GEDEON RICHTER

PROPOSAL OF THE 2019 ANNUAL GENERAL MEETING

Chemical Works of Gedeon Richter Plc.

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

Agenda of the Annual General Meeting ("AGM") on Wednesday, April 24, 2019 at 2:00 p.m.

The venue of the AGM shall be at Mátyás u. 8., H-1093 Budapest (Budapest Music Center).

1. Report on the 2018 business activities of the Richter Group and presentation of the Richter Group's draft Consolidated Annual Report pursuant to the IFRS
2. Report of the Statutory Auditor on the Richter Group's draft 2018 Consolidated Annual Report pursuant to the IFRS
3. Report of the Supervisory Board including the report of the Audit Board on the Richter Group's draft 2018 Consolidated Annual Report pursuant to the IFRS
4. Approval of the Richter Group's draft 2018 Consolidated Annual Report pursuant to the IFRS
5. Report of the Board of Directors on the 2018 business activities of the Company (on the management, the Company's financial situation and business policy) and presentation of the Company's draft 2018 individual Annual Report prepared pursuant to the IFRS
6. Report of the Statutory Auditor on the Company's draft 2018 individual Annual Report prepared pursuant to the IFRS
7. Report of the Supervisory Board including the report of the Audit Board on the Company's draft 2018 individual Annual Report prepared pursuant to the IFRS
8. Approval of the Company's draft 2018 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 Kővágószőlős branch office, extension of the scope of activities, amendment related to elected officers in the Board of Directors)
12. Report of the Board of Directors on the treasury shares acquired by the Company based upon the authorization in AGM resolution No.14/2018.04.25.
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. Resolution on the remuneration of the members of the Board of Directors
16. Resolution on the remuneration of the members of the Supervisory Board
17. Election of the Company's statutory auditor
18. Resolution on the remuneration of the Company's statutory auditor
19. Miscellaneous

1.

Report on the 2018 business activities of the Richter Group and presentation of the Richter Group’s draft Consolidated Annual Report pursuant to the IFRS

GEDEON RICHTER PLC.

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

Gabor Orban
Chief Executive Officer

20 March, 2019

Gedeon Richter Plc.

CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Income Statement

for the year ended 31 December

	Notes	2018 HUFm	2017 HUFm
Revenues	5	**445,484**	**444,356**
Cost of sales		(191,648)	(191,278)
Gross profit		**253,836**	**253,078**
Sales and marketing expenses		(115,584)	(114,882)
Administration and general expenses		(24,070)	(23,374)
Research and development expenses		(40,545)	(39,903)
Other income and other expenses (net)	5	(29,004)	(54,208)
Net impairment losses on financial and contract assets		407	-
Profit from operations	5	**45,040**	**20,711**
Finance income	7	19,285	14,957
Finance costs	7	(21,427)	(23,295)
Net financial (loss)/income	7	**(2,142)**	**(8,338)**
Share of profit of associates and joint ventures	14	1,055	1,528
Profit before income tax		**43,953**	**13,901**
Income tax	8	(7,760)	(3,831)
Profit for the year		**36,193**	**10,070**
Profit attributable to			
Owners of the parent		35,348	8,885
Non-controlling interest		845	1,185
Earnings per share (HUF)	9		
Basic and diluted		190	48

The notes on pages 10-91 form an integral part of the Consolidated Financial Statements.

20 March, 2019

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Chief Executive Officer

Consolidated Statement of Comprehensive Income

for the year ended 31 December

	Notes	2018 HUFm	2017 HUFm
Profit for the year		**36,193**	**10,070**
Items that will not be reclassified to profit or loss (net of tax)			
Actuarial loss on retirement defined benefit plans	28	(353)	(82)
Changes in the fair value of equity investments at fair value through other comprehensive income	24	(5,154)	-
		(5,507)	**(82)**
Items that may be subsequently reclassified to profit or loss (net of tax)			
Exchange differences arising on translation of foreign operations		4,609	(8,890)
Exchange differences arising on translation of associates and joint ventures	14	(95)	17
Revaluation of available for sale investments	24	-	1,139
		4,514	**(7,734)**
Other comprehensive income for the year		**(993)**	**(7,816)**
Total comprehensive income for the year		**35,200**	**2,254**
Attributable to:			
Owners of the parent		34,168	1,299
Non-controlling interest		1,032	955

The notes on pages 10-91 form an integral part of the Consolidated Financial Statements.

20 March, 2019

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Chief Executive Officer

Consolidated Balance Sheet

	Notes	31 December 2018 HUFm	31 December 2017 HUFm
ASSETS			
Non-current assets			
Property, plant and equipment	12	214,880	196,990
Investment property		135	-
Goodwill	18	35,386	44,377
Other intangible assets	12	151,648	154,958
Investments in associates and joint ventures	14	11,755	11,847
Other financial assets	15	9,452	35,482
Deferred tax assets	16	7,895	10,548
Loans receivable	17	2,626	2,132
Long term receivables	15	6,035	-
		439,812	**456,334**
Current assets			
Inventories	19	92,687	84,474
Trade receivables	20	129,006	123,023
Contract assets	21	1,425	-
Other current assets	21	16,187	20,180
Investments in securities	22	4,728	18
Current tax asset	16	1,017	795
Cash and cash equivalents	23	113,021	76,041
		358,071	**304,531**
Total assets		**797,883**	**760,865**

The notes on pages 10-91 form an integral part of the Consolidated Financial Statements.

20 March, 2019

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Chief Executive Officer

Consolidated Balance Sheet
- continued

	Notes	31 December 2018 HUFm	31 December 2017 HUFm
EQUITY AND LIABILITIES			
Capital and reserves			
Equity attributable to owners of the parent			
Share capital	24	18,638	18,638
Treasury shares	25	(2,186)	(415)
Share premium		15,214	15,214
Capital reserves		3,475	3,475
Foreign currency translation reserves	24	14,182	9,855
Revaluation reserve for available for sale investments	24	-	9,964
Revaluation reserve for securities at FVOCI	24	4,810	-
Retained earnings		626,052	602,596
		680,185	**659,327**
Non-controlling interest	13	5,560	4,692
		685,745	**664,019**
Non-current liabilities			
Borrowings	29	2	3
Deferred tax liability	16	7,176	8,005
Other non-current liabilities and accruals	30	9,255	4,347
Provisions	28	3,554	3,305
		19,987	**15,660**
Current liabilities			
Borrowings	29	-	-
Trade payables	26	54,549	47,495
Contract liabilities	27	85	-
Current tax liabilities	16	438	703
Other payables and accruals	27	33,664	30,515
Provisions	28	3,415	2,473
		92,151	**81,186**
Total equity and liabilities		**797,883**	**760,865**

The notes on pages 10-91 form an integral part of the Consolidated Financial Statements.

20 March, 2019

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Chief Executive Officer

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 ended 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 ended 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 10-91 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Notes	Share capital	Share premium	Capital reserves	Treasury shares	Revaluation reserve for available for sale investments	Revaluation reserve for securities at FVOCI	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	HUFm
Balance at 1 January 2018		**18,638**	**15,214**	**3,475**	**(415)**	**9,964**	**0**	**9,855**	**602,596**	**659,327**	**4,692**	**664,019**
Reclassification according to IFRS 9	24,38	-	-	-	-	(9,964)	9,964	-	-	-	-	-
Impact of initial application of IFRS 9	24,38	-	-	-	-	-	-	-	539	539	-	539
Impact of initial application of IFRS 15	38	-	-	-	-	-	-	-	959	959	-	959
Balance at 1 January 2018 (as restated)		**18,638**	**15,214**	**3,475**	**(415)**	**-**	**9,964**	**9,855**	**604,094**	**660,825**	**4,692**	**665,517**
Profit for the year		-	-	-	-	-	-	-	35,348	**35,348**	845	**36,193**
Exchange differences arising on translation of foreign operations		-	-	-	-	-	-	4,422	-	**4,422**	187	**4,609**
Exchange differences arising on translation of associates and joint ventures	14	-	-	-	-	-	-	(95)	-	**(95)**	-	**(95)**
Actuarial loss on defined benefit plans	28	-	-	-	-	-	-	-	(353)	**(353)**	-	**(353)**
Change in fair value of securities measured at FVOCI	24	-	-	-	-	-	(5,154)	-	-	**(5,154)**	-	**(5,154)**
Comprehensive income for year ended 31 December 2018		**-**	**-**	**-**	**-**	**-**	**(5,154)**	**4,327**	**34,995**	**34,168**	**1,032**	**35,200**
Net treasury shares transferred and purchased	25	-	-	-	(1,771)	-	-	-	-	**(1,771)**	-	**(1,771)**
Ordinary share dividend for 2017	31	-	-	-	-	-	-	-	(12,673)	**(12,673)**	-	**(12,673)**
Dividend paid to non-controlling interest		-	-	-	-	-	-	-	-	-	(149)	**(149)**
Acquisition of non-controlling interest		-	-	-	-	-	-	-	(225)	**(225)**	(50)	**(275)**
Additional paid in capital to subsidiaries		-	-	-	-	-	-	-	-	-	35	35
Recognition of share-based payments	24	-	-	-	-	-	-	-	(139)	**(139)**	-	**(139)**
Transactions with owners in their capacity as owners for year ended 31 December 2018		-	-	-	**(1,771)**	-	-	-	**(13,037)**	**(14,808)**	**(164)**	**(14,972)**
Balance at 31 December 2018		**18,638**	**15,214**	**3,475**	**(2,186)**	**-**	**4,810**	**14,182**	**626,052**	**680,185**	**5,560**	**685,745**

The notes on pages 10-91 form an integral part of the Consolidated Financial Statements.

Consolidated Cash Flow Statement

for the year ended 31 December

	Notes	2018 HUFm	2017 HUFm
Operating activities			
Profit before income tax		43,953	13,901
Depreciation and amortisation	5	34,907	34,747
Non-cash items accounted through the Income Statement	14	2,130	(1,347)
Year-end foreign exchange translation difference of borrowings	7	-	(65)
Net interest and dividend income	7	(1,362)	(1,248)
Changes in provision for defined benefit plans	28	249	(220)
Reclass of results on changes of property, plant and equipment and intangible assets		312	1,141
Impairment recognised on intangible assets and goodwill	12,18	24,680	49,184
Expense recognised in respect of equity-settled share based payments	24	1,743	3,640
Movements in working capital			
Increase in trade and other receivables		(5,899)	(12,519)
Increase in inventories		(8,772)	(3,228)
Increase in payables and other liabilities		15,483	7,631
Interest paid		(2)	(990)
Income tax paid	16	(6,178)	(6,880)
Net cash flow from operating activities		**101,244**	**83,747**
Cash flow from investing activities			
Payments for property, plant and equipment*		(39,073)	(30,328)
Payments for intangible assets*		(18,982)	(9,601)
Proceeds from disposal of property, plant and equipment		736	957
Payments to acquire financial assets		(3,291)	(1,745)
Proceeds on sale or redemption on maturity of financial assets		17,498	733
Disbursement of loans net		(646)	(666)
Interest received	7	1,349	1,563
Dividend received	7	15	675
Net cash outflow on purchase of group of assets		(2,881)	-
Net cash outflow on acquisition of subsidiaries	27,11	-	(8,045)
Net cash flow to investing activities		**(45,275)**	**(46,457)**
Cash flow from financing activities			
Purchase of treasury shares	25	(3,653)	(3,858)
Dividend paid	31	(12,673)	(19,756)
Repayment of borrowings	29	-	(36,585)
Proceeds from borrowings	29	-	3
Net cash flow to financing activities		**(16,326)**	**(60,196)**
Net increase/(decrease) in cash and cash equivalents		**39,643**	**(22,906)**
Cash and cash equivalents at the beginning of year		**76,041**	**96,053**
Effect of foreign exchange rate changes on the balances held in foreign currencies		(2,663)	2,894
Cash and cash equivalents at the end of year		**113,021**	**76,041**

* 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 latter one contains non-material, non-cash addition of the assets, including transfers.

The notes on pages 10-91 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 principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated. Please see details of the application of the new accounting policies in Note 38.

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 judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements, are disclosed in Note 3.

III) Adoption of new and revised Standards

A) New standards which became effective from 1 January 2018 and the Group has adopted:

- IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for financial 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 (hereinafter AC), 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 (FVTPL).

    - 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 FVTPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group has elected not to restate comparatives. Details of the initial application of IFRS 9 is presented in Note 38.

- IFRS 15, Revenue from Contracts with Customers (issued in May 2014 and effective 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 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 for the following case. 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, while the Group has enforceable right to payment for performance completed to date. The details of the initial application of IFRS 15 is presented in Note 38.

- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for financial 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 presenting the details of the initial application of IFRS 15 in Note 38.

B) The following standards and amended standards became effective for the Group from 1 January 2018, but did not have any material impact on the Group:

- IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for financial periods beginning on or after 1 January 2018, the EU has endorsed the interpretation).

- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for financial periods beginning on or after 1 January 2018, the EU has 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 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 financial periods beginning on or after 1 January 2018).

- Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for financial periods beginning on or after I January 2018, the EU has endorsed the changes).

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

- IFRS 16, Leases (issued in January 2016 and effective for financial 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. The Group will apply IFRS 16 retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application (i.e. 1 January 2019). For leases previously classified as operating leases under IAS 17, the Group recognizes a lease liability measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. At the same time, recognizes a right-of-use asset at the amount equal to the lease liability, adjusted for previously recognized prepaid or accrued lease payments. The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics. The Group will not apply IFRS 16 to the accounting for intangible assets, low-value assets and leases with lease term of less than one year. The Group expects that the application of IFRS 16 will have no impact on the equity. The value of the lease liability and a right-of-use asset will not exceed 4% of the total assets.

D) 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 financial 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.)

- 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 and effective for financial periods beginning on or after 1 January 2019, the EU has endorsed the interpretation on 23 October 2018).

- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for financial periods beginning on or after 1 January 2019, the EU has endorsed the amendments).

- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017, the EU has endorsed the amendment on 11 February 2019).

- 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).

- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (issued on 7 February 2018 and effective for financial periods beginning on or after 1 January 2019, the EU has endorsed the amendment on 13 March 2019.).

- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for financial periods beginning on or after 1 January 2020, the EU has not yet endorsed the amendments).

- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of financial reporting period that starts on or after 1 January 2020, the EU has not yet endorsed the amendments).

- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for financial periods beginning on or after 1 January 2020, 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. The Group has applied IFRS 9 and IFRS 15 from 1 January 2018, therefore the comparatives are presented based on different accounting policies. In this Note both the old and the new accounting policies are presented, if it relates to only one of the periods presented it is indicated.

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, revenne 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

Accounting policy based on IAS 11 and IAS 18 (in financial year 2017)
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 the significant risks and rewards of ownership of the goods to the buyer;
- 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 an 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 for 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 Group accrues for the amount of the estimated profit share.

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.

Accounting policy based on IFRS 15 (in the financial year 2018)
The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in the accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the group has adopted the new rules with modified retrospectively application and has not restated comparatives for the 2017 financial year.

A) Sales revenue

Revenue is defined as income arising in the course of an entity's ordinary activities. The Group's revenue primarily comes from:

- sale of pharmaceutical products produced by the Group
- wholesale and retail activity within the pharmaceutical industry
- royalty and license income from products already on the market
- contract manufacturing service
- other services including provision of marketing service, performing transportation activity etc.

B) Sale of pharmaceutical products (including wholesale and retail activity)

The Group manufactures and sells a range of pharmaceutical products. Revenue is accounted for in the amount of consideration to which an entity expects to be entitled in exchange for goods or services transferred. The Group includes in the transaction price some or all of an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
The Group accounts for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity. Sales are recognised when control of the products has transferred, generally being when the products are delivered to the wholesaler or other third party customer. Generally sale of pharmaceutical products are satisfied at point in time. To determine the point in time at which a customer obtains control the Group consider indicators that include, but are not limited, to the following:

- the Group has a present right to the payment for the good.
- the customer has legal title to the good.
- the Group has transferred physical possession of the good to the customer.
- the customer has the significant risks and rewards of ownership of the good.
- the customer has accepted the good.

In case the Group produces customer specific products, which does not create a good/service with an alternative use to the Group and the Group has an enforceable right to the payment for performance completed to date, the Group accounts for the revenue over time (similarly to contract manufacturing services).

