundred sixty **dematerialized registered common shares**, each with a nominal value of HUF 100 that is one hundred Hungarian forints.

7.2 The distribution of shares at foundation of the Company:

7.2.1 The Company was established as a closely-held company. By signing the Company's Statutes and Deed of Foundation, the founders of the Company subscribed for the total registered share capital (HUF 12,417,500,000) of the Company and received all the then issued shares. The shares were alloted in accordance with Act XIII of 1989 and the transformation plan in the following proportions:

The Hungarian State - State Property Agency	11,390,000,000 Ft
The Hungarian State - Richter Gedeon Vegyészeti Gyár Rt.	100,000,000 Ft
Magyar Hitel Bank Rt.	917,500,000 Ft
Pharma Haupt GmbH	10,000,000 Ft

7.2.2 Pursuant to General Resolution No. 1/1991, the Company converted HUF 806,474,000 of capital assets into registered capital, and accordingly issued 63,950 bearer shares each having

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a nominal value of HUF 1,000 and 742,524 registered preference shares each having a nominal value of HUF 1,000.

7.2.3 Pursuant to Resolution No. 26/1994. 09. 28. of the General Meeting, the Company increased its registered capital by HUF 4,413,512,000 and issued 4,413,512 new registered common shares; thereafter, in accordance with Resolution No. 27/1994. 09. 28. of the General Meeting, 63,950 bearer shares, each having a nominal value of HUF 1,000, were converted into registered common shares, each having a nominal value of HUF 1,000, on a one-by-one basis.

7.2.4 Upon request of the shareholders and pursuant to Resolution No. 19/1995.04.27., the General Meeting of the Company transformed one registered preference share into one registered common share.

7.2.5 Upon request of the shareholders and pursuant to Resolutions No. 13/1996. 05. 03. and No. 14/1996. 05. 03., the General Meeting of the Company approved the conversion of 517,139 registered preference shares into 517,139 registered common shares.

7.2.6 At the request of the shareholders and pursuant to Resolution No. 11/1997. 04. 29. and no. 12/1997. 04. 29., the Annual General Meeting of the Company converted 171,413 registered preference shares into 171,413 registered common shares.

7.2.7 The Company's Extraordinary General Meeting held on May 28, 1997 approved to increase the registered share capital by HUF 1,000,000,000 up to HUF 18,637,486,000 in accordance with Resolution No. 7/1997. 05. 28.

7.2.8 At the request of the shareholders and pursuant to Resolution No. 11/1998. 04. 28. and No. 12/1998. 04. 28., the Annual General Meeting of the Company converted 16,327 registered preference shares into 16,327 registered common shares.

7.2.9 At the request of the shareholders and pursuant to Resolution No. 11/1999. 04. 28. and No. 12/1999. 04. 28., the Annual General Meeting of the Company converted 3,498 registered preference shares into 3,498 registered common shares.

7.2.10 At the request of the shareholders and pursuant to Resolutions No. 9/2000. 04. 26. and 10/2000. 04. 26., the Annual General Meeting of the Company converted 16,987 registered preference shares into 16,987 registered common shares.

7.2.11 At the request of the shareholders and pursuant to Resolutions No. 9/2001. 04. 26. and 10/2001. 04. 26., the Annual General Meeting of the Company converted 4,066 registered preference shares into 4,066 registered common shares.

7.2.12 At the request of the shareholders and pursuant to Resolutions No. 9/2002. 04. 25. and 10/2002. 04. 25., the Annual General Meeting of the Company converted 1,688 registered preference shares into 1,688 registered common shares.

7.2.13 At the request of the shareholders and pursuant to Resolutions No. 11/2003. 04. 28. and 12/2003. 04. 28., the Annual General Meeting of the Company converted 1,806 registered preference shares into 1,806 registered common shares.

7.2.14 Pursuant to Resolution No. 16/2003. 04. 28., the Annual General Meeting of the Company has approved the conversion of the registered common shares of the Company into dematerialized shares.

7.2.15 At the request of the shareholders and pursuant to Resolution No 12 /2004. 04. 28., the Annual General Meeting of the Company converted 2,570 registered preference shares into 2,570 registered common shares.

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7.2.16 At the request of the shareholders and pursuant to Resolution No 14 /2005. 04. 27., the Annual General Meeting of the Company converted 2,678 registered preference shares into 2,678 registered common shares.

7.2.17 At the request of the shareholders and pursuant to Resolution No 12 /2006. 04. 26., the Annual General Meeting of the Company converted 892 registered preference shares into 892 registered common shares.

7.2.18 Pursuant to Resolutions No. 11/2007.04.25, 12/2007.04.25 and 13/2007.04.25, the Annual General Meeting converted 3,459 registered preference shares into 3,459 registered common shares.

7.2.19 Pursuant to Resolution No. 10/2013.04.25., the Annual General Meeting transformed 18,637,486 that is eighteen-million six-hundred-and-thirty-seven-thousand four-hundred-eighty-six dematerialized registered common shares, each with a nominal value of HUF 1,000 that is one thousand Hungarian forints into 186,374,860, that is one hundred eighty-six million three hundred seventy-four thousand eight hundred sixty dematerialized registered common shares, each with a nominal value of HUF 100 that is one hundred Hungarian forints; by splitting the nominal value in a ten-to-one ratio.

7.3 The shares of the Company (including the interim shares) are dematerialized shares (Subsection 3:214 (2) of the Civil Code)

7.4 Within one category and class of shares, several series may be issued. Shares belonging to one series of shares may not differ as to their face value or method of production.

7.5 (This section was deleted in accordance with the resolution of the AGM held on April 24, 2014.)

7.6 (This section was deleted in accordance with the resolution of the AGM held on April 25, 2007).

7.7 If a resolution is passed at a General Meeting on the conversion of any categories of shares of the Company, the Board of Directors, at cost of the Company, shall provide, in compliance with the legal rules and the regulations of the central depository for the invalidation of the document issued previously relating to the dematerialized shares but which is not deemed to be security, the issuance of a new document and the registration of the converted shares on the securities accounts.

7.8 Should the Company's registered capital be increased, the price of the shares to be issued and the due date by which payments for such shares shall be made, shall be determined – in accordance with the provisions of the Civil Code – in the resolution on the increase of the Company's registered capital.

7.9 If a shareholder fails to provide his contribution undertaken by the date set forth, the Board of Directors shall order such shareholder to provide the contribution within a period of thirty days. Such order shall also note that failure to perform will result in the termination of the shareholder status with respect to the shares concerned, as of the day following the expiry of the deadline. In the event the period of thirty days passes without performance, the shareholder status with respect to the given shares shall terminate on the day following the expiration of such period. The Board of Directors shall inform the shareholder thereof in writing (Subsection 3:98. (2) of the Civil Code).

7.10 (Deleted pursuant to the resolution passed by the General Meeting held on April 25, 2007).

7.11 Rights of the shareholder:

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7.11.1 The shareholder is entitled to receive a share of the Company's profits that are distributable and where a dividend is declared by the General Meeting. Such dividend shall be in proportion to the number of nominal shares held by the shareholder (right to a dividend) however, dividends with respect to treasury shares shall be divided to shareholders entitled to dividends, payable in proportion of the nominal value of their shares. (Subsection 3:225 of the Civil Code). Shareholders that have been registered in the share-register as a result of the identification of ownership prepared on the reference date established and announced by the Board of Directors regarding the payment of dividends are entitled to dividends. The date with relevance with respect to the entitlement to dividends established by the Board of Directors may be different than the date of the general meeting adopting the decision for the payment of dividends.

7.11.2 In case of termination of the Company without a legal successor, the shareholder shall be entitled – based on the payments and in-kind contributions made by the shareholder for the shares - to a portion of any remaining assets of the Company following satisfaction of the Company's creditors. Such portion of the remaining assets shall be distributed to the shareholder in proportion to the ratio between the nominal value of its shareholding in the Company's registered capital and the total registered capital of the Company (proportional right to liquidation assets).

7.11.3 Every shareholder has the right to participate in the General Meeting, to request information, to voice its opinion and to submit motions within the limits set forth by the Civil Code Shareholders entitled to vote may vote.

7.11.4 The Board of Directors shall provide every shareholder who makes a written request with information necessary to enable the shareholder to evaluate items on the General Meeting agenda, so that the shareholder, who made such a request at least eight days before the General Meeting, shall receive the requested information at least three days prior to the General Meeting.

At the request of a shareholder, the Board of Directors shall grant the shareholder access to the relevant documents and data of the Company.

The Board of Directors may decide that it will disclose information, or grant access to the documents on condition that the requesting shareholder makes a written declaration of confidentiality. The Board of Directors may refuse to disclose information or grant access to documentation or data if its dissemination would compromise business secrets of the Company, the shareholder abuses this right, or does not make a declaration of confidentiality after being requested by the Board of Directors. If the shareholder finds that the refusal of his request is unfounded, then he may request the Court of Registration to oblige the Company to provide the requested information (Sections 3:23 and 3:258 of the Civil Code).

7.11.5 (Deleted and inserted in Section 11.4 pursuant to the resolution passed by the General Meeting held on April 27, 2005)

7.11.6 (Deleted and inserted in Section 11.5.3 pursuant to the resolution passed by the General Meeting held on April 27, 2005)

7.12 Court review of resolutions

Any shareholder of the Company, any member of the Board of Directors or of the Supervisory Board may request the court to annul the resolutions passed by the organs of the Company with reference to the point that such resolution violates the law, or these Statutes.

The action for court annulment of a resolution violating the law shall be initiated against the Company within thirty days after the person initiating the action has obtained knowledge, or should have

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obtained knowledge of the resolution in question. Following expiration of a one year non-appealable deadline from the date of the passing of the resolution no action shall be initiated. (Sections 3:35-37 of the Civil Code)

Any person who voted in favour of a resolution is not entitled to this right to bring an action against such a resolution, provided that the person's affirmative vote was not procured by mistake, fraud, or unlawful threat.

7.13 A resolution of the General Meeting aiming at the change of the form of operation of the Company comes into effect upon the delisting of the Company's shares. (Subsection 3:211. (3) of the Civil Code)

7.14 Obligations of Certain Shareholders:

7.14.1 A shareholder of the Company may not establish, manage, administer or permit the continuance of any depositary arrangement in Hungary or any other country in respect of shares or any other securities convertible into shares of the Company unless provisions having substantially the same purpose and effect as the provisions in Sections 9 and 13 hereof are imposed on investors and any other participants in such depositary arrangement by the agreement(s), conditions and any other instrument(s) constituting or otherwise regulating such depositary arrangement.

7.14.2 For the purposes of the present Statutes, a "depositary arrangement" shall mean any arrangement for the holding of shares or convertible securities of a corporate entity by a depositary or any other person (however defined) registered as a shareholder in the Share Register of such entity pursuant to which the persons participating in such arrangement as investors are granted interests in a global certificate, or are issued with securities or certificates, such global certificate or securities or certificates evidencing interests or rights in respect of the shares or convertible securities held by such depositary or other person holding the shares or convertible securities. The Statutes may provide that the depositary or other person holding the shares shall not be subject to the provisions of Articles 9 and 13, or shall be subject only to certain of them, provided, however, that such depositary or other person shall always comply with Section 7.14.1 hereof.

