GEDEON RICHTER

Established in 1901

PROPOSAL OF THE 2018 ANNUAL GENERAL MEETING

Chemical Works of Gedeon Richter Plc.
H-1103 Budapest, Gyömrői út 19-21., Hungary • Postal address: H-1475 Budapest, 10. Pf. 27. • Phone: 36-1-431-4000 • Fax: 36-1-260-6650, 260-4891 • www.richter.hu
Company Court of Budapest-Capital Tribunal Reg.No. 01-10-040944 • EU Community Vat Identification No: HU10484878

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 25, 2018 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 2017 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 2017 Consolidated Annual Report pursuant to the IFRS
3. Report of the Supervisory Board including the report of the Audit Board on the draft 2017 Consolidated Annual Report pursuant to the IFRS
4. Approval of the draft 2017 Consolidated Annual Report pursuant to the IFRS
5. Report of the Board of Directors on the 2017 business activities of the Company (on the management, the Company's financial situation and business policy) and presentation of the draft 2017 individual Annual Report prepared pursuant to the IFRS
6. Report of the Statutory Auditor on the draft 2017 individual Annual Report prepared pursuant to the IFRS
7. Report of the Supervisory Board including the report of the Audit Board on the draft 2017 individual Annual Report prepared pursuant to the IFRS
8. Approval of the draft 2017 individual Annual Report pursuant to the IFRS
9. Resolution on the determination and allocation of the after-tax profit and the rate of dividends
10. Corporate Governance Report
11. Amendments to the Company's Statutes (address change of a Debrecen branch office, more precise expression for the term "Managing Director", amendment of rules on the order of exercising employer's rights, authorization of the Board of Directors to increase the Company's registered capital)
12. Report of the Board of Directors on the treasury shares acquired by the Company based upon the authorization in AGM resolution No.17/2017.04.26.
13. Authorization to the Board of Directors for the purchase of own shares of the Company
14. Election of members of the Board of Directors
15. Election of members of the Supervisory Board and the members of the Audit Board
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. Miscellaneous

1.

Report on the 2017 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 2017

Gabor Orban
Chief Executive Officer

21 March, 2018

Gedeon Richter Plc.

CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

Consolidated Income Statement

for the year ended 31 December

	Notes	2017 HUFm	2016 HUFm
Revenues	5	**444,356**	**389,690**
Cost of sales		(191,278)	(164,002)
Gross profit		**253,078**	**225,688**
Sales and marketing expenses		(114,882)	(107,564)
Administration and general expenses		(23,374)	(20,339)
Research and development expenses		(39,903)	(35,153)
Other income and other expenses (net)	5	(54,208)	(8,016)
Profit from operations	5	**20,711**	**54,616**
Finance income	7	14,957	26,600
Finance costs	7	(23,295)	(14,788)
Net financial (loss)/income	7	**(8,338)**	**11,812**
Share of profit of associates and joint ventures	14	1,528	1,798
Profit before income tax		**13,901**	**68,226**
Income tax	8	(3,831)	(1,203)
Profit for the year		**10,070**	**67,023**
Profit attributable to			
Owners of the parent		8,885	66,200
Non-controlling interest		1,185	823
Earnings per share (HUF)	9		
Basic and diluted		48	356

The notes on pages 10-86. form an integral part of the Consolidated Financial Statements.

21 March, 2018

.....
Chief Executive Officer

Consolidated Statement of Comprehensive Income

for the year ended 31 December

	Notes	2017 HUFm	2016 HUFm
Profit for the year		**10,070**	**67,023**
Items that will not be reclassified to profit or loss			
Actuarial loss on retirement defined benefit plans	28	(82)	(44)
		(82)	**(44)**
Items that may be subsequently reclassified to profit or loss			
Exchange differences arising on translation of foreign operations		(8,890)	1,546
Exchange differences arising on translation of associates and joint ventures	14	17	34
Revaluation of available for sale investments	24	1,139	5,502
		(7,734)	**7,082**
Other comprehensive income for the year		**(7,816)**	**7,038**
Total comprehensive income for the year		**2,254**	**74,061**
Attributable to:			
Owners of the parent		1,299	73,203
Non-controlling interest		955	858

The notes on pages 10-86. form an integral part of the Consolidated Financial Statements.

21 March, 2018

.....
Chief Executive Officer

Consolidated Balance Sheet

	Notes	31 December 2017 HUFm	31 December 2016 HUFm
ASSETS			
Non-current assets			
Property, plant and equipment	12	196,990	191,002
Goodwill	18	44,377	68,632
Other intangible assets	12	154,958	192,677
Investments in associates and joint ventures	14	11,847	8,541
Other financial assets	15	35,482	32,864
Deferred tax assets	16	10,548	5,416
Loans receivable	17	2,132	4,799
		456,334	**503,931**
Current assets			
Inventories	19	84,474	81,246
Trade receivables	20	123,023	116,223
Other current assets	21	20,180	14,991
Investments in securities	22	18	751
Current tax asset	16	795	682
Cash and cash equivalents	23	76,041	96,053
		304,531	**309,946**
Total assets		**760,865**	**813,877**

The notes on pages 10-86. form an integral part of the Consolidated Financial Statements.

21 March, 2018

.....
Chief Executive Officer

Consolidated Balance Sheet - continued	Notes	31 December 2017 HUFm	31 December 2016 HUFm
EQUITY AND LIABILITIES			
Capital and reserves			
Equity attributable to owners of the parent			
Share capital	24	18,638	18,638
Treasury shares	25	(415)	(1,285)
Share premium		15,214	15,214
Capital reserves		3,475	3,475
Foreign currency translation reserves	24	9,855	18,478
Revaluation reserve for available for sale investments	24	9,964	8,825
Retained earnings		602,596	614,657
		659,327	**678,002**
Non-controlling interest	13.1	4,692	3,871
		664,019	**681,873**
Non-current liabilities			
Borrowings	29	3	28,874
Deferred tax liability	16	8,005	5,962
Other non-current liabilities and accruals	30	4,347	4,448
Provisions	28	3,305	3,508
		15,660	**42,792**
Current liabilities			
Borrowings	29	-	7,776
Trade payables	26	47,495	45,926
Current tax liabilities	16	703	655
Other payables and accruals	27	30,515	32,929
Provisions	28	2,473	1,926
		81,186	**89,212**
Total equity and liabilities		**760,865**	**813,877**

The notes on pages 10-86. form an integral part of the Consolidated Financial Statements.

21 March, 2018

.....
Chief Executive Officer

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		**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 10-86. form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2017

	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 2017		**18,638**	**15,214**	**3,475**	**(1,285)**	**8,825**	**18,478**	**614,657**	**678,002**	**3,871**	**681,873**
Profit for the year		-	-	-	-	-	-	8,885	**8,885**	1,185	**10,070**
Exchange differences arising on translation of foreign operations		-	-	-	-	-	(8,640)	(20)	**(8,660)**	(230)	**(8,890)**
Exchange differences arising on translation of associates and joint ventures	14	-	-	-	-	-	17	-	**17**	-	**17**
Actuarial loss on defined benefit plans	28	-	-	-	-	-	-	(82)	**(82)**	-	**(82)**
Revaluation of available for sale investments	24	-	-	-	-	1,139	-	-	**1,139**	-	**1,139**
Comprehensive income for year end 31 December 2017		-	-	-	-	**1,139**	**(8,623)**	**8,783**	**1,299**	**955**	**2,254**
Net treasury shares transferred and purchased	25	-	-	-	870	-	-	-	**870**	-	**870**
Ordinary share dividend for 2016	31	-	-	-	-	-	-	(19,756)	**(19,756)**	-	**(19,756)**
Dividend paid to non-controlling interest		-	-	-	-	-	-	-	-	(164)	**(164)**
Additional paid in capital to subsidiaries		-	-	-	-	-	-	-	-	30	**30**
Recognition of share-based payments	24	-	-	-	-	-	-	(1,088)	**(1,088)**	-	**(1,088)**
Transactions with owners in their capacity as owners for year end 31 December 2017		-	-	-	**870**	-	-	**(20,844)**	**(19,974)**	**(134)**	**(20,108)**
Balance at 31 December 2017		**18,638**	**15,214**	**3,475**	**(415)**	**9,964**	**9,855**	**602,596**	**659,327**	**4,692**	**664,019**

The notes on pages 10-86. form an integral part of the Consolidated Financial Statements.

Consolidated Cash Flow Statement
for the year ended 31 December

	Notes	2017 HUFm	2016 HUFm
Operating activities			
Profit before income tax		13,901	68,226
Depreciation and amortisation	5	34,747	32,895
Non-cash items accounted through Total Comprehensive Income	14, 30	(1,347)	(6,725)
Year-end foreign exchange translation difference of borrowings	7	(65)	(245)
Net interest and dividend income	7	(1,248)	(4,531)
Cbanges in provision for defined benefit plans	28	(220)	(15)
Increase on changes of property, plant and equipment and intangible assets		1,141	(461)
Impairment recognised on intangible assets and goodwill	12,18	49,184	3,873
Impairment on investments		-	63
Expense recognised in respect of equity-settled share based payments	24	3,640	4,724
Movements in working capital			
Increase in trade and other receivables		(12,519)	(18,095)
Increase in inventories		(3,228)	(11,446)
Increase in payables and other liabilities		7,631	16,358
Interest expense		(990)	(827)
Income tax paid	16	(6,880)	(6,375)
Net cash flow from operating activities		**83,747**	**77,419**
Cash flow from investing activities			
Payments for property, plant and equipment*		(30,328)	(30,551)
Payments for intangible assets*		(9,601)	(5,902)
Proceeds from disposal of property, plant and equipment		957	401
Payments to acquire financial assets		(1,745)	(88)
Proceeds on sale or redemption on maturity of financial assets		733	3,950
Disbursement of loans net		(666)	(614)
Interest income	7	1,563	2,566
Dividend income	7	675	2,792
Net cash outflow on acquisition of subsidiaries	11, 27	(8,045)	(63,555)
Net cash flow to investing activities		**(46,457)**	**(91,001)**
Cash flow from financing activities			
Purchase of treasury shares	25	(3,858)	(1,758)
Dividend paid	31	(19,756)	(13,563)
Repayment of borrowings	29	(36,585)	(6,813)
Proceeds from borrowings	29	3	-
Net cash flow to financing activities		**(60,196)**	**(22,134)**
Net decrease in cash and cash equivalents		**(22,906)**	**(35,716)**
Cash and cash equivalents at beginning of year		**96,053**	**132,374**
Effect of foreign exchange rate cbanges on the balances held in foreign currencies		2,894	(605)
Cash and cash equivalents at end of year		**76,041**	**96,053**

* 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 10-86. 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 2017, but did not have any material impact on the Company

- 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 amendment did not have any effect on the Group.

- Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 requires disclosure of a reconciliation of movements in liabilities arising from financing activities, that is disclosed in Note 29.

- Annual Improvements to IFRSs 2014-2016 cycle amendments to IFRS 12 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017) – the amendment did not have any effect on the Group.

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.

Currently the Group is assessing any potential impact of IFRS 9 on financial instruments. It is assumed that the new impairment model will not affect significantly the Company's financial statements, as in the past 5 years less than 0,1 % of the total turnover had to be written-off as bad debt.
The effect of classification changes of securities and expected credit loss on loans are considered to be not significant. The effect of fair value changes of the Group's most significant equity instrument (ie. 5% interest in Protek Holding) was recognised in OCI, since it was an available for sale (AFS) financial asset, the gain in OCI will not recycle to P&L according to the provisions of the new standard. The management expects that the financial asset will not be sold in the near future. The investment is disclosed in more details in Note 15.

- 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 assessed any potential impact of IFRS 15, and as a result, it was identified that the date of revenue recognition has to be modified in two cases. At first case, the financial impact is deemed to be higher, the revenue related to a so-called customer specific sales where the asset has no alternative use and being held as inventory at year-end. The other case related to an ongoing contract manufacturing agreement with third parties and has smaller financial impact. The overall financial impact of this modification on the 1 January 2018 equity is not considered to be significant, the expected value is less than HUF 1 billion.

- 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 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 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 33. 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, 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.)
- 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 standard).
- 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 – amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- 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).
- IFRS 17 Insurance contract (issued on May 2017, the EU has not yet endorsed the changes).
- IFRIC 23 Uncertainty over income tax treatments (issued on June 2017, the EU has not yet endorsed the interpretation).
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017, the EU has not yet endorsed the amendment).
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017, the EU has not yet endorsed the amendment).
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 the EU has not yet endorsed the amendments).

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.

If the collectability of an item that has already been accounted for as revenue becomes uncertain, impairment should be recognised in the appropriate amount while revenue should not be reduced.

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 Group 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 Group 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 latter 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 of disposal 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/North America 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 income 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 available 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.

From 1 January 2017, entities will be required to explain changes in their liabilities for which cash flows have been, or will be classified as financing activities in the Consolidated Cash Flow Statement.

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. Costs of purchased inventory are determined after deducting rebates and discounts. 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 2017 and as of 31 December 2016.

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.

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

The effects of the PRAC's temporary measures (on 9 February 2018) related to Esmya sales

In December 2017, the European Medicines Agency (EMA) Pharmacovigilance Risk Assessment Committee (PRAC) has started a review of drug induced liver injury potentially related to ESMYA® (ulipristal acetate). On 9 February 2018 the European Medicines Agency (EMA) Pharmacovigilance Risk Assessment Committee (PRAC) has initiated the implementation of temporary precautionary measures as a part of its review procedure on drug induced liver injury potentially related to ESMYA® (ulipristal acetate). The PRAC is also recommending that no new patients should be started on ESMYA® and no patients who have completed a course of treatment should start another one. PRAC considers that temporary measures are needed to minimise potential risks to patients. The final decision depends on the conclusion of the review of ESMYA®, which was started in December 2017 and is expected to be completed before end of May 2018. Richter continues to believe that all the available data for ESMYA® support a favourable benefit-risk profile and is committed to providing this unique treatment option to women suffering from uterine fibroids.

The Group prepared its' audited financial statements for 2017, considering the negative effects of PRAC's temporary measures on ESMYA®.

Based on that Management has reduced its long term sale forecasts for ESMYA® in markets in EU and Latin America. In addition to the revised forecasts, the Group has accounted for impairment on PregLem Goodwill and on intangible assets in Latin America. The overall value is totalled to HUF 48.7 billion. Please see further details in Note 18 and 12. As of 31 December 2016 the balance of the Goodwill was HUF 34,563 million, and the related ESMYA intangible EU and North America was HUF 71,038 million and ESMYA LatAm was HUF 9,221 million.

As a result of the temporary measures of the PRAC, on the balance sheet date the Group has an exposure on the following items (in the balance sheet) after recognising the impairment:

Factors of the exposure*	31 December 2017 HUFm
Goodwill	12,194
ESMYA	44,882
Other, inventory, deferred tax, etc. related exposure	1,877
Total exposure	**58,953**

* In the course of PregLem S.A.'s acquisition the rights attached to the distribution in the EU and North America of ESMYA® was recognised as an independent intangible asset parallel with a Goodwill. The sales rights acquired after the acquisition were presented as intangible assets. The above figures do not include any return or destruction costs related to the stocks.

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 2017 would be greater by HUF 3,860 million (2016: increase by HUF 3,654 million).

The Group recorded depreciation and amortisation expense in the amount of HUF 34,747 million and HUF 32,895 million for the years ended 31 December 2017 and 2016, respectively.

Tax loss carried forward in Switzerland

PregLem

One of the Swiss subsidiaries of the Group, PregLem utilised the entire tax loss carried forward from prior year (CHF 92 million (HUF 26,653 million)) in 2017. PregLem also had tax holiday on cantonal (Geneva) level that expired in 2016, the effective tax rate of this tax is approximately 16%. The Company prepared a detailed schedule on the utilization of the tax loss carried forward as of 31 December 2016 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 2017 is HUF 4,581 million while as of 31 December 2016 HUF 1,431 million (see Note 16).

Finox

Finox has EUR 15 million (HUF 4,728 million) tax loss carried forward as of 31 December 2017 and EUR 43 million (HUF 13,490 million) 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 the tax loss and on the other temporary differences. 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, as of 31 December 2017 is HUF 4,351 million while as of 31 December 2016 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 36.

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 September 2017, the National Authority of Fiscal Administration („RTA") imposed RON 9.9 million as claw-back contribution for the period Q1-Q3 2011 and RON 10.4 million as interest and penalties to the Romanian wholesale company. The company submitted a Tax challenge with RTA and sent a suspension claim to the court immediately. In December 2017 the special court in Bucharest (Romania) has approved the claim of Pharmafarm SA for suspension of payment for the claw-back.

On the basis of the requested legal opinion the management is convinced that the probability for the annulment of the Tax Decision is more than 50%, therefore no provision was accounted for.

While the issue of the potential claw-back tax liabilities of the Pharmafarm is under judicial review, at GR Romania the tax inspection on the claw-back taxes is not completed so far. In addition to the claw-back taxes the tax inspections at GR Romania are escalated also to the intra group investment and financing transactions.

Uncertainties of the previous year resolved in the current financial year

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 might have been higher than the liabilities presented in 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 tbe company and the agreement terms included an upfront payment together with milestone payments in the forthcoming years.
Contingent-deferred purchase price is accounted for at discounted fair value. The last payment was settled in February, 2017 so there is no contingent-deferred liability at 31 December 2017. The gross amount of the expected payment was CNY 179 million (HUF 7,565 million) 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.
Subsequent to the signature of the agreement the company was renamed to 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 purchase are presented as "Other payables and accruals" and the gross amount of the expected payment (undiscounted) is USD 3.0 million (HUF 881 million) as of 31 December 2016, which was settled in 2017 according to the agreement of the parties in an amount of 1.8 M$ (HUF 489 million).

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 was 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 were 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 was not met, therefore the fair value of the liability in respect of this transaction was zero. Based on the agreement concluded with the original shareholder in 2015, Richter's voting right increased to 100%. Acquisition by agreement between the parties was completed without additional payment in 2017.

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.
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.

Details 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 1,790 million at current value (in 2016 HUF 1,769 million).

Hybrid tax

The Parent Company prepares its first separate IFRS financial statements from 1 January 2017, as a result of that the corporate income tax is also determined based on the separate IFRS financial statements from 1 January 2017. Based on the corporate income tax regulations, if the corporate income tax calculated based on the regulations relevant for IFRS preparers is less than the actual corporate income tax for the period ending on 31 December 2016 in the year of the first IFRS financial statements and the following year (i.e. in 2017 and 2018), the IFRS preparer chooses to:

- pay the corporate income tax determined in the period ending on 31 December 2016 also in the two years following the transition, or
- determine its corporate income tax on the basis as if the Company would have not transitioned to IFRS.

Similar regulation is relevant for the tax basis of the local business tax and innovation contribution.

As a result of the regulation, the taxes above are so called hybrid taxes in 2017 and 2018, since the tax payable is not purely, but partially based on taxable profit. IAS 12 does not have specific guidance on the treatment of hybrid taxes.

Based on the accounting policy choice, the Parent Company accounts for the amount that is based on the current year's taxable profit as income tax, while the tax exceeding this amount is recorded as Other Expense in the Income Statement. According to the Company's decision made in 2017, the income tax is defined in compliance with the corporate tax rules effective in the particular business year in a way, as if the switch/transfer to IFRS had not happened and the value of corporate tax is defined accordingly. Therefore no other operational expenditure is recognized in the financial statements related to the corporate tax.

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	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
3rd party revenues	355,194	314,391	88,458	74,459	704	840	-	-	444,356	389,690
Inter segment revenues	9,646	9,448	3	5	4,691	3,763	(14,340)	(13,216)	-	-
Revenues	**364,840**	**323,839**	**88,461**	**74,464**	**5,395**	**4,603**	**(14,340)**	**(13,216)**	**444,356**	**389,690**
Profit from operations	18,617	55,204	1,777	1,158	391	151	(74)	(1,897)	20,711	54,616
Total assets	831,128	882,469	47,753	45,582	3,402	7,134	(121,418)	(121,308)	760,865	813,877
Total liabilities	74,620	114,950	35,743	37,618	797	1,257	(14,314)	(21,821)	96,846	132,004
Capital expenditure**	39,077	35,700	656	539	196	214	-	-	39,929	36,453
Depreciation and amortization*	33,839	32,066	675	596	233	233	-	-	34,747	32,895
Share of profit of associates and joint ventures	60	(835)	1,466	2,566	58	41	(56)	26	1,528	1,798
Investments in associates and joint ventures	2,996	-	7,398	7,070	1,561	1,523	(108)	(52)	11,847	8,541

* See Note 12 and in the Consolidated Cash flow Statement.
** 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, other than Hungary
4. USA
5. China
6. Latin America
7. Other countries

2017	Hungary	CIS	EU	USA	China	Latin America	Other countries	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Revenues	36,040	139,689	190,720	27,472	24,004	9,418	17,013	444,356
Total assets	569,785	54,601	98,662	2,590	9,563	6,920	18,744	760,865
Capital expenditure	34,473	1,328	3,667	1	-	222	238	39,929

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

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	2017 HUFm	2016 HUFm
Sales of goods	420,125	373,466
Revenue from services	9,235	10,563
Royalty income	14,996	5,661
Total revenues	**444,356**	**389,690**

Revenues of approximately HUF 19,496 million (2016: HUF 22,809 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

	2017 HUFm	2016 HUFm
Revenues	444,356	389,690
From this: royalty and other similar income	*14,996*	*5,661*
Changes in inventories of finished goods and work in progress, cost of goods sold	(106,013)	(90,345)
Material type expenses	(116,866)	(101,941)
Personnel expenses	(111,811)	(101,877)
Depreciation and amortisation (Note 12)	(34,747)	(32,895)
Other income and other expenses (net)	(54,208)	(8,016)
Profit from operations	**20,711**	**54,616**

The statutory auditor provided other assurance services for HUF 6 million and other non-audit services for HUF 12 million in 2017 to the Group. The statutory auditor did not provide tax advisory service to the Group in the financial year. The fee for the statutory audit was HUF 19 million.

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

Claw-back expenses are partial repayments of the received Sales revenue of the reimbursed products to the State where the product was 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, Austria, Poland and Bulgaria amounting to HUF 6,701 million in 2017 (in 2016 HUF 5,432 million). The 20% tax obligation payable in respect of turnover related to reimbursed sales in Hungary amounted to HUF 399 million in 2017 and HUF 379 million in 2016.

Other income and expenses net includes impairment of Rights HUF 8,443 million, impairment of ESMYA intangible HUF 20,512 million (see Note 12) and the effect of probabilities and change of gross payment on the contingent-deferred purchase price an income in the amount of HUF 367 million. (see Note 11).
In 2016 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.
Settlement of accounts were made and contracts terminated during 2017 in respect of the market withdrawal of Lisvy® and as a result thereof Richter accounted for other income amounting to HUF 2,147 million (EUR 6.9 million).
In addition we have accounted for a one-off milestone received upon the reception of an NDA filing of ESMYA® in the USA and the commencement of the registration of cariprazine in South Korea.

An impairment loss amounting to HUF 1,720 million was recorded in respect of the Goodwill related to Mediplus in 2016, and HUF 20,229 million in 2017, related to PregLem S.A.. For details 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.

6. Employee information

	2017	2016
Average number of people employed during the year	12,172	11,820

The newly acquired companies did not result an increase in the average number of employees during 2017.

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:

	2017 HUFm	2016 HUFm
Unrealised financial items	**(3,660)**	**4,679**
Exchange gain on trade receivables and trade payables	156	3,658
Loss on foreign currency loans receivable	(4,276)	(148)
Year-end foreign exchange translation difference of borrowings	65	245
Exchange gain on other currency related items	369	1,939
Unwinding of discounted value related to contingent-deferred purchase price liabilities (Note 11)	-	(948)
Result of unrealised forward exchange contracts	26	(4)
Impairment loss on investments	-	(63)
Realised financial items	**(4,678)**	**7,133**
Exchange (loss)/gain realised on trade receivables and trade payables	(5,411)	2,670
Foreign exchange difference on conversion of cash	(966)	218
Dividend income	675	2,792
Interest income	1,563	2,566
Interest expense	(990)	(827)
Other financial items	451	(286)
Total	**(8,338)**	**11,812**

Unrealised financial loss was heavily affected by the 4.49 RUB/HUF, 258.82 USD/HUF exchange rates in effect on 31 December 2017 (4.78 RUB/HUF on 31 December 2016, 293.69 USD/HUF respectively) which impacted the revaluation of currency related Balance Sheet items. These translation differences together resulted in a loss of HUF 3.7 billion in the net financial loss for 2017. 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 24 million loss), and an "exchangeable bond" option connected to MNV bonds (change of the fair value is HUF 457 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 is HUF 990 million (in 2016 HUF 827 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.

	2017 HUFm	2016 HUFm
Domestic corporate income tax	(17)	(561)
Foreign corporate income tax	(2,093)	(1,453)
Local business tax	(4,172)	(3,728)
Innovation contribution	(532)	(480)
Current tax	**(6,814)**	**(6,222)**
Deferred tax (Note 16)	2,983	5,019
Income tax	**(3,831)**	**(1,203)**

The average effective tax rate calculated on the basis of the current tax is 11.2% and 15.2% taking into account the effect of deferred tax as well, in 2016 these rates were 9.1% and 1.8% respectively.

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

Parent Company*	9%
Romania	16%
Russia	15.5%
Poland	19%

* In 2016 for the first HUF 500 million 10% tax rate was applicable, for the tax base exceeding HUF 500 million 19% tax rate was applicable, from 1 January 2017 9% statutory tax rate is applicable.

At subsidiary level there was a change in the tax rates at the Russian company above compare to prior year, when it was 20%. The tax rate applicable at Gedeon Richter RUS is based on agreement which grants tax relief in connection with capital expenditure.

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 36.

Tax rate reconciliation

	2017 HUFm	2016 HUFm
Profit before income tax	**13,901**	**68,226**
Tax calculated at domestic tax rates applicable to profits in the respective countries*	6,148	17,127
Tax effects of:		
Benefit of utilising investment tax credit at Parent	-	(2,221)
Associates results reported net of tax	(138)	(342)
Income not subject to tax	(110)	(1,293)
Expense not deductible for tax purposes	443	546
Expense eligible to double deduction**	(3,019)	(5,356)
The effect of changes in tax loss for which no deferred income tax has been recognised***	(434)	(222)
Correction of tax return	(111)	(397)
Effect of change in tax rate	3,512	(5,731)
Impact of deferred tax exceptions on subsidiaries and goodwill****	(2,460)	(908)
Tax charge	**3,831**	**1,203**

* 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 12.15 on the related temporary difference.

Investment tax credit

In 2007 the 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 equipments that formed part of the project was commissioned. The Company has taken advantage of the investment tax benefit for the first time in FY 2012, proceeding and calculating it in accordance with the applicable laws and regulations. For FY 2017, the Company does not have corporate income tax liability, therefore it does not utilize any development tax benefit.
The remaining tax relief in connection with the Debrecen project is available for subsequent years amounts to HUF 1,790 million at current value. Therefore Richter can take advantage of the tax relief up to 2021 at the latest.

Accounting treatment of the tax credit

The Company 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 tax credit.

9. Consolidated earnings per share

Basic earnings per share is calculated by reference to the net profit attributable to shareholders of the Parent Company 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 2016 and 2017 there are no potential dilutive instruments issued by the Group.

EPS (basic and diluted)

	2017	2016
Net consolidated profit attributable to owners of the parent (HUFm)	8,885	66,200
Weighted average number of ordinary shares outstanding (thousands)	186,221	185,848
Earnings per share (HUF)	**48**	**356**

10. Financial instruments

Financial instruments in the Balance Sheet includes 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 2017 HUFm	31 December 2016 HUFm	31 December 2017 HUFm	31 December 2016 HUFm
Financial assets[1]					
Available for sale investments carried at fair value					
Investments in securities[2]	22	18	751	18	751
Loans and receivables carried at amortised cost					
Loans receivable	21	3,608	1,776	3,608	1,776
Trade receivables	20	123,023	116,223	123,023	116,223
Other current assets	21	3,735	3,524	3,735	3,524
Cash and cash equivalents	23	76,041	96,053	76,041	96,053
Financial assets carried at fair value through profit or loss					
Foreign exchange forward contracts[4]	21	26	-	26	-
Current		**206,451**	**218,327**	**206,451**	**218,327**
Available for sale investments carried at fair value					
Investments[3]	15	15,539	13,255	15,539	13,255
Held to maturity investments carried at amortised cost					
Investments	15	1,649	1,862	1,649	1,862
Loans and receivables carried at amortised cost					
Loans and receivable investments	15	15,903	15,780	15,903	15,780
Loans receivable	17	2,132	4,799	2,132	4,799
Financial assets carried at fair value through profit or loss					
Convertible loan option[6]	15	45	79	45	79
"Exchangeable bonds" option[7]	15	2,346	1,888	2,346	1,888
Non-current		**37,614**	**37,663**	**37,614**	**37,663**

[1] All financial assets are free from liens and charges.
[2] The fair valuation of securities was based on bank data supply.
Level 2: in 2017 HUF 18 million (in 2016 HUF 751 million)
[3] Level 1: in 2017 HUF 15,539 million (in 2016 HUF 13,255 million)
[4] Level 2: the entire balance in 2017 HUF 26 million (in 2016 HUF none)
[5] Level 3 (constituting contingent-deferred purchase price): in 2017 none (in 2016 HUF 8,446 million)
[6] Level 3: in 2017 HUF 45 million (in 2016 HUF 79 million)
[7] Level 3: in 2017 HUF 2,346 million (in 2016 HUF 1,888 million)

	Notes	Carrying value		Fair value	
		31 December 2017 HUFm	31 December 2016 HUFm	31 December 2017 HUFm	31 December 2016 HUFm
Financial liabilities					
Liabilities carried at amortised cost					
Borrowings	29	-	7,776	-	7,776
Trade payables	26	47,495	45,926	47,495	45,926
Other payables and accrual	27	22,766	17,253	22,766	17,253
Financial liabilities carried at fair value through profit or loss					
Other payables[5]	11,27	-	8,446	-	8,446
Current		**70,261**	**79,401**	**70,261**	**79,401**
Liabilities carried at amortised cost					
Borrowings	29	3	28,874	3	28,874
Other non-current liabilities	30	483	875	483	875
Non-current		**486**	**29,749**	486	**29,749**

[1] All financial assets are free from liens and charges.
[2] The fair valuation of securities was based on bank data supply.
Level 2: in 2017 HUF 18 million (in 2016 HUF 751 million)
[3] Level 1: in 2017 HUF 15,539 million (in 2016 HUF 13,255 million)
[4] Level 2: the entire balance in 2017 HUF 26 million (in 2016 none)
[5] Level 3 (constituting contingent-deferred purchase price): in 2017 none (in 2016 HUF 8,446 million)
[6] Level 3: in 2017 HUF 45 million (in 2016 HUF 79 million)
[7] Level 3: in 2017 HUF 2,346 million (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 below under 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 most of the 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 Parent Company, the Board of Directors recommends the payment of approximately 25 percent of the Group's IFRS consolidated profit attributable to the owners of the parent adjusted with the impairment of ESMYA and the goodwill related to PregLem S.A. net of deferred tax effect. 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 2017 and 2016, 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 2017 HUFm	31 December 2016 HUFm
Borrowings (Note 29)	3	36,650
Less: cash and cash equivalents (Note 23)	(76,041)	(96,053)
Net debt	**(76,038)**	**(59,403)**
Total equity	664,019	681,873
Total capital	**587,981**	**622,470**
EBITDA*	56,133	90,303
Net debt to EBITDA ratio	**(1.35)**	**(0.66)**
Net debt to equity ratio	**(0.11)**	**(0.09)**

* EBITDA has been determined in line with the EIB credit agreement, repaid in December 2017, as operating profit increased by dividend income and depreciation and amortization expense.

	2017 HUFm	2016 HUFm
Profit from operations	20,711	54,616
Depreciation	34,747	32,895
Dividend income	675	2,792
EBITDA	**56,133**	**90,303**

The Group was in compliance with the ratios stated as covenants in the EIB credit line agreement during the maturity. The total amount outstanding at 31 December 2016 was repaid in December 2017.

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 profit

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, KZT and the CNY. The calculation of exposure to foreign currencies is based on these eight currencies.

The foreign currency risk management calculation is based on the balances exposed to exchanges of foreign currencies of the Parent Company and the nine 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, GRMed China). The items of the other consolidated companies have insignificant foreign currency exposure as they are performing mainly wholesale and retail activity, purchasing and selling in their functional currency. 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, CHF, 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 before income tax:

2017		**Exchange rates**								**Effect on operating profit**	**Effect on profit before income tax**	
*	EUR/HUF	USD/HUF	EUR/USD	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	KZT/HUF	CNY/HUF	HUFm	HUFm	
103.23%	**319.28**											
		282.58	**1.13**	**74.98**	**69.86**	**5.18**	**306.15**	**0.96**	**41.47**	**5,479**	**5,037**	**largest growth**
		273.73	1.17	72.63	67.67	4.71	278.32	0.87	40.17	550	538	
		264.88	1.21	70.28	65.48	4.24	250.49	0.78	38.87	(4,379)	(3,961)	
100.00%	309.28											
		282.58	1.09	74.98	69.86	5.18	306.15	0.96	41.47	3,769	3,396	
		273.73	1.13	72.63	67.67	4.71	278.32	0.87	40.17	0	0	
		264.88	1.17	70.28	65.48	4.24	250.49	0.78	38.87	(4,929)	(4,499)	
96,77%	**299.28**											
		282.58	1.06	74.98	69.86	5.18	306.15	0.96	41.47	4,379	3,961	
		273.73	1.09	72.63	67.67	4.71	278.32	0.87	40.17	(550)	(538)	
		264.88	**1.13**	**70.28**	**65.48**	**4.24**	**250.49**	**0.78**	**38.87**	**(5,479)**	**(5,037)**	**greatest decrease**

* Change of EUR/HUF average exchange rates.
* From 2017 the Management has changed the calculation of the foreign currency risk, and adjusted with CNY. Beside this, the focus in on the currency fluctuation effect on profit before income tax, rather than profit after tax, as it was in 2016.

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	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.
* From 2017 the Management has changed the calculation of the foreign currency risk, and adjusted with CNY. Beside this, the focus in on the currency fluctuation effect on profit before income tax, rather than profit after tax, as it was in 2016.

Based on the yearly average currency rate sensitivity analysis of 2017 the combination of weak Hungarian Forint – 319.28 EUR/HUF against other currencies - would have caused the largest growth in the amount of HUF 5,479 million on the Group's consolidated operating profit and HUF 5,037 million on the Group's consolidated profit before income tax.
The greatest decrease HUF 5,479 million on operating and HUF 5,037 million on profit before income tax would have been caused by the combination of exchange rates of 299.28 EUR/HUF against other currencies.

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.

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 nine 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, GRMed China). 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, CHF 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:

2017		**Exchange rates**								**Effect on net financial position**	
*	EUR/HUF	USD/HUF	EUR/USD	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	KZT/HUF	CNY/HUF	HUFm	
103.23%	**320.20**										
		267.20	**1.20**	**76.80**	**68.70**	**4.90**	**291.80**	**0.90**	**41.10**	**5,714**	**best case scenario**
		258.82	1.24	74.35	66.57	4.49	265.24	0.78	39.77	816	
		250.50	1.28	71.90	64.40	4.00	238.70	0.70	38.50	(4,617)	
100.00%	310.14										
		267.20	**1.20**	**76.80**	**68.70**	**4.90**	**291.80**	**0.90**	**41.10**	4,898	
		258.82	1.24	74.35	66.57	4.49	265.24	0.78	39.77	0	
		250.50	1.28	71.90	64.40	4.00	238.70	0.70	38.50	(5,433)	
96.77%	**300.10**										
		267.20	1.20	76.80	68.70	4.90	291.80	0.90	41.10	4,083	
		258.82	1.24	74.35	66.57	4.49	265.24	0.78	39.77	(815)	
		250.50	**1.28**	**71.90**	**64.40**	**4.00**	**238.70**	**0.70**	**38.50**	**(6,248)**	**worst case scenario**

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

all amounts in HUFm

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.

The worst case scenario is when EUR, USD, PLN, RON, RUB, CHF, KZT and CNY weaken against HUF. In this case the consolidated financial result would decrease by HUF 6,248 million.
The best case scenario is when EUR, USD, PLN, RON, RUB, CHF, KZT and CNY would strengthen against HUF. In this case the consolidated financial result would increase by HUF 5,714 million.

In 2016 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 11,286 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 11,667 million.

Since loans receivables, and borrowings given to subsidiaries are eliminated during the consolidation process these items are not taken into consideration in the sensitivity analyses, however the revaluation effect of these balance sheet items influence the Net Financial Income/loss of the Group.

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

2017

	Currencies (all amounts in millions)							
	EUR	USD	CHF	RUB	RON	PLN	KZT	CNY
Trade receivables	47.1	53.8	1.1	7,365.5	323.3	84.7	1,479.3	387.1
Trade payables	(26.1)	(9.2)	(0.2)	(15.3)	(310.5)	(5.6)	(6.8)	-
Loans receivable	1.2	3.6	-	-	-	-	-	-
Bank deposits	59.0	25.1	0.9	440.6	35.5	4.7	138.1	22.3
Total	**81.2**	**73.3**	**1.8**	**7,790.8**	**48.3**	**83.8**	**1,610.6**	**409.4**

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**

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 2017	Type of security		
		Credit insurance	Bank guarantee	L/C
	HUFm	HUFm	HUFm	HUFm
CIS	14,965	14,837	128	-
EU	345	-	345	-
USA	-	-	-	-
China	-	-	-	-
Latin America	-	-	-	-
Other	526	237	124	165
Total	**15,836**	**15,074**	**597**	**165**

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**

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 2017 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"):

As a result of the composition of the Group, the Parent Company has the most significant Cash and cash equivalents (more than 60% of the Group's total Cash and cash equivalents). Therefore details of the Parent Company are disclosed.

	2017	2016
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.	BBB-	BB+
Unicredit Bank Zrt (ultimate parent - UniCredit SpA)	BBB	BBB-
Raiffeisen Bank Zrt. (ultimate parent – Raiffeisen Bank Intl AG)	BBB+	BBB
CIB Bank Zrt.	BBB-	BBB-
Banca Commerciala Romana SA*	BBB+	BBB

* For these financial institutes we present the rating of the ultimate parent, since individual rating of Standard and Poor's is not available.

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 2017 and 2016, 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:

	2017 HUF m	**2016** HUF m
Bank guarantee relating to Government Grant	-	1,661
Bank guarantee for National Tax and Customs Administration of Hungary – collaterals for customs and excise duty related liabilities	194	109
Bank guarantee for Romanian suppliers	3,600	2,591
Other, individually not significant bank guarantees	101	80

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	31 December 2017				31 December 2016			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets									
Other financial assets	15	15,539	-	-	**15,539**	13,255	-	-	**13,255**
Investments in securities	22	18	-	-	**18**	751	-	-	**751**
Foreign exchange forward contracts	21	-	26	-	**26**	-	-	-	-
Convertible loan option	15	-	-	45	**45**	-	-	79	**79**
"Exchangeable bonds" option	15	-	-	2,346	**2,346**	-	-	1,888	**1,888**
Total assets recurring fair value measurements		**15,557**	**26**	**2,391**	**17,974**	**14,006**	**-**	**1,967**	**15,973**
Financial liabilities									
Other payables	27.1	-	-	-	-	-	-	8,446	**8,446**
Total liabilities recurring fair value measurements		-	-	-	-	-	-	**8,446**	**8,446**

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 2017 and 2016.

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 2017 and 2016 (Note 3.1):

	Fair value at 31 December 2017 HUFm	Valuation technique	Unobservable inputs	Range of inputs (weighted average)	Sensitivity of fair value measurement
Assets at fair value					
Convertible loan option EVESTRA II.	45	Option valuation model	• Price of the stock	3.7378 USD/share	The change of the stock price multiples the fair value
			• Strike price of the option	4.50 USD/share	The higher the strike price the lower the fair value
			• Time in years	2.38 year	The longer the time in years the higher the fair value
			• The annualised risk free rate	1.9383 %	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*	2,346	Option valuation model	• Price of the stock	6,780 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	1.18 year	The longer the time in years the higher the fair value
			• Standard deviation of the stock's returns (volatility)	18.28 %	The higher the standard deviation the higher the fair value
Total recurring fair value measurements at Level 3	2,391				

* MNV bond contains an "exchangeable bond" option classified as embedded derivative according to IAS 39. The fair value of this option is HUF 2,346 million and presented separately in the Consolidated Financial Statements. In previous year it was HUF 1,888 million (for detailed information see Note 15).

	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**				

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 2016 and 2017.

	GRMed HUFm	GR Mexico HUFm
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**
Fair value at 1 January 2017	7,565	881
Effect of paid consideration	(7,556)	(489)
Effect of fx*	(9)	(25)
Effect of change in estimated cash-flow**	-	(367)
Fair value at 31 December 2017	-	-

* 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).

(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

Property, plant and equipment	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	-	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	-	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**

Property, plant and equipment	Land and buildings HUFm	Plant and equipment HUFm	Construction in progress HUFm	Total HUFm
Gross value				
at 31 December 2016	**157,464**	**253,756**	**18,786**	**430,006**
Translation differences	(785)	(640)	(59)	**(1,484)**
Capitalization	5,924	22,130	(28,054)	-
Transfers and capital expenditure	373	595	30,335	**31,303**
Disposals	(1,690)	(5,823)	(31)	**(7,544)**
at 31 December 2017	**161,286**	**270,018**	**20,977**	**452,281**
Accumulated depreciation				
at 31 December 2016	**43,429**	**195,575**	-	**239,004**
Translation differences	(12)	(310)	-	**(322)**
Current year depreciation	4,634	17,003	-	**21,637**
Net foreign currency exchange differences	(9)	(60)	-	**(69)**
Transfer / (disposals)	(372)	(4,587)	-	**(4,959)**
at 31 December 2017	**47,670**	**207,621**	-	**255,291**
Net book value				
at 31 December 2016	**114,035**	**58,181**	**18,786**	**191,002**
at 31 December 2017	**113,616**	**62,397**	**20,977**	**196,990**

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.

all amounts in HUFm

Other intangible assets	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	-	-	-	-	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)**
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 S.A.
** The BEMFOLA presented as separate subcategory within the intangible assets represents the intangible asset recognized at the acquisition of Finox.

Other intangible assets	Rights	Intellectual property	Research and development	ESMYA*	BEMFOLA**	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Gross value						
at 31 December 2016	**135,747**	**3,701**	**423**	**84,884**	**51,864**	**276,619**
Translation differences	(703)	(31)	-	(6,370)	(147)	**(7,251)**
Acquisition	9,479	122	-	-	-	**9,601**
Disposals	(478)	(10)	-	-	-	**(488)**
at 31 December 2017	**144,045**	**3,782**	**423**	**78,514**	**51,717**	**278,481**
Accumulated amortization						
at 31 December 2016	**66,230**	**2,575**	**254**	**13,846**	**1,037**	**83,942**
Translation differences	(428)	(28)	-	(1,156)	(3)	**(1,615)**
Current year amortization	7,878	309	84	2,774	2,065	**13,110**
Net foreign currency exchange differences	(14)	-	-	(860)	4	**(870)**
Impairment and (reversal) of impairment (net)	8,443	-	-	20,512	-	**28,955**
Disposals	8	(7)	-	-	-	**1**
at 31 December 2017	**82,117**	**2,849**	**338**	**35,116**	**3,103**	**123,523**
Net book value						
at 31 December 2016	**69,517**	**1,126**	**169**	**71,038**	**50,827**	**192,677**
at 31 December 2017	**61,928**	**933**	**85**	**43,398**	**48,614**	**154,958**

* The ESMYA presented as separate subcategory within the intangible assets represents the intangible asset recognized at the acquisition of PregLem S.A.
** 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/NA region)
In the course of PregLem S.A.'s acquisition the rights attached to the distribution in the EU and the North America of ESMYA®, the company's most important product was recognised as an independent intangible asset in 2010. The amortization of the asset related to the EU market 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 group of CGU with goodwill – see details of impairment testing of the PregLem S.A. goodwill in Note 18.

BEMFOLA
The intangible asset was recognised at the acquisition transaction of Finox in the value of HUF 50,916 million with 25 years useful life. The amortisation of this asset started in 2016. Net book value of Bemfola intangible is HUF 47,136 million as of 31 December 2017.
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. Net book value after amortisation, started in 2016, is HUF 1,478 million as of 31 December 2017.

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

Net book value	**31 December 2017**	**31 December 2016**
	HUFm	HUFm
ESMYA LatAm	429	9,221
Grünenthal	34,766	39,089
Lenzetto®	844	893
Reacquired right	-	213
Pharmacy licenses	2,406	2,436
Other, individually not significant rights	23,484	17,665
Total	**61,929**	**69,517**

Rights – ESMYA EU intangible asset
As announced by Richter on 09.02.2018, the European Medicines Agency (EMA) Pharmacovigilance Risk Assessment Committee (PRAC) has initiated the implementation of temporary precautionary measures as a part of its review procedure on drug induced liver injury potentially related to ESMYA® (ulipristal acetate). PRAC considers that until a thorough assessment of the available data is performed within the ongoing review, temporary measures are needed to minimise potential risks to patients.
The PRAC has recommended regular liver monitoring for women taking ESMYA® for uterine fibroids. The PRAC has also recommended that no new patients should be started on ESMYA® and no patients who have completed a course of treatment should start another one. Treatments commenced prior to this decision are allowed to be completed. PRAC recommendations are temporary measures to protect patients' health. The final decision depends on the conclusion of the review of Esmya, which was started in December 2017 and is expected to be completed before end of May 2018.
In the context of the temporary measures of PRAC (which is identified as an impairment indicator) and in connection with the impairment test as of 31 December 2017, the Company reviewed and modified the ESMYA® EU sales forecast, taking into account the expected negative impact on business. The modifications were made on the basis of the following assumptions:

2018
It is Richter's assumption, that the final outcome of the PRAC evaluation will be published by the end of May 2018. Richter also assumes, that after the conclusion of the evaluation, tbe involvement of new patients will be possible again. In the Sales projections Richter assumes a restricted label for close ESMYA® treatment followed up by hepatic tests (before, during and after every cycle).

Sales:
In EU markets from 19 February 2018 new patients are not going to be involved, only a proportion of patients, who already use ESMYA® will continue using the product. Most of this use will be covered by products, which are already in the distribution channel at the wholesalers and in the pharmacies, therefore sales will drop steeply until May 2018.
In the revised 2018 forecast the Company considered the average level of monthly sales in the last 3-4 months of 2017 country

by country as 100% baseline. After the publication of the PRAC decision in May we expect a gradual recuperation of sales up to a level of ca. 42% of the baseline until December 2018.

Costs:
Some possible cost savings has been identified in regard to 2018. Staff reductions are not planned. The Company believes that it needs all its force for a successful relaunch after May 2018.

2019-2020

Sales:
Continual sales increase assumed from June 2018 onwards, after the PRAC recommendation and CHMP (EMA's Committee for Medical Products for Human Use) decision. In 2019 the Company expects a Year on Year increase of +67% compared to 2018 and further +30% increase for 2020 compared to 2019. Year of 2020 will be the peak year with 73m€ turnover that is 9% less that in the best ESMYA® year of 2017.
As data exclusivity expires in May 2020, a continual launch of generics is expected in second half of 2020 (including the launch of own ESMYA® generic as well to offset the losses of ESMYA® brand itself).

Costs:
2019 costs are expected at a level comparable to 2017 actual costs. Some activities that had been discontinued in 2018 due to stop in promotion will need to be revamped.
2020 costs are planned on 60% level of 2019. Brand building ends and the focus moves to the generic brand launch.

2021-2035

The focus will be on the protection of sales (on some markets) and also on own generic promotion (on the others). General assumption is to have 3-5 generics per each market.

Sales:
From 2021 onwards decrease in sales expected as follows: -17% in 2021 due to possible delay of some generics, -20% both in 2022 and 2023, -15% in 2024 and -10% from 2025 to 2035 each year.

Costs:
In 2021 spending planned to be cut to 50% of previous year costs. Additional -40% and -30% cut is planned in 2022 and 2023. Cutbacks will continue between 2024 and 2027 by -20% every year. In years between 2028 and 2035 a marginal cutback -10% planned every year to maintain optimal cost vs. turnover ratio.

ESMYA North American intangible asset
The registration of ESMYA® is ongoing in the USA. The Company expects FDA to form its independent opinion on the matter, but it is not possible to foresee the FDA's decision. No such information came into the Company's attention based on which significant adjustment should have been made to the USA sales forecast and which could materially impact the USA sales potential of ESMYA®.
There is only one major assumption that has changed in contrast to the previous year expectations: after a reassessment of the patent portfolio, the first year of generic entry is awaited now sooner, in 2024. Generic competition makes sales likely to drop significantly. Allergan sales which forms the basis of our royalty income are expected to reach their minimum over 4 years (CAGR: -55%).
The recoverable amount of both intangibles was determined by the fair value less cost of disposal applying the Multi-Period Excess Earnings Method.

Result of ESMYA EU and NA intangible asset impairment tests
As a result of the impairment test it was found that the recoverable amount of the ESMYA EU intangible asset is 38.4% less than its carrying value which meant a need to account for an impairment amounting to HUF 20,512 million. The remaining book value of the asset is HUF 31,671 million. +/-1% change in WACC would result in HUF 2,686 million decrease or HUF 2,977 million increase in the recoverable amount. +/-10% change per year regarding the sales volume in the adjusted forecast would result in HUF 5,596 million higher or lower recoverable amount
There was no need to account for an impairment in regard to the ESMYA NA intangible asset. The recoverable amount substantially (2 times) exceeds the book value (HUF 11,727 million). Any reasonable change in the key assumptions is still not expected to result in an impairment.
The discount rates (EU post tax: 8.0%, in 2016 7.3%; NA post tax: 8.1%, in 2016 7.3%) applied reflect current market assessments of the time value of money and the risks specific to the intangible assets for which future cash flow estimates have not been adjusted.

Rights – ESMYA LatAm intangible asset

In 2014 the Company purchased the right to utilisation of ulipristal acetate (ESMYA®'s active ingredient) for the Latin American region from HRA Pharma, the total net book value (before impairment) of which was HUF 9,023 million as of 31 December 2017. Since this intangible was acquired by the Parent Company later than the PregLem acquisition, therefore it is treated as a separate intangible asset.

The Company split the purchase price among markets and recognised intangible assets accordingly. The amortization of these intangibles is started when the product is launched in the respective market.

In the context of the temporary measures of PRAC, the Company reviewed and modified the ESMYA® LatAm sales forecast as well, taking into account the expected negative impact on business. It has been identified as an impairment indicator, therefore also the intangibles subject to amortisation were tested whether accounting for impairment is necessary. The only significant asset in this scope is the Mexican one, (net book value before impairment: HUF 3,643 million).

The most significant intangible asset not yet available for use relates to the Brazilian market (net book value before impairment HUF 3,494 million). The Company has performed an impairment assessment on these assets as of the balance sheet date.

The recoverable amount of ESMYA Brazilian and Mexican intangibles were determined by the fair value less cost of disposal applying the Multi-Period Excess Earnings Method. The calculations were based on long term projections (corresponding with useful life of these assets and reviewed taking into account the expected negative impact of PRAC measures) adopted by the management. Key assumptions are:

In Mexico, after a favourable decision of PRAC in May 2018, sales are expected to consolidate at a level lower than forecasted earlier. The partial recovery will be fomented by medical groups already experiencing the benefits of the product. However, the extent of government endorsement and hence additional sales (ie. acceptance under reimbursement) is expected to be smaller.