C) Licences and royalties

A license arrangement establishes a customer's rights related to a Group's intellectual property and the obligations of the Group to provide those rights. The Group assesses each arrangement where licenses are sold with other goods or services to conclude whether the license is distinct and therefore a separate performance obligation. For licenses that are not distinct, the Group combines the license with other goods and services in the contract and recognize revenue when (or as) it satisfies the combined, single performance obligation. Licenses that provide access to a Group's IP are performance obligations satisfied over time, and therefore revenue is recognized over time once the license period begins, as the customer is simultaneously receiving and consuming the benefit over the period it has access to the IP.
Licenses that provide a right to use a Group's IP are performance obligations satisfied at the point in time when the customer can first use the IP, because the customer is able to direct the use of and obtain substantially all of the benefits from the license at the time that control of the license is transferred to the licensee.

The revenue standard includes an exception for the recognition of revenue relating to licenses of IP with sales- or usage-based royalties. Consideration from a license of IP that is based on future sales or usages by the customer is included in the transaction price when the subsequent sales or usages occur.

D) Interest income

Interest income from financial assets at FVTPL is included in the net fair value gains/(losses) on these assets, presented as Finance income or Finance expense. Interest income on financial assets at amortised cost and financial assets at FVOCI (2017 – available-for-sale financial assets, held-to-maturity investments and loans and receivables) calculated using the effective interest method is recognised in the statement of profit or loss as part of Finance income.

E) Dividend income

Dividends are received from financial assets measured at fair value through profit or loss (FVTPL), at fair value through other comprehensive income (FVOCI) (2017 – from financial assets at FVTPL, available-for-sale financial assets). Dividends are recognised as Finance income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment.

F) Contract manufacturing and other services

Rendering services, such contract manufacturing, marketing services and transportation are performance obligations, which are satisfied over time. At the end of each reporting period, the Group remeasures the progress towards complete satisfaction of such services and recognizes revenue accordingly.

V) Property, plant and equipment and Investment property

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	1-10%
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.

Investment property
Investment properties, which are held to earn rentals are measured initially at cost. Subsequent to initial recognition, investment properties are measured at fair value determined by independent appraiser. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise and presented as Other income and other expenses (net).

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

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

Accounting policy based on IAS 39 (in financial year 2017)
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 at FVTPL where the financial asset is either held for trading or it is designated 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 'Finance income' or 'Finance costs'. 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, XX) 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 Finance 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.

In case of the purchase or sale of financial assets, the transaction is accounted for at the date of completion. The Group 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.

Accounting policy based on IFRS 9 (in financial year 2018)
Financial assets are classified into the following categories: financial assets 'at fair value through profit or loss' (FVTPL), 'at fair value through other comprehensive income' (FVOCI), 'at amortised cost'.
Classification of financial assets depends on:

- whether the asset is an equity investment or a debt instrument
- if the financial asset is a debt instrument considerations are required to assess:
  - the business model for managing the financial asset
  - contractual cash flow characteristics of the financial asset

A) Debt instruments measured at amortised cost

A financial asset is measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The adoption of IFRS 9 results in reclassification of financial assets carried at amortized cost to fair value through profit and loss for the exchangeable bonds and convertible loans as presented in Note 38.

B) Debt instruments measured at fair value through OCI

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met cumulatively:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("hold & sell" business model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

C) Debt instruments measured at fair value through profit or loss

Under the new model, FVTPL is the residual category: a financial asset that is not measured at amortized cost or at fair value in other comprehensive income is measured at fair value through profit or loss.

D) Equity instruments measured at fair value through OCI

Investments in equity instruments are always measured at fair value. Equity instruments that are held for trading are classified at FVTPL. For all other equity instrument, the Group has the ability to make an irrevocable election on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in OCI rather than profit or loss. If this election is made, all fair value changes, excluding dividends that are a return on investment, will be included in OCI. The Group has elected to measure all of its equity instrument in the scope of IFRS 9 at fair value through OCI.

E) Equity instruments measured at fair value through profit or loss

Investments in equity instruments are always measured at fair value. Equity instruments that are held for trading are required to be classified to FVTPL.

The effect of implementation of IFRS 9 on classification of financial assets is presented in Note 38.

Impairment

Credit loss allowance for ECL: The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts, for contract assets. The Group measures ECL and recognises Net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC and contract assets are presented in the consolidated statement of financial position net of the allowance for ECL. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. The expected loss rates are based on the historical payment profiles of sales and the corresponding historical credit losses experienced

within this period. The historical loss rates are adjusted to reflect current and forward-looking information. Historical loss rates are determined by the Group based on the payment experience of the previous 3 years. Defining forward-looking information, the Group takes into account the change in the Probability of Default (PD) of the receivables with the largest receivable amount (based on market information) and thus corrects historical loss rates. The impact of forward-looking information on impairment is not significant.

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL.For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL.

XI) Financial liabilities

The implementation of IFRS 9 did not effect the financial liability classification and measurement relevant for the Group.
Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.
Financial liabilities are classified as FVTPL where the financial liability is either held for trading or it is designated 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

Accounting policy based on IAS 39 (in financial year 2017)

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.

Accounting policy based on IFRS 9 (in financial year 2018)

Investments comprise long term bonds and unconsolidated investments in other companies. These investments are measured at amortised cost or fair value through other comprehensive income as described in Note 15.

XIV) Loans receivable
Loans receivables include given loans measured at amortised cost both under IAS 39 and IFRS 9. 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. 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 substance of the transaction.

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 as described in accounting policy section X) above.

XVI.) Contract asset
The Group's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance), less provision for impairment as described in accounting policy section X) above.

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

XVIII) Contract liabilities
If a customer pays consideration or an entity has a right to an amount of consideration that is unconditional before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due. A contract liability is an obligation of the Group to transfer goods and services to a customer for which the entity has received consideration from the customer.

XIX) 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 to their fair value. The resulting gain or loss is immediately recognized in the Consolidated Income statement the profit, because the Group did not apply hedge accounting in 2018.
Other derivative contracts are presented under "Other current assets" and "Other payables and accruals".

XX) 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.

XXI) 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 XXVI) Borrowing costs.

XXII) Inventories
Inventories are stated at the lower of cost or 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.

XXIII) 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 2018 and as of 31 December 2017.

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

XXIV) 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).

XXV) 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.

XXVI) 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.

XXVII) 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.

XXVIII) 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.

XXIX) Share based payments

Equity settled share based payments
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 and from year 2018 cash-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.

Cash-settled share-based payments
The Group operates an Employee's Share Ownership Programme (ESOP) that qualifies to be a cash-settled share based payment. The fair value of the liability for cash-settled transactions is re-measured at each reporting date and at the date of settlement. Any changes in fair value are recognised in the Income Statement for the period.

XXX) 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.

XXXI) 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.

XXXII) 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.

XXXIII) 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 shareholders of the Company.

3. Key sources of estimation uncertainty and critical accounting judgements

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 the 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 the 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 European Commission decision 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® (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 recommended that new treatments using ESMYA® should not be started, but ongoing treatments could be completed. These measures were of a temporary nature and are intended to protect the health of patients.

The PRAC's final recommendations were published on 18.05.2018 which were adopted by Committee for Medicinal Products for Human Use (CHMP) (01.06.2018) and based on CHMP's opinion the European Commission decided to implement them on 26.07.2018. According to PRAC's recommendations the measures include: contraindication in women with known liver problems; liver tests before, during and after stopping treatment; a card for patients to inform them about the need for liver monitoring and to contact their doctor should they develop symptoms of liver injury. In addition, use of the medicine for more than one treatment course has been restricted to women who are not eligible for surgery.
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.

In August, 2018, Richter's license partner for North-America ESMYA® sales, Allergan received a Complete Response Letter (CRL) from the U.S. Food and Drug Administration (FDA) in response to the New Drug Application (NDA) for ulipristal acetate (UPA) for the treatment of abnormal uterine bleeding in women with uterine fibroids.

The letter from the FDA indicates it is not able to approve the ulipristal acetate NDA in its current form and is requesting additional information. The agency cited safety concerns regarding ESMYA® post-marketing reports outside the United States and Canada.

In January 2019 the Canadian regulatory authority imposed restrictions on Fibristal (ulipristal acetate) commercialised by Allergan plc in Canada due to a potentially increased risk of liver damage. The management has incorporated the effects of the restrictions on the expected future cash flows.

The Company's judgment that the CRL issued by the FDA gives rise to significant uncertainty about the launch and date of the US market.

The Group prepared its Consolidated Financial Statements for 2018, considering the negative effects of European Commission's decision on ESMYA® and CRL issued by FDA. Based on that, Management has reduced its long term sale forecasts for ESMYA® in markets in EU and North-America. In addition to the revised forecasts, the Group has accounted for impairment on PregLem Goodwill and on intangible assets in North-America. The overall value is totalled to HUF 24.9 billion. Please see further details in Note 18 and 12.

As a result of EC's resolution and FDA's letter, on the balance sheet date the Group has an exposure on the following items in the balance sheet after recognition of impairment loss.

Factors of the exposure*	31 December 2018 HUFm	31 December 2017 HUFm
Goodwill	2,268	12,194
Esmya EU, NA and other Esmya intangible assets	30,823	44,882
Total exposure	**33,091**	**57,076**

* 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 inventories, because the risk of obsolescence is not significant considering the turnover period of the inventories.

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 be lower by 10% in comparison to management's estimates, depreciation for the year ended 31 December 2018 would be greater by HUF 3,878 million (2017: increase by HUF 3,860 million).

The Group recorded depreciation and amortisation expense in the amount of HUF 34,907 million and HUF 34,747 million for the years ended 31 December 2018 and 2017, respectively.

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 9.09 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 S.A. for suspension of payment for the claw-back. At the end of 2018 the first instance court has decide in favour Pharmafarm S.A., annuling the claw-back decision of RTA, but as part of the verdict, the court ordered the re-execution of the tax audit. As a result of the second investigation, RTA imposed again the RON 9.09 million claw-back tax payment obligation, which Pharmafarm S.A. did not accept and filed a lawsuit. The Bucharest Special Court approved again Pharmafarm S.A.'s application for suspension of claw-back payment until the case was finally closed.
Taking into consideration the opinion of experts, the management of the Parent Company estimates more likely than not that the imposed tax obligation will not have to be paid on the basis of a subsequent final court decision, therefore no provision has been made.
In May 2018, a comprehensive tax audit covering the period from 01.01.2011 to 31.12.2015 was also completed at Gedeon Richter Romania S.A. As a result of the investigation, a tax deficit has been established for a claw-back tax, corporate income tax and VAT. The total value of the established tax shortfall and related interest and fines amount to RON 13.2 million. Although the Company will challenge the decision of the tax authority in court, taking into account the opinions of experts, the management of the Company sees a more than 50% chance that the findings will have to be paid by Gedeon Richter Romania in the future, therefore a provision of RON 13.2 million has been recognised.

3.2 Critical judgements in applying entities accounting policies

Hybrid tax
The Parent Company prepared its first separate IFRS financial statements on 31 December 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 2018 (similarly to 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 transition to IFRS had not happened and the value of corporate tax is defined accordingly. Therefore no other expense is recognized in the financial statements related to the corporate income tax.

Deferred tax at Parent Company
The Company has significant deductible temporary differences, part of which is related to the tax loss carried forward. Deferred tax asset should be recognized for accrued unused negative tax bases to the extent that it is probable that sufficient future taxable profit will be available against which unused negative tax bases can be utilised.
Despite of the profitable operation of the Company, the tax base is expected to be negative in the next 5 years, considering the tax base adjusting items, there for the realization of a significant part is not probable.
The Company's calculated deferred tax asset is HUF 5,473 million, of which HUF 4,049 million is not recognized in the balance sheet because no taxable profit is expected when the related temporary differences reverse. The management of the Company expects to realise the deferred tax related to temporary differences that reverses after 5 years. These temporary differences are:

- difference between IFRS value and the tax value of the intangible assets or property, plant and equipment,
- fair-valuation difference of financial assets,
- the provision for post-employment and other long term benefits.

The deferred tax expense is presented in Note 16.

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	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
3rd party revenues	356,024	355,194	88,596	88,458	864	704	-	-	445,484	444,356
Inter segment revenues	8,707	9,646	2	3	5,391	4,691	(14,100)	(14,340)	-	-
Revenues	**364,731**	**364,840**	**88,598**	**88,461**	**6,255**	**5,395**	**(14,100)**	**(14,340)**	**445,484**	**444,356**
Profit from operations	44,631	18,617	(97)	1,777	331	391	175	(74)	45,040	20,711
Total assets	867,803	831,128	52,726	47,753	3,777	3,402	(126,423)	(121,418)	797,883	760,865
Current contract asset	1,425	-	-	-	-	-	-	-	1,425	-
Loss allowance on contract assets	-	-	-	-	-	-	-	-	-	-
Total contract assets	**1,425**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,425**	**-**
Total liabilities	89,088	74,620	40,927	35,743	990	797	(18,867)	(14,314)	112,138	96,846
Contract liabilities	85	-	-	-	-	-	-	-	85	-
Capital expenditure**	57,167	39,077	650	656	238	196	-	-	58,055	39,929
Depreciation and amortization*	33,965	33,839	702	675	240	233	-	-	34,907	34,747
Share of profit of associates and joint ventures	(431)	60	1,428	1,466	27	58	31	(56)	1,055	1,528
Investments in associates and joint ventures	2,794	2,996	7,722	7,398	1,316	1,561	(77)	(108)	11,755	11,847

* 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

2018	Hungary	CIS	EU	USA	China	Latin America	Other countries	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Timing of revenue recognition								
At a point in time	38,708	133,260	173,059	10,841	26,384	9,206	16,822	408,280
Over time	764	96	8,706	25,145	0	1	2,492	37,204
Revenues	39,472	133,356	181,765	35,986	26,384	9,207	19,314	445,484
Total assets	592,915	61,361	106,587	2,639	11,821	7,535	15,025	797,883
Capital expenditure	49,376	2,816	5,451	1	-	62	349	58,055

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

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	2018 HUFm	2017 HUFm
Sales of goods	408,280	420,125
Revenue from services	12,068	9,235
Royalty income	25,136	14,996
Total revenues	**445,484**	**444,356**

Revenues of approximately HUF 16,674 million (2017: HUF 19,496 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.

The Group has recognised the following assets and liabilities related to the contracts with customers:

	31 December 2018 HUFm	1 January 2018 HUFm
Current contract assets	1,425	1,676
Loss allowance	-	-
Total contract assets	1,425	1,676
Contract liabilities	**85**	**59**

5. Profit from operations – expenses by nature

	2018 HUFm	2017 HUFm
Revenues	445,484	444,356
From this: royalty and other similar income	*25,136*	*14,996*
Changes in inventories of finished goods and work in progress, cost of goods sold	(82,268)	(106,013)
Material type expenses	(133,645)	(116,866)
Personnel expenses	(121,027)	(111,811)
Depreciation and amortisation (Note 12)	(34,907)	(34,747)
Other income and other expenses (net)	(29,004)	(54,208)
Net impairment losses on financial and contract assets	407	-
Profit from operations	**45,040**	**20,711**

The statutory auditor provided other assurance services for HUF 17 million, tax advisory service for HUF 5 million and other non-audit services for HUF 33 million in 2018. The fee for the statutory audit was HUF 19 million.

The balance of Impairment on financial assets and contracts

The net Impairment recognised on financial and contract assets in accordance with in IFRS 9 was HUF 407 million in 2018. In the comparative these are presented as Other income and other expenses (net) or Net financial (loss)/income.

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

The balance of other income and expense changed from HUF 54,208 million (expense) in the base period to HUF 29,004 million (expense) in 2018.

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, Italy, Bulgaria, Austria, Poland, Latvia, Slovenia, Croatia and UK amounting to HUF 4,784 million in 2018 (in 2017 HUF 6,701 million). The 20 % tax obligation payable in respect of turnover related to reimbursed sales in Hungary amounted to HUF 432 million in 2018 and HUF 399 million in 2017.

In 2017 Other income and expenses net included impairment of Rights HUF 8,443 million, 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. .

The restrictions imposed by the European Commission significantly impaired the sales potentials of ESMYA® in the European Union, and the FDA's decision delays the market authorisation for the U.S. market and, according to the Executive Board's estimates, it reduces the potential market size. The impairment tests of ESMYA for the 2018 statements had to be conducted in consideration of these decisions by the regulatory authorities and market effects. As a result, the Group reported HUF 13,788 million impairment of the intangible asset ESMYA. 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 European countries (HUF 20,512 million, see Note 12).