(8) Share Register

8.1 The Board of Directors of the Company shall keep a register of shareholders, including holders of interim shares. The Board of Directors of the Company may outsource the administration of its Share Register to a clearing house, a central depository, an investment enterprise, a financial institution, an attorney at law or an auditor (other than the elected auditor) subject to publication of the commission and identity of the consignee in the Cégközlöny (Companies Gazette) and on the Company's homepage. The following shall be recorded in the Share Register: the name (company) and address (registered seat) of the shareholders and the shareholders' representatives (hereinafter referred to jointly as "shareholders"), or in the case of jointly owned shares, the name (company) and address (seat office) of the joint representative, furthermore, the number of shares or interim shares (ownership ratio) of shareholders as per each series of shares, as well as any other data set forth by law and in section 9.3 of the Statutes. (Section 3:245 of the Civil Code)

8.2 Anyone whose actual or deleted data is contained in the Share Register may inspect the Share Register, and may request a copy of the section thereof concerning themselves from the keeper of the Share Register, which request the keeper of the Share Register shall satisfy within five days. The first copy of such certificate of shareholding (the extract in the case of digital data carriers) shall be provided free of charge. Any further copies shall be provided at the expense of the shareholder requesting them. The Share Register may be inspected by third parties within the limits of the legal regulations concerning the inherent rights and the protection of data. (Section 3:247 of the Civil Code) While inspecting the

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Share Register the Company informs the inspecting person if it has initiated an identification of ownership procedure. The Company publishes the rules of inspection on its website.

8.3 The securities account keeper of the shareholder files the shareholders' request of registration to the keeper of the Share Register within two working days after the crediting of the shares to the securities account, except if the shareholder explicitly prohibits or does not authorize the securities account keeper to do so. The keeper of the Share Register may refuse to comply with the registration request of shareholder, if such shareholder has acquired his shares in violation of the regulations on the transfer of shares set out by law or the Statutes. A registered shareholder shall be deleted from the Share register upon his request. (Subsections 3:246 (2)-(3))

8.4 The determination of entitlement to exercise the rights of shareholding takes place by way of identification of ownership. A certificate of ownership is not required for the exercise of shareholding rights (Subsection 3:254 (6) and Section 3:248 of the Civil Code) The date of registration in the Share Register shall be same as the date of the identification of ownership.

(9) Transfer of Shares

A. General

9.1 The shares of the Company shall be acquired and transferred by debiting of the securities account of the transferor and crediting of the securities account of the new shareholder with the dematerialized share. The person on whose account the share is registered shall be deemed to be the holder of the share. (Sections 6:577 and 6:578 of the Civil Code)

9.2 Shareholders may exercise shareholder rights towards the Company only upon being registered in the Share Register. (Subsection 3:246 (1) of the Civil Code)

B. Entry in the Share Register

9.3 In case of persons falling under the obligation of notification pursuant to the provisions of the Capital Market Act, the transfer of registered shares shall be entered by the Company in the Share Register upon evidencing that the report to the Commission relating to the acquisition of shares and the required public disclosure regarding same pursuant to the provisions of the Capital Market Act has been made, and furthermore upon the presentation to the Board of Directors by the transferee of shares, by the shareholder's representative or, in case of jointly owned shares, the joint representative of the information satisfactory to the Board of Directors concerning (a) the circumstances of the acquisition of shares, (b) the identity (in the case of a natural person) or the status and ownership (in the case of a legal entity or other body, incorporated or otherwise) of the transferee of shares Within the framework of the obligation of notification, at least the following documents must be presented to the Board of Directors:

- (i) in case of shareholders which are legal entities, a recent certificate of incorporation or any other official document of equivalent purpose providing detailed information concerning the current legal status and ownership structure of the shareholder, and

- (ii) a statement by the shareholder indicating (a) whether the shareholder is the beneficial owner of the shares to be entered in the Share Register, (b) whether there is any agreement relating to the exercise of voting rights with respect to the shares, and (c) providing - in case of shareholders which are legal entities - information satisfactory to the Company concerning the name, registered seat and ownership structure of any shareholder, partner, member of, or holder of any interest in, the shareholder holding or controlling 20% (twenty percent) or more of its registered capital or voting rights at its general meetings. The certificate of incorporation or any other official document of equivalent purpose relating to the member of the shareholder

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holding at least 20% of the voting rights in the shareholder must also be presented to the Board of Directors and furthermore, the notification obligation shall also apply with respect to members holding at least a 20% interest or voting rights in the shareholder;

- (iii) a statement of the shareholder pursuant to which such shareholder shall undertake to notify, without any delay, the Board of Directors of the Company of any agreement relating to the exercise of voting rights with respect to the shares;

- (iv) a statement declaring that the shareholder will notify, without any delay, the Board of Directors of the Company of any change in its ownership, where such change is resulting in a member or shareholder of such shareholder acquiring or otherwise controlling - directly or indirectly - at least 20% (twenty percent) or more of the registered capital of the shareholder or voting rights at its general meetings.

In each case, a request for registration into the Share Register by a shareholder shall contain an authorization by said shareholder for the cancellation of the registration in case that such request shall - either at the time of the request or subsequently - contain any materially false, fraudulent or misleading statements.

9.4 (Deleted on the basis of the resolution of the AGM of April 28, 2003 due to the dematerialization of the common shares.)

9.5 (Deleted on the basis of the resolution of the AGM of April 28, 2003 due to the dematerialization of the common shares.)

9.6 The Company shall send its notices to the shareholders or shareholders' representatives - in case of jointly owned shares, the joint representative - registered in the Share Register and to the address indicated in the Share Register, and shall not assume any liability if the actual ownership structure is different from the structure entered in the Share Register.

9.7 (a) The Company shall be entitled to refuse registration in the Share Register, and/or the Board of Directors shall be entitled to delete the registered shareholder or the shareholders' representative from the Shareholders' Register even without the consent of the shareholder thereto, if: (i) a shareholder or shareholder's representative fails to provide the documents, certificates and statements set forth in Section 9.3 hereof where such shareholder or shareholder's representative is required by the present Statutes to provide such documents, certificates and statements, or (ii) if a shareholder has failed to fulfill its notification and publication obligation relating to the acquisition of influence or has acquired influence in excess of the threshold in the Capital Market Act, other than as a result of a successful mandatory offer in accordance with the provisions of the Capital Market Act, or (iii) if the request for registration contains illegible or not understandable information. Any registration in the Share Register made on the basis of materially false, fraudulent or misleading statements shall be deemed null and void and may be cancelled by the Board of Directors.

(b) A shareholder (i) whose acquisition or holding of shares is prohibited by applicable law including when the shareholder has failed to fulfill its notification and publication obligation relating to the acquisition of influence; or (ii) whose shareholding has not been registered in or has been deleted from the Company's Share Register, may not exercise its shareholders' rights with respect to the Company (including but not limited to the right to vote and to receive dividends). In case the Board of Directors deletes the shareholder from the Share Register for lack of the required certificates or for non-appropriate certificates, then the resolutions of the General Meeting passed with the participation of such shareholder shall only remain in force if the majority required to pass such resolution was met without the votes of the deleted shareholder.

(c) A shareholder shall be liable for all losses and damages caused to the Company or any other shareholder arising from the provision of materially false, fraudulent or misleading information in documents, certificates or statements in connection with an application for entry into the Share Register, or any material failure to meet its obligations under this Article 9.

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C. Publication of the acquisition of influence and Notification to the Company - Thresholds

(Deleted on the basis of the resolution of the AGM held on April 28, 2009.)

(10) Signing on Behalf of the Company

The following persons shall be authorized to sign their names under the stamped, printed, or hand-written name of the Company, and thereby undertake rights and obligations on behalf the Company:

(a) the Managing Director acting **solely**, on behalf of the Company,

(b) any two members of the Board of Directors acting **jointly**,

(c) any member of the Board of Directors of the Company **jointly** with an employee of the Company vested by the Board of Directors with the authority to sign on behalf of the Company,

(d) any two employees of the Company vested by the Board of Directors with the authority to sign **jointly** on behalf of the Company.

(11) The General Meeting

11.1 The General Meeting is the highest decision-making body of the Company, and shall be comprised of all of the shareholders.

11.2 An annual General Meeting shall be held no later than by the last day of the fifth month of every business year. The agenda of such annual General Meeting shall contain the following items without limitation:

11.2.1 the Board of Directors' report on the Company's consolidated annual report for the previous business year pursuant to the International Financial Reporting Standards (IFRS);

11.2.2 the Supervisory Board's report on the Company's consolidated annual report for the previous business year pursuant to the IFRS;

11.2.3 the Auditor's report on the Company's consolidated annual report for the previous business year pursuant to the IFRS;

11.2.4 approval of the Company's consolidated annual report for the previous business year pursuant to the IFRS;

11.2.5 the Board of Directors' report on the Company's individual annual report for the previous business year prepared pursuant to the Accounting Act; on the management; the financial situation and the business policy of the Company. (Section 3:284 of the Civil Code);

11.2.6 the Supervisory Board's report on the Company's individual annual report for the previous business year, including also the recommendation regarding the appropriation of after-tax profits;

11.2.7 the Auditor's report on the Company's individual annual report for the previous business year;

11.2.8 approval of the Company's individual annual report for the previous business year, including the resolution on the appropriation of the after-tax profits;

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11.2.9 the Board of Director's report on the practice of corporate governance and on the departures made by the Company in applying the Corporate Governance Recommendations of the Budapest Stock Exchange;

11.2.10 determination of the remuneration of the elected directors;

11.3 The Annual General Meeting shall be convened by the Board of Directors unless otherwise provided by the Civil Code. The person or organ convoking the General Meeting shall determine its time, venue, and agenda.

11.4 The Board of Directors shall have the right to call an extraordinary General Meeting at its discretion. The Board of Directors shall also call an extraordinary General Meeting if persons authorized by the Civil Code or these Statutes request from the Board of Directors that a General Meeting be held. If shareholders holding at least one percent of the votes request for the convening of a General Meeting, stipulating its reason and purpose, such a General Meeting shall be convened. (Sections 3:103 and 3:266 of the Civil Code) In the cases determined by the Civil Code, the Supervisory Board, and the Court of Registration are entitled to convene an extraordinary General Meeting.

The Auditor shall initiate the convocation of the General Meeting in cases described by Section 3:38 of the Civil Code. If a General Meeting is not convened, or if the decision called for by the legislation is not made, the Auditor notifies the Court of Registration supervising the Company.

A General Meeting may only be convened while an action is pending at the court with respect to the registration of a capital increase, and subscribers to the increased registered capital are unable to exercise their voting rights with respect to the shares subscribed in the capital increase as a result of the pending registration, if extraordinary circumstances justify the convening of such General Meeting. Such extraordinary General Meeting may only discuss and resolve items justified by such extraordinary circumstances.

11.5 The convening of the General Meeting shall be published on the Company's homepage at least 30 days prior to the commencement date thereof pursuant to the provisions applicable to the Company's announcements. The Company may notify shareholders regarding the convocation of the General Meeting in an electronic format, if shareholders have so requested. If an extraordinary Meeting is convened due to a shareholder stance rendered in connection with a public offer or following a successful public purchase offer and initiated by the acquirer of influence, the Meeting must be convened at least fifteen days prior to its commencement day.

11.5.1 The members of the Board of Directors and of the Supervisory Board and the auditor shall receive separate invitations to the General Meetings.