Brazilian approval and subsequent launch is about 2 years ahead. This country has never used ESMYA® before, and the expectation is that PRAC measures will create a less receptive environment for a launch than earlier expected. Therefore the Company thinks that the market opportunity will decrease more significantly than in Mexico.

Based on the outcomes of the impairment models the Company found that writing off the total book value of these assets is reasonable. Also, the Company decided on the full impairment of the Venezuelan asset (has not been capitalized yet, similarly to the Brazilian asset), taking into consideration not only the impacts of PRAC measures but the general economic situation of the country as well.

Total amount of impairment losses regarding Esmya LatAm assets according to the above decisions amount to HUF 7,992 million. Irrespective of the PRAC temporary precautionary measures, the Group accounted for an impairment of HUF 602 million on the Esmya rights allocated to the Mediplus countries (Chile, Bolivia, Peru, Ecuador) as a result of the decline in expected sales of Esmya on the related markets.

The discount rate (Esmya Brazil post tax: 10.5%; Esmya Mexico post tax: 8.0%) applied reflects current market assessments of the time value of money and the risks specific to the assets for which future cash flow estimates have not been adjusted.

The management did not consider the remaining Esmya LatAm intangible assets neither individually nor in aggregate to be significant and therefore did not perform a detailed impairment testing on the balance of HUF 429 million.

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 34,766 million as of 31 December 2017 and HUF 39,089 million as of 31 December 2016.

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 893 million as of 31 December 2016 and HUF 844 million as of 31 December 2017.

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 213 million as of 31 December 2016 and HUF 0 million as of 31 December 2017, since the asset has reached the end of its useful life.

Rights – Pharmalicences
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 83 million as impairment loss and 235 million as reversal of impairment in 2017 and HUF 40 million impairment loss and 450 million as reversal of impairment in 2016. 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 if any, and the remainder of the impairment loss was recognized on the pharmacy licenses. Net book value of pharmacy licenses was HUF 2,406 million as of 31 December 2017 and HUF 2,436 million as of 31 December 2016.

The average remaining useful life of the intellectual properties does not exceed 6 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
			2017	2016	2017	2016	
1	AO Gedeon Richter - RUS	Russia	100.00	100.00	100.00	100.00	Pharmaceutical manufacturing
2	Gedeon Richter Romania S.A.	Romania	99.92	99.92	99.92	99.92	Pharmaceutical manufacturing
3	Gedeon Richter Polska Sp. z o.o.	Poland	99.84	99.84	99.84	99.84	Pharmaceutical manufacturing
4	Richter Themis Pvt. Ltd.	India	51.00	51.00	51.00	51.00	Pharmaceutical manufacturing
5	Gedeon Richter Pharma GmbH	Germany	100.00	100.00	100.00	100.00	Pharmaceutical trading
6	Gedeon Richter USA Inc.	USA	100.00	100.00	100.00	100.00	Pharmaceutical trading
7	RG Befektetéskezelő Kft.	Hungary	100.00	100.00	100.00	100.00	Financial-accounting and controlling activities
8	Gedeon Richter UA PAT	Ukraine	98.16	98.16	98.16	98.16	Pharmaceutical trading
9	Gedeon Richter UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
10	Gedeon Richter Iberica S.A.U	Spain	100.00	100.00	100.00	100.00	Pharmaceutical trading
11	Nedermed B.V.	The Netherlands	100.00	100.00	100.00	100.00	Pharmaceutical trading
12	Medimpex Japan Co. Ltd.	Japan	90.90	90.90	90.90	90.90	Pharmaceutical trading
13	Medimpex Jamaica Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
14	Medimpex West Indies Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
15	Humanco Kft.	Hungary	100.00	100.00	100.00	100.00	Social, welfare services
16	Pesti Sas Holding Kft.	Hungary	100.00	100.00	100.00	100.00	Portfolio management
17	Richter Szolgáltató Kft.	Hungary	100.00	100.00	100.00	100.00	Catering services
18	Reflex Kft.	Hungary	100.00	100.00	100.00	100.00	Transportation, carriage
19	Chemitechnik Pharma Kft.	Hungary	66.67	66.67	66.67	66.67	Engineering services
20	GYEL Kft.	Hungary	66.00	66.00	66.00	66.00	Quality control services
21	Armedica Trading S.R.L.	Romania	99.92	99.92	99.92	99.92	Asset management
22	Gedeon Richter Farmacia S.A.	Romania	99.92	99.92	99.92	99.92	Pharmaceutical retail
23	Gedeon Richter France S.A.S.	France	100.00	100.00	100.00	100.00	Pharmaceutical trading
24	I.M. Gedeon Richter-Retea Farmaceutica S.R.L.	Moldavia	51.00	51.00	51.00	51.00	Pharmaceutical retail
25	Richter-Helm BioLogics GmbH & Co. KG	Germany	70.00	70.00	70.00	70.00	Biotechnological manufacturing and research
26	Richter-Helm BioLogics Management GmbH	Germany	70.00	70.00	70.00	70.00	Asset management
27	Medimpex UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
28	Farnham Laboratories Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
29	Gedeon Richter Aptyeka SP OOO	Armenia	51.00	51.00	51.00	51.00	Pharmaceutical retail
30	Pharmafarm S.A.	Romania	99.92	99.92	99.92	99.92	Pharmaceutical wholesale
31	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
			2017	2016	2017	2016	
32	Gedeon Richter Marketing Polska Sp. z o.o.	Poland	99.97	99.97	99.97	99.97	Marketing services
33	Gedeon Richter Italia S.R.L.	Italy	100.00	100.00	100.00	100.00	Pharmaceutical retail
34	PregLem S.A.	Switzerland	100.00	100.00	100.00	100.00	Manufacturing and research
35	Gedeon Richter Marketing ČR s.r.o.	Czech Republic	100.00	100.00	100.00	100.00	Marketing services
36	Gedeon Richter Slovakia s.r.o.	Slovak Republic	100.00	100.00	100.00	100.00	Marketing services
37	Richter-Lambron SP OOO	Armenia	51.00	51.00	51.00	51.00	Pharmaceutical trading
38	Gedeon Richter Austria GmbH	Austria	100.00	100.00	100.00	100.00	Marketing services
39	Gedeon Richter (Schweiz) AG	Switzerland	100.00	100.00	100.00	100.00	Marketing services
40	Pharmarichter OOO	Russia	100.00	100.00	100.00	100.00	Pharmaceutical sales promotion
41	I.M. Rihpangalpharma S.R.L.	Moldavia	65.00	65.00	65.00	65.00	Pharmaceutical trading
42	Gedeon Richter Portugal, Unipessoal Lda.	Portugal	100.00	100.00	100.00	100.00	Marketing services
43	PregLem France S.A.S.	France	100.00	100.00	100.00	100.00	Marketing services
44	Gedeon Richter Slovenija, d.o.o.	Slovenia	100.00	100.00	100.00	100.00	Marketing services
45	Gedeon Richter Benelux SPRL	Belgium	100.00	100.00	100.00	100.00	Marketing services
4	Gedeon Richter Nordics AB	Sweden	100.00	100.00	100.00	100.00	Marketing services
47	TOO Gedeon Richter KZ	Kazakhstan	100.00	100.00	100.00	100.00	Marketing services
48	Grmed Company Ltd.	Hong-Kong	100.00	100.00	100.00	91.00	Asset management
49	Rxmidas Pharmaceuticals Company Ltd.	China	100.00	100.00	100.00	91.00	Marketing services
50	Gedeon Richter Pharmaceuticals (China) Co. Ltd.	China	100.00	100.00	100.00	91.00	Marketing services
51	Gedeon Richter Colombia S.A.S.	Columbia	100.00	100.00	100.00	100.00	Pharmaceutical trading
52	Gedeon Richter Croatia d.o.o.	Croatia	100.00	100.00	100.00	100.00	Marketing services
53	Gedeon Richter Mexico, S.A.P.I. de C.V	Mexico	100.00	100.00	100.00	80.00	Pharmaceutical trading
54	Gedeon Richter do Brasil Importadora, Exportadora e Distribuidora S.A.	Brazil	51.00	51.00	51.00	51.00	Pharmaceutical trading
55	Comercial Gedeon Richter (Chile) Ltda.	Chile	100.00	100.00	100.00	100.00	Pharmaceutical trading
56	Mediplus (Economic Zone) N.V.	Curaçao	100.00	100.00	100.00	100.00	Pharmaceutical trading
57	Gedeon Richter Peru S.A.C.	Peru	100.00	100.00	100.00	100.00	Pharmaceutical trading
58	GEDEONRICHTER Ecuador S.A.	Ecuador	100.00	100.00	100.00	100.00	Pharmaceutical trading
59	Gedeon Richter Bolivia SRL	Bolivia	100.00	100.00	100.00	100.00	Pharmaceutical trading

	Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
			2017	2016	2017	2016	
60	Gedeon Richter Rxmidas Joint Venture Co. Ltd.	Hong-Kong	100.00	100.00	100.00	100.00	Marketing services
61	Grmidas Medical Service (China) Co.Ltd.	China	100.00	100.00	100.00	100.00	Pharmaceutical trading
62	Finox Holding AG	Switzerland	100.00	100.00	100.00	100.00	Asset management
63	Finox AG	Switzerland	100.00	100.00	100.00	100.00	Biotechnological manufacturing
64	Finox Biotech AG	Lichtenstein	100.00	100.00	100.00	100.00	Trading of biotech products
65	Finox Biotech Germany GmbH	Germany	100.00	100.00	100.00	100.00	Marketing services
66	Finox Biotech Nordics AB.	Sweden	100.00	100.00	100.00	100.00	Marketing services
67	Finox Biotech Iberia S.L.	Spain	100.00	100.00	100.00	100.00	Marketing services
68	Finox Biotech France SARL	France	100.00	100.00	100.00	100.00	Marketing services
69	Finox Biotech Italy S.r.l.	Italy	100.00	100.00	100.00	100.00	Marketing services
70	Finox Biotech UK and Ireland Ltd.	UK	100.00	100.00	100.00	100.00	Marketing services
71	Finox Biotech Benelux BV	Belgium	100.00	100.00	100.00	100.00	Marketing services
72	Finox Biotech Eastern Europe*	Poland	-	100.00	-	100.00	Marketing services
73	Finox Biotech Australia PTY Ltd.	Australia	100.00	100.00	100.00	100.00	Trading of biotech products

* The company wound up in 2017.

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
				2017	2016	2017	2016	
74	GR Ireland Ltd	01 2017	Dublin	100.00	-	100.00	-	Marketing services

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

The total non-controlling interest as of 31 December 2017 is HUF 4,692 million, of which HUF 2,405 million is for Richter-Helm BioLogics GmbH & Co. KG, HUF 1,091 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.

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

2017	Medimpex West Indies Ltd. (14)	Richter-Helm BioLogics GmbH & Co. KG (25)
	HUFm	HUFm
Accumulated non-controlling interest	1,091	2,405
Non-current assets	79	4,677
Current assets	3,450	5,703
Non-current liabilities	-	1,089
Current liabilities	440	1,275
Revenues	3,005	9,658
Profit/(loss)	386	1,974
Dividends paid	217	-
Total cash-flow	211	1,089

2016	Medimpex West Indies Ltd. (14)	Richter-Helm BioLogics GmbH & Co. KG (25)
	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)

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

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

	2017 HUFm	2016 HUFm
At 1 January	**8,541**	**7,140**
Additional payment	-	80
Acquisition/capital increase	2,996	-
Share of profit of associates and joint ventures	1,528	1,798
Net investments*	(44)	871
Dividend	(1,157)	(256)
Reclassification to subsidiary	-	(997)
Reclassification to associates	-	12
Impairment	-	(57)
Exchange difference	(17)	(50)
At 31 December	**11,847**	**8,541**
out of investment in associates	*10,582*	*7,305*
out of investment in joint ventures	*1,265*	*1,236*

* 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.

The acquisition of investments in associates and joint ventures in 2017 are related to the investment in Evestra Inc (HUF 1,620 million) and Prima Temp Inc. (HUF 1,376 million). The Group has significant influence over these entities since it has the right to delegate a member to the Board of the companies.
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 "preliminary consolidated net asset attributable to the owner of the parent" was taken into account.

	2017 HUFm	2016 HUFm
Opening net assets at 1 January of Hungaropharma Zrt.	**22,638**	**15,191**
Profit for the year*	2,178	7,693
Dividends	(1,119)	(246)
Closing net assets of Hungaropharma Zrt. at 31 December	**23,697**	**22,638**
Interest in associate (at 30.85%)	7,311	6,984
Unrealised profit elimination	(108)	(52)
Interest in other associates	3,379	373
Carrying value at 31 December	**10,582**	**7,305**

* 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 HUFm	Current assets HUFm	Non-current liabilities HUFm	Current liabilities HUFm	Revenues HUFm	Profit/ (loss) HUFm	Interest held %
2017									
Hungaropharma Zrt.	Hungary	Pharmaceutical wholesale	7,737	55,600	100	40,843	289,177	4,657	30.85
Salvia-Med Bt.	Hungary	Pharmaceutical retail	1	61	-	27	544	22	32.79
Szondi Bt.	Hungary	Pharmaceutical retail	41	167	-	31	569	43	33.00
Top Medicina Bt.	Hungary	Pharmaceutical retail	28	45	-	35	351	7	20.00
Vita-Richter SP OOO*	Azerbaijan	Pharmaceutical trading	-	-	-	-	-	-	49.00
Pharmapolis Kft.	Hungary	Building project management	4,837	306	2,956	2,145	399	36	24.00
Pharmatom Kft.**	Hungary	Biotechnological research, development	438	8	-	446	1	(4)	24.00
Pesti Sas Patika Bt.	Hungary	Pharmaceutical retail	2	18	-	12	111	(4)	49.00
Evestra Inc.***	USA	Biopharmaceutical research and development	1,164	1,702	416	313	2,627	444	17.26
Prima Temp Inc.****	USA	Pharmaceutical research	29	1,487	65	231	-	(507)	26.76

Name	Place of incorporation	Principal activity	Non-current assets HUFm	Current assets HUFm	Non-current liabilities HUFm	Current liabilities HUFm	Revenues HUFm	Profit/ (loss) HUFm	Interest held %
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

* An impairment loss was recognised related to the investment in Vita-Richter, because of the lack of real control. Since then, no updated financial data are available.
** Pharmatom Kft. – which was founded with the aim of perform government granted R&D projects – not prospering which was an indicator for impairment.
*** Convertible loan has been transferred into Investment on 5 December, 2017.
****New acquisition of associate in 2017.

The financial statements for 2017 of Hungaropharma Zrt, the most significant associate of the Group have not been audited yet. Corresponding data for year 2016 has not been amended in 2017 Consolidated Financial Statements as there were no material differences between the audited and unaudited figures of 2016.
Amounts of assets, liabilities, revenues and profit/loss are presented at 100%.
The associates did not have any item in Other Comprehensive Income (in 2017 and 2016).

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	%
Medimpex Irodaház Kft.*	Hungary	Renting real estate	1,517	153	38	19	320	100	-	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	-	973	10,892	287	865	121	17	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	%
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	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

* 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 2017 HUFm	31 December 2016 HUFm
Held to maturity investments carried at amortised cost	1,649	1,862
Investments carried at amortised cost as loans and receivables	15,903	15,780
Available-for-sale investments carried at fair value	15,539	13,255
Financial assets carried at fair value through profit or loss	2,391	1,967
Total	**35,482**	**32,864**

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 15,903 million as of 31 December 2017 (HUF 15,780 million as of 31 December 2016). For further information see Note 11.
In 2017 the value of above stated exchangeable bond option was HUF 2,346 million (HUF 1,888 million as of 31 December 2016) which was presented as financial assets carried at fair value through profit or loss.

The one significant available-for-sale investment contains 5% ownership in Protek Holding valued at fair value based on the closing stock exchange price. A result of the growth in the share price, and a negative change of RUB/HUF exchange rate, a slight 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 2017 and in 2016 (Note 24).

	31 December 2017	31 December 2016
Opening value (HUFm)	12,536	6,249
Change in fair value (HUFm)	*434*	*6,287*
Closing value (HUFm)	12,970	12,536
Share price (RUB/share)	109.6	99.5
RUB/HUF exchange rate	4.49	4.78
Change in the fair value (HUFm)	*434*	*6,287*

The other available-for-sale investment is a 9.79% ownership in Themis Medicare Ltd. valued at fair value based on the closing stock exchange price. Since there was a significant growth in the share price a revaluation gain was recorded against revaluation reserve for available for sale investments in 2017. A closing fair value is HUF 2,103 million.

On 19 February 2015 Gedeon Richter Plc. and Evestra Inc. announced that they have signed a collaboration agreement in which Richter provided a USD 5 million convertible loan to Evestra. Under the terms of the agreement, after three years Richter had 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 classified as embedded derivative, measured at fair value and recorded 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 24 million gain as financial income. On 5 December 2017, at the end of the duration, Richter decided to convert the loan – including interests, and the option - into investment in Evestra, which is a new associate of the Group as presented in Note 14.
In the meantime another USD 1.5 million convertible loan was given to Evestra during 2017. For more details see Note 11. According to IAS 39 this option was also 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 10.5 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 2017 HUFm	31 December 2016 HUFm
Current tax assets	795	682
Current tax liabilities	703	655

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 2017 HUFm	31 December 2016 HUFm
Deferred tax assets**	10,548	5,416
Deferred tax liabilities	(8,005)	(5,962)

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

Deferred tax assets	PPE and intangible assets HUFm	Provision HUFm	Impairment HUFm	Other temporary differences** HUFm	Unrealised profit elimination HUFm	Total HUFm
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	(2)	(8)	(1)	20	-	**9**
Transfer	4	(450)	(293)	870	-	**131**
31 December 2016	**130**	**87**	**13**	**220**	**4,966**	**5,416**
(Debited)/credited to the income statement	7	(19)	-	3,275	1,753	**5,016**
(Debited)/credited to other comprehensive income*	-	(4)	-	-	-	**(4)**
Exchange differences	(4)	1	-	2	-	**(1)**
Transfer	(265)	405	1,018	(1,037)	-	**121**
31 December 2017	**(132)**	**470**	**1,031**	**2,460**	**6,719**	**10,548**

* Deferred tax assets and liabilities debited/credited to other comprehensive income was HUF 100 million in 2017 and HUF 755 million in 2016 (expense), out of which accounted through revaluation reserve HUF 79 million in 2017 and HUF 337 million in 2016 (expense, see Note 24) and HUF 21 million in 2017 and HUF 418 million in 2016 (expense) accounted through retained earnings.

**The balance of deferred tax assets was increased by HUF 5,132 million, the most significant item was the negative taxable income for the 2017 corporate tax of the Parent Company. This tax loss will be used to reduce the taxable income in the next years.

Deferred tax liabilities	PPE and intangible assets HUFm	Provisions HUFm	Fair valuation HUFm	ESMYA* HUFm	BEMFOLA** HUFm	Other temporary differences HUFm	Total HUFm
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**
Debited/(credited) to the income statement	90	65	(725)	2,057	729	(183)	**2,033**
Debited/(credited) to other comprehensive income***	-	1	(134)	-	-	237	**104**
Exchange differences	2	(6)	7	(195)	(10)	(13)	**(215)**
Transfer	(265)	405	1,018	-	-	(1,037)	**121**
31 December 2017	**38**	**(24)**	**-**	**3,293**	**4,815**	**(117)**	**8,005**

* 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 that partially offset by the unused tax loss of the company in 2016.

** The deferred tax liability balance presented arises in relation to the acquisition of Finox, 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 100 million in 2017 and HUF 755 million in 2016 (expense), out of which accounted through revaluation reserve HUF 79 million in 2017 and HUF 337 million in 2016 (expense, see Note 24) and HUF 21 million in 2017 and HUF 418 million in 2016 (expense) accounted through retained earnings.

From the deferred tax balance presented above it is expected that HUF 8,060 million (in 2016 HUF 6,222 million) of the liabilities and HUF 585 million (in 2016 HUF 374 million) of the assets will reverse after 12 months.

At 31 December 2017 Richter Group has HUF 7,150 million unused tax loss with expiry in 2024 (that would result in HUF 1,144 million deferred tax asset), for which no deferred tax asset has been recognised since the recovery is not probable, while in 2016 the Group had HUF 8,310 million unused tax loss (that would have resulted in HUF 1,330 million deferred tax asset).
In 2017 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 2017 HUFm	31 December 2016 HUFm
Loans given to related parties	1,116	3,207
Loans given to employees	883	707
Other loans given	133	885
Total	**2,132**	4,799

18. Goodwill

	Goodwill HUFm
Cost	
At 1 January 2016	**64,888**
Increase deriving from acquisition of subsidiaries	7,226
Exchange differences	(1,731)
Impairment charged for the year	(1,751)
At 31 December 2016	**68,632**
At 1 January 2017	68,632
Exchange differences	(4,026)
Impairment charged for the year	(20,229)
At 31 December 2017	**44,377**

The above mentioned impairment was charged in Pharmaceuticals segment related to PregLem goodwill.

Closing goodwill on Cash Generating Units (Companies)

	31 December 2017 HUFm	31 December 2016 HUFm
Pharmaceuticals segment		
GR Polska Sp. z o.o.	1,111	1,051
Richter-Helm BioLogics Co & KG	99	99
PregLem S.A.	12,194	34,563
GRMed Company Ltd	28,172	23,142
Gedeon Richter Rxmidas Joint Venture Co. Ltd.	-	6,807
GR Brasil	65	75
GR Mexico	1,669	1,799
Wholesale and retail segment		
Armedica Trading Group	1,006	1,035
Other segment		
Pesti Sas Holding Kft.	61	61
Total	**44,377**	**68,632**

The group has restructured its operation in China and merged the activity of Gedeon Richter Rxmidas Joint Venture Co. Ltd. to GRMed Company Ltd. As a result of reorganisation of the reporting structure as well as, both of the goodwill presented before the transaction is allocated to the merged GRMed Company Ltd.

Impairment tests of the goodwill are based on the following assumptions:

Gedeon Richter Polska Sp. z o.o.
Gedeon Richter Polska Sp. z o.o. achieved significant profit in 2017, 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 2017 similar to 2016. 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 of disposal method considering the economic environment, Romania will remain among the fastest growing pharmaceutical markets among EU member states. The market performance assumes a relatively constant regulatory framework in 2017. In the fair value less cost of disposal 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 13 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 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 pharmacy licences. 5% decrease of the mark-up similarly to 5 percentage points increase of WACC would require varying degrees of partial impairment for goodwill.

PregLem S.A.
On the acquisition of Preglem S.A. the intangible asset ESMYA (EU&North America) and goodwill has also been recognized. Similarly to previous years, the Company conducted an impairment test of PregLem goodwill for the 2017 balance sheet date. The recoverable amount 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). ESMYA EU intangible asset was taken into account at a value reduced with impairment loss (please see Note 12).
The return on the ESMYA CGU was determined by means of the income-based method with a fair value less cost of disposal approach. Key assumptions were the same like in case of ESMYA EU&NA intangible asset impairment testing. As a consequence of the modification of ESMYA EU sales forecast the recoverable amount is 25% below the CGU book value. This resulted in an impairment against goodwill amounting to HUF 20,229 million. The remaining book value of goodwill amounts to HUF 12,194 million.
EU-based cash flows still represent the bigger portion (61%; in 2016 76%) of the total recoverable amount, in which cash flows up to 2024 have a proportion of 56%.

The discount rate (EU-based cash flows post tax: 8.0%, 7.3% in 2016; NA-based cash flows 8.1%, 7.3% in 2016 as well) 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.
+/-1 percentage point change in WACC would result in HUF 3,391 million decrease or HUF 3,701 million increase in the recoverable amount. +/-10% change per year regarding the sales volume in the adjusted forecast would result in around HUF 7,502 million lower recoverable amount in case of sales decrease and in case of sales increase the recoverable amount would be higher around HUF 7,530 million.

GRMed Company Ltd.

GRMed Company Ltd. was acquired in 2013, which transaction supported the Group's stronger presence in China. The realised goodwill has been tested for impairment for the previous years. Considering that the future cash flows from continued use of the assets were 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 of disposal approach.

The Company announced on 01.22.2016. that it acquired from its partner, Rxmidas Pharmaceuticals Holdings Ltd. its outstanding 50% stake in Gedeon Richter Rxmidas Joint Venture Co. Ltd. following the setting up of a joint venture with an initial 50% share of equity announced in December 2010. Subsequent to the acquisition, the Company now holds 100% of Gedeon Richter Rxmidas Joint Venture Co. Ltd., consequently is in full charge of its Rx and OTC business in China.

The Group has restructured its operation in China and merged the activity of Gedeon Richter Rxmidas Joint Venture Co. Ltd. to GRMed Company Ltd. As a result of reorganisation of the business and the reporting structure, both of the goodwill presented before the transaction are allocated to the merged GRMed Company Ltd.

The goodwill impairment was tested as of the balance sheet date of 31 December 2017 and it was found that there was no need to account for impairment.

The calculations were based on the long term turnover projection and cost 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 (2018-2027) due to the average annual 6.9% growth in turnover.

The present value of the 2018-2027 cash flows alone is substantially (40% higher) higher than the CGU's book value. By a conservative estimate of residual value (reckoning with 0% growth), return is 140% higher than the tested amount.

The discount rate (post tax: 12.8%; 2016: 10.1%) 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 Goodwill.

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

DNA Pharmaceuticals S.A. of Mexico was acquired and involved in consolidation from 2014. The realised goodwill was tested by the Company for impairment as of 31 December 2017 similarly to prior years.

The return has been determined for a cash generating unit (CGU) by means of the income-based method with a fair value less cost of disposal approach. The calculations were based on the long term turnover projection adopted by the management (2018-2027), 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.

The sales revenue forecast of the traditional products tested within the CGU has not been changed significantly in comparison to the previous period. The biggest change regarding the Mexican operations is the inclusion of several new license-in products that are expected to contribute to a better "economies of scale". As a consequence the CGU need to bear decreased level of operating expenses. All this resulted in bigger headroom than it was in the previous year. The calculated return 120% higher than the CGU book value (in 2016 2%).

The present value of the 2018-2027 cash flows represents the 55% of total recoverable amount.

Cash flows are quite stable over the whole forecasting period. Residual value was calculated in line with similar expectations.

The discount rate (post tax: 8.0%; in 2016 7.9%) 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.

A rise iu post-tax discount rate to 18.8% (in 2016 8.0%) would remove the remaining headroom.

19. Inventories

	31 December 2017 HUFm	31 December 2016 HUFm
Raw materials, packaging and consumables	42,435	40,031
Production in progress	2,339	1,756
Semi-finished and finished goods	39,700	39,459
Total	**84,474**	**81,246**

Inventories include impairment and scrapping in value of HUF 2,411 million and reversal of impairment in value of 1,287 HUF million in 2017 (HUF 3,842 million impairment and scrapping and HUF 513 million reversal was made in 2016).
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.
As of 31 December 2017 the total carrying amount of inventories that are valued at net realisable value amounts to HUF 9,548 million (in 2016 it was HUF 8,121 million).
All items of Inventories are free from liens and charges.

20. Trade receivables

	31 December 2017 HUFm	31 December 2016 HUFm
Trade receivables	120,581	114,418
Amounts due from related companies (Note 37)	2,442	1,805
Total	**123,023**	**116,223**

Ageing of Trade receivables

	31 December 2017 HUFm	31 December 2016 HUFm
Trade receivables not yet due	108,783	104,192
Trade receivables overdue, not impaired	12,775	8,963
1-90 days	*10,141*	*6,078*
91-180 days	*1,407*	*1,359*
181-360 days	*948*	*1,255*
>360 days	*279*	*271*
Trade receivables overdue, impaired	8,621	10,284
1-90 days	*1,849*	*1,226*
91-180 days	*121*	*1,029*
181-360 days	*317*	*2,053*
>360 days	*6,334*	*5,976*
Impairment on trade receivables	(7,156)	(7,216)
not yet due	*(448)*	-
1-90 days	*(222)*	*(247)*
91-180 days	*(45)*	*(414)*
181-360 days	*(213)*	*(803)*
>360 days	*(6,228)*	*(5,752)*
Total	**123,023**	**116,223**

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

	31 December 2017 HUFm	31 December 2016 HUFm
At 1 January	**7,216**	**7,227**
Provision for receivables impairment	1,843	1,716
Reversal of impairment for trade receivables	(1,757)	(1,798)
Exchange difference	(146)	71
At 31 December	**7,156**	**7,216**

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

There was no individually significant impairment loss accounted for customers neither in 2017 nor in 2016.

21. Other current assets

	31 December 2017 HUFm	31 December 2016 HUFm
Loans receivable	3,608	1,776
Other receivables	3,735	3,524
Fair value of open forward exchange contracts	26	-
Subtotal of financial assets (Note 10)	**7,369**	**5,300**
Tax and duties recoverable	5,033	4,463
Advances	4,843	2,264
Prepayments	2,935	2,964
Total	**20,180**	**14,991**

22. Investments in securities

	31 December 2017 HUFm	31 December 2016 HUFm
Money market funds (AFS)	-	1
Other securities (AFS)	18	750
Total (Note 10)	**18**	**751**

23. Cash and cash equivalents

	31 December 2017 HUFm	31 December 2016 HUFm
Bank deposits	75,871	95,926
Cash on hand	170	127
Total (Note 10)	**76,041**	**96,053**

The total amount of Cash and cash equivalents at the balance sheet date was mainly (more than 61%) 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 as disclosed in more details in Note 10.

24. Share capital and reserves

Share capital	31 December 2017 Number	31 December 2017 HUFm	31 December 2016 Number	31 December 2016 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 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Domestic ownership	**60,272,583**	**59,832,738**	**32.35**	**32.15**	**32.34**	**32.11**
State ownership total	47,051,794	47,051,817	25.25	25.28	25.25	25.25
out of which MNV Zrt.	47,051,668	47,051,668	25.25	25.28	25.25	25.25
out of which Municipality	126	149	0.00	0.00	0.00	0.00
Institutional investors	6,150,262	6,070,053	3.30	3.26	3.30	3.26
Retail investors	7,070,527	6,710,868	3.80	3.61	3.79	3.60
International ownership	**126,025,320**	**126,289,476**	**67.64**	**67.84**	**67.61**	**67.75**
Retail investors	801,326	1,697,648	0.43	0.91	0.43	0.91
Institutional investors	125,223,994	124,591,828	67.21	66.93	67.18	66.84
out of which Aberdeen Asset Mgmt. Plc.	18,243,530	18,243,530	9.79	9.80	9.79	9.79
out of which Black Rock, Inc.	9,628,286	-	5.17	-	5.17	-
out of which Harding Loevner LP	9,367,925	9,367,925	5.03	5.03	5.03	5.03
Undisclosed ownership	**10,774**	**11,012**	**0.01**	**0.01**	**0.01**	**0.01**
Treasury shares*	**66,183**	**241,634**	**0.00**	**0.00**	**0.04**	**0.13**
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.
Changes of the Foreign currency translation reserves are detailed in the Consolidated Statement of Changes in Equity.

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 2016	**3,323**
Recycled through Other comprehensive income	(65)
Revaluation gross	5,904
Deferred tax effect	(337)
At 31 December 2016	**8,825**
Recycled through Other comprehensive income	(708)
Revaluation gross	1,929
Deferred tax effect	(82)
At 31 December 2017	**9,964**

During 2017 Gedeon Richter Polska Sp. z o.o. has sold its' available for sale investment in Ciech S.A. resulting in a recycling of HUF 708 million gain in the Consolidated Income Statement.
From 1 January 2017 9% statutory tax rate is applicable for the Parent Company, which is the only entity in the Group that has available for sale investments at 31 December 2017.

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 details in Note 25 Treasury shares.

	2017 HUFm	**2016** HUFm
Expense recognized in current year	3,640	4,724
Treasury share given (Note 25)	4,728	3,679
Total changes in reserve presented in the Consolidated Statement of Changes in Equity	**(1,088)**	**1,045**

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 2017 72,904 shares were granted to 441 employees of the Company while in 2016 217,189 shares were granted to 440 employees.

Individual bonuses
431,800 treasury shares were granted to qualified employees as bonuses during the year while 387,600 treasury shares were granted in 2016.

Staff Stock Bonus Plan
Pursuant to a programme related to employee share bonuses (Staff Stock Bonus Plan 2017), the Company granted 245,163 treasury shares to 4,266 employees in 2017. The shares will be deposited on the employees' security accounts with UniCredit Bank Hungary Ltd. until 2 January 2020. In 2016 285,459 shares were granted to 4,342 employees deposited on their accounts until 2 January 2019.

The AGM held on 27 April 2017 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 561,499 treasury shares during the year.

Treasury shares	**2017** Numbers	**2016** Numbers
at 1 January	**241,634**	**811,655**
Out of these, number of shares owned by subsidiaries	*60,284*	*710,284*
Share purchase	561,499	302,831
Transferred as part of bonus program	(72,904)	(217,189)
Individual bonuses	(431,800)	(387,600)
Granted pursuant to the National Tax and Customs Administration - approved plan	(245,163)	(285,459)
Granted pursuant to the National Tax and Customs Administration - repurchased	12,917	17,396
at 31 December	**66,183**	**241,634**
Out of these, number of shares owned by subsidiaries	*5,500*	*60,284*

	2017 HUFm	**2016** HUFm
Book value		
at 1 January	**1,285**	**3,206**
Share purchase	3,858	1,758
Transferred as part of bonus program	(428)	(983)
Individual bonuses	(2,690)	(1,571)
Granted pursuant to the National Tax and Customs Administration - approved plan	(1,696)	(1,222)
Granted pursuant to the National Tax and Customs Administration - repurchased	86	97
at 31 December	**415**	**1,285**

26. Trade payables

	31 December 2017 HUFm	31 December 2016 HUFm
Trade payables	47,446	45,738
Amount due to related companies (Note 37)	49	188
Total	**47,495**	**45,926**

27. Other payables and accruals

	31 December 2017 HUFm	31 December 2016 HUFm
Short term accruals	17,357	13,389
Other liabilities	5,259	3,717
Contingent-deferred purchase price liabilities	-	8,446
Dividend payable	150	147
Subtotal of financial liabilities (Note 10)	**22,766**	**25,699**
Wages and payroll taxes payable	6,287	5,678
Other taxes	1,204	1,056
Deposits from customers	258	190
Accrual for taxes and social contributions of share options and other bonuses	-	306
Total	**30,515**	**32,929**

28. Provisions

	31 December 2017 HUFm	31 December 2016 HUFm
Other short term provisions	2,473	1,926
Long term provisions – for retirement and other long term benefits*	3,305	3,508
from this defined retirement benefit plans at the Parent	*1,711*	*1,525*
from this defined retirement benefit plans at GR Polska	*299*	*289*
from this defined retirement benefit plans at PregLem	*263*	*263*
from this defined retirement benefit plans at Finox Group	*66*	*365*
Total	**5,778**	**5,434**

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

At 31 December 2017, 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.

	2017 HUFm	2016 HUFm
Opening value of retirement benefit	1,525	1,394
Interest costs (charged to the P&L)	48	45
Current service costs (charged to the P&L)	130	114
Settlement	(92)	(145)
Actuarial loss/(gain) (charged to the OCI)	100	117
Retirement benefit liability	**1,711**	**1,525**

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 previous years the yield published in December 2016 was used to determine the discount rate for the calculation of liabilities. In the present case – since the fluctuation of the yield was remarkable – we applied a three year average of the yields published. In this calculation a technical interest rate (3.13%) 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	Uncertainty factor related to the probability of resigning
Relevant data applied during the actuarial calculation:	
between 1-5 years	5.0%
between 6-15 years	10.0%
between16-30 years	20.0%
over 30 years	30.0%

Annual average probability of resigning applied:

Term of employment at Richter	less than 6 years	between 6-15 years	between 16-25 years	over 25
	10.0%	4.0%	2.0%	1.5%

29. Net debt reconciliation

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

Net debt	31 December 2017 HUFm	31 December 2016 HUFm
Cash and cash equivalents	76,041	96,053
Borrowings-within one year	-	(7,776)
Borrowings-after one year	(3)	(28,874)
Net debt	**76,038**	**59,403**

	Other assets	Liabilities from financing activities		
	Cash/bank overdraft HUFm	Borrowings due within 1 year HUFm	Borrowing due after 1 year HUFm	Total HUFm
Net debt as at 1 January 2016	**132,374**	**(6,523)**	**(37,188)**	**88,663**
Cash flows	(35,716)	6,524	289	**(28,903)**
Effect of foreign exchange changes	(605)	51	197	**(357)**
Reclassification from long-term to short-term	-	(7,828)	7,828	-
Net debt as at 31 December 2016	**96,053**	**(7,776)**	**(28,874)**	**59,403**
Cash flows	(22,906)	7,711	28,871	**13,676**
Effect of foreign exchange changes	2,894	65	-	**2,959**
Reclassification from long-term to short-term	-	-	-	-
Net debt as at 31 December 2017	**76,041**	-	(3)	76,038

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 2016 was EUR 116.7 million (HUF 36,286 million), while as of 31 December 2017 EUR 0 million (HUF 0 million) after the repayment of the total amount outstanding at 31 December 2016.

30. Other non-current liabilities and accruals

	31 December 2017 HUFm	31 December 2016 HUFm
Government grants	3,864	3,573
Other non-current liabilities	483	875
Total	**4,347**	**4,448**

Government grants relates to property, plant and equipment.

31. Dividend on ordinary shares

	2017 HUFm	2016 HUFm
Dividend on ordinary shares	19,756	13,419

A dividend of HUF 106 per share (HUF 19,756 million) was declared in respect of the 2016 results, approved at the Company's Annual General Meeting on 27 April 2017 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 2017 HUFm	31 December 2016 HUFm
Contractual capital commitments of Parent	9,143	4,185
Contractual capital commitments of AO Gedeon Richter -RUS	999	82
Capital expenditure that has been authorised by the directors but has not yet been contracted for at Parent	30,082	35,840
Capital expenditure that has been authorised by the directors but has not yet been contracted for at AO Gedeon Richter-RUS	2,539	4,162

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:

	2017 HUFm	2016 HUFm
Within 1 year	3,768	3,813
Between 1 and 5 years	8,186	9,310
Over 5 years	3,601	4,041
Total	**15,555**	**17,164**

The agreements do not include purchase option.
In 2017 HUF 6,310 million and in 2016 HUF 6,002 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 22% and vocational training contribution amounting to 1.5% of gross salaries which are paid during 2017 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 1,354 million in 2017 (in 2016: HUF 1,218 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. The total amount paid for employees was HUF 313 million during 2016. The Parent Company doesn't contribute to a private health insurance found for its employees from 1 January 2017.

Pension contribution paid by Hungary based subsidiaries in respect of their employees amounted to HUF 33 million in 2017 and HUF 31 million in 2016.

Foreign subsidiaries pay contributions to various pension funds in respect of their employees which amounted to HUF 584 million and HUF 461 million in 2017 and 2016, 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. Contingent liabilities

HRA licence fee
After the end of the financial period HRA Pharma, the partner of Richter related to Esmya, has initiated a negotiation on the interpretation of the license agreement between the parties that is different from the past practice. The discussion with HRA is at a preliminary phase, therefore the exposure can not be determined at this point.
The view of the management of the Group is that the past practice is fully compliant with the licence agreement.

Uncertain tax positions 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. For further information please see Note 3.1.
Other uncertain tax position related to GR Romania is disclosed in Note 3.1.

37. 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.

	2017 HUFm	2016 HUFm
Dividend paid to MNV Zrt.	4,994	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.

37.1 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 2017 HUFm	31 December 2016 HUFm
Loans to joint ventures	-	-
Loans to associated companies	3,639	3,207
Trade receivables (joint ventures)	240	234
Trade receivables (associates)	2,202	1,571
Trade payables (joint ventures)	5	142
Trade payables (associates)	44	46
Revenue from joint ventures	564	1,879
Revenue from associates	13,280	13,280

The loans are in Hungarian Forint, out of which HUF 355 million expires between 2 and 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 2017 in amount of HUF 436 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.

37.2 Remuneration of the Board of Directors and the Supervisory Board

	Short-term benefits - Allowance	
	2017 HUFm	2016 HUFm
Board of Directors	78	68
Supervisory Board	24	24
Total	**102**	**92**

37.3 Key management compensation

	2017 HUFm	2016 HUFm
Salaries and other short term employee benefits	1,157	839
Share based payments	1,457	1,249
Total short term compensation	**2,614**	**2,088**
Pension contribution paid by the employer	575	564
Total	**3,189**	**2,652**

The table above contains the compensation received by the chief executive officer, directors and other senior members of management, constituting 48 people.
There were no redundancy payments to key management members neither in 2016 nor in 2017.

38. Notable events in 2017

The Company's main objectives for 2017 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.

From 1 January 2017, the Hungarian Act on Accounting requires the preparation of the separate financial statements in accordance with International Financial Reporting Standards for companies, whose securities are traded on a regulated market in the European Economic Area (EEA). With effect from 1 January 2017 separate IFRS reporting also became compulsory for Gedeon Richter Plc. From 1 January 2017, Richter prepares its separate reports in accordance with IFRS.

Sales rose significantly in the CIS regions, mainly in Russia, in the European Union, particularly in 15 Member States of the EU, in the United States and China.

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.

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. A new drug application filing for ulipristal acetate is planned for the second half of 2017.

19 January 2017 Gedeon Richter Plc. announced that it has entered into a distribution and supply agreement with Allergan plc to commercialize its levonorgestrel releasing Intrauterine System (IUS) in Western Europe and in other European countries under the trademark of Levosert®. National marketing authorizations have been already granted in Western and Northern Europe and the product has been launched by Allergan in a number of these countries. The product is already marketed by Richter in most of the Central and Eastern European countries according to an agreement established with Uteron Pharma in 2011. Under the terms of the agreement Richter shall make an upfront payment upon signature of the contract. In addition, further sales related royalties and milestone payments will become payable to Allergan subsequent to the launch of the product.

After acquiring the remaining 9% share in February 2017 Richter became 100% shareholder of GRMed Company Limited in February 2017.

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.
At the beginning of 2017, Richter and Bayer agreed on reimbursement of the cost arisen from the withdrawn inventories of Lisvy.

On 29 March 2016 the European Medicines Agency (EMA) started assessment of the marketing authorisation of cariprazine for the indication of schizophrenia. In May 2017, Gedeon Richter Plc. ("Richter") announced that the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) has adopted a positive opinion on the company's application for cariprazine, a novel antipsychotic for the treatment of schizophrenia in adult patients. As a following of the former decision, the European Commission (EC) has granted marketing authorization to Reagila® (cariprazine) a novel antipsychotic for the treatment of schizophrenia in adult patients in July 2017.

On 2 October 2017, the Board of Directors informed the shareholders of Gedeon Richter Plc. that Mr Erik Bogsch has submitted a letter requesting to be relieved from his duty after 25 years of service as Chief Executive Officer effective 1 November 2017.
At its meeting held on 2 October 2017 the Board of Directors has appointed Mr Gabor Orban, Chief Operating Officer, member of the Board of Directors as the new Chief Executive Officer effeetive 1 November 2017.

According to the decisions taken at this meeting, Mr Bogsch will continue to act as Chairman of the Board of Directors and in addition as of 1 November 2017 will assume the role of Executive Chairman having a focus on the commercial activities as well as international, public and government relations for the Company.

12 October 2017 - Gedeon Richter Plc. ('Richter') and Pharmanest AB ('Pharmanest') announced that Richter will commercialise Pharmanest's SHACT (Short Acting Lidocaine) technology, a novel innovative proprietary pain relief pharmaceutical formulation, in Europe, in Latin America and in certain other markets.
Under the terms of the agreement Richter shall make an upfront payment upon signature of the contract. In addition, further milestone payments and sales related double digit royalties will become payable to Pharmanest subsequent to the launch of the product.

On 31 October 2017 Gedeon Richter Plc. ("Richter") announced that it has entered into an exclusive license and distribution agreement with Prima-Temp Inc. ("Prima-Temp"), a US, Colorado based company, to commercialize its innovative medical device, PriyaRing globally, except for the USA and Canada. PriyaRing is an internal sensor that identifies the subtle temperature changes that occur prior to ovulation. Under the terms of the agreement Richter shall make an upfront payment upon signature of the agreement. In addition, further milestone payments and sales related royalties will become payable to Prima-Temp subsequent to the launch of the product.
The above agreement was complemented by the acquisition of a minority stake in Prima-Temp for a consideration of US$ 5 million.

In December 2017, the European Medicines Agency (EMA) Pharmacovigilance Risk Assessment Committee (PRAC) has started a review of drug induced liver injury potentially related to ESMYA® (ulipristal acetate). On 9 February 2018 the European Medicines Agency (EMA) Pharmacovigilance Risk Assessment Committee (PRAC) has initiated the implementation of temporary precautionary measures as a part of its review procedure. The PRAC is also recommending that no new patients should be started on ESMYA® and no patients who have completed a course of treatment should start another one. PRAC considers that temporary measures are needed to minimise potential risks to patients. The final decision depends on the conclusion of the review of ESMYA®, which was started in December 2017 and is expected to be completed before end of May 2018. Richter takes patient safety seriously. Richter continues to believe that all the available data for ESMYA® support a favourable benefit-risk profile and is committed to providing this unique treatment option to women suffering from uterine fibroids.

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™. 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. In December 2017, the partners announced positive topline results for a phase III study of cariprazine for the treatment of adults with major depressive episodes associated with bipolar I disorder (bipolar I depression). This is the second positive pivotal trial of cariprazine for this investigational use.

In 2017, the Company continued to undertake further steps to expand its international operations by raising capital and by continuing the investment activities in its producer subsidiaries. The Company places strong emphasis on supporting investments in the Russian subsidiary, which is aimed to adapt the economic policy that favours local production.

39. Events after the date of the balance sheet

The Company's Board of Directors informed its shareholders on 2 January 2018 that, with effect from 31 December 2017, Christopher William Long resigned from his membership in the Company's Board of Directors.

On 9 February 2018 the European Medicines Agency (EMA) Pharmacovigilance Risk Assessment Committee (PRAC) has initiated the implementation of temporary precautionary measures as a part of its review procedure. The PRAC is also recommending that no new patients should be started on ESMYA® and no patients who have completed a course of treatment should start another one. PRAC considers that temporary measures are needed to minimise potential risks to patients. The final decision depends on the conclusion of the review of ESMYA®, which was started in December 2017 and is expected to be completed before end of May 2018.

In 2018, the merger of Gedeon Richter Polska and Gedeon Richter Marketing Polska will begin to exploit synergies.

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

40. Approval of financial statements

Current Consolidated Financial Statements have been approved by the Board of Directors and authorised for release at 21 March 2018.

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.

CONTACTS OF GEDEON RICHTER PLC.

Addresses

Registered Office
Gedeon Richter Plc.
1103 Budapest, Gyömrői út 19-21.
Hungary

Addresses for correspondence
Gedeon Richter Plc.
Budapest 10
P.O.Box 27
1475
Hungary

Investor relations
International Finance Department
Gedeon Richter Plc.
Budapest 10
P.O.Box 27
1475
Hungary

Phone: (36)-1-431-5764
Fax: (36)-1-261-2158
E-mail: investor.relations@richter.hu
www.richter.hu

GEDEON RICHER PLC.

CONFIDENTIAL

Consolidated
BUSINESS REPORT
2017

Gábor Orbán
Chief Executive Officer

Budapest, 21 March 2018

TABLE OF CONTENTS

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 enabled our licence partner Allergan plc to put together the regulatory dossier for securing marketing authorisation for the United States.

In December 2017 EMA's Pharmacovigilance Risk Assessment Committee (PRAC) started a review in the EU member states of Esmya (ulipristal acetate) investigating liver injury possibly induced by the product. The EMA adopted temporary measures on 9 February 2018 as part of the review. The PRAC has recommended that no new patients should be started on Esmya but treatments in progress can be completed. These recommendations are temporary measures to protect patients' health. A final decision is expected before the end of May 2018 and will depend on the finding of the review started in December 2017. Richter takes patient safety seriously. Based on the data obtained in the clinical trials, we are convinced that Esmya is a safe product and we are committed to continue to offer this treatment option to women suffering from uterine fibroids.

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.

In Q1 of 2013 Richter took control of selling its traditional products and acquired a majority holding in its Chinese marketing partner. This 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. The buyout was completed in February 2017 when the last portion of its holding was paid. 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 Romanian manufacturing subsidiary's 2017 performance was outstanding. In the wake of significant price reductions by public authorities in recent years several original drugs have been withdrawn from the market, which gave a boost to the sales of several generic products. As a result of increasing sales the company's operating profit soared.

In 2017 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 packaging plant besides improvement of the IT system as well as landscaping and building renovation works on the factory premises.

In 2017 the parent company increased its Romanian manufacturing subsidiary's capital by RON 49,779 thousand by way of conversion of loans.

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 464 the company is efficient; its Polish marketing subsidiary is also effective in supporting the commercialization of proprietary products.

In the 2017 business year Richter's sales income exceeded expectations and was above the reference year figure despite the keen competition and aggressive price war characterizing the Polish market. Total income from sales was PLN 244 million due primarily to outstandingly high Groprinosin sales.

In 2017 Richter's Russian manufacturing subsidiary **ZAO Gedeon Richter-RUS** was less affected by negative trends than in previous years. Despite some volatility the rouble has strengthened on the whole, which is a marker of the general economic stabilisation in Russia. Buyers' payment discipline has also improved, which contributed to the profitability of the company. All income plan indicators were far exceeded mainly due to the major increase in distribution product sales. At the same time, manufacturing of several full-cycle products started and is expected to fully evolve over the coming years.
The company's main function will continue to be production and distribution supported by the parent company's marketing activity. Full-cycle production will not only increase the volume of the portfolio but will also result in a significant expansion.
The company financed its 2017 capex projects from its own funds while it also managed to settle its accounts payable to the parent company.

Richter Themis Ltd. continued to be active as a manufacturer and distributor of intermediate products and APIs for Group members in 2017. While there were ongoing changes in the portfolio of products, any loss from the products dropped were compensated by new API production, therefore capacities were explioted on a continuous basis. A lesser amount of products were supplied 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 2017 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, 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 2017 **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 AG**, 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 recombinant human follicle stimulating hormone (r-hFSH). The product was granted marketing authorisation for the EU in May 2014 and is sold in over 20 countries. In 2017 full integration of the company's activities into Richter's system commenced with Richter taking over first the full distribution of Bemfola® followed by its marketing in Western Europe, then from September, secondary packaging.

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 2017 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 integrated its already existing British and French companies (**Gedeon Richter UK Ltd. and Gedeon Richter France S. A R. L.)** into the network. The portfolio of the network was expanded by additional women's healthcare products in 2017.

In 2017 Richter further expanded its Western European marketin network by adding a new subsidiary, **Gedeon Richter Ireland Ltd**. The subsidiary supports Richter's women's healthcare portfolio in Ireland.

In 2017 **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 net costs plus margin, which ensures cost coverage and stable liquidity on a continuous basis.

In 2017 **Gedeon Richter (China) Pharmaceuticals Co. Ltd.** functioned as a company fully owned by Richter, and the the marketing activities of the two businesses (OC and OTC) were merged into this company. Despite the difficulties the turnover plan was surpassed; Cavinton injection and Bromocriptine tablet sales continue to be the main pull forces. Future portfolio expansion is becoming increasingly needed so that the company can keep up its rising sales trend. Hopefully, the increasingly keen activity to secure approval for registration will prove to be fruitful in the near future.