In 2018 an impairment loss amounting to HUF 10,482 million was recorded in respect of the Goodwill related to PregLem S A. For the same item in 2017, HUF 20,229 million was charged. For details please see in Note 18.

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 the reported period one-off milestone income amounted to HUF 8,429 million mainly related to Reagila's European authorisation and introduction to the EU15 markets, successful clinical trials of cariprazine for the treatment of bipolar I depression, and FDA's acceptance of Allergan's application for registration of the extension of indication. 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.

6. Employee information

	2018	2017
Average number of people employed during the year	12,696	12,172

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:

	2018 HUFm	2017 HUFm
Unrealised financial items	**(2,106)**	**(3,660)**
Exchange (loss)/gain on trade receivables and trade payables	(3,259)	156
Gain/(loss) on foreign currency loans receivable	1,276	(4,276)
Year-end foreign exchange translation difference of borrowings	-	65
Exchange (loss)/gain on other currency related items	(96)	369
Result of unrealised forward exchange contracts	(27)	26
Realised financial items	**(36)**	**(4,678)**
Exchange gain/(loss) realised on trade receivables and trade payables	316	(5,411)
Foreign exchange difference on conversion of cash	1,305	(966)
Dividend income	15	675
Interest income	1,349	1,563
Interest expense	(2)	(990)
Other financial items	(3,019)	451
Total	**(2,142)**	**(8,338)**

Unrealised financial loss was heavily affected by the 4.05 RUB/HUF, 280.94 USD/HUF exchange rates in effect on 31 December 2018 (4.49 RUB/HUF on 31 December 2017, 258.82 USD/HUF respectively) which impacted the revaluation of currency related Balance Sheet items. These translation differences together resulted in a loss of HUF 2.1 billion in the net financial loss for 2018. For the sensitivity analysis relating to foreign currency exposure see Note 10.

The other financial items contain the fair value change of the MNV exchangeable bond before it was sold.

Exchange rate movements are closely monitored by the Group, entering into forward contracts is subject to Management's review and approval.

The Company does not apply hedge accounting according to IAS 39 and IFRS 9. The forward transactions are carried at fair value, which is determined based on forward rates provided by the commercial banks.

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.

	2018 HUFm	2017 HUFm
Domestic corporate income tax	(38)	(17)
Foreign corporate income tax	(1,940)	(2,093)
Local business tax	(3,529)	(4,172)
Innovation contribution	(533)	(532)
Current tax	**(6,040)**	**(6,814)**
Deferred tax (Note 16)	(1,720)	2,983
Income tax	**(7,760)**	**(3,831)**

The average effective tax rate calculated on the basis of the current tax is 13.7% and 17.7% taking into account the effect of deferred tax as well, in 2017 these rates were 49.0% and 27.6% 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%

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

	2018 HUFm	2017 HUFm
Profit before income tax	**43,953**	**13,901**
Tax calculated at domestic tax rates applicable to profits in the respective countries*	8,660	6,148
Tax effects of:		
Associates results reported net of tax	(95)	(138)
Income not subject to tax	(1,267)	(110)
Expense not deductible for tax purposes	331	443
Expense eligible to double deduction**	(2,839)	(3,019)
The effect of changes in tax loss for which no deferred income tax has been recognised***	2,752	(434)
Correction of tax return	-	(111)
Effect of change in tax rate	-	3,512
Impact of deferred tax exceptions on subsidiaries and goodwill****	218	(2,460)
Tax charge	**7,760**	**3,831**

* 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 finished 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 financial year 2012, proceeding and calculating it in accordance with the applicable laws and regulations. For financial year 2018, 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 2,021 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 comection 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 2017 and 2018 there are no potential dilutive instruments issued by the Group.

EPS (basic and diluted)

	2018	2017
Net consolidated profit attributable to owners of the parent (HUFm)	35,348	8,885
Weighted average number of ordinary shares outstanding (thousands)	186,314	186,221
Earnings per share (HUF)	**190**	**48**

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 31 December 2017 HUFm	Fair value 31 December 2017 HUFm
Financial assets[1]			
Available for sale investments carried at fair value			
Investments in securities[2]	22	18	18
Loans and receivables carried at amortised cost			
Loans receivable	21	3,608	3,608
Trade receivables	20	123,023	123,023
Other current assets	21	3,735	3,735
Cash and cash equivalents	23	76,041	76,041
Financial assets carried at fair value through profit or loss			
Foreign exchange forward contracts[4]	21	26	26
Current		**206,451**	**206,451**
Available for sale investments carried at fair value			
Investments[3]	15	15,539	15,539
Held to maturity investments carried at amortised cost			
Investments	15	1,649	1,649
Loans and receivables carried at amortised cost			
Loans and receivable investments	15	15,903	15,903
Loans receivable	17	2,132	2,132
Financial assets carried at fair value through profit or loss			
Convertible loan option[6]	15	45	45
"Exchangeable bonds" option[7]	15	2,346	2,346
Non-current		**37,614**	**37,614**
Financial liabilities			
Liabilities carried at amortised cost			
Borrowings	29	-	-
Trade payables	26	47,495	47,495
Other payables and accrual	27	22,766	22,766
Financial liabilities carried at fair value through profit or loss			
Other payables[5]	11,27	-	-
Current		**70,261**	**70,261**
Liabilities carried at amortised cost			
Borrowings	29	3	3
Other non-current liabilities	30	483	483
Non-current		**486**	**486**

[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
[3] Level 1: in 2017 HUF 15,539 million
[4] Level 2: in 2017 26 million
[5] Level 3 (constituting contingent-deferred purchase price): in 2017 none
[6] Level 3: in 2017 HUF 45 million
[7] Level 3: in 2017 HUF 2,346 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).

	Notes	Carrying value		Fair value	
		31 December 2018 HUFm	1 January 2018 HUFm	31 December 2018 HUFm	1 January 2018 HUFm
Financial assets[1]					
Financial assets measured at amortised cost					
Investments in debt securities	22	4,728	-	4,728	-
Loans receivable	21	225	3,608	225	3,608
Trade receivables	20	129,006	122,536	129,006	122,536
Other current assets	21	5,595	3,735	5,595	3,735
Cash and cash equivalents	23	113,021	76,041	113,021	76,041
Financial assets measured at fair value through other comprehensive income					
Investments in securities[2]	22	-	18	-	18
Financial assets measured at fair value through profit or loss					
Foreign exchange forward contracts[4]	21	-	26	-	26
Current		**252,575**	**205,964**	**252,575**	**205,964**
Financial assets measured at amortised cost					
Investments in debt securities	15	55	1,649	55	1,649
Loans receivable	17	2,171	1,927	2,171	1,927
Financial assets measured at fair value through OCI					
Investments[3]	15	9,397	15,539	9,397	15,539
Financial assets measured at fair value through profit or loss					
Convertible loan	17	455	400	455	400
"Exchangeable bonds"	15	-	19,200	-	19,200
Non-current		**12,078**	**38,715**	**12,078**	**38,715**

[1] All financial assets are free from liens and charges.
[2] The fair valuation of securities was based on bank data supply.
Level 2: 31 Dec. 2018 HUF 18 million (1 Jan. 2018 HUF 18 million)
[3] Level 1: 31 Dec. 2018 HUF 9,397 million (1 Jan. 2018 HUF 15,539 million)
[4] Level 2: the entire balance 31 Dec. 2018 none (1 Jan. 2018 26 million)

	Notes	Carrying value		Fair value	
		31 December 2018 HUFm	1 January 2018 HUFm	31 December 2018 HUFm	1 January 2018 HUFm
Financial liabilities					
Liabilities carried at amortised cost					
Trade payables	26	54,549	47,495	54,549	47,495
Other payables and accrual	27	25,381	22,766	25,381	22,766
Current		**79,930**	**70,261**	**79,930**	**70,261**
Liabilities carried at amortised cost					
Borrowings	29	2	3	2	3
Other non-current liabilities	30	164	483	164	483
Non-current		**166**	**486**	**166**	**486**

[1] All financial assets are free from liens and charges.
[2] The fair valuation of securities was based on bank data supply.
Level 2: 31 Dec. 2018 HUF 18 million (01 Jan. 2018 HUF 18 million)
[3] Level 1: 31 Dec. 2018 HUF 9,509 million (01 Jan. 2018 HUF 15,539 million)
[4] Level 2: the entire balance 31 Dec. 2018 none (01 Jan. 2018 26 million)

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 Company is pursuing constant dividend policy, providing dividend from the profit to the owners every year. The Board of Directors recommends for the Annual General Meeting the payment of dividend calculated from the Group's IFRS consolidated profit attributable to the owners of the parents adjusted with the impairment of ESMYA, intangible assets and goodwill related to the Preglem S.A. net of deferred tax effect, and also taking into account the Company's net cash flow and the financing needs of the ongoing acquisition projects.

The capital risk of the Group was still limited in both 2018 and 2017, 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 2018 HUFm	31 December 2017 HUFm
Borrowings (Note 29)	2	3
Less: cash and cash equivalents (Note 23)	(113,021)	(76,041)
Net debt	**(113,019)**	**(76,038)**
Total equity	685,745	664,019
Total capital	**572,726**	**587,981**
EBITDA*	79,947	55,458
Net debt to EBITDA ratio	**(1.41)**	**(1.37)**
Net debt to equity ratio	**(0.16)**	**(0.11)**

* Up to December 2017 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. From 1 January 2018 EBITDA is determined as operating profit increased by depreciation and amortization expense. The prior year data has been recalculated according to the new definition.

	2018 HUFm	2017 HUFm
Profit from operations	45,040	20,711
Depreciation	34,907	34,747
EBITDA*	**79,947**	**55,458**

* Up to December 2017 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. From 1 January 2018 EBITDA is determined as operating profit increased by depreciation and amortization expense. The prior year data has been recalculated according to the new definition.

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 therefore according to the decision of the Management these currencies have been diverted in a reasonable level when determining the exchange rate combination (RUB, KZT +/- 10%; USD, CHF +/- 5%).

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:

2018		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	
103.14%	**328.61**											
		282.93	**1.16**	**77.18**	**70.62**	4.75	**288.87**	**0.87**	**42.08**	**9,627**	**9,165**	**largest growth**
		269.46	1.22	74.83	68.47	4.32	275.11	0.79	40.80	714	781	
		255.99	1.28	72.48	66.32	3.89	261.35	0.71	39.52	(8,199)	(7,604)	
100.00%	318.61											
		282.93	1.13	77.18	70.62	4.75	288.87	0.87	42.08	8,913	8,385	
		269.46	1.18	74.83	68.47	4.32	275.11	0.79	40.80	0	0	
		255.99	1.24	72.48	66.32	3.89	261.35	0.71	39.52	(8,913)	(8,385)	
96.86%	**308.61**											
		282.93	1.09	77.18	70.62	4.75	288.87	0.87	42.08	8,199	7,604	
		269.46	1.15	74.83	68.47	4.32	275.11	0.79	40.80	(714)	(781)	
		255.99	**1.21**	**72.48**	**66.32**	**3.89**	**261.35**	**0.71**	**39.52**	**(9,627)**	**(9,165)**	**greatest decrease**

* Change of EUR/HUF average exchange rates.

all amounts in HUFm

2017		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	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	**4,929**	**4,499**	
		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.

Based on the yearly average currency rate sensitivity analysis of 2018 the combination of weak Hungarian Forint –328.61 EUR/HUF against other currencies – would have caused the largest growth in the amount of HUF 9,627 million on the Group's consolidated operating profit and HUF 9,165 million on the Group's consolidated profit for the year.
The greatest decrease HUF 9,627 million on operating and HUF 9,165 million on profit for the year would have been caused by the combination of exchange rates of 308.61 EUR/HUF against other currencies.

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 for the year. The greatest decrease HUF 5,479 million on operating and HUF 5,037 million on profit for the year would have been caused by the combination of exchange rates of 299.28 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 combinations presented below. Certain foreign currencies recently showed higher volatility therefore according to the decision of the Management these currencies have been diverted in reasonable level when determining the exchange rate combination (RUB, KZT +/- 10%; USD, CHF +/- 5%).

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

2018		**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	
103.14%	**331.60**										
		295.00	**1.12**	**77.20**	**71.20**	**4.50**	**299.40**	**0.80**	**42.20**	**6,799**	**best case scenario**
		280.94	1.18	74.82	69.01	4.05	285.16	0.75	40.90	**810**	
		266.90	1.24	72.50	66.80	3.60	270.90	0.70	39.60	**(5,170)**	
100.00%	321.51										
		295.00	1.09	77.20	71.20	4.50	299.40	0.80	42.20	**5,989**	
		280.94	1.14	74.82	69.01	4.05	285.16	0.75	40.90	**0**	
		266.90	1.20	72.50	66.80	3.60	270.90	0.70	39.60	**(5,980)**	
96.86%	**311.40**										
		295.00	1.06	77.20	71.20	4.50	299.40	0.80	42.20	**5,178**	
		280.94	1.11	74.82	69.01	4.05	285.16	0.75	40.90	**(812)**	
		266.90	**1.17**	**72.50**	**66.80**	**3.60**	**270.90**	**0.70**	**39.60**	**(6,791)**	**worst case scenario**

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

all amounts in HUFm

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.

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 6,791 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 6,799 million.

In 2017 the worst case scenario was 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 was 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.

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:

2018

	Currencies (all amounts in millions)							
	EUR	USD	CHF	RUB	RON	PLN	KZT	CNY
Trade receivables	50.7	59.5	0.8	9,271.4	392.8	91.3	971.0	153.7
Trade payables	(29.2)	(4.1)	(0.2)	(37.2)	(332.0)	(8.0)	(30.5)	-
Loans receivable	0.5	2.1	-	-	-	-	-	-
Bank deposits	58.3	13.9	0.5	19.6	0.5	18.9	357.7	125.0
Total	**80.3**	**71.4**	**1.1**	**9,253.8**	**61.3**	**102.2**	**1,298.2**	**278.7**

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**

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 debts receivables are estimated by the Group's management based on the expected credit loss model from 1 January 2018. The following securities are applied to minimize the credit risk.

Regions	Trade receivables secured as at 31 December 2018	Type of security		
		Credit insurance	Bank guarantee	L/C
	HUFm	HUFm	HUFm	HUFm
CIS	27,206	15,189	11,387	-
EU	411	-	411	-
USA	-	-	-	-
China	-	-	-	-
Latin America	-	-	-	-
Other	938	440	129	369
Total	**28,555**	**15,629**	**11,927**	**369**

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**

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.

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.

The credit rating of the most significant banks as of 31 December 2018 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"):

	2018	2017
Bank of China Zrt. Hungary (ultimate parent – Bank of China Ltd)	A	A
BNP Paribas Hungary Branch (ultimate parent – BNP Paribas SA)	A	A
K&H Bank Zrt*	BBB	BBB
OTP Bank Nyrt.	BBB-	BBB-
UniCredit Bank Zrt (ultimate parent – UniCredit SpA)	BBB	BBB
Banca Commerciala Romana SA*	BBB+	BBB+
Raiffeisen Bank Zrt. (ultiinate parent – Raiffeisen Bank Intl AG)	BBB+	BBB+
CIB Bank Zrt.	BBB-	BBB-
ING Bank N.V. Magyarországi Fióktelepe (ultimate parent – ING Bank NV)	A+	A+
KDB Bank Európa Zrt. (ultimate parent – Korea Development Bank)	AA-	AA-

* For these financial institutes we present the rating of Fitch Ratings ,since 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.

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 2018 and 2017, 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:

	2018 HUF m	2017 HUF m
Bank guarantee for National Tax and Customs Administration of Hungary – collaterals for customs and excise duty related liabilities	197	194
Bank guarantee for Romanian suppliers	3,140	3,600
Other, individually not significant bank guarantees	114	101

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 2018				1 January 2018			
Financial assets		**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Other financial assets	15	9,397	-	-	**9,397**	15,539	-	-	**15,539**
Investments in securities	22		-	-	**-**	-	18	-	**18**
Foreign exchange forward contracts	21	-	-	-	**-**	-	26	-	**26**
Convertible loan	17	-	-	455	**455**	-	-	400	**400**
"Exchangeable bonds"	15	-	-	-	**-**	19,200	-	-	**19,200**
Total assets recurring fair value measurements		**9,397**	**-**	**455**	**9,852**	**34,739**	**44**	**400**	**35,183**

There is no financial liability measured at fair value.