11.5.2 The announcement (invitation) convening the General Meeting shall indicate the name and seat of the Company, the venue, date, time, agenda and method of holding of the General Meeting, the conditions placed on the exercise of voting rights as specified in these Statutes as well as the time and venue of the reconvened General Meeting. No more than twenty-one days, but at least ten days shall pass between the General Meeting of an insufficient quorum and the reconvened General Meeting. The announcement convening the General Meeting shall contain the information that a shareholder or nominee may participate on the General Meeting if registered in the Share Register at least two working days prior to the beginning date of the General Meeting (Subsection 3:273 (2) of the Civil Code, Section 13.1 of these Statues); and the requirements laid down in these Statutes (Section 11.5.3.) of exercising the right to supplement the agenda of the General Meeting (Section 3:259 of the Civil Code), as well as the date, place and way of accessing the full and original text of the proposals on the agenda and of the proposed resolutions (including the website of the Company). (Subsection 3:272 (1) of the Civil Code)

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11.5.3 If shareholders with at least one percent of the votes inform the Board of Directors in writing at the latest within eight days following the publication of the agenda about their proposal to amend the Agenda - in accordance with the provisions on detailing the items of the agenda -, or table draft resolutions for items included or to be included on the agenda , the Board of Directors shall render an opinion on the request and publish a notice on the amended agenda and the tabled draft resolution within eight days. The issue indicated in such notice shall be regarded as added to the agenda. The Board of Directors may reject the shareholders' request if the fulfilment thereof infringed upon the law. If the Board of Directors rejects the shareholder's request, the Board of Directors shall publish a notification to that effect along with the reasons for the rejection. (based on Section 3:259 of the Civil Code)

11.5.5 Items not listed in the published agenda may only be discussed and valid resolutions concerning these items shall only be passed if all of the shareholders are present at the General Meeting and they give their unanimous consent to the addition of such items to the agenda. The agenda shall be indicated in the invitation or the proposals for resolutions in sufficient detail to enable the persons entitled to vote to formulate an opinion on the subjects to be discussed.(Section 3:17 of the Civil Code).

11.5.6 The announcement of the General Meeting shall indicate that the shareholders entitled to participate and vote at such General Meeting shall have the right to be represented in participation and voting at the General Meeting by a duly authorized proxy, pursuant to Article 13.4. Such duly authorized representatives are not required to be shareholders of the Company.

11.6 The Company shall publish the key data of its draft consolidated annual report for the previous business year pursuant to the IFRS and its draft individual annual report and of the report of the Board of Directors and the Supervisory Board, the total number (proportion) of shares and voting rights at the date of convening the General Meeting, including separate summaries on the individual share classes, together with a summary of the proposals relating to the items on the agenda, the supervisory board reports on these, and draft resolutions, as well as forms for voting via proxy, on the Company's homepage at least twenty one days prior to the General Meeting. The Company shall publish the names of the members of the Board of Directors and the Supervisory Board and all monetary and non-monetary benefits granted to these members in this role, detailed by members and the legal title for the benefit simultaneously with convening the General Meeting. (Subsections 3:258 (2) and 3:272 (3) of the Civil Code)

11.7 With the exception of cases (that might be issues listed under 12.1. d/ii and y/i) where the presence of a larger number of shareholders is required due to the voting proportions set out in article 12.1 in order to constitute a quorum, a quorum exists if shareholders, personally or through their representatives, representing over half of the votes embodied by the voting shares are present at the General Meeting and have duly evidenced their shareholder or representative status. The General Meeting may be suspended once. If the General Meeting is suspended, it shall be continued within thirty days. Existence of the quorum shall be examined at each decision. With respect to the quorum, shareholders or representatives of a shareholders who submit a "yes", "no", or "abstention" vote shall be deemed as the ones being present.

11.8 If the General Meeting has no quorum, the General Meeting shall be reconvened in accordance with Section 11.5.2. With the exception of cases (that might be any issues listed under 12.1) where under the given circumstances the presence of a larger number of shareholders is required due to the voting proportions set out in article 12.1 in order to constitute a quorum, the reconvened General Meeting shall have a quorum for the purpose of considering items on the agenda of the original General Meeting if the shareholders representing more than 20% of the votes relating to the voting shares issued by the Company are presented personally or via proxy at the reconvened General Meeting and their shareholding or representation right has been duly evidenced.

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11.9 The General Meeting shall be chaired by the Chairman of the Board of Directors or by a person called upon in advance by the Board of Directors. The General Meeting shall approve the identity of the president of the General Meeting prior to the substantive discussion of further items of the agenda and until this has happened, the General Meeting cannot make a further substantive decision in respect of the items on the agenda.

(12) Matters Within the Exclusive Competence of the General Meeting:

12.1 The following matters shall belong to the exclusive competence of the General Meeting:

(a) establishment and - unless these Statutes provide otherwise - modification of the Statutes (three quarter majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares, except for those decisions requiring a greater majority pursuant to the Statues);

(b) decision on the change of the form of operation of the Company (90% majority of the votes present at the General Meeting, but at least 45% + 1 vote of all the voting shares), which enters into force upon the delisting of the Company's shares;

(c) decision on transformation or termination without a legal successor of the Company (90% majority of the votes present at the General Meeting, but at least 45% + 1 vote of all the voting shares);

(d) (i) the election and removal of the members of the Board of Directors, the Supervisory Board, the Audit Board and of the Auditor, and the establishment of their remuneration (for election and the establishment of the remuneration, simple majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares; (ii) for the removal of a member of the Board of Directors, a simple majority of those present but at least 35%+1 vote of all the voting shares , and (iii) for the removal of members of the Supervisory Board and of the Audit Board and of the Auditor, three quarter majority of the votes present at the General Meeting, but at least 35% + 1 vote of all the voting shares);

(e) approval of the consolidated annual report for the previous business year pursuant to the IFRS and of the individual annual report, including the decision on the appropriation of after-tax profits (simple majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(f) decision - unless otherwise stipulated by the Statues - to pay interim dividends (simple majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(g) decision concerning the policies of the long-term remuneration and promotional system of the members of the Board of Directors, the members of the Supervisory Board as well as of executive employees [Subsection 3:268 (2) of the Civil Code]; decision concerning the approval of the report on corporate governance (Subsection 3:289 (2) of the Civil Code); (simple majority of those present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(h) decision – based on the detailed proposal of the Board of Directors - on providing financial aid for third parties to acquire the Company's own shares (Subsection 3:227 (1) of the Civil Code) (upon the approval of at least the three-quarter majority of the voters present, which votes shall represent at least 20%+1 vote of all the voting shares);

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(i) variation of the rights attached to the individual series of shares, and the transformation of categories or classes of shares (three quarter majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(j) decision - unless otherwise stipulated by the Statues - on the issue of convertible, self-converting bonds or bonds with subscription rights (simple majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(k) decision on the acquisition of own shares, unless otherwise provided for by the Statutes, furthermore, the authorization of the Board of Directors for the acquisition of own shares (simple majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(l) decisions on the (i) listing or (ii) delisting of Company shares on the Stock Exchange (three quarter majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares in case of listing, or 35% + 1 vote of all the voting shares in case of delisting, unless the decision would result in the change of the Company's corporate form);

(m) with the exception of commercial transactions, any resolution concerning financial matters of the Company that involves the distribution of funds, the obtaining of loans, the granting of guarantees, or the creation of any other financial liability the aggregate financial effect of which over one year exceeds fifteen percent (15%) of the Company's total assets (saját vagyon) as determined by the last audited balance sheet (simple majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(n) decisions on investments and leases which have a financial effect over one fiscal year equalling or exceeding twenty-five percent (25%) of the Company's total assets as determined by the last audited balance sheet (simple majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(o) decisions on the acquisition of other companies, their share capital, and/or the formation of any other company, if any such transaction has a financial effect over one fiscal year equalling or exceeding thirty percent (30%) of the Company's total assets as determined by the last audited balance sheet (simple majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(p) decisions which may result, in one or more steps, in a fundamental reduction of the research and development or manufacturing activities of the Company in Hungary (90% majority of the votes present at the General Meeting, but at least 45% + 1 vote of all the voting shares);

(q) decisions concerning the renaming, or any amendment to the registered and/or trading name, of the Company (90% majority of the votes present at the General Meeting, but at least 45% + 1 vote of all the voting shares). (Subsection 3:102 (2) of the Civil Code);

(r) decisions concerning the changing of the registered seat of the Company (90% majority of the votes present at the General Meeting, but at least 45% + 1 vote of all the voting shares). (Subsection 3:102 (2) of the Civil Code);

(s) decisions concerning the cancelling of the registration of the following classified activities within the Company's scope of activity: in accordance with the classification under the new TEAOR '08 (21.10) Manufacture of basic pharmaceutical products; (21.20) Manufacture of pharmaceutical preparations; (20.13) Manufacture of other inorganic basic chemicals (20.14) Manufacture of other organic basic chemicals, or the cessation of any of such activities (90% majority of the votes present at the General Meeting, but at least 45% + 1 vote of all the voting shares). (Subsection 3:102 (2) of the Civil Code)

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(t) decision on all matters belonging to the exclusive competence of the General Meeting pursuant to the laws or these Statutes (simple majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares, unless otherwise stipulated by the Statues or by the laws);

(u) decision - unless otherwise stipulated in the Civil Code - on the increase of the registered capital of the Company (three quarter majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(v) decision - unless otherwise stipulated in the Civil Code - on the decrease of the registered capital of the Company (three quarter majority of the votes present at the General Meeting, but at least 35% + 1 vote of all the voting shares);

(w) decision on the exclusion of the exercise of preferential subscription rights (three quarter majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(x) (The section has been deleted by the AGM held on April 28, 2009.)

(y) if in any year four or more members of the Board of Directors or three or more members of the Supervisory Board are removed, the removal of the fourth and the subsequent member(s) of the Board of Directors or the third or subsequent member(s) of the Supervisory Board (i) a simple majority of those present in the case of the removal of a member of the Board of Directors, but at least 45%+1 vote of all the voting shares; (ii) 90% majority of the votes present at the General Meeting in the case of the removal of a member of the Supervisory Board, but at least 45% + 1 vote of all the voting shares).

12.2 Decisions on matters belonging to the exclusive competence of the General Meeting shall be decided by the majority of votes set forth in Section 12.1.

12.3 If the general meeting of the Company decides on the delisting of the shares listed on a regulated market, the shareholder whose shares are directly affected by the delisting - except if the shareholder contributed to the approval of the delisting by the general meeting - is entitled to demand within a period of 60 days from the publication of such decision (term of preclusion) that the Company buy its shares for the consideration set forth in Section 63/A of the Capital Markets Act. The offer for sale shall not be withdrawn. [Subsection 63(7) of the Capital Markets Act] The share transfer agreement between the Company and the shareholder making the offer for sale shall be deemed concluded on the last day of the period open for the exercise of the right to sell. [Section 63/A (6) of the Capital Markets Act]

(13) Voting

A. General

13.1 Certification of ownership is not required for the exercise of shareholders' rights; the entitlement is verified by way of the identification of ownership procedure. (Subsection 3:254 (6) of the Civil Code) Pursuant to the identification of ownership initiated by the Company, or in the case of a representative, on the basis of the power of attorney, the Board of Directors shall issue a voting card or another certificate containing an entitlement to vote (the "voting card"). At the General Meeting, shareholder rights can be exercised via the voting card. The voting card shall contain the name of and the number of votes entitled to the shareholder or the shareholder's representative.

The Company shall only issue a voting card to a shareholder or shareholder's representative who is registered in the Share Register as the owner of the shares or as the shareholder's representative, or in case of jointly owned shares, as joint representative.

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The name of a shareholder, or of a shareholder's representative, who wishes to participate in the General Meeting shall be recorded in the Share Register by the second working day preceding the commencement day of the General Meeting. [Subsection 3:273 (2) of the Civil Code]

In the case of identification of ownership initiated by the Company, if it is in connection with the closing of the Share Register, the keeper of the Share Register delete all the data in the Share Register at the time of identification of ownership and at the same time shall record in the Share Register the data resulting from the identification of ownership. (Section 3:248 of the Civil Code)

Shareholders' rights at the General Meeting may be exercised by the person who is the owner of the shares on the reference date for the identification of ownership and whose name is contained in the Share Register on the second business day before the first day of the General Meeting. (Subsection 3:273 (3) of the Civil Code). The keeper of the Share Register shall ensure the possibility of exercising of the right of registration until 6.00 PM (Budapest time) of the second business day before the first day of the General Meeting.