Active in promotional purchases, storage and distribution, Moscow based **Pharmarichter O.O.O.** proved to be a high-performing company in 2017 in both technical and financial terms.

After the strong devaluation of the national currency, the economy in Kazakhstan is gradually returning to normal. While the growth of the GDP was 0.1% in 2016, in the reported year it was 4.3%, and the consumer price index dropped from 15.9% to 4.3%. In addition, from 1 July 2017 companies pay 1% of their employees' wages into a voluntary

mutual health insurance fund as employer's contribution. These changes in the economic environment had a positive effect on the figures of **Gedeon Richter KZ L.L.P.** fully owned by Richter and active in the field of distribution and marketing.

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 2017 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.** Esmya was launched in 2016, and the portfolio was expanded by additional products in 2017.

In August 2017 Richter acquired a 100% stake in **Gedeon Richter Mexico SAPI de CV.** The company's portfolio of products expanded by 50% compared to the reference year, and securing approval for registration and other licenses for further expansion are in progress. To offset liquidity problems concurrent with organisational development and increasing marketing activities Richter increased the company's capital by MXN 94,963,614.22 at the end of the year.

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 2017 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 738,000 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 while the Bolivian subsidiary was gradually phased out.

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.** Despite increasingly fierce competition and a growing number of competitors, in 2017 the company managed to increase its sales beyond expectations. The main internal processes to be highlighted include logistics investments, a new warehouse, expansion of the product portfolio, priority expansion of the sales team, and development of a trade policy tailored to buyers' needs. 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. No pharmacy licences were sold in 2017 but some outlets were reopened, so the network of

pharmacies consisted of 94 units in December. Turnover per outlet was 6% higher on the average year-on-year. There number of loss generating pharmacies dropped by 28%, and 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.

Richpangalfarma S.R.L. is the sole distributor of Richter in Moldova. The wholesale distributor's success is the 22% market share achieved. Wholesale of Richter's products undertaken since 1996 by the subsidiary in which Richter holds a 65% stake. The main focus is on the quality of service. The cooperation developed between Richter's representative office in Moldova and the wholesale and retail companies enhanced efficiency to a large extent, and also contributed to better exploitation of human resources and better performance in the market.

Retail of Richter's products in Moldova is efficiently supported by the operator of the network of pharmacies, **GR–Retea Farmaceutica S.R.L.** The year 2017 was characterised by the adaptation to the changing in the regulatory environment. At the same time, pharmacies have become interested in optimising their financial situation and have made efforts to offset the loss on margin resulting from the reclassification of products into lower categories by offering OTC products with higher margins over the past years.

Armenia continues to experience economic hardships. In these circumstances Richter's Armenian wholesale and retail holdings had to reckon with plummeting sales in 2017. Due to lagging sales the wholesale subsidiary **Richter Lambron O.O.O.** did not manage to achieve its profitability as opposed to the previous year, and closed 2017 with a loss.

With a network of 27 pharmacies, the retail company **Gedeon Richter Apteka Sp O.O.O.** also struggles with the market environment, similarly to the wholesale company,

and has difficulties to maintain its previous achievements from its own resources. At the same time the drop in sales income was only minimal compared to 2016, and while its profit after taxes is still negative, the company managed to reduce some of the loss.

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 2017. 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, Richter 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. improved its earnings in 2017. 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 2017. 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.).

Richter's business model

With its global business comprising five continents, Richter Groupis 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. The Group's 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 parent 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 Group 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 Group 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 the Group 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 2017 too.

The Group 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).

Richter Group's operation is resting on the following six pillars:

- **Richter's HQ in Hungary, parent company of the Group** (including the Budapest, Dorog and Debrecen sites): undertaking research and development, production, sourcing, logistics and coordination of Group level sales.
- **Pharmaceutical subsidiaries and joint venture companies:** Richter Group has manufacturing facilities in Poland, Romania, Russia, India and Germany. Drugs manufactured in these facilities are marketed globally.
- **Trading subsidiaries and offices:** undertake and support trading and marketing duties in local markets on behalf of the parent company and other Group's companies.
- **Wholesale and retail companies:** active in wholesale and retail, receiving marketing support from the parent company or the trading subsidiaries.
- **Service companies:** established to support R&D, manufacturing, logistics, admin and other business processes.
- **Other units:** dormant companies and establishments not directly related to Richter Group's core business.

1.2 Main objectives for 2017

The Group's main objectives for 2017 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 2017 significant advancement was achieved in the following areas:

- The Accounting Act provided for the mandatory application, as of 1 January 2017, of the International Financial Reporting Standards for the purpose of separate 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 separate financial reporting. From 1 January 2017 Richter prepares its separate reports and statements in accordance with IFRS.

- The pharmaceutical production segment sales increased substantially in the CIS countries, mainly in Russia, in the EU, especially in the EU15 countries, as well as in the USA and China.

- 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 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. Based on the successful trials in the United States, Allergan put the registration application process into motion in 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.

- 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. In early 2017 Richter and Bayer reached an agreement on reimbursement of the costs of inventories in conjunction with the withdrawal of Lisvy.

- On 29 March 2016 the European Medicines Agency (EMA) started assessment of the marketing authorisation of cariprazine for the indication of schizophrenia. In May, 2017 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion on the Company's application for cariprazine for the treatment of schizophrenia in adult patients. After the decision, in July 2017, Richter was granted marketing authorisation for all EU member states for its product Reagila® (cariprazine).

- In an announcement, dated 2 October 2017, the Board informed the shareholders that Mr Erik Bogsch, Gedeon Richter Plc.'s CEO for 25 resigned of his post with effect of 1 November 2017 while he continues to act as Chairman of the Board of Directors. At the meeting of the Board of Directors held on the day of the announcement Mr Gábor Orbán Deputy CEO and member of the Board was appointed Chief Executive Officer from 1

November 2017. Furthermore, the Board invited Mr Erik Bogsch to supervise the Company's trade, international and government relations from 1 November 2017.

- On 12 October 2017, Richter and Pharmanest AB announced that Richter will commercialise Pharmanest's SHACT (Short Acting Lidocaine) technology, a novel innovative proprietary pain relief pharmaceutical formulation, in Europe, in Latin America and in certain other markets. Under the terms of the agreement, Richter shall make an upfront payment upon signature of the contract. In addition, further milestone payments and sales-related royalties will become payable to Pharmanest subsequent to the launch of the product.

- Richter and Prima-Temp Inc. of the United States announced on 31 October 2017 that they entered into an exclusive license and distribution agreement for Richter to commercialize the innovative medical device, PriyaRing globally, except for the USA and Canada. PriyaRing is an internal sensor that identifies the subtle temperature changes that occur prior to ovulation. Under the terms of the agreement, Richter shall make an upfront payment upon signature of the agreement. In addition, further milestone payments and sales-related royalties will become payable to Prima-Temp subsequent to the launch of the product. The above agreement was complemented by the acquisition of a minority stake in Prima-Temp for a consideration of USD 5 million.

- In December 2017 EMA's Pharmacovigilance Risk Assessment Committee (PRAC) started a review in the EU member states of Esmya (ulipristal acetate) investigating liver injury possibly induced by the product. The EMA adopted temporary measures on 9 February 2018 as par of the review. The PRAC has recommended that no new patients should be started on Esmya but treatments in progress can be completed. These recommendations are temporary measures to protect patients' health. A final decision is expected before the end of May 2018 and will depend on the findings of the review started in December 2017. Richter takes patient safety seriously. Based on the data obtained in the clinical trials, we are convinced that Esmya is a safe product and we are committed to continue to offer this treatment option to women suffering from uterine fibroids.

- 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™. In August 2016, the two companies released a 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. Then in December 2017, the two companies announced positive topline results for a phase III study of cariprazine for the treatment of adults with major depressive episodes associated with bipolar I disorder (bipolar I depression). This is the second positive trial of cariprazine for this investigational use.

- In 2017 Richter took further steps to expand its international business through a capital increase some of 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	60,272,583	32.35	32.34
State ownership total	47,051,794	25.25	25.25
including MNV Zrt,	*47,051,668*	*25.25*	*25.25*
including Municipality	*126*	*0.00*	*0.00*
Institutional investors	6,150,262	3.30	3.30
Retail investors	7,070,527	3.80	3.79
International ownership	126,025,320	67.64	67.61
Institutional investors	125,223,994	67.21	67.18
including Aberdeen Asset Management Plc,	*18,243,530*	*9.79*	*9.79*
including Harding Loevner LP	*9,367,925*	*5.03*	*5.03*
*including BlackRock, Inc. ****	*9,628,286*	*5.17*	*5.17*
Retail investors	801,326	0.43	0.43
Treasury shares**	66,183	0.00	0.04
Undisclosed ownership	10,774	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 14 December 2017 BlackRock, Inc.'s influence increased to 5.17%.

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 2017 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 2017.

The closing price of shares as of 30 December 2016 was HUF 6,210 compared to HUF 6,780 as of 29 December 2017. Average monthly share prices in 2017 varied between the minimum of HUF 6,306 per share (in January) and the maximum of HUF 7,089 per share (in June).

1.4 Treasury shares held by the Group

Group	Ordinary shares	
	31.12.2016	31.12.2017
Shares	241,634	66,183
Nominal value HUF`000	24,163	6,618
Book value HUF`000	1,285,077	415,295

Gedeon Richter Plc. purchased 54,784 ordinary shares in October 2017 from its affiliated company Richter Gedeon Befektetéskezelő Kft., thus the number of Richter shares held by subsidiaries was 5,500 as of 31 December 2017.

Following the decision of the Board of Directors 504.704 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 related to employee share bonuses the Company granted 245,163 Treasury shares to 4,266 employees on 19 December 2017.

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 (www.richter.hu). 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 2017, with the exception of a brief period (from the end of 2016 until 1 November 2017, vid. Board of Directors paragraphs), 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,
  - 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:
  - three-quarters majority of the votes present at the General Meeting, but at least 35% + 1 vote;
  - three-quarters 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 on 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. With the exception of a brief period (from the end of 2016 until 1 November 2017) the offices of CEO and Chairman were held separately. 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 according to 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. Each subcommittee consists 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 Chief Executive Officer.

The **Exccutive Board** is responsible for the executive management of the Company's business. The Executive Board is chaired by the CEO. 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 terminates 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.

Policy of diversity

In its operation Richter lays great store by personal values and individual characteristics. The Company holds that exploitation of varying characteristics is the corner stone of innovation and believes that the Company's success is partly based on the diversity of its people. It considers the recognition and appreciation of the individual's personal traits important. Diversity in a tenet at all levels of Richter's operation; when drafting internal

regulations the Company strives to shape the corporate environment to meet this principle.

These ideas are translated in terms of daily practice by the Diversity Policy drafted for governing bodies in 2017, which is expected to be announced and introduced after consultations in H1 of 2018. Developed for a five-year periods and to be reviewed at least annually, the Diversity Policy determines the diversity criteria applicable for the Company's business management, executive and supervisory bodies. When setting up its bodies of operative management and actual control and supervision the Company gives priority to these criteria so that the governing bodies represent multivarious views and appropriate experience to conduct their day-to-day business.

Global Compliance Program

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 international 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 Group expects all of its employees, consultants, representatives, suppliers and other business partners to observe the standards set out in the Compliance Handbook. In keeping with the Program a Compliance Hotline has been created. Operated by the Global Network Management, it functions as a Group level system for handling reports related to the Complance Handbook. Staff report abuse or ethical violation they experience by e-mail or phone, if necessary, anonymously. Complaints are investigated by the Group level Compliance Manager or, as the case may be, the designated specialist area. The person in charge of the investigation summarises their findings in a report and makes recommendations to Richter's Ethics Committee regarding sanction or additional control points to be built in the process. Richter's Ethics Committee passes a decision

based on the investigation report. The Compliance Hotline is reviewed by the Audit Department on an annual basis. In 2017, no inquiries were requested, only issues related to the interpretation of the Compliance Handbook raised.

Richter Group's Code of Ethics provides for all employees to respect the human rights laid down in relevant international agreements and local legislation and regulations. Richter strongly condemns trafficking in human beings, any form of exploitation of children and forced labour, and seeks to prevent all such activities within the scope and supply chain. Furthermore, Richter strictly prohibits cruel or degrading treatment of its employees.

In its chapters Business Conduct and Transparency Policy of the Compliance Handbook provides for the fight against corruption and sets out the principles regarding bribery. Chapter One (Anti-bribery and corruption) contains detailed rules Richter's employees (including its officers) must comply with. These rules are aimed at avoiding active and passive involvement in corruption. After this general chapter two chapters address the two main risk areas in the pharmaceutical industry: contacts with health professionals, and pharmaceutical promotion. In its contacts with health professionals Richter strives to observe the strictest rules of integrity, and to meet the most rigorous statutory provisions and regulations in every respect.

The last chapter of the Handbook describes the principles of transparency. Transparent relationship and connections between Richter and patient organisations, health professionals and service providers promote informed decisions. As a member of Medicines for Europe, Richter commits to publish payments and benefits extended to, and agreements concluded with, patient organisations, health professionals and service providers. The first such publication is due out in January 2018 on the year 2017.

Other information

Richter announced that Tibor Horváth was appointed Commercial Director with effect from 1 August 2017.

In an announcement dated 2 October 2017 the Board informed the shareholders that Mr Erik Bogsch, Gedeon Richter Plc.'s CEO for 25 years resigned of his post with effect of 1 November 2017 while he continues to serve on the Board and retains his position Executive Chairman. At the meeting of the Board of Directors held on the day of the

announcement Mr Gábor Orbán Deputy CEO and member of the Board was appointed Chief Executive Officer from 1 November 2017. Furthermore, the Board invited Mr Erik Bogsch to supervise the Company's trade, international and government relations from 1 November 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 again 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.

The Company's non-financial performance indicators are the number of new launched products and of the renewal application (3.1), as well as volumes of production (3.3) and the proportion of graduates (4.).

2. The Group's 2017 operating review

2.1 The balance sheet as of 31 December 2017

ASSETS

The Group's assets amounted to HUF 760,865 million, HUF 53,012 million (6.5%) decreased than the opening value. In 2017 non-current assets were lower by HUF 47,597 million, and current assets by HUF 5,415 million compared to the 31 December 2016 figure.

Non-current assets

Non-current assets amounted to HUF 456,334 million in the reported period, HUF 47,597 million (or 9.4%) below from the reference figure. In consideration of the expected negative business impact of the PRAC's temporary measures regarding Esmya, Executive Board has revised and lowered its long-term Esmya sales forecasts for the EU and Latin American markets. The impairments of Goodwill and intangible asset reported are the effect of the revised forecast. Other intangibles assets were HUF 37,719 million (or 19.6%) lower year-on-year mainly as a result of the revised forecast mentioned above and the depreciation and year-end currency related restatement of Esmya and Bemfola®. The HUF 24,255 million (or 35.3%) decrease in Goodwill is the result of the revised forecast mentioned above too and the revaluation of goodwill on acquisitions in previous years.
The HUF 5,988 million (or 3.1%) growth of Property, plant and equipment is attributed primarily to the chromatography capacities and expansion intermediate product in Dorog as well as new injectables packaging plant and state-of-the-art freeze-drying unit.

Current assets

Current assets were 1.7% or HUF 5,415 million below the reference figure of HUF 309,946 million. The remainder of the loan from the EIB (EUR 117 million) was fully repaid, which reduced the Cash and cash equivalents by HUF 20,012 million or 20.8%. The drop was attenuated by higher Trade receivables (HUF +6,800 million) and Other current assets, HUF 5,189 million higher (converted to short-term loans).

SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity

In 2017 shareholders' equity was HUF 664,019 million, or 2.6%, lower compared to the 31 December 2016 figure.

Liabilities

The Group's total liabilities amount to HUF 96,846 million.

Non-current liabilities were HUF 15,660 million, HUF 27,132 million below the 31 December 2016 figure. Liabilities were reduced by the parent company's full repayment of the EIB credit (EUR 92 million).

Current liabilities amounted to HUF 81,186 million as of 31 December 2017, 9.0 % below of the 31 December 2016 figure, mainly as a result of the reduction of the current Borrowings. The parent company fully repaid the remainder of the EIB loan (EUR 25 million).

2.2 The 2017 income statement

The Group's profit for the year 2017 is HUF 10,070 million, 85.0%, or HUF 56,953 million, lower year-on-year. The amount of gross margin increased (due to the strengthening EURRUB rate and royalty from Vraylar™); the positive effect was attenuated by rising expenses of Sales and marketing and R&D. In consideration of the expected negative business impact of the PRAC's temporary measures regarding Esmya, Executive Board has revised and lowered its long-term Esmya sales forecasts for the EU and Latin American markets. The impairments of Goodwill and intangible asset (Other expenses) reported are the effect of the revised forecast. The cumulative amount is HUF 48.7 billion. As a result of above, the profit for the year decreased which was further aggravated by the significant loss of financial activity (significant losses in the reported period due to weakening rouble, dollar and Swiss franc rates).

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**	
	2016 HUF million	2017 HUF million	2016 HUF million	2017 HUF million	2016 HUF million	2017 HUF million	2016 HUF million	2017 HUF million	**2016 HUF million**	**2017 HUF million**
Total sales	323,839	364,840	74,464	88,461	4,603	5,395	(13,216)	(14,340)	**389,690**	**444,356**
Gross profit	217,283	244,245	7,629	8,241	571	647	205	(55)	**225,688**	**253,078**
Operating profit	55,204	18,617	1,158	1,777	151	391	(1,897)	(74)	**54,616**	**20,711**
Share of profit of associates	(835)	60	2,566	1,466	41	58	26	(56)	**1,798**	**1,528**
Closing headcounts	10,073	10,488	1,475	1,465	344	425	-	-	**11,892**	**12,378**

2.2.1 Revenue

Revenue from the pharmaceutical production segment

Region	2016 HUF million	2017 HUF million	Variance HUF million	Variance %
Hungary	34,979	35,417	438	1.3
Export				
CIS	111,598	129,089	17,491	15.7
EU *	114,631	125,719	11,088	9.7
USA	18,813	24,472	8,659	46.0
China	21,616	24,004	2,388	11.0
Latin America	5,819	6,134	315	5.4
Other countries	16,383	17,005	622	3.8
International markets total	288,860	329,426	40,566	14.0
Total	*323,839*	*364,840*	*41,001*	*12.7*

* Excluding Hungary

The 2017 net income from sales **totalled** HUF 364,840 million, HUF 41,001 million in excess of the 2016 previous financial figure.

Income from the 2017 pharmaceutical production segment's sales in Hungary was 1.3% higher compared to the reference year. International markets in HUF was 14.0% up; and in EUR, 14.9% up year-on-year.
There were changes in the breakdown of sales by regions compared to the reference year: after an increase of one percentage points the CIS markets' share was 35%. The EU states' share remained the same and contributed 35%. The contribution of Hungary, the United States and the Other Countries region was 10%, 7% and 5% respectively. China's turnover contributed 6% in 2017 and decreased one percentage point year-on-year. Latin America's share from sales was 2% in both the reference and the reported period.

Based on the 2017 year-end figures, the pharmaceutical production segment realized HUF 35,417 million sales **in the Hungarian market**, 1.3% (or HUF 438 million) above the 2016 figure.
The main factor was increasing Politrate, Tanydon/Tanydon HCT, Panangin, Xilomare and Kalmopyrin sales, reduced by dropping Calcimusc and Xeter. In 2017 oral contraceptives were the leading item in terms of sales contributing 8.4% to sales income.

After years of perpetual uncertainties and repeated cuts since 2006, the Hungarian pharmaceutical market was characterised by relative stability in 2017. 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 16 million in 2017, however the Company was able to compensate for it by introducing new products.

In 2017 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 253 million in 2016 and HUF 213 million in 2017.

With this performance the Company's market share was 5.1% in 2017, 0.1% below 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 288,860 million (EUR 927.4 million) in 2016 to HUF 329,426 million (EUR 1,065.2 million) in 2017.

The Russian operation continues to the leading market of the **CIS** region and also of the Company with turnover denominated in RUB 6.1%, in EUR 16.5 % above the reference year figure. The main pull products contributing to the increase were oral contraceptives and Panangin curbed by dropping Diroton and Quamatel sales.
Sales in Ukraine rose by EUR 6.5 million compared to 2016 resulting in a 19.8% boost in sales income. Growth leaders in Ukraine included Mydocalm, oral contraceptives, Ekvator, Stopdiar and Cavinton, while Groprinosin sales were lagging.
As regards Other CIS countries, Uzbegistan, Kazakhstan and Belarus achieved higher year-on-year turnover while Turkmenian sales decreased.

The total turnover achieved in the CIS market was HUF 129,089 million and contributed 39% to total export. Year-on-year increase was 15.7% (HUF 17,491 million). Expressed in foreign currency, the turnover was EUR 417.4 million with a 16.5% increase year-on-year.

Sales in the **European Union** totalled HUF 125,719 million, 9.7% above the 2016 figure. The region's contribution to exports decreased to 38 %. Expressed in foreign currency, the increase amounted to EUR 406.5 million with a 10.5% increase year-on-year.

The turnover realized in the pharmaceutical markets of the EU15 region was HUF 68,960 million (EUR 223.0 million), 16.9% (in EUR 17.7%) above the reference year figure. Owing to the efficient promotion efforts of the Western European network of pharmaceutical representatives the Company's strategic products Esmya and Bemfola® 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 45% in 2017 with a 2.7% increase in sales income in euro. The increase is attributed primarily due to the performance of Esmya, worsened by declining oral contraceptive sales income.

The turnover realised in the **United States of America** was up by 46.0% (HUF 8,659 million), or expressed in dollar, by 50.1% (USD 33.5 million) which is attributed primarily to the royalty related to Vraylar™ sales.

Turnover in the **Chinese market** was HUF 24,004 million (EUR 77.6 million) with a year-on-year increase of HUF 2,388 million (or EUR 8.2 million). Increasing sales income generated by Bromocriptine and Cavinton.

Latin American sales grew by 5.4% in HUF and 8.2% in USD. The sales increase is attributed mainly to Esmya. The region's share from the total income achieved in international markets is 2%.

In **Other countries**, oral contraceptives were the leading products. In the Other countries region the turnover was HUF 17,005 million (EUR 55.0 million). Compared to 2016, turnover was 3.8% higher (in foreign currency, 4.6%). 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 91% to the 2017 sales revenues; the contribution of services was 2%, that of APIs was 2%, and sales of royalties and purchased materials contributed 4% and 1% respectively.

The following table contains the TOP 10 product groups based on their contribution to total sales revenues:

2016				2017			
Rank Rank		Sales HUF million	Share %	Rank Rank		Sales HUF million	Share %
1	Oral contraceptives	87,002	26.9	1	Oral contraceptives	90,576	24.8
2	Cavinton/vinpocetine	28,760	8.9	2	Cavinton/vinpocetine	30,832	8.5
3	Esmya /ulipristal acetate	21,504	6.6	3	Esmya /ulipristal acetate	28,757	7.9
4	Mydeton/tolperisone	17,647	5.4	4	Mydeton/tolperisone	20,042	5.5
5	Panangin/asparaginates /enalapril, lisinopril	13,150	4.1	5	Panangin/asparaginates /enalapril, lisinopril	16,799	4.6
6	Verospiron/ /spironolactone	12,239	3.8	6	Cariprazine/ cariprazine	13,986	3.8
7	ACE inhibitors /enalapril, lisinopril	10,344	3.2	7	Verospiron/ /spironolactone	12,925	3.5
8	Groprinosin/ inisine pranobex	9,108	2.8	8	Bemfola/FSH follitropin alfa	10,706	2.9
9	Aflamin/aceclofenac	7,562	2.3	9	ACE inhibitors /enalapril, lisinopril	10,210	2.8
10	Lisonorm /lisinopril, amlodipine	7,175	2.2	10	Groprinosin/ inisine pranobex	8,355	2.3
	Total	214,491	66.2		Total	243,188	66.6
	Net income from sales	*323,839*	*100.0*		*Net income from sales*	*364,840*	*100.0*

The contribution of the 10 leading product categories to total sales was 66.6 %, 0.4 percentage points higher than the reference year's figure.

Oral contraceptives are the leading products with a turnover of HUF 90.6 billion, 4.1% higher than in 2016. The change is primarily explained by rising Lindynette, Drospirenone and Sibilla sales in Russia and strengthening API sales in the USA. The contribution of this product category to the 2016 total turnover was 24.8%, 2.1 percentage points below the reference year. The 2nd most important product is

original Cavinton with 7.2% higher turnover compared to the reference year (rising sales income in China and Russia). Esmya's turnover was 33.7% higher year-on-year. The growth in turnover is due primarily to an increase in sales income in the British, French, Spanish and Italian markets. Mydeton is 4th with a 13.6% increase, and Panangin is 5th with a 27.7% increase (in both cases, after spectacular growth in Russia). Mainly due to the rising Vraylar™ royalty sales income Cariprazine made it 6th on the TOP 10 list. Verospiron slipped one place (7th). Thanks to rising Western European and Australian sales Bemfola® became the Group's 8th best-selling product, the portion of total sales is 2.9%. ACE inhibitors and Groprinosin (mainly Ukraine) each lost two places and finished 9th and 10th respectively on the TOP 10 list. Aflamin and Lisonorm dropped from the TOP 10 list.

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

The Pharmaceutical Production segment's 10 leading markets were as follows:

	2016				2017	
	HUF million	EUR million			HUF million	EUR million
1 Russia	80,240	257.6	1	Russia	95,372	309.5
2 Hungary	34,979	112.3	2	Hungary	35,417	114.5
3 Poland	22,220	71.3	3	United States of America	27,472	88.8
4 China	21,616	69.4	4	China	24,004	77.6
5 Germany	19,833	63.7	5	Poland	23,060	74.6
6 United States of America	18,813	60.4	6	Germany	18,739	60.6
7 Romania	9,606	30.8	7	Ukraine	10,769	34.8
8 Ukraine	9,216	29.6	8	UK	10,279	33.2
9 Spain	7,251	23.3	9	Romania	10,054	32.5
10 Czech Republic	7,092	22.8	10	France	9,854	31.9
Total	230,866	741.2		Total	265,380	858.0
Net income from sales	*323,839*	*1,039.7*		*Net income from sales*	*364,840*	*1,179.7*

The 10 leading countries jointly contributed 72.7% to Richter Group's total pharmaceutical sales. Russia continues to head the list achieving a 20% growth (oral contraceptives and Panangin). In 2017 Hungary came 2nd again, and China stayed 4th,

mainly due to a keen rise in Bromocriptine sales. Strong sales increase pushed the USA 3 places up (to rank 3rd), thanks primarily to the Vraylar™ royalty. Germany lost a place and finished 6th in 2017 as a consequence of the negative press campaign emphasizing possible side effects of oral contraceptives. With mounting sales Ukraine stepped up one place (7th), and Romania lost one place (9th). Respectively Spain and the Czech Republic did not make it to the TOP 10 and yielded its place to the UK and France, which finished 8th and 10th on the list.

Turnover of the wholesale and retail segment

	2016 HUF million	2017 HUF million	Variance HUF million	Variance %
Hungary	121	-	-121	-100.0
Export				
CIS	13,523	13,992	469	3.5
EU *	56,758	70,438	13,680	24.1
USA	-	-	-	-
China	-	-	-	-
Latin America	4,062	4,031	-31	-0.8
Other countries	-	-	-	-
International markets total	74,343	88,461	14,118	19.0
Total	*74,464*	*88,461*	*13,997*	*18.8*

* Excluding Hungary

Based on the year-end figures for 2017 the Wholesale and Retail segment realized HUF 88,461 million (EUR 286.0 million) income from sales, HUF 13,997 million (or 18.8%) above the 2016 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 24.1% in HUF terms. The driver of the growth was the wholesale company's rising sales. A significant reduction in payment delays occurred on the Romanian pharma market during the reported year, while the amount of outstanding receivables also decreased.

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 Lunaldin , Aflamin and Cavinton increased.

Turnover of the other segment

	2016	2017	Variance	
	HUF million	HUF million	HUF million	%
Hungary	4,480	5,282	802	17.9
Export				
CIS	82	90	8	9.7
EU *	29	15	-14	-48.3
USA	-	-	-	-
China	-	-	-	-
Latin America	-	-	-	-
Other Countries	12	8	-4	-33.3
International markets total	123	113	-10	-8.1
Total	*4,603*	*5,395*	*792*	*17.2*

* Excluding Hungary

The turnover of the Other segment was up by 17.2% in HUF, 17.6% in EUR, and 20.9% in USD compared to the 2016 reference year figures. The increase is explained by the Hungarian service companies' rising turnover realized with third parties.

2.2.2 Costs of sales; operating profit

Costs of sales in 2017 amounted to HUF 191,278 million, HUF 27,276 million more than the figures achieved in 2016. Costs of sales included depreciation in European markets on the intangible asset Esmya amounting to HUF 2,774 million and amortization of other intangible asset Bemfola® amounting to HUF 2,002 million.

Gross profit from sales was HUF 253,078 million, an increase of HUF 27,390 million when compared to the reference year. The **gross margin** was down from 57.9 % in the reference year to 57.0 % in 2017. The decline was caused by rising costs due to

tightening regulatory requirements, depreciation on Esmya and Bemfola, and the increasing contribution of lower margin wholesale in Romania. These effects were exacerbated by the price erosion in traditional markets; consequently, the rise in direct sales costs was only partially offset by the royalties from Allergan on Vraylar™.

Within the operating costs item **Sales and marketing expenses** amounted to HUF 114,882 million in 2017, 6,8% higher year-on-year. Sales and marketing costs were 25,8% of sales revenues in the period of reporting. The increase is contributed by the EU15, Chinese and Latin American markets compounded by rising marketing expenses in the Russian, Ukrainian and Other CIS markets, and the additional costs of involvement of Finox Group.
Depreciation of marketing and brand related rights of the contraceptives acquired from Grünenthal added HUF 4,430 million to the level of costs and contributed 1.0% to total sales.

In 2017 **Administration and general expenses** amounted to HUF 23,374 million, HUF 3,035 million in excess of the 2016 figure.
The increase on the expenses side was caused by the involvement of Finox Group, higher expenses related to attorneys and experts, and to a lesser extent, rising payroll costs.

The rate of **R&D expenses** to sales incomes was 9.0% in the reported year and amounted to HUF 39,903 million, 13.5 % 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 Gedeon Richter Polska and Gedeon Richter Romania also contributed to the Group's R&D expenses.

The balance of **Other income and expenses** increased from HUF 8,016 million expense in the reference year to HUF 54,208 million expense in 2017.
The other income and other expenses item is greatly affected by the impairment of Goodwill and intangible asset related to the PRAC's temporary measures regarding Esmya (HUF 48.7 billion).
In the reference year HUF 3,345 million write-off, HUF 939 million released deferred purchase price liability, and HUF 849 million impairment on inventories were reported in

conjunction with the recall of Lisvy, and Richter was entitled to HUF 798 million in damages, reported as income. In 2017 settlements related to Lisvy's recall were completed and the licence agreement was terminated. As a result, the Company netted HUF 2,147 million other income.

In the reported year a one-off milestone income was reported in conjunction with the acceptance of the regulatory submission of Esmya in the USA, and the starting of the regulatory procedure in South Korea regarding cariprazine. In the reported period a one-off HUF 3,112 million milestone income was achieved on the basis of the exclusive licence agreement signed with Recordati to commercialise cariprazine in Europe.

In 2016 impairment was reported on goodwill related to the Mediplus acquisition , and inventories concerned by the withdrawn application for registration of PEG-GCSF (the combined amount was HUF 2,380 million).

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 399 million in 2017.

The 2017 Other income and other expenses line item included HUF 6,701 million claw-back payments in Romania, Germany, France, Spain, Portugal, Belgium, Italy, Bulgaria, Austria, Poland and Latvia.

The 2017 *profit for operations* was HUF 20,711 million, 62.1% below the reference year figure.

The decrease was the mainly due to the revised forecast related to Esmya mentioned above.

2.2.3 Other income statement items

Net financial income/loss

The net financial loss in 2017 was HUF 8,338 million, reflecting a decrease of HUF 20,150 million when compared to a net financial gain of HUF 11,812 million reported in 2016.

At year-end Forex assets and liabilities were reassessed and reported under Unrealised financial items. The balance of revaluation was HUF 3,686 million loss in the reported year, HUF 9,380 million lower than the HUF 5,694 million gain in 2016. The worsening stemmed primarily from the restatement of FX loans due to the weakening of Swiss franc, rouble and dollar rates at year-end.

In 2017 realized financial items amounted to HUF 5,411 million and included exchange rate loss on receivables and liabilities were related primarily to the devaluation of the rouble and the dollar within the year.

Dividend received contributed HUF 675 million and net interest income contributed HUF 573 million to earnings. The change of the fair value of the "exchangeable bond" option connected to MNV bond was HUF 457 million.

	2016 HUF million	2017 HUF million	Variance HUF million
Unrealised financial items	**4,679**	**(3,660)**	**-8,339**
Reassessment of currency related trade receivables and trade payables	3,658	156	-3,502
Reassessment of currency loans given	(148)	(4,276)	-4,128
Reassessment of borrowings	245	65	-180
Reassessment of other currency related items	1,939	369	-1,570
Liabilities from deferred purchase price, time value change	(948)	-	-948
Unrealised forward contracts as of 1 January *	(17)	13	30
Unrealised forward currency related contracts as of the balance date *	13	13	0
Impairment loss on investments	(63)	-	63
Realised financial items	**7,133**	**(4,678)**	**-11,811**
Result of forward exchange contracts	-	-	-
Exchange losses/gains realised on trade receivables and trade payables	2,670	(5,411)	-8,081
Foreign exchange difference on conversion of cash	218	(966)	-1,184
Dividends	2,792	675	-2,117
Interest received	2,566	1,563	-1,003
Interest paid	(827)	(990)	-163
Other	(286)	451	737
Net financial income	**11,812**	**(8,338)**	**-20,150**

* 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:

	31.12.2016	31.03.2017	30.06.2017	30.09.2017	31.12.2017
EURHUF	311.02	308.70	308.87	311.23	310.14
USDHUF	293.69	288.64	270.87	263.75	258.82
RUBHUF	4.78	5.15	4.56	4.56	4.49
CHFHUF	289.41	288.58	282.57	271.68	265.24

Gedeon Richter Plc. describes the details of classification, valuation and risks of its financial instruments in the following chapters of the Consolidated Annual Report drafted in accordance with the International Financial Reporting Standards: 2. Summary of significant accounting policies: X) Financial assets, XI) Financial liabilities, XIII) Other financial assets, XVII) Derivative financial instruments, and 10. Financial instruments and 11. Fair value of financial instruments.

Profit before income tax

The 2017 profit before income tax amounted to HUF 13,901 million, HUF 54,325 million lower than in 2016.

Richter 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. However, the parent company has taken advantage of the investment tax benefit related to biosimilar lpant in Debrecen for the first time in 2012, proceeding and calculating it in accordance with the applicable laws and regulations. As the Company had no corporate tax payment liability in 2017 it does not use the development related tax relief. Other Group companies are taxed in accordance with the general taxation regulations of their domicile.

In 2017, the net income of HUF 879 million in corporate and deferred taxes. Impairments reported on Esmya consequent to the PRAC's temporary measure significantly affected deferred taxes. Write-offs on intangibles reduced deferred tax liabilities while the parent company's negative taxable income generated deferred tax assets.

Profit for the year

Profit for the year was HUF 10,070 million in the reported period, HUF 56,953 million below the 2016 Group profit.

After a HUF 57,315 million decrease, profit attributable to owners of the parent was HUF 8,885 million by the end of December 2017, and was 2.0% of the sales revenues as opposed to 17.0% 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 2017. 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 indications. In this context, in December 2017 the two companies announced positive topline results for a phase III study of cariprazine for the treatment of adults with major depressive episodes associated with bipolar I disorder (bipolar I depression). As a result, the authorisation of this new

indication for the U.S. market has become feasible in the foreseeable future. Results of the other ongoing major clinical trial are expected in the first half of 2018.

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

In May 2016 the Committee for Medicinal Products for Human Use (CHMP) adopted a positive opinion on Richter's application for cariprazine for the treatment of schizophrenia in adult patients. After the decision, in July 2017 Richter was granted marketing authorisation for all EU member states for its product Reagila® (cariprazine). The product appeared on the shelves of pharmacies only much later mainly because of lengthy price negotiations; however, commercialisation started in two European countries (Latvia and Lithuania) in December 2017.

Richter considers appropriately carried out post approval commitments as very important, including preclinical and clinical studies related to the product. In the second half of 2017 Richter Company filed an application for the extension of the patent of Reagila® in every European country. Once granted, the patent will be extended until 2029 in the requested area.

Asian regulatory procedure of cariprazine is undertaken by Richter's Japanese partner, Mitsubishi-Tanabe Pharma Co. and its partners.

One of the world's most experienced 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. Based on the successful trials in the United States, Allergan put the registration application process into motion in 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.
In December 2017 EMA's Pharmacovigilance Risk Assessment Committee (PRAC) started a review in the EU member states of Esmya investigating liver injury possibly induced by the product. The EMA adopted temporary measures on 9 February 2018 as part of the review. The PRAC has recommended that no new patients should be started on Esmya but treatments in progress can be completed. These recommendations are temporary measures to protect patients' health. A final decision is expected before the end of May 2018 and will depend on the findings of the review started in December 2017. Richter takes patients' safety very seriously. Based on the data of the clinical trials we are convinced that Esmya is a safe product and we are committed to continue this treatment option to women suffering from uterine fibroids.

As has been the case so far, the Group 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 product 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 closing of 2017, Richter had over 45 generic development and 16 licence topics in progress. The number of original and licensed original products as well as specialty developments have been growing (approximately 20 development projects). 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 a quarter of the generic R&D projects.

The Company launched 3 proprietary products and 6 licensed products in 2017, all of which are new in the markets where they were launched.

In 2017 Richter secured 98 new marketing authorisations in EU member states (including Hungary) with the holder being Richter or one of its subsidiaries.

A major event of 2017 the marketing authorisation of cariprazine and of the first biosimilar product, teriparatide granted by the European Commission's decision (January and July of 2017 respectively).
In this region 41 renewal applications were submitted, 104 were acquired by the Company, and 83 licenses were returned.

A total of 27 new authorizations and 156 renewal applications were submitted in the twelve CIS countries. Richter secured 32 new authorizations and 22 licenses were returned during the year.

In the Other countries and Latin America regions the Company submitted 40 new applications and 25 renewals in 2017. In the course of the year the Company secured 39 new authorizations and 27 renewals, and withdrew 2 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. The unit is actively involved in the

expansion of the biosimilar business by developing a global network of partners in product development and commercialisation.

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. New investment to expand capacity is envisioned in Debrecen in 2018 so that the products marketed are manufactured by state-of-the-art biotechnology profile.

The primary candidates in the biosimilar portfolio are teriparatide (immunology) and pegfilgrastim (oncology). Both products belong to the fastest-evolving therapeutic groups.

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. Marketing is expected to start in 2019.

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 pegfilgastim. Richter completed the additional clinical studies related to pegfilgrastim in 2017 and the company will resubmit to the EMA its application for marketing authorisation in the course of 2018. 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 Meiji Seika Pharma, and in Korea by DM Bio and Dong-A Socio Holdings in the context of cooperation agreements.

3.2 Quality assurance

The Group 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 2017 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 2017 special emphasis was laid on enhancement of the quality assurance system, upgrading of production processes and improving their transparency, as well as on development of the IT system.

Similarly to previous years, Group companies had regular inspections by the locally competent authorities in 2017; in addition, the partners conducted 13, and the authorities another four 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 (1.4%) 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 lower numbers in terms of packaging units. The

Russian subsidiary's increasing volume of production is the result of technology transfers and outsourcing of production.

Exploitation of capacities increased significantly at the Indian manufacturer of APIs and intermediate products, thus the majority of demands could be met through own production.

Preparations for serial production commenced in 2017 with the bulk of tasks related to the project to be completed in 2018. These preparations involve loss of production capacities and engage a significant portion of the working time in specialist areas.

It is to be noted that Richter faced significant labour shortage in 2017 to an extent that it was a barrier of meeting manufacturing plans.

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 Richter 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 2017. In certain areas of sourcing the parent company and its subsidiaries cooperated successfully.

Environmental protection

To minimise the environmental load of its manufacturing activities is a priority task for Richter, therefore the most state-of-the-art technologies are applied in order to continuously decrease negative environmental impacts.

The different manufacturing activities involve largely varied environmental risks and actual impacts:

- API manufacturing is essentially a chemical activity. Only a small proportion of the materials used are actually incorporated in the high-purity end product, therefore these non-recyclable materials used in chemical technologies present the greatest environmental load and risk.
- Due to its nature, biotechnology-based manufacturing does not require the use of large quantities of environmentally harmful substances, therefore it involves little environmental load and low environmental risk.
- Packaging is part of pharmaceutical manufacturing, where most of the materials used are built in the product. Here again, the environmental load and risk are minor.

Richter's guidelines of environmental protection are laid down in the Environmental Policy and are implemented though the Environmental Management System (KIR) awarded an ISO 14001 certificate. The KIR analyses and manages risks affecting the environment, particularly the natural environment, in according with the provisions of the ISO standard (emission limits, data supply, and the requisite licenses). Functioning and risk management under the KIR is verified though annual inspection audits by an independent certifying body.

Richter compiles its environmental performance indicators in accrodance with the Global Reporting Initiative (GRI) Guidelines and publishes them along with the measures implemented and planned and their evaluation in a biannual Sustainability Report available on the Internet.

The parent company's premises in Budapest, as well as the Dorog and Debrecen sites have secured an Integrated Pollution Prevention Control (IPPC) permit.

Occupational health and safety

A typical source of hazard at Richter's workplaces is the presence of hazardous chemicals. Appropriate procedures and equipment are available to reduce the risk to an acceptable level. Richter implements chemical safety requirements as early as the research and production planning stages. This includes technological protective seals and human resource management (training, selection, work organisation, and health maintenance programs).

The parent company has been constantly working on optimising its health and safety processes; as a result the 2017 revision audit of the Occupational Safety and Health

Management System (MEBIR: OSHAS 18001:2007) 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. From 2016 certification also included the Debrecen Branch. The Safety Lab is equipped with measuring capacities in Budapest and Dorog, and its activity encompasses all of Richter's sites in Hungary. The Lab has retained its accredited status due to ongoing measurements, site expansion, as well as organisational and personnel development.

Operating in accordance with environmental standards is a priority for Richter Group particularly in countries where the Group has production facilities. These companies belong to different countries and encounter different problems and differing regulatory environments. On the basis of their activities and production volumes the environmental load and hazard they represent is lesser than those of the parent company.

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.

There were no technology related fatal, serious or mass accidents in 2017, no deficiencies of note were found by the relevant authorities, and no fine was imposed. Employees apply individual protective devices on an ongoing basis.

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.

At the end of 2017 the Board approved the Richter IT 2020 project launched in 2016 aimed at the development of a new and modern IT organisation capable of supporting the strategy and international operation of the Company. In this context, the currently fragmented one-on-one IT partnership agreements are reconsidered, and new Group level agreements will be signed with strategic partners, allowing significant savings on costs and resulting in more efficient Group level functioning. Furthermore, a new IT project and portfolio management methodology based on best practice has been introduced, creating transparency of the implementation of IT developments by business priorities.

Similarly to the previous year, major Group level IT development took place in 2017, the most important achievements and events were as follows:

- The Serialisation, Track and Trace project commenced in 2016 continued; 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. introduce the standard SAP system.

- An Electronic Change Management System was developed in 2017 to handle store and support in the workflow changes relevant to the whole of the Company.

- The new pharmaceutical rep system (Sappire) was developed, and SAP Treasury was introduced.

- This year further development and upgrading to later versions of existing systems took place in several areas (commercialisation, research and logistics).

4. Human resource management

One of Richter Group'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 Group'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 in the interest of achieving the business goals, and involve IT skills and language proficiency development in addition to the in-service training required by the regulatory authority.

Richter is aiming at providing equal employment opportunities, and strives to treat all applicants and employees equally irrespective of their racial or ethnic background, colour, religious conviction, origin, sex, sexual orientation or identity and its manifestation, age, nationality, family status, pregnancy, family planning or related health status, genetic traits, military service, health status or other traits described in the relevant statutory provisions.

Professional and management career opportunities are open for Richter's female employees.

As of 31 December 2017 the Group's closing headcount was 12,369, 8,206 of whom work in white-collar positions including 7,081 university or college graduates. The closing headcount of the parent company was 7,036 at the same time. Graduate educated personnel represented 86% of white collar staff.

5. Capital expenditure

The Group's capital expenditure and intangible assets amounted to HUF 39,929 million in 2017 as opposed to HUF 36,453 million in 2016. Capital expenditure was dominated by the projects deployed by the parent company.

A Molecular Biology Lab is in the state of construction in Debrecen in the context of an application for funds tender. The implementation has largely been completed. At the

Budapest biotechnology R&D unit significant amounts were spent on the procurement of equipment.

As regards CAPEX projects aimed at traditional finished products manufacturing, at the Budapest site of the Group the supplier of the filling and freeze-drying unit in the context of project RGK VI was unable to meet all requirements, so production has not started yet. The other parts of the facility are running. In the field of API manufacturing, capex projects were basically aimed at maintaining production capacities in Budapest as well as Dorog. In Dorog a very important, multi-year project is in progress in Steroid Plant to make the ulipristal line independent and to expand the service building.
The most important CAPEX project related to environmental protection and safety technology was upgrading the wastewater network in Dorog, and in energetics, the main projects were aimed at upgrading central systems in order to improve security of supply.

Major CAPEX projects of the subsidiaries included expenditures on production companies. The Russian subsidiary embarked upon the implementation of Project DLO 2/2. Procurement of some of the expensive production equipment planned for 2017 will spill over to 2018. The Romanian subsidiary completed the first stage of renewal of the production site: the purified water network expanded, and the implementation of the serialisation project was started. In Poland procurement and commissioning of a new packaging machine should be highlighted.

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	Macroeconomic impacts affecting the Company's markets: the Russia-Ukraine conflict and low oil prices causes lagging sales and mounting uncertainties in the CIS region	- Monitoring changes in major macroeconomic factors, incorporating their effects into the planning - Tightening cost containment and customer relations - Flexible utilisation of local production capacities - Strengthening market presence and sales in EU and USA markets
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
Original and biosimilar R&D, production and sales	Risk attached to research, manufacturing and sales of proprietary products and to the success 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 - Operating adverse effects reporting systems regarding proprietary products
The complexity of the Group's activities is increasing more diversified markets	Risks attached to increasing the sales of women's healthcare and CNS products Risks attached to developing a specialised sales network 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 Bemfola® - Strengthening market positions and the marketing network in Western Europe - Developing the company's own marketing network in Latin America - Collaboration with license partners in cariprazine's launch in Europe
Workforce	Risk relating to retention of qualified employees in key positions and recruiting and retaining blue collar workforce	- More frequent review of HR strategy, wage increases in line with labour market trends - Training plans, career and succession programs - Performance assessment system - Determination of optimal headcount - 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 original product launches Introduction of individual (box level) identification of serialised products is mandatory from 2019	- Implementing Quality systems and Standard Operational Processes (SOPs) - Monitoring compliance with health authority regulations - Special projects to prepare for inspections - Preparation for the introduction of serialisation
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, establishing payment terms and sales limits - Valuation of receivables - 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 - Cash Pool system - Preparation for a tax relief related audit by the tax authorities

7. Events after the reporting period

On 2 January 2018 the Board of Directors announced that Christopher William Long resigned of his positon on the Board with effect from 31 December 2017.

The EMA adopted temporary measures on 9 February 2018 as part of the review. The PRAC has recommended that no new patients should be started on Esmya but treatments in progress can be completed. These recommendations are temporary measures to protect patients' health. A final decision is expected before the end of May 2018 and will depend on the findings of the review started in December 2017.

To benefit from synergies the merger of Gedeon Richter Polska and Gedeon Richter Marketing Polska will commence in 2018.

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 the strategy is implemented by means of our own marketing network, and in the United States 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 2017 Consolidated Annual Report pursuant to the IFRS

pwc

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Gedeon Richter Plc.

Report on the audit of the consolidated financial statements

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 2017 (in which the consolidated total assets is MHUF 760,865), the consolidated income statement, the consolidated statement of comprehensive income (in which the total comprehensive income for the year is MHUF 2,254 profit), the consolidated statement of changes in equity, the consolidated cash flow 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and they have been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Accounting Act") relevant for the consolidated annual financial statements prepared in accordance with IFRS as adopted by the EU.

Our opinion is consistent with our additional report to the audit committee.

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 applicable laws of Hungary, with the Hungarian Chamber of Auditors' Rules on ethics and professional conduct of auditors and on disciplinary process and, for matters not regulated in the Rules, with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board (IESBA Code of Ethics) and we also comply with further ethical requirements set out in these.

The non-audit services that we have provided to the Group, in the period from 1 January 2017 to 31 December 2017, are disclosed in note 5 to the financial statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable laws and regulations in Hungary and that we have not provided non-audit services that are prohibited under Article 5 of Regulation of the European Parliament and Committee No 537/2014 and Subsection (1) and (2) of Section 67/A of Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors.

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

pwc

Our audit approach

Overview

Overall group materiality	Overall group materiality applied was MHUF 2,800
Group Scoping	We have identified seven companies in five countries which, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics. These companies amount up to 86% of the consolidated total assets, 77% of the consolidated revenue.
Key Audit Matters	• Valuation of the Esmya intangible asset and the goodwill related to PregLem S.A. • Valuation of other goodwill balances

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Materiality	MHUF 2,800 (2016: MHUF 2,735)
Determination	Approximately 5% of the consolidated profit before tax adjusted with the impairment of the Esmya intangible asset and the impairment of the goodwill related to PregLem S.A.
Rationale for the materiality benchmark applied	The impairment of the Esmya intangible asset and the impairment of the goodwill related to PregLem S.A. is a one-off event disclosed in Notes 3.1 of the consolidated financial statements. We chose the adjusted consolidated profit before tax as the benchmark because, in our view, the users commonly measures the performance of the Group against the profit before tax adjusted by one-off transactions. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

pwc

Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We have identified seven companies, which, in our view, required an audit of their complete financial information, due to their financial significance to the group or based on their risk characteristics. Those reporting components are the major manufacturing entities in Hungary, Russia, Poland and Romania and included other entities from Switzerland and Romania. These companies represent 86% of the total assets and 77% of the consolidated revenue.

In addition, we performed the audit of specific balances and transactions of one subsidiary in Switzerland.

For the remaining components we performed analytical review on Group level.