HUFm	Notes	31 December 2017			
Financial assets		**Level 1**	**Level 2**	**Level 3**	**Total**
Other financial assets	15	15,539	-	-	**15,539**
Investments in securities	22	-	18	-	**18**
Foreign exchange forward contracts	21	-	26	-	**26**
Convertible loan option	15	-	-	45	**45**
"Exchangeable bonds" option	15	-	-	2,346	**2,346**
Total assets recurring fair value measurements		**15,539**	**44**	**2,391**	**17,974**

There was no financial liability measured at fair value.

Please see the details of the Other investments' fair value (presented in other financial assets) in Note 15.

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 2018 and 2017.

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 2018 and 2017 (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	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.

The above tables disclose sensitivity to valuation inputs for financial asset 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.

The effect of IFRS 9 first application is detailed in Note 38.

The Group does not have exchangeable bonds since these were repurchased by the issuer in 2018. The value of the convertible loan is not significant.

(b) Non-recurring fair value measurements

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

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

Level 3 valuations are reviewed annnally 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 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 2016	**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)**
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**

Property, plant and equipment	Land and buildings HUFm	Plant and equipment HUFm	Construction in progress HUFm	Total HUFm
Gross value				
at 31 December 2017	**161,286**	**270,018**	**20,977**	**452,281**
Translation differences	(333)	16	69	**(248)**
Effect of newly acquired companies	1,886	774	-	**2,660**
Capitalization	8,672	29,041	(37,760)	**(47)**
Transfers and capital expenditure	869	573	39,214	**40,656**
Disposals	(1,544)	(5,621)	(117)	**(7,282)**
at 31 December 2018	**170,836**	**294,801**	**22,383**	**488,020**
Accumulated depreciation				
at 31 December 2017	**47,670**	**207,621**	-	**255,291**
Translation differences	137	114	-	**251**
Current year depreciation	4,691	17,680	-	**22,371**
Net foreign currency exchange differences	(18)	(33)	-	**(51)**
Disposals	(432)	(4,290)	-	**(4,722)**
at 31 December 2018	**52,048**	**221,092**	-	**273,140**
Net book value				
at 31 December 2017	**113,616**	**62,397**	**20,977**	**196,990**
at 31 December 2018	**118,788**	**73,709**	**22,383**	**214,880**

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.

Since the value of Investment properties are not material it is not presented separately in the current Financial Statements.

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.

Other intangible assets	Rights	Intellectual property	Research and development	ESMYA*	BEMFOLA**	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Gross value						
at 31 December 2017	**144,045**	**3,782**	**423**	**78,514**	**51,717**	**278,481**
Translation differences	660	90	-	5,016	1,896	**7,662**
Acquisition	17,886	1,530	-	-	-	**19,416**
Disposals	(2,728)	(240)	-	-	-	**(2,968)**
at 31 December 2018	**159,863**	**5,162**	**423**	**83,530**	**53,613**	**302,591**
Accumulated amortization						
at 31 December 2017	**82,117**	**2,849**	**338**	**35,116**	**3,103**	**123,523**
Translation differences	458	77	-	2,637	114	**3,286**
Current year amortization	7,814	348	85	2,166	2,126	**12,539**
Net foreign currency exchange differences	13	1	-	60	18	**92**
Impairment and (reversal) of impairment (net)	29	-	-	14,107	-	**14,136**
Disposals	(2,596)	(37)	-	-	-	**(2,633)**
at 31 December 2018	**87,835**	**3,238**	**423**	**54,086**	**5,361**	**150,943**
Net book value						
at 31 December 2017	**61,928**	**933**	**85**	**43,398**	**48,614**	**154,958**
at 31 December 2018	**72,028**	**1,924**	**0**	**29,444**	**48,252**	**151,648**

* 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® 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 46,785 million as of 31 December 2018.
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 1,468 million as of 31 December 2018.

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

Net book value	**31 December 2018**	**31 December 2017**
	HUFm	HUFm
ESMYA LatAm	410	429
Grünenthal	30,378	34,766
Levosert	3,310	3,575
Bemfola®/Afolia	6,447	-
Mithra/Estelle	11,365	-
Trastuzumab	2,096	1,986
Pharmacy licenses	2,328	2,406
Other, individually not significant rights	15,694	18,766
Total	**72,028**	**61,928**

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 cousiders 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 PRAC's final recommendations were published on 18.05.2018 which were adopted by CHMP (Committee for Medicinal Products for Human Use) (01.06.2018) and based on CHMP's opinion the European Commission decided to implement them on 26.07.2018. According to PRAC's recommendations the measures include: contraindication in women with known liver problems; liver tests before, during and after stopping treatment; a card for patients to inform them about the need for liver monitoring and to contact their doctor should they develop symptoms of liver injury. In addition, use of the medicine for more than one treatment course has been restricted to women who are not eligible for surgery.
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.

The restrictions imposed by the European Commission significantly impaired the sales potentials of ESMYA® in the European Union, and the FDA's decision delays the market authorisation for the U.S. market and, according to the Executive Board's estimates, it reduces the potential market size. The impairment tests of ESMYA for the 2018 statements had to be conducted in consideration of these decisions by the regulatory authorities and market effects.

In the context of the restrictions of EC (which is identified as an impairment indicator) and in connection with the impairment test as of 31 December 2018, 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:

2019-2020

Sales:
In 2019 the sales expected to increase continuously, after the relaunch and expected to be higher Year on Year by 108% compared to 2018.
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) which assumed to decrease the sales by 17% compared to 2019.

Costs:
2019 costs are expected at a level comparable to 2018 actual costs. Some activities that had been discontinued in 2018 due to stop in promotion will need to be revamped.
In 2020 the total costs are expected to be 13% less than in 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, 12% and 11% in 2022 and 2023, 9% in 2024 and 6% from 2025 to 2035 each year.

Costs:
In 2021 the spending planned to be cut to 50% of previous year costs. The marketing costs/sales ratio is expected to decrease continuously until 2025, from where it is considered to be a constant 10% which is expected to be necessary for the maintenance of optimal cost vs. sales 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. In August, 2018, Richter's license partner for North-America Esmya sales, Allergan received a Complete Response Letter (CRL) from the U.S. Food and Drug Administration (FDA) in response to the New Drug Application (NDA) for ulipristal acetate (UPA) for the treatment of abnormal uterine bleeding in women with uterine fibroids.

The letter from the FDA indicates it is not able to approve the ulipristal acetate NDA in its current form and is requesting additional information. The agency cited safety concerns regarding ESMYA post-marketing reports outside the United States. There are two major assumptions that has changed in contrast to the previous year expectations: due to the CRL issued by FDA and taken into account the possible negative effects of EC decision (based on EU actual sales data for 2018), the expected sales are decreased by 75% and the launch of the ESMYA is postponed by one year.

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 29.8% less than its carrying value which meant a need to account for an impairment amounting to HUF 9,610 million. The remaining book value of the asset is HUF 22,670 million. +/-1% change in WACC would result in HUF 1,825 million decrease or HUF 2,023 million increase in the recoverable amount. +/-10% change per year regarding the sales volume in the adjusted forecast would result in HUF 4,385 million higher (in case of increase in sales volume) or in HUF 4,388 million lower recoverable amount (in case of decrease in sales volume).
As a result of the impairment test it was found that the recoverable amount of the ESMYA NA intangible asset is 39.8% less than its carrying value which meant a need to account for an impairment amounting to HUF 4,497 million. The remaining book value of the asset is HUF 6,774 million. +/-1% change in WACC would result in HUF 211 million decrease or HUF 224 million increase in the recoverable amount. +/-10% change per year regarding the sales volume in the adjusted forecast would result in

HUF 716 million higher (in case of increase in sales volume) or in HUF 1,512 million lower recoverable amount (in case of decrease in sales volume).

The discount rates (EU post tax: 9.1%, in 2017 8.0%; NA post tax: 10.5%, in 2017 8.1%) 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. After the market launch according to Company's estimation the royalty income will achieve their maximum over 5 years, with a CAGR of 62% and after it due to generic competition they are likely to drop significantly and expected to reach their minimum over 4 years (CAGR: -55%).

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 Company split the purchase price among markets and recognised intangible assets accordingly. The amortization of these intangibles had already been started in the markets where the product launches occurred.
In 2018 no significant changes occurred. In 2017 among the rights (in use), the Mexican asset was significant, while among the assets not yet in use the Brazilian was the only significant. The Company prepared an impairment test 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.

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.

In 2017 the total amount of impairment losses regarding ESMYA LatAm assets according to the above decisions amount to HUF 7,992 million.

In 2017 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.

During 2018 there were no significant changes in circumstances which would have resulted in any reversal of previously recognised impairment.

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 30,378 million as of 31 December 2018 and HUF 34,766 million as of 31 December 2017.

Rights – Levosert

The product commercializing rights of Levosert® for the Central and Eastern European region were presented as Rights accordingly to the contract signed with Uteron Pharma in 2011. In 2017 Richter 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 had been launched by Allergan in a number of these countries. The estimated average useful life for the rights is 10 years. The amortization period started in 2014 and 2017 (for the rights not used yet the amortization starts in line with market launches). Net book value of the rights in relation to Levosert® is HUF 3,310 million as of 31 December 2018 and HUF 3,575 million as of 31 December 2017.

Rights – Bemfola®/Afolia

On 30 June 2016 Richter acquired Finox Holding, a privately held Swiss biotech company focused on development and commercialisation of innovative and cost effective products addressing female fertility. Finox's product, BEMFOLA® is a recombinant-human Follicle Stimulating Hormone (r-hFSH) which was the first biosimilar r-hFSH launched in Europe. Richter obtained global rights for BEMFOLA® except for the US. As a result of the acquisition Richter expanded its Women's Healthcare portfolio with the female fertility therapeutic area and was able to increase its biosimilar market potential. On 10 July, 2018 Richter announced that it established a sale and purchase agreement with Fertility Biotech AG, in connection with the transfer of intellectual property rights, relevant studies, related data and documents of r-hFSH containing product, Bemfola®/Afolia, for the use in the United States. The transaction is considered to be a current year event, we examined whether there are any indicators of the intangible asset's impairment came to the conclusion, that there is no need to account for impairment.

Rights – Mithra/Estelle

As part of Richter's Specialty Pharma strategy on 2 September, 2018 Richter announced that it entered into an exclusive license and supply agreement with Mithra Pharmaceuticals to commercialize Estelle®, a combined oral contraceptive, containing estetrol and drospirenone. Richter is going to commercialize the product under a different brand name. The geographic scope of the agreement covers Europe and Russia. Under the terms of the agreement Richter made upon signature of the contract an upfront payment totalling EUR 35 million. Mithra is entitled to receive additional milestone payments amounting to EUR 20 million depending on the progress of development and regulatory process of the product. Besides, further sales related royalties will become payable to Mithra subsequent to the launch of the product and Mithra will receive guaranteed annual recurring revenues based on minimum annual quantities (MAQ), in addition to tiered royalties on net sales. The transaction is considered to be a current year event, we examined whether there are any indicators of the intangible asset's impairment are in place and came to the conclusion, that there is no need to account for impairment.

Rights – Trastuzumab

In 2016 Richter signed a technology transfer and license-in agreement with DM Bio ("DM Bio") in respect of the development and commercialization of DM Bio's biosimilar monoclonal antibody, Trastuzumab. According to the agreement, Richter receives exclusive distribution rights for Europe, the CIS region and Latin American countries and it also obtains the pilot technology for further development. Under the terms of the agreement Richter made an upfront payment upon signature of the contract and further milestone payments were and shall be made depending on the progress of the technology transfer and clinical programme of the product. In addition, further sales related royalties will become payable to DM Bio subsequent to the launch of the product. Based on the management evaluation there is no need to account for impairment, based on this the Net book value of the intangible asset is HUF 2,096 million as of 31 December 2018 and HUF 1,986 million as of 31 December 2017.

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 158 million as impairment loss and HUF 128 million as reversal of impairment in 2018 and HUF 83 million impairment loss and HUF 235 million as reversal of impairment in 2017. 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 2,328 million as of 31 December 2018 and HUF 2,406 million as of 31 December 2017.

The average remaining useful life of the intellectual properties does not exceed 5 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
			2018	2017	2018	2017	
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.(1)	Poland	99.84	99.84	99.84	99.84	Pharmaceutical manufacturing
4	Gedeon Richter Marketing Polska Sp. z o.o. (1)	Poland	-	99.97	-	99.97	Marketing services
5	Richter Themis Pvt. Ltd.	India	51.00	51.00	51.00	51.00	Pharmaceutical manufacturing
6	Gedeon Richter Pharma GmbH	Germany	100.00	100.00	100.00	100.00	Pharmaceutical trading
7	Gedeon Richter USA Inc.	USA	100.00	100.00	100.00	100.00	Pharmaceutical trading
8	RG Befektetéskezelő Kft.	Hungary	100.00	100.00	100.00	100.00	Financial-accounting and controlling activities
9	Gedeon Richter UA PAT	Ukraine	98.16	98.16	98.16	98.16	Pharmaceutical trading
10	Gedeon Richter UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
11	Gedeon Richter Iberica S.A.U	Spain	100.00	100.00	100.00	100.00	Pharmaceutical trading
12	Nedermed B.V.	The Netherlands	100.00	100.00	100.00	100.00	Pharmaceutical trading
13	Medimpex Japan Co. Ltd.(2)	Japan	-	90.90	-	90.90	Pharmaceutical trading
14	Medimpex Jamaica Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
15	Medimpex West Indies Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
16	Humanco Kft.	Hungary	100.00	100.00	100.00	100.00	Social, welfare services
17	Pesti Sas Holding Kft.	Hungary	100.00	100.00	100.00	100.00	Portfolio management
18	Richter Szolgáltató Kft.	Hungary	100.00	100.00	100.00	100.00	Catering services
19	Reflex Kft.	Hungary	100.00	100.00	100.00	100.00	Transportation, carriage
20	Chemitechnik Pharma Kft.	Hungary	66.67	66.67	66.67	66.67	Engineering services
21	GYEL Kft.	Hungary	66.00	66.00	66.00	66.00	Quality control services
22	Armedica Trading S.R.L.	Romania	99.92	99.92	99.92	99.92	Asset management
23	Gedeon Richter Farmacia S.A.	Romania	99.92	99.92	99.92	99.92	Pharmaceutical retail
24	Gedeon Richter France S.A.S.	France	100.00	100.00	100.00	100.00	Pharmaceutical trading
25	I.M. Gedeon Richter-Retea Farmaceutica S.R.L.	Moldavia	51.00	51.00	51.00	51.00	Pharmaceutical retail
26	Richter-Helm BioLogics GmbH & Co. KG	Germany	70.00	70.00	70.00	70.00	Biotechnological manufacturing and research
27	Richter-Helm BioLogics Management GmbH	Germany	70.00	70.00	70.00	70.00	Asset management
28	Medimpex UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
29	Farnham Laboratories Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
30	Gedeon Richter Aptyeka SP OOO	Armenia	51.00	51.00	51.00	51.00	Pharmaceutical retail
31	Pharmafarm S.A.	Romania	99.92	99.92	99.92	99.92	Pharmaceutical wholesale
32	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
			2018	2017	2018	2017	
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 S.A.	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
46	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	100.00	Asset management
49	Rxmidas Pharmaceuticals Company Ltd.	China	100.00	100.00	100.00	100.00	Marketing services
50	Gedeon Richter Pharmaceuticals (China) Co. Ltd.	China	100.00	100.00	100.00	100.00	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	100.00	Pharmaceutical trading
54	Gedeon Richter do Brasil Importadora, Exportadora e Distribuidora S.A.[3]	Brazil	100.00	51.00	100.00	51.00	Pharmaceutical trading
55	Gedeon Richter Chile SpA	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
			2018	2017	2018	2017	
60	Gedeon Richter Rxmidas Joint Venture Co. Ltd.(4)	Hong-Kong	100.00	100.00	100.00	100.00	Marketing services
61	Grmidas Medical Service (China) Co.Ltd. (4)	China	-	100.00	-	100.00	Pharmaceutical trading
62	Gedeon Richter Australia PTY Ltd. (5)	Australia	100.00	100.00	100.00	100.00	Trading of biotech products
63	Finox Holding AG (6)	Switzerland	-	100.00	-	100.00	Asset management
64	Finox AG (6)	Switzerland	100.00	100.00	100.00	100.00	Biotechnological manufacturing
65	Finox Biotech AG	Lichtenstein	100.00	100.00	100.00	100.00	Trading of biotech products
66	Finox Biotech Germany GmbH	Germany	100.00	100.00	100.00	100.00	Marketing services
67	Finox Biotech Nordics AB.	Sweden	100.00	100.00	100.00	100.00	Marketing services
68	Finox Biotech Iberia S.L. (7)	Spain	-	100.00	-	100.00	Marketing services
69	Finox Biotech France SARL(7)	France	-	100.00	-	100.00	Marketing services
70	Finox Biotech Italy S.r.l. (7)	Italy	-	100.00	-	100.00	Marketing services
71	Finox Biotech UK and Ireland Ltd.	UK	100.00	100.00	100.00	100.00	Marketing services
72	Finox Biotech Benelux BV	Belgium	100.00	100.00	100.00	100.00	Marketing services
73	GR Ireland Ltd.	Ireland	100.00	100.00	100.00	100.00	Marketing services

(1) Gedeon Richter Marketing Polska Sp. z o.o. merged into Gedeon Richter Polska Sp. z o.o.in the third quarter of 2018.
(2) The company wound up in 2018.
(3) Richter acquired shares of the minority owner, increasing its share from 51% to 100%
(4) The company merged with Gedeon Richter Rxmidas Joint Venture Co. Ltd.
(5) Formerly named as Finox Biotech Australia PTY Ltd. and owned by Finox AG. At the second half of 2018 Gedeon Richter Plc. acquired the investment and directly owned by the Parent.
(6) Finox Holding AG merged with its subsidiary, Finox AG during 2018.
(7) Finox's marketing companies, along with their activities, have merged with their parent companies in their country.