The closing of the Share Register shall not impede the transfer of shares following the closing of the Share Register by a person registered in the Share Register. The transfer of shares prior to the commencement day of the General Meeting does not exclude the right of a person registered in the Share Register to participate in the General Meeting and to exercise the rights to which he is entitled as a shareholder. [Subsection 3:273 (3) of the Civil Code]

13.2 Subject to the provisions of Section 13.8 hereafter, every share of nominal value HUF 100 entitles its holder to one vote.

13.3 A shareholder shall not be entitled to exercise voting rights prior to having effected full payment of its contribution in cash.

13.4 Shareholders may also exercise their rights at a General Meeting through an authorized representative. One representative may represent several shareholders; however, one shareholder may have only one representative. If the shareholder holds shares that are held on more than one securities account, it may authorize different representatives for each securities account. However, with respect to the shares held by the same shareholder, the votes cannot be different, otherwise all votes of that shareholder are invalid.

Representatives may obtain voting cards if they present authorization contained in an official deed or a private deed of full probative value to the Company at the time and place indicated in the announcement regarding the General Meeting.

In case of doubt, the power of attorney issued by a shareholder shall be valid for one General Meeting, and applies to any continuations of a suspended General Meeting and also any reconvened General Meetings postponed due to a lack of quorum. Members of the Board of Directors, of the Supervisory Board or the auditor shall not be authorized to represent a shareholder at a General Meeting.

The above provisions do not affect the regulations relating to the "shareholder's nominees".

13.5 If the voting is effected by using voting cards, the Board of Directors shall issue to the shareholders (or to the authorized representatives) entitled to vote such number of voting cards that is equal to the number of items on the agenda of the General Meeting, on which voting is required.

Voting cards shall bear:
- the name of the Company and the class of shares,
- the name of the shareholder,
- the time of the General Meeting,
- the number of votes, and
- clearly indicated spaces for the marking of "yes," "no," and "abstain."

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For the calculation of the votes for the adoption of a valid resolution, only the voting cards that are submitted must be taken into account, and only where "yes," "no," and "abstain" (and only one of these) are clearly marked. A voting card marked as "abstain" shall he considered a valid, submitted vote. For the passing of a valid resolution, only voting cards marked "yes" shall be taken into account.

At the General Meeting, the voting shall be effected by handing over the voting cards to the vote counters.

The Board of Directors may decide to implement another method for the vote counting (i.e., using a computer to count votes). In such case, the proper recording of the above mentioned information shall have to be secured.

13.6 A three member commission shall be elected at the beginning of the General Meeting for the purpose of counting the votes. The Chairman of the General Meeting shall nominate members for election to the commission. The Chairman of the General Meeting may not be elected as a member of the commission.

13.7 The result of each vote shall be presented by the commission in a written report duly countersigned by the members of the commission.

B. Limitation on Voting Rights

13.8 At general meetings, a shareholder may not exercise voting rights, for its own account or as the representative of another shareholder, alone or in concert with affiliated persons, in excess of 25% (twenty five percent) of the voting rights attached to the shares held by shareholders present or represented at the general meeting.

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13.9 (Deleted on the basis of the resolution of the AGM of April 28, 2009.)

(14) The Board of Directors

14.1 The Board of Directors shall be the Company's managing body. It shall represent the Company with respect to third parties, in court and before other authorities. The Board of Directors shall develop and control the Company's operations and shall exercise employer's rights over the General Director. The Board of Directors shall be comprised of 3 (three) but no more than 11 (eleven) members. The members of the first Board of Directors of the Company shall be appointed by the founders in the Deed of Foundation for a term of 1 (one) year starting from the date of appointment. Subsequently, the General Meeting shall elect from time to time the members of the Board of Directors for a defined period of time that shall not exceed the term of 5 years.

The names and data of the members of the Board of Directors are contained within Annex (A) of these Statutes.

14.2 The Chairman and the Deputy Chairman of the Board of Directors shall be elected from among the members of the Board of Directors by the members of the Board of Directors. The first Chairman of the Board of Directors shall be appointed for a term equal to the term for which the first Board of Directors has been appointed. Subsequently, the Chairman of the Board of Directors shall be elected for a term, the duration of which shall be decided by the Board of Directors. The Board of Directors may withdraw the mandate of the Chairman at any time. If for any reason, the Chairman or the Deputy Chairman cease to be members of the Board of Directors, their mandate as Chairman or Deputy Chairman shall be terminated. The Board of Directors shall control the Company's business activities in compliance with the provisions of these Statutes, the resolutions of the General Meeting, and all

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applicable laws. The remuneration of the members of the Board of Directors shall be determined by the General Meeting.

14.3 The convocation and rules of procedure of the meeting of the Board of Directors:

14.3.1 The Board of Directors shall convene ordinary meetings at least four times a year. The venue, date, time and agenda of such meetings shall be determined by the Chairman of the Board of Directors at his discretion. Members of the Board of Directors shall be notified thereof not less than 8 days before the meeting. The invitation to the meeting of the Board of Directors shall be in writing.

14.3.2 The Chairman of the Board of Directors or, if absent, the Deputy Chairman shall convene the meeting of the Board of Directors if requested by the General Director or by any two members of the Board of Directors jointly. The meeting of the Board of Directors shall be chaired by the Chairman of the Board of Directors or, if prevented from attending, the Deputy Chairman.

14.3.3 If the Chairman and the Deputy Chairman of the Board of Directors are not present at the meeting of the Board of Directors, the members present shall elect a Chairman from among the members of the Board of Directors present.

14.3.4 Two-thirds of the total number of the members of the Board of Directors, but no less than three members, must be present at the meeting of the Board of Directors to constitute the quorum required to pass valid resolutions. The total number of the members of the Board of Directors shall mean the number of the members of the Board of Directors in office at such time.

14.3.5 In lack of a quorum at a Board of Directors' meeting, the Chairman shall convene another meeting to be held within three days from the date of the original meeting. At such second meeting a quorum exists if the majority of the directors in office, but at least three members, are present.

14.3.6 Should the number of the members of the Board of Directors fall below three, an extraordinary General Meeting shall be convened in order to elect new directors.

14.4 The Board of Directors shall have the competence:

(a) to convene an ordinary and extraordinary General Meeting, except in cases defined by the Civil Code;

(b) to prepare, approve and submit to the General Meeting proposals relating to the matters specified in Section 12. of these Statutes;

(c) to prepare reports on the management, financial situation and business strategies of the Company, and to submit such reports to the General Meeting once a year, and to the Supervisory Board every three months;

(d) to decide on the Company's annual and medium term business plans, to be carried out by the management of the Company;

(e) (i) to decide on any financial matters (excluding commercial transactions), involving expenses, borrowing, the granting of guarantees, or the placing of a financial liability on the Company with a value in excess of two percent (2%) but less than fifteen per cent (15%) of the value of the Company's total assets as determined in the Company's last audited balance sheet;

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(ii) to decide on investments and lease-purchases not provided for in the Company's annual business plan, the financial effect of which over one year is in excess of two percent (2%) but less than twenty-five percent (25%) of the value of the Company's total assets, as determined by the Company's last audited balance sheet;

(f) to decide on the acquisition of other companies or a part of their registered/share capital, and/or the foundation of new companies not provided for in the Company's annual business plan, where such transactions have a financial effect over one year in excess of two percent (2%) but less than thirty (30%) of the Company's total assets as determined in the Company's last audited balance sheet, and to make decisions regarding the acquisition of a share interest in another company exceeding 25%;

(g) to determine the scope of authority of the General Director entrusted with the management of the Company;

(h) to approve the Company's internal Organizational and Operational Rules and Regulations;

(i) to determine the employees' right to sign on behalf of the Company;

(j) to decide on acquisition of the Company's own shares (i) if the Company acquires the shares in a court proceeding aimed at the settlement of a claim to which the Company is entitled, or in a restructuring; (ii) if the shares are acquired in order to avoid an imminently threatening serious damage to the Company, except for the case of a public takeover offer aimed at the acquisition of the shares; or (iii) if approved by the General Meeting; to decide on the sale of treasury shares owned by the Company;

(k) to ensure that the books of the company are kept according to the rules;

(l) in the cases set forth in the Civil Code or in the Statues, to accept an interim balance sheet with the prior approval of the Supervisory Board, furthermore to decide on the issuance of bonds, on the increase of the registered capital and on the payment of interim dividends;

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(m) to decide on changing the business sites and branch offices of the Company and (with the exception of the main activity and the activities listed in Section 12.1 (s) hereof) the scope of the Company's activities, and on the related amendment of the Statutes.

The limitations in the value of the transactions as set forth in 14.4 (e) and (f) hereof shall apply to the aggregate value of transactions of the same type carried out within one year.

14.5 Any limitation of the right of representation of the Board of Directors according to the above shall be null and void with respect to third persons.

14.6 The Board of Directors shall pass its resolutions by a simple majority voice vote. At the request of any member of the Board of Directors, the Chairman shall order a secret vote.

14.7 Members of the Board of Directors shall be liable for any damages caused to the Company by any breach of their obligations in accordance with the provisions of the Civil Code on liability for damages caused by the breach of a contract.

(15) The Managing Director

15.1. The Board of Directors shall authorize one of its members to control the day-to-day operations of the Company , in any case, for a term of office to be decided by the Board of Directors.

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15.2 The Managing Director shall be personally liable for managing the Company's affairs in accordance with applicable laws and regulations, these Statutes, and the resolutions of the General Meeting and Board of Directors.

15.3 The Managing Director may, according to the Company's internal Organizational and Operational Rules and Regulations and within the sphere of the internal administration of the Company, delegate his duties and powers to managers and employees of the Company. Such delegation shall be executed by a formal, written instrument specifying the duties and powers delegated. The Managing Director's delegation of duties and powers may be general or made on a case-by-case basis. However, any limitation of the Managing Director's sphere of authority arising out of his membership on the Board of Directors shall be null and void with respect to third persons.

15.4 The Managing Director shall be entitled to decide on any matters that do not belong to the competence of the General Meeting or the Board of Directors.

15.5 The employer's rights over the employees of the Company can be exercised by employees of the Company and persons having an other kind of legal relation with the Company in accordance with the rules set forth in Annex (B) of the Statutes.

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15.6 The Managing Director, acting in the interests of the Company, shall enter into agreements, represent the Company with respect to third persons, before courts and other authorities.

15.7 The Managing Director shall:

- prepare the agenda of the General Meeting and the meeting of the Board of Directors, and shall present proposals and motions for decisions at such meetings,
- implement the resolutions and decisions passed at the General Meeting and control the performance of the undertakings falling within the Company's scope of activities.

15.8 Except for the rights assigned to the General Meeting, the employer's rights over the Managing Director shall be exercised by the Board of Directors. The Managing Director may not vote on decisions regarding these matters and on resolutions affecting his person as a member of the Board of Directors.

15.9 The Board of Directors may delegate any of its powers related to the day-to-day management of the Company to the Managing Director under the terms and conditions set forth at the Board of Directors' discretion. The Board of Directors may withdraw or alter any or all of these powers from time to time. Such delegation shall not affect the responsibility of the Board of Directors.