These together with additional procedures performed at the Group level, including testing of consolidation journals and intercompany eliminations, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

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 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 the Esmya intangible asset and the goodwill related to PregLem S.A. The Group has goodwill related to PregLem S.A. of MHUF 12,194 and Esmya intangible asset of MHUF 44,882 MHUF as of 31 December 2017. See Notes in the accounting policy section VI)-VIII), Note 3.1 (Key sources of estimation uncertainty), Note 12 and 18 of the financial statements for management's disclosures of the balances, judgments and estimates on these assets. Uncertainties related to the Esmya intangible asset and the goodwill related to PregLem S.A. are disclosed in Note 3.1 of the financial statements. Management has identified the events presented in Note 3.1 as impairment indicators related to the Esmya intangible asset, therefore the Group has performed an impairment review.	Our audit procedures included challenging management on the appropriateness of the impairment models and reasonableness of the assumptions used by performing the followings: • Benchmarking the Group's key market-related assumptions in the models against external data and budgets approved by management. Key assumptions that we focused on were discount rates, long term growth rates and foreign exchange rates; • Involving our valuation experts where it was considered necessary relating to the valuation method applied; • Assessing the reliability of cash flow forecasts by checking of past performance and comparing to previous forecasts; • Testing the mathematical accuracy and the sensitivity of the models; • Understanding the commercial prospects of the assets, and where possible comparing assumptions to external data sources; • Checking the comparison of the carrying amount to the recoverable amount and recalculating the impairment accounted for.

pwc

Key audit matter	*How our audit addressed the key audit matter*
Goodwill should 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 (CGU). Recoverable amounts of the intangible asset and CGU 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 discount and long-term growth rates. We focused on this area because of the significance of the Esmya intangible asset and the goodwill related to PregLem S.A. balance, the impairment indicators presented in Note 3.1 and because the impairment assessment involves management's judgements about the future results and the discount rates applied to future cash flow forecast.	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 reconciled the disclosures presented in Notes 3.1 and 18 to the accounting records of the Group. We have assessed the disclosures presented in Notes 3.1 and 18 of the consolidated financial statements to the requirements of *IAS 1 Presentation of Financial Statements* and *IAS 36 Impairment of Assets*. Based on our procedures, we identified no material errors and considered management's key assumptions to be within reasonable ranges.
Valuation of other goodwill balances The Group has other goodwill balance of MHUF 32,183 as of 31 December 2017. See Notes in the accounting policy section VI, Note 3.1 (Key sources of estimation uncertainty) and 18 of the financial statements for management's disclosures of the balances, judgments and estimates on these assets. Goodwill should 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 (CGU). 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 appropriate discount and long-term growth rates. We focused on this area because of the significance of the goodwill balauce and because the impairment assessment involves management's judgements about the future results and the discount rates applied to future	We focused on goodwill related to GRMed Company Ltd. which represents more than 87% of the entire balance (other than goodwill related to PregLem S.A.). Our audit procedures included challenging management on the appropriateness of the impairment models and reasonableness of the assumptions used by performing the followings: • Benchmarking the Group's key market-related assumptions in the models against external data and budgets approved by management. Key assumptions that we focused on were discount rates, long-term growth rates and foreign excbange rates; • Involving our valuation experts where it was considered necessary relating to the valuation method applied; • Assessing the reliability of cash flow forecasts by checking of past performance and comparing to previous forecasts; • Testing the mathematical accuracy and the sensitivity of the models; • Understanding the commercial prospects of the assets, and where possible comparing assumptions to external data sources; • Checking the comparison of the carrying amount to the recoverable amount based on which no impairment was accounted for.

Key audit matter	*How our audit addressed the key audit matter*
cash flow forecast.	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 reconciled the disclosures presented in Note 18 to the accounting records of the Group. We have assessed the disclosures presented in Note 18 of the consolidated financial statements to the requirements of *IAS 1 Presentation of Financial Statements* and *IAS 36 Impairment of Assets*. Based on our procedures, we identified no material error and considered management's key assumptions to be within reasonable ranges.

Other information: the consolidated business report and the annual report

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 in accordance with the provisions of the Accounting Act and other relevant regulations, and for the preparation of the annual report in accordance with Act CXX. of 2001 on Capital Market. Our opinion on the consolidated financial statements expressed in the "Opinion" section of our independent auditor's report does not cover the consolidated business report or 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. If based on our work performed we conclude that the consolidated business report and the annual report is materially misstated we are required to report this fact and the nature of the misstatement.

Based on the Accounting Act, it is also our responsibility when reading the consolidated business report to consider whether the consolidated business report has been prepared in accordance with the provisions of the Accounting Act and other relevant regulations, if any, and to express an opinion on this and on whether the consolidated business report is consistent with the consolidated financial statements.

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 consolidated business report shall cover the information prepared under Paragraphs e) and f) of Subsection (2) of Section 95/B, and state whether the information referred to in Paragraphs a)-d), g) and h) of Subsection (2) of Section 95/B of the Accounting Act has been provided.

As the Company is a public interest entity preparing consolidated financial statements and the conditions in Paragraph a) and b) of Subsection (5) of Section 134 of the Accounting Act are met at the balance sheet date, the Company shall publish a non-financial statement required by Section 95/C in it's consolidated business report relating to the companies included in the consolidation. In this respect, we shall state whether the consolidated business report includes the non-financial statement required by Section 95/C, and Subsection (5) of Section 134 of the Accounting Act.

pwc

In our opinion, the 2017 consolidated business report and the annual 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 2017 consolidated financial statements in all material respects, and the consolidated business report has been prepared in accordance with the provisions of the Accounting Act. As there is no other regulation prescribing further requirements for the consolidated business report, we do not express an opinion in this respect.

We are not aware of any other material inconsistency or material misstatement in the consolidated business report and the annual report and therefore we have nothing to report in this respect.

We state that the information referred to in Paragraphs a)-d), g) and h) of Subsection (2) of Section 95/B of the Accounting Act has been provided. The consolidated business report includes the non-financial statement required by Section 95/C, and Subsection (5) of Section 134 of the Accounting Act.

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 to prepare the consolidated financial statements in accordance with the supplementary requirements of the Accounting Act relevant for the consolidated annual financial statements prepared in accordance with IFRS 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 in the consolidated financial statements 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 in the consolidated financial statements 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.
- 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 bear 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 commnnication.

Report on other legal and regulatory requirements

We were first appointed as auditors of the Group on 28 April 2010. Onr appointment has been renewed annually by shareholder resolutions representing a total period of uninterrupted engagement appointment of 8 years.

The engagement partner on the audit resulting in this independent auditor's report is Árpád Balázs.

Budapest, 21 March 2018

Árpád Balázs
Partner
Statutory auditor
Licence number: 006931
PricewaterhouseCoopers Auditing Ltd.
1055 Budapest, Bajcsy-Zsilinszky út 78.
Licence Number: 001464

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.

3.

Report of the Supervisory Board including the report of the Audit Board on the draft 2017 Consolidated Annual Report pursuant to the IFRS

The Supervisory Board of
Gedeon Richter Plc.

Report

to the 2018 Annual General Meeting of Gedeon Richter Plc.

on the 2017

Consolidated Annual Financial Statements of Richter Group

The Supervisory Board reviewed the 2017 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 2017 Consolidated Annual Financial Statements
of Gedeon Richter Plc.

to the 2017 Annual General Meeting Having reviewed the Consolidated Audited Financial Statements of Richter Group for 2017 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 2017 submitted to the AGM (with total assets and total liabilities in the Balance Sheet being equally HUF 760,865 million), duly audited in compliance with the International Accounting Standards.

- The after-tax profit specified in the audited Consolidated Income Statement for 2017 (before dividend payment) being HUF 10,070 million.

Budapest, 21 March 2018

Dr. Attila Chikán
Chairman of the Supervisory Board

4.

Approval of the draft 2017 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.: 29/2018

The Board of Directors proposes to the AGM to approve the Company's draft 2017 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
2017 business activities of the Company
(on the management, the Company’s financial
situation and business policy) and presentation of the
draft 2017 individual Annual Report prepared
pursuant to the IFRS

GEDEON RICHTER PLC.

IFRS FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

Gábor Orbán
Chief Executive Officer

Budapest, 21 March 2018

Gedeon Richter Plc.

FINANCIAL STATEMENTS

TABLE OF CONTENTS

Income statement
for the year ended 31 December

	Notes	2017 HUFm	2016 HUFm
Revenues	4	**328,533**	**285,033**
Cost of sales		(110,189)	(95,607)
Gross profit		**218,344**	**189,426**
Sales and marketing expenses		(98,034)	(93,144)
Administration and general expenses		(13,386)	(12,312)
Research and development expenses		(39,172)	(34,205)
Other income and other expenses (net)	5	(11,891)	(9,719)
Profit from operations	**5**	**55,861**	**40,046**
Finance income	7	23,779	34,129
Finance costs	7	(72,845)	(14,482)
Net financial income/(loss)	7	**(49,066)**	**19,647**
Profit before income tax		**6,795**	**59,693**
Income tax	8	(477)	(5,437)
Profit for the year		**6,318**	**54,256**
Consolidated Earnings per share (HUF)	9		
Basic and diluted		48	356

The notes on pages 8 to 86 form an integral part of the Financial Statements.

21 March 2018

.....
Chief Executive Officer

Statement of Comprehensive Income

for the year ended 31 December

	Notes	2017 HUFm	2016 HUFm
Profit for the year		**6,318**	**54,256**
Items that will not be reclassified to profit or loss			
Actuarial loss on retirement defined benefit plans	28	(102)	(120)
		(102)	**(120)**
Items that may be subsequently reclassified to profit or loss			
Revaluation of available for sale investments	24	1,566	5,908
		1,566	**5,908**
Other comprehensive income for the year		**1,464**	**5,788**
Total comprehensive income for the year		**7,782**	**60,044**

The notes on pages 8 to 86 form an integral part of the Financial Statements.

21 March 2018

.....
Chief Executive Officer

Balance sheet

	Notes	31 Dec. 2017 HUFm	31 Dec. 2016 HUFm	1 Jan. 2016 HUFm
ASSETS				
Non-current assets				
Property, plant and equipment	12	157,075	149,641	139,359
Intangible assets	12	78,295	65,129	70,849
Investments in subsidiaries, associates and joint ventures	13,14	169,596	212,638	175,645
Other financial assets	15	35,025	32,793	25,145
Deferred tax assets	16	2,948	-	1,272
Loans receivable	17	62,170	71,007	46,172
Other non-current receivable		737	-	-
		505,846	**531,208**	**458,442**
Current assets				
Inventories	19	65,312	48,310	47,038
Trade receivables	20	123,483	108,735	88,954
Other current assets	21	17,743	25,899	26,637
Investment in securities	22	-	-	3,952
Current tax asset	16	488	441	367
Cash and cash equivalents	23	46,845	65,969	110,323
		253,871	**249,354**	**277,271**
TOTAL ASSETS		**759,717**	**780,562**	**735,713**
EQUITY AND LIABILITIES				
Eqnity				
Share capital	24	18,638	18,638	18,638
Treasury shares	25	(404)	(1,068)	(550)
Share premium	24	15,214	15,214	15,214
Capital reserves	24	3,475	3,475	3,475
Revaluation reserve for available-for sale investments	24	10,093	8,527	2,619
Retained earnings		621,423	636,210	595,925
		668,439	**680,996**	**635,321**
Non-current liabilities				
Borrowings	29	-	28,510	36,531
Deferred tax liability	16	-	272	-
Other non-current liabilities and accruals	30	3,614	3,280	7,438
Provisions	28	2,248	2,068	1,973
		5,862	**34,130**	**45,942**
Current liabilities				
Borrowings	29	7,498	12,149	9,802
Trade payables	26	58,570	30,842	27,535
Current tax liabilities	16	-	-	35
Other payables and accruals	27	18,239	21,700	16,496
Provisions	28	1,109	745	582
		85,416	**65,436**	**54,450**
TOTAL EQUITY AND LIABILITIES		**759,717**	**780,562**	**735,713**

The notes on pages 8 to 86 form an integral part of the Financial Statements.

21 March 2018

.....
Chief Executive Officer

Statement of Changes in Equity

	Notes	Share capital	Share premium	Capital reserves	Treasury shares	Revaluation reserve for available for sale investments	Retained earnings	Total
		HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Balance at 1 January 2016		**18,638**	**15,214**	**3,475**	**(550)**	**2,619**	**595,925**	**635,321**
Profit for the year		-	-	-	-	-	54,256	54,256
Actuarial loss on defined benefit plans	28	-	-	-	-	-	(120)	(120)
Revaluation of available for sale investments	24	-	-	-	-	5,908	-	5,908
Comprehensive income for year end 31 December 2016		**-**	**-**	**-**	**-**	**5,908**	**54,136**	**60,044**
Net treasury shares transferred and purchased	25	-	-	-	(518)	-	-	(518)
Ordinary share dividend for 2015	31	-	-	-	-	-	(13,419)	(13,419)
Recognition of share-based payments	24	-	-	-	-	-	(432)	(432)
Transactions with owners in their capacity as owners for year end 31 December 2016		**-**	**-**	**-**	**(518)**	**-**	**(13,851)**	**(14,369)**
Balance at 31 December 2016		**18,638**	**15,214**	**3,475**	**(1,068)**	**8,527**	**636,210**	**680,996**
Balance at 1 January 2017		**18,638**	**15,214**	**3,475**	**(1,068)**	**8,527**	**636,210**	**680,996**
Profit for the year		-	-	-	-	-	6,318	6,318
Actuarial loss on defined benefit plans	28	-	-	-	-	-	(102)	(102)
Revaluation of available for sale investments	24	-	-	-	-	1,566	-	1,566
Comprehensive income for year end 31 December 2017		**-**	**-**	**-**	**-**	**1,566**	**6,216**	**7,782**
Net treasury shares transferred and purchased	25	-	-	-	664	-	-	664
Ordinary share dividend for 2016	31	-	-	-	-	-	(19,756)	(19,756)
Recognition of share-based payments	24	-	-	-	-	-	(1,247)	(1,247)
Transactions with owners in their capacity as owners for year end 31 December 2017		**-**	**-**	**-**	**664**	**-**	**(21,003)**	**(20,339)**
Balance at 31 December 2017		**18,638**	**15,214**	**3,475**	**(404)**	**10,093**	**621,423**	**668,439**

The notes on pages 8 to 86 form an integral part of the Financial Statements.

Cash Flow Statement
for the year ended 31 December

	Notes	2017 HUFm	2016 HUFm
Operating activities			
Profit before income tax		6,795	59,693
Depreciation and amortization	5, 12	24,793	23,900
Non-cash items accounted through Total Comprehensive Income		3,429	1,222
Year-end foreign exchange translation difference of borrowings	7	(66)	(245)
Net interest and dividend income	7	(13,061)	(11,854)
Increase on changes of property, plant and equipment and intangible assets		165	205
Impairment recognised on intangible assets	12	8,594	3,471
Impairment on investments	13	51,840	1,949
Expense recognised in respect of equity-settled share based payments	24	3,641	4,723
Movements in working capital			
Increase in trade and other receivables	20, 21	(13,844)	(23,125)
Increase in inventories	19	(18,081)	(3,946)
Increase in payables and other liabilities	26, 27	12,717	6,510
Interest expense	7	(990)	(811)
Income tax paid	16	(4,023)	(4,424)
Net cash flow from operating activities		**61,909**	**57,268**
Cash flow from investing activities			
Payments for property, plant and equipment	12	(24,919)	(26,572)
Payments for intangible assets	12	(8,938)	(5,678)
Proceeds from disposal of property, plant and equipment		136	112
Payments to acquire financial assets		(2,291)	(396)
Proceeds on sale or redemption on maturity of financial assets		-	3,952
Disbursement of loans		(3,961)	(903)
Loans repaid by borrowers		10,318	4,636
Prepaid grants received	30	276	2,563
Interest income	7	3,626	4,845
Dividend income	7	10,425	7,820
Net cash outflow on acquisition of subsidiaries	27,36,30	(8,079)	(68,238)
Net cash flow to investing activities		**(23,407)**	**(77,859)**
Cash flow from financing activities			
Purchase of treasury shares	25	(4,224)	(5,673)
Dividend paid	31	(19,756)	(13,419)
Repayment of borrowings	29	(36,286)	(6,523)
Proceeds from borrowings		6,734	-
Net cash flow to financing activities		**(53,532)**	**(25,615)**
Net (decrease)/increase in cash and cash equivalents		**(15,030)**	**(46,206)**
Cash and cash equivalents at beginning of year	**23**	**61,596**	**107,044**
Effect of foreign exchange rate changes on the balances held in foreign currencies		(551)	758
Cash and cash equivalents at end of year	**23.2**	**46,015**	**61,596**

The notes on pages 8 to 86 form an integral part of the Financial Statements.

Notes to the Financial Statements

1. General background

I) Legal status and nature of operations

Gedeon Richter Plc. ("the Company"), a manufacturer of pharmaceutical products registered in Hungary. The Company was established in 1923. The predecessor of the Company was founded in 1901 by Mr. Gedeon Richter, by acquiring 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.

Name of the Company	Chemical Works of Gedeon Richter Plc.
Short name of the Company	Gedeon Richter Plc.
Date of foundation of legal predecessor:	2 October 1923
Address of the Company:	1103 Budapest, Gyömrői út 19-21.
Sites of the Company:	2510 Dorog, Esztergomi út 27. 4031 Debrecen, Richter Gedeon utca 20.
Website of the Company:	www.richter.hu
Date of the first Articles of Association:	24 July 1923
Date of the effective Articles of Association:	26 April 2017
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:	Árpád Balázs
Registration number at the Chamber of Hungarian Auditors:	006931
Company announcements are published in:	Company Gazette
	www.richter.hu www.bet.hu
Name of the person authorized to sign on behalf of the Company:	Gábor Orbán
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

II) Basis of preparation

This report is the Company's separate annual financial statement, and it has been prepared in accordance with the International Financial Reporting Standards ('IFRS') accepted by the European Union (EU).
Starting from 1 January 2017, the Company is regarded as first-time adopter according to IFRS 1, with a transition date of 1 January 2016. With respect to the financial year of 2016, the Company's financial statements has been prepared in accordance with the provisions of the Act C of 2000 on accounting. The Company has disclosed and deposited the financial statements in accordance with the Act on accounting. Based on IFRS 1, the financial statements for the year ended on 31 December 2016, are considered as financial statements presented under previous GAAP.

Differences that have been arisen between Hungarian Accounting Standards (HAS) and IFRS and have effects on the equity, earnings and cash flows are presented in Note 39.

The statement prepared for the balance sheet date as of 31 December 2017 is the first complete separate IFRS financial statement of the Company, including comparative figures for the previous period, i.e. the closing balance of 31 December 2016.

The Company also prepares consolidated financial statements and business report as parent company of the group. These financial information can be downloaded from:
http://www.richter.hu/en-US/investors/Pages/Annual-General-Meeting.aspx

The 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 separate financial statements are stated in millions of Hungarian Forints (HUFm) unless stated otherwise.

The preparation of separate 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 accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed in Note 3.

This separate financial statement presents the changes required by IFRSs in the Company's financial position, operation, cash flows and equity presented under IFRS in comparison to previous GAAP. Further information on the Company's investments is included in Note 13 and 14.

III) Adoption of new and revised Standards

A) The following amended standards became effective for the Company from 1 January 2017, but did not have any material impact on the Company

- 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, which has been endorsed by EU),the amendment did not have any effect on the Company.

- Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017, which has been endorsed by EU). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities, that is disclosed in Note 10.

- Annual Improvements to IFRSs 2014-2016 cycle amendments to IFRS 12 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017, which has been endorsed by EU) - the amendment did not have any effect on the Company.

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

- IFRS 9 "Financial Instruments: Classification and Measurement" (issued 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 amortized 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 amortized 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 Company has assessed impact of IFRS 9 on financial instruments. The new impairment model will not affect significantly the Company's financial statements, as in the past 5 years less than 0,1 % of the total turnover had to be written-off as bad debt.
The effect of classification changes of securities and expected credit loss on loans are considered to be not significant.
The effect of fair value changes of the Company's two significant equity instruments (i.e. 5% interest in Protek Holding and ca. 10% interest in Themis Medicare Ltd.) was recognised in OCI, since they were available for sale (AFS) financial assets, the gain in OCI will not recycle to P&L according to the provisions of the new standard. The management expects that the financial assets will not be sold in the near future. The investments are disclosed in more details in Note 15.

- IFRS 15, Revenue from Contracts with Customers (issued in May 2014; and effective by the IASB for the periods beginning on or after 1 January 2018. The EU has endorsed the standard). 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 capitalized and amortized over the period when the benefits of the contract are consumed. The Company has assessed the impact of IFRS 15, and as a result, it was identified that the date of revenue recognition has to be modified in two cases. At first case, the financial impact is deemed to be higher, the revenue related to a so-called customer specific sales where the asset has no alternative use and being held as inventory at year-end. The other case related to an ongoing contract manufacturing agreement with related party and has smaller financial impact. The overall financial impact of this modification on the 1 January 2018 equity is not considered to be significant, the value of modification is less than HUF 1 billion.

- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective by the IASB for annual periods beginning on or after 1 January 2018, the EU has 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 Company is currently assessing the impact of the amendment on its financial statements.

- IFRS 16, Leases (issued in January 2016 and effective by the IASB for annual periods beginning on or after 1 January 2019, the EU has endorsed the 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 Company is presenting operating lease commitments according to IAS 17 in Note 33. 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; effective by the IASB 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 Company 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 Company 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.)

- 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 amendment).

- 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 – amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

- 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).

- IFRS 17 Insurance contract (issued on May 2017, the EU has not yet endorsed the changes).

- IFRIC 23 Uncertainty over income tax treatments (issued on June 2017, the EU has not yet endorsed the interpretation).

- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017, the EU has not yet endorsed the amendment).

- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017, the EU has not yet endorsed the amendment).

- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 the EU has not yet endorsed the amendments).

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

2. Summary of significant accounting policies

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

I) Transactions and balances in foreign currencies

The financial statements are prepared and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The functional and presentation currency of the Company is the Hungarian Forint (HUF)
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.

The Company recognizes the foreign currency monetary assets and liabilities using the Hungarian National Bank (MNB) currency rate as of the recognition. The Company revaluates at the year end all monetary assets and liabilities using the year end exchange rate of MNB. In case the foreign currency is not registered by the Hungarian National Bank, then the Company is using the Bloomberg transactional currency/USD and the MNB HUF/USD cross rates for determining the foreign exchange rate.

II) 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, discounts also considering the estimated discounts to be provided after the sales already performed. Revenue on sales transactions is recognised upon fulfilment the terms of sales contracts.

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

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

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company 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.

If the collectability of an item that has already been accounted for as revenue becomes uncertain, impairment should be recognised in the appropriate amount while revenue should not be reduced.

B) Sales of services
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.
The revenue is recognized when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably;
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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 Company on their turnover and assess the Company'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. If the actual settlement of the transaction takes place after the reporting period, the Company accrue for the amount of estimated profit share.

D) Royalty
This kind of revenue should be accounted for, when:

- it is likely, that economic benefits related to the transaction will flow to the Company,
- the amount of revenue can be measured reliably,
- royalties are recognised in line with the underlying agreement.

E) Interest income
Interest income is recognised when it is probable that the economic benefits will flow to the Company 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.

III) 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 Company uses the following depreciation rates:

Name	**Depreciation**
Land	0%
Buildings	1-8%
Plant and equipment	
Plant and machinery	*14-33,33%*
Vehicles	*20%*
Offices equipments	*33,33%*

The Company accounts for full depreciation of the low value assets (having lower gross value than HUF 100,000) at recognition, so when the asset is available for use.

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. The depreciation is calculated on a daily basis and accounted for on a monthly basis. The accounting system is recording in parallel the accounting and tax deprecation.

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 Company 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 capitalized.

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 as "Other income and other expenses (net)".

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 Company. 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.

IV) Intangible assets

An *intangible asset* is an identifiable non-monetary asset without physical substance. The Company presents among the intangible assets the rights, intellectual property and research and development assets. These are mainly purchased trademarks, licenses, patents and software, which can be recognized as intangibles if amortized 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 intangible assets are presented in Note 12.

The intangible assets are amortized through the estimated useful life using linear amortization method generally applying a rate between 4-33%. The useful life cannot be longer than the contractual period to which it relates, it generally agrees to that. In case the professional estimate is that the Company will use it for a shorter period, this estimated period will be used for the basis of amortization. In case the contract can be renewed, the cost of renewal is capitalized and will be amortized.

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.

V) Impairment of tangible and intangible assets

At each balance sheet date, the Company 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 Company 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)".

The company does not recognise amortization for intangible assets with indefinite useful lives or intangible assets that are not yet available for use, but based on indicators annually reviews the necessity of impairment.

VI) Research and development

Cost incurred on development projects are recognised as expense unless 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 Company's intention to complete the intangible asset and use or sell it
- The Company's ability to use or sell the intangible asset
- To prove that the intangible asset will generate probable future economic benefits. The Company 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.
- The development costs of the intangible asset can be reliably measured.

The useful life of these assets is assessed individually and amortized based on facts and circumstances. Amortization shall begin when the asset is available for use. The Company 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.

VII) Financial assets

Financial instruments are all contracts which mean a financial asset at an entity and financial liability or equity instrument at another entity at the same time.

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 Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment, with income recognised on an effective interest rate 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 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.

D. Financial assets constituting loans receivables are carried at amortized cost and are presented separately in XII) Loans receivable, XVI) Cash and cash equivalents while Trade receivables are described in XIII) 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 amortized cost the Company 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 available for sale the Company 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 Company 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 Income Statement as Financial costs. Impairment losses recognised in the Income Statement on equity instruments are not reversed through the 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 Income Statement.

In case of purchase or sale of financial assets, the transaction is accounted for at the date of completion. The Company derecognizes financial assets when the contractual right to the cash flows from the financial asset expires, or when it transfers the financial asset and all the related risks and rewards of ownership of the asset to another party.

VIII) Financial liabilities

A **financial liability** is any liability that is a contractual obligation to deliver cash or another financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

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 amortized cost using the effective interest method, with interest expense recognised on an effective yield basis.

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Financial liabilities constituting trade payables are described separately in XIV) Trade payables.

IX) Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are measured at cost under IAS 27.10. The cost is the purchase price paid for the asset (in the case of a foreign currency transaction, the value converted to the Company's functional currency (HUF) using the exchange rate applicable on the date of the transaction). At the acquisition, the Company's estimate of the contingent purchase price is part of the original cost. For subsequent measurement of the obligation arising from the contingent purchase price, the Company applies the IFRS 3 analogy which requires that the change in the fair value of the liability should be recognized in the profit and loss account.

We distinguish three groups of shares:
- Investments in subsidiaries
- Investments in joint ventures
- Investments in associates

The above investments are shown on the balance sheet of the Company under "Investments in subsidiaries, associates and joint ventures".
With respect to "Investments in subsidiaries, associates and joint ventures", the Company reviews annually whether it has identified an impairment indicator and, if it is justified, recognizes impairment on the basis of IAS 36.
The Company considers an indicator when the carrying amount of the investment exceeds the proportionate share of the value of the equity of the investment.
Impairment shall be recognized when an individual rating of investments determines that the carrying amount exceeds the recoverable amount. During the individual rating, in terms of significant investments the cash-flows closely related to the investments were also taken into consideration.

In subsequent years, if the reasons for impairment previously recognized are no longer or are only partially in place, the impairment should be reversed to the recoverable amount, reversal of an impairment loss shall not exceed the carrying amount that would have been determined if no impairment loss been recognised for the asset in prior years.
The impairment and the reversal of impairment are recognized as Net financial income/(loss) in Income statement.

X) Contingent-deferred purchase price

The contingent-deferred purchase price obligation of the Company 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 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).

XI) Other financial assets

Other financial assets comprise long term bonds, bank deposits, conversion options and equity investments in other companies. The long term equity investments in other companies are available for sale financial assets, the related accounting policy is disclosed in VII Financial assets. 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.

XII) Loans receivables

Within the loans receivables, it is necessary to distinguish between loans to employees of the Company, loans to related companies and loans to other companies.
The loans are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.
If the loan is off-market conditions (for example: interest free loan to employees, interest free capital contribution, supplementary payment), then the difference between the fair value and the transaction value should be recognized in profit or loss or as a capital increase in the investment depending on the economic substanse of the transaction.

In case of capital contribution or supplementary payments, the Company should consider whether the transaction give rise to a debt or an equity instrument.
When the transaction is a debt instruments, the difference between the fair value and the value of the transaction at initial recognition should be accounted for based on the substance of the arrangement, and if it qualifies as a capital increase, it should adjust the cost of the investment. If these instruments are classified as available-for-sale financial assets, any impairment losses should be presented in profit or loss, while the difference between the amortized cost and the fair value shall be recognized in the other comprehensive income.

XIII) Trade receivables

Receivables are measured at cost, less impairment and adjusted by reversal of the previously recognized impairment. Realized exchange gains or losses arising on the settlement of foreign currency receivables shall be recognized directly in the financial result using the exchange rate applicable on the date of the financial settlement. At the end of the period, outstanding amounts of receivables must be revalued at the MNB's foreign exchange rate, and unrealized gains or losses are recognized in the financial profit. In case of receivables, cost value is transaction value according to the related invoice less the value of the expected discounts, and adjusted by discounting in the case of outstanding long-term receivables. Receivables adjusted with estimated discounts should be classified in accordance with its substance, so in case of credit balance presented as liability in the Balance Sheet.

XIV) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method. Suppliers are short-term liabilities on the "Trade payables" line, if their performance is due within one year (or within the normal operating cycle, if it is longer). In other cases they are presented as "Other non-current liabilities and accruals" in the Balance Sheet.

XV) 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 the end of each reporting period at their fair value. The resulting gain or loss is immediately recognized against the profit, unless the relevant derivative is classified as a hedging instrument and effective hedging instrument, since the timing of the settlement of the result depends on the nature of the hedging relationship. Derivative financial instruments are classified under "Non-current assets" and "Non-current liabilities", if the instrument has a residual maturity of more than 12 months and is not expected to be realized within 12 months.
Other derivative contracts are presented under "Other current assets" and "Other payables and accruals".

XVI) Cash and cash equivalents

Cash and cash equivalents consist of cash, bank deposits and cash equivalents: in practice, they are securities that are used to settle short-term financial liabilities, and are not held for investment or other purposes, typically have an expiration date of up to 3 months from the date of purchase (e.g. debt securities). In the Balance Sheet the overdrafts are presented in line "Borrowings", within current liabilities

XVII) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the 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 capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.
Regarding the capitalization of borrowing cost please see in XXII) Borrowing costs.

From 1 January 2017, entities will be required to explain changes in their liabilities in their liabilities for which cash flows have been, or will be classified as financing activities in the statements of Cash Flow Statements.

XVIII) Inventories

Recording of the self-manufactured and purchased inventories and their changes are at standard cost during the year. Standard price is determined based on the actual purchase price or production cost used in the previous year's balance sheet, while in case of new item, it is a pre-calculated price. The standard price is adjusted during the year if needed.

Inventories are stated at the lower of cost and net realisable value. The balance sheet value is the cost less the recognized impairment and the received and estimated discounts, increasing the value of the reversed impairment.

The cost of purchased inventories includes all costs incurred and directly attributable to inventory until purchase. At the end of the year, its valuation will take place at a weighted purchase price taking into account the amount of closing stock (FIFO method), less the amount of impairment.
The cost of self-manufactured inventories is the calculated actual production cost. 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. Net realizable value is the estimated sales price in the ordinary course of business, less the estimated costs of completion and the estimated cost of disposal.

XIX) Provisions

Provisions are recognised when the Company has a current legal or constructive obligation arising as a result of past events, and when it is probable that an outflow of resources will be required to settle such an obligation, and if a reliable estimate for such amounts can be made.
The Company measures the provisions at discounted value of the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the interest arising from the passage of time is accounted as interest expense.

Provisions should be made for:

- sanctions and remediation costs related to environmental damage, which will lead to the outflow of resources representing economic benefits regardless of the Company's future actions
- the expected liabilities in respect of non-closed litigation cases, if it is probable that the Company will have a payment obligation as a result of the decision
- as a guarantee and guarantee commitment if the amount of the expected payment can be estimated from the previous practice
- long-term defined (retirement) benefit plans
- reorganization costs if the general conditions for provisioning are met.

If it is no longer probable that economic resources will be required to fulfill the obligation, the provision should be reversed. The provision may be used only for the input for which it was originally recognized.

The Company maintains a long-term defined retirement plan, which is presented in XXIV) Retirement Benefits.

XX) 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.

The Company considers the following taxes to qualify to be income tax under IAS 12:

- Corporate Income Tax
- Local Business Tax
- Innovational Contribution

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

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. 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 Company 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).

XXI) Segment information

According to IFRS 8, the Company is obliged to present segment information as it markets its securities on the stock exchange.
The operating segment is a business unit that carries out business activity and for which separate financial information is available, and whose operating results are regularly reviewed by the entity's chief operating decision maker in order to make a decision about the resources to be allocated to the segment and to evaluate its performance (Note 4. Segment Information).
We disclose segment information in the financial reports of the Company, as reviewed by the members of the Board of Directors as Chief Operating Decision Makers of Richter as a Parent Company. The Board of Directors is responsible for allocating resources between operating segments and for assessing these performances. As the Board of Directors focuses primarily on Group-level data, therefore Group Level Segment Information is presented in the financial statements.

XXII) 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.

XXIII) Leases

A lease is an arrangement in which the lessor transfers the lessee the right to use a specific asset for a specified period of time, against payment of a given amount or a series of payments, or direct the device operators and thereby gain access to obtaining or controlling a significant part of the output.
Whether a lease is a financial or an operating lease depends on the actual content of the transaction and not on the form of the contract.
A lease is classified as a finance lease if the lease conditions substantially transfers to the lessee all the risks and rewards of ownership. Any other leasing transaction shall be considered as an operating lease.

At commencement of the lease term, finance leases should be recorded in the financial statements as an asset at the lower of the fair value of the asset and the present value of the minimum lease payments (discounted at the interest rate implicit in the lease, if practicable, or else at the entity's incremental borrowing rate)

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 capitalized in accordance with the Company's policy on borrowing costs.

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.

XXIV) Pension program and other long term employee benefits

The Company pays wages to retiring employees according to the Collective Agreement as employee benefit program. The Company rewards those employees who had been employed for significant period by giving them bonus. The expense is accounted for during the related service period based on actuarial assumptions.

Pension obligations
The Company operates a long term defined employee benefit program, which is presented as Provision in the 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 in the Retained Earnings (presented in other comprehensive income as item that is not reclassified later in profit and loss).

Defined contribution plans
For defined contribution plans the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company 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 Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.
The Company recognises termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

XXV) Share based payment

The Company 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 Company'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.

XXVI) 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 Company 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 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.

XXVII) Share Capital

It contains the face value of the issued shares at the time of foundation and capital increase. Ordinary shares are classified as equity. When new ordinary shares are issued, the directly attributable incremental costs are presented as a share capital decreasing item on the line of share premium in the balance sheet. The repurchased shares within the share capital are presented separately on the line of treasury shares.

XXVIII) Earnings per share

In accordance with IAS standards the Company determines the earnings per share by using two methods:

- Basic EPS: 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 EPS: 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.

In accordance with the IAS 33 standard the Company presents the same EPS in its separate financial statement that was determined in the consolidated financial statement.

XXIX) Dividend distribution

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

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company'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 Financial Statements are the following:

3.1 Key sources of estimation uncertainty

The effects of the PRAC's temporary measures (on 9 February 2018) related to ESMYA® sales

In December 2017, the European Medicines Agency (EMA) Pharmacovigilance Risk Assessment Committee (PRAC) started a review of drug induced liver injury potentially related to ESMYA® a (ulipristal-acetate) that applies to all EU Member States. On 9 February 2018, the EMA initiated the implementation of temporary measures as part of the review process. The PRAC recommends that new treatments using ESMYA® should not be started, but ongoing treatments can be completed. These measures are of a temporary nature and are intended to protect the health of patients. The final decision to be taken by the end of May 2018 will depend on the conclusion of the evaluation process that began in December 2017. Richter takes the safety of patients seriously. Based on the data collected during clinical trials, the Management believes that ESMYA® is a safe medicinal product, and Richter is commited to provide this unique treatment option to women suffering myoma tumor.

The Company prepared its' audited financial statements for 2017, considering the negative effects of PRAC's temporary measures on ESMYA®. Based on that Management has reduced its long term sale forecasts for ESMYA® in markets in EU and Latin America. In addition to the revised forecasts, the Company has accounted for impairment on investment in PregLem and on intangible assets in Latin America. The overall value is totalled to HUF 59,5 billion. Please see further details in Notes 12.2 and 13.

As a result of the temporary measures of the PRAC, on the balance sheet date the Company has an exposure on the following items in the balance sheet after recognition of impairment loss.

Exposure factors *	**2017.12.31** HUFm
Shareholding in the subsidiary of PregLem S.A.	51,327
Esmya intangible assets	21,916
Other stocks, deferred taxes, etc. related exposure	4,283
All exposures	**77,526**

*In the separate IFRS financial statements of Richter, the consideration paid as part of the acquisition of PregLem S.A. is presented as investment in subsidiaries while the sales rights acquired after the acquisition are presented as intangible assets. The above figures do not include any return or destruction costs related to the stocks.

Depreciation and amortization

Property, plant and equipment and intangible assets are recorded at cost and are depreciated or amortized 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 Company. 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.

Estimated useful lives are reviewed annually. If the estimated useful life may decrease by 10%, depreciation would increase by HUF 2,755 million compared to the Management's assumptions. This change would have been HUF 2,656 million in 2016.

Uncertainties of the previous year resolved in the current financial year

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 purchase price is accounted for at discounted fair value, increasing the Other non-current and Other current liabilities of the Company. The gross amount of the expected payment (undiscounted) was approximately CNY 179 million (HUF 7,565 million) as of 31 December 2016 and CNY 275 million (HUF 12,139 million) as of 1 January 2016. 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 and 2017.

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. 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 purchase price are presented as "Other current liability" and the gross amount of the expected payment (undiscounted) was USD 3.0 million (HUF 881 million) as of 31 December 2016, while USD 3.0 million (HUF 860 million) as of 1 January 2016, and during 2017 it was settled at an amount of $ 1.8 million (HUF 489 million) between the parties.

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 were 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 would not be met, therefore the fair value of the liability in respect of this transaction was zero. Based on the agreement concluded with the original shareholder in 2015, Richter's voting right increased to 100%. The Acquisition agreement between the parties was completed without additional payment in 2017.
On 31 December 2016, the Company reported an impairment loss on the value of the investment in total amount shown in Note 13.
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 1 January 2016.
Mediplus is a 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 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 required five-year period has expired to demand tax allowance, and specifications are met. The Company considered the amount of the investment as the only relevant criteria, since the continuous operation of the purchased assets obviously require more resources than it is stated by the law. The Company assessed this relief to be an investment tax credit. Based on the accounting policy of the Company, 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 1,790 million at current value, in 2016 HUF 1,769 million.

Hybrid tax
The Company prepares its first *separate* IFRS financial statements from 1 January 2017, as a result of that the corporate income tax is also determined based on the *separate* IFRS financial statements from 1 January 2017. Based on the corporate income tax regulations, if the corporate income tax calculated based on the regulations relevant for IFRS preparers is less than the actual corporate income tax for the period ending on 31 December 2016 in the year of the first IFRS financial statements and the following year (i.e. in 2017 and 2018), the IFRS preparer chooses to:

- pay the corporate income tax determined in the period ending on 31 December 2016 also in the two years following the transition, or
- determine its corporate income tax on the basis as if the Company would have not transitioned to IFRS.

Similar regulation is relevant for the tax basis of the local business tax and innovational contribution.
As a result of the regulation, the taxes above are so called hybrid taxes in 2017 and 2018, since the tax payable is not purely, but partially based on taxable profit. IAS 12 does not have specific guidance on the treatment of hybrid taxes. Based on the accounting policy choice of the Company, the Company accounts for the amount that is based on the current year's taxable profit as income tax, while the tax exceeding this amount is recorded as Other Expense in the Income Statement. According to the Company's decision made in 2017, the income tax is defined in compliance with the corporate tax rules effective in the particular business year in a way, as if the switch/transfer to IFRS had not happened and the value of corporate tax is defined accordingly. Therefore no other operational expenditure is recognized in the financial statements related to the corporate tax.

4. Segment Information

Management is analysing the performance of the Company as being part of the pharmaceutical segment. The main activity includes research, development, production and sale of the pharmaceutical products.
The Board of Directors when making their decisions are focusing on the Group level information, therefore the consolidated segment information is presented in the financial statement.

The three main segments for management purposes:

- Pharmaceuticals: includes the companies that are involved in the Company'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 Company.

In the Pharmaceuticals segment of the Company 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	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
3rd party revenues	355,194	314,391	88,458	74,459	704	840	-	-	444,356	389,690
Inter segment revenues	9,646	9,448	3	5	4,691	3,763	(14,340)	(13,216)	-	-
Revenues	**364,840**	**323,839**	**88,461**	**74,464**	**5,395**	**4,603**	**(14,340)**	**(13,216)**	**444,356**	**389,690**
Profit from operations	18,617	55,204	1,777	1,158	391	151	(74)	(1,897)	20,711	54,616
Total assets	831,128	882,469	47,753	45,582	3,402	7,134	(121,418)	(121,308)	760,865	813,877
Total liabilities	74,620	114,950	35,743	37,618	797	1,257	(14,314)	(21,821)	96,846	132,004
Capital expenditure	39,077	35,700	656	539	196	214	-	-	39,929	36,453
Depreciation and amortization	33,839	32,066	675	596	233	233	-	-	34,747	32,895
Share of profit of associates and joint ventures	60	(835)	1,466	2,566	58	41	(56)	26	1,528	1,798
Investments in associates and joint ventures	2,996	-	7,398	7,070	1,561	1,523	(108)	(52)	11,847	8,541

* The consolidated profit from operation within the Pharmaceuticals segment in 2017 contains an impairment on goodwill in the value of HUF 20,229 million.

The data presented in the segment information significantly differs from the data that are presented in the primary statements, because the former is the consolidated, while the latter contains the data of the Company only. Management therefore has concluded that a reconciliation between the two would not provide relevant and useful information to the user of the financial 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 other than Hungary
4. USA
5. China
6. Latin America
7. Other countries

2017	Hungary	CIS	EU	USA	China	Latin America	Other countries	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Revenues	36,040	139,689	190,720	27,472	24,004	9,418	17,013	444,356
Total assets	569,785	54,601	98,662	2,590	9,563	6,920	18,744	760,865
Capital expenditure	34,473	1,328	3,667	1	-	222	238	39,929

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

The data presented in the segment information significantly differs from the data that are presented in the primary statements, because the former is the consolidated, while the latter contains the data of the Company only. Management therefore has concluded that a reconciliation between the two would not provide relevant and useful information to the user of the financial statement.

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

Analyses of revenue by category	2017 HUFm	2016 HUFm
Sales of goods	313,325	276,908
Revenue from services	532	3,150
Royalty income	14,676	4,975
Total revenues	**328,533**	**285,033**

Revenues of approximately HUF 19.496 million (in 2016 HUF 22,809 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

	2017 HUFm	2016 HUFm
Revenues	328,533	285,033
From this: royalty and other similar income	*14,676*	*4,975*
Changes in inventories of finished goods and work in progress	8,129	2,116
Cost of goods sold	(21,146)	(11,712)
Material type expenses	(158,419)	(142,532)
Personnel expenses	(64,339)	(58,984)
Depreciation and amortization	(24,793)	(23,900)
Compensation of expenses*	(213)	(256)
Other income and other expenses (net)	(11,891)	(9,719)
Profit from operations	**55,861**	**40,046**

** Compensation of R&D expenses and cost of those services which income is presented as other income*

The statutory auditor provided other assurance services for HUF 6 million and other non-audit services for HUF 12 million in 2017. The statutory auditor did not provide tax advisory service to the Company in the financial year. The fee for the statutory audit was HUF 19 million.

Other income and other expenses

The balance of other income and expense increased from HUF 9,719 million (expense) in the base period to HUF 11,891 million (expense).

The other income and other expenses item is greatly affected by the impairment reported on the Esmya intangibles (HUF 8,594 million), from which HUF 7,992 million as a result of the impairment test performed due to the PRAC temporary measures (See in Note 12).

At the base period, the product withdrawal of LISVY® resulted in a write-off accounting HUF 3,345 million in respect of intangible assets, and a reversal of HUF 939 million in respect of deferred purchase price payable. An additional HUF 849 million impairment loss was accounted in respect of inventories, and Richer was entitled to a compensation of HUF 798 million, which was accounted as other income. In 2017, License agreements have been closed and settled with regards to the product withdrawal of LISVY®, which resulted HUF 2,147 million as other income.

In the current period, a one-off milestone revenue was recognised for receiving the ESMYA® US patent application and starting the registration of cariprazine in South Korea. By contrast, HUF 3,112 million was recognised in the base period for the European distribution of cariprazine from the licensed agreement signed with Recordati.

The claw back type of expenditures in 2017 with a total payment of HUF 6,668 million include the payments made after market obligations/contributions in Hungary, Romania, Germany, France, Spain, Portugal, Belgium, Italy, Bulgaria, Austria, Poland and Latvia. (HUF 5,501 million in 2016.)

6. Employee information

	2017	2016	2015
Average number of people employed during the year	6,886	6,717	6,673

7. Net financial result

The Company is translating its foreign currency monetary assets and liabilities to the year-end exchange rate on individual item level, which is presented in the 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:

	2017 HUFm	2016 HUFm
Unrealised financial items	**(55,865)**	**5,070**
Exchange (loss)/gain on trade receivables and trade payables	(298)	3,875
(Loss)/gain on foreign currency loans receivable	(4,570)	3,395
Year-end foreign exchange difference of borrowings	66	245
Exchange (loss)/gain on other currency related items	(100)	2,498
Unwinding of discounted value related to contingent-deferred purchase price liabilities (Note 11)	-	(948)
Result of unrealised forward exchange contracts	26	(4)
Impairment loss on investments	(51,866)	(1,949)
Impairment loss on loans	74	(1,937)
Discounting of interest-free loans	803	(105)
Realised financial items	**6,799**	**14,577**
Exchange (loss)/gain realised on trade receivables and trade payables	(5,329)	2,387
Foreign exchange difference on conversion of cash	(933)	280
Dividend income	10,425	7,820
Interest income	3,626	4,845
Interest expense	(990)	(811)
Other financial items	-	56
Total	**(49,066)**	**19,647**

In 2017 the loss of Preglem S.A. investment (HUF 51,526 million) diminished significally the financial result. Further impairment loss was recognised in Nedermed B.V. In 2016 the impairment loss on investments was HUF 1,949 million which mainly included the impairment loss of Mediplus N.V. (See in Note 13.)

Unrealised financial results for 2017 were largely influenced by the result of exchange rate revaluations with 4.49 RUB/HUF, 258.82 USD/HUF, 265.24 CHF/HUF on 31th December 2017 (4.78 RUB/HUF, 293.69 USD/HUF, 289.41 CHF/HUF on 31th December 2016). The combined impact of the revaluation resulted a HUF 4,902 million financial loss in 2017, while the financial results for the period increased to HUF 10,013 million, resulting a HUF 14,915 million decline in results comparing with 2016. See the results of the foreign sensitivity tests in Note 10.

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.

Significant dividend income of HUF 10,425 million impacted the financial income in 2017 which related mainly to dividend from Gedeon Richter Rxmidas, Gedeon Richter Polska SP and RG Befektetéskezelő Kft.

The decline in value of foreign currency loans was caused by a large change in the USD/HUF and CHF/HUF exchange rates.

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

The interest expense of the borrowings that are presented in Note 29 amounted to HUF 793 million (in 2016 HUF 811 million).
In December 2017, the EIB loan was fully repaid.

8. Income tax expense

The Company discloses also 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.

	2017 HUFm	2016 HUFm
Corporate income tax	30	(680)
Local business tax	(3,481)	(3,161)
Innovation contribution	(525)	(474)
Current tax	**(3,976)**	**(4,315)**
Deferred tax (Note 16)	3,499	(1,122)
Income tax*	**(477)**	**(5,437)**

* The tax rate reconciliation includes the effect of both self-revision and tax paid abroad.

In 2017 the average effective tax rate calculated on the basis of the current tax is 58.5 % and 7.0 % taking into account the effect of deferred tax as well (In 2016: 7.2% and 9.1%).

In 2016 the corporate income tax rate in Hungary was 19% for the taxable profit exceeding HUF 500 million, while 10% for the profit below that. The corporate income tax rate effective from 1 January 2017 is 9%.

The tax authority performed full scale tax audit in 2014 covering the financial periods 2011-2012.
The tax authorities may at any time inspect the books and records within 6 years 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.

Tax rate reconciliation

	2017 HUFm	2016 HUFm
Profit before income tax	**6,795**	**59,693**
Tax calculated based on statutory corporate income tax rate*	611	11,342
Tax effects of		
Investment tax credit of the Company	-	(2,284)
Dividend income not subject to taxation	(938)	(1,486)
Royalty tax incentive	(65)	(773)
Expense not deductible for tax purposes	23	299
R&D tax incentives**	(2,960)	(5,356)
Local business tax and innovational contribution	3,646	2,945
Effect of change in tax rate	-	844
Reversal of temporary differences that are subject to exception from deferred tax	387	
Other, individually insignificant items	(227)	(94)
Tax charge	**477**	**5,437**

* In 2017 the tax rate applied is 9%
** These expenditures can be deducted twice from the current years result to get the taxable profit (qualifying R&D expenses).

Investment tax credit

In 2007 the 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 benefit for the first time in FY 2012, proceeding and calculating it in accordance with the applicable laws and regulations. For FY 2017, the Company does not have corporate income tax liability, therefore it does not utilize any development tax benefit.
The remaining tax relief in connection with the Debrecen project is available for subsequent years amounts to HUF 1,790 million at current value. Therefore Richter can take advantage of the tax relief up to 2021 at the latest.

Accounting treatment of the tax credit

The Company 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 tax credit.

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 2016 and 2017 there are no potential dilutive instruments issued by the Company. The Company is presenting in the separate financial statements the consolidated earnings per share in accordance with the requirements of IAS 33.