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
				2018	2017	2018	2017	
74	Gedeon Richter Bulgária	02 2018	Bulgaria	100.00	-	100.00	-	Marketing services
75	Gedeon Richter Pharma O.O.O.	10 2018	Russia	100.00	-	100.00	-	Marketing services
76	Pharmapolis Gyógyszeripari Tud. Park Kft.*	11 2018	Hungary	100.00	24.00	100.00	24.00	Building project management

* Richter acquired shares of the other two owners in November 2018, increasing its share from 24% to 100%. The transaction constitutes to be purchase of group of assets and not a business combination.

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

The total non-controlling interest as of 31 December 2018 is HUF 5,560 million, of which HUF 3,299 million is for Richter-Helm BioLogics GmbH & Co. KG, HUF 1,394 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.

2018	Medimpex West Indies Ltd. (14)	Richter-Helm BioLogics GmbH & Co. KG (25)
	HUFm	HUFm
Accumulated non-controlling interest	1,394	3,299
Non-current assets	59	4,774
Current assets	4,133	7,540
Non-current liabilities	-	14
Current liabilities	553	1,893
Revenues	3,185	12,351
Profit/(loss)	505	2,129
Dividends paid	220	0
Total cash-flow	79	1,478

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

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.

14. Investments in associates and joint ventures

	2018 HUFm	2017 HUFm
At 1 January	**11,847**	**8,541**
Additional payment	-	-
Acquisition/capital increase	-	2,996
Share of profit of associates and joint ventures	1,055	1,528
Net investments*	345	(44)
Dividend	(1,104)	(1,157)
Reclassification to subsidiary (Pharmapolis Gyógyszeripari Tud. Park Kft)	(293)	-
Reclassification to associates	-	-
Impairment	-	-
Exchange difference	(95)	(17)
At 31 December	**11,755**	**11,847**
out of investment in associates	*10,440*	*10,582*
out of investment in joint ventures	*1,315*	*1,265*

* 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.

In November 2018 Pharmapolis Kft's share was reclassified to subsidiaries as a result of the buy-out. 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.

	2018 HUFm	2017 HUFm
Opening net assets at 1 January of Hungaropharma Zrt.	**23,697**	**22,638**
Profit for the year*	2,137	2,178
Dividends	(1,079)	(1,119)
Closing net assets of Hungaropharma Zrt. at 31 December	**24,755**	**23,697**
Interest in associate (at 30.85%)	7,637	7,311
Unrealised profit elimination	(77)	(108)
Interest in other associates	2,880	3,379
Carrying value at 31 December	**10,440**	**10,582**

* 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 %
2018									
Hungaropharma Zrt.	Hungary	Pharmaceutical wholesale	9,149	62,402	6,128	41,823	344,440	4,502	30.85
Salvia-Med Bt.	Hungary	Pharmaceutical retail	1	72	-	32	590	29	32.79
Szondi Bt.	Hungary	Pharmaceutical retail	38	164	-	33	595	43	33.00
Top Medicina Bt.	Hungary	Pharmaceutical retail	27	43	-				20.00
Vita-Richter SP OOO	Azerbaijan	Pharmaceutical trading	-	-	-	-	-	-	49.00
Pharmatom Kft.	Hungary	Biotechnological research, development	438	12	-	447	4	-	24.00
Pesti Sas Patika Bt.	Hungary	Pharmaceutical retail	2	14	-	12	116	(4)	49.00
Evestra Inc.	USA	Biopharmaceutical research and development	1,223	1,138	473	53	1,657	(563)	17.26
Prima Temp Inc.	USA	Pharmaceutical research	416	432	-	232	169	(1,027)	22.99

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

* Convertible loan has been transferred into Investment on 5 December, 2017.
** New acquisition of associate in 2017.

The financial statements for 2018 of Hungaropharma Zrt, the most significant associate of the Group have not been audited yet. Corresponding data for year 2017 has not been amended in 2018 Consolidated Financial Statements as there were no material differences between the audited and unaudited figures of 2017.
Amounts of assets, liabilities, revenues and profit/loss are presented at 100%.
The associates did not have any item in Other Comprehensive Income (in 2018 and 2017).

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	%
2018										
Medimpex Irodaház Kft.*	Hungary	Renting real estate	2,002	246	-	82	334	92	-	50.00
Richter-Helm BioTec Management GmbH	Germany	Asset management	-	7	-	1	-	(1)	-	50.00
Richter-Helm BioTec GmbH & Co. KG	Germany	Trading of biotech products	-	680	11,291	310	368	(338)	155	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	%
2017										
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

* 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 and long term receivables

15.1. Other financial assets

	31 December 2018 HUFm	1 January 2018 HUFm	31 December 2017 HUFm
Financial assets previously classified as held to maturity investments carried at amortised cost - under IFRS 9 measured at amortized cost	55	1,649	1,649
Investments previously carried at amortised cost as loans and receivables	-	-	15.903
Financial assets previously classified as available-for-sale investments carried at fair value - under IFRS 9 measured at FVTOCI	9,397	15,539	15,539
Financial assets carried at fair value through profit or loss	-	19,200	2,391
Total	**9,452**	**36,388**	**35,482**

Previously 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 comprised "exchangeable bonds" that were issued at 6 December 2013 by the Hungarian State Holding Company (MNV Zrt.) with maturity date of 2019. MNV bond contained 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.
The instrument is measured at fair value through profit or loss from 1 January 2018 based on the requirements of IFRS 9, without bifurcating the embedded derivative. The fair value of the instrument was HUF 19,200 million, the instrument was repurchased by the issuer during 2018.

The 'exchangeable bond' option was measured at fair value through other comprehensive income and when the exchangeable bond was sold the related option was derecognised by the Parent Company. In 2017 the value of above stated option was HUF 2,346 million 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 decrease in the share price, and a negative change of RUB/HUF exchange rate, a significant decrease has been recorded against revaluation reserve for securities at FVOCI. As a result of the above mentioned reasons, a significant revaluation loss was recorded in 2018 (Note 24).

	31 December 2018	31 December 2017
Opening value (HUFm)	12,971	12,536
Change in fair value (HUFm)	(4,644)	*435*
Closing value (HUFm)	8,327	12,971
Share price (RUB/share)	78.0	109.7
RUB/HUF exchange rate	4.05	4.49
Change in the fair value (HUFm)	(4,644)	*435*

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 decrease in the share price, therefore HUF 920 million revaluation loss was recorded against revaluation reserve for securities at FVOCI in 2018. A closing fair value is HUF 1,183 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.

15.2. Long term receivables

	31 December 2018 HUFm	31 December 2017 HUFm
Government grants	6,035	-
Total	**6,035**	-

The Company recognised a subsidy amount of HUF 6,035 million approved but not financially settled, due over one year. From this amount, HUF 3,830 million is related to research and development activities, HUF 2,205 million for purchasing equipment.

16. Current income tax and deferred tax

Current tax assets and liabilities

	31 December 2018 HUFm	31 December 2017 HUFm
Current tax assets	1,017	795
Current tax liabilities	(438)	(703)

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 2018 HUFm	31 December 2017 HUFm
Deferred tax assets	7,895	10,548
Deferred tax liabilities	(7,176)	(8,005)

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 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 effect of first adoption of IFRS 9	-	-	**(42)**	(33)	-	**(75)**
Deferred tax effect of first adoption of IFRS 15	-	-	-	(99)	-	**(99)**
1 January 2018	**(132)**	**470**	**989**	**2,328**	**6,719**	**10,374**
(Debited)/credited to the income statement	(248)	51	1,006	(2,068)	(1,243)	**(2,502)**
(Debited)/credited to other comprehensive income*	-	(3)	-	409	-	**406**
Exchange differences	4	14	-	19	-	**37**
Transfer	(28)	16	-	(408)	-	**(420)**
31 December 2018	**(404)**	**548**	**1,995**	**280**	**5,476**	**7,895**

* Deferred tax assets and liabilities debited/credited to other comprehensive income was HUF 405 million in 2018 and HUF 100 million in 2017 (expense), out of which accounted through revaluation reserve HUF 410 million in 2018 and HUF 79 million in 2017 (expense, see Note 24) and HUF 5 million in 2018 and HUF 21 million in 2017 (expense) accounted through retained earnings in excess of the deferred tax effect of the adoption of IFRS 9 and IFRS 15.

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 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**
Debited/(credited) to the income statement	19	-	-	(1,318)	300	217	**(782)**
Debited/(credited) to other comprehensive income*	-	7	-	-	-	(8)	**(1)**
Exchange differences	1	-	-	202	179	(8)	**374**
Transfer	(28)	16	-	-	-	(408)	**(420)**
31 December 2018	**30**	**(1)**	**-**	**2,177**	**5,294**	**(324)**	**7,176**

* Deferred tax assets and liabilities debited/credited to other comprehensive income was HUF 405 million in 2018 and HUF 100 million in 2017 (expense), out of which accounted through revaluation reserve HUF 410 million in 2018 and HUF 79 million in 2017 (expense, see Note 24) and HUF 5 million in 2018 and HUF 21 million in 2017 (expense) presented through retained earnings.

From the deferred tax balance presented above it is expected that HUF 8,187 million (in 2017 HUF 8,060 million) of the liabilities and HUF 293 million (in 2017 HUF 585 million) of the assets will reverse after 12 months.

The Parent Company did not recognize deferred tax assets of HUF 4,049 million, as these are related to temporary differences that are expected to reverse within 5 years when the Company is not expected to have sufficient taxable profit to recover them. The most significant item of these deductible temporary difference relates to the tax loss carried forward (tax effect of HUF 3,588 million).
In addition to the Parent Company, there were significant tax loss carried forward at two Romanian subsidiaries (in the amount of HUF 2,404 million) on which no deferred tax assets have been recognized as of 31 December 2018. This would have resulted in a deferred tax asset in the amount of HUF 385 million. In 2017 the Group had HUF 7,150 million unused tax loss (that would have resulted in HUF 1,144 million deferred tax asset).
Temporary differences arising in connection with interest in associates and joint ventures are insignificant.

17. Loans receivable

	31 December 2018 HUFm	1 January 2018 HUFm	31 December 2017 HUFm
Loans given to related parties	1,510	1,311	1,116
Loans given to employees	917	883	883
Other loans given	199	133	133
Total	**2,626**	**2,327**	**2,132**

The loans given to related parties contains the convertible loan provided to Evestra Inc. in the amount of HUF 455 million (1 January 2018 HUF 400 million, 31 December 2017 HUF 355 million).

18. Goodwill

	Goodwill HUFm
Cost	
At 1 January 2017	68,632
Exchange differences	(4,026)
Impairment charged for the year	(20,229)
At 31 December 2017	**44,377**
At 1 January 2018	**44,377**
Exchange differences	1,851
Impairment charged for the year	(10,842)
At 31 December 2018	**35,386**

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

Closing goodwill on Cash Generating Units (Companies)

	31 December 2018 HUFm	31 December 2017 HUFm
Pharmaceuticals segment		
GR Polska Sp. z o.o.	1,119	1,111
Richter-Helm BioLogics Co & KG	102	99
PregLem S.A.	2,268	12,194
GRMed Company Ltd	28,972	28,172
GR Brasil	60	65
GR Mexico	1,811	1,669
Wholesale and retail segment		
Armedica Trading Group	993	1,006
Other segment		
Pesti Sas Holding Kft.	61	61
Total	**35,386**	**44,377**

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.
Even if Gedeon Richter Polska Sp. z o.o. achieved negative profit in 2018, according to its midterm financial plans growth is expected for the following years. As a result of this no impairment was required at the end of financial year of 2018 similar to 2017. 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/sales 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 2018. 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 12 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 2018 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 as 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 26% below the CGU book value. This resulted in an impairment against goodwill amounting to HUF 10,482 million. The remaining book value of goodwill amounts to HUF 2,268 million.
EU-based cash flows still represent the bigger portion (79%; in 2017 61%) of the total recoverable amount, in which cash flows up to 2025 have a proportion of 53%.

The discount rate (EU-based cash flows post tax: 9.1%, 8.0% in 2017; NA-based cash flows 10.5%, 8.1% in 2017 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 1,867 million decrease or HUF 2,054 million increase in the recoverable amount. +/-10% change per year regarding the sales volume in the adjusted forecast would result in around HUF 6,390 million lower recoverable amount in case of sales decrease and in case of sales increase the recoverable amount would be higher around HUF 5,597 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 (in 2017) 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 2018 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 (2019-2028) due to the average annual 2.1% growth in turnover.

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

The present value of the 2019-2028 cash flows and (by applying a conservative estimate of) residual value reckoning with 0% growth is 28% higher than the tested amount.

The discount rate (post tax: 13.7%; 2017: 12.8%) 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 in post-tax discount rate to 17.50% or a 7.7% decrease in forecasted sales volumes would remove the remaining headroom.

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 2018 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 (2019-2028), 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 without any further growth (conservative estimate).

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". Since the Goodwill has been allocated to the traditional products, therefore the contribution of these assets to the recoverable amount and the book value of the related assets in the carrying amount of the CGU was ignored. 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 Group, the carrying amount of these assets was also considered when the Group compared the carrying amount of the CGU to the recoverable amount.

The calculated return is 61% higher than the CGU book value (in 2017 120%). The present value of the 2019-2028 cash flows represents the 53% 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: 8.4%; in 2017 8.0%) applied reflects current market assessments of the time value of money and the risks specific to the CGU for which future cash flow estimates have not been adjusted.

A rise in post-tax discount rate to 13.3% (in 2017 18.8%) would remove the remainiug headroom.

19. Inventories

	31 December 2018 HUFm	1 January 2018 HUFm	31 December 2017 HUFm
Raw materials, packaging and consumables	46,163	42,435	42,435
Production in progress	1,837	2,339	2,339
Semi-finished and finished goods	44,687	39,141	39,700
Total	**92,687**	**83,915**	**84,474**

Inventories include impairment and scrapping in value of HUF 3,370 million and reversal of impairment in value of HUF 507 million in 2018 (HUF 2,411 million impairment and scrapping and HUF 1,287 million reversal was made in 2017).
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 2018 the total carrying amount of inventories that are valued at net realisable value amounts to HUF 10,144 million (in 2017 it was HUF 9,548 million).
All items of Inventories are free from liens and charges.