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(16) The Supervisory Board and the Audit Board

16.1 The Supervisory Board shall be comprised of at least 5 members and shall not exceed nine members.

16.2 The members of the first Supervisory Board shall be appointed by the Founders in the Deed of Foundation for a term of 1 (one) year starting from the date of appointment. Subsequently, the General Meeting shall from time to time appoint the members of the Supervisory Board for a defined period of time that shall not exceed the term of three years. The General Meeting shall not appoint employees of the Company to the Supervisory Board except for the employees' representatives appointed in accordance with Subsection 3:124 (1) of the Civil Code . The members of the Supervisory Board shall elect a chairman from among themselves.

The majority of the members of the Supervisory Board must be independent. A member of the Supervisory Board shall be independent if the member has no other legal relationship with the Company than the membership of the Supervisory Board, or legal relationships which are part of the Company's ordinary activities and aims to fulfill the personal needs of the Board member.

A Member of the Supervisory Board is not independent, if he/she:

a) is an employee or previous employee of the Company for five years following the termination of such legal relationship;
b) carries out activities as an expert or in another mandate legal relationship for the Company or its executive officers and their benefit for consideration;
c) is a shareholder in the Company who directly or indirectly possesses at least thirty percent of the votes or is a close relative [Subsection 8:1 (1) 1. of the Civil Code] or common law spouse of such a person;
d) is a close relative or common-law spouse of one of the Company's – not independent – executive officers or executive employees;
e) is entitled to financial benefits as a member of the Supervisory Board upon the successful operation of the Company, or if he is remunerated by the Company, or by a business affiliated with the Company, in addition to the fee received as a member of the Supervisory Committee;
f) is in a legal relationship in a company with a non-independent member of the Board of Directors or the Supervisory Board, hased on which the non-independent party has a controlling right;
g) is the Company's auditor, or is the auditor company's employee or member, for three years following the termination of such legal relationship;
h) is an executive officer or executive employee in a company, in which the independent members of board of directors or supervisory board are executive officers in the Company at the same time.

The names and data of the Supervisory Board members are contained in Annex (A) to these Statutes.

16.3 The duties of the Supervisory Board shall be:

(a) to control the management of the Company;

(b) to examine all substantial business strategy reports on the agenda of the General Meeting, as well as any proposals relating to issues falling within the exclusive competence of the General Meeting. The General Meeting may pass resolutions on the consolidated annual report for the previous business year pursuant to the IFRS and the individual annual report for the previous business year , including also the appropriation of the after-tax profits, only if in possession of the written report of the Supervisory Board;

(c) any other duties prescribed by the Civil Code.

16.4 If, in the course of carrying out its duties, the Supervisory Board becomes aware of any measures in contradiction with the laws or these Statutes or the resolutions of the General Meeting, or if in its opinion the business activities of the Company are contradictory to the interests of the Company or its

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shareholders, the Supervisory Board shall convene a General Meeting without delay and propose its agenda.

16.5 On the Supervisory Board, employees' representatives shall have the same rights and same obligations as all other members. If the unified opinion of the employees' representatives differs from the majority standpoint of the Supervisory Board, the minority standpoint of the employees shall be stated at the General Meeting.

16.6 The procedural rules (standing orders) governing the Supervisory Board shall be established by the Supervisory Board and approved by the General Meeting.

16.7 The Supervisory Board shall have a quorum if each of its members has been duly invited thereto and at least two-thirds, but at least four of the members are present. If there is a lack of quorum, the meeting shall be postponed. The reconvened meeting shall have a quorum if at least three members of the Supervisory Board - in the ratio defined in section 16.8 hereafter - are present. The Supervisory Board shall pass resolutions by simple majority of those present.

16.8 As long as the number of the Company's full time employees exceeds a yearly average of two-hundred, the employees shall participate in the control of the Company's activities through the Supervisory Board. In such case, one-third of the members of the Supervisory Board shall be comprised of employees' representatives. In the event of an uneven number, such one-third shall be calculated in such a manner which is more favorable to the employees.

16.9 If at the time of adopting the Company's annual report it is determined at the Annual General Meeting that the number of employees dropped below two hundred during the previous financial year, the right of employee representatives to participate in the Supervisory Board shall cease. (Subsection 3:125 (4) of the Civil Code)

16.10 Following a statement of opinion from the trade unions represented at the Company, the employees' delegates on the Supervisory Board shall be nominated by the works council from among the employees. Persons nominated by the works council shall be elected as members of the Supervisory Board by the General Meeting at its first meeting following such nomination, unless statutory grounds for disqualification exist in respect of the nominees. In tbis case, a new nomination shall be requested. Failure to delegate such person shall have no effect on the Supervisory Board's operation, provided that all other statutory requirements are satisfied. In that case the seats of employee representatives may not be occupied, however, the supreme body is to elect at least three members for the supervisory board nonetheless. (Subsection 3:125 (2) of the Civil Code).

16.11 The employees' representative who is a member of the Supervisory Board shall inform the employees of the Company through the works council, of the Supervisory Board's activities, - but shall keep the business secrets of the Company.

16.12 Membership of an employees' representative on the Supervisory Board shall also terminate if his labor relationship is terminated. Employees' representatives may only be dismissed by the General Meeting upon the proposal of the works council.16.13.

16.13 A three-member Audit Board operates at the Company, the members of which are chosen from among the independent members of the Supervisory Board by the General Meeting. The Chairman of the Audit Bord is appointed by the Supervisory Board. The audit board members as a whole shall have competence relevant to the sector in which the Company is operating. At least one member of the Audit Board shall have a professional certificate in accounting or auditing. Annex (A) of the present Statutes contains the names and data of the members of the Audit Board.

16.14 The following matters belong in the scope of competences and tasks of the Audit Board:

Törölt: activities

a) opinion on the consolidated annual report for the previous year pursuant to the IFRS;

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b) opinion on the individual annual report for the previous business year;
c) monitoring the statutory audit of the consolidated and the individual annual report; taking into account any findings and conclusions by the authority in charge of the public oversight of auditors as provided for in Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors (hereinafter referred to as "Auditors Act") made during the quality assurance review provided for in the Auditors Act;
d) recommendation regarding the person and remuneration of the auditor;
e) preparation of the agreement to be concluded with the auditor,
f) observing the enforcement of the professional, conflict of interest and independency requirements applicable to auditors – with special regard to compliance with the requirents in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, undertaking the duties in connection with the co-operation with the auditor, monitoring other services provided by the auditor – or if the auditor belongs to a network, members of such network - to the Company or the companies controlled by the Company besides the auditing of the consolidated and individual annual reports, and in case of need, recommendations to the Supervisory Board regarding the arrangements to be carried out;
g) monitoring of the operation of the financial accounting system and submitting recommendations regarding the necessary arrangements where deemed necessary;
h) assistance with the work of the Supervisory Board in the interest of the appropriate supervision of the financial accounting system as well as
i) monitoring the effectiveness of the company's internal control and risk management systems and submitting recommendations where deemed necessary.

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(17) The Statutory Auditor

17.1 The Founders shall appoint an Auditor in the Deed of Foundation for a period of 1 (one) year. Subsequently, the General Meeting shall appoint the Auditor from time to time for a defined period of time that shall not exceed the term of five years to the effect that the term of the mandate shall be no less than the time period between the General Meeting that has elected the Auditor and the General Meeting approving the next annual report. If the Auditor is a legal person, the legal person must designate its member, executive officer or employee who shall be personally responsible for the completion of the audit. In the event of such person's prolonged absence, the assistant auditor may be designated to substitute the Auditor who is personally responsible. The name and data of the Auditor is contained in Annex (A) to these Statutes.

17.2 A person who is registered in the public registry of auditors pursuant to the applicable legislation may be elected as the Company's Auditor. The Auditor shall not be a shareholder or founder of the Company, nor member of the Board of Directors or Supervisory Board, nor a relative of any such member. An employee of the Company shall not be Statutory Auditor during his mandate or for three years following the termination of his mandate as Auditor.

17.3 It is the duty of the Auditor to complete the audit as set forth in the Accounting Act, and primarily to determine, whether the consolidated annual report of the company complies with the International Financial Reporting Standards, whether the individual annual report of the Company complies with the Accounting Act and whether they present a reliable and realistic picture of the Company's financial situation, assets and the results of its operation. The Auditor may not provide services to the Company that could jeopardize the objective and independent completion of above-mentioned public interest tasks. Separate legislation defines the scope of activities that may be pursued by the Company's Auditor, as well as the conditions and limits of services provided. The Auditor may examine the Company's books, documents and accounting records to ensure the completion of the Auditor's tasks, and it may also request information from executive officers, members of the Supervisory Board and the Company's employees. The Auditor may examine the Company's bank accounts, customer accounts, treasury, security and goods inventory, accounting books and agreements.

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17.4 The Supervisory Board may initiate the Auditor's hearing at a meeting of the Supervisory Board, and at the request of the Supervisory Board, the Auditor is obliged to participate at the meeting of the Supervisory Board. The Supervisory Board shall include an issue on its agenda if that has been recommended by the Auditor. The Auditor may participate with a right of consultation at the meeting of the Supervisory Board. The Auditor may not establish a professional relationship with the management of the Company that may jeopardize the independent and objective completion of the Auditor's tasks. The Auditor shall be invited to the meeting of the Company's highest decision-making body where the annual reports of the Company is discussed. The Auditor shall participate in the meeting, however if the Auditor s absent, the meeting may be held nonetheless. (Section 3:131 of the Civil Code)

(18) Business Year

18.1 The business year shall be the calendar year. The first business year shall commence on the date of the foundation of the Company and shall end on 31 December of the same year.

18.2 Subsequent to the closing of the business year, a consolidated and an individual report shall be prepared with regard to the previous business year.

(19) The Books of the Company and Financial Statements

19.1 The Company shall keep its books in the Hungarian language. The books and other records of the Company shall be kept at the seat of the Company, and shall be available at any time for inspection for the members of the Board of Directors, the Supervisory Board, and the Auditor.

19.2 The members of the Board of Directors shall bear joint and several liability for the preparation of the consolidated and the individual annual report submitted to the General Meeting in accordance with all applicable laws.

19.3 The Company's after-tax profit shall be allocated according to the following principles:

- the General Meeting shall determine the proportion of the Company's after-tax profit to be allocated for profit reserves and for dividend distribution. The General Meeting shall also determine the amount to be withdrawn from the profit reserves for the purpose of dividend distribution, and the actual amount to be distributed as dividends;

- a shareholder shall be entitled to that part of the Company's after-tax profit determined by the General Meeting as a dividend in proportion to his shareholding in the Company. Any dividend that is payable on the company's own shares shall be divided to shareholders entitled to dividends, payable in proportion of the nominal value of their shares;

- the payment of dividends shall commence at least ten (10) business days after the date of the first publication of the announcement containing also the amount of the dividends and based on the resolutions passed by the General Meeting or the Board of Directors on the amount of the dividends and the commencement date of the payment of dividends.

19.4 At the end of each financial year, a consolidated and an individual annual report shall be prepared regarding the Company's assets. The approval of such report shall fall within the exclusive competence of the General Meeting of the Company. The Company's individual interim balance sheet relating to the acquisition of the Company's shares by the Company, the payment of interim dividends and the increase of the registered capital from the Company's assets in excess of its registered capital, may also be approved by the Board of Directors with the prior consent of the Supervisory Board.