EPS (basic and diluted)	**2017**	**2016**
Net consolidated profit attributable to owners of the parent (HUFm)	8,885	66,200
Weighted average number of ordinary shares outstanding (thousands)	186,221	185,848
Earnings per share (HUF)	**48**	**356**

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 Dec. 2017	31 Dec. 2016	1 Jan. 2016.	31 Dec. 2017	31 Dec. 2016	1 Jan. 2016.
		HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Financial assets[1]							
Available for sale investments carried at fair value							
Investments in securities[2]	22	-	-	2,428	-	-	2,428
Held to maturity investments carried at amortized cost							
Investments in securities[2]	22	-	-	1,524	-	-	1,524
Loans and receivables carried at amortized cost							
Loans receivable	21	9,928	18,400	20,133	9,928	18,400	20,133
Trade receivables	20	123,483	108,735	88,954	123,483	108,735	88,954
Other current assets	21	2,755	3,114	2,065	2,755	3,114	2,065
Cash and cash equivalents	23	46,845	65,969	110,323	46,845	65,969	110,323
Financial assets carried at fair value through profit or loss							
Foreign exchange forward contracts[4]	21	26	-	4	26	-	4
Current		**183,037**	**196,218**	**225,431**	**183,037**	**196,218**	**225,431**
Available for sale investments carried at fair value							
Investments[3]	15	15,136	13,237	6,949	15,136	13,237	6,949
Held to maturity investments carried at amortized cost							
Investments	15	1,595	1,809	1,766	1,595	1,809	1,766
Loans and receivables carried at amortized cost							
Loans and receivable investments	15	15,903	15,780	16,282	15,903	15,780	16,282
Loans receivable	17	62,170	71,007	46,172	62,170	71,007	46,172
Financial assets carried at fair value through profit or loss							
Convertible loan option[7]	15	45	79	148	45	79	148
"Exchangeable bonds" option[8]	15	2,346	1,888	-	2,346	1,888	-
Non-current		**97,195**	**103,800**	**71,317**	**97,195**	**103,800**	**71,317**

[1] All financial assets are free from liens and charges.
[2] The fair valuation of securities was based on bank data supply.
Level 1: on 31.12.2017 none
Level 2: on 31.12.2017 none (on 31.12.2016 HUF 2,428 million)
[3] Level 1: on 31.12.2017: HUF 15,136 million (on 31.12.2016 HUF 13,237 million)
[4] Level 2: the entire balance on 31.122017 HUF 26 million (on 31.12.2016 none)
[5] Level 3: Short-term constituting contingent-deferred purchase price: on 31.12.2017 none (on 31.12.2016 HUF 8,446 million)
[5] Level 3: Long-term constituting contingent-deferred purchase price: on 31.12.2017 none (on 31.12.2016 none)
[7] Level 3: on 31.12.2017 HUF 45 million (on 31.12.2016 HUF 79 million)
[8] Level 3: on 31.12.2017 HUF 2,346 million (on 31.12.2016 HUF 1,888 million)

	Notes	Carrying value			Fair value		
		31 Dec. 2017	31 Dec. 2016	1 Jan. 2016.	31 Dec. 2017	31 Dec. 2016	1 Jan. 2016
		HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Financial liabilities							
Liabilities carried at amortized cost							
Borrowings	29	7,498	12,149	9,802	7,498	12,149	9,802
Trade payables	26	58,570	30,842	27,535	58,570	30,842	27,535
Other payables and accrual	27	15,059	10,262	7,104	15,059	10,262	7,104
Financial liabilities carried at fair value through profit or loss							
Other payables[5]	11,27	-	8,446	6,370	-	8,446	6,370
Current		**81,127**	**61,699**	**50,811**	**81,127**	**61,699**	**50,811**
Liabilities carried at amortized cost							
Borrowings	29	-	28,510	36,531	-	28,510	36,531
Other non-current liabilities	30	-	-	939	-	-	939
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		-	**28,510**	**43,164**	-	**28,510**	**43,164**

[1] All financial assets are free from liens and charges.
[2] The fair valuation of securities was based on bank data supply.
Level 1: on 31.12.2017 none
Level 2: on 31.12.2017 none (on 31.12.2016 HUF 2,428 million)
[3] Level 1: on 31.12.2017: HUF 15,136 million (on 31.12.2016 HUF 13,237 million)
[4] Level 2: the entire balance on 31.122017 HUF 26 million (on 31.12.2016 none)
[5] Level 3: Short-term constituting contingent-deferred purchase price: on 31.12.2017 none (on 31.12.2016 HUF 8,446 million)
[5] Level 3: Long-term constituting contingent-deferred purchase price: on 31.12.2017 none (on 31.12.2016 none)
[7] Level 3: on 31.12.2017 HUF 45 million (on 31.12.2016 HUF 79 million)
[8] Level 3: on 31.12.2017 HUF 2,346 million (on 31.12.2016 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 Company 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 Company is not significant, therefore 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 2 investments of the Company is represented by the interest held in Protek Group and Themis Medicare Ltd. Most of the security price risk is related to the Protek investment which is disclosed in Note 15.

I.) Capital management

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

The Company's objectives when managing capital are to safeguard the Company'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 Company is also monitoring the individual entities to meet their statutory capital requirements. The 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 the Group's IFRS consolidated profit attributable to the owners of the parent adjusted with the impairment of Esmya and the goodwill related to PregLem S.A. net of deferred tax effect. Dividends are approved by the shareholders of Gedeon Richter Plc.'s at the Annual General Meeting.

The capital risk of the Company was still limited in either 2017 or 2016, 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 2017 HUFm	**31 December 2016** HUFm	**1 January 2016** HUFm
Borrowings (Note 29)	7,498	40,659	46,333
Less: cash and cash equivalents (Note 23)	(46,845)	(65,969)	(110,323)
Net debt	**(39,347)**	**(25,310)**	**(63,990)**
Total equity	668,439	680,996	635,321
Total capital	**629,092**	**655,686**	**571,331**
EBITDA*	91,079	71,766	n.a.
Net debt to EBITDA ratio	**(0.43)**	**(0.35)**	**n.a.**
Net debt to equity ratio	**(0.06)**	**(0.04)**	**(0.11)**

* EBITDA has been determined in line with the EIB credit agreement, repaid in December 2017, as operating profit increased by dividend income and depreciation and amortization expense

Net debt reconciliation:

Net debt	**31 December 2017** HUFm	**31 December 2016** HUFm	**1 January 2016** HUFm
Cash and cash equivalents	46,845	65,969	110,323
Cash-pool	(830)	(4,373)	(3,279)
Borrowings - within one year (excluding cash-pool)	(6,668)	(7,776)	(6,523)
Borrowings - after one year	-	(28,510)	(36,531)
Net debt	**39,347**	**25,310**	**63,990**

	Other Assets	Liabilities from financing activities		
	Cash and cash-pool overdraft	Borrowing due within one year	Borrowing due after one year	TOTAL
	HUFm	HUFm	HUFm	HUFm
Net debt as at 1 January 2016	**107,044**	**(6,523)**	**(36,531)**	**63,990**
Cash flows	(46,206)	6,523	-	**(39,683)**
Effect of foreign exchange of borrowings	-	52	193	**245**
Other non-cash movements	758	-	-	**758**
Reclassification from long-term to short-term	-	(7,828)	7,828	**-**
Net debt as at 31 December 2016	**61,596**	**(7,776)**	**(28,510)**	**25,310**
Cash flows	(15,030)	7,521	22,031	14,522
Effect of foreign exchange of borrowings	-	66	-	66
Other non-cash movements	(551)	-	-	(551)
Reclassification from long-term to short-term	-	(6,479)	6,479	-
Net debt as at 31 December 2017	46,015	(6,668)	-	39,347

	2017	2016
	HUFm	HUFm
Profit from operations	55,861	40,046
Depreciation	24,793	23,900
Dividend income	10,425	7,820
EBITDA	**91,079**	**71,766**

At the time of the preparation of the Company's audited financial statements for FY 2017, the PRAC's temporary measures on all the expected negative effects related to ESMYA® has been considered. The Company has accounted for impairment on investment in PregLem, significant part of it is recognised as Impairment loss on investment in Net Financial income/(loss). This amount has no effect on EBITDA.

The Company is in compliance with the ratios stated as covenants in the EIB credit line agreement.
The loan borrowed from the European Investment Bank was repaid in December 2017.

Equity correlation table

According to Note 114 / B of Act C of 2000 on Accounting, the annual financial reporting entity according to IFRS compiles an equity correlation table for the reporting date, which is presented as part of the notes.
Our Company fulfills this obligation of presentation below:

	31 December 2017 HUFm	31 December 2016 HUFm
Capital under IFRS	668,439	680,996
Supplementary payment	(321)	(313)
Adjusted equity	**668,118**	**680,683**
Subscribed capital	18,638	18,638
Capital reserve	18,285	17,621
Revaluation reserve	10,093	8,527
Retained earnings	614,784	581,641
Post-tax profit or loss	6,318	54,256
Total equity	**668,118**	**680,683**
Thereof:		
Registered capital	**18,638**	**18,638**
Free profit reserve available for dividend payment	**621,102**	**635,897**

II.) Foreign currency risk

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

Foreign exchange sensitivity of profit

The Company 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, KZT and from 2017 the CNY. The calculation of exposure to foreign currencies is based on these eight currencies.

The foreign currency risk management calculation is based on the balances exposed to exchanges of foreign currencies, the management assumes changes in exchange rates and analysis the risk of these changes on the profit.
Certain foreign currencies recently showed higher volatility (RUB, CHF, KZT) therefore according to the decision of the Management these currencies have been diverted in a reasonable level when determining the exchange rate combination (10%).

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:

2017	Exchange rates									Effect on operating profit	Effect on profit before income tax for the year**	
*	EUR/HUF	USD/HUF	EUR/USD	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	KZT/HUF	CNY/HUF **	HUFm	HUFm	
103.23	**319.28**											
		282.58	**1.13**	**74.98**	**69.86**	**5.18**	**306.15**	**0.96**	**41.47**	**8,577**	**8,211**	**largest growth**
		273.73	1.17	72.63	67.67	4.71	278.32	0.87	40.17	52	94	
		264.88	1.21	70.28	65.48	4.24	250.49	0.78	38.87	(8,472)	(8,024)	
100.00	309.28											
		282.58	1.09	74.98	69.86	5.18	306.15	0.96	41.47	7,484	7,146	
		273.73	1.13	72.63	67.67	4.71	278.32	0.87	40.17	0	0	
		264.88	1.17	70.28	65.48	4.24	250.49	0.78	38.87	(8,524)	(8,117)	
96.77	**299.28**											
		282.58	1.06	74.98	69.86	5.18	306.15	0.96	41.47	8,472	8,024	
		273.73	1.09	72.63	67.67	4.71	278.32	0.87	40.17	(52)	(94)	
		264.88	**1.13**	**70.28**	**65.48**	**4.24**	**250.49**	**0.78**	**38.87**	**(8,577)**	**(8,211)**	**greatest decrease**

* Change of EUR/HUF average exchange rates.
** From 2017 the chief operating decision makers of the Company included into the monitoring the foreign exchange sensitivity of the Chinese Yuan (CNY) and adjusted their focus on the profit before income tax from 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	HUFm	
103.21%	**321.46**										
		290.27	**1.11**	**73.65**	**71.54**	**5.24**	**294.82**	**1.04**	**17,186**	**20,473**	**largest growth**
		281.24	1.14	71.36	69.31	4.19	285.65	0.83	918	929	
		272.21	1.18	69.07	67.08	3.14	276.48	0.62	(15,349)	(18,616)	
100.00%	311.46										
		290.27	1.07	73.65	71.54	5.24	294.82	1.04	15,464	18,685	
		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	(16,267)	(19,545)	
96.79%	**301.46**										
		290.27	1.04	73.65	71.54	5.24	294.82	1.04	15,349	18,616	
		281.24	1.07	71.36	69.31	4.19	285.65	0.83	(918)	(929)	
		272.21	**1.11**	**69.07**	**67.08**	**3.14**	**276.48**	**0.62**	**(17,186)**	**(20,473)**	**greatest decrease**

* Change of EUR/HUF average exchange rates.

Based on the yearly average currency rate sensitivity analysis of 2017 the combination of weak Hungarian Forint – (319.3 EUR/HUF 282.6 USD/HUF, 75.0 PLN/HUF, 69.9 RON/HUF, 5.2 RUB/HUF, 306.2 CHF/HUF, 1.00 KZT/HUF and 41.5 CNY/HUF) against other currencies - would have caused the largest growth in the amount of HUF 8,577 million on the Company's operating profit and HUF 8,211 million on the Company's profit before income tax for the year.
The greatest decrease HUF 8,577 million on operating and HUF 8,211 million on profit before income tax for the year would have been caused by the combination of exchange rates of 299.3 EUR/HUF, 264.9 USD/HUF, 70.3 PLN/HUF, 65.5 RON/HUF, 4.2 RUB/HUF, 250.5 CHF/HUF, 0.8 KZT/HUF and 38.9 CNY/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. The effect of the risk arising from currency fluctuation is measured by different scenarios regarding the exchange rates similarly to the currency sensitivity of actual cost. Certain foreign currencies recently showed higher volatility (RUB, CHF, 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:

2017		**Exchange rates**								**Effect on net financial position**	
*	EUR/HUF	USD/HUF	EUR/USD	CHF/HUF	RUB/HUF	RON/HUF	PLN/HUF	KZT/HUF	CNY/HUF	HUFm	
103.23%	320.20										
		267.20	1.20	291.80	4.90	68.70	76.80	0.90	43.70	12,666	**best case scenario**
		258.82	1.24	265.24	4.49	66.57	74.35	0.78	39.77	994	
		250.50	1.28	238.70	4.00	64.40	71.90	0.70	35.80	(11,480)	
100.00%	310.14										
		267.20	1.16	291.80	4.90	68.70	76.80	0.90	43.70	11,672	
		258.82	1.20	265.24	4.49	66.57	74.35	0.78	39.77	0	
		250.50	1.24	238.70	4.00	64.40	71.90	0.70	35.80	(12,474)	
96.77%	300.10										
		267.20	1.12	291.80	4.90	68.70	76.80	0.90	43.70	10,680	
		258.82	1.16	265.24	4.49	66.57	74.35	0.78	39.77	(992)	
		250.50	1.20	238.70	4.00	64.40	71.90	0.70	35.80	(13,466)	**worst case scenario**

* Change of EUR/HUF average exchange rates.

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**	**20,856**	**best case scenario**
		293.69	1.09	70.29	68.53	4.78	289.41	0.88	954	
		284.20	1.13	68.00	66.30	3.60	280.10	0.70	(18,163)	
100.00%	311.02									
		303.20	1.03	72.60	70.70	6.00	298.80	1.10	19,901	
		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	(19,117)	
96.79%	**301.00**									
		303.20	0.99	72.60	70.70	6.00	298.80	1.10	18,943	
		293.69	1.02	70.29	68.53	4.78	289.41	0.88	(958)	
		284.20	**1.06**	**68.00**	**66.30**	**3.60**	**280.10**	**0.70**	**(20,075)**	**worst case scenario**

* Change of EUR/HUF average exchange rates.

The worst case scenario is when EUR, USD, PLN, RON, RUB, CHF, KZT and CNY weaken against HUF. In this case the financial result would decrease by HUF 13,466 million.
The best case scenario is when EUR, USD, PLN, RON, RUB, CHF, KZT and CNY would strengthen against HUF. In this case the financial result would increase by HUF 12,666 million.

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

2017	Currencies							
							(all amounts in millions)	
	EUR	USD	CHF	RUB	RON	PLN	KZT	CNY
Trade receivables	95.8	69.4	1.1	8,724.4	41.7	40.7	6,204.3	430.4
Trade payables	(72.7)	(8.4)	(1.6)	(38.5)	(3.3)	(18.6)	(316.7)	(1.3)
Loans receivable	54.0	26.4	107.8	3,965.0	-	-	-	-
Bank deposits	43.2	8.4	0.8	223.7	34.5	4.7	136.7	22.3
Borrowings	(21.5)	-	-	-	-	-	-	-
Total	**98.8**	**95.8**	**108.1**	**12,874.6**	**72.9**	**26.8**	**6,024.3**	**451.4**

2016	Currencies						
						(all amounts in millions)	
	EUR	USD	CHF	RUB	RON	PLN	KZT
Trade receivables	117.5	56.9	1.1	8,505.7	36.3	33.4	6,677.9
Trade payables	(39.1)	(16.7)	(2.8)	(10.3)	(3.3)	(19.2)	-
Loans receivable	88.7	32.3	115.1	3,965.0	6.2	-	-
Bank deposits	70.9	59.1	0.6	640.6	8.9	11.5	1.0
Borrowings	(116.7)	-	-	-	-	-	-
Deferred purchase price	(25.7)	(3.0)	-	-	-	-	-
Total	**95.6**	**128.6**	**114.0**	**13,101.0**	**48.1**	**25.7**	**6,678.9**

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 Company 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 Company 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 Company.

The Company does business with key customers in many countries. These customers are major import distributors in their countries and management of the Company maintains close contact with them on an ongoing basis. In 2017 the Company does not recognise customer exceeding 10% of net sales. Provisions for doubtful are estimated by the Company'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	14,956	14,837	119	-
EU	345	-	345	-
USA	-	-	-	-
China	-	-	-	-
Latin America	-	-	-	-
Other	526	237	124	165
Total	**15,827**	**15,074**	**588**	**165**

Regions	Trade receivables secured as at 31 December 2016	Type of security		
		Credit insnrance	Bank guarantee	L/C
	HUFm	HUFm	HUFm	HUFm
CIS	19,700	19,580	120	-
EU	400	-	400	-
USA	-	-	-	-
China	-	-	-	-
Latin America	-	-	-	-
Other	332	32	124	176
Total	**20,432**	**19,612**	**644**	**176**

Regions	Trade receivables secured as at 31 December 2016	Type of security		
		Credit insurance	Bank guarantee	L/C
	HUFm	HUFm	HUFm	HUFm
CIS	14,086	14,086	-	-
EU	183	-	183	-
USA	-	-	-	-
China	-	-	-	-
Latin America	-	-	-	-
Other	366	129	115	122
Total	**14,635**	**14,215**	**298**	**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 more significant banks as of 31 December 2017 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"):

	31.12.2017	31.12.2016	01.01.2016
BNP Paribas Hungary Branch (ultimate parent – BNP Paribas SA)	A	A	A+
Erste Bank Hungary Zrt.*	BBB	BBB	BBB-
K&H Bank Zrt.*	BBB	BBB	BBB-
OTP Bank Nyrt.	BBB-	BB+	BB
Unicredit Bank Zrt (ultimate parent - Unicredit SpA)	BBB	BBB-	BBB-
Raiffeisen Bank Zrt. (ultimate parent – Raiffeisen Bank Intl AG)	BBB+	BBB	BBB
CIB Bank Zrt.	BBB-	BBB-	BBB-
Banca Commerciala Romana S.A.*	BBB+	BBB	BBB

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

The Company holds more than 95% of its cash and cash equivalents as of 31 December 2017 in the financial institutions presented above. As of 31 December 2016 the Company holds 98% of its cash and cash equivalents at these financial institutions. The other bank relations of the Company are widely dispersed, therefore the credit exposure with one financial institution is limited.
The Company 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 prepared by the Company and these forecasts are updated on a monthly basis based on actual data. Finance department monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times so that the Company does not breach covenants. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance. Company treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities.
The liquidity risk of the Company was limited in 2017, since the total figure of the Cash and cash equivalents and the other Current assets are higher than the total liabilities.
The banks of the Company issued the guarantees detailed below, enhancing the liquidity in a way that the Company did not have to provide for these cash amounts:

	31. Dec. 2017 HUFm	31. Dec. 2016 HUFm	1. Jan. 2016 HUFm
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	194	109	107
Other, individually not significant bank guarantees	106	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 categorizing 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 Balance Sheet at the end of each reporting period.
The levels in the fair value hierarchy into which the recurring fair value measurements are categorized are as follows:

HUFm	Notes	31. Dec. 2017				31. Dec. 2016			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets									
Other financial assets	15	15,136	-	-	**15,136**	13,237	-	-	**13,237**
Investments in securities	22	-	-	-	-	-	-	-	-
Foreign exchange forward contracts	21	-	26	-	**26**	-	-	-	-
Convertible loan option	15	-	-	45	**45**	-	-	79	**79**
"Exchangeable bonds" option	15	-	-	2,346	**2,346**	-	-	1,888	**1,888**
Total assets recurring fair value measurements		**15,136**	**26**	**2,392**	**17,553**	**13,237**	**-**	**1,967**	**15,204**
Financial liabilities									
Other non-current liabilities	27.1	-	-	-	-	-	-	-	-
Other payables	27.1					-	-	8,446	**8,446**
Total liabilities recurring fair value measurements		-	-	-	-	-	-	**8,446**	**8,446**

HUFm	Notes	1 Jan. 2016			
		Level 1	Level 2	Level 3	Total
Financial assets					
Other financial assets	15	6,949	-	-	**6,949**
Investments in securities	22	-	2,428	-	**2,428**
Foreign exchange forward contracts	21	-	4	-	**4**
Convertible loan option	15	-	-	148	**148**
"Exchangeable bonds" option	15	-	-	-	**-**
Total assets recurring fair value measurements		**6,949**	**2,432**	**148**	**9,529**
Financial liabilities					
Other non-current liabilities	27.1	-	-	5,694	**5,694**
Other payables	27.1	-	-	6,370	**6,370**
Total liabilities recurring fair value measurements		**-**	**-**	**12,064**	**12,064**

There were no changes in the valuation method neither for level 1 and level 2 nor for level 3 recurring fair value measurements during the year ended 31 December 2017 and 2016.
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 2017 and 2016 (Note 3.1):

	Fair value at 31 Dec. 2017 HUFm	Valuation technique	Unobservable inputs	Range of inputs (weighted average)	Sensitivity of fair value measurement
Assets at fair value					
Convertible loan option EVESTRA	45	Option valuation model	• Price of the stock	3.74 USD/share	The change of the stock price multiples the fair value
			• Strike price of the option	4.5 USD/share	The higher the strike price the lower the fair value
			• Time in years	2.38 year	The longer the time in years the higher the fair value
			• The annualized risk free rate	1.94 %	The higher the annualized 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	2,346	Option valuation model	• Price of the stock	6,780 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	1.18 year	The longer the time in years the higher the fair value
			• Standard deviation of the stock's returns (volatility)	18.28 %	The higher the standard deviation the higher the fair value
Total recurring fair value measurements at Level 3	**2,391**				

	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 annualized risk free rate	0.78 %	The higher the annualized 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 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 1 January 2016 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 annualized risk free rate	1.02 %	The higher the annualized 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-flow (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-flow (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 neither as of the opening balance sheet nor during the year ended 31 December 2017 and 2016.

The components of the change of the deferred-contingent purchase price are presented in the table below.

	GRMed HUFm	GR Mexico HUFm
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**
Fair value at 1 January 2017	**7,565**	**881**
Effect of paid consideration	(7,556)	(489)
Effect of fx*	(9)	(25)
Effect of change in estimated cash-flow**	-	(367)
Fair value at 31 December 2017	**-**	**-**

* 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).

(b) Non-recurring fair value measurements

The Company 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 Company'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 Intangible assets

12.1 Property, plant and equipment

	Land and buildings	Plant and equipment	Construction in progress	Total
	HUFm	HUFm	HUFm	HUFm
Gross value				
at 1 January 2016	**115,015**	**198,595**	**18,592**	**332,202**
Capitalization	9,943	17,896	(27,839)	**0**
Transfers and capital expenditure	-	-	26,572	**26,572**
Other Increase/(Disposals)	(42)	(4,345)	11	**(4,376)**
at 31 December 2016	**124,916**	**212,146**	**17,336**	**354,398**
Accumulated depreciation				
at 1 January 2016	**(31,042)**	**(161,801)**	**-**	**(192,843)**
Current year depreciation	(3,491)	(12,479)	-	**(15,970)**
Other Increase/(Disposals)	19	4,037	-	**4,056**
at 31 December 2016	**(34,514)**	**(170,243)**	**-**	**(204,757)**
Net book value				
at 1 January 2016	**83,973**	**36,794**	**18,592**	**139,359**
at 31 December 2016	**90,402**	**41,903**	**17,336**	**149,641**

	Land and buildings	Plant and equipment	Construction in progress	Total
	HUFm	HUFm	HUFm	HUFm
Gross value				
at 31 December 2016	**124,916**	**212,146**	**17,336**	**354,398**
Capitalization	5,127	17,123	(22,250)	**0**
Transfers and capital expenditure			24,918	**24,918**
Other Increase/(Disposals)	(376)	(3,676)	(31)	**(4,083)**
at 31 December 2017	**129,667**	**225,593**	**19,973**	**375,233**
Accumulated depreciation				
at 31 December 2016	**(34,514)**	**(170,243)**		**(204,757)**
Current year depreciation	(3,776)	(13,361)		**(17,137)**
Other Increase/(Disposals)	172	3,564		**3,736**
at 31 December 2017	**(38,118)**	**(180,040)**	**0**	**(218,158)**
Net book value				
at 31 December 2016	**90,402**	**41,903**	**17,336**	**149,641**
at 31 December 2017	**91,549**	**45,553**	**19,973**	**157,075**

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.

12.2 Intangible assets

	Rights	Intellectual property	Research and development	Total
	HUFm	HUFm	HUFm	HUFm
Gross value				
at 1 January 2016	**112,501**	**2,081**	**804**	**115,386**
Capitalization	5,678	-	-	**5,678**
Scrapping	(3,459)	(42)	-	**(3,501)**
Other Increase/(Disposals)	(2)	-	-	**(2)**
at 31 December 2016	**114,718**	**2,039**	**804**	**117,561**
Accumulated depreciation				
at 1 January 2016	**(42,855)**	**(1,132)**	**(550)**	**(44,537)**
Current year depreciation	(7,685)	(160)	(85)	**(7,930)**
Impairment and reversal of impairment	(214)	-	-	**(214)**
Scrapping	244	-	-	**244**
Other Increase/(Disposals)	5	-	-	**5**
at 31 December 2016	**(50,505)**	**(1,292)**	**(635)**	**(52,432)**
Net book value				
at 1 January 2016	**69,646**	**949**	**254**	**70,849**
at 31 December 2016	**64,213**	**747**	**169**	**65,129**

	Rights	Intellectual property	Research and development	Total
	HUFm	HUFm	HUFm	HUFm
Gross value				
at 31 December 2016	**114,718**	**2,039**	**804**	**117,561**
Capitalization	29,475	-	-	29,475
Scrapping	(46)	-	-	(46)
Other Increase/(Disposals)	111	(106)	-	5
at 31 December 2017	144,258	1,933	804	146,995
Accumulated depreciation				
at 31 December 2016	(50,505)	(1,292)	(635)	(52,432)
Current year depreciation	(7,413)	(159)	(84)	(7,656)
Impairment and reversal of impairment	(8,594)	-	-	(8,594)
Scrapping	46	-	-	46
Other Increase/(Disposals)	(64)	-	-	(64)
at 31 December 2017	**(66,530)**	**(1,451)**	**(719)**	**(68,700)**
Net book value				
at 31 December 2016	**64,213**	**747**	**169**	**65,129**
at 31 December 2017	**77,728**	**482**	**85**	**78,295**

All intangible assets are free from liens and charges. The intangible assets of the Company, except for R&D, are not internally generated.

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

Book value	31 December 2017 HUFm	31 December 2016 HUFm	1 January 2016 HUFm
Esmya	1,056	987	1,073
Esmya LatAm	429	9,221	9,371
Esmya North America	20,431	-	-
Grünenthal	34,766	39,089	43,515
Lisvy	-	-	3,407
Lenzetto	844	893	915
Reacquired right	-	180	898
Other, individually non-material rights	20,769	13,843	10,467
Total	**78,295**	**64,213**	**69,646**

Preglem S.A., a 100% subsidiary of Richter, developed the pharmaceutical product ESMYA®, to which it received the market authorization in February 2012 in the European Union, in the CIS region and China. The Company entered most of these markets between and the amortization of these rights started. In the separate financial statements of Richter the Esmya line contains the amortized value of the licences owned by the Company. The price paid at the acquisition of PregLem is presented as investment in subsidiaries, while the intangibles contains only the licences purchased by Richter after the acquisition.

Rights – Esmya North America intangible asset
Richter has acquired from Preglem S.A. in 2017 the right for Esmya North America cash flows and became entitled this way indirectly to the cash flows that Allergan (Preglem's license partner) is obliged to pay in connection with its sales in the North American markets. As a result of the transaction, Esmya North America intangible asset has been recognized in Richter's accounts. The Company conducted an impairment test of this asset as of the 2017 balance sheet date for the first time.
The recoverable amount was determined by the fair value less cost of disposal applying the Multi-Period Excess Earnings Method. Key assumptions to the test are disclosed in note 13.

As a result of the impairment test it was found that there was no need to account for an impairment in regard to the Esmya North America intangible asset. The recoverable amount is 16% higher than the book value (HUF 20,431 million).
The discount rates (post tax: 8.1%) applied reflect current market assessments of the time value of money and the risks specific to the intangible asset for which future cash flow estimates have not been adjusted.
A rise in post-tax discount rate to 12% or 14% less sales of Allergan would remove the remaining headroom.

Rights – Esmya LatAm intangible asset
In 2014 Richter purchased the right to utilization of ulipristal-acetate (ESMYA®'s active ingredient) for the Latin American region from HRA Pharma, the net book value prior impairmeut of this right is HUF 9,023 million as of 31 December 2017 and HUF 9,221 million as of 31 December 2016.
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.
Among the rights, the Mexican asset is significant (with net value prior impairment of HUF 3,643 million on 31 December 2017, and HUF 3,918 million on 31 December 2016), while among the assets not yet in use the Brazilian is the only significant with HUF 3,494 million, all values are prior to impairment. The Company tested impairment for the Mexican and Brazilian intangible assets by taking into consideration the potential impact of PRAC's temporary measures on Esmya.

The recoverable amount of Esmya Brazilian and Mexican intangibles were determined by the fair value less cost of disposal applying the Multi-Period Excess Earnings Method. The calculations were based on long term projections (corresponding with useful life of these assets and reviewed taking into account the expected negative impact of PRAC measures) adopted by the management. Key assumptions are:

In Mexico, after a favourable decision of PRAC in May 2018, sales are expected to consolidate at a level lower than forecasted earlier.

Brazilian approval and subsequent launch is about 2 years ahead. This country has never used ESMYA® before, and the expectation is that PRAC measures will create a less receptive environment for a launch than earlier expected. Therefore the Company thinks that the market opportunity will decrease more significantly than in Mexico.

Based on the outcomes of the impairment models the Company found that writing off the carrying value of these assets is reasonable. Also, the Company decided on the full impairment of the Venezuelan asset (has not been in use yet, similarly to the Brazilian asset), taking into consideration not only the impacts of PRAC measures but the general economic situation of the country as well.

Total amount of impairment losses regarding Esmya LatAm assets according to the above decisions amount to HUF 7,992 million.

The discount rate (Esmya Brazil post tax: 10.5%, in 2016 10.1%; Esmya Mexico post tax: 8.0%) applied reflects current market assessments of the time value of money and the risks specific to the assets for which future cash flow estimates have not been adjusted.

The management did not consider the remaining Esmya LatAm intangible assets neither individually nor in aggregate to be significant and therefore did not perform a detailed impairment testing on the balance of HUF 429 million.

Rights – Grünenthal
The product rights acquired from Grünenthal in 2010 containing manufacturing rights (amounted to EUR 600 thousand) and market authorization (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 34,766 million as of 31 December 2017 and HUF 39,089 million as of 31 December 2016.

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 in 2016.

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 844 million as of 31 December 2017 and HUF 893 million as of 31 December 2016.

Rights – Reacquired right
The reacquired right arising from the business combination in China in 2013 amortized over the estimated useful life of 39 months starting from 31 December 2013. Net book value of the reacquired right was HUF 213 million as of 31 December 2016, which was fully written-off in 2017.

The average remaining useful life of the intellectual properties does not exceed 9 years.

13. Subsidiaries

Details of the Company's direct and indirect subsidiaries are as follows:

Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	
AO Gedeon Richter - RUS	Russia	100.00	100.00	100.00	100.00	Pharmaceutical manufacturing
Gedeon Richter Romania S.A.	Romania	99.92	99.92	99.92	99.92	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	99.92	99.92	99.92	Asset management
Gedeon Richter Farmacia S.A.	Romania	99.92	99.92	99.92	99.92	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	99.92	99.92	99.92	Pharmaceutical wholesale
Gedeon Richter Ukrfarm TOV	Ukraine	100.00	100.00	100.00	100.00	Pharmaceutical retail
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

all amounts in HUFm

Name	Place of incor-poration (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	
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. Richpangalpharma 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
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	100.00	91.00	Asset management
Rxmidas Pharmaceuticals Company Ltd.	China	100.00	100.00	100.00	91.00	Marketing services
Gedeon Richter Pharmaceuticals (China) Co. Ltd.	China	100.00	100.00	100.00	91.00	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	99.99	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
Gedeon Richter Rxmidas Joint Venture Co. Ltd.	Hong-Kong	100.00	100.00	100.00	100.00	Marketing services
Grmidas Medical Service (China) Co.Ltd.	China	100.00	100.00	100.00	100.00	Pharmaceutical trading
Finox Holding AG	Switzerland	100.00	100.00	100.00	100.00	Asset management
Finox AG	Switzerland	100.00	100.00	100.00	100.00	Biotechnological manufacturing

Name	Place of incor-poration (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	
Finox Biotech AG	Lichtenstein	100.00	100.00	100.00	100.00	Trading of biotech products
Finox Biotech Germany GmbH	Germany	100.00	100.00	100.00	100.00	Marketing services
Finox Biotech Nordics AB.	Sweden	100.00	100.00	100.00	100.00	Marketing services
Finox Biotech Iberia S.L.	Spain	100.00	100.00	100.00	100.00	Marketing services
Finox Biotech France SARL	France	100.00	100.00	100.00	100.00	Marketing services
Finox Biotech Italy S.r.l.	Italy	100.00	100.00	100.00	100.00	Marketing services
Finox Biotech UK and Ireland Ltd.	UK	100.00	100.00	100.00	100.00	Marketing services
Finox Biotech Benelux BV	Belgium	100.00	100.00	100.00	100.00	Marketing services
Finox Biotech Eastern Europe *	Poland	-	100.00	-	100.00	Marketing services
Finox Biotech Australia PTY Ltd.	Australia	100.00	100.00	100.00	100.00	Trading of biotech products

* The Company wound up in 2017.

*Changes in 2016**

Name	Place of incor-poration (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		31 Dec. 2016	1 Jan. 2016	31 Dec. 2016	1 Jan. 2016	
Gedeon Richter Romania S.A.	Romania	99.92	99.90	99.92	99.90	Pharmaceutical manufacturing
Armedica Trading S.R.L.	Romania	99.92	99.90	99.92	99.90	Asset management
Pharmafarm S.A.	Romania	99.92	99.90	99.92	99.90	Pharmaceutical wholesale
Pesti Sas Patika Bt.**	Hungary	-	74.00	-	74.00	Pharmaceutical retail
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

* Only those companies are shown in the table, whose share of ownership and/or voting rights have changed in 2016.
** On 14th December 2016 as a result of statutory changes/legal actions, the Company sold a portion of its ownership in Pesti Sas Patika Bt., resulting a decrease in ownership to 49%.

New investments

Name	Date of establish-ment/ acquisition	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
			31. Dec. 2017	31. Dec. 2016	31. Dec. 2017	31 Dec. 2016	
Gedeon Richter Ireland Ltd.	01.2017	Ireland	100.00	-	100.00	-	Marketing services

Change in the investment in subsidiaries are presented in details in the table below:

Name	31. Dec. 2017	Event for the change in 2017		1. Jan. 2017
	HUFm	HUFm	Reason	HUFm
AO Gedeon Richter - RUS	10,954	-		10,954
Gedeon Richter Romania S. A.	19,106	3,397	Increase in capital	15,709
Gedeon Richter Polska Sp. z o.o.	10,217	-		10,217
Richter-Helm BioLogics GmbH & Co. KG	3,308	-		3,308
PregLem S.A.	51,327	(51,526)	Impairment	102,853
Grmed Company Ltd.	28,960	6,286	Increase in capital, merge	22,674
Rxmidas Pharmaceuticals Company Ltd.	-	(5,268)	Merge	5,268
Gedeon Richter Mexico, S.A.P.I. de C.V	3,661	1,324	Increase in capital	2,337
Finox Holding AG	28,014	-		28,014
Other subsidiaries	9,240	(250)	Impairment and other non significant changes	9,490
Total	**164,787**	**(46,037)**		**210,824**

Name	31. Dec. 2016	Event for the change in 2016		1. Jan. 2016
	HUFm	HUFm	Reason	HUFm
AO Gedeon Richter - RUS	10,954	-		10,954
Gedeon Richter Romania S. A.	15,709	5,405	Increase in capital	10,304
Gedeon Richter Polska Sp. z o.o.	10,217	-		10,217
Richter-Helm BioLogics GmbH & Co. KG	3,308	-		3,308
PregLem S.A.	102,853	-		102,853
Grmed Company Ltd.	22,674	-		22,674
Rxmidas Pharmaceuticals Company Ltd.	5,268	5,268	Acquisition	-
Gedeon Richter Mexico, S.A.P.I. de C.V	2,337	(281)	Impairment	2,618
Finox Holding AG	28,014	28,014	Acquisition and increase in capital	-
Other subsidiaries	9,490	(1,008)	Impairment and other non significant changes	10,498
Total	**210,824**	**37,398**		**173,426**

The Company assesses every year end whether any impairment indicator has been identified in relation to the investment in subsidiaries, joint ventures and associates and if needed an impairment is accounted for in accordance with IAS 36. The Company considers that in case the carrying value of the investment exceeds the proportionate value of the equity of the investment to be an impairment indicator. Impairment is accounted for in case the carrying amount of the investment exceeds the recoverable amount. In subsequent years, if the reasons for impairment previously recognized are no longer or are only partially in place, the impairment should be reversed to the recoverable amount, reversal of an impairment loss shall not exceed the carrying amount that would have been determined if no impairment loss been recognised for the asset in prior years.
The following details the investments considered to be most significant by management.

PregLem S.A.
PregLem was acquired on 6 October 2010. This acquisition supports and provides a gynaecological portfolio and development of the Company's presence in Western Europe.
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 years, the Company conducted an impairment test of its investment in Preglem S.A. as of the 2017 balance sheet date by taking into consideration the potential impact of PRAC's temporary measures on Esmya (see note 3.1 Key sources of estimation uncertainty)

EU forecasts

In the context of the temporary measures of PRAC and in connection with the impairment test as of 31 December 2017, the Company reviewed and modified the ESMYA® EU sales forecast, taking into account the expected negative impact on business. The modifications were made on the basis of the following assumptions:

2018
It is Richter's assumption, that the final outcome of the PRAC evaluation will be published by the end of May 2018. Richter also assumes, that after the conclusion of the evaluation, the involvement of new patients will be possible again. In the Sales projections Richter assumes a restricted label for close ESMYA® treatment followed up by hepatic tests (before, during and after every cycle).

Sales:
In EU markets from 19 February 2018 new patients are not going to be involved, only those patients, who already use ESMYA® will continue using the product. Most of this use will be covered by products, which are already in the distribution channel at the wholesalers and in the pharmacies, therefore sales will drop steeply until May 2018.
In the revised 2018 forecast the Company considered the average level of monthly sales in the last 3-4 months of 2017 country by country as 100% baseline. After the publication of the PRAC decision in May we expect a gradual recuperation of sales up to a level of ca. 42% of the baseline until December 2018.

Costs:
Some possible cost savings has been identified in regard to 2018. Staff reductions are not planned. The Company believes that it needs all its force for a successful relaunch after May 2018.

2019-2020
Sales:
Continuous sales increase assumed from June 2018 onwards, after the PRAC recommendation and CHMP (EMA's Committee for Medical Products for Human Use) decision. In 2019 the Company expects a Year on Year increase of 67% compared to 2018 and further 30% increase for 2020 compared to 2019. Year of 2020 will be the peak year with EUR 73 million turnover that is 9% less that in the best ESMYA® year of 2017.
As data exclusivity expires in May 2020, a continual launch of generics is expected in second half of 2020 (including the launch of own ESMYA® generic as well to offset the losses of ESMYA® brand itself).

Costs:
2019 costs are expected at a level comparable to 2017 actual costs. Some activities that had been discontinued in 2018 due to stop in promotion will need to be revamped.
2020 costs are planned on 60% level of 2019. Brand building ends and the focus moves to the generic brand launch.

2021-2035
The focus will be on the protection of sales (on some markets) and also on own generic promotion (on the others). General assumption is to have 3-5 generics per each market.

Sales:
From 2021 onwards decrease in sales expected as follows: 17% in 2021 due to possible delay of some generics, 20% both in 2022 and 2023, 15% in 2024 and 10% from 2025 to 2035 each year.

Costs:
In 2021 spending planned to be cut to 50% of previous year costs. Additional -40% and -30% cut is planned in 2022 and 2023. Cutbacks will continue between 2024 and 2027 by -20% every year. In years between 2028 and 2035 a marginal cutback -10% planned every year to maintain optimal cost vs. turnover ratio.

North American forecasts
North American cash flows include the expected license fee payments from Preglem NA Partner, Allergan in connection with its sales on the USA and Canadian markets (please find further details in note 12 „Esmya North America intangible asset").
The registration of ESMYA® is ongoing in the USA. The Company expects FDA to form its independent opinion on the matter, but it is not possible to foresee the FDA's decision. No such information came into the Company's attention based on which significant adjustment should have been made to the USA sales forecast and which could materially impact the USA sales potential of ESMYA®.
There is only one major assumption that has changed in contrast to the previous year expectations: after a reassessment of the patent portfolio, the first year of generic entry is awaited now sooner, in 2024. Generic competition makes sales likely to drop significantly. Sales are expected to reach their minimum over 4 years (CAGR: -55%).

Result of Preglem S.A. impairment test

Since the recoverable amount determined based on the assumptions above also requires contribution of other assets (e.g. machineries) of the parent company, the carrying amount of these assets was also considered when the Company compared the value of the investment to the recoverable amount.
Since Richter receives the cash flows of Esmya North America intangible asset through Preglem S.A., therefore the asset and its returns were consequently considered at the determination of the carrying value and recoverable amount.
The recoverable amount was determined by means of the income-based method with a fair value less cost of disposal approach.
As a consequence of the modification of Esmya EU sales forecast the recoverable amount is 40% below the tested book value. This resulted in an impairment amounting to HUF 51,526 million. The remaining book value of the investment amounts to HUF 51,327 million.
The discount rate (EU-based cash flows post tax: 8.0%, in 2016 7.3%; NA-based cash flows 8.1%, in 2016 7.3% as well) 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.
+/- 1% point change in WACC would result in HUF 3,391 million decrease or HUF 3,701 million increase in the recoverable amount. Adjusting the forecasted sales volume by +/- 10% would result in around HUF 7,530 million higher (in case of sales volume increase) or in around HUF 7,502 million lower (in case of sales volume decrease) recoverable amount.

Finox Holding

The Company announced on 06.30.2016., that it acquired Finox Holding, a Swiss-based biotech company and its product, BEMFOLA®, which is a recombinant-human Follicle Stimulating Hormone (r-hFSH) developed as a biosimilar to GONAL-f®, an established reference product. BEMFOLA® was the first biosimilar r-hFSH launched in Europe. Richter obtained global rights for BEMFOLA®, excluding the sales and distribution rights in the USA.
The acquisition represented a unique opportunity for Richter to widen its core Women's Healthcare franchise and further emphasized its commitment to biosimilar business. Also it allowed Richter to establish its presence in the female fertility therapeutic area – a significantly growing market.

Total consideration paid in cash contains the value of the ownership and a long term loan given by previous owner.
Since the book value of Richter's investment in Finox Holding considerably exceeds the equity of the subsidiary, therefore the Company examined the fair value less cost of disposal of intangible asset Finox Bemfola calculated by Multi-Period Excess Earnings Method. The Company adjusted the carrying value of the equity of Finox Holding with the fair value of Bemfola determined using Multi-Period Excess Earnings Method based on fair value less cost of disposal, since this intangible has a significant value, but not recognized is the accounts of Finox Holding. The carrying value of the investment was compared to the adjusted equity (representing the recoverable amount).

The calculations were based on long term projections (corresponding with useful life of these assets) adopted by the management. Key assumptions are:

Technology barriers in the r-hFSH market are strong, this is why the Company does not expect significant generic competition. Any possible erosion will be compensated by new launches (in connection with further geographical expansion) on the other hand.

As a consequence cash flows show upward trend from 2018 to 2022 in connection with the increase in sales (CAGR 18.5%) and remain quite stable from 2022 onwards as the sales revenue peaks.

The recoverable amount substantially (more than two times) higher than the investment's book value.

The discount rate (post tax: 8.1%) applied reflects current market assessments of the time value of money and the risks specific to the asset 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.

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.

GRMed Company Ltd.

The Company has restructured its operation in China and merged the activity of Gedeon Richter Rxmidas Joint Venture Co. Ltd. to GRMed Company Ltd. As a result of reorganization of the reporting structure as well as, both of the investments presented before the transaction is allocated to the merged GRMed Company Ltd.
GRMed Company Ltd. was acquired in 2013. The transaction supported the Company's stronger presence in China through acquiring an indirect holding in the Chinese trading company RxMidas.

The investment in subsidiary was tested for impairment as of the balance sheet date of 31 December 2017 and 2016 and 1 January 2016 and it was found that there is no need to account for impairment in 2017 similar to the previous year. Taking into consideration the reorganization of the business and the reporting structure, the book value of Richter investment as of 31 December 2017 (after the merger) were tested for impairment in one model on group of CGUs level by means of the income-based method with a fair value less cost of disposal approach. It was found that there was no need to account for impairment.

The calculations were based on the long term turnover projection and cost 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 (2018-2027) due to the average annual 6.9% growth in turnover.

Since the recoverable amount determined based on the assumptions above also requires contribution of other assets (e.g. machineries) of the parent company, the carrying amount of these assets was also considered when the Company compared the value of the investment to the recoverable amount.

The present value of the 2018-2027 cash flows alone is substantially (1.4 times) higher than the carrying amount. By a conservative estimate of residual value (reckoning with 0% growth), return is 2.4 times higher than the tested amount. The discount rate (post tax: 12.8% in 2017 and 10.1% in 2016) 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 the investment.

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

The investment in subsidiary was tested for impairment as of the balance sheet date of 31 December 2016 and it was found that there is need to account for impairment (HUF 1,656 million).

During 2016

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., Commercial 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.

Based on its two-year market experience the Company 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 investment 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 on the investment in subsidiary. Even a 30% rise in turnover would not have led to different result. Assets other than the investment in subsidiary 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.

During 2017 there were no significant changes in circumstances which would have resulted in any reversal of previously recognised impairment.

Gedeon Richter Mexico, S.A.P.I. de C.V.
DNA Pharmaceuticals S.A. of Mexico was acquired in 2014. The investment value was tested by the Company for impairment as of 31 December 2017 similarly to prior year.

The return has been determined for a cash generating unit (CGU) by means of the income-based method with a fair value less cost of disposal approach. The calculations were based on the long term turnover projection adopted by the management (2018-2027), 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.

The sales revenue forecast of the traditional products tested within the CGU has not been changed significantly in comparison to the previous period. The biggest advance regarding the Mexican operations is the inclusion of several new license-in products that are expected to contribute to a better "economies of scale". As a consequence the CGU need to bear decreased level of operating expenses.

Since the recoverable amount determined based on the assumptions above also requires contribution of other assets (e.g. machineries) of the parent company, the carrying amount of these assets was also considered when the Company compared the value of the investment to the recoverable amount.

The recoverable amount determined based on the assumptions above exceeded the carrying value by 22.6%.

The present value of the 2018-2027 cash flows represents the 51% of total recoverable amount.
Cash flows are quite stable over the whole forecasting period. Residual value was calculated in line with similar expectations.

The discount rate (post tax: 8.0%; in 2016 7.9%) applied reflects current market assessments of the time value of money and the risks specific to the assets for which future cash flow estimates have not been adjusted.

A rise in post-tax discount rate to 9.3% would remove the remaining headroom.

No impairment was accounted for the investment in **Medimpex UK**, since the Company owns a property which has a fair value significantly above the carrying amount, which compensates the shortfall of the proportionate share of the equity below the carrying amount of the investment.

In the case of **Nedermed**, the book value of the investment is higher than the equity of the subsidiary, hence it is subject to impairment.

14. Investments in associates and joint ventures

14.1 Investments in joint ventures

Details of the Company's direct and indirect joint ventures are as follows:

Name	Place of establishment/ acquisition	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		31. Dec 2017	31. Dec 2016	31. Dec 2017	31. Dec 2016	
Medimpex Irodaház Ingatlankezelő Kft.	Hungary	50.00	50.00	50.00	50.00	Renting real estate
Richter Helm BioTec Management GmbH	Germany	50.00	50.00	50.00	50.00	Portfolio management
Richter Helm BioTec GmbH&Co.KG.	Germany	50.00	50.00	50.00	50.00	Trading of biotech products

The book value of joint ventures at 31 December 2016 and 2017 HUF 620 million.

14.2 Investments in associates

Details of the Company's direct and indirect associates are as follows:

Name	Place of establishment/ acquisition	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		31. Dec 2017	31. Dec 2016	31. Dec 2017	31. Dec 2016	
Hungaropharma Zrt.	Hungary	30.85	30.85	30.85	30.85	Pharmaceutical trading
Cerorin Kft**.	Hungary	-	24.00	-	24.00	Pharmaceutical trading
Pharmapolis Gyógyszeripari Tud. Park Kft.	Hungary	24.00	24.00	24.00	24.00	Manufacturing and research
Pharmatom Kft.	Hungary	24.00	24.00	24.00	24.00	Biotechnological manufacturing
Top Medicina Bt.	Hungary	20.00	20.00	20.00	20.00	Pharmaceutical retail
VITA - Richter S.P.O.O.O.	Azerbaijan	49.00	49.00	49.00	49.00	Pharmaceutical retail
Pesti Sas Patika Bt.*	Hungary	49.00	49.00	49.00	49.00	Pharmaceutical retail

* On 14th December 2016 as a result of statutory changes/legal actions, the Company sold a portion of its ownership in Pesti Sas Patika Bt., resulting a decrease in ownership to 49%. In the case of associates, this was the only change in terms of ownership ratio and voting ratio in 2016.
** Following the decision by the owner, the Cerorin Ltd. has been liquidated by dissolution.

New investments in 2017

Name	Date of establishment / acquisition	Place of establishment/ acquisition	Proportion of ownership %		Proportion of voting rights held %		Principal activity
			31. Dec 2017	31. Dec 2016	31. Dec 2017	31. Dec 2016	
Evestra Inc.	12.2017	USA	17.26	-	17.26	-	Biotechnology research and development
Prima Temp Inc.	09.2017.	USA	26.76	-	26.76	-	Pharmaceutical research and development

Name	31. Dec. 2017 HUFm	Event for the change in 2017 HUFm	Reason	1. Jan. 2017 HUFm
Hungaropharma Zrt.	1,191	-		1,191
Evestra Inc.	1,620	1,620	Loan transfer to investment	-
Prima Temp Inc.	1,376	1,376	Acquisition of other associates	-
Other associates	2	-		3
Total	**4,189**	**2,996**		**1,194**

In the separate financial statement of the Company the investment in the joint venture **Richter Helm BioTec GmbH&Co.KG**. was analyzed for impairment, since this company is currently loss making and has negative equity balance.
The Company does not have third party transactions, its sole purpose is to coordinate and supervise the product development and sales activity performed by Richter Helm Biologics GmbH & Co. KG based on the instruction of Richter and Helm AG. The company is expected to be entitled to significant revenue when the first product developed at Richter Helm Biologics GmbH & Co. KG will be sold. Since the development of biosimilar product requires significant period of time, the first products are expected to be sold only in 2019, therefore it is expected that the company will be loss making also in 2018. The two owners plan to continue this operation and considers the loss making temporary, therefore impairment was not required on the investment in (and also on the loan/capital contribution provided to) this company.

In 2016 the Company accounted for impairment on the investment in **Vita-Richter** (HUF 6 million).

The Company accounted for impairment – as a result of its weak performance – of HUF 1.5 million in 2016. On its investment in **Pharmatom Kft.** which was established to execute subsidized R&D projects.

15. Other financial assets

	31 December 2017 HUFm	31 December 2016 HUFm	1 January 2016 HUFm
Held to maturity investments carried at amortized cost	1,595	1,809	1,766
Investments carried at amortized cost as loans and receivables	15,903	15,780	16,282
Available-for-sale investments carried at fair value	15,136	13,237	6,949
Financial assets carried at fair value through profit or loss	2,391	1,967	148
Total	**35,025**	**32,793**	**25,145**

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

Investments carried at amortized 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 15,903 million as of 31 December 2017 and HUF 15,780 million as of 31 December 2016 (HUF 16,282 million as of 1 January 2016).

The available-for-sale investment contains 5% ownership in Protek Holding and 9.79% ownership in Themis Medicare Ltd. valued at fair value based on the closing stock exchange price. In 2016 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 Statement of Comprehensive Income). As a result of the above mentioned reasons, a significant revaluation gain was recorded in 2016 (Note 24).