20. Trade receivables

	31 December 2018 HUFm	1 January 2018 HUFm	31 December 2017 HUFm
Trade receivables	118,953	**120,097**	120,581
Amounts due from related companies (Note 37)	10,053	**2,439**	2,442
Total	**129,006**	**122,536**	**123,023**

Ageing of Trade receivables

	31 December 2017 HUFm
Trade receivables not yet due	108,783
Trade receivables overdue, not impaired	12,775
1-90 days	*10,141*
91-180 days	*1,407*
181-360 days	*948*
>360 days	*279*
Trade receivables overdue, impaired	8,621
1-90 days	*1,849*
91-180 days	*121*
181-360 days	*317*
>360 days	*6,334*
Impairment on trade receivables overdue	(7,156)
not yet due	*(448)*
1-90 days	*(222)*
91-180 days	*(45)*
181-360 days	*(213)*
>360 days	*(6,228)*
Total	**123,023**

The closing loss allowances for trade receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Loss allowances for trade receivables HUFm
At 1 January 2017	**7,216**
Provision for receivables impairment	1,843
Reversal of impairment for trade receivables	(1,757)
Exchange difference	(146)
At 31 December 2017	**7,156**
Impact of initial application of IFRS 9	487
At 1 January 2018	**7,643**
Provision for receivables impairment	1,125
Reversal of impairment for trade receivables	(1,935)
Exchange difference	354
At 31 December 2018	**7,187**

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 2018 nor in 2017.

Impairment of financial assets

31 December 2018	Current	1-30 days past due	31-90 days past due	91-180 days past due	181-360 days past due	>360 days past due	Total
Expected loss rate	0.21%	2,51%	2.20%	8.16%	44.10%	85.72%	**5.28%**
Gross carrying amount – trade receivables	113,866	8,174	4,122	1,742	1,431	6,858	**136,193**
Loss allowance	238	206	91	142	631	5,879	**7,187**

1 January 2018	Current	1-30 days past due	31-90 days past due	91-180 days past due	181-360 days past due	>360 days past due	Total
Expected loss rate	0.51%	2.76%	1.81%	3.36%	18.28%	98.41%	5.87%
Gross carrying amount – trade receivables	108,783	8,156	3,834	1,528	1,265	6,613	130,179
Loss allowance	558	225	69	52	231	6,508	7,643

21. Other current assets and contract assets

21.1 Other current asset

	31 December 2018 HUFm	1 January 2018 HUFm	31 December 2017 HUFm
Loans receivable	225	3,608	3,608
Other receivables	5,595	3,735	3,735
Fair value of open forward exchange contracts	-	26	26
Subtotal of financial assets (Note 10)	**5,820**	**7,369**	**7,369**
Tax and duties recoverable	5,211	5,033	5,033
Advances	2,308	4,843	4,843
Prepayments	2,848	2,935	2,935
Total	**16,187**	**20,180**	**20,180**

21.2 Contract assets

The Group has recognised the following assets related to the contracts with customers:

	31 December 2018 HUFm	1 January 2018 HUFm	31 December 2017 HUFm
Current contract assets	1,425	1,676	-
Loss allowance	-	-	
Total contract assets	**1,425**	**1,676**	**-**

Detailed information is presented in Note 38.

22. Investments in securities

	31 December 2018 HUFm	31 December 2017 HUFm
Government bonds	2,997	-
Other securities	1,731	18
Total (Note 10)	**4,728**	**18**

23. Cash and cash equivalents

	31 December 2018 HUFm	31 December 2017 HUFm
Bank deposits	112,827	75,871
Cash on hand	194	170
Total (Note 10)	**113,021**	**76,041**

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 2018 Number	31 December 2018 HUFm	31 December 2017 Number	31 December 2017 HUFm
Ordinary shares of HUF 100 each	186,374,860	18,638	186,374,860	18,638

Detailed ownership structure of the Parent 31 December 2018

Ownership	Ordinary shares number	Voting rights**%	Share capital %
Domestic ownership	**63,716,497**	**34.20**	**34.19**
State ownership total	47,051,794	25.25	25.25
out of which MNV Zrt.	47,051,668	25.25	25.25
out of which Municipality	126	0.00	0.00
Institutional investors	7,443,002	3.99	3.99
Retail investors	9,221,701	4.95	4.95
International ownership	**122,249,372**	**65.61**	**65.59**
Retail investors	335,369	0.18	0.18
Institutional investors	121,914,003	65.43	65.41
Undisclosed ownership	**19,963**	**0.01**	**0.01**
Treasury shares*	**389,028**	**0.18**	**0.21**
Share capital	**186,374,860**	**100.00**	**100.00**

Detailed ownership structure of the Parent 31 December 2017

Ownership	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
out of which MNV Zrt.	47,051,668	25.25	25.25
out of which 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**
Retail investors	801,326	0.43	0.43
Institutional investors	125,223,994	67.21	67.18
out of which Aberdeen Asset Mgmt. Plc.	18,243,530	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	5.03	5.03
Undisclosed ownership	**10,774**	**0.01**	**0.01**
Treasury shares*	**66,183**	**0.00**	**0.04**
Share capital	**186,374,860**	**100.00**	**100.00**

* The treasury shares, except for the ones owned by Employee Share Ownership Trust's (ESOT), 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.
Changes of foreign currency translation reserves are presented in the Consolidated Statement of Changes in Equity.

Revaluation reserve for available for sale investments (based on IAS 39)

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 securities at FVOCI (based on IFRS 9)

When measuring financial assets measured at fair value through OCI (Note 15), the difference shall be recognized as Revaluation reserve for securities at FVOCI. It shall not be recycled to the Income Statement subsequently.

	Revaluation reserve for available for sale investments HUFm
At 1 January 2017	**8,825**
Recycled through Other comprehensive income	(708)
Revaluation gross	1,929
Deferred tax effect	(82)
At 31 December 2017	**9,964**
Reclassification according to IFRS 9	(9,964)
Closing balance at 31 December 2018	**-**

	Revaluation reserve for securities at FVOCI HUFm
At 31 December 2017	**-**
Reclassification according to IFRS 9	9,964
Effect of first application of IFRS 9	-
Opening balance at 1 January 2018	**9,964**
Recycled through Other comprehensive income	
Revaluation gross	(5,564)
Deferred tax effect	410
At 31 December 2018	**4,810**

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.

	2018 HUFm	2017 HUFm
Expense recognized in current year	1,697	3,640
Treasury share given (Note 25)	1,836	4,728
Total changes in reserve presented in the Consolidated Statement of Changes in Equity	**(139)**	**(1,088)**

Parallel to the Equity-settled share based payment program Richter operates cash-settled share based payment program for its senior executives and senior employees through Employee's Share- Ownership Programme (ESOP). The cost of the program was HUF 1,510 million in 2018.

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 four share based payment programs, described below in more details. 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. In 2018, the Company launched the Employee's Share-Ownership Programme, according to which a worker receives a benefit after the conditions specified in the program have been met.

Bonus program
Richter operates a bonus share program since 1996 to further incentivise managers and key employees of the Company. In 2018, the program was redesigned: the bonus for managers was paid in cash. As a result in 2018 just 14,473 shares were granted to 284 key employees of the Company while in 2017 72,904 shares were granted to 441 employees.

Individual bonuses
7,543 treasury shares were granted to qualified employees as bonuses during the year while 431,800 treasury shares were granted in 2017. The significant decrease was due to the introduction of the Employee's Share-Ownership Program.

Employee's Share- Ownership Program (ESOP)
In order to strengthen the performance and loyalty of senior executives and senior employees through the Company's success in 2018, the Company started Employee's Share- Ownership Program (ESOP).
In the second quarter of 2018, the Company transferred 333,698 treasury shares to the ESOP in two tranches, in accordance with the Employee Share Ownership Trust's (ESOT) Articles of Association and Remuneration Policy. Program constitutes to be a cash-settled share based payment program.

Staff Stock Bonus Plan
Pursuant to the program related to employee share bonuses (Staff Stock Bonus Plan 2018), the Company granted 324,226 treasury shares to 4,346 employees in 2018. The shares will be deposited on the employees' security accounts with UniCredit Bank Hungary Ltd. until 2 January 2021. In 2017 245,163 shares were granted to 4,266 employees deposited on their accounts until 2 January 2020.

The AGM held on 25th April 2018 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 661,049 treasury shares during the year.

Treasury shares	2018 Numbers	2017 Numbers
at 1 January	**66,183**	**241,634**
Out of these, number of shares owned by subsidiaries	*5,550*	*60,284*
Share purchase	661,049	561,499
Transferred as part of bonus program	(14,473)	(72,904)
Individual bonuses	(7,543)	(431,800)
Granted pursuant to the National Tax and Customs Administration - approved plan	(324,226)	(245,163)
Granted pursuant to the National Tax and Customs Administration - repurchased	8,038	12,917
at 31 December	**389,028**	**66,183**
Out of these, number of shares owned by subsidiaries	*5,500*	*5,500*

	2018 HUFm	2017 HUFm
Book value		
at 1 January	**415**	**1,285**
Share purchase	3,607	3,858
Transferred as part of bonus program	(77)	(428)
Individual bonuses	(40)	(2,690)
Granted pursuant to the National Tax and Customs Administration - approved plan	(1,764)	(1,696)
Granted pursuant to the National Tax and Customs Administration - repurchased	45	86
at 31 December	**2,186**	**415**

26. Trade payables

	31 December 2018 HUFm	31 December 2017 HUFm
Trade payables	54,429	47,446
Amount due to related companies (Note 37)	120	49
Total	**54,549**	**47,495**

27. Other payables and accruals and Contract liabilities

27.1 Other payables and accruals

	31 December 2018 HUFm	31 December 2017 HUFm
Short term accruals	16,573	17,357
Other liabilities	8,656	5,259
Dividend payable	152	150
Subtotal of financial liabilities (Note 10)	**25,381**	**22,766**
Wages and payroll taxes payable	6,599	6,287
Other taxes	1,260	1,204
Deposits from customers	424	258
Total	**33,664**	**30,515**

27.2 Contract liabilities

	31 December 2018 HUFm	1 January 2018 HUFm
Contract liabilities	85	59
Total	**85**	**59**

28. Provisions

	31 December 2018 HUFm	31 December 2017 HUFm
Other short term provisions	3,415	2,473
Long term provisions – for retirement and other long term benefits*	3,554	3,305
from this defined retirement benefit plans at the Parent	*1,857*	*1,711*
from this defined retirement benefit plans at GR Polska	*773*	*299*
from this defined retirement benefit plans at PregLem	*259*	*263*
from this defined retirement benefit plans at Finox Group	*13*	*66*
Total	**6,969**	**5,778**

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

At 31 December 2018 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.

	2018 HUFm	2017 HUFm
Opening value of retirement benefit	1,711	1,525
Interest costs (charged to the P&L)	58	48
Current service costs (charged to the P&L)	149	130
Settlement	(90)	(92)
Actuarial loss/(gain) (charged to the OCI)	29	100
Retirement benefit liability	**1,857**	**1,711**

The principal actuarial assumptions were as follows:

The estimation was performed with a 2.2% 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 2017 and 2018 – since the fluctuation of the yield was remarkable – we applied a three year average of the yields published to determine the discount rate for the calculation of liabilities. In 2017 3.31 % while in 2018 3.51% technical interest rate 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
	12.0%	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 2018 HUFm	31 December 2017 HUFm
Cash and cash equivalents	113,021	76,041
Borrowings-current	-	-
Borrowings-non-current	(2)	(3)
Net debt	**113,019**	**76,038**

	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 2017	**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**
Effect of first application of IFRS 9	-	-	-	-
Net debt as at 1 January 2018	**76,041**	-	**(3)**	**76,038**
Cash flows	39,643	-	-	**39,643**
Effect of foreign exchange changes	(2,663)	-	1	**(2,662)**
Reclassification from long-term to short-term	-	-	-	-
Net debt as at 31 December 2018	**113,021**	-	**(2)**	**113,019**

30. Other non-current liabilities and accruals

	31 December 2018 HUFm	31 December 2017 HUFm
Government grants	9,091	3,864
Other non-current liabilities	164	483
Total	**9,255**	**4,347**

Government grants relates to property, plant and equipment.

31. Dividend on ordinary shares

	2018 HUFm	2017 HUFm
Dividend on ordinary shares	12,673	19,756

A dividend of HUF 68 per share (HUF 12,673 million) was declared in respect of the 2017 results, approved at the Company's Annual General Meeting on 25 April 2018 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 2018 HUFm	31 December 2017 HUFm
Contractual capital commitments of Parent	5,925	9,143
Contractual capital commitments of AO Gedeon Richter -RUS	431	999
Capital expenditure that has been authorised by the directors but has not yet been contracted for at Parent	36,479	30,082
Capital expenditure that has been authorised by the directors but has not yet been contracted for at AO Gedeon Richter-RUS	2,532	2,539

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 vehicle, equipment and building rental. The non-cancellable operating lease commitments are as follows:

	2018 HUFm	2017 HUFm
Within 1 year	2,957	3,768
Between 1 and 5 years	4,312	8,186
Over 5 years	3,919	3,601
Total	**11,188**	**15,555**

The agreements do not include purchase option.
In 2018 HUF 6,478 million and in 2017 HUF 6,310 million has been recorded as operating lease expense.

The Group expects that the application of IFRS 16 will not have material impact on the equity. The value of the lease liability and a right-of-use asset will not exceed 4% of the total assets.

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 19.5% and vocational training contribution amounting to 1.5% of gross salaries which are paid during 2018 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 1,537 million in 2018 (in 2017: HUF 1,354 million).

Pension contribution paid by Hungary based subsidiaries in respect of their employees amounted to HUF 35 million in 2018 and HUF 33 million in 2017.

Foreign subsidiaries pay contributions to various pension funds in respect of their employees which amounted to HUF 712 million and HUF 584 million in 2018 and 2017, 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
In 2017 HRA Pharma, the partner of Richter related to ESMYA®, initiated a negotiation on the interpretation of the license agreement between the parties that was different from the past practice.
The discussion with HRA was at a preliminary phase, therefore the exposure could not be determined at that point. At the end of 2018 the negotiations were ongoing for the period 2012-2018 retrospectively and for the period after 2018 on the French and Canadian royalty. The resulting exposure is not significant.

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
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 S.A. for suspension of payment for the claw-back. At the end of 2018 the first instance court has decide in favour Pharmafarm S.A., annuling the claw-back decision of RTA, but as part of the verdict, the court ordered the re-execution of the tax audit. As a result of the second investigation, RTA imposed again the RON 9.09 million claw-back tax payment obligation, which Pharmafarm S.A. did not accept and filed a lawsuit. The Bucharest Special Court approved again Pharmafarm S.A.'s application for suspension of claw-back payment until the case was finally closed.

Taking into consideration the opinion of experts, the management of the Parent Company estimates more likely than not that the imposed tax obligation will not have to be paid on the basis of a subsequent final court decision, therefore no provision has been made.
In May 2018, a comprehensive tax audit covering the period from 01.01.2011 to 31.12.2015 was also completed at Gedeon Richter Romania S.A. As a result of the investigation, a tax deficit has been established for a claw-back tax, corporate income tax and VAT. The total value of the established tax shortfall and related interest and fines amount to RON 13.2 million. Although the Company will challenge the decision of the tax authority in court, taking into account the opinions of experts, the management of the Company sees a more than 50% chance that the findings will have to be paid by Gedeon Richter Romania in the future, therefore a provison of RON 13.2 million has been recognised. 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.

	2018 HUFm	2017 HUFm
Dividend paid to MNV Zrt.	3,201	4,994

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 2018 HUFm	31 December 2017 HUFm
Loans to joint ventures	480	-
Loans to associated companies	1,204	3,639
Trade receivables (joint ventures)	254	240
Trade receivables (associates)	9,702	2,202
Trade payables (joint ventures)	2	5
Trade payables (associates)	118	44
Revenue from joint ventures	895	564
Revenue from associates	14,933	13,280

The loans are in Hungarian Forint, Euro and US dollars, out of which HUF 1,279 million are long and HUF 405 million are short term.
Revenues from related parties almost exclusively represents sale of pharmaceutical products. The Group has no open trading commitments with related parties as of 31 December 2018.

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	
	2018 HUFm	2017 HUFm
Board of Directors	71	78
Supervisory Board	24	24
Total	95	**102**

37.3 Key management compensation

	2018 HUFm	2017 HUFm
Salaries and other short term employee benefits	1,563	1,157
Share based payments	761	1,457
Total short term compensation	**2,324**	**2,614**
Pension contribution paid by the employer	305	575
Total	**2,629**	**3,189**

The table above contains the compensation received by the chief executive officer, directors and other senior members of management, constituting 49 people.
There were no redundancy payments to key management members neither in 2017 nor in 2018.