19.5 During the period between the approval of two consecutive individual financial reports, the General Meeting of the Company may resolve to pay interim dividends, if according to the Company's individual interim balance sheet according to the Accounting Act, the company has funds sufficient to

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cover such interim dividends; the amount distributed does not exceed the amount of available profit reserves shown in the interim balance sheet supplemented with the after tax profits; and the payment of such interim dividends does not result in the Company's adjusted equity capital to drop below its share capital (Section 3:263 of the Civil Code). Upon the payment of an interim dividend, the content of the interim balance sheet can be taken into consideration within six months after the balance sheet date of the interim balance sheet. Within six months after the balance sheet date of the Company's individual annual report, interim dividend may be distributed based on the annual report. Instead of the General Meeting, the Board of Directors shall also be entitled to approve the payment of interim dividends with the prior approval of the Supervisory Board. The rules relating to the payment of dividends shall appropriately apply - with the differences set forth in the Civil Code and in the Statues - for the payment of interim dividends.

Törölt: since the closing of the books of the business year according to the last annual report,

Törölt: from the previous business year

(20) Increase in the Registered Capital of the Company, issuing bonds

20.1 Registered capital may be increased:

a) by the issuance of new shares,
b) to the debit of assets in excess of share capital,
c) by the issuance of employees' shares,
d) by the issuance of convertible bonds, as conditional increase of the share capital.

The Company may increase its registered capital by issuing new shares if the nominal or issue value of all shares issued have been paid and any in-kind contributions have been rendered at the disposal of the Company.

If the Company has issued shares belonging to different types or classes, the General Meeting's resolution on the increase of registered capital shall only be valid if the directly affected shareholders of the differing types and classes of shares have also granted their consent for the increase of the registered capital separately for each series, prior to or simultaneously with the resolution on the increase of the registered capital, with a simple majority of the votes present at the General Meeting. In the course thereof, the provisions on any restriction or exclusion of voting rights attached to such shares may not be applied, save where voting rights relating to shares held by the Company are excluded.

20.2 If the registered capital is increased by contributions in cash, the shareholders of the Company, and within this category primarily those shareholders who own shares belonging in the same series of shares as the shares issued, then the owners of convertible bonds and in the same line the owners of bonds with subscription rights - in this order - shall be entitled to a preferential subscription. If the registered capital is increased through a private issuance, the subscription preference right shall be deemed to be a preferential right to receive the shares.

Within 2 (two) days following a resolution on the increase of registered capital by contribution in cash, the Company's Board of Directors shall initiate the publication of an announcement on the Company's homepage to notify the shareholders regarding the possibility to exercise the preferential subscription rights in connection with the registration/receipt of shares, the nominal value and the issue value of the shares to be subscribed, and the starting and closing day of the period of the exercise of such rights, and the way of exercising such preferential rights. The starting date may not be earlier than the day following the publication of such announcement. The Company, in case of a request of a shareholder communicated via e-mail, shall also provide information relating to the conditions of the exercise of the preferential subscription rights via e-mail. In case certain shareholders intend to subscribe for more shares than the number of shares they could actually subscribe for pursuant to their preferential subscription rights, they shall be entitled to subscribe for such further shares in the proportion of the nominal value of their previously owned shares, provided that in case of a fraction - independently of the value of such fraction - the number of the shares any given shareholder may subscribe for, shall be rounded down.

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The General Meeting - on the basis of the Board of Directors' written proposal - may exclude the exercise of the preferential subscription rights. In such a case, the Board of Directors shall present, in this proposition, the reasons for the exclusion of the exercise of the preferential subscription rights and the planned issue value of the shares. In its reasoning, the Board of Directors shall present the advantages to the Company arising from the exclusion of the exercise of the preferential subscription rights. The rules relating to the consideration of the proposal are the same as the general rules relating to the consideration of proposals presented to the General Meeting. The General Meeting shall vote regarding the exclusion proposal simultaneously with the vote regarding the proposal relating to the increase of the registered capital. The Board of Directors shall submit to the Court of Registration the resolution of the General Meeting, and shall simultaneously arrange for the publication of an announcement regarding the contents of the resolution in the Company Gazette.

If the increase of the registered capital is carried out through a private issuance of new shares for in-kind contribution, the persons entitled to receive such shares shall be indicated in the resolution deciding on the increase of the registered capital. The category and the class, the number, the series, the nominal and issue value of the shares to be received by such persons shall also be indicated in such resolution.

If the increase of the share capital is carried out through a private issuance of new shares for cash contribution, the persons entitled - to the extent the persons entitled to exercise preferential rights to receive shares have not exercised such rights, or the General Meeting has excluded the exercise of such rights - to receive such shares shall be indicated in the resolution. The category and the class, the number, the series, the nominal and issue value of the shares to be received by such persons shall also be indicated in such resolution. (On the basis of Subsection 3:296 (2) of the Civil Code) Upon the public issuance of shares, the resolution of the General Meeting regarding the increase in registered capital shall not specify the group and person of future shareholders taking part in the increase in registered capital. Persons wishing to acquire the new shares shall undertake to pay the consideration due for the shares and become entitled to receive the shares pursuant to the registration proceedings as set forth in the legislation applicable to securities.

The Company may increase its registered capital by its assets in excess of registered capital, or a part thereof, if, according to the balance sheet of the individual annual report prepared for the previous financial year or to the interim balance sheet of the year, the Company has sufficient funds in excess of the share capital, which can be used for increasing the share capital, and if the Company's resulting registered capital does not exceed its adjusted equity capital shown inthe Company's individual balance sheet. The annual report or the interim balance sheet may be taken into consideration for determining the size of funds in excess of the share capital within the six-month period following the balance sheet date. (Section 3:300 of the Civil Code).

20.3 The Board of Directors is, for a period of five (5) years from April 28, 2010 entitled to increase the Company's registered capital by a maximum of twenty-five percent (25%) per year. The largest amount by which the Board of Directors may increase the Company's registered capital within five years shall be HUF 38,239,604,000 that is, thirty-eight billion two hundred and thirty-nine million and six hundred and four thousand Hungarian Forints, thus the amount of the approved registered capital shall be HUF 56,877,090,000 that is, fifty-six billion eight hundred and seventy-seven million and ninety thousand Hungarian Forints.

If the Company has issued shares belonging to different types or classes, the General Meeting's resolution on the temporary transfer of the competence relating to the increase of the registered capital shall be valid only if the shareholders of the differing types and classes directly affected by the increase in the registered capital have also granted their consent for the temporary transfer of such competence separately, prior to or simultaneously with the resolution on the increase of the registered capital, with a simple majority of the votes present at the General Meeting. In the course thereof, the provisions on any restriction or exclusion of voting rights attached to such shares may not be applied, save where voting rights relating to shares held by the Company are excluded.

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If an increase of the Company's registered capital is declared and successfully implemented by the Board of Directors, the Board of Directors shall be obliged to amend these Statutes.

(21) Foundation Expenses

The Founders agree that any costs and stamp duties in connection with the foundation of the Company shall be borne by the Company.

(22) Termination of the Company

22.1 The Company shall be terminated if:

(a) the General Meeting resolves its termination without legal successor;
(b) the General Meeting resolves its termination with legal succession (transformation, merger, demerger);
(c) the court of registration terminates it based on the causes set forth in the Act on Company Registration and Winding-up Proceedings);
(d) the legislation so provides;

22.2 If the Company is terminated without legal successor, the assets of the Company remaining after the claims against the Company have been satisfied, shall be distributed among the shareholders on the basis of the their payments and contributions in kind actually provided, in proportion to the face value of their shares.

(23) Applicable Law, and the Procedure for Settling Legal Disputes

23.1 Matters not provided in these Statutes are governed by the provisions of the Civil Code, the Capital Market Act and Act XXIV of 1988 on Foreign Investments in Hungary (as amended).

23.2 The Permanent Court of Arbitration attached to the Hungarian Chamber of Commerce and Industry shall have exclusive jurisdiction and competence to decide any a) all legal disputes based on a company law relationship between the Company and its shareholders, including excluded shareholders or shareholders who have otherwise parted ways with the Company; b) legal disputes in connection with the Statutes or the operation of the Company between shareholders in their legal relationships; c) any dispute between the Company and its executive officers or Supervisory Board members, arising out of their office or membership in the Supervisory Board, and d) the review of resolutions adopted by the General Meeting. The Court of Arbitration shall apply its rules of procedure and appoint a panel comprised of three arbitrators. The members of the panel or its chairman may be foreign individuals. (Subsections 3:92 (1) and (2) of the Civil Code)

23.3 The venue of the Court of Arbitration shall be Budapest.

23.4 The language of the proceedings of the Court of Arbitration shall be Hungarian.

23.5 Throughout the proceedings before the Court of Arbitration, the parties are mutually obliged, at the request of any one of the adverse parties to give the Court of Arbitration and the adverse party copies of the legal documents in both English and Hungarian.

23.6 In case of legal dispute, applicable law shall be Hungarian law.

(24) Announcements, Advertisements

24.1 Announcements and advertisements of the Company shall be published on its homepage. Furthermore, if required by law, announcements shall be published in the Cégközlöny (the official gazette of the Hungarian Courts of Registration). In addition thereto, as long as the shares of the Company are traded

Törölt: 6

on the Budapest Stock Exchange (BSE), those announcements required by the BSE shall be published in a manner as set forth by the BSE.

(25) Miscellaneous

25.1 Addresses and notice: The address for receiving notice for every shareholder or shareholder's representative shall be the address listed in the Share Register. The Company bears no responsibility if a shareholder or a shareholder's representative does not communicate a change of address to the Company in a timely manner. In the context of these Statutes, any announcements or notices shall be made in writing and in Hungarian, and in English for those foreign shareholders or shareholder's representatives listed in the Share Register. In the absence of differing provisions in the present Statutes, notice shall be conclusively presumed by the parties to have been made if such notice is delivered personally, sent by courier, registered mail, facsimile, or telegram, and simultaneously, a notice is sent via registered mail with a copy of the registration receipt enclosed. In every case, the sender shall bear the cost of delivery. Where a legal statement made in writing has been sent by way of post, it shall be considered received - if sent to a resident recipient - at the point in time indicated on the notice of receipt, and in the case of registered mail on the fifth working day following dispatch, in the absence of proof to the contrary.

25.2 Headings: The headings contained in this Statute are solely for the purpose of convenience. They are not to be considered as part of these Statutes, and do not control, expand, nor limit the scope or meaning of any term contained in these Statutes.

25.3 In cases where these Statutes mention a certain ratio (percentage) of shareholders, the portion of the shares represented by the shareholder(s) shall be understood.

Date: Budapest, April 26, 2017.

Törölt: 6

I hereby countersign on the basis of Section 51(3) of Act V of 2006 on Public Company Information, Company Registration and Winding-up Proceedings the Statutes of Chemical Works of Gedeon Richter Plc. which were prepared by me and are consolidated with the amendments of Sections [●], as well as Annexes (A) and (B) provided for by resolutions no. [●] passed by the Annual General Meeting held on April 26, 2017.

Törölt: *11.2, 11.6, 12.1 (e), 16.3 (b), 16.14, 17.1, 17.3, 17.4, 18.2, 19.2, 19.4, 19.5, 20.2*

Formázott: Betűtípus: Dőlt, Magyar

Törölt: *10-11, 15-18 and 22*

Formázott: Betűtípus: Dőlt, Magyar

Törölt: *6*

A 2017. ÁPRILIS 26-AI ÉVES KÖZGYŰLÉS ÁLTAL JÓVÁHAGYOTT EGYSÉGES SZERKEZETBE FOGLALT ALAPSZABÁLY (B) MELLÉKLETE

ANNEX (B) OF THE CONSOLIDATED STATUTES APPROVED BY THE ANNUAL GENERAL MEETING HELD ON APRIL 26, 2017

A MUNKÁLTATÓI JOGKÖR GYAKORLÁSA A TÁRSASÁG MUNKAVÁLLALÓI FELETT / EXERCISING THE EMPLOYER'S RIGHTS OVER THE EMPLOYEES OF THE COMPANY

A Társaság munkavállalói felett a munkáltatói jogokat a Társasággal munkaviszonyban, és egyéb jogviszonyban álló alábbi személyek az alábbiak szerint gyakorolják.