	31 December 2017	31 December 2016
Opening value (HUFm)	12,536	6,249
Change in fair value (HUFm)	*435*	*6,287*
Closing value (HUFm)	12,971	12,536
Share price (RUB/share)	109.6	99.5
RUB/HUF exchange rate	4.49	4.78
Change in the fair value (HUFm)	*435*	*6,287*

The other available-for-sale investment is a 9.79% ownership in Themis Medicare Ltd. valued at fair value based on the closing stock exchange price. Since there was a significant growth in the share price a revaluation gain (HUF 1,465 million) was recorded against revaluation reserve for available for sale investments in 2017. A closing fair value is HUF 2,103 million.

The value of the exchangeable bond option was HUF 2,346 million in 2017 and HUF 1,888 million in 2016 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 Income Statement. The change in the fair value of the option resulted in HUF 69 million loss as financial costs in 2016. The loan (host instrument) is presented as Loans receivable in the Balance Sheet (Note 21).
On 5 December 2017 Richter acquired a stake in the company of Evestra. Until the transaction was closed, the change in the fair value of the options resulted an income of HUF 24 million in the year. During 2017, the Company issued another convertible loan of $1.5million to Evestra Inc. The conditions are identical to the previous loan, hence, in accordance with IAS 39, the option was classified as an embedded derivative and was valued at fair value (see Note 11). The initial value of the option does not appear in the results, although the change in fair value resulted an expense to HUF 10 million in 2017.

16. Current income tax and deferred tax

Current tax assets and liabilities

	31 December 2017 HUFm	31 December 2016 HUFm	1 January 2016 HUFm
Current tax assets	488	441	367
Current tax liabilities	-	-	35

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

	31 December 2017 HUFm	31 December 2016 HUFm	1 January 2016 HUFm
Deferred tax assets	2,948	-	1,272
Deferred tax liabilities	-	272	-

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

Deferred tax assets/liabilities	Investments	PPE and intangible assets	Provision	Impairment	Other temporary differences	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
1 January 2016	394	(282)	801	825	(466)	**1,272**
(Debited)/credited to the income statement	(875)	230	(445)	(212)	180	**(1,122)**
(Debited)/credited to other comprehensive income*	(418)	-	(4)	-	-	**(422)**
31 December 2016	**(899)**	**(52)**	**352**	**613**	**(286)**	**(272)**
(Debited)/credited to the income statement*	175	722	(49)	(39)	2,690	**3,499**
(Debited)/credited to other comprehensive income**	(278)		(1)			**(279)**
31 December 2017	**(1,002)**	**670**	**302**	**574**	**2,404**	**2,948**

* The accrued loss calculated based on tax rate reconciliation of year 2017 is recognised in Other temporary differences (HUF 2,652 million).
**The deferred tax accounted for in the other comprehensive income is HUF 278 million (expense) was accounted for against Revaluation reserve for available for sale investments.

From the deferred tax balance presented above it is expected that HUF 30 million (HUF 599 million of the liabilities and as of 1 January 2016 HUF 913 million of asset) of the liabilities (which is netted of against the deferred tax assets as of 31 December 2017 in accordance with the requirement of IAS 12) is expected to be reversed after 12 months.

Temporary differences arising in connection with interest in subsidiaries, associates and joint ventures on which no deferred tax was provided for as a result of deferred tax exception in IAS 12 is not significant

17. Loans receivable

	31 December 2017	31 December 2016	1 January 2016
	HUFm	HUFm	HUFm
Loans given to related parties	61,526	70,524	44,355
Loans given to employees	516	410	423
Other loans given	128	73	1,394
Total	**62,170**	**71,007**	**46,172**

18. Goodwill

The Company does not have any Goodwill balance.

19. Inventories

	31 December 2017 HUFm	31 December 2016 HUFm	1 January 2016 HUFm
Raw materials, packaging and consumables	25,432	14,658	13,206
Production in progress	597	451	368
Semi-finished and finished goods	39,283	33,201	33,464
Total	**65,312**	**48,310**	**47,038**

An inventory increase of 35.19% in the current period was a result of the purchase of BEMFOLA®stock, a product that aims to treat infertility, and its production start in the second half of the year. In 2017, impairment and disposal of HUF 1,483 million was recorded and HUF 594 million was reversed, while HUF 2,589 million and HUF 95 million respectively in 2016.
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 in 2016 which Richter expects to receive as compensation as notified by Bayer.

As of 31 December 2017 the total carrying amount of inventories that are valued at net realisable value amounts to HUF 204 million (as of 31 December 2016 it was HUF 336 million, as of 1 January 2016 HUF 441 million).

All items of Inventories are free from liens and charges.

20. Trade receivables

	31 December 2017 HUFm	31 December 2016 HUFm	1 January 2016 HUFm
Trade receivables	45,563	47,326	41,536
Amounts due from related companies and other participations	77,920	61,409	47,418
Total	**123,483**	**108,735**	**88,954**

Ageing of Trade receivables

	31 December 2017 HUFm	31 December 2016 HUFm	1 January 2016 HUFm
Trade receivables not yet due	**109,012**	**93,700**	**81,135**
Trade receivables overdue	**17,485**	**18,186**	**10,398**
1-90 days	*13,019*	*11,240*	*7,231*
91-180 days	*1,300*	*1,971*	*1,016*
181-360 days	*634*	*2,386*	*370*
>360 days	*2,532*	*2,589*	*1,781*
Impairment on trade receivables	**(3,014)**	**(3,151)**	**(2,579)**
Not yet due	*(444)*	*(208)*	-
1-90 days	*(179)*	-	*(278)*
91-180 days	-	*(191)*	*(434)*
181-360 days	*(39)*	*(323)*	*(116)*
>360 days	*(2,352)*	*(2,429)*	*(1,751)*
Total	**123,483**	**108,735**	**88,954**

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

	31 December 2017 HUFm	31 December 2016 HUFm
At 1 January	**3,151**	**2,579**
Provision for receivables impairment	499	788
Reversal of impairment for trade receivables, withdrawal	(636)	(216)
At 31 December	**3,014**	**3,151**

The reversal of impairment is due to financial settlement of overdue receivables.

Both on 31 December 2017 and 2016 there was one individually significant customer whose total outstanding amount is needed to be impaired, which was accounted for before 2016.

21. Other current assets

	31 December 2017 HUFm	31 December 2016 HUFm	1 January 2016 HUFm
Loans receivable	9,928	18,400	20,133
Other receivables	1,446	2,095	1,198
Prepayments	1,309	1,019	867
Fair value of open forward exchange contracts	26	-	4
Subtotal of financial assets (Note 10)	**12,709**	**21,514**	**22,202**
Tax and duties recoverable	2,366	2,235	2,094
Advances	1,211	787	560
Prepayments	1,457	1,363	1,781
Total	**17,743**	**25,899**	**26,637**

22. Investments in securities

	31 December 2017 HUFm	31 December 2016 HUFm	1 January 2016 HUFm
Government bonds (HTM)*	-	-	1,524
Money market funds (AFS)	-	-	2,428
Other securities (AFS)	-	-	-
Total (Note 10)	**-**	**-**	**3,952**

*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

23.1 Cash and cash equivalents

	31 December 2017 HUFm	31 December 2016 HUFm	1 January 2016 HUFm
Bank deposits	46,784	65,930	110,280
Cash on hand	61	39	43
Total	**46,845**	**65,969**	**110,323**

The total amount of Cash and cash equivalents at 31 December 2017 and 2016 was short term demand deposit and bank deposit. It is denominated in EUR, USD, HUF and other currencies which is presented in more details in Note 10.

23.2. Reconciliation to cash flow statement

	31 December 2017 HUFm	31 December 2016 HUFm	1 January 2016 HUFm
Cash and cash equivalents	46,845	65,969	110,323
Cash-pool overdraft	(830)	(4,373)	(3,279)
Balances per cash flow statement	**46,015**	**61,596**	**107,044**

The Company recognises the assets according to the IFRS of daily liquidity management as a part of the cash and cash equivalents. The Cash-pool liability includes the liabilities exposure with the Hungarian subsidiaries.

24. Share capital and reserves

Share capital	31 December 2017 Number	31 December 2017 HUFm	31 December 2016 Number	31 December 2016 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 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Domestic ownership	**60,272,583**	**59,832,738**	**32.35**	**32.15**	**32.34**	**32.11**
State ownership total	47,051,794	47,051,817	25.25	25.28	25.25	25.25
out of which MNV Zrt.	47,051,668	47,051,668	25.25	25.28	25.25	25.25
out of which Municipality	126	149	0.00	0.00	0.00	0.00
Institutional investors	6,150,262	6,070,053	3.30	3.26	3.30	3.26
Retail investors	7,070,527	6,710,868	3.80	3.61	3.79	3.60
International ownership	**126,025,320**	**126,289,476**	**67.64**	**67.84**	**67.61**	**67.75**
Retail investors	801,326	1,697,648	0.43	0.91	0.43	0.91
Institutional investors	125,223,994	124,591,828	67.21	66.93	67.18	66.84
out of which Aberdeen Asset Mgmt. Plc.	18,243,530	18,243,530	9.79	9.80	9.79	9.79
out of which Black Rock Inc.	9,628,286	-	5.17	-	5.17	-
out of which Harding Loevner LP	9,367,925	9,367,925	5.03	5.03	5.03	5.03
Undisclosed ownership	**10,774**	**11,012**	**0.01**	**0.01**	**0.01**	**0.01**
Treasury shares*	**66,183**	**241,634**	**0.00**	**0.00**	**0.04**	**0.13**
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 Company does not have any (ultimate) controlling party. The Hungarian State is having significant influence through the ownership of MNV Zrt.

Share premium

It contains the difference between the face value and the issuing value.

Capital Reserves

Those capital contributions can be found here, that are not part of the face value of the share or the share premium.

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 2016	**2,619**
Revaluation gross	6,326
Deferred tax effect	(418)
At 31 December 2016	**8,527**
Revaluation gross	1,844
Deferred tax effect	(278)
At 31 December 2017	**10,093**

From January 1st, 2017 9% statutory tax rate is applicable for corporate income tax purposes. The effect of tax rate reduction is included in the current years 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 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 details in Note 25 Treasury shares.

	2017 HUFm	**2016** HUFm
Expense recognized in current year	3,641	4,723
Treasury share given (Note 25)	4,888	5,155
Total changes in reserve presented in the Statement of Changes in Equity	**(1,247)**	**(432)**

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 program since 1996 to further incentivise managers and key employees of the Company. In 2017 72,904 shares were granted to 441 employees of the Company, while in 2016, 440 employees were granted. The total number of shares distributed were 217,189.

Individual bonuses
431,800 treasury shares were granted to qualified employees as bonuses during the year (in 2016 387,600).

Staff Stock Bonus Plan
Pursuant to a program approved by the National Tax and Customs Administration related to employee share bonuses (Staff Stock Bonus Plan 2017), the Company granted 245,163 treasury shares to 4,266 employees in 2017. The shares will be deposited on the employees' security accounts with UniCredit Bank Hungary Ltd. until 2 January 2020. In 2016 285,459 treasury shares were granted to 4,342 employees which will be deposited on the employees' security accounts until 2 January 2019.

The AGM held on 26 April 2017 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 616,283 treasury shares during the year.

Treasury shares	**2017** number	**2016** number
at 1 January	**181,350**	**101,371**
Share purchase	616,283	952,831
Transferred as part of bonus program	(72,904)	(217,189)
Individual bonuses	(431,800)	(387,600)
Granted pursuant to the National Tax and Customs Administration - approved plan	(245,163)	(285,459)
Granted pursuant to the National Tax and Customs Administration - repurchased	12,917	17,396
At 31 December	**60,683**	**181,350**

Book Value	**2017** HUFm	**2016** HUFm
At 1 January	**1,068**	**550**
Share purchase	4,224	5,673
Transferred as part of bonus program	(428)	(1,221)
Individual bonuses	(2,850)	(2,294)
Granted pursuant to the National Tax and Customs Administration - approved plan	(1,696)	(1,737)
Granted pursuant to the National Tax and Customs Administration - repurchased	86	97
at 31 December	**404**	**1,068**

26. Trade payables

	31 December 2017 HUFm	31 December 2016 HUFm	1 January 2016 HUFm
Trade payables	20,246	19,554	16,399
Amount due to related companies and other participations	38,324	11,288	11,136
Total (Note 10)	**58,570**	**30,842**	**27,535**

27. Other payables and accruals

	31 December 2017 HUFm	31 December 2016 HUFm	1 January 2016 HUFm
Short term accruals	13,301	9,323	6,589
Other liabilities	1,610	794	364
Contingent-deferred purchase price liabilities	-	8,446	6,370
Dividend payable	148	145	151
Subtotal of financial liabilities (Note 10)	**15,059**	**18,708**	**13,474**
Wages and payroll taxes payable	2,910	2,473	2,396
Other taxes	126	67	77
Deposits from customers	144	146	106
Accrual for taxes and social contributions of share options and other bonuses	-	306	443
Total	**18,239**	**21,700**	**16,496**

27.1 Contingent-deferred purchase price

The Richter has performed several acquisitions with contingent-deferred purchase prices since 2010. These purchase prices were measured at fair value (probability weighted discounted amount), but these have been settled and closed during 2017. The uncertainties related to the liabilities on 31.12.2016 are presented in Note 3.1.

The liabilities presented in the financial statements of 2016 related to these purchase prices (presented as other items in this note and in Note 30) are as follows.

	31 December 2017 HUFm	31 December 2016 HUFm	1 January 2016 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 2017 HUFm	31 December 2016 HUFm	1 January 2016 HUFm
Other short term provisions	1,109	745	582
Long term provisions – for jubilee programs	537	543	579
Long term provisions – for retirement benefits	1,711	1,525	1,394
Total	**3,357**	**2,813**	**2,555**

The provision of the Company at a given period of time:

	31 December 2017 HUFm	Reversal HUFm	Provision HUFm	31 December 2016 HUFm
Compensation	766	(141)	663	244
Recall of the product LISVY®	0	(328)	0	328
Long term provisions – to defined benefit liabilities (according to actuarial valuations)	2,248	(145)	325	2,068
Other	343	0	170	173
Total	**3,357**	**(614)**	**1,158**	**2,813**

	31 December 2016 HUFm	Reversal HUFm	Provision HUFm	1 January 2016 HUFm
Compensation	244	(289)	-	533
Recall of the product LISVY®	328	-	328	-
Long term provisions – to defined benefit liabilities (according to actuarial valuations)	2,068	-	95	1,973
Other	173	(21)	145	49
Total	**2,813**	**(310)**	**568**	**2,555**

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.

	2017 HUF m	2016 HUFm
Opening value of retirement benefit	1,525	1,394
Interest expense (charged to the P&L)	48	45
Current service costs (charged to the P&L)	130	114
Settlement	(92)	(145)
Actuarial loss/(gain) (charged to the OCI)	100	117
Retirement benefit liability	**1,711**	**1,525**

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, while the average value of the last three years has been used in the current period, given the significant fluctuations in the year.
For the purpose of determining the value of the liabilities, an interest rate of 3.31% for 2016 and a rate of 3.13% for 2017 were used.

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	10.0%	5.0%
between 6-15 years	4.0%	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 2017 HUFm	31 December 2016 HUFm	1 January 2016 HUFm
Long-term borrowings	-	28,510	36,531
Short-term borrowings	7,498	12,149	9,802
Total	**7,498**	**40,659**	**46,333**

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 1 January 2016 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 6,523 million). The loan from the European Investment Bank was repaid in December 2017.
The majority of short-term loans (HUF 6,668 million) are from Finox AG, and cash-pool liabilities (HUF 830 million) in 31.12.2017

30. Other non-current liabilities and accruals

	31 December 2017 HUFm	31 December 2016 HUFm	1 January 2016 HUFm
Government grant -deferred income	987	717	805
Government grant – prepayments received	2,627	2,563	-
Contingent-deferred purchase price liabilities - LISVY®	-	-	939
Contingent-deferred purchase price liabilities	-	-	5,694
Total	**3,614**	**3,280**	**7,438**

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

	2017 HUFm	2016 HUFm
Dividend on ordinary shares	19,756	13,419

A dividend of HUF 106 per share (HUF 19,756 million) was declared in respect of the 2016 results, approved at the Company's Annual General Meeting on 26 April 2017 and paid during the year.

32. Agreed capital commitments and expenses related to investments

	31 December 2017 HUFm	31 December 2016 HUFm	1 January 2016 HUFm
Contractual capital commitments of the Company	9,143	4,185	5,959

The capital expenditure program of the Company approved by the Board of Directors totaling HUF 30,082 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 – Company as lessee

Operating lease commitments of the Company (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:

	31 December 2017 HUFm	31 December 2016 HUFm
Within 1 year	1,761	1,618
Between 1 and 5 years	4,199	4,684
Over 5 years	3,585	3,943
Total	**9,545**	**10,245**

The agreements do not include purchase option.
In 2017 HUF 3,098 million has been recorded as operating lease expense, in 2016 it was HUF 3,046 million.

34. Guarantees provided by the Company

The Company has not provided directly any guarantees to third parties. Guarantees provided by banks on behalf of the Company are presented in Note 10 and Note 37.

35. Social security and pension schemes

The Company has provided in relation to the employees in Hungary social contribution tax amounting to 22% and vocational training contribution amounting to 1.5% of gross salaries which are paid during 2017 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 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 1,354 million in 2017 (in 2016: HUF 1,218 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 since 1 March 2016 (in 2015 it was 4,000/person/month). The total amount paid for employees was HUF 313 million during 2016. As of 1 January 2017, the Company has restructured its cafeteria system and as a result, no payment occurred in respect of health fund contribution.

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

36. Acquisition of subsidiaries

Acquisition of subsidiaries in 2017

On 18 January 2017, the Company established the subsidiary of Gedeon Richter Ireland Ltd in order to strengthen its presence and support marketing of the products in Ireland.

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

Finox Holding AG - FINOX Group

The Parent Company announced by the means of extraordinary announcements both the acquisition of Finox Holding (30 June 2016) 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 Cash Flow Statement as 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.

37. Contingent liabilities

HRA licence fee
After the end of the financial period HRA Pharma, the partner of Richter related to ESMYA®, has initiated a negotiation on the interpretation of the license agreement between the parties that is different from the past practice.
The discussion with HRA is at a preliminary phase, therefore the exposure can not be determined at this point.
The view of the management of the Company is that the past practice is fully compliant with the licence agreement.

Bank guarantee
The bank guarantee provided by Unicredit Bank secures a bank guarantee facility of RON 65 million for our Romanian subsidiaries, under which agreement bank guarantees are allowed to be issued for the business partners of subsidiaries up to the amount of the facility.

38. Related party transactions

The transactions among the Company and its subsidiaries and related parties are below.

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

	2017 HUFm	2016 HUFm
Dividend paid to MNV Zrt.	4,994	3,403

The Company 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 Significant information of Related parties

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

	31 December 2017 HUFm	31 December 2016 HUFm	1 January 2016 HUFm
Loans provided to subsidiaries	64,830	77,873	55,192
Loans provided to joint-ventures	5,128	5,000	4,447
Loans provided to associates	3,783	3,520	3,694
Impairment on loans provided to subsidiaries	(2,914)	(3,207)	(1,460)
Impairment on loans provided to associates	(155)	(450)	(300)
Accounts receivables from subsidiaries	67,674	50,123	40,814
Accounts receivables from joint-ventures	143	209	232
Accounts receivables from associates	2,077	1,571	1,944
Impairment on accounts receivables from subsidiaries	(752)	(345)	(167)
Accounts payables from subsidiaries	38,275	11,096	11,085
Accounts payables from joint-ventures	5	142	48
Accounts payables from associates	44	46	3
Revenue from subsidiaries	132,593	92,757	n.a
Revenue from joint-ventures	281	640	n.a
Revenue from associates	13,273	13,272	n.a

Loans provided to related parties are generally denominated in EUR, USD, CHF, RUB.

The revenue from related parties are arising mainly from sale of pharmaceuticals.

The Company had an obligation to finance by capital contribution the following related parties: Finox Biotec, PregLem, GR Mexico, Pharmapolis and Richter-Helm BioTec GmbH & Co. KG., which is presented in Loans receivable.

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	
	2017 HUFm	2016 HUFm
Board of Directors	78	68
Supervisory Board	24	24
Total	**102**	**92**

38.3 Key management compensation

	2017 HUFm	2016 HUFm
Salaries and other short term employee benefits	1,157	839
Share based payments	1,457	1,249
Total short term compensation	**2,614**	**2,088**
Pension contribution paid by the employer	575	564
Total	**3,189**	**2,652**

The table above contains the compensation received by the chief executive officer, directors and other senior members of management, constituting 48 people. There were no redundancy payments to key management members in 2017 and 2016.

39. First time adoption of IFRS

Based on the provisions of the Act C. of 2000, the Company is required to prepare its first separate IFRS financial statement with a balance sheet date of 31 December 2017. Therefore, the date of the opening balance sheet is 1 January 2016. With certain exceptions, IFRS 1 requires the retrospective application of standards and interpretations effective at the reporting date of the IFRS financial statement (31 December 2017).

As per IFRS 1, the Company should use the same accounting policy for the presentation of all of the periods in its first IFRS financial statements. Those accounting policies shall comply with each IFRS effective at the end of its first IFRS reporting period (31 December 2017). Therefore, the Company shall apply all standards effective at 31 December 2017 retrospectively for all transactions and balances as if it had always applied those standards.

The Entity, as a parent company, prepares an IFRS consolidated financial statement. As a result of that, the following rules were applicable during the first time adoption of IFRS:
Based on D17 IFRS 1, if a parent company becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments. According to this requirement, the carrying amounts could differ from the reported balances in the consolidated financial statement only due to the followings:

(i) Differences arising from consolidation (e.g., investments in subsidiaries, loans granted to subsidiaries, elimination during consolidation including intragroup profit eliminations, which therefore have no or different balance in the consolidates financial statement);
(ii) Different accounting policies (IFRS 1 does not state that the same accounting policy should be applied in the separate financial statement and consolidated financial statement);
(iii) Differences arising from different materiality level (some items, which are not material in the consolidated financial statement, can be material in the separate financial statement, therefore, an adjustment could be needed);
(iv) Errors identified in the separate financial statement (if they are material), which should be adjusted.

Mandatory exceptions from full retrospective application relevant for the Company:

Estimates
Based on the requirements of IFRS 1, an entity's estimates in accordance with IFRSs at the date of transition to IFRSs shall be consistent with estimates made for the same date in accordance with previous GAAP, unless:

- the Company uses a different accounting policy in case of IFRS or
- there is objective evidence that those estimates were in error.

Practically, it means that when the Company assesses its accounting estimates (including the depreciation, accruals, provisions, etc.), it shall rely on the same information which were available at the period end. If further information becomes available about the estimates made according to the previous accounting system, than, it

should be handled on the same way as it is described in IAS 10 related to subsequent events after the reporting date (e.g., in the case of loan impairments, the Company may take into account only the information known at the reporting date, the effect of events occurred after the reporting date should be disregarded).

Optional exemptions

Investments in subsidiaries, joint-ventures and associates

The Company accounts for its investment at cost.
The Company chose to measure its investments at deemed cost based on previous GAAP carrying amount in accordance with IFRS1 D15. There is only one exception, the GR Polska Sp.z.o.o, in which case the Company chose to measure the investment at cost determined in accordance with IAS 27.

Use of deemed cost for investments in subsidiaries, joint ventures and associates

As the Entity uses a deemed cost in its opening IFRS statement of financial position for an investment in a subsidiary, joint-ventures and associate in its separate financial statements, the Company's first IFRS separate financial statements shall disclose:

i. the aggregate deemed cost of those investments for which deemed cost is their previous GAAP carrying amount (in the opening balance it is HUF 165,428 million);
ii. the aggregate deemed cost of those investments for which deemed cost is fair value; and
iii. the aggregate adjustment to the carrying amounts reported under previous GAAP.

The following tables provide detailed breakdown on the effect of the transition from Hungarian Accounting Law to IFRS as of 1 January 2016, as well as for the financial year ending on 31 December 2016.

I) Disclosure of the equity and comprehensive income

A) Reconciliation of net assets as of 31 December 2016 in accordance with Hungarian Accounting Law and IFRS

Assets	Note	Data under Hungarian Accounting Act in IFRS structure	Adjustments	IFRS data
		HUFm	HUFm	HUFm
Non-current assets				
Property, plant and equipment	1	150,048	(407)	149,641
Intangible assets	2, 3, 4	64,948	181	65,129
Investments in subsidiaries, associates and joint ventures	2, 5,8	212,043	595	212,638
Other financial assets	6,	30,550	2,243	32,793
Deferred tax assets	7	-	-	-
Loans receivable	8	73,677	(2,670)	71,007
		531,266	**(58)**	**531,208**
Current assets				
Inventories	1	48,514	(204)	48,310
Trade receivables	6, 10	110,612	(1,877)	108,735
Other current assets	1	24,576	1,323	25,899
Investment in securities	11	1,068	(1,068)	-
Current tax asset			441	441
Cash and cash equivalents		65,969	-	65,969
		250,739	**(1,385)**	**249,354**
Total assets		**782,005**	**(1,443)**	**780,562**
Equity and Liabilities				
Equity				
Share capital		18,637	1	18,638
Treasury shares	11	-	(1,068)	(1,068)
Share premium	13	-	15,214	15,214
Capital reserves	13	19,256	(15,781)	3,475
Revaluation reserve for available-for-sale investments	7, 8	7,445	1,082	8,527
Retained earnings	7,8,14,16	635,361	849	636,210
		680,699	**297**	**680,996**
Non-current liabilities				
Borrowings		28,510	-	28,510
Deferred tax liability	7	-	272	272
Other non-current liabilities and accruals	4, 15	2,653	627	3,280
Provisions	10, 12		2,068	2,068
		31,163	**2,967**	**34,130**
Current liabilities				
Borrowings		7,776	4,373	12,149
Trade payables		35,214	(4,372)	30,842
Current tax liabilities		-	-	-
Other payables and accruals	14, 15, 16	23,132	(1,432)	21,700
Provisions	12	4,021	(3,276)	745
		70,143	**(4,707)**	**65,436**
Total equity and liabilities		**782,005**	**(1,443)**	**780,562**

B) Reconciliation of net assets as of 1 January 2016 in accordance with Hungarian Accounting Law and IFRS

Assets	Note	Data under Hungarian Accounting Act in IFRS structure	Adjustments	IFRS data
		HUFm	HUFm	HUFm
Non-current assets				
Property, plant and equipment	1	139,748	(389)	139,359
Intangible assets	2, 3, 4	104,990	(34,141)	70,849
Investments in subsidiaries, associates and joint ventures	2, 5	141,250	34,395	175,645
Other financial assets	6	24,330	815	25,145
Deferred tax assets	7		1,272	1,272
Loans receivable	8	47,272	(1,100)	46,172
		457,590	**852**	**458,442**
Current assets				
Inventories	1	47,042	(4)	47,038
Trade receivables	6, 10	91,285	(2,331)	88,954
Other current assets	1	26,325	312	26,637
Investment in securities	11	4,502	(550)	3,952
Current tax asset		-	367	367
Cash and cash equivalents		110,323	-	110,323
		279,477	**(2,206)**	**277,271**
Total assets		**737,067**	**(1,354)**	**735,713**
Equity and Liabilities				
Equity				
Share capital		18,637	1	18,638
Treasury shares	11	-	(550)	(550)
Share capital	13	-	15,214	15,214
Capital reserve	13	19,256	(15,781)	3,475
Revaluation reserve for available-for-sale investments	7, 8	2,117	502	2,619
Retained earnings	7,8,14,16	580,966	14,959	595,925
		620,976	**14,345**	**635,321**
Non-current liabilities				
Borrowings		36,531	-	36,531
Deferred tax liability	7	-	-	-
Other non-current liabilities and accruals	4, 15	5,694	1,744	7,438
Provisions	10, 12	-	1,973	1,973
		42,225	**3,717**	**45,942**
Current liabilities				
Borrowings		9,802	-	9,802
Trade payables		27,535	-	27,535
Current tax liabilities		-	35	35
Other payables and accruals	14, 15, 16	32,312	(15,816)	16,496
Provisions	12	4,217	(3,635)	582
		73,866	**(19,416)**	**54,450**
Total equity and liabilities		**737,067**	**(1,354)**	**735,713**

From the differences between the Hungarian Accounting Act and IFRS, the following adjustments were made to balance determined in accordance with the Hungarian Accounting Act in order to fully comply with IFRS. Adjustments that are not mentioned in the notes below are not significant either individually or in aggregate, so they are not presented in detail.
Below is a list of the significant adjustments to the figures determined based on Hungarian Accounting Act:

a) Adjustment to the value of property, plant and equipment

Advances on investments were presented under the Hungarian Accounting Act in Property, plant and equipment line, but should be recognized as other short-term receivables under IFRS. (1)

Related line items: Other current assets - Property, plant and equipment
Effect: 31.12.2016.: HUF 413 million
01.01.2016.: HUF 377 million

b) Goodwill

The carrying amount of the investment in subsidiaries, which were determined based on Previous GAAP carrying amount as deemed cost also contains the previous GAAP goodwill balance. As a result of the change in the Hungarian Accounting Law as of January 1, 2016 (in accordance with Note 177 (46)), the Company has amended the opening value of the associated shareholding for the year 2016 with the carrying amount of the goodwill. As a result of the reclassification, there is no difference between IFRS and Hungarian Accounting Law at 31 December, 2016. (2)

Related line items: Investments in subsidiaries, associates and joint ventures - Intangible assets
Effect: 31.12.2016.: HUF 0 million
01.01.2016.: HUF 35,980 million

c) Property rights under IFRS

Chinese reacquired right
In relation to the Chinese acquisition of the Company in 2013, in the IFRS consolidated financial statement the Company recognized an intangible asset ("reacquired right") related to a repurchased sales right, which has been amortized over the remainder of the contract term. The Company in financial statements based on Hungarian Accounting recognized the balance in the carrying amount of the investment. Reacquired rights are regulated in IFRS 3 Business Combinations Standard. Under the standard, these rights are recognized separately from goodwill and not as part of the acquisition (IFRS3.52a). Under these regulations, these intangible assets are not assets of the acquire, but should be presented as assets of the acquirer in its separate IFRS financial statements. Because the asset is non-monetary it is determined in the functional currency of the Company and amortization is accounted for over the same period as in the consolidated financial statements. (3)

Related line items: Intangible assets – Retained earnings
Effect: 31.12.2016.: HUF 180 million
01.01.2016.: HUF 898 million

Milestone payments related to the acquisition of the Lisvy brand
In the purchase price of the LISVY® transdermal contraceptive patch, a milestone payment obligation that was not shown at a later date, according to Hungarian accounting, was recognized by the Company in the opening balance sheet as rights. As a result of the product recall in 2016, the milestone payment obligation was derecognised both from intangible assets and liabilities. (4)

Related line items: Intangible assets – Other non-current liabilities and accruals
Effect: 31.12.2016: HUF 0 million
01.01.2016: HUF 939 million

d) Investments in subsidiaries

Based on IFRS 1D15, in the transition balance sheet, the Company applied the previous GAAP carrying amount as deemed cost for qualifying investments, except for GR Polska Sp.z.o.o. Polish subsidiary for which cost determined based on IAS 27 was applied.

Related line items: Retained earnings – Investments in subsidiaries, associates and joint ventures
Effect: 31.12.2016: HUF 1,585 million
01.01.2016: HUF 1,585 million

e) Reclassification of investments not registered by the balance sheet date

According to the Hungarian Accounting Act, in the case of a purchase of shares or in case of a capital increase, the transaction is accounted when the registration is performed by the Registry Court, while based on IFRS the investment is accounted for when the control is transferred. In case of 3 investments, the balance was reclassified from other receivables to investments. (6)

Related line items: Other financial assets – Other current assets
Effect: 31.12.2016.: HUF 667 million
01.01.2016.: HUF 667 million

f) Deferred tax adjustments (IAS 12)

Prior to the transition, according to the Hungarian Accounting Act, the entity did not disclose assets and liabilities arising from deferred taxation in its statements. One consequence of the transition to IFRS is that the deferred tax is to be presented using the balance sheet liability method. (7)

Deferred tax assets

Related line items: Deferred tax assets – Retained earnings, Revaluation reserve for available-for-sale investments
Effect: 31.12.2016.: HUF 0 million
01.01.2016.: HUF 1,272 million

Deferred tax liabilities

Related line items: Deferred tax liabilities – Retained earnings, Revaluation reserve for available-for-sale investments
Effect: 31.12.2016.: HUF 272 million
01.01.2016.: HUF 0 million

g) Loans receivable and capital contributions granted to subsidiaries

The capital contribution granted to the subsidiary, joint-venture and the supplementary payment provided to the associate is assessed by the Company as debt instrument, as the repayment of these special instruments are subject to future profits, but the companies receiving the instrument does not have an unconditional right to avoid repaying the amount. These instruments as recognised as available-for sale investments according to IFRS and measured at fair value.

Richter Helm BioTec GmbH & Co.KG., PregLem S.A., FINOX equity valuation at fair value (8)

Related line items: Retained earnings, Revaluation reserve for available-for-sale investments – Loans receivable
Effect: 31.12.2016.: HUF 597 million
01.01.2016.: HUF 1,116 million

FINOX capital contribution reclassification to Investments (8a)

Related line items: Investments in subsidiaries, associates and joint ventures – Loans receivable
Effect: 31.12.2016.: HUF 2,159 million
01.01.2016.: HUF 0 million

h) Treasury shares

The Company presents repurchased treasury shares in the IFRS financial statement on a separate line item as equity reducing item. In the report prepared under the previous accounting system, it was included in the securities. (11)

Related line items: Treasury shares – Investment is securities
Effect: 31.12.2016.: HUF 1,068 million
01.01.2016.: HUF 550 million

i) Share premium reclassification

The share premium on issue is to be shown in the capital reserve according to the Hungarian accounting. In the IFRS balance sheet, the share premium is shown on the Share premium balance sheet. (13)

Related line items: Capital reserves – Share premium
Effect: 31.12.2016.: HUF 15,214 million
01.01.2016.: HUF 15,214 million

j) Adjustment due to share based payment program (IFRS 2)

The Company grants its treasury shares to certain employees of the Company under employee share based payment programs, which are accounted for as equity-settled share-based payments. The Company does not create a separate reserve for its share based payment program, but recognizes directly in retained earnings. Under Hungarian Act on Accounting accrued expense was created on approved, but not yet transferred shares, which was reclassified to retained earnings at transition.

Related line items: Accruals – Retained earnings
Effect: 31.12.2016.: HUF 1,246 million
01.01.2016.: HUF 1,548 million

k) Discounts

Under Hungarian accounting, the Company made a provision for non-invoiced discounts (e.g. payment discounts, volume based discounts) at the end of the year. This provision was reversed quarterly, in proportion to the subsequent discounts being billed and settled. According to IFRS, subsequent discounts should reduce the sales revenue and at the same time the trade receivables should be decreased. Therefore the provision created based on Hungarian Accounting Act should be reclassified as customer decreasing item. (10)

Related line items: Provisions – Trade receivables
Effect: 31.12.2016.: HUF 1,208 million
01.01.2016.: HUF 1,662 million

l) Amendments to the classification of provisions and accrued expenses (IAS 1)

In accordance with IAS 1, current and non-current liabilities must be presented separately in the balance sheet, unless the liquidity-based presentation provides more reliable and more relevant information. The Hungarian Accounting Act does not require such classification in respect of provisions and accruals.

Classification provision for current and non-current
Related line items: Provisions – Long-term provisions
Effect: 31.12.2016.: HUF 2,068 million
01.01.2016.: HUF 1,973 million
Transfer the long-term accrued expenses
Related line items: Accruals – Long-term accruals
Effect: 31.12.2016.: HUF 717 million
01.01.2016.: HUF 805 million

m) Dividend-related amendments (IAS 10)

Under IAS 10, an entity may not disclose a dividend obligation at the end of the reporting period if the decision on the dividend payment was made after the end of the reporting period. By contrast, according to the Hungarian Accounting Act required until 31 December 2015, that the entity recognizes the dividend decided upon the approval of the financial statement in that financial statements.
This discrepancy results that the retained earnings are lower in the financial statement in accordance with Hungarian Accounting Act and other liabilities are higher than those in the IFRS statement. (16)

Related line items: Other payables and accruals – Retained earnings
Effect: 31.12.2016.: HUF 0 million
01.01.2016.: HUF 13,419 million

C) Difference between IFRS total comprehensive income and income statement in accordance with Hungarian Accounting Act for the year ended 31 December 2016.

Income statement

	Note	For the year ending 31 December 2016		
		Data under Hungarian Accounting Act in IFRS structure	Adjustments	IFRS data
		HUFm	HUFm	HUFm
Revenue	a	**283,242**	**1,791**	**285,033**
Cost of sales	b	(64,158)	(31,449)	(95,607)
Gross profit		**219,084**	**(29,658)**	**189,426**
Sales and marketing expenses	c	(99,838)	6,694	(93,144)
Administration and general expenses	d	(35,930)	23,618	(12,312)
Research and development expenses	e	(34,514)	309	(34,205)
Other income and other expenses (net)	f	(13,672)	3,953	(9,719)
Profit from operations		**35,130**	**4,916**	**40,046**
Finance income	g	32,268	1,861	34,129
Finance costs	g	(12,588)	(1,894)	(14,482)
Net financial income/(loss)		**19,680**	**(33)**	**19,647**
Profit before income tax		**54,810**	**4,883**	**59,693**
Income tax	h	(336)	(5,101)	(5,437)
Profit for the year		**54,474**	**(218)**	**54,256**
Statement of Comprehensive Income				
Profit for the year		**54,474**	**(218)**	**54,256**
Items that will not be reclassified to profit or loss				
Actuarial loss on retirement defined benefit plans		-	(120)	(120)
		-	**(120)**	**(120)**
Items that may be subsequently reclassified to profit or loss				
Revaluation of available for sale investments		-	5,908	5,908
		-	**5,908**	**5,908**
Other comprehensive income for the year		**-**	**5,788**	**5,788**
Total comprehensive income for the year		**54,474**	**5,570**	**60,044**

The significant differences between the Hungarian Accounting Act and IFRS are caused by the following items:

a) Revenues

Different revenue categories according to IFRS:

HUF +1,791 million Classification: Other income

The Company has a contract whereby the proceeds of its sale made under the Hungarian Accounting Act are recognized among other income, however, it is part of the ordinary activity under IFRS.

b) Cost of sales

Reclassification of unallocated costs	HUF (7,643) million	Classification: Sales and marketing expenses
Reclassification of unallocated costs	HUF (23,594) million	Classification: Administrative and general expenses
Stocks provided free of charge	HUF (256) million	Classification: Other Expenses
Employee Benefits (IFRS 2)	HUF 44 million	Amendments
Total effect:	**HUF (31,449) million**	

c) Sales and marketing expenses

Reclassification of unallocated costs	HUF 7,643 million	Classification: Cost of sales
Registration fee for medical visitors	HUF (253) million	Classification: Other expenses
Amortization of the Chinese reacquired rights in 2016	HUF (718) million	Amendments
Employee benefits (IFRS 2)	HUF 22 million	Amendments
Total effect:	**HUF 6,694 million**	

d) Administrative and general expenses

Reclassification of unallocated costs	HUF 23,594 million	Classification: Cost of sales
Employee benefits (IFRS 2)	HUF 24 million	Amendments
Total effect:	**HUF 23,618 million**	

e) Research and development expenses

Income from research collaboration agreement	HUF 269 million	Classification: Other income
Employee Benefits (IFRS 2)	HUF 40 million	Amendments
Total effect:	**HUF 309 million**	

f) Other income and expenses (net)

Revenue according to IFRS:	HUF (1,791) million	Classification: Revenue
LISVY® compensation from Bayer	HUF 798 million	Amendments

Based on agreement with Bayer regarding the product recall of LISVY® *– Richter is entitled to indemnification of HUF 798 million, which is not yet recognized in 2016 in accordance with Hungarian Accounting Act.*

Impairment of receivables:	HUF 783 million	Adjustment: Net financial income/(loss)
Income from a research collaboration agreement	HUF (269) million	Classification: Research and development exp.
Registration fee for medical visitors:	HUF 253 million	Classification: Sales and marketing expenses
Business tax and innov. contribution:	HUF 3,636 million	Classification: Income tax
Stocks delivered free of charge:	HUF 256 million	Classification: Cost of sales
Income from returns of PM shares:	HUF 97 million	Adjustment: Net financial income/(loss)
Cash and other assets transferred without consideration and remittal of receivables, reclassification from other expenses to investments:	HUF 98 million	Amendments
Actuarial loss/(gain):	HUF 117 million	Amendments
Reclassification of tax paid abroad:	HUF (25) million	Classification: Income tax
Total modifying effect:	**HUF 3,953 million**	

g) Net financial income/(loss)

Impairment of receivables:	HUF (783) million	Classification: Other expenses
Income from returns of PM shares:	HUF (97) million	Classification: Other expenses
Investment revaluation at balance sheet date:	HUF (751) million	Amendments
MNV bond fair valuation, interest rate effect, revaluation	HUF 1,495 million	Amendments
Employee loan discount:	HUF (105) million	Amendments
Adjustment from loan revaluation:	HUF 281 million	Amendments
Adjustment from accounted impairment loss on investment:	HUF (286) million	Amendments
Capital contribution interest rate and discount effect:	HUF 213 million	Amendments
Total effect:	**HUF (33) million**	

h) Income tax

Corporate tax from self-revision in 2015:	HUF 368 million	Amendments
Business tax and innov. contribution reclassification:	HUF 3,636 million	Classification: Other expenses
Deferred tax:	HUF 1,122 million	Amendments
Reclassification of tax paid abroad:	HUF (25) million	Classification: Other expenses
Total effect:	**HUF 5,101 million**	

II. Difference between IFRS cash flow and the cash flow in accordance with Hungarian Accounting Act for the year ended 31 December 2016

Cash flow

		For the year ended 31 December 2016		
	Note	Data under Hungarian Accounting Act in IFRS structure	Adjustments	IFRS data
		HUFm	HUFm	HUFm
Net cash flow from operating activities	a	49,822	7,446	57,268
Net cash flow from investing activities	b	(92,804)	14,945	(77,859)
Net cash used / generated from financial activities	c	(1,372)	(24,243)	(25,615)
Decrease (increase) in cash and cash equivalent	e	(44,354)	(1,852)	(46,206)
Cash and cash equivalents at beginning of year	**e**	**110,323**	**(3,279)**	**107,044**
Effect of foreign exchange rate changes on the balances held in foreign currencies	d	0	758	758
Cash and cash equivalents at end of year	**e**	**65,969**	**(4,373)**	**61,596**

Significant differences between the Hungarian Accounting Act and IFRS cash flow are caused by the following items:

a) Net cash flow from operating activities

Dividends paid on ordinary shares:	HUF +13,419 million	Classification: financial activities
Cash permanently transferred:	HUF (1,076) million	Classification: financial activities
Interest income:	HUF (4,845) million	Classification: investing activities
Proceeds on redemption on maturity of financial assets:	HUF (3,952) million	Classification: investing activities

Repurchase of treasury shares:	HUF +5,673 million	Classification: financial activities

(See Note 24 Equity settled share based payment accounted for against retained earnings)

Unrealized gains arising from the change in exchange rates of cash and cash equivalents:

HUF (758) million	Classification: Effect of foreign exchange rate changes on the balances held in foreign currencies

b) Net cash used for investing activities

Prepaid grants received:	HUF +2,563 million	Classification: from financial activities
Repayment of loans:	HUF +3.664 million	Classification: from financial activities
Interest income:	HUF +4,845 million	Classification: from operating activities
Investment in securities:	HUF +3,952 million	Classification: from operating activities

c) Net cash used / generated from financial activities

Dividends paid on ordinary shares:	HUF (13,419) million	Classification: from ordinary activities
Cash permanently transferred:	HUF +1,076 million	Classification: to operating activities
Prepaid grants received:	HUF (2,563) million	Classification: to investing activities
Loans/repayment of loans:	HUF (3,664) million	Classification: to investing activities
Repurchase of treasury shares:	HUF (5,673) million	Classification: from operating activities

(See Note 24 Equity settled share based payment accounted for against retained earnings)

d) Effect of foreign exchange rate changes on the balances held in foreign currencies

Unrealized gains arising from the change in exchange rates of cash and cash equivalents:

HUF +758 million	Classification: from operating activities

e) Effect of netting the cash-pool liability from the cash and cash equivalents presented in the Cash flow statements. For further details please see Note 23.2.

40. Notable events in 2017

The Company's main objectives for 2017 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.

Significant progress has been made in 2017 in the following areas:

From 1 January 2017, the Hungarian Act on Accounting requires the preparation of the individual (separate) financial statements in accordance with International Financial Reporting Standards for companies, whose securities are traded on a regulated market in the European Economic Area (EEA). With effect from 1 January 2017 separate IFRS reporting also became compulsory for Gedeon Richter Plc. From 1 January 2017, Richter prepares its separate reports in accordance with IFRS.

Sales rose significantly in the CIS regions, mainly in Russia, in the European Union, particularly in 15 Member States of the EU, in the United States and China.

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 authorization for the biosimilar teriparatide Terrosa. Following on the positive opinion on 4 January 2017 the European Commission granted marketing authorization 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. Based on a successful US clinical trial, our partner started the registration process in 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 authorizations 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 the only shareholder of GRMed Company Limited.

In accordance with the drawn „specialty pharma" strategy in 2007, Richter and Bayer HealthCare signed a licensing and distribution agreement in 2015 under which the Company will commercialize transdermal contraceptive patch under the brand name Lisvy. In October 2016, Richter initiated the withdrawal of the product with an immediate effect, after Richter received a notification from Bayer, according to which certain tests carried out under specific conditions resulted in out-of specification results. At the beginning of 2017, Richter and Bayer agreed on reimbursement of the cost arisen from the withdrawn inventories of LISVY®.

On 29 March 2016, the European Medicines Agency (EMA) initiated the evaluation of registration for cariprazine. In May 2017 the Committee for Medicinal Products for Human Use (CHMP) has adopted a positive opinion on the company's application for cariprazine, a novel antipsychotic for the treatment of schizophrenia in adult patients. In July 2017, following the decision, Richter received the marketing authorization for the product named REAGILA® (cariprazine) for all European Union Member States.

On 2 October 2017, the Board of Directors informed the shareholders, that Mr. Erik Bogsch submitted a letter requesting to be relieved from his duty after 25 years of service as Chief Executive Officer effective 1 November 2017, although Mr. Bogsch will continue to act as Chairman of the Board of Directors. According to the decisions taken at this meeting, Mr. Bogsch will continue to act as Chairman of the Board of Directors and in addition as of 1 November 2017 will assume the role of Executive Chairman having a focus on the commercial activities as well as international, public and government relations for the Company.

On 12 October 2017, Gedeon Richter Plc. and Pharmanest AB announced that Richter will commercialise Pharmanest's SHACT (Short Acting Lidocaine) technology, a novel innovative proprietary pain relief pharmaceutical formulation, in Europe, in Latin America and in certain other markets.
Under the terms of the agreement Richter shall make an upfront payment upon signature of the contract. In addition, further milestone payments and sales related double digit royalties will become payable to Pharmanest subsequent to the launch of the product.

On 31 October 2017, the Company and US based Prima-Temp Inc. announced, that Richter acquired an exclusive licence and to commercialize its innovative medical device, PriyaRing globally, except for the USA and Canada, which is an internal sensor that identifies the subtle temperature changes that occur prior to ovulation. Under the terms of the agreement Richter shall make an upfront payment npon signature of the agreement. In addition, further milestone payments and sales related royalties will become payable to Prima-Temp subsequent to the launch of the product. The agreement was complemented by the acquisition of a minority stake in Prima-Temp for a consideration of US$ 5 million.

In December 2017, the European Medicines Agency (EMA) Pharmacovigilance Risk Assessment Committee (PRAC) started a review of drug induced liver injury potentially related to ESMYA® (ulipristal-acetate) that applies to all EU Member States. On 9 February 2018, the EMA initiated the implementation of temporary measures as part of the review process. The PRAC recommends that new treatments using ESMYA® should not be started, but ongoing treatments can be completed. These measures are of a temporary nature and are intended to protect the health of patients. The final decision to be taken by the end of May 2018 will depend on the conclusion of the evaluation process begun in December 2017. Richter takes the safety of patients seriously. Based on the data collected during clinical trials, the Management believes that ESMYA® is a safe medicinal product, and Richter is committed to provide this unique treatment option to women suffering myoma tumor.

On 17 September 2015 Richter and Allergan were pleased to announce that the Food and Drug Administration of the United States (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®. 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. This is the second positive pivotal trial for this investigational use.

In 2017, the Company continued to undertake further steps to expand its international operations by raising capital and by continuing the investment activities in its producer subsidiaries. The Company places strong emphasis on supporting investments in the Russian subsidiary, which is aimed to adapt the economic policy that favours local production.

41. Events after the date of the balance sheet

The Company's Board of Directors informed its shareholders on 2 January 2018 that, with effect from 31 December 2017, Christopher William Long resigned from his membership in the Company's Board of Directors.

On 9 February 2018, the EMA initiated the implementation of temporary measures as part of the review process. The PRAC is recommending that no new patient should be started on ESMYA®, but ongoing treatments are allowed to be completed. The recommendations are temporary measures to protect the patients' health. The final decision depends on the conclusion of the review, which was started in December 2017 and is expected to be completed before end of May 2018.

In 2018, the merger of Gedeon Richter Polska and Gedeon Richter Marketing Polska will begin to exploit synergies.

The management of the Company is unaware of other events that have occurred since the balance sheet date which has effect from a business perspective.

42. Approval of financial statements

Current Financial Statements have been approved by the Board of Directors and authorized for release at 21 March 2018.

These 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.

CONTACTS OF GEDEON RICHTER PLC.

Addresses

Registered Office
Gedeon Richter Plc.
1103 Budapest, Gyömrői út 19-21.
Hungary

Addresses for correspondence
Gedeon Richter Plc.
Budapest 10
P.O.Box 27
1475
Hungary

Investor relations
International Finance Department
Gedeon Richter Plc.
Budapest 10
P.O.Box 27
1475
Hungary

Phone: (36)-1-431-5764
Fax: (36)-1-261-2158
E-mail: investor.relations@richter.hu
www.richter.hu

GEDEON RICHER PLC.

CONFIDENTIAL

Business Report
2017

Gábor Orbán
Chief Executive Officer

Budapest, 21 March 2018

TABLE OF CONTENTS

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 enabled our licence partner Allergan plc to put together the regulatory dossier for securing marketing authorisation for the United States.

In December 2017 EMA's Pharmacovigilance Risk Assessment Committee (PRAC) started a review in the EU member states of Esmya (ulipristal acetate) investigating liver injury possibly induced by the product. The EMA adopted temporary measures on 9 February 2018 as part of the review. The PRAC has recommended that no new patients should be started on Esmya but treatments in progress can be completed. These recommendations are temporary measures to protect patients' health. A final decision is expected before the end of May 2018 and will depend on the finding of the review started in December 2017. Richter takes patient safety seriously. Based on the data obtained in the clinical trials, we are convinced that Esmya is a safe product and we are committed to continue to offer this treatment option to women suffering from uterine fibroids.

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.

In Q1 of 2013 Richter took control of selling its traditional products and acquired a majority holding in its Chinese marketing partner. This 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. The buyout was completed in February 2017 when the last portion of its holding was paid. 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.

Business model

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 2017.

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).