38. Changes in accounting policy

The Group has adopted IFRS 15 Revenue from contracts with customers and IFRS 9 Financial instruments from 1 January which resulted in changes in accounting policy and adjustments to the amounts recognised in the financial statements.

Impact on the financial statements:

The following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

	Notes	31 December 2017 HUFm	IFRS 15 adjustments HUFm	IFRS 9 adjustments HUFm	1 January 2018 HUFm
ASSETS					
Non-current assets					
Property, plant and equipment	12	196,990	-	-	196,990
Goodwill	18	44,377	-	-	44,377
Other intangible assets	12	154,958	-	-	154,958
Investments in associates and joint ventures	14	11,847	-	-	11,847
Other financial assets	15	35,482	-	906	36,388
Deferred tax assets	16	10,548	(99)	(75)	10,374
Long term receivables		-	-	-	-
Loans receivable	17	2,132	-	195	2,327
		456,334	**(99)**	**1,026**	**457,261**
Current assets					
Inventories	19	84,474	(559)	-	83,915
Trade receivables	20	123,023	-	(487)	122,536
Contract assets		-	1,676	-	1,676
Other current assets	21	20,180	-	-	20,180
Investments in securities	22	18	-	-	18
Current tax asset	16	795	-	-	795
Cash and cash equivalents	23	76,041	-	-	76,041
		304,531	**1,117**	**(487)**	**305,161**
Total assets		**760,865**	**1,018**	**539**	**762,422**

	Notes	31 December 2017 HUFm	Effect of IFRS 15 HUFm	Effect of IFRS 9 HUFm	1 January 2018 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)	-	-	(415)
Share premium		15,214	-	-	15,214
Capital reserves		3,475	-	-	3,475
Foreign currency translation reserves	24	9,855	-	-	9,855
Revaluation reserve for available for sale investments	24	9,964	-	(9,964)	-
Revaluation reserve for securities at FVOCI		-		9,964	9,964
Retained earnings		602,596	959	539	604,094
		659,327	**959**	**539**	**660,825**
Non-controlling interest	13.1	4,692	-	-	4,692
		664,019	**959**	**539**	**665,517**
Non-current liabilities					
Borrowings	29	3	-	-	3
Deferred tax liability	16	8,005	-	-	8,005
Other non-current liabilities and accruals	30	4,347	-	-	4,347
Provisions	28	3,305	-	-	3,305
		15,660	-	-	**15,660**
Current liabilities					
Borrowings	29	-	-	-	-
Trade payables	26	47,495	-	-	47,495
Contract liabilities		-	59	-	59
Current tax liabilities	16	703	-	-	703
Other payables and accruals	27	30,515	-	-	30,515
Provisions	28	2,473	-	-	2,473
		81,186	**59**	-	**81,245**
Total equity and liabilities		**760,865**	**1,018**	**539**	**762,422**

Had IFRS 15 not been adopted in the year to 31 December 2018 then it would have reported the following amounts by applying IAS 18 Revenue, IAS 11 Construction Contracts and related Interpretations:

	As reported on IFRS 15 basis HUFm	Effect HUFm	As would have been reported HUFm
Revenues	445,484	251	445,735
Cost of sales	(191,648)	(99)	(191,747)
Profit before tax	43,953	152	44,105
Income tax	(7,760)	(99)	(7,859)
Profit for the year	36,193	53	36,246

The impact on the Group retained earnings as at 1 January 2018 is as follows:

	Notes	2018 HUFm
Closing retained earnings 31 December 2017 – IAS 39, IAS 18		**602,596**
Increase in provision for trade receivables and contract assets	20	(487)
Increase in provision for debt investments at amortised cost	17	150
Reclassification investments from loans and receivables to FVTPL	15	951
Change in deferred tax assets relating to IFRS9 adjustments	16	(75)
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018		**539**
Opening retained earnings 1 January – IFRS 9 (before restatement for IFRS 15)		**603,135**

	Notes	2018 HUFm
Retained earnings after IFRS 9 restatement		**603,135**
Recognition of revenue for sale of goods meeting the overtime revenue recognition criteria	21,22	1,617
Recognition of cost for sale of goods meeting over time revenue recognition criteria		(559)
Increase in deferred tax liabilities	16	(99)
Adjustment to retained earnings from adoption of IFRS 15		**959**
Opening retained earnings 1 January (IFRS 9 and 15)		**604,094**

In accordance with the requirements of IFRS 15 the Group recognizes revenue when the expenditures are incurred for those sale of good transactions where the Group's performance does not create an asset with an alternative use and provides enforceable right to payment for performance completed to date. This results in an earlier revenue and cost recognition from the past practice of the Group. The table above summarises the effect of this change.

On 1 January 2018 (the date of initial application of IFRS 9), the group's management has assessed which business models apply to the financial assets held by the group and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

	FVTPL HUFm	FVOCI HUFm	Amortised cost HUFm
Closing balance 31 December 2017 – IAS 39	2,417	15,557	226,091
Reclassifications from amortised cost to FVTPL	16,258	-	(16,258)
Related FV adjustments	951	-	-
Release of related AFS reserves	-	-	-
Effect of IFRS 9 impairment	-	-	(337)
Opening balance 1 January 2018	**19,626**	**15,557**	**209,496**

39. Notable events in 2018

Sales dropped in the EU, particularly in the EU 15 (member states that joined before 01.05.2004) member states as well as in the CIS, particularly in Russia and Ukraine; conversely, they soared in the United States, China, and the domestic market. Please see Note 4 for details.

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 Company's audited financial statements for 2017 are going to be prepared taking into account the expected negative impact on business as a result of the temporary measures imposed by PRAC in respect of ESMYA®. 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. In May 2018 the PRAC announced new measures to minimise the risk of rare but serious liver damage. In June 2018 EMA's Committee for Medicinal Products for Human Use (CHMP) also issued a statement of opinion and supported the PRAC's recommendations. On 30 July 2018, after the adoption of the CHMP's opinion, the European Commission passed a decision regarding the marketing authorisation of 5 mg ESMYA® tablet. The decision is valid for all EU member states. Doctors have been sent a letter of information containing the restrictions imposed by the EC's decision.

To benefit from synergies the merger of Gedeon Richter Polska and Gedeon Richter Marketing Polska was performed in 2018.

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 in this trial. Then in December 2017 the two companies announced the second, and in April 2018, the third 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). Thus the efficacy and safety of cariprazine for the treatment of patients suffering from bipolar I depression are underpinned by three clinical trials for regulatory submission. In possession of these data, in September 2018 the FDA accepted Allergan's application for registration of the expansion of indication.

On 16 April 2018 Richter announced that on the basis of its mandate from the Board of Directors of the Company it approved the Statutes of the Richter Gedeon Nyrt. Employee Share Ownership Trust (ESOT) and the respective remuneration policy related to the allocations to be provided within the framework of an Employee's Share-Ownership Program for certain of its titleholders and key employees. The aim of the establishment of the ESOT is to strengthen the performance and loyalty of the titleholders and key employees through the sharing the success of the Company.

On 21 June 2018 Richter announced that with effect from 21 June 2018, the Romanian National Agency for Medicines and Medical Devices (NAMMD) suspended the licence of operation of Pharmafarm S.A., Richter's wholesaler subsidiary following a breach of Good Distribution Practice. After the suspension Pharmafarm's staff embarked without delay upon the development of a package of corrective and preventive measures that are in keeping with the requirements of the Authority. As a result, NAMMD lifted the withdrawal with effect from 18 September 2018.

In 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. Richter has obtained global rights for Bemfola® (with the exception of the United States). On 10 July 2018 Richter announced that it concluded a sale and purchase agreement with Fertility Biotech AG in connection with the transfer of intellectual property rights, relevant studies, related data and documents of Bemfola®/Afolia, for the use in the United States.

Based on the successful U.S. Venus I and Venus II trials whose results were published in May 2016 and January 2017 respectively, our partner Allergan plc started in 2017 the registration application process for ulipristal acetate in treating women with uterine fibroids causing irregular uterine bleeding. On 22 August 2018 Allergan plc announced it received a Complete Response Letter from the U.S. Food and Drug Administration (FDA) regarding registration. The FDA is requesting additional information, citing safety concerns regarding ESMYA post-marketing reports outside the United States.

In line with the specialty pharma strategy, on 12 September 2018 the Company announced that it had entered into a license and supply agreement with Mithra Pharmaceuticals to commercialize Estelle®, a combined oral contraceptive, containing estetrol and drospirenone. Richter is going to commercialize the product under a different brand name. The geographic scope of the agreement covers Europe and Russia.

On 18 September 2018 Richter announced that it had entered into a license and distribution agreement with L.D. Collins & Co. Limited, a UK based company, to commercialize its progesterone containing assisted reproduction technology (ART) product, Cyclogest®. The product will be commercialized in 27 EU countries for which marketing authorizations have already been granted.

In 2018 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.

40. Events after the date of the balance sheet

On 11 January 2019 the Company announced that Mr. András Radó, Deputy Managing Director for Production and Logistics retired as of 2 January 2019 and will continue to support the company's day-to-day activity as a consultant. Chief Executive Officer Mr Gábor Orbán will supervise Production and Logistics pending the appointment of a new deputy managing director.

Dr. Margit Dr Pellionisz Paróczai, Director of Human Resources also retired at the end of 2018, and will participate in the activities of Richter's foundations. The new HR Director is Katalin Erdei.

In January 2019 the Canadian regulatory authority imposed restrictions on Fibristal (ulipristal acetate) commercialised by Allergan Plc in Canada due to a potentially increased risk of liver damage.

On 1 February 2019 Richter announced the withdrawal of application for registration of the proprietary biosimilar product Efgratin (pegfilgrastim) due to its inability to relieve CHMP's concerns by the prescribed deadline.

Richter and the Dutch company Pantharhei announced that they had signed a license and supply agreement for the combined oral contraceptive ARC developed by Pantharhei and containing estradiol, levonorgestrel and dehydroepiandrosterone with the geographic scope covering Europe, Russia, Latin America and Australia. The product is under development with successfully completed Phase II trials and is ready for further clinical studies to obtain marketing approval. ARC (Androgen Restored Contraception) is a novel concept of oral contraception with the aim to restore sexual function with a special focus on sexual desire and arousal and to prevent mood disturbances.

On 5 February 2019 the Company announced that Mr. Lajos Kovács Director of Technical Services will be involved in Richter's day-to-day activity as a consultant. Chief Executive Officer Mr Gábor Orbán will supervise Technical Services pending the appointment of a new deputy managing director.

In February 2019 Richter announced that it had entered into a distribution and supply agreement with a subsidiary of Allergan plc to commercialize its Levosert in Latin American countries.

In February 2019 the Hungarian government decided to establish Maecenas Universitatis Corvini Foundation whose job it would be to operate Corvinus University of Budapest, and would transfer substantial funds to the Foundation the form of 10% of State-owned MOL and Richter shares each. The shares are non-alienable.

The management is not aware of other post-balance sheet date events that might be material to the Company's business.

41. Approval of financial statements

Current Consolidated Financial Statements have been approved by the Board of Directors and authorised for release at 20 March 2019.

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

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GEDEON RICHTER PLC.

CONFIDENTIAL

Consolidated
BUSINESS REPORT
2018

Gábor Orbán
Chief Executive Officer

Budapest, 20 March 2019

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1. General data

1.1 Brief History of Richter Group

The parent company

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

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

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

Privatization

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

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

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

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

the new bonds were launched on the Frankfurt Stock Exchanges Open Market (Freiverkehr). At the end of 2018 the State repurchased the bond maturing in April 2019 and convertible to Richter shares. On 11 February 2019 it was announced that of Richter's shares held by the State a packet of 10% of the total shares would be transferred to Maecenas Universitatis Corvini Foundation, an entity exclusively owned by the State and set up to operate Corvinus University of Budapest starting from 1 July 2019.

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 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 May 2015 the European Commission granted approval for the intermittent use of Esmya

in the long term management of uterine fibroids. The marketing authorization is applicable in all countries of the European Union.

In December 2017 EMA's Pharmacovigilance Risk Assessment Committee (PRAC) started a review in the EU member states of Esmya (ulipristal acetate) investigating liver damage 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. In May 2018 the PRAC announced new measures to minimise the risk of rare but serious liver damage. In June 2018 EMA's Committee for Medicinal Products for Human Use (CHMP) also issued a statement of opinion and supported the PRAC's recommendations. On 30 July 2018, after the adoption of the CHMP's opinion, the European Commission passed a decision regarding the marketing authorisation of 5 mg Esmya tablet. The decision is valid for all EU member states. Doctors have been sent a letter of information containing the restrictions imposed by the EC's decision.

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 treating women with uterine fibroids causing irregular uterine bleeding. The two successful trials enabled our licence partner Allergan plc to put together the regulatory dossier for securing marketing authorisation for the United States. On 22 August 2018 Allergan plc announced it received a Complete Response Letter from the U.S. Food and Drug Administration (FDA) regarding registration. The FDA is requesting additional information, citing safety concerns regarding Emya post-marketing reports outside the United States.

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

At the end of June 2016 Richter announced the acquisition of Finox Holding, a Swiss based biotech company engaged in the development and commercialisation of innovative and cost effective products addressing female fertility. Finox Holding's product Bemfola®

is a recombinant human follicle stimulating hormone (r-hFSH), the first biosimilar r-hFSH product for which marketing authorisation was granted in Europe. Richter has obtained global rights for Bemfola® (with the exception of the United States). Consequent to this acquisition Richter added female fertility to its growing specialised Women's Healthcare business, and also managed to enhance its opportunities in the biolsimilar market. On 10 July 2018 Richter announced that it concluded a sale and purchase agreement with Fertility Biotech AG in connection with the transfer of intellectual property rights, relevant studies, related data and documents of Bemfola® / Afolia, for the use in the United States.

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 2018 revenue was outstanding. This resulted primarily from the contract work export done for the parent company, and increasing sales achieved in the Romanian market. However, the company's after-tax profit decreased year-on-year owing to rising production costs and the fine imposed by the Romanian tax authority.

In 2018 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 development of the Track and trace and temper evidence system, and finish of building renovation works on manufacturing premises.

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. In 2018 the company's duties grew significantly with the acquisition and fusion of **Gedeon Richter Marketing Polska Sp. z o. o.** in the course of the year - a company distributing its own products and undertaking marketing for Richter Group in Poland.

Operating as a subsidiary as a manufacturing and development company on a contract basis, the company has grown to be a strategically highly important member of the Group. With the incorporated marketing unit, the company operated with a headcount of 805 people.

In the 2018 business year the market was characterised by the intense competition and aggressive price race experienced in previous years. This was coupled with a weak flu' season that resulted in sales income from the key product Groprinosin lagging 11.5% behind the reference year's figure, and the consequent sales income PLN 9 million below the 2017 level. As a result of the merger the company's sales income was PLN 42 million higher than in the reference period.

In 2018 activity of Richter's Russian manufacturing subsidiary **ZAO Gedeon Richter-RUS** was effected by more negative trends. The rate of the rouble weakened overall, with some volatility, reflecting the geopolitical situation and consequent general problems of the Russian economy. The price return target was met with tremendous efforts, albeit the distribution was highly uneven throughout the year. On the positive side, the payment discipline of buyers was relatively good. Sales income targets relied on the sales of purchased products and the sales volumes of own products stagnated as a consequence of a delayed start of new production compared to plans.
The company's main function will continue to be production and distribution supported by the parent company's marketing activity. Continued full-cycle production and dropping some of the products will not only increase the volume of the portfolio but will also result in a significant change.
The company financed its 2018 capex projects from its own funds; however, it managed to settle its accounts payable to the parent company with considerable delay.

Richter Themis Ltd. continued to be active as a manufacturer and distributor of intermediate products and APIs for Group members in 2018.
The portfolio of products has been stabilised but minor changes had naturally affected the company's results. Capacities are fully and continuously exploited, and as in previous years, manufactured products were supplied to third parties.
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 2018 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 2018 **PregLem S.A.** continued to support the 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 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. Full integration of the company's activities into Richter's system commenced in 2017 and continued in 2018.

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 2018 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. In 2017 the Company added a new subsidiary in Ireland named **Gedeon Richter Ireland Ltd.** The portfolio of the network was expanded by additional women's healthcare products in 2018.