The employer's rights over the employees shall be exercised by the following persons who are in employment, or other kind of legal relation with the Company, as outlined below.

I. Alapvető munkáltatói jogok[1]:

1. A vezérigazgató – akadályoztatása esetén a stratégiai vezérigazgató-helyettes – vagy a gazdasági vezérigazgató-helyettes gyakorolja az alapvető munkáltatói jogokat minden

- vezérigazgató helyettes,
- igazgató, üzletág-vezető, igazgató-helyettes,
- főosztályvezető, üzemcsoport vezető, főmérnök, valamint
- a vezérigazgató közvetlen irányítása alá tartozó vezető beosztású munkavállaló[2] felett

2. A I/1. pontban nem említett munkavállalók felett az alapvető munkáltatói jogkör gyakorlásának részletes rendjét a Társaság Szervezeti és Működési Szabályzata (továbbiakban: SZMSZ) határozza meg.

I. Basic employer's rights[1]:

1. The Managing Director – in case of his absence the finance deputy managing director or the strategic deputy managing director – shall exercise the basic employer's rights over all

- deputy managing directors,
- directors, heads of business-unit department, deputy directors,
- head of the department, head of factories, senior engineer, and
- the executive employees[2] instructed directly by him.

2. Detailed rules for exercising the basic employer's rights over employees not mentioned in Section I/1. above are laid down in the Company's Organizational and Operational Rules and Regulations (hereinafter: "Rules of Operation").

[1] Alapvető munkáltatói jogok / Basic employer's rights:

- a munkaviszony létesítése / establishment of the employment;
- a munkaviszony megszüntetése / termination of the employment;
- a munkaszerződés módosítása / modification of the employment agreement;

[2] lsd SZMSZ Szervezeti felépítés ágrajzát / see the organizational chart of the Rules of Operation

II. Egyéb munkáltatói jogok:

1. Egyéb munkáltatói jogok mindazok, amik a fentiek alapján nem minősülnek alapvető munkáltatói jognak, de különösen az alábbiak:

- utasítási jog;
- a munkakövetelmények meghatározása;
- a munka értékelése, minősítése (pl.: TÉR);
- jutalmazás;
- felelősségre vonás;
- kártérítési eljárás lefolytatása, kártérítés kiszabása;
- szabadság kiadása;
- munkaszerződéstől eltérő foglalkoztatás elrendelése;
- a dolgozók szakmai képzéséhez, továbbképzéséhez az előfeltételek biztosítása.

2. A vezérigazgató – akadályoztatása esetén a stratégiai vezérigazgató-helyettes vagy a gazdasági vezérigazgató-helyettes – gyakorolja – a kártérítési eljárás lefolytatásának és a kártérítés összegének a kiszabása kivételével – az egyéb munkáltatói jogokat minden:

- vezérigazgató-helyettes;
- igazgató, üzletág-vezető, valamint
- a vezérigazgató közvetlen irányítása alá tartozó vezető beosztású munkavállaló (vagy egyéb munkavégzésre irányuló jogviszonyban álló személy) felett.

A II/2. pontban nem említett munkavállalók felett az egyéb munkáltatói jogkör gyakorlásának részletes rendjét, valamint a II/2. pontban említett munkavállalók tekintetében a kártérítési eljárás lefolytatására és a kártérítés összegének a kiszabására jogosult személyt a Társaság SZMSZ-e határozza meg.

II. Other employer's rights:

1. Other employer's rights are the rights that do not qualify as basic employer's right as per the above definition, but particularly:

- right to provide instructions;
- establishment of the obligations with respect to the work;
- assessment and qualification of the work;
- providing rewards;
- liability issues;
- conducting a procedure on the compensation of damages, imposing an obligation for compensation;
- approval of the holidays;
- ordering derogation from the employment contract;
- ensuring the pre-conditions of participating in professional education, professional training of the employees.

2. The Managing Director – in case of his absence the strategic managing director or the finance deputy managing director – shall exercise the other employer's rights other than conducting a procedure on the compensation of damages and imposing an obligation for compensation over all:

- deputy managing directors;
- directors, heads of business-unit department, and
- the executive employees (including persons who are in other kind of legal relation aimed at work with the Company) supervised directly by the Managing Director.

Detailed rules for exercising other employer's rights over employees not mentioned in Section II/2. above, and the person entitled to conduct a procedure on the compensation of damages and impose an obligation for compensation are laid down in the Rules of Operation.

13.

Report of the Board of Directors on the treasury shares acquired by the Company based upon the authorization in AGM resolution No.14/2016.04.26.

Report of the Board of Directors on the treasury shares purchased on the basis of the authorization granted by Resolution No. 14/2016.04.26. of the AGM

Treasury shares

The AGM held on 26 April 2016 resolved that the Company should purchase its own common shares (treasury shares) with an aggregated nominal value not exceeding 10% of the registered capital.
Furthermore, the AGM resolved that the purchased treasury shares should be used for the following purpose:

- To promote Richter's strategic goals, in particular to use treasury shares as a payment istrument in acquisitions; and
- To provide the shares required for the share-based incentive scheme for Richter's employees and executives.

Based on the authorization the Company purchased 650,000 treasury shares from its subsidiary, as well as 302,831 treasury shares outside the stock exchange.

It has been the Company's intention to allocate treasury shares to its executives and employees in the context of its incentive policy.

The company operates two share incentive programmes described in detail below. In the Bonus Programmes employees will immediately become entitled to the shares; in the Employee Share Bonus Programme the shares are deposited and will be made available if the beneficiary is still employed by the Company at the time the shares are released.

Bonus Programme and Grant

In 1996 Gedeon Richter Plc. launched a bonus programme as an incentive for managers and key employees whose performance could have a significant influence on the Company's profitability. In 2016 a total of 604,789 and in 2015, 750,295 shares were distributed as bonuses to eligible employees and to those who achieved outstanding performance in the course of the year.

Programme Related to Employee Share Bonuses (section 77/C of the Personal Income Tax Act)

In accordance with its employee share scheme regulated by section 77/C of the Personal Income Tax Act, in 2016 the Company allocated 285,459 treasury shares to 4,342 employees. The shares will be deposited until 1 January 2019 on the employees' securities accounts kept with UniCredit Bank Hungary Ltd. In 2015, 350,694 treasury shares were allocated to 4,356 employees; the shares will remain in deposit until 1 January 2018 on the employees' securities accounts.

Budapest, March 2017

Erik Bogsch
Managing Director

14.

Authorization to the Board of Directors for the purchase of own shares of the Company

Proposal to Item No.:14
on the Agenda of the AGM

Resolution of the Board of Directors No.: 35/2017

The Board of Directors proposes to the AGM to make a resolution regarding the Company purchase its own common shares (i.e. shares issued by Gedeon Richter Plc.) having the face value of HUF 100, by the date of the year 2018 AGM, either in circulation on or outside the stock exchange, the aggregated nominal value of which shall not exceed 10% of the then prevailing registered capital of the Company (that is maximum 18,637,486 registered common shares) and at a purchase price which shall deviate from the trading price at the stock exchange at maximum by +10% upwards and at maximum by –10% downwards.

The purchase of its own shares shall serve the following purposes:

- the facilitation of the realization of Richter's strategic objectives, thus particularly the use of its own shares as means of payment in acquisition transactions,
- the assurance of shares required for Richter's share-based incentive systems for employees and executive employees.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

15.

Election of members of the Board of Directors

Proposal to Item No.:15
on the Agenda of the AGM

Resolution of the Board of Directors No.: 3/2017

The Board of Directors proposes to the AGM to approve the election of **Gábor Orbán** as Member of the Board of Directors for a period of 3 (three) years expiring on the AGM in 2020.

The Board of Directors has approved the resolution, abstained by dr. Norbert Szivek.

Resolution of the Board of Directors No.: 4/2017

The Board of Directors proposes to the AGM to approve the election of **dr. Ilona Hardy** as Member of the Board of Directors for a period of 3 (three) years expiring on the AGM in 2020.

The Board of Directors has approved the resolution, abstained by dr. Norbert Szivek.

Resolution of the Board of Directors No.: 37/2017

The Board of Directors proposes to the AGM to approve the re-election of **Erik Bogsch** as Member of the Board of Directors for a period of 3 (three) years expiring on the AGM in 2020.

The Board of Directors has approved the resolution, abstained by Erik Bogsch.

Resolution of the Board of Directors No.: 38/2017

The Board of Directors proposes to the AGM to approve the re-election of **János Csák** as Member of the Board of Directors for a period of 3 (three) years expiring on the AGM in 2020.

The Board of Directors has approved the resolution, abstained by János Csák.

Resolution of the Board of Directors No.: 39/2017

The Board of Directors proposes to the AGM to approve the re-election of **dr. Gábor Perjés** as Member of the Board of Directors for a period of 3 (three) years expiring on the AGM in 2020.

The Board of Directors has approved the resolution, abstained by dr. Gábor Perjés.

Resolution of the Board of Directors No.: 40/2017

The Board of Directors proposes to the AGM to approve the re-election of **dr. Kriszta Zolnay** as Member of the Board of Directors for a period of 3 (three) years expiring on the AGM in 2020.

The Board of Directors has approved the resolution, abstained by dr. Kriszta Zolnay.

Resolution of the Board of Directors No.: 41/2017

The Board of Directors proposes to the AGM to approve the re-election of **Prof. Dr. E. Szilveszter Vizi** as Member of the Board of Directors for a period of 3 (three) years expiring on the AGM in 2020.

The Board of Directors has approved the resolution, abstained by Prof. Dr. E. Szilveszter Vizi.

16.

Resolution on the remuneration of the members of the Board of Directors

Proposal to Item No.:16
on the Agenda of the AGM

Resolution of the Board of Directors No.: 42/2017

The Board of Directors proposes to the AGM to approve the honoraria for the members of the Board of Directors for 2017 effective as of January 1, 2017 according to the following:

President of the Board of Directors:	HUF 650,000/month
Members of the Board of Directors:	HUF 540,800/month/member

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

17.

Resolution on the remuneration of the members of the Supervisory Board

Proposal to Item No.:17
on the Agenda of the AGM

Resolution of the Board of Directors No.: 43/2017

The Board of Directors proposes to the AGM to approve the honoraria for the members of the Supervisory Board for 2017 effective as of January 1, 2017 according to the following:

Chairman of the Supervisory Board: HUF 478,400/month
Members of the Supervisory Board: HUF 390,000/month/member

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

18.

Approval of the Rules of Procedure of the Supervisory Board

GEDEON RICHTER PLC.

RULES OF PROCEDURE OF THE SUPERVISORY BOARD

I. General provisions and rules

1.1. The Supervisory Board (hereinafter: SB) of Chemical Works of Gedeon Richter Plc. (hereinafter: the Company) shall perform its activities and operation on the basis of Act V of 2013 on the Civil Code (hereinafter: the Civil Code), in particular in compliance with the provisions of the Civil Code on the Supervisory Board (Section 3:26-28, 3:119-128, and 3:290 of the Civil Code), on the conditions of payment of dividend and interim dividend (Section 3:261-263 of the Civil Code),,on quarterly reports (Subsection 3:284 (1) of the Civil Code), on the audit board (Section 3:291) and on the report on corporate governance (Section 3:289 of the Civil Code), as well as in accordance with the provisions of Article 16 of the Company's Statutes.

Pursuant to the Civil Code, the Supervisory Board shall establish and decide on the amendment of its own rules of procedure, and shall submit it for approval to the (next) general meeting of the Company.