Richter Group's operation is resting on the following six pillars:

- **Richter's HQ in Hungary, parent company of the Group** (including the Budapest, Dorog and Debrecen sites): undertaking research and development, production, sourcing, logistics and coordination of Group level sales.
- **Pharmaceutical subsidiaries and joint venture companies:** Richter Group has manufacturing facilities in Poland, Romania, Russia, India and Germany. Drugs manufactured in these facilities are marketed globally.
- **Trading subsidiaries and offices:** undertake and support trading and marketing duties in local markets on behalf of the parent company and other Group's companies.
- **Wholesale and retail companies:** active in wholesale and retail, receiving marketing support from the parent company or the trading subsidiaries.
- **Service companies:** established to support R&D, manufacturing, logistics, admin and other business processes.
- **Other units:** dormant companies and establishments not directly related to Richter Group's core business.

1.2 Main objectives for 2017

The Company's main objectives for 2017 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 2017 significant advancement was achieved in the following areas:

- The Accounting Act provided for the mandatory application, as of 1 January 2017, of the International Financial Reporting Standards for the purpose of separate 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 separate financial reporting. From 1 January 2017 Richter prepares its separate reports and statements in accordance with IFRS.

- Sales increased substantially in the CIS countries, mainly in Russia, as well as in the EU, especially in the EU15 countries.

- 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 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. Based on the successful trials in the United States, Allergan put the registration application process into motion in 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.

- 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. In early 2017 Richter and Bayer reached an agreement on reimbursement of the costs of inventories in conjunction with the withdrawal of Lisvy.

- On 29 March 2016 the European Medicines Agency (EMA) started assessment of the marketing authorisation of cariprazine for the indication of schizophrenia. In May, 2017 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion on the Company's application for cariprazine for the treatment of schizophrenia in adult patients. After the decision, in July 2017, Richter was granted marketing authorisation for all EU member states for its product Reagila® (cariprazine).

- In an announcement, dated 2 October 2017, the Board informed the shareholders that Mr Erik Bogsch, Gedeon Richter Plc.'s CEO for 25 resigned of his post with effect of 1 November 2017 while he continues to act as Chairman of the Board of Directors. At the meeting of the Board of Directors held on the day of the announcement Mr Gábor Orbán Deputy CEO and member of the Board was appointed Chief Executive Officer from 1 November 2017. Furthermore, the Board invited Mr Erik Bogsch to supervise the Company's trade, international and government relations from 1 November 2017.

- On 12 October 2017, Richter and Pharmanest AB announced that Richter will commercialise Pharmanest's SHACT (Short Acting Lidocaine) technology, a novel innovative proprietary pain relief pharmaceutical formulation, in Europe, in Latin

America and in certain other markets. Under the terms of the agreement, Richter shall make an upfront payment upon signature of the contract. In addition, further milestone payments and sales-related royalties will become payable to Pharmanest subsequent to the launch of the product.

- Richter and Prima-Temp Inc. of the United States announced on 31 October 2017 that they entered into an exclusive license and distribution agreement for Richter to commercialize the innovative medical device, PriyaRing globally, except for the USA and Canada. PriyaRing is an internal sensor that identifies the subtle temperature changes that occur prior to ovulation. Under the terms of the agreement, Richter shall make an upfront payment upon signature of the agreement. In addition, further milestone payments and sales-related royalties will become payable to Prima-Temp subsequent to the launch of the product. The above agreement was complemented by the acquisition of a minority stake in Prima-Temp for a consideration of USD 5 million.

- In December 2017 EMA's Pharmacovigilance Risk Assessment Committee (PRAC) started a review in the EU member states of Esmya (ulipristal acetate) investigating liver injury possibly induced by the product. The EMA adopted temporary measures on 9 February 2018 as par of the review. The PRAC has recommended that no new patients should be started on Esmya but treatments in progress can be completed. These recommendations are temporary measures to protect patients' health. A final decision is expected before the end of May 2018 and will depend on the findings of the review started in December 2017. Richter takes patient safety seriously. Based on the data obtained in the clinical trials, we are convinced that Esmya is a safe product and we are committed to continue to offer this treatment option to women suffering from uterine fibroids.

- 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™. In August 2016, the two companies released a 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. Then

in December 2017, the two companies announced positive topline results for a phase III study of cariprazine for the treatment of adults with major depressive episodes associated with bipolar I disorder (bipolar I depression). This is the second positive trial of cariprazine for this investigational use.

- In 2017 Richter took further steps to expand its international business through a capital increase some of 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	60,272,583	32.35	32.34
State ownership total	47,051,794	25.25	25.25
including MNV Zrt.	*47,051,668*	*25.25*	*25.25*
including Municipality	*126*	*0.00*	*0.00*
Institutional investors	6,150,262	3.30	3.30
Retail investors	7,070,527	3.80	3.79
International ownership	126,025,320	67.64	67.61
Institutional investors	125,223,994	67.21	67.18
including Aberdeen Asset Management Plc.	*18,243,530*	*9.79*	*9.79*
including Harding Loevner LP	*9,367,925*	*5.03*	*5.03*
*including BlackRock, Inc. ****	*9,628,286*	*5.17*	*5.17*
Retail investors	801,326	0.43	0.43
Treasury shares**	66,183	0.00	0.04
Undisclosed ownership	10,774	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 14 December 2017 BlackRock, Inc.'s influence increased to 5.17%.

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 2017 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 2017.

The closing price of shares as of 30 December 2016 was HUF 6,210 compared to HUF 6,780 as of 29 December 2017. Average monthly share prices in 2017 varied between the minimum of HUF 6,306 per share (in January) and the maximum of HUF 7,089 per share (in June).

1.4 Treasury shares

	Ordinary shares	
	31.12.2016	31.12.2017
Shares	181,350	60,683
Nominal value HUF`000	18,135	6,068
Book value HUF`000	1,068,477	404,353

Following the decision of the Board of Directors 504.704 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 related to employee share bonuses the Company granted 245,163 Treasury shares to 4,266 employees on 19 December 2017.

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 (www.richter.hu). 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 2017, with the exception of a brief period (from the end of 2016 until 1 November 2017, vid. Board of Directors paragraphs), 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,
  - 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:
  - three-quarters majority of the votes present at the General Meeting, but at least 35% + 1 vote;
  - three-quarters 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 on 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. With the exception of a brief period (from the end of 2016 until 1 November 2017) the offices of CEO and Chairman were held separately. 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 according to 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. Each subcommittee consists 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 Chief Executive Officer.

The **Executive Board** is responsible for the executive management of the Company's business. The Executive Board is chaired by the CEO. 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 terminates 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 fashiou 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.

Policy of diversity

In its operation Richter lays great store by personal values and individual characteristics. The Company holds that exploitation of varying characteristics is the corner stone of innovation and believes that the Company's success is partly based on the diversity of its people. It considers the recognition and appreciation of the individual's personal traits important. Diversity in a tenet at all levels of Richter's operation; when drafting internal regulations the Company strives to shape the corporate environment to meet this principle.

These ideas are translated in terms of daily practice by the Diversity Policy drafted for governing bodies in 2017, which is expected to be announced and introduced after consultations in H1 of 2018. Developed for a five-year periods and to be reviewed at least annually, the Diversity Policy determines the diversity criteria applicable for the Company's business management, executive and supervisory bodies. When setting up its bodies of operative management and actual control and supervision the Company gives priority to these criteria so that the governing bodies represent multivarious views and appropriate experience to conduct their day-to-day business.

Global Compliance Program

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 international 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.

Richter expects all of its employees, consultants, representatives, suppliers and other business partners to observe the standards set out in the Compliance Handbook. In keeping with the Program a Compliance Hotline has been created. Operated by the Global Network Management, it functions as a Group level system for handling reports related to the Complance Handbook. Staff report abuse or ethical violation they experience by e-mail or phone, if necessary, anonymously. Complaints are investigated by the Group level Compliance Manager or, as the case may be, the designated specialist area. The person in charge of the investigation summarises their findings in a report and makes recommendations to Richter's Ethics Committee regarding sanction or additional control points to be built in the process. Richter's Ethics Committee passes a decision based on the investigation report. The Compliance Hotline is reviewed by the Audit Department on an annual basis. In 2017, no inquiries were requested, only issues related to the interpretation of the Compliance Handbook raised.

Richter's Code of Ethics provides for all employees to respect the human rights laid down in relevant international agreements and local legislation and regulations. Richter strongly condemns trafficking in human beings, any form of exploitation of children and forced labour, and seeks to prevent all such activities within the scope and supply chain. Furthermore, Richter strictly prohibits cruel or degrading treatment of its employees.

In its chapters Business Conduct and Transparency Policy of the Compliance Handbook provides for the fight against corruption and sets out the principles regarding bribery. Chapter One (Anti-bribery and corruption) contains detailed rules Richter's employees (including its officers) must comply with. These rules are aimed at avoiding active and passive involvement in corruption. After this general chapter two chapters address the two main risk areas in the pharmaceutical industry: contacts with health professionals, and pharmaceutical promotion. In its contacts with health professionals Richter strives to observe the strictest rules of integrity, and to meet the most rigorous statutory provisions and regulations in every respect.

The last chapter of the Handbook describes the principles of transparency. Transparent relationship and connections between Richter and patient organisations, health professionals and service providers promote informed decisions. As a member of

Medicines for Europe, Richter commits to publish payments and benefits extended to, and agreements concluded with, patient organisations, health professionals and service providers. The first such publication is due out in January 2018 on the year 2017.

Other information

Richter announced that Tibor Horváth was appointed Commercial Director with effect from 1 August 2017.

In an announcement dated 2 October 2017 the Board informed the shareholders that Mr Erik Bogsch, Gedeon Richter Plc.'s CEO for 25 years resigned of his post with effect of 1 November 2017 while he continues to serve on the Board and retains his position Executive Chairman. At the meeting of the Board of Directors held on the day of the announcement Mr Gábor Orbán Deputy CEO and member of the Board was appointed Chief Executive Officer from 1 November 2017. Furthermore, the Board invited Mr Erik Bogsch to supervise the Company's trade, international and government relations from 1 November 2017.

1.6 Branches

The branches of Richter Gedeon Vegyészeti Gyár Rt. (Gedeon Richter Chemical Plant Ltd.) are as follows:
27 Esztergomi út, H-2510 Dorog
20 Richter Gedeon 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 again in 2015.

The Company's non-financial performance indicators are the number of new launched products and of the renewal application (3.1), as well as volumes of production (3.3) and the diversity data and the proportion of graduates (4.).

Consolidated reporting

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. 2017 operating review

2.1 The balance sheet as of 31 December 2017

ASSETS

The Company's assets amounted to HUF 759,717 million, HUF 20,845 million (2.7%) lower than the opening value. Non-current assets were down by HUF 25,362 million, and current assets were up by HUF 4,517 million.

Non-current assets

The value of **Property, plant and equipment** was HUF 7,434 million above the reference year figure (+5.0 %). The increase was contributed by the rising Plant and

equipment item (chromatography capacities and expansion intermediate product in Dorog), as well as Assets in the course of construction and refurbishments (new injectables packaging plant and state-of-the-art freeze-drying unit).

Intangible assets amount to HUF 78,295 million, 20.2% higher than the reference year figure, due mainly to an increase in **Rights**. The change resulted predominantly from the transaction between Richter and PregLem for the purchase of intangible asset from the North American Esmya and the impairment of intangible asset in conjuction with Esmya in Latin American countries. In consideration of the expected negative business impact of the PRAC's temporary measures regarding Esmya, Executive Board has revised and lowered its long-term Esmya sales forecasts for the EU and Latin American markets. The impairment reported is the effect of the revised forecast.

Depreciation on tangibles and intangibles was HUF 24,793 million in 2017, HUF 893 million in excess of the figure in 2016.

As of 31 December 2017 the value of Richter's **Investments in subsidiaries, associates and joint ventures** and **Other financial assets investments** was HUF 204,621 million, down by HUF 40,810 million. The decline was shaped primarily by the revised forecast mentioned above. The recoverable amount of impairment on PregLem calculated on the basis of impairment tests (HUF 51,527 million). This negative effect was dampened by the capital increase by Gedeon Richter Romania S.A. and Gedeon Richter Mexico SAPI de CV (HUF +3,396 million and HUF 1.324 million respectively), Gedeon Richter (China) Pharmaceuticals Co. Ltd.'s capital increase converted from a loan (HUF +1,019 million), the conversion of Evestra Inc.'s loan to share, and acquisition of holdings in Prima-Temp Inc. (totally HUF +2,996 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 15,903 million in 2017.

Loans receivable amount to HUF 62,170 million and include predominantly long-term loans extended to Finox Holding, Richter-Helm BioTec, PregLem (capital contribution) and the manufacturing companies.

Current assets

Inventories amounted to HUF 65,312 million, are 35.2% above the opening figure, mainly due to Bemfola® stocks increase.

Trade receivables were HUF 123,483 million, HUF 14,748 million up year-on-year, resulting mainly from increasing trade receivables from the European Union and China. The figure also contains a HUF 16,511 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 8,472 million are below the reference year's closing figure mainly due to the loan to Gedeon Richter Romania S.A. converted from capital increase, the loans to Gedeon Richter Romania S.A., GR RUS and Mediplus N.V. classified as long-term, reduced by the loan item extended to Pharmapolisz Kft. and the conversion of Evestra Inc.'s loan to share due within a year.

The value of **Cash and cash equivalents** is HUF 19,124 million below the opening value. The main items contributing to the decrease are the full repayment of the remainder of the European Investment Bank credit (EUR 117 million), and dividends paid on the 2016 profit as approved by the General Meeting (HUF 19,756 million).

EQUITY AND LIABILITIES

Shareholders' equity

In 2017 **shareholders' equity** decreased 1.8% to reach HUF 668,439 million, mainly as a result of the profit of the year for the reported period.

Liabilities

The Company's total liabilities amount to HUF 91,278 million, HUF 8,288 million less than in the reference year. **Non-current liabilities** were down by HUF 28,268 million, primarily as a result of the full repayment of the loan taken out to finance R&D projects (EUR 92 million). The advance support extended by the Ministry of National Economy

to fund innovative pharmaceutical research and development activities amounted to HUF 2,627 million as of 31 December 2017.

Current liabilities were 19,820 million up and comprised HUF 58,570 million liabilities to **Trade payables** with the related companies as the main item (HUF +27,728 million). **Current borrowings** amounted to HUF 7,498 million as of 31 December 2017, movements include the loan repaid to the EIB (EUR 25 million) and the loan received from Finox AG (EUR 21.5 million). Current liabilities also include cash pool. The year-on-year (y/y) decrease in the combined value of **Other payables and accruals** (HUF -3,461 million) resulted from opposing changes: the portion due of the deferred payments in conjunction with the acquisitions in China (HUF -8,446 million), and rising foreign drug subisidies (HUF 3,305 million).

2.2 The 2017 income statement

The Group's profit for the year for 2017 was HUF 6,318 million, 88.4%, or HUF 47.938 million, lower year-on-year.

Royalty from Vraylar™ sales received from Allergan and appreciation of the average rate of the rouble against the forint as well as the euro boosted sales income. In consideration of the expected negative business impact of the PRAC's temporary measures regarding Esmya, Executive Board has revised and lowered its long-term Esmya sales forecasts for the EU and Latin American markets. Besides the revised forecast, impairment was reported on the PregLem share related to Esmya (Finance cost) and on the Latin American intangible asset (Other expenses). The cumulative amount is HUF 59.5 billion. Rising sales (related to the increased Bemfola® stock) and operating costs, as well as dropping profit on financial transactions due to unfavourable foreign exchange rates should be highlighted

2.2.1 Revenue

	2016 HUF million	2017 HUF million	Variance HUF million	Variance %
Hungary	34,840	35,163	323	0.9
International markets				
CIS	102,235	118,359	16,124	15.8
EU *	92,503	107,560	15,057	16.3
USA	18,167	26,624	8,457	46.6
China	19,145	23,056	3,911	20.4
Latin America	3,703	3,626	-77	-2.1
Other countries	14,440	14,145	-295	-2.0
International markets TOTAL	250,193	293,370	43,177	17.3
Total	**285,033**	**328,533**	**43,500**	**15.3**

* Excluding Hungary

Revenue from the 2017 domestic sales was approximately the same as in 2016 (0.9%). Sales in international markets were 17.3% up compared to the previous financial year.

There were some changes in the breakdown of export by regions compared to the reference year: With some increase, the CIS markets continue to retain the biggest share (36.0 %). The EU states' share increased by 0.4 percentage points and contributed 32.8%. The USA increased its share by 1.5 percentage point over 2016 and achieved to 8.1%. China's share was 0.3 percentage points higher (7.0%) than prior year. The share of Other countries was 0.8 percentage point less (4.3%) than prior year. The contribution of Latin America to sales income was 1.1 %, 0.2 percentage points below the reference period figure. Income from domestic sales decreased by 1.5 percentage points and achieved 10.7 %.

Based on the year-end figures for 2017 the Company realized HUF 35,163 million income from sales **in the domestic market**, 0.9 % (HUF 323 million) more than in 2016. With this performance the Company's market share was 5.1% in 2017, 0.3% percentage point below the reference year's figure. Richter ranked second in the prescription drugs market with a share of 7.4%.

The main factor was increasing Politrate, Tanydon / Tanydon HCT, Panangin, Xilomare, and Kalmopyrin sales, reduced by dropping Calcimusc, Xeter, Emetron, and oral contraceptives.

In 2017 oral contraceptives were the leading item in terms of sales contributing 8.4% to sales income.

In 2017 no significant changes took place in terms of price regulations in the domestic pharmaceutical market. Pharmaceutical representatives' registration fee was HUF 253 million in 2016 and HUF 213 million in 2017.

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 16 million in 2017, however, the Company was able to compensate for it by introducing new products.

The Company's sales income in **international markets** is HUF 293,370 million, and grew by 17.3% compared the 2016 figure of HUF 250,193 million. In euro, income from exports was 18.1 % up and amounted to EUR 948.6 million.

The Russian operation continues to be the leading market of the **CIS region,** with turnover denominated in EUR 22.6% up the reference year figure, also largely influenced by the massive (11.7%) revaluation of the rouble against the euro. Sales in rouble were 8.3% of RUB 1,396.1 million up. The increase in rouble denominated sales was contributed by Groprinosin, Mydocalm, Diroton, Verospiron and oral contraceptives and dampened by lagging Quamatel and Panangin sales.

Euro denominated sales in Ukraine were 17.6% or EUR 5.2 million up year-on-year, with increasing Mydocalm, oral contraceptives, Ekvator and Nifuroksa sales and dropping Groprinosin sales.

EUR sales income from other CIS countries dropped by 2.8% or EUR 2.0 million. Declining sales in Kazakhstan and Kyrgyzstan were partially offset by rising sales in Uzbekistan.

The total turnover achieved in the CIS market was HUF 118,359 million, 40.3% of total export. Year-on-year increase was 15.8% (HUF 16,124 million). Expressed in foreign currency, the turnover was EUR 382.7 million (USD 432.4 million) with a 16.6 % increase in EUR (19.0 % in USD) year-on-year.

The turnover achieved in the **European Union** was HUF 107,560 million, 16.3% up year-on-year. The EU region's share from the total income achieved in international markets is 36.7%. Expressed in foreign currency, the income amounted to EUR 347.8 million.

Owing to the efficient promotion efforts of the Western European network of pharmaceutical representatives the Company's strategic products as Bemfola® and Esmya realised a significant sales increase, which greatly contributed to the overall 27.2% increase in EUR term in the EU15 region.

The CEE member states decreased their contribution to total sales in the EU region from 47.3% in 2016 to 42.8% in 2017. The sales increase (5.9% in euro) is attributed to the performance of Esmya és a Bemfola® too.

Sales in the **United States** were 46.6% (or HUF 8,457 million) up; denominated in dollar; the increase was 50.6% (or USD 32.7 million) mainly due to Vraylar™ royalty income.

Turnover in the **Chinese region** was HUF 23,056 million (EUR 74.6 million) and was HUF 3,911 million (or EUR 13.1 million) higher year-on-year. Increase in oral contraceptives, Bromocriptine and Cavinton sales were outstanding.

Turnover in **Latin America** was approximately the same as in the reference year. The 2017 sales income amounted to HUF 3,626 million (USD 13.2 million). The region's share from the total income achieved in international markets is 1.2%.

In **Other countries** oral contraceptives were the leading products. Other countries achieved a turnover of HUF 14,145 million (EUR 45.7 million). Compared to 2016, sales income was 2.0% below (in euro, 1.5% below). The contribution of the region to international sales was 4.8%.

Net income from sales **totalled** HUF 328,533 million in 2017, a HUF 43,500 million increase over the 2016 figure.

2.2.2 Costs of sales and operation; operating profit

Aggregate direct and indirect costs of sales were HUF 25,513 million higher year-on-year.

Payroll costs significantly increased across the Company year-on-year due to a 2.75% increase of the basic wage and a 1.75% differential pay raise from 1 March 2017. The latter was allocated in consideration of idividual performance, labour market trends, and importance of the particular jobs.
The savings from the decrease of the health care and social contributions with effect from 1 January 2017 was also used for raising basic wages, which resulted in a 4% basic wage increase.

Costs of sales totalled HUF 110,189 million and were HUF 14,582 million over the 2016 figure due to an increase in volume and a change in the portfolio of products.

Gross profit is HUF 218,344 million, HUF 28,918 million above the reference year figure; with the same as the reference year margin (66.5%).

Operating costs amounted to HUF 150,592 million in 2017, HUF 10,931 million above the 2016 figure.

Sales and marketing expenses were HUF 4,890 million over the 2016 figure with a 29.8% costs-of-sales to sales revenues ratio (2016: 32.7 %). Advertising and promotion contributed HUF 3,023 million to the increase of the item. Growing marketing costs on the Chinese and Russian markets were only partially offset by dropping sales costs of Esmya. As a result of these changes income and related items were HUF 2,361 million year-on-year. Foreign trade costs were down by HUF 717 million compared to the reference year.

In 2017 **Administration and general expenses** amounted to HUF 13,386 million, HUF 1,074 million in excess of the 2016 figure. Half of the variance (HUF 655 million) is contributed by the income and related items mentioned above, and HUF 332 million were contributed by mounting attorney costs.

After a HUF 4,967 million y/y increase **Research and development expenses** amounted to HUF 39,172 million in 2017. Research commissions contributed HUF 3,218 million to the increase, the main item being costs related to cariprazine and other development projects.

The balance of **other income and other expenses** increased from HUF 9,719 million expenses in the reference year to HUF 11,891 million expenses in 2017.
The other income and other expenses item is greatly affected negatively by the impairment of the intangible asset related to the PRAC's temporary measures regarding Esmya in Latin American countries (HUF 7,992 million).
In the reference year HUF 3,345 million write-off, HUF 939 million released deferred purchase price liability, and HUF 849 million impairment on inventories were reported in conjunction with the recall of Lisvy, and Richter was entitled to HUF 798 million in damages, reported as income. In 2017 settlements related to Lisvy's recall were completed and the licence agreement was terminated. As a result, the Company netted HUF 2,147 million other income.
In the reported year a one-off milestone income was reported in conjunction with the acceptance of the regulatory submission of Esmya in the USA, and the starting of the regulatory procedure in South Korea regarding cariprazine. In the reported period a one-off HUF 3,112 million milestone income was achieved on the basis of the exclusive licence agreement signed with Recordati to commercialise cariprazine in Europe.
Claw-back in 2017 comprised payments related to the Hungarian, Romanian, German, French, Spanish, Portuguese, Belgian, Italian, Bulgarian, Austrian, Polish and Latvian markets totalling HUF 6,668 million.

The Company's *Profit from operation* was HUF 55,861 million, 39.5% up (HUF 15.815 million) compared to 2016. After a 3.0 percentage point increase, the operating margin was 17.0%.

2.2.3 Other income statement items

Net financial income/loss

Net financial income/loss was a loss in 2017 (HUF 49,066 million) compared to a net financial profit of HUF 19,647 million recorded in 2016.

The 2017 net financial income/loss was significantly deteriorated by the impairment of the stake in PregLem S.A. related to the PRAC's temporary measures (HUF 51,526 million). In 2017 additional impairment was reported on Nedermed B.V. In 2016 impairment in investments was HUF 1,949 million and was contributed mainly by the impairment reported on Mediplus N.V.

The 2017 unrealized financial items was largely affected by the 4.49 RUB/HUF exchange rate and 258.82 USD/HUF related restatements on 31 December 2017 (31 December 2016 RUB/HUF 4.78 and USD/HUF 293.69). The cumulative effect of restatements was a HUF 4,902 million slip in the 2017 net financial income as opposed to HUF 10,013 million increase in 2016, a total of HUF 14,915 million deterioration year-on-year.

The Company did not apply any hedge accounting rules under IAS 39; hedging transactions are reported at fair value as established by the bank.

Gedeon Richter Plc. describes the details of classification, valuation and risks of its financial instruments in the following chapters of the Annual Report drafted in accordance with the International Financial Reporting Standards: 2. Summary of significant accounting policies: VII) Financial assets, VIII) Financial liabilities, XI) Other financial assets, XV) Derivative financial instruments, and 10. Financial instruments and 11. Fair value of financial instruments.

Exchange rate losses realized from trade receivables, payables and other items were HUF 5,229 million as opposed to a HUF 2,387 million profit in the preceding year. The aggregate gain contributed HUF 7,716 millionto a year-on-year decrease in earnings.

Dividends income is contributed HUF 10,425 million to the 2017 financial income, HUF 2,605 million is higher than the HUF 7,820 million realized in 2016 (mainly due to Rxmidas Kft.).

Profit before income tax

The 2017 profit before income tax amounted to HUF 6,795 million, HUF 52,898 million less than in 2016.

Income tax

By virtue of Hungarian Tax Regulations, the base income of the Company on which corporate tax is applied may be reduced by the amount of direct costs incurred on R&D activities and 50% of royalties received. Furthermore, 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. As the Company had no corporate tax payment liability in 2017 it does not use the development related tax relief.

The 2017 taxes payable (including corporate tax, local business tax, and innovation contribution) amounted to HUF 3,976 million compared to HUF 4,315 million in 2016.

In 2017 Richter reported HUF 3,499million deferred tax assets as opposed to the 2016 deferred tax liabilities (HUF 1,122 million). The variance results from the deferred tax reported on the differential covering the deferred tax liability related to conversion to the IFRS regime, one-third of which was reversed in the course of 2017, and the deferred loss for 2017.

Profit for the year

The Company's profit after taxes for 2016 was HUF 54,256 million and HUF 6,318 million in 2017.

2.2.4 Contribution of key products to sales revenues

Finished products contributed approximately 88% to the 2017 sales revenues. The contribution of APIs was 4%, royalties was 5% and the sales of purchased materials were 3%.

The following table contains the TOP 10 product groups based on their contribution to total sales revenues:

2016				2017			
Rank		Sales HUF million	Share %	Rank		Sales HUF million	Share %
1	Oral contraceptives	82,174	28.9	1	Oral contraceptives	85.185	25.9
2	Cavinton/vinpocetine	27.643	9.7	2	Cavinton/vinpocetine	29,270	8.9
3	Esmya /ulipristal acetate	20.891	7.3	3	Esmya /ulipristal acetate	28,786	8.8
4	Panangin/asparaginates	14,037	4.9	4	Mydeton/tolperisone	16,214	4.9
5	Mydeton/tolperisone	12,312	4.3	5	Cariprazine /cariprazine	13,987	4.3
6	Verospiron/ /spironolactone	11,280	4.0	6	Panangin/asparaginates	13,894	4.2
7	Ace inhibitors/ /enalapril, lisinopril	8,580	3.0	7	Verospiron /spironolactone	12,200	3.7
8	Aflamin/aceclofenac	7,494	2.6	8	Ace inhibitors/ /enalapril, lisinopril	9,564	2.9
9	Lisonorm lisinopril, amlodipine	7,487	2.6	9	Bemfola / FSH follitropin alfa	8,681	2.7
10	Quamatel/famotidine	6,673	2.4	10	Lisonorm lisinopril, amlodipine	7,924	2.4
	Total	**198,571**	**69.7**		**Total**	**225,705**	**68.7**
	Net income from sales	*285,033*	*100.0*		*Net income from sales*	*328,533*	*100.0*

The contribution of the 10 leading product categories to total sales was 68.7%, 1.0 percentage point below the reference year's figure.

Oral contraceptives are the leading products with a turnover of HUF 85.2 billion, 3.7% higher the 2016 figure, mainly due to the increasing sales of Lindynette, Regulon, Azalia and Diegonest. The contribution of this product category to the 2017 total turnover was 25.9%, 3.0 percentage points below the reference year.

Richter's original drug Cavinton is the second most important product achieved an increase in turnover (rising sales in Russia, China and Ukraine). Esmya retained its 3rd place with sales income 37.8% above the reference year due to rising sales in Western Europe. Consequent to keen sales in Russia and Ukraine Mydeton advanced to 4th place, the portion of total sales is 4.9%. Mainly due to rising Vraylar™ royalty sales income Cariprazine made it 5th on the TOP 10 list. 4th in the reference year, Panangin slipped two places because of a slight drop in sales. Verospiron and ACE inhibitors each lost one place compared to the reference year, the

portions of total sales is 3.7% and 2.9%. Due to rising Western Europe sales Bemfola® became our 9th best-selling product with the portion of total sales of 2.7%. Conversely, Lisonorm slipped from 9th to 10th place despite a 6% sales increase. Aflamin and Quamatel dropped from the TOP 10 list.

2.2.5 Contribution of key markets to sales revenue

The Company's 10 leading markets were as follows:

Country		2016		Country		2017	
		HUF million	EUR million			HUF million	EUR million
1.	Russia	70,742	227.1	1.	Russia	86,097	278.4
2.	Hungary	34,840	111.8	2.	Hungary	35,163	113.7
3.	China	19,087	61.3	3.	United States of America	26,624	86.1
4.	United States of America	18,167	58.3	4.	China	22,983	74.3
5.	Germany	15,344	49.3	5.	Germany	16,630	53.8
6.	Poland	13,887	44.6	6.	Poland	15,393	49.8
7.	Ukraine	9,216	29.6	7.	Ukraine	10,769	34.8
8.	Kazakhstan	7,155	23.0	8.	France	9,844	31.8
9.	Czech Republic	7,052	22.6	9.	Great Britain	9,753	31.5
10.	France	6,912	22.2	10.	Spain	9,070	29.3
	Total	202,402	649.8		Total	242,326	783.5
	Net income from sales	**285,033**	**915.1**		**Net income from sales**	**328,533**	**1,062.3**

The 10 leading countries jointly contributed approximately 73.8% to Richter's total sales. Russian continues to head the list. Hungary kept its 2nd place. Owing to increasing Vraylar™ turnover, the United States advanced from 4th to 3rd place. China slipped back to 4th place despite rising oral contraceptives and Bromocriptine sales. Germany, Poland and Ukraine kept their positions on the list of TOP 10 countries (5th, 6th and 7th respectively). Spectacularly increasing Bemfola® and Esmya sales pushed France two places upwards, to 8th. The Czech Republic and Kazakhstan did not make it to the TOP 10 and yielded its place to Great Britain and Spain (Esmya and Bemfola® sales) 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 2017. 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 indications. In this context, in December 2017 the two companies announced positive topline results for a phase III study of cariprazine for the treatment of adults with major depressive episodes associated with bipolar I disorder (bipolar I depression). As a result, the authorisation of this new indication for the U.S. market has become feasible in the foreseeable future. Results of the other ongoing major clinical trial are expected in the first half of 2018.
In March 2016 the European Medicines Agency (EMA) started assessment of the marketing authorisation of cariprazine for the indication of schizophrenia. In August on the same year Richter and Recordati signed an agreement granting Richter exclusive sales license for the product in Western Europe as well as Algeria, Tunisia and Turkey.
In May 2016 the Committee for Medicinal Products for Human Use (CHMP) adopted a positive opinion on Richter's application for cariprazine for the treatment of schizophrenia in adult patients. After the decision, in July 2017 Richter was granted

marketing authorisation for all EU member states for its product Reagila® (cariprazine). The product appeared on the shelves of pharmacies only much later mainly because of lengthy price negotiations; however, commercialisation started in two European countries (Latvia and Lithuania) in December 2017.

Richter considers appropriately carried out post approval commitments as very important, including preclinical and clinical studies related to the product. In the second half of 2017 Richter Company filed an application for the extension of the patent of Reagila® in every European country. Once granted, the patent will be extended until 2029 in the requested area.

Asian regulatory procedure of cariprazine is undertaken by Richter's Japanese partner, Mitsubishi-Tanabe Pharma Co. and its partners.

One of the world's most experienced 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. Based on the successful trials in the United States, Allergan put the registration application process into motion in 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.

In December 2017 EMA's Pharmacovigilance Risk Assessment Committee (PRAC) started a review in the EU member states of Esmya investigating liver injury possibly

induced by the product. The EMA adopted temporary measures on 9 February 2018 as part of the review. The PRAC has recommended that no new patients should be started on Esmya but treatments in progress can be completed. These recommendations are temporary measures to protect patients' health. A final decision is expected before the end of May 2018 and will depend on the findings of the review started in December 2017. Richter takes patients' safety very seriously. Based on the data of the clinical trials we are convinced that Esmya is a safe product and we are committed to continue this treatment option to women suffering from uterine fibroids.

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 expenses was 11.9% of sales income in 2017 and amounted HUF 39,172 million.

At the closing of 2017, Richter had over 45 generic development and 16 licence topics in progress. The number of original and licensed original products as well as specialty developments have been growing (approximately 20 development projects). 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 a quarter of the generic R&D projects.

The Company launched 3 proprietary products and 6 licensed products in 2017, all of which are new in the markets where they were launched.

In 2017 Richter secured 98 new marketing authorisations in EU member states (including Hungary) with the holder being Richter or one of its subsidiaries.

A major event of 2017 the marketing authorisation of cariprazine and of the first biosimilar product, teriparatide granted by the European Commission's decision (January and July of 2017 respectively).

In this region 41 renewal applications were submitted, 104 were acquired by the Company, and 83 licenses were returned.

A total of 27 new authorizations and 156 renewal applications were submitted in the twelve CIS countries. Richter secured 32 new authorizations and 22 licenses were returned during the year.

In the Other countries and Latin America regions the Company submitted 40 new applications and 25 renewals in 2017. In the course of the year the Company secured 39 new authorizations and 27 renewals, and withdrew 2 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. The unit is actively involved in the expansion of the biosimilar business by developing a global network of partners in product development and commercialisation.

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. New investment to expand capacity is envisioned in Debrecen in 2018 so that the products marketed are manufactured by state-of-the-art biotechnology profile.

The primary candidates in the biosimilar portfolio are teriparatide (immunology) and pegfilgrastim (oncology). Both products belong to the fastest-evolving therapeutic groups.

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. Marketing is expected to start in 2019.

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 pegfilgastim. Richter completed the additional clinical studies related to pegfilgrastim in 2017 and the company will resubmit to the EMA its application for marketing authorisation in the course of 2018. 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 Meiji Seika Pharma, and in Korea by DM Bio and Dong-A Socio Holdings 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 2017 special emphasis was laid on enhancement of the quality assurance system, upgrading of production processes and improving their transparency, as well as on development of the IT system.

Over the past year Richter was inspected on 13 occasions by its partners and 4 times by the competent supervisory authorities.

3.3 Production

Production in the manufacturing plants was in line with the amounts required by the market: Production in the manufacturing plants was marginally up; whilst solid drugs production remained unchanged, the lesser contributor injectables grew by 13.4%.
The production value, at settlement price, of own-produced APIs for non-steroid products was up by 37% (resulting from expanding export demands, new products and the rouble rate) and for steroids by in 2.8% in 2017.
Preparations for serial production commenced in 2017 with the bulk of tasks related to the project to be completed in 2018. These preparations involve loss of production capacities and engage a significant portion of the working time in specialist areas.
It is to be noted that Richter faced significant labour shortage in 2017 to an extent that it was a barrier of meeting manufacturing plans.
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 2017 the value of inventories was HUF 65,312 million, exceeding the opening balance by 35.2%; mainly due to Bemfola® stocks.

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 2017. 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.
The main energetics projects to be highlighted are the second stage of upgrading the cooling system in Budapest, the continuing works on upgrading the recirculating cooling system in Dorog, and conversions required in connection with the energy supply to the molecular biology lab facility in Debrecen. With a view to optimising energy use infrastructure upgrading is an ongoing process in Budapest and Dorog (heating, cooling, and compressed air supply).
In accordance with the medium-term energy management plan, measuring devices were installed and monitoring systems were upgraded in 2017.

In the same year the volume of energy usage dropped to a very slight extent across the Company compared to 2016. The 2.9% drop emerged as the balance of 1.1% decrease in energy use and 1.8 % decrease in energy prices. Energy and water costs amounted to HUF 7.6 billion for the entire Company and included HUF 96.5 million energy and water load taxes.

3.4.2 Environmental protection, occupational health and safety

Environmental protection

To minimise the environmental load of its manufacturing activities is a priority task for Richter, therefore the most state-of-the-art technologies are applied in order to continuously decrease negative environmental impacts.

The different manufacturing activities involve largely varied environmental risks and actual impacts:

- API manufacturing is essentially a chemical activity. Only a small proportion of the materials used are actually incorporated in the high-purity end product, therefore these non-recyclable materials used in chemical technologies present the greatest environmental load and risk.
- Due to its nature, biotechnology-based manufacturing does not require the use of large quantities of environmentally harmful substances, therefore it involves little environmental load and low environmental risk.
- Packaging is part of pharmaceutical manufacturing, where most of the materials used are built in the product. Here again, the environmental load and risk are minor.

Richter's guidelines of environmental protection are laid down in the Environmental Policy and are implemented though the Environmental Management System (KIR) awarded an ISO 14001 certificate. The KIR analyses and manages risks affecting the environment, particularly the natural environment, in according with the provisions of the ISO standard (emission limits, data supply, and the requisite licenses). Functioning and risk management under the KIR is verified though annual inspection audits by an independent certifying body.

Richter compiles its environmental performance indicators in accrodance with the Global Reporting Initiative (GRI) Guidelines and publishes them along with the measures implemented and planned and their evaluation in a biannual Sustainability Report available on the Internet.

The Company's premises in Budapest, as well as the Dorog and Debrecen sites have secured an Integrated Pollution Prevention Control (IPPC) permit.

Occupational health and Safety

A typical source of hazard at Richter's workplaces is the presence of hazardous chemicals. Appropriate procedures and equipment are available to reduce the risk to an acceptable

level. Richter implements chemical safety requirements as early as the research and production planning stages. This includes technological protective seals and human resource management (training, selection, work organisation, and health maintenance programs).

Richter has been constantly working on optimising its health and safety processes; as a result the 2017 revision audit of the Occupational Safety and Health Management System (MEBIR: OSHAS 18001:2007) 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. From 2016 certification also included the Debrecen Branch. The Safety Lab is equipped with measuring capacities in Budapest and Dorog, and its activity encompasses all of Richter's sites in Hungary. The Lab has retained its accredited status due to ongoing measurements, site expansion, as well as organisational and personnel development.

Budapest is classified as a hazardous plant by the lower limit, and Dorog, by the upper limit. Conversely, Debrecen is not classified as hazardous.

Richter fully complies with the requirements of chemical safety set out in the EC regulations REACH and CLP, and pays special attention to the provisions of the directive on equipment of potentially explosive atmospheres (ATEX), as well as to the requirements related to the prevention of serious accidents.

There were no technology related fatal, serious or mass accidents in 2017, no deficiencies of note were found by the relevant authorities, and no fine was imposed. Employees apply individual protective devices on an ongoing basis.

In 2017 radiation protection was added to safety technology tasks. After initial assessment and corrective measures the drafting of Radiation Protection Regulations was started.

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 the 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 2017 hazardous wastes were incinerated, deposited or composted. Waste has been collected selectively since 2012. After 9.0% rise, the costs of waste management amounted to HUF 957 million in 2017.

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.

At the end of 2017 the Board approved the Richter IT 2020 project launched in 2016 aimed at the development of a new and modern IT organisation capable of supporting the strategy and international operation of the Company. In this context, the currently fragmented one-on-one IT partnership agreements are reconsidered, and new Group level agreements will be signed with strategic partners, allowing significant savings on costs and resulting in more efficient Group level functioning. Furthermore, a new IT project and portfolio management methodology based on best practice has been introduced, creating transparency of the implementation of IT developments by business priorities.

Similarly to the previous year, major Group level IT development took place in 2017, the most important achievements and events were as follows:

- The Serialisation, Track and Trace project commenced in 2016 continued; its goal is to install a unique bar code writer and reader in all production lines of Richter Group.

- An Electronic Change Management System was developed in 2017 to handle store and support in the workflow changes relevant to the whole of the Company.

- The new pharmaceutical rep system (Sappire) was developed, and SAP Treasury was introduced.

- This year further development and upgrading to later versions of existing systems took place in several areas (commercialisation, research and logistics).

4. Human resource management

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 in the interest of achieving the business goals, and involve IT skills and language proficiency development in addition to the in-service training required by the regulatory authority.

Richter is aiming at providing equal employment opportunities, and strives to treat all applicants and employees equally irrespective of their racial or ethnic background, colour, religious conviction, origin, sex, sexual orientation or identity and its manifestation, age, nationality, family status, pregnancy, family planning or related health status, genetic traits, military service, health status or other traits described in the relevant statutory provisions.

Professional and management career opportunities are open for Richter's female employees. 49% of Richter's staff is female, and their respective rate in managerial positions (from deputy head of department to the most senior manager) is 41%. Richter provides many opportunities for personal development. Male and female staff participate in training programs supported by the Company in equal proportions.

Since April 1992 the Trade Union of Pharmaceutical Workers has been the advocacy organisation of Richter's workers. Affiliated to VDSZ, the Federation of Trade Unions in the Chemical, Energy and Related Sectors, it is an independent CSO. Its main goal is to

advocate for employees' interests on an ongoing basis and to act as a bridge of information between employers and employees in issues such as collective bargaining and agreement, wage negotiations, and other matters of concern for employees.

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.

As of 31 December 2017 headcount was 7,036 including 5,342 persons employed in Hungary. Of the Hungarian headcount 2,742 work in white-collar positions including 2,131 university or college graduates. Graduate educated personnel in Hungary represented 78% of white collar staff.

5. Capital expenditure on tangibles and intangibles

In 2017 capital expenditure on tangible and intangible assets amounted to HUF 54,287 million and included HUF 26,859 million capitalization. Tangible assets in the course of construction amounted to HUF 19,973 million as of 31 December 2017.

The Company's main CAPEX areas in 2017 were as follows:

Biotechnology

Richter spent a total of HUF 3,602million on investments related to the biotechnology business in 2017. A Molecular Biology Lab in under construction in Debrecen in the context of a tender. The majority of the works 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 2017 investments related to production plants amounted to HUF 11,204 million.

In the field of finished products manufacturing, the supplier of the filling and freeze-drying unit in the context of project RGK VI was unable to meet all requirements, so production has not started yet. The other parts of the facility are properly running. Stage I of the project expanding the capacities of the hormones unit of the Packaging Plant was completed. The quality assurance related replacement of the control mechanisms of older but still usable manufacturing equipment was continued. The so-called serialization project in the finished products packaging plants aimed at individual identification of products has reached the stage of implementation. In the next year it will continue to engage significant resources and will also involve the subsidiaries. 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 to make the ulipristal line independent and to expand the service building. In Steroid Plant II chromatography capacities have been expanded and the container park has been finished. The Plant will function with a capacity of approximately 900 kg finished product. In Synthetics Plant III, reconstruction of the facade of Hall II and of Floor 2 of the principal building has been completed.

As regards API production in Budapest, continuation of works on the experimental fermentation line in Biological Plant II, Stage V of the works necessitated by more stringent GMP requirements at the finishing line of Chemical Plant I, and modernisation of the grinding system in Biological Plant I should be highlighted.

Production support

CAPEX projects related to production support amounted to HUF 3,782 million in 2017.

In the context of environmental and safety projects the multi-year renovation of the wastewater system and the revamping of the liquid ring basins 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 investments at headquarters included major upgrading at the Lampart Plant cooling centre and expansion of the capacity of the York cooling tower. At the Dorog site conversion of the recirculating cooling water system was continued.

In the field of warehousing preparations for a comprehensive concept are underway regarding the renewal of sites next to Őrmény utca, the development of the Vecsés warehouses, and assessment of warehousing potentials in Dorog.
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 2017 Richter deployed a total of HUF 2,372 million investments to maintain the level and quality of research and development. A significant portion of the investment was related to device and instrument purchase.

Licences and other intangibles
The 2017 expenditure on licenses and other intangibles amounted to HUF 26,888 million and comprised expenditure on the acquisition of licences (Esmya /agreement between Richter and Preglem for the purchase of intangible asset from the North American Esmya/, Levosert, SHACT /Short Acting Lidicaine/), as well as well as on new registrations and renewals.

Other
In 2017 Richter spent HUF 2,146 million on IT development supporting operation, and HUF 601 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 Romanian manufacturing subsidiary's 2017 performance was outstanding. In the wake of significant price reductions by public authorities in recent years several original drugs have been withdrawn from the market, which gave a boost to the sales of several generic products. As a result of increasing sales the company's operating profit soared.
In 2017 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 packaging plant besides improvement of the IT system as well as landscaping and building renovation works on the factory premises.
In 2017 the parent company increased its Romanian manufacturing subsidiary's capital by RON 49,779 thousand by way of conversion of loans.
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 464 the company is efficient; its Polish marketing subsidiary is also effective in supporting the commercialization of proprietary products.
In the 2017 business year Richter's sales income exceeded expectations and was above the reference year figure despite the keen competition and aggressive price war characterizing the Polish market. Total income from sales was PLN 244 million due primarily to outstandingly high Groprinosin sales.

In 2017 Richter's Russian manufacturing subsidiary **ZAO Gedeon Richter-RUS** was less affected by negative trends than in previous years. Despite some volatility the rouble has strengthened on the whole, which is a marker of the general economic stabilisation in Russia. Buyers' payment discipline has also improved, which contributed to the profitability of the company. All income plan indicators were far exceeded mainly due to the major increase in distribution product sales. At the same time, manufacturing of several full-cycle products started and is expected to fully evolve over the coming years.

The company's main function will continue to be production and distribution supported by the parent company's marketing activity. Full-cycle production will not only increase the volume of the portfolio but will also result in a significant expansion.
The company financed its 2017 capex projects from its own funds while it also managed to settle its accounts payable to the parent company.

Richter Themis Ltd. continued to be active as a manufacturer and distributor of intermediate products and APIs for Group members in 2017. While there were ongoing changes in the portfolio of products, any loss from the products dropped were compensated by new API production, therefore capacities were explioted on a continuous basis. A lesser amount of products were supplied 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 2017 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, 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 2017 **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 AG**, 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 recombinant human follicle stimulating hormone (r-hFSH). The product was granted marketing authorisation for the EU in May 2014 and is sold in over 20 countries. In 2017 full integration of the company's activities into Richter's system commenced with Richter taking over first the

full distribution of Bemfola® followed by its marketing in Western Europe, then from September, secondary packaging.

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 2017 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 integrated its already existing British and French companies (**Gedeon Richter UK Ltd.** and **Gedeon Richter France S. A R. L.**) into the network. The portfolio of the network was expanded by additional women's healthcare products in 2017.

In 2017 Richter further expanded its Western European marketin network by adding a new subsidiary, **Gedeon Richter Ireland Ltd.** The subsidiary supports Richter's women's healthcare portfolio in Ireland.

In 2017 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 net costs plus margin, which ensures cost coverage and stable liquidity on a continuous basis.

In 2017 **Gedeon Richter (China) Pharmaceuticals Co. Ltd.** functioned as a company fully owned by Richter, and the the marketing activities of the two businesses (OC and OTC) were merged into this company. Despite the difficulties the turnover plan was surpassed; Cavinton injection and Bromocriptine tablet sales continue to be the main pull forces. Future portfolio expansion is becoming increasingly needed so that the company can keep up its rising sales trend. Hopefully, the increasingly keen activity to secure approval for registration will prove to be fruitful in the near future.

Active in promotional purchases, storage and distribution, Moscow based **Pharmarichter O.O.O.** proved to be a high-performing company in 2017 in both technical and financial terms.

After the strong devaluation of the national currency, the economy in Kazakhstan is gradually returning to normal. While the growth of the GDP was 0.1% in 2016, in the reported year it was 4.3%, and the consumer price index dropped from 15.9% to 4.3%. In addition, from 1 July 2017 companies pay 1% of their employees' wages into a voluntary mutual health insurance fund as employer's contribution. These changes in the economic environment had a positive effect on the figures of **Gedeon Richter KZ L.L.P.** fully owned by Richter and active in the field of distribution and marketing.

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 2017 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.** Esmya was launched in 2016, and the portfolio was expanded by additional products in 2017.

In August 2017 Richter acquired a 100% stake in **Gedeon Richter Mexico SAPI de CV**. The company's portfolio of products expanded by 50% compared to the reference year, and securing approval for registration and other licenses for further expansion are in progress. To offset liquidity problems concurrent with organisational development and increasing marketing activities Richter increased the company's capital by MXN 94,963,614.22 at the end of the year.

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 2017 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 738,000 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 while the Bolivian subsidiary was gradually phased out.

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.** Despite increasingly fierce competition and a growing number of competitors, in 2017 the company managed to increase its sales beyond expectations. The main internal processes to be highlighted include logistics investments, a new warehouse, expansion of the product portfolio, priority expansion of the sales team, and development of a trade policy tailored to buyers' needs. 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. No pharmacy licences were sold in 2017 but some outlets were reopened, so the network of pharmacies consisted of 94 units in December. Turnover per outlet was 6% higher on the average year-on-year. There number of loss generating pharmacies dropped by 28%, and 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.

Richpangalfarma S.R.L. is the sole distributor of Richter in Moldova. The wholesale distributor's success is the 22% market share achieved. Wholesale of Richter's products undertaken since 1996 by the subsidiary in which Richter holds a 65% stake. The main focus is on the quality of service. The cooperation developed between Richter's representative office in Moldova and the wholesale and retail companies enhanced efficiency to a large extent, and also contributed to better exploitation of human resources and better performance in the market.

Retail of Richter's products in Moldova is efficiently supported by the operator of the network of pharmacies, **GR–Retea Farmaceutica S.R.L.** The year 2017 was characterised by the adaptation to the changing in the regulatory environment. At the same time, pharmacies have become interested in optimising their financial situation and have made efforts to offset the loss on margin resulting from the reclassification of products into lower categories by offering OTC products with higher margins over the past years.

Armenia continues to experience economic hardships. In these circumstances Richter's Armenian wholesale and retail holdings had to reckon with plummeting sales in 2017. Due to lagging sales the wholesale subsidiary **Richter Lambron O.O.O.** did not manage to achieve its profitability as opposed to the previous year, and closed 2017 with a loss.

With a network of 27 pharmacies, the retail company **Gedeon Richter Apteka Sp O.O.O.** also struggles with the market environment, similarly to the wholesale company, and has difficulties to maintain its previous achievements from its own resources. At the same time the drop in sales income was only minimal compared to 2016, and while its profit after taxes is still negative, the company managed to reduce some of the loss.