1.2. Members of the SB, including employees' representatives, are elected by the general meeting of the Company for a maximum period of three years as set forth by the Company's Statutes. Supervisory Board membership shall take effect by acceptance. The elected member shall make a written statement of acceptance.

Members of the SB shall elect a chairman (hereinafter: Chairman) from among themselves. The SB may remove the Chairman at any time. If the Chairman, for any reason, ceases to be a member of the SB, his mandate as Chairman shall also automatically terminate.

The Chairman is responsible for organization and control of the continuous functioning of the SB and shall thereby:

(a) convene and chair the meetings of the SB, and approve the minutes, certified by the keeper of minutes, of the meetings chaired by him;
(b) liaise with the Board of Directors.

The Chairman is entitled to request a member of the SB to substitute in the event of the Chairman's incapacity.

1.3. The SB member's mandate shall terminate:
- upon expiration of the definite term of appointment;
- upon condition is met, if the mandate is rendered subject to some condition for termination
- upon removal;

- upon resignation;
- upon the member's death;
- upon occurrence of any statutory grounds for disqualification or conflict of interest under the Civil Code;
- upon occurrence of any grounds for disqualification determined by separate statutory provisions;
- upon the termination of employment of an employees' representative.

1.4. SB member may resign from its office with written notice addressed to the Board of Directors at any time with the proviso that if the function ability of the Company so requires the resignation shall only become effective on the sixtieth day from its announcement unless the General Meeting has already elected a new member prior to that date.

1.5. If any change occurs in an SB member's personal circumstances that would preclude SB membership he shall report the change to the Chairman of the SB in writing without delay.

1.6. Should the number of SB members fall below the minimum of five set forth in the Company's Statutes due to resignation or other reasons (for instance termination of employment of an employees' representative), the Chairman of the SB may initiate the convocation of a general meeting.

1.7. The Chairman shall make sure that the SB can discharge its duties on a continuous basis. The Company's Board of Directors shall provide the conditions necessary for the SB to discharge its duties.

1.8. The SB shall act as a body. The members of the SB shall discharge their duties personally; representation on the SB is not allowed. SB members shall be independent of the Company's Board of Directors, and shall not be instructed in performing their duty.

1.9. Members of the SB shall participate in the Company's general meeting with the right of consultancy, and if invited, in meetings of the Board of Directors.

1.10. Members of the SB shall keep the Company's business secrets, and shall handle all information that comes to their knowledge whilst discharging their duties as confidential. In accordance with the rules of confidentiality, classifies materials must be returned to the Chairman after SB meetings, and the Chairman shall take action on their proper documentation or destruction.

1.11. Any fact, information, solution or data relating to the economic activity that, if published or acquired or utilized by unauthorized persons, may infringe or jeopardize the beneficiary's legal financial, economic or market interests and in respect of whose confidentiality the beneficiary has taken the necessary steps shall be considered as a business secret.

1.12. The employees' representatives taking part in the Supervisory Board shall inform the Company's employees through the works council of the activities of the SB, but shall keep the business secrets of the Company.

1.13. The Company shall reimburse justifiable costs of the SB members that have been incurred in conjunction with discharging their duties. Reimbursement shall be based on duly presented documents.

1.14. The SB members are entitled to a remuneration established by the general meeting.

II. The competence and duties of the SB

2.1. The SB is the general supervisory body of the Company set up for the purpose of supervision of the Company's management with the aim of defending the Company's interest. It supervises, on behalf and for the benefit of the shareholders, the Company's business procedures, compliance with the Civil Code and other relevant legal regulation and compliance with the Company's Statutes and resolutions of the general meeting. It supervises the Company's finances, the efficiency of finances and the regulation of procedures.

2.2. The SB shall discuss the report on the Company's management, financial status and business policy prepared by the Board of Directors for the SB with the regularity set forth by the Civil Code.

2.3. It monitors the statutory auditor's activity and in general assists the general meeting with the experiences acquired in the course of its work in assessing the work of the management.

2.4. The SB may request information, data and reports from the Company's Board of Directors and competent employees. The SB shall have access to the Company's documents, accounting reports and books, and is authorized to inspect the Company's payment account, cash desk, securities portfolio, inventories and contracts or to have them inspected by an expert

2.5. In accordance with the Civil Code the SB shall examine ex officio all reports and proposals to be submitted to the general meeting which report or proposal shall not be submitted to the general meeting without the SB's prior approval; and it is obliged to present its opinion thereof at the general meeting.

2.6. The SB shall examine the Company's consolidated annual report for the previous business year pursuant to the IFRS and individual annual report for the previous business year which shall be proposed to the AGM by the Board of Directors, the proposal of the Board of Directors regarding the distribution of after-tax profits and dividend payment, the relevant submissions and proposals, the Company's interim balance sheet, and the Report on Corporate Governance. The SB shall familiarize with the statutory auditor's opinion and reports in the above matters.

Törölt: financial statements

Törölt: prepared in accordance with

Törölt: ,

Törölt: the

Törölt: financial statements

Törölt: prepared

Törölt: in accordance with the Accounting Act

Megjegyzés [RG1]: The modification of the regulation in question is justified in accordance with the amendment of the Statutes approved by the AGM of April 26, 2016. (See Section 16.3 of the Statutes)

2.7. The SB discharges its duties by way of ad hoc investigations. The investigations are performed by a member of the SB or a working group consisting of the required number of SB members. The SB may involve the

Company's employees or external experts if so required, at the Company's cost.

2.8. The SB shall function as a body, but may entrust any of its member to fulfil certain of its tasks, or may divide its duties among its members on a permanent basis.

2.9. The SB shall have working relationship and cooperate with the Company's statutory auditor. The statutory auditor may attend at the SB meeting in advisory capacity, and must attend at such meetings when so requested by the SB. The Supervisory Board shall put the items recommended by the statutory auditor on the agenda.

2.10. The SB shall inform the chairman of the Board of Directors and the managing director of any irregularities detected in the course of its work and submit its opinion as to the action required to eliminate the same.

2.11. If, in the judgment of the SB, the activity of the management is contrary to the law, to the Company's Statutes or to the resolutions of general meeting, or otherwise infringes upon the interests of the Company or its shareholders, the SB shall call an extraordinary general meeting and shall propose its agenda.

2.12. The SB shall prepare an annual work plan and shall send it to the chairman of the Board of Directors, the managing director and the auditor. The annual work plan may be modified or completed as need may arise. Any modification shall be brought to the attention of the parties concerned.

2.13. The SB shall discuss the annual report of the Audit Board.

2.14. The SB prepares annual report on its activities, the discharge of its duties and its findings to the general meeting. The report shall also describe the operation of the Audit Board.

2.15. If the unified opinion of employees' representatives of the SB differs from the majority standpoint of the SB, the minority standpoint of employees' representatives shall be disclosed at the Company's next general meeting.

2.16. Members of the SB shall be held liable for damages caused to the Company resulting from their omission of supervisory responsibilities in accordance with the provisions on liability for damages for loss by a non-performance of an obligation.

III. Operation of the SB

3.1. Meetings of the SB shall be convened by the Chairman with the indication of the agenda. Any two members may request convocation of the SB at any time, indicating the reason and purpose thereof. If in such cases the Chairman fails to call an SB meeting within eight days the meeting may be called by the two members. Besides the members of the SB the Company's Board of Directors and the managing director may also request convocation of the SB with the simultaneous indication of the agenda. The Chairman shall take

action to call the SB meeting so requested. The Office of Corporate Affairs shall handle the documents (minutes and resolutions) generated by the SB.

3.2. Invitations to the SB meeting shall be sent by the Chairman or the member designated by the Chairman eight days before the date of the meeting with the agenda included, by registered mail or personal delivery. The agenda and all relevant materials shall also be sent to the chairman of the Board of Directors, the managing director and the statutory auditor.

3.3. Materials relevant to the agenda must be sent by personal delivery, fax or e-mail at least three days before the meeting.

3.4. The meetings of the SB shall be chaired by the Chairman or in the event of the Chairman's inability to attend, by the member appointed by the Chairman to substitute. In cases where neither the Chairman nor the member appointed to substitute attend the SB meeting, chairman of the meeting shall be elected from among the members of the SB that are present.

3.5. The SB may invite any person whose attendance is necessary and justified for the discussion of the agenda. Such persons shall only have the right of consultation.

3.6. The SB shall have a quorum if each of its members has been duly invited thereto and at least two-thirds, but at least four of the members are present. In the absence of a quorum the meeting shall be adjourned. A repeated SB meeting originally adjourned due to the absence of a quorum shall shave a quorum if at least three (3) of the members - in the ratio defined in Section 16.8 of the Company's Statutes - are present. The SB shall pass its resolutions by simple majority of open votes of those present. In case of tie vote, the proposed resolution shall be considered as rejected.

3.7. Resolutions of the SB may also be passed outside meetings in writing (by fax, registered letter or e-mail) if the Chairman requests such way of passing a resolution in justified case and none of the SB members raises an objection to such a procedure in writing (by fax, registered letter or e-mail) within three (3) days from the Chairman's notice.

Törölt: e-mail,

Törölt: registered letter

3.8. The Chairman takes care of the vote in writing. The written voting procedure shall be managed by the Chairman. The Chairman shall send the SB members the description of the topic requiring decision and the draft resolution by fax, registered letter or e-mail and instruct the members to respond in writing (by fax, registered letter or e-mail) within three (3) days by signing the appropriate section of the draft resolution (yes – accepted; no – rejected; or abstention) and by clearly indicating the date of signature.

3.9. In adopting a resolution in writing (without holding meeting), the provisions of this Rules of Procedure on quorum and voting shall apply with the exception that the written decision-making process shall be considered effective if the number of votes sent to the Chairman corresponds to at least the number of SB members required to attend for a quorum if the meeting was in fact held in session. Based upon the votes the Chairman shall establish the position of the SB and shall notify the SB members thereof in writing (by fax, registered letter

or e-mail) no later than within three (3) days following the last day of the time limit prescribed for voting. The date of the resolution shall be the last day of the voting deadline, or if the votes of all members are received previously, the day when the last vote is received. The decision as well as the votes shall be attached to the minutes of the next meeting.

3.10. In the event that the number of votes received is insufficient for passing a resolution (i.e. for establishing whether the draft resolution is approved or rejected), or if any of the SB members requests decision on the given matter on a meeting of the SB, the Chairman shall convene a meeting of the SB.

3.11. The SB shall draw up minutes of its meetings. The minutes shall include the name and position of those present, the place, date and time of the meeting, the items of the agenda discussed, and a concise description of the opinions and differences that the Chairman or another member of the SB considers relevant. The minutes must also include the outcome of votes, the consecutively numbered resolutions (with restarted numbering per annum), and the SB's proposals for action. Dissents shall also be recorded in the minutes.

3.12. The minutes shall be prepared within eight days after the meeting and shall be sent to the SB members, complete with the signatures of the chair of the meeting and the keeper of minutes within 15 days. The members have 8 days from delivery to question the accuracy of the minutes and of the translation of the summary minutes and may ask for its completion, and/or amendment.

3.13. The minutes shall be authenticated by the chairman of the meeting and the keeper of minutes and shall be forwarded to the SB members, the chairman of the Board of Directors, the managing director and the statutory auditor.

IV. Closing provisions

These Rules of Procedure have been discussed and approved by the SB at its meeting on 21 February 2017, and will be submitted to the next general meeting for approval.

Törölt: 17 March 2015

Budapest, 21 February 2017.

Törölt: 17 March 2015

Dr. Attila Chikán
Chairman of the SB

19.

Miscellaneous