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 2017. 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, Richter 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.** improved its earnings in 2017. 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 2017. 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	Macroeconomic impacts affecting the Company's markets: the Russia-Ukraine conflict and low oil prices causes lagging sales and mounting uncertainties in the CIS region	- Monitoring changes in major macroeconomic factors, incorporating their effects into the planning - Tightening cost containment and customer relations - Flexible utilisation of local production capacities - Strengthening market presence and sales in EU and USA markets
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
Original and biosimilar R&D, production and sales	Risk attached to research, manufacturing and sales of proprietary products and to the success 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 - Operating adverse effects reporting systems regarding proprietary products
The complexity of the Group's activities is increasing more diversified markets	Risks attached to increasing the sales of women's healthcare and CNS products Risks attached to developing a specialised sales network 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 Bemfola® - Strengthening market positions and the marketing network in Western Europe - Developing the company's own marketing network in Latin America - Collaboration with license partners in cariprazine's launch in Europe
Workforce	Risk relating to retention of qualified employees in key positions and recruiting and retaining blue collar workforce	- More frequent review of HR strategy, wage increases in line with labour market trends - Training plans, career and succession programs - Performance assessment system - Determination of optimal headcount - 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 original product launches Introduction of individual (box level) identification of serialised products is mandatory from 2019	- Implementing Quality systems and Standard Operational Processes (SOPs) - Monitoring compliance with health authority regulations - Special projects to prepare for inspections - Preparation for the introduction of serialisation
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, establishing payment terms and sales limits - Valuation of receivables - 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 - Cash Pool system - Preparation for a tax relief related audit by the tax authorities

8. Events after the reporting period

On 2 January 2018 the Board of Directors announced that Christopher William Long resigned of his positon on the Board with effect from 31 December 2017.

The EMA adopted temporary measures on 9 February 2018 as part of the review. The PRAC has recommended that no new patients should be started on Esmya but treatments in progress can be completed. These recommendations are temporary measures to protect patients' health. A final decision is expected before the end of May 2018 and will depend on the findings of the review started in December 2017.

To benefit from synergies the merger of Gedeon Richter Polska and Gedeon Richter Marketing Polska will commence in 2018.

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 the strategy is implemented by means of our own marketing network, and in the United States 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
2017 individual Annual Report
prepared pursuant to the IFRS

pwc

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Gedeon Richter Plc.

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Gedeon Richter Plc. (the "Company") which comprise the balance sheet as of 31 December 2017 (in which the total assets is MHUF 759,717), the income statement, the statement of comprehensive income (in which the total comprehensive income for the year is MHUF 7,782 profit), the statement of changes in equity, the cash flow 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 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and they have been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Accounting Act") relevant for the annual financial statements prepared in accordance with IFRS as adopted by the EU.

Our opinion is consistent with our additional report to the audit committee.

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 applicable laws of Hungary, with the Hungarian Chamber of Auditors' Rules on ethics and professional conduct of auditors and on disciplinary process and, for matters not regulated in the Rules, with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board (IESBA Code of Ethics) and we also comply with further ethical requirements set out in these.

The non-audit services that we have provided to the Company, in the period from 1 January 2017 to 31 December 2017, are disclosed in note 5 to the financial statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company are in accordance with the applicable laws and regulations in Hungary and that we have not provided non-audit services that are prohibited under Article 5 of Regulation of the European Parliament and Committee No 537/2014 and Subsection (1) and (2) of Section 67/A of Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors.

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

pwc

Our audit approach

Overview

Overall materiality	Overall materiality applied was MHUF 2,800
Key Audit Matters	• Valuation of the Esmya intangible asset and the investment in PregLem S.A. • Valuation of Investments in subsidiaries, associates and joint-ventures (other than PregLem S.A.)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Materiality	MHUF 2,800 (2016: MHUF 2,735)
Determination	Approximately 5% of the profit before tax adjusted with the impairment of Esmya intangible asset and impairment of the investment in PregLem S.A.
Rationale for the materiality benchmark applied	The impairment of Esmya intangible asset and the impairment of the investment in PregLem S.A. is a one-off event disclosed in Notes 3.1 of the financial statements. We chose the adjusted profit before tax as the benchmark because, in our view, the users commonly measures the performance of the Company against the profit before tax adjusted by one-off transactions. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

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.

pwc

Key audit matter	*How our audit addressed the key audit matter*
Valuation of Esmya intangible asset and the investment in PregLem S.A. The Company has an investment in PregLem S.A. of MHUF 51,327 and intangible asset relating to Esmya of MHUF 21,916 MHUF as of 31 December 2017. See Notes in the accounting policy section IV)-V), IX) and Note 13 of the financial statements for management's disclosures of the balances, judgments and estimates on these assets. Uncertainties related to the Esmya intangible asset and the investment in PregLem S.A. are disclosed in Note 3.1 of the financial statements. Management has identified the events presented in Note 3.1 as impairment indicators related to the Esmya intangible asset, therefore the Company has performed an impairment review. We focused on this area because of the significance of the Esmya intangible asset and the investment in PregLem S.A. balance, the impairment indicators presented in Note 3.1 and because the impairment assessment involves management's judgements about the future results and the discount rates applied to future cash flow forecast.	Our audit procedures included challenging management on the appropriateness of the impairment models and reasonableness of the assumptions used by performing the followings: • Benchmarking the Company's key market-related assumptions in the models against external data and budgets approved by management. Key assumptions that we focused on were discount rates, long-term growth rates and foreign exchange rates; • Involving our valuation experts where it was considered necessary relating to the valuation method applied; • Assessing the reliability of cash flow forecasts by checking of past performance and comparing to previous forecasts; • Testing the mathematical accuracy and the sensitivity of the models; • Understanding the commercial prospects of the assets, and where possible comparing assumptions to external data sources; • Checking the comparison of the carrying amount to the recoverable amount and recalculating the impairment accounted for. We have reconciled the disclosures presented in Notes 3.1; 12. and 13 to the accounting records of the Company. We have assessed the disclosures presented in Notes 3.1 and 13 to the requirements of *IAS 1 Presentation of Financial Statements* and *IAS 36 Impairment of Assets.* Based on our procedures, we identified no material errors and considered management's key assumptions to be within reasonable ranges.
Valuation of Investments in subsidiaries, associates and joint-ventures (other than PregLem S.A.) The Company has besides the investment in PregLem S.A. investments in subsidiaries, associates and joint-ventures of MHUF 118,269. See Notes in the accounting policy section IX) and Note 13 of the financial statements for management's disclosures of the balances, judgments and estimates on these investments.	We focused on investments in GRMed Company Ltd., GR Mexico S.A.P.I de C.V,and Finox Holding AG where the Company performed 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 followings • Benchmarking the Company's key market-related assumptions in the models against external data and budgets approved by management. Key assumptions that we focused on were discount rates, long-term

pwc

Key audit matter	*How our audit addressed the key audit matter*
We focused on this area because of the significance of the investments in subsidiaries, associates and joint-ventures balance and because the impairment assessment involves management's judgements about the future results and the discount rates applied to future cash flow forecast. Such judgement was required for the impairment assessment of GRMed Company Ltd., GR Mexico S.A.P.I de C.V, and Finox Holding AG because the recoverable amount of these investments are represented by their future cash generating ability rather than by their current equity level.	growth rates and foreign exchange rates. • Involving our valuation experts where it was considered necessary relating to the valuation method applied; • Assessing the reliability of cash flow forecasts by checking of past performance and comparing to previous forecasts; • Testing the mathematical accuracy and the sensitivity of the models; • Understanding the commercial prospects of the assets, and where possible comparing assumptions to external data sources; • Checking the comparison of the carrying amount to the recoverable amount based on which no impairment was accounted for. We have reconciled the disclosures presented in Note 13 to the accounting records of the Company. We have assessed the disclosures presented in Note 13 to the requirements of *IAS 1 Presentation of Financial Statements* and *IAS 36 Impairment of Assets.* Based on our procedures, we identified no material errors and considered management's key assumptions to be within reasonable ranges.

Other information: the business report

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 expressed in the "Opinion" section of our iudependent auditor's report does not cover the business report.

In connection with our audit of the financial statements, our responsibility is to read the business report 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. If based on our work performed we conclude that the business report is materially misstated we are required to report this fact and the nature of the misstatement.

Based on the Accounting Act, it is also our responsibility when reading the business report to consider whether the business report has been prepared in accordance with the provisions of the Accounting Act and other relevant regulations, if any, and to express an opinion on this and on whether the business report is consistent with the financial statements.

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, and state whether the information referred to in Paragraphs a)-d), g) and h) of Subsection (2) of Section 95/B of the Accounting Act has been provided.

pwc

As the Company is a public interest entity and the conditions in Paragraph a) and b) of Subsection (1) of Section 95/C of the Accounting Act are met at the balance sheet date, the Company shall publish a non-financial statement required by 95/C in it's business report. In this respect, we shall state whether the business report includes the non-financial statement required by Section 95/C of the Accounting Act.

In our opinion, the 2017 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 2017 financial statements in all material respects, and the business report has been prepared in accordance with the provisions of the Accounting Act. As there is no other regulation prescribing further requirements for the business report, we do not express an opinion in this respect.

We are not aware of any other material inconsistency or material misstatement in the business report and therefore we have nothing to report in this respect.

We state that the information referred to in Paragraphs a)-d), g) and h) of Subsection (2) of Section 95/B of the Accounting Act has been provided. The business report includes the non-financial statement required by Section 95/C of the Accounting Act.

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 International Financial Reporting Standards as adopted by the EU and to prepare the financial statements in accordance with the supplementary requirements of the Accounting Act relevant for the annual financial statements prepared in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 in the financial statements 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.

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.

pwc

Report on other legal and regulatory requirements

We were first appointed as auditors of the Company on 28 April 2010. Our appointment has been renewed annually by shareholder resolutions representing a total period of uninterrupted engagement appointment of 8 years.

The engagement partner on the audit resulting in this independent auditor's report is Árpád Balázs.

Budapest, 21 March 2018

Árpád Balázs
Partner
Statutory auditor
Licence number: 006931
PricewaterhouseCoopers Auditing Ltd.
1055 Budapest, Bajcsy-Zsilinszky út 78.
Licence Number: 001464

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.

7.

Report of the Supervisory Board including the report of the Audit Board on the draft 2017 individual Annual Report prepared pursuant to the IFRS

The Supervisory Board of
Gedeon Richter Plc.

REPORT

to the 2018 Annual General Meeting of Gedeon Richter Plc.

Budapest, 21 March 2018

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 2017

As in previous years, in 2017 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 2017.
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 with 100% attendance rate. 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 discussed by the Supervisory Board in 2017

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. In discussed the 2017 business plans of the parent company and of Richter Group (including the consolidated plans), the interim balance sheet of 31.08.2017, 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, Executive Chairman Mr. Erik Bogsch, CEO Dr. Gábor Orbán, and Deputy CFO 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 high a 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 2017 the SB discussed the following issues: The impact of IFUA's screening on the company's operation - return; Welfare system; Duties and functioning of the Logistics organisation, Reflex Kft.'s role; Restructuring the HRD and current human resource management issues; Organisational system, efficiency and costs of registration procedures, FX management; Quality management system, findings of inspections and audits; The Audit Department's activity; Domestic trade.

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 resolved on the following topics:

1. Discussion and approval of the Interim Balance Sheet and Auditor’s Report dated 31 August 2017.
2. Restructuring of the HRD and current issues of human resource management;
3. Discussion and approval of the Report on Corporate Governance.
4. Discussion and approval of the 2017 financial statements, operating report, and the Independent Auditor's Report.
5. Discussion and approval of Richter Group's 2017 consolidated financial statements, operating report, and the Independent Auditor's Report.
6. Discussion and approval of the report to the SB on the AB's activities in 2017.

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 2017 and feedback on the Board of Directors' Report to the Annual General Meeting

The Company's main objectives for 2017 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 2017 significant advancement was made in, but not limited to, the following areas:
Pursuant to the provisions of the Accounting Act, as of 1 January 2017 Richter has prepared its reports in accordance with international financial reporting standards (IFRS).
Return from sales increased substantially in the CIS countries, mainly in Russia, as well as in the EU, especially in the EU15 countries.
On 4 January 2017 the European Commission granted marketing authorisation for the biosimilar teriparatide product (Terrosa).
On 17 January 2017 Richter and Allergan plc announced positive results from Venus II, the second pivotal Phase III clinical trials, which put into motion the registration application process for Esmya in the United States.
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 in Western Europe and other European countries.

In early 2017 Richter and Bayer reached an agreement on reimbursement of the costs of inventories in conjunction with the recall of Lisvy.
In July 2017 Richter was granted marketing authorisation for all EU member states for its product Reagila® (cariprazine).
In an announcement dated 2 October 2017 the Board informed the shareholders that Mr Erik Bogsch resigned of his post of CEO with effect of 1 November 2017 while he continues to serve on the Board and retains his position Executive Chairman. Gábor Orbán, Deputy CEO and member of the Board was appointed Chief Executive Officer from 1 November 2017. Furthermore, the Board invited Erik Bogsch to supervise the Company's trade, international and government relations.
On 12 October 2017 Richter and Pharmanest AB announced that Richter will commercialise Pharmanest's SHACT (Short Acting Lidocaine) technology, an innovative pain relief pharmaceutical formulation in certain markets.
Richter and Prima-Temp Inc. of the United States announced on 31 October 2017 that they entered into an exclusive license and distribution agreement for Richter to commercialize the innovative medical device, PriyaRing globally, except for the USA and Canada. PriyaRing is an internal sensor that identifies the subtle temperature changes that occur prior to ovulation.
In December 2017 EMA's Pharmacovigilance Risk Assessment committee (PRAC) started a review in the EU member states of Esmya (ulipristal acetate) investigating liver injury possibly induced by the product. The EMA adopted temporary measures on 9 February 2018 as par of the review. The PRAC has recommended recommending that no new patients should be started on Esmya but treatments in progress can be completed. These recommendations are temporary measures to protect patients' health. A final decision is expected before the end of May 2018 and will depend on the findings of the review started in December 2017. Richter takes patients' safety very seriously. Based on the data of the clinical trials we are convinced that Esmya is a safe product and we are committed to providing this unique treatment option to women suffering from uterine fibroids.
Then in December 2017 Richter and Allergan announced positive topline results for a phase III study of cariprazine for the treatment of adults with major depressive episodes associated with bipolar I disorder (bipolar I depression).
Richter intended to expand its international business through a capital increase in some of its manufacturing companies and through continued capital investment (with special regard to the Russian subsidiary).

The Company's earnings for 2017:
The Company's after-tax profit for 2017 is HUF 6,318 million, 88.4% less than the HUF 54,256 million achieved in 2016. Significantly increasing sales had a positive effect, while the temporary measures proposed by the PRAC regarding Esmya had a negative impact on business, as did rising sales and operating costs and a significant loss on financial operations.
The 2017 net sales income is HUF 328,533 million, HUF 43,500 million (or 15.3%) higher than the 2016 figure.
Net domestic sales were 0.9% up year-on-year; Richter's market share is 5.1%, and its share of the prescription drugs market is 7.4%, ranking it second. In 2017 oral contraceptives performed the best in tems of sales (8.4%). The loss of sales caused by the blind bidding system whose effect spilled over to 2017 was approximately HUF16 million; however, Richter managed to offset it by new launches.
International sales were HUF 293,370 million, 17.3% above the reference year.

Russia is the Company's most important export market with EUR sales 22.6% over 2016, strongly influenced by the appreciation of the rouble against the euro. Rouble-denominated sales were up by 8.3% with increasing Groprinosin, Mydocalm, Diroton, Verospiron and oral contraceptives sales dampened by declining Quamatel and Panangin sales. Euro sales in Ukraine rose by 17.6%. The total turnover achieved in the CIS market contributed 40.3% to export, 15.8% up from the 2016 figure.
The turnover realised in the EU increase by 16.3% year-on-year and contributed 36.7% to export. Denominated in euro, the turnover in the EU15 region was 27.2% higher thanks primarily to significantly rising Esmya and Bemfola sales.
Sales in the USA grew 46.6%, and in dollar, 50.6% resulting mainly from Vraylar's royalty income.
China achieved HUF 23,056 million in 2017, HUF 3,911 million in excess of the previous year, with Bromocriptine, Cavinton and oral contraceptives to be singled out as outstanding.
Sales in Latin America were approximately the same as in the reference year; the region achieved HUF 3,626 million and contributed 1.2% to international sales.
Aggregate direct and operating costs of sales were HUF 25,513 million higher year-on-years. The increase of payroll cost was significant. Gross margin was HUF 28,918 million over the reference year figure. Costs of sales and marketing to sales revenues ratio was down, while a sizeable item contributing to the increase in R&D expenditure was research commissions.
The balance of other income and expenses rose from HUF 9,719 million expenses in the reference year to HUF 11,8191 million expense in 2017. The impairment of Esmya reported in Latin American intangibles (HUF 7,992 million) in the wake of the temporary measures proposed by the PRAC, settlements in conjunction with the recall of Lisvy, as well as income from milestone payments claw back related expenditure strongly affected the balance.
Operating profit was HUF 55,861 million, 39.5% up year-on-year. Operating margin was 17.0%, after a 3.0 percentage points increase.
In 2017 net financial income was a loss of HUF 49,066 million as opposed to a profit of HUF 19,647 million in 2016. Financial income was hit hard by the the impairment (HUF 51,526 million) reported on Richter's share in PregLem in consequence of the temporary measures proposed by the PRAC. The 2017 unrealized financial income item was largely affected by the restated RUB/HUF rate. Exchange rate losses realized from trade receivables, payables and other items were HUF 5,229 million as opposed to a HUF 2,387 million profit in the preceding year.

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 2017 highlighting some of the key issues addressed by the Supervisory Board in the course of the year

The Company's welfare system

Welfare and well-being services are part and parcel of the benefit system and play an impotant part in attracting and retaining workforce in a tough labour market environment. In accordance with the relevant statutory provisions the size and allocation of the welfare budget is subject to the jopint decision of the employer and the Works Council. Richter supports its employees' rest and recreation by providing holiday resorts of which some are owned by the Company (in Balatonszemes, Balatonlelle, Ráckeve, Miskolctapolca and Budakalász), or jointly operated with the gas supplier NKM Földgázszolgáltató Zrt (in Balatonfüred) and operating sports facilities (swimming pool and fitness centre in Budapest, and a fitness centre in Dorog). It also provides pre-school facilities for young children (in Budapest and Dorog). Swimming pool access is provided through contracted providers in Dorog and Debrecen. Health maintenance and early detection of diseases is supported by a health screening programme.
Development ideas and long-term plans are devised in collaboration with the Works Council. One of the plans envisions the creation of a crèche but pre-schools also need to be expanded. A new fitness centre needs to be built in Budapest to meet the growing demand for physical activity. Employees' demand for the Balatonlelle resort facility has also grown; coupled with the increasing need for a venue for smaller training sessions and workshops; it calls for the facility's expansion. Plans involving the Balatonszemese resort envision expansion of the conference room and restaurant so that the facility can house larger scale events. Changing needs also necessitate the addition of a smaller wellness centre.

Duties and functioning of the Logistics organisation, Reflex Kft.'s role
The main function of the Logistics organisation is to operate the supply chain within the Company and within the Group. Whilst discharging its duties the organisation relies on the Company's real properties, equipment and employees, as well as Reflex Forwarding and Shipping Company Limited fully owned by Richter. Warehousing is mainly done in the Logistics Directorate's central warehouse; rented warehousing facilities are only necessary because of the Seveso legislation pertaining to highly dangerous substances.
The Materials Planning Department's core activity is inventory management, production planning and sourcing packaging materials. The size of the products portfolio is highlighted by over 2500 packaged drugs and over 5000 different packaging materials. Production data reveal approximately 39,000 batches per year, 72% of which are produced on about 30 loose products lines and about 20 packaging lines. Lines and staff are stretched and the number of switches is high. In recent years the volume of finished products has been around 180-200 million boxes annually; typically, there was a growth trend until 2013 and since then, there has been a decline due to outsourced manufacturing and various market related impacts. The decline will perhaps stop this year. The output of the tableting plant has been steadily increasing and is over six billion tablets a third of which is hormones.
Inventory management is described in terms of the value of stocks, duration of holding, and turning rate, the latter of which is on a par with the industrial average.
The extent of intra-Group production allocation is indicated by the fact that 14% of finished products and 10% of loose products are manufactured in cooperation. Outsourcing to Russia is the dominant feature in manufacturing, against a background of price agreements.
Currently a product portfolio review is underway where evaluation is done with a view to cost effectiveness using a newly developed costing model; furthermore, market

aspects of trade are also crucial. Production planning is also being reviewed aiming to improve efficiency; new optimised production series are designed, new traceability indicators are developed, and forecasting QM tasks is also an objective.
Manufacturing struggles with a significant shortage of manpower. Shortage of labour in the Tableting Plant and the Dorog API plants should be highlighted where employees quitting their jobs typically cannot be replaced by sufficiently qualified workers.
Reflex Kft. is fully owned by Richter. Its core business is domestic and international shipping and forwarding with the company's own and leased vehicle fleet, as well as air and water cargo shipping for Richter. Furthermore, Reflex Kft. fulfils the parent company's special needs falling within the scope of the ADR provisions (dedicated storage, carriage, licences), compliance with GDP provisions (vehicles with temperature control, GPS tracking, ISO 9001 QM system), and bar code based cargo tracking. Reflex Kft. leases its premises in Budapest and Dorogi from the parent company. Since its foundation the company's revenues have steadily grown with minor breaks: 93% is from Richter, and the remaining 7% from non-Group customers. Initially the company's activity was almost exclusively domestic forwarding but with the 2013 introduction of air and water shipping the majority of its business is contributed by international forwarding. Head count is approximately 200. An important indicator is the parent company's rate of indirect shipping costs to sales income, which has stayed around 0.2% in recent years.

Quality management system, findings of inspections and audits
Inspections and audits by the competent authorities are the main indicators of the quality management system's (QMS) functioning. They present a major challenge and require a significant input of efforts. Inspections and audits take up a total of 60-80 audit days annually, added to which is the time needed for preparation, follow-up and paperwork. In 2016 and 2017 the FDA and the National Institute of Pharmacy and Nutrition (OGYÉI) conducted successful inspections at the Dorog and the Budapest facilities, and OGYÉI also inspected the Debrecen facility; each closed with no critical observations. The burden of inspections and audits will be somewhat eased once the agreement between the FDA the EMA on mutual recognition of inspections and possible joint inspections of medicines is signed. Currently the Russian authority is one of the toughest with inspections expected every three years. A major achievement was in 2016 the Russian GMP inspection that found no critical observations (in addition to the also successful Russian ISO audit). Frequent changes in the regulatory environment present an added risk in the course of inspections.
Complaints are also important quality markers. Complaints basically concern products; over the past 1.5 years there were only two complaints about APIs. The number of product related complains has been increasing at the rate of launches of Richter's new products manufactured by complex and innovative technologies. The numbers of complaints impossible to investigate (due to a lack of sample or unknown batch number) and unjustified complaints are still high.
The significance of the QMS when it comes to releases is indicated by the high number of products to be released, 42 thousand annually, approximately half of which are products and about 15 thousand are packaging materials. Richter's QM units are also stretched to the limit of their capabilities.
There are four QMS development projects in progress as part of the IFUA projects including organisational performance measurement and evaluation, and identification

of areas to be developed. the projects also involved the determination of goals, standards and indicators. the main goals are to identify critical and overload points and to find solutions to enhance performance.
IT development projects are surrounded by a great deal of expectations as the spread of IT assisted robotics can play a key role for the future. The QMS' long-term IT strategic plans are aimed at restructuring IT developments on the basis of a pre-determined concept, automatic evaluation of product parameters (in order to reduce the number of routine checks and tests, *inter alia*), data-based operation, robotisation, automation, paperless office, and substitution of qualified workforce.
The most important legislative changes and tenders to be highlighted include a new ICH Guide about products' life cycle and tightening control of data integrity.

Domestic trade
The 2007 introduction of the Drug Economy Act had caused major changes in the Hungarian pharma market that resulted in a massive backslide of sales. In subsequent years the market was stabilised and switched on a growth track, although the earlier double-digit growth rates were replaced by single digits. This trend was disrupted by the introduction, in October 2011, of the blind bidding asystem, which forced pharma companies to radically cut the prices of their generic products and led to the shrinkage of the pharmaceutical market. This was followed by a slow upturn.
After 2012 Richter's growth was above the average year after year. Prescription drugs represent 59% of the total market and contribute 84.8% to Richter's income from sales. Richter's share of this market is 7.4%. Of the Top 10 manufacturers Richter scored one of the highest growth in terms of absolute value since 2012 and regained its second place. OTC drugs represent 17% of the total market and contribute 10.7% to Richter's sales income.
Due to the regular cuts since 2011 Richter has suffered approximately a HUF 10 billion loss. To offset the loss the number of boxes sold had to be stepped up, and new products had to be launched. Thanks to successful ssales and marketing the promoted products helped Richter keep, or carve out, significant market shares, and the majority of the promoted products are market leaders.
The company's 2017 sales income in Hungary amounted to HUF 35.4 billion, 1.3% higher year-on-year. This was due to stable markets and the success of products launched last year.

1. 2. 2. Summary and the Supervisory Board’s recommendation to the Annual General Meeting

The documents supporting the 2017 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 2017 net sales income is HUF 328,533 million, HUF 43,500 million (or 15.3%) higher than the 2016 figure. the domestic market was 0.9% (or HUF 323 million) up. International sales were HUF 293,370 million, 17.3% above the reference year. Russia continues to be the Company's most important export market with EUR sales 22.6% over 2016, strongly influenced by the 11.7% appreciation of the rouble against the euro; the growth in rouble is 8.3%. The turnover achieved in the CIS market is HUF 118,359 million, and the region contributed 40.3% to international turnover, and exceeded the 2016 figure by 15.8%. the turnover achieved in the EU is HUF 107,560 million contributing 36.7% and 16.3% higher than in 2016. Denominated in euro, the growth of the EU15 region is 27.2% due to Richter's strategic products (Bemfola and Esmya). Sales in the USA are up by 46.6% (or HUF 8,457 million) mainly due to royalty income from Vraylar. Sales in China amounted to HUF 23,056 million in 2017 and were HUF 3,911 million above the reference year's figure. Sales in Latin America are approximately at the reference year's level (HUF 3,626 million). The Other countries segment achieved HUF 14,145 million in sales, 2% up from 2016.
Aggregate direct and operating costs of sales were HUF 25,513 million higher year-on-year.
After HUF 9,719 million expenditure in 2016, the balance of Other income and expenditure was HUF 11,891 million expenditure in 2017 (Esmya's impairment, settlement of Lisvy's recall, milestone income, claw back type expenditures).
Operating profit was HUF 55,861 million, 39.5% up year-on-year.
In 2017 net financial income was a loss of HUF 49,066 million as opposed to a profit of HUF 19,647 million in 2016. The significant deterioration of financial income was caused by the negative business impact of the temporary measures proposed by the PRAC regarding Esmya (impairment), and by the restatement of the RUB/HUF rate.
The Company's after-tax profit for 2017 is HUF 6,318 million compared to HUF 54,256 million achieved in 2016. Significantly increasing sales had a positive effect, while the temporary measures proposed by the PRAC regarding Esmya had a negative impact on business, as did rising sales and operating costs and a significant loss on financial operations.

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 2017 and the statements made in the Independent Auditor’s Report. Hence, it proposes the Company’s 2017 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 2017 Annual Report

2. 1. Proposal for the appropriation of Gedeon Richter Plc’s Balance Sheet and after-tax profit for 2017

Based on the Company’s audited Annual Financial Statement for 2017 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 Consolidated Annual Financial Statements for 2017 submitted to the AGM (with total assets and total liabilities in the Balance Sheet being equally HUF 759,717 million), duly audited in compliance with the International Accounting Standards.
- The after-tax profit specified in the audited Profit and Loss Statement for 2017 (before dividend payment) being HUF 6,318 million.

2. 2. Proposal for the appropriation of Gedeon Richter Plc.'s after-tax profit for 2017 and dividend payment

The proposals made by the Board of Directors are approved and supported by the Supervisory Board.

Hence, the Supervisory Board proposes to the distinguished members of the Annual General Meeting

- To approve the payment of 68 dividend, i.e. HUF 68 on each ordinary share.

Budapest, 21 March 2018

Dr. Attila Chikán
Chairman of the Supervisory Board

8.

Approval of the draft 2017 individual
Annual Report pursuant to the IFRS

Proposal to Item No.:8
on the Agenda of the AGM

Resolution of the Board of Directors No.: 33/2018

The Board of Directors proposes to the AGM to approve the Company's draft 2017 individual annual report pursuant to the IFRS, including the 2017 balance sheet.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

9.

Resolution on the determination and allocation of the after-tax profit and the rate of dividends

Proposal to Item No.:9
on the Agenda of the AGM

Resolution of the Board of Directors No.: 34/2018

The Board of Directors proposes to the AGM to state HUF 68 as a dividend relating to the common shares (which is equal to 68% of the face value of the common shares) and approve the payment.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

10.

Corporate Governance Report

DRAFT !

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, the stock market regulations currently in force, and with Gedeon Richter Plc's characteristics arising from its line of industry and its structure. The Company reviews its corporate governance principles from time to time to keep abreast with continuously evolving international practice.

Törölt: as well as with

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 for the previous business year; on the management, the financial situation and the business policy of the Company;

Törölt: prepared pursuant to the Accounting Act

[1] The report concerns the 2017 business year.

Törölt: 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;
- the Auditor's report on the Company's individual annual report prepared for the previous business year;
- Approval of the Company's individual annual report for the previous business year, 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: prepared pursuant to the Accounting Act

Törölt: pursuant to the Accounting Act

Törölt: prepared pursuant to the Accounting Act

The Company shall publish the key data of the Company's draft consolidated annual report for the previous business year pursuant to International Financial Reporting Standards 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 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.

Törölt: prepared pursuant to the Accounting Act

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[2] 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. Temporarily, from January 1, 2017 to October 31, 2017, the same person fulfilled the position of the Managing Director and the Chairman of the Board of Directors. However from November 1, 2017 the two position are held separately again. Two different people holding the tasks of the Managing Director and of the Chairman of the Board of Directors. The Board of Directors elects its chairman and deputy chairman from among its members.

Törölt: ; the chairman of the Board of Directors is always elected from among the external (independent) members

Chairman of the Board of Directors: Erik Bogsch /from January 1, 2017/

Törölt: William de Gelsey

Members of the Board of Directors: William de Gelsey /until April 26, 2017/

Törölt: Erik Bogsch

János Csák
Dr. Gábor Gulácsi
Dr. Ilona Hardy /from April 26, 2017/
Dr. László Kovács /until April 26, 2017/
Csaba Lantos
Christopher William Long /until December 31, 2017/
Gábor Orbán /from April 26, 2017/
Dr. Gábor Perjés
Dr. Norbert Szivek
Prof. Dr. Szilveszter E. Vizi
Dr. Kriszta Zolnay

Törölt: Dr. Csaba Polacsek /until January 11, 2016/¶

Törölt: /from April 26, 2016/

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.

[2] With effect from 31 December, 2017 Mr. Christopher William Long resigned from his membership in the Company's Board of Directors.

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 2017 the Board of Directors held eleven (11) meetings with an average attendance rate of 87.59 %.

Törölt: 6
Törölt: twelve
Törölt: 2
Törölt: 89.19

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, 2017 the remuneration of the Chairman of the Board of Directors was set at HUF 650,000.00 per month and that of the members of the Board of Directors at HUF 540,800.00 per month.

Törölt: 6
Törölt: 25
Törölt: 20
Törölt: 0

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.

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:	Prof. Dr. Szilveszter E. Vizi
Members:	János Csák

Törölt: Christopher William Long (until November 28, 2016)¶
. . .
Törölt: (from November 28, 2016)

Dr. Gábor Perjés

Permanent invitee: William de Gelsey (until April 26, 2017)

Törölt: , 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 2017 business year the Corporate Governance and Nomination Subcommittee held four (4) meetings with an average attendance rate of 100%.

Törölt: 6

Törölt: two

Törölt: 2

Törölt: 83.33

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: Csaba Lantos (from February 27, 2017)

Törölt: Prof. Dr. Szilveszter E. Vizi (until November 28, 2016)¶

Members: William de Gelsey (until April 26, 2017)
Dr. László Kovács (until April 26, 2017)
Dr. Gábor Gulácsi (from April 26, 2017)
Dr. Gábor Perjés (from April 26, 2017)

Törölt: Csaba Lantos ¶

Törölt: 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 2017 business year the Remuneration Subcommittee held four (4) meeting with an average attendance rate of 100%.

Törölt: 6

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 and persons having other kind of legal relation with the Company 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.

Within the frameworks of the organisational division of labour, from November 1, 2017, the Company established the role of the Executive Chairman having a focus on the commercial activities as well as international, public and government relations. His main task is to continue implementing the specialty pharma strategy by strengthening the recently established international sales network in Western Europe and overseas, while continuously broadening the high added value innovative product portfolio.

Members of the Executive Management:

Erik Bogsch	- Managing Director (until October 31, 2017) - Executive Director responsible for Commercial, for Legal and Global Operations, for PR and Government Relations (from November 1, 2017)
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 to December 31, 201
	- Chief Operating Officer (from January 1, 2017 to October 31, 2017)
	- Chief Executive Officer (from November 1, 2017)
Tibor Horváth	- Commercial Director (from August 1, 2017)
Dr. István Greiner	- Director of Research
Dr. György Thaler	- Director of Development

Törölt: /

Törölt: /

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)

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 2017 business year the Supervisory Board held nine (9) meetings with an average attendance rate of 100 %.

Törölt: 6

Törölt: 95.55

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, 2017 the remuneration of the Chairman of the Supervisory Board was set at HUF 478,400.00 per month and that of the members of the Supervisory Board at HUF 390,000.00 per month.

Törölt: 6

Törölt: 60

Törölt: 0

Törölt: 75

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. The Chairman of the Audit Board 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.

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 scope of competences and tasks of the Audit Board includes the following:

- opinion on the consolidated annual report for the previous year pursuant to the IFRS;
- opinion on the individual annual report for the previous business year;
- 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;
- recommendation regarding the person and remuneration of the auditor;
- preparation of the agreement to be concluded with the auditor;
- observing the enforcement of the professional, conflict of interest and independency requirements applicable to auditors - with special regard to compliance with the requirements 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 is 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;
- monitoring of the operation of the financial accounting system and submitting recommendations regarding the necessary arrangements where deemed necessary;
- assistance with the work of the Supervisory Board in the interest of the appropriate supervision of the financial accounting system as well as
- monitoring the effectiveness of the company's internal control and risk management systems and submitting recommendations where deemed necessary.

The Audit Board acts and makes decisions as a body. The Board keeps minutes of its meetings and its decisions are recorded.

In the 2017 business year the Audit Board held three (3) meetings with an average attendance rate of 100%. In 2017 business year the Audit Board held consultation and adopted resolution without session furthermore at eight occasions.

Introduction to the diversity policy applied to the members of governing bodies

The Company, with respect to the legal regulations and following the international requirements of the line of industry, consider the aspects relevant in course of nomination and election of members of the governing bodies. At nomination of members of the Board of Directors, the Supervisory Board and the Audit Board, and at the election of the members of

Törölt: remit
Törölt: to give an
Törölt: Company's
Törölt: International Financial Reporting Standards
Törölt: to give an
Törölt: Company's
Törölt: prepared pursuant to the Accounting Act
Törölt: making a
Törölt: concerning
Törölt: contract
Törölt: monitoring compliance
Törölt: with the qualification requirements
Törölt: regulations on
Törölt: on the part
Törölt: of
Törölt: the
Törölt: discharging
Törölt: relating
Törölt: to cooperation
Törölt: c
Törölt: - where necessary
Törölt: - tabling
Törölt: for taking measures
Törölt: analysis
Törölt: reporting
Törölt: making
Törölt: when any action is
Törölt: ing
Törölt: so as to exercise proper control of the financial reporting
Törölt: 6
Törölt: two
Törölt: 2

the Management the Company takes into account not just the adequately high professional qualification and competence, but also the practical, business experiences obtained and results achieved in course of previous career, and personal management skills. Simultaneously the Company gives high value to the good professional and personal reputation, and in order to ensure the diversity, also focus on the expectation for gradually growing the rate of participation by women.
In 2017 in the Company's eleven-member Board of Directors there was 2 (two), in the Company's five-member Supervisory Board there were 3 (three), and in the Company's three-member Audit Board there was 1 (one) female member. The Company's eight-member Management has no female member in 2017. In case of definitive expectations will be announced stipulated by law regarding the woman's quota, the Company is committed to take all steps which are necessary and may be fulfilled by the Company in order to grow the rate of participation by women in governing bodies of the Company.
However, the Company deems it necessary to record, that arising from the public limited company form, over the nomination of the members of the Board of Directors, the Supervisory Board and the Audit Board, it has no influence to the election of members of the governing bodies, as the election belongs to the exclusive competence of the general meeting.
In course of nomination and election of members the Company keeps away from all discrimination, provide the same chance and possibility to both Hungarian and foreign citizens and endeavors to pay regard that circumstance that the governing body members' dispersion of age shall be balanced if it's possible.
In course of nomination and election the Company is always conducted by the aim that members of the certain bodies collectively every time have the knowledge - from the fields relevant to the Company - which are necessary to hold their tasks, to achieve the Company's goals and to keep its obtained results.

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 2017 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 Mr. Árpád Balázs, member of the Hungarian Chamber of the Auditors.

Törölt: 6

Törölt: s

Törölt: Szilvia Szabados

In accordance with its contract, PricewaterhouseCoopers Könyvvizsgáló Kft. audits the Company's individual Annual Report prepared in accordance with the International Financial Reporting Standards, and the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS, earlier IAS).

Törölt: pursuant to Act C of 2000 on Accounting

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 2017 year is HUF 19,000,000.00 + VAT, which includes the fee for the auditing of the 2017 non consolidated annual report, the fee for examining the consonance between the non-consolidated annual report and business report for 2017, the fee

Törölt: 6

Törölt: 6

Törölt: in accordance with the Hungarian Accounting Act

Törölt: 6

for the auditing of the 2017 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, 2017 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 individual financial statements and also audited the Company's consolidated financial statements prepared according to the International Financial Reporting Standards.

Shareholder relations

The formal contacts with shareholders include the annual reports and financial statements, the quarterly reports published through the Budapest Stock Exchange and other announcements. Shareholders receive additional information on the Company's business, its results and strategy at the Annual General Meeting. The Company organizes roadshows to inform the investor community in the United States, the United Kingdom and in 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 coordinating the above activities. The Share Registration Department focuses primarily on small shareholder relations. As an additional information channel the Company's website (www.richter.hu) includes a specific page which addresses the needs of investor and financial analyst community.

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.

Törölt: 6

Törölt: 6

Törölt: prepared according to the Hungarian Accounting Act

Törölt: official

Törölt: In addition, s

Törölt: about

Törölt: ies

Törölt: for

Törölt: s

Törölt: to inform shareholders and Global Depository Receipt (GDR) holders based

Törölt: all parts of Continental

Törölt: responsible for

Törölt: In order to promote efficiency of information

Törölt: designates special

Törölt: s

Törölt: to issues of interest to shareholders and financial stakeholders on its website www.richter.hu

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.

Code of Ethics

In the course of 2016, the Company reviewed and amended the Code of Ethics of Gedeon Richter Plc. and its affiliates ("RICHTER") as an elemental part of its Global Compliance Program. The Code of Ethics provides requirements 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. In the course of 2017 the renewed Code of Ethics and the Manuals of the Global Compliance Program were localized and implemented in the European affiliates of the Company, where the employees received comprehensive education of their contents. The Company plans a revision and update of its compliance manuals in 2018.

Törölt: its

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 "health profit" till the end of 2017 was HUF 300 million donated to 61 Hungarian 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", now comprising several initiatives, in 2010.

Richter was honoured as the Figyelő Medicina TOP Outstanding Pharmaceutical Company of 2017 for its exceptional performance in health care. In addition, for the fourth year running, Richter won the Most Attractive Employer Award in the pharmaceutical and chemical industry category.

Every two years – the last time being in 2016, concerning the period of 2014-2015 – 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.

Törölt: end-of-year

Törölt: in 2015

Törölt: support for 47

Törölt: 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.

Törölt: In 2015 the Company received the 2014 Medicine of the Year Award for its product for the treatment of uterine fibroids. It

Törölt: 2015

Törölt: 2015

Törölt: second

Törölt: 2014

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, 25 April, 2018

Törölt: 26 April

Törölt: 7

……... …….
Prof. Dr. Szilveszter E. Vizi
Member of the Board of Directors,
Chairman of the Corporate Governance
and Nomination Subcommittee

……
Dr. Gábor Perjés
Member of the Board of Directors,
Member of the Corporate Governance
and Nomination Subcommittee

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.

Yes. Mr. János Csák informed the Board of Directors from the membership he achieved in a governing body of a company which is not part of the company group.

Törölt: 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, the Corporate Governance and Nomination Subcommittee evaluated the work carried out by Board of Directors in 2017.

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 regular 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.

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 and 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.

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.

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.

Section (4) of Article 5 of Regulation (EU) No. 537/2014 stipulates, that from 2017 an audit firm carrying out statutory audit of public-interest entities, or if the audit firm belongs to a network, any member of such network, may provide services non-prohibited by the Regulation just in case if the Audit Board give its preliminary approval to entering into these service contracts. In each case we asked the approval of the Audit Board to enter into all those contracts which fall under the effect of Section (4) of Article 5 of the Regulation.

Törölt: 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.

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 Company intends to enter into a service contract, which falls under the effect of Section (4) of Article 5 of the Regulation (EU) No. 537/2014, with the audit firm carrying out the statutory audit, or if the audit firm belongs to a network, with any member of such network.

Törölt: statutory auditor or external advisor is given another assignment. See above under 2.9.2

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.

Yes

Törölt: 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 2017 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: 6

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.

Yes

Törölt: 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 principles and procedures which ensure 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 in 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. Note 5 of the Notes to the Financial Statements IFRS to Gedeon Richter Plc's annual report contains the data of the assignments given to the audit firm.

Törölt: 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.

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.

Törölt: 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 public 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 rules, as well as information about 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 annual report.

Yes

R 4.1.14
The company discloses its guidelines 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.

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 conducting 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.

No

Törölt: 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 pertaining 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.

No

Törölt: 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 operations.

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 and the Supervisory Board in the given 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.

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.

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, 25 April, 2018

Törölt: 26 April

Törölt: 7

……..…	……...
Prof. Dr. Szilveszter E. Vizi	Dr. Gábor Perjés
Member of the Board of Directors,	Member of the Board of Directors,
Chairman of the Corporate Governance	Member of the Corporate Governance
and Nomination Subcommittee	and Nomination Subcommittee

11.

Amendments to the Company’s Statutes

(address change of a Debrecen branch office, more precise expression for the term “Managing Director”, amendment of rules on the order of exercising employer’s rights, authorization of the Board of Directors to increase the Company’s registered capital)

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 25, 2018.)

Törölt: 6

Törölt: 7

Törölt: 6

Törölt: 7

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.

(2) **Seat of the Company:** 1103 Budapest, Gyömrői út 19-21.

Branch Offices of the Company:

2510 Dorog, Esztergomi út 27.
4031 Debrecen, Richter Gedeon u. 20.
4031 Debrecen, Kígyóhagyma u.8.
6720 Szeged, Eötvös u. 6 .
7673 Kővágószőlős, 513/2 hrsz.

Törölt: Medvefű

(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:

Törölt: 6

Törölt: 7

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

Törölt: 6

Törölt: 7

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

Törölt: 6

Törölt: 7

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.

Törölt: 6

Törölt: 7

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:

Törölt: 6

Törölt: 7

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.

Törölt: 6

Törölt: 7

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 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

Törölt: 6

Törölt: 7

the inherent rights and the protection of data. (Section 3:247 of the Civil Code) While inspecting the 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

Törölt: 6

Törölt: 7

or any other official document of equivalent purpose relating to the member of the shareholder 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.

Törölt: 6

Törölt: 7

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 Chief Executive Officer acting **solely**, on behalf of the Company,

Törölt: Managing Director

(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;

Törölt: 6

Törölt: 7

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)

Törölt: 6

Törölt: 7

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.

Törölt: 6

Törölt: 7

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);

Törölt: 6

Törölt: 7

(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)

Törölt: 6

Törölt: 7

(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.

Törölt: 6

Törölt: 7

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."

Törölt: 6

Törölt: 7

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 be 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.

C.

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

Törölt: 6

Törölt: 7

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;

Törölt: 6

Törölt: 7

(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;

(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 Chief Executive Officer

Törölt: **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.

Törölt: 6

Törölt: 7

15.2 The Chief Executive Officer 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.

Törölt: Managing Director

15.3 The Chief Executive Officer 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 Chief Executive Officer's delegation of duties and powers may be general or made on a case-by-case basis. However, any limitation of the Chief Executive Officer's sphere of authority arising out of his membership on the Board of Directors shall be null and void with respect to third persons.

Törölt: Managing Director

Törölt: Managing Director

Törölt: Managing Director

15.4 The Chief Executive Officer shall be entitled to decide on any matters that do not belong to the competence of the General Meeting or the Board of Directors.

Törölt: Managing Director

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 the Organizational and Operational Rules and Regulations.

Törölt: Annex (B) of the Statutes

15.6 The Chief Executive Officer, acting in the interests of the Company, shall enter into agreements, represent the Company with respect to third persons, before courts and other authorities.

Törölt: Managing Director

15.7 The Chief Executive Officer shall:

Törölt: Managing Director

- 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 Chief Executive Officer shall be exercised by the Board of Directors. The Chief Executive Officer may not vote on decisions regarding these matters and on resolutions affecting his person as a member of the Board of Directors.

Törölt: Managing Director

Törölt: Managing Director

15.9 The Board of Directors may delegate any of its powers related to the day-to-day management of the Company to the Chief Executive Officer 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.

Törölt: Managing Director

(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.

Törölt: 6

Törölt: 7

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, based 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 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.

Törölt: 6

Törölt: 7

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 this 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:

a) opinion on the consolidated annual report for the previous year pursuant to the IFRS;
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

Törölt: 6

Törölt: 7

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.

(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.

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.

Törölt: 6

Törölt: 7

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 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: 6

Törölt: 7

(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.

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 25, 2018 entitled to increase the Company's registered capital by a maximum of twenty-five percent (25%). The largest amount by which the Board of Directors may increase the Company's registered capital within five years shall be HUF 4,659,371,500 that is, four billion six hundred and fifty-nine million three hundred seventy-one thousand five hundred Hungarian Forints, thus the amount of the approved registered capital shall be HUF 23,296,857,500 that is, twenty-three billion two hundred ninety-six million eight hundred fifty-seven thousand five hundred 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.

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:

Törölt: 6
Törölt: 7
Törölt: 8
Törölt: 0
Törölt: per year
Törölt: 38,239,604,000
Törölt: thirty-eight
Törölt: two
Törölt: thirty
Törölt: and six
Törölt: and four
Törölt: 56,877,090,000
Törölt: fifty-six
Törölt: eight
Törölt: and seventy-seven
Törölt: and ninety

Törölt: 6

Törölt: 7

(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 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 25, 2018.

I h e r e b y c o u n t e r s i g n 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 2.,10, 15 (15.2, 15.3, 15.4, 15.5, 15.6, 15.7, 15.8, and 15.9) and 20.3, as well as Annexes (A) and the lapse of Annex (B) provided for by resolutions no. [.]-[.] and [.]-[.] passed by the Annual General Meeting held on April 25, 2018.

Date of countersigning: Budapest, May [ ], 2018

Name of attorney at law:
bar identification number:

Törölt: 6
Törölt: 7
Törölt: 6
Törölt: 7
Törölt:
Törölt: 5., 14.4 (m), 15.5, 16.13, 16.14, 19.5
Törölt: and (B)
Törölt: 10
Törölt: 7
Formázott: Kiemelt
Törölt: 15
Formázott: Kiemelt
Törölt: 18
Törölt: 6
Formázott: Kiemelt
Törölt: 24
Formázott: Kiemelt
Formázott: Betűtípus: Dőlt
Formázott: Betűtípus: Dőlt, Kiemelt
Formázott: Betűtípus: Dőlt
Formázott: Betűtípus: Dőlt
Formázott: Betűtípus: Dőlt
Törölt: ¶
¶
¶
¶
¶

12.

Report of the Board of Directors on the treasury shares acquired by the Company based upon the authorization in AGM resolution No.17/2017.04.26.

Report of the Board of Directors on the treasury shares purchased on the basis of the authorization granted by Resolution No. 17/2017.04.26. of the AGM

Treasury shares

The AGM held on 26 April 2017 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, in order to facilitate this purposes the Company purchased 54,784 treasury shares from its subsidiary, as well as 309,000 treasury shares on the Budapest Stock Exchange and 252,499 outside the stock exchange during the year.

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 2017 a total of 504,704 and in 2016, 604,789 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 2017 the Company allocated 245,163 treasury shares to 4,266 employees. The shares will be deposited until 1 January 2020 on the employees' securities accounts kept with UniCredit Bank Hungary Ltd. In 2016, 285,459 treasury shares were allocated to 4,342 employees; the shares will remain in deposit until 1 January 2019 on the employees' securities accounts.

Budapest, March 2018

Gábor Orbán
Chief Executive Officer

13.

Authorization to the Board of Directors for the purchase of own shares of the Company

Proposal to Item No.:13
on the Agenda of the AGM

Resolution of the Board of Directors No.: 39/2018

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 2019 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.

14.

Election of members of the Board of Directors

Proposal to Item No.:14
on the Agenda of the AGM

Resolution of the Board of Directors No.: 46/2018

The Board of Directors proposes to the AGM to approve the election of **Anett Pandurics** as Member of the Board of Directors for a period of 3 (three) years expiring on the AGM in 2021.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

Resolution of the Board of Directors No.: 47/2018

The Board of Directors proposes to the AGM to approve the election of **Bálint Szécsényi** as Member of the Board of Directors for a period of 3 (three) years expiring on the AGM in 2021.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

15.

Election of members of the Supervisory Board
and the members of the Audit Board

Proposal to Item No.:15
on the Agenda of the AGM

Resolution of the Board of Directors No.: 41/2018

The Board of Directors proposes the AGM to approve **the re-election of employee representative Mrs. Klára Csikós Kovácsné** as Member of the Supervisory Board appointed by the Company's employees for a period of 3 years expiring on the AGM in 2021.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

Resolution of the Board of Directors No.: 42/2018

The Board of Directors proposes the AGM to approve **the re-election of employee representative dr. Éva Kozsda Kovácsné** as Member of the Supervisory Board appointed by the Company's employees for a period of 3 years expiring on the AGM in 2021.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

Resolution of the Board of Directors No.: 48/2018

The Board of Directors proposes the AGM to approve **the re-election of Dr. Attila Chikán** as Member of the Supervisory Board for a period of 3 years expiring on the AGM in 2021.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

Resolution of the Board of Directors No.: 49/2018

The Board of Directors proposes the AGM to approve **the re-election of Prof. Dr. Jonathán Róbert Bedros** as Member of the Supervisory Board for a period of 3 years expiring on the AGM in 2021.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

Resolution of the Board of Directors No.: 50/2018

The Board of Directors proposes the AGM to approve **the re-election** of Supervisory Board members **Dr. Attila Chikán** and **Prof. Dr. Jonathán Róbert Bedros** as Members of the Audit Board for a period of 3 years expiring on the AGM in 2021.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

Resolution of the Board of Directors No.: 51/2018

The Board of Directors make proposal to the third, independent candidate as the member of the Supervisory Board and of the Audit Board until April 9, 2018. The proposal to the AGM regarding the candidate will be published separately.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

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.: 43/2018

The Board of Directors proposes to the AGM to approve the unchanged honoraria for the members of the Board of Directors for 2018 effective as of January 1, 2018 according to the following:

Chairman 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.: 44/2018

The Board of Directors proposes to the AGM to approve the unchanged honoraria for the members of the Supervisory Board for 2018 effective as of January 1, 2018 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.

Miscellaneous