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. Established in January 2018, the subsidiary **Gedeon Richter Bulgaria Ltd.** operates with a network of pharmaceutical representatives and provides marketing services in Bulgaria. The companies operate on a basis of invoicing net costs plus margin, which ensures cost coverage and stable liquidity on a continuous basis.

In 2018 **Gedeon Richter (China) Pharmaceuticals Co. Ltd.** met the sales target for 2018 primarily thanks to the good performance of the OTC business. At the same time, difficulties related to the limited portfolio are increasingly conspicuous and hinder further expansion. In the next three or four years significant capex should be aimed at development so that Richter products' share should continue to increase as a result of launching new products.

Active in promotional purchases, storage and distribution, Moscow based **Pharmarichter O.O.O.** proved to be a high-performing company in 2018 in both technical and financial terms.

On 31 October 2018 **Gedeon Richter Pharma O.O.O.** was established; it takes over the activities of Richter's Moscow office with the exception of registration tasks. Creating and continuously maintaining the operating conditions of this large company with numerous staff will be an important task for 2019.

Kazakhstan has recently experienced a stagnating economic performance. Risks have grown these changes in the economic environment had a negative 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 2018 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

Seated in the Central and South American region, Richter's fully owned subsidiaries, **Gedeon Richter Colombia S.A.S.** and **Gedeon Richter Mexico SAPI de CV**, continued their commercialisation and marketing activities in the region. The product portfolio of both subsidiaries was expanded in 2018; securing the licenses and registration necessary for portfolio diversification is currently underway.

In Brazilia **Gedeon Richter do Brasil Importadora Exportadora e Distribuidora SA** continued the sales of Richter's women's healthcare products in 2018. At the end of the year Richter acquired 100% stake in the company and at the same time replaced the senior manager.

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 Richter became the sole shareholder of Mediplus Group. In 2016 Esmya had been launched in these markets, followed by new women's healthcare products added to the portfolio. The Bolivian subsidiary had been shelled in 2017; distribution is undertaken by an external partner. In 2018 the group stabilised its presence in the regional market.

b. Wholesale and retail

Romania

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

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

The Group's wholesale company in Romania is **Pharmafarm S.A.** In the first half of 2018 the company managed to increase its sales income beyond expectations with a stable contribution margin. This was achieved between fierce competition, increasing numbers of competitors and deteriorating allowance conditions. In June, the Romanian authority suspended the operating license of Pharmafarm for two months for violating the provisions of Good Distribution Practice. In August, the authority approved of the remedial measures and the wholesale outlets gradually reopened for operation. By Q4 Pharmafarm regained most of its market position and again managed to achieve sales return exceeding expectations. For the reasons described above, operating profit fell short of the planned figure. 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. In 2018 two pharmacy licenses were sold, so in December the network consisted of 92 fully operating outlets. Turnover per outlet was 4% higher on the average year-on-year. Unfortunately, the suspension of the wholesale company also affected the performance of the retail company. Because of poorer performance by the pharmacies impairment of pharmacy license was reported.

The CIS

Due to the amended sales contract concluded with the parent company, the profitability of Richter's exclusive distributior in Moldova, **Rihpangalfarma S.R.L.**, improved significantly. Changes in the company's wage policy had a positive effect on the earlier

volatility of headcount, and also helped eliminate occasional shortages of professionals. 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 performance and maintenance of the market share achieved earlier.

The Moldovan retail network **GR–Retea Farmaceutica S.R.L.** entered into the stage of quality and efficiency related transformation as several loss making outlets were closed down. As new outlets were opened, the number of functioning pharmacies has not changed. Although sales income was somewhat lower, the margin strengthened, which, however was not able to offset the cost-intensive pharmacy replacements.

Armenia's economy has been steadily growing since the 2016 recession. The year 2018 was also characterised by a small growth. The increase in private consumption was the result of rising wages, a decreasing unemployment rate, and climbing currency transfers. This steady, albeit slow, positive change is reflected by the 2018 statements of the wholesale subsidiary **Richter Lambron O.O.O.**

With a network of 27 pharmacies, the Armenian retail company **Gedeon Richter Aptyeka Sp O.O.O.** also struggles with the market environment, similarly to the wholesale company, in an effort to adapt to conditions shaped by the market and competitors. In 2018 it aimed at the maintenance of its previous performance.

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 2018. 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 efficiency enhancing measures launched in the past few years, **Hungaropharma Zrt.** achieved somewhat lower but still significant results compared to the reference period. Richter directly holds 30.68% of the company's shares.

c. Other consolidated companies segment

Established in 2009 **Pharmapolis Gyógyszeripari Tudományos Park Kft.**'s core activity is to implement and maintain the project titled 'Creation of a pharmaceutical research, development and innovation centre in Debrecen' with the help of funds awarded in the context of GOP 1.2.2. The greenfield capex project was concluded in 2012. The resulting building complex of a floor area of 10,683 m2 has been tailored to suit the needs of lease holders. The company's income is from the lease fees charged on the basis of the relevant lease agreements. Once the five-year term of the project terminated at year-end of 2017, in November 2018 Richter bought out the other two quota holders thereby increasing its share from 24% to 100%.

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 2018. Operation of these affiliated undertakings is focused predominantly to Hungary.
In this segment, some of the foreign branches that performed no activity on the merit continue to be dormant (Nedermed B.V. and Ambee Pharmaceuticals Ltd.); other companies were voluntarily liquidated in 2018 (Medimpex Japan Co. Ltd.).

Richter's business model
With its global business comprising five continents, Richter Group 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. The Group's subsidiaries, which operate in our traditional markets, together with our specialized marketing network have created the foundation for a strong 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 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 2010, 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 is 90% in 2018 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 2018

The Group's main objectives for 2018 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 women' healthcare business; to develop a new original CNS (Central Nervous System) product; and to take further steps in the development of biosimilar products.

In 2018 major changes took place in the following areas:

- In the pharmaceutical production segment return from sales dropped in the EU (especially in the EU15) and CIS countries; however, denominated in HUF, it was almost

entirely offset by increasing sales return in the United States, the domestic region, China as well as Other countries.

- 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 Company's audited financial statements for 2017 were prepared taking into account the expected negative impact on business as a result of the temporary measures imposed by PRAC in respect of Esmya. 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. In May 2018 the PRAC announced new measures to minimise the risk of rare but serious liver damage. In June 2018 EMA's Committee for Medicinal Products for Human Use (CHMP) also issued a statement of opinion and supported the PRAC's recommendations. On 30 July 2018, after the adoption of the CHMP's opinion, the European Commission passed a decision regarding the marketing authorisation of 5 mg Esmya tablet. The decision is valid for all EU member states. Doctors have been sent a letter of information containing the restrictions imposed by the EC's decision.

- To benefit from synergies the merger of Gedeon Richter Polska and Gedeon Richter Marketing Polska commenced in 2018.

- 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 the second, and in April 2018, the third 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). Thus the efficacy and safety of cariprazine for the treatment of patients suffering from bipolar I depression are underpinned by three clinical trials for regulatory submission. In

possession of these data, in September 2018 the FDA accepted Allergan's application for registration of the expansion of indication.

- On 16 April 2018 Richter announced that on the basis of its mandate from the Board of Directors of the Company it approved the Statutes of the Richter Gedeon Nyrt. Employee Share Ownership Trust (ESOT) on 26 February 2018 and the respective remuneration policy related to the allocations to be provided within the framework of an Employee's Share-Ownership Program for certain of its titleholders and key employees. The aim of the establishment of the ESOT is to strengthen the performance and loyalty of the executive officers and key employees through sharing the success of the Company.

- On 21 June 2018 Richter announced that with effect from 21 June 2018, the Romanian National Agency for Medicines and Medical Devices (NAMMD) suspended the licence of operation of Pharmafarm S.A., Richter's wholesaler subsidiary following a breach of Good Distribution Practice. After the suspension Pharmafarm's staff embarked without delay upon the development of a package of corrective and preventive measures that meet the regulatory requirements of the Authority. As a result, NAMMD lifted the withdrawal with effect from 18 September 2018.

- 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. Richter has obtained global rights for Bemfola® (with the exception of the United States). On 10 July 2018 Richter announced that it concluded a sale and purchase agreement with Fertility Biotech AG in connection with the transfer of intellectual property rights, relevant studies, related data and documents of Bemfola® / Afolia, for the use in the United States.

- Based on the successful U.S. Venus I and Venus II trials whose results were published in May 2016 and January 2017 respectively, our partner Allergan plc started in 2017 the registration application process for ulipristal acetate in treating women with uterine fibroids causing irregular uterine bleeding. On 22 August 2018 Allergan plc announced it received a Complete Response Letter from the U.S. Food and Drug Administration

(FDA) regarding registration. The FDA is requesting additional information, citing safety concerns regarding ESMYA post-marketing reports outside the United States.

- In line with the specialty pharma strategy, on 12 September 2018 the Company announced that it had entered into a license and supply agreement with Mithra Pharmaceuticals to commercialize Estelle®, a combined oral contraceptive, containing estetrol and drospirenone. Richter is going to commercialize the product under a different brand name. The geographic scope of the agreement covers Europe and Russia.
- On 18 September 2018 Richter announced that it had entered into a license and distribution agreement with L.D. Collins & Co. Limited, a UK based company, to commercialize its progesterone containing assisted reproduction technology (ART) product, Cyclogest®. The product will be commercialized in 27 EU countries for which marketing authorizations have already been granted.

- In 2018 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	64,050,195	34.37	34.37
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	7,776,700	4.17	4.17
Retail investors	9,221,701	4.95	4.95
International ownership	122,249,372	65.62	65.59
Institutional investors ***	121,914,003	65.44	65.41
Retail investors	335,369	0.18	0.18
Treasury shares**	55,330	0.00	0.00
Undisclosed ownership	19,963	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 only include the treasury shares of the parent company.

*** On 15 August 2018 Standard Life Aberdeen plc's influence decreased to 4.77%.

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 2018 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 2018.

The closing price of shares as of 29 December 2017 was HUF 6,780 compared to HUF 5,430 as of 28 December 2018. Average monthly share prices in 2018 varied between the minimum of HUF 4,897 per share (in July) and the maximum of HUF 6,677 per share (in January).

1.4 Treasury shares held by the Group

Group	Ordinary shares	
	31.12.2017	31.12.2018
Shares	66,183	389,028
Nominal value HUF`000	6,618	38,903
Book value HUF`000	415,295	2,185,880

The number of Richter shares held by subsidiaries was 5,500 in 2018.

Following the decision of the Board of Directors 22,016 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 324,226 Treasury shares to 4,346 employees on 18 December 2018.

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 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 2018 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 simple 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 AGM. 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. The offices of CEO and Chairman are held separately. 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 of 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 oversight 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 reports 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 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 various functional areas are responsible for managing the operational risks arising in their particular field and the compliance risks within their sphere of competence. 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 way 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. According to the Company's creed the exploitation of varying characteristics is the corner stone of innovation and success, 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. To implement the Company's views in practice, on 28 May 2018 the Board of Directors adopted the Diversity Policy regarding the Company's leading bodies, i.e the Executive Board, the Board of Directors and the Supervisory Board, which was announced on 21 June 2018. The Diversity Policy accepted for a five-year periods, whose implementation is closely tracked by the Board, determines the diversity aspects and objectives applicable for the Company's business management, executive and supervisory bodies.

In the spirit of diversity, when composing the Company's leading bodies priority will be given to knowledge related to Richter's main business, expertise in the economic, social and environmental contexts of the Company's operation, as well as professional and personal reputation. Richter's position is that these diversity considerations are best promoted if the leading bodies have members with qualification and experience in the pharmaceutical industry as well as finance and economics; Richter, therefore, makes an effort to have members with appropriately diverse professional backgrounds serving on its leading bodies. The goals formulated in the Policy in conjunction with the leading bodies envision that

- both sexes should be represented among the members to the extent that the aggregate rate of women should be at least 30%,
- the age distribution of members should be balanced, and
- members should also include gifted under-50 persons with appropriate competences.

The Company pays attention to the considerations and goals determined in the Policy when nominating members to the Board of Directors, the Supervisory Board and the Audit Board, and when selecting members and planning potential successors to serve on the Executive Board. As a public limited company, Richter has no power other than nominating members on the company's boards; their election is the exclusive competence of the AGM.

As a result of the changes that took place in the course of 2018 and of the AGM's resolutions regarding the composition of the boards the rate of women on the Board of Directors has improved and the age distribution of directors has become more balanced. While the number of women on the Supervisory Board and the Audit Board decreased by one in 2018, women's rate on the Supervisory Board remained 30%. In the course of the

year one new member below 50 were elected to serve on the Supervisory and the Audit Boards respectively.

The Company considers it important to regularly inform the shareholders about its Diversity Policy in the Annual Report and the Report on Corporate Governance including changes in, and achievements through, the Policy.

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. In 2018 the Program was extented to Latin American countries, where strict anti-corruption legislation and other local regulations also require guidance by the parent company, and to the subsidiaries and representative offices in the CIS member states.

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 Legal and Global Operations 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.

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 presents the transparency principles and practices prescribed by the self-regulating pharmaceutical organization Medicines for Europe. 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. A transparency report was first published for 2017, in June of 2018.

In the first half of 2018 the Legal and Global Operations Management Department revised the Compliance Manual. Since the introduction of the Compliance Program in 2016 the following factors justified the need for reviewing the compliance Manual:

- Changes in the legal environment (with special regard to the GDPR, the European Union's General Data Protection Directive that entered into effect in the meantime);
- Development of new internal regulations (for example the Insider Trading Regulations and the Rules of Procedure for Crisis Communication);
- Personal and organizational changes at the Company, and

- Feedback from the areas concerned regarding the day-to-day application of regulations.

In accordance with the Global Compliance Program, Legal and Global Operations Management Department held several training sessions in March and April of 2018 training with a dawn raid was organised for the colleagues concerned with the involvement of external experts. In May of 2018 every employee of the Company had data protection training. In November of 2018 training in competition law, and in December of 2018 anticorruption and anti-bribery training was provided to staff accessible via the Company's Internet-based educational platform fine-tuned in 2018.

In 2018 the use of the Compliance Hotline became widely accepted; employees asked questions regarding the Compliance Manual and the Global Compliance Program with increasing frequency. In 2018 there was a report of an HR issue and was handled with the involvement of the Directorate of Human Resources. At the end of the year a political and a possible bribery report were made; they are in the process of investigation.

Other information

On 2 January 2018 the Board of Directors announced that Christopher William Long resigned of his position on the Board with effect from 31 December 2017, and on 3 April it was announced that Dr. Gábor Perjés resigned of his position on the Board with effect from 25 April 2018.

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 products launched, the number of renewal application (3.1), the volume of production (3.3) and the data on employee diversity and the number of graduates (4.).

2. The Group's 2018 operating review

2.1 The balance sheet as of 31 December 2018

ASSETS

The Group's assets amounted to HUF 797,883 million, an increase of HUF 37,018 million (4,9%) compared to the opening value. In 2018 non-current assets were lower by HUF 16,522 million, and current assets were higher by HUF 53,540 million compared to the 31 December 2017 figure.

Non-current assets

Non-current assets amounted to HUF 439,812 million in the reported period, HUF 16,522 million (or 3.6%) below from the reference figure. Lower levels of Other intangible assets result from a decline in the fair value of Richter's investment in the Russian wholesale and retail Group, Protek and the conversion of both non-current bonds exchangeable into Richter shares and non-current other sovereign bonds owned to current assets.

An impairment loss was accounted for in respect of Intangible asset Esmya which resulted in lower amounts of Goodwill and Other intangible assets the latter being partly offset by the acquisition of the combined oral contraceptive developed by Mithra.

The levels of deferred tax assets declined primarily as a result of the derecognition of deferred tax assets accounted for at the Parent.

As stipulated by IFRS the amount of government subsidies which Richter qualifies for and are expected to be received shall be included among Long term receivables. In practice it means that beginning with the reported year this condition is met as soon as the capital expenditure and R&D related subsidy contracts are signed consequently these amounts are accounted for both as Long term receivables and as Non current liabilities.

Higher levels of Property, plant and equipment (installation and putting into operation of manufacturing and packaging production lines) also impacted positively the Non-current assets.

Current assets

Current assets were 17.6% or HUF 53,540 million above the reference figure of HUF 304,531 million. Cash and cash equivalents increased as a result of both the Government repurchase of the bonds exchangeable into Richter shares and the positive net cash flow from operating activities of the Group. Other sovereign bonds owned became current during the reported year. Higher levels of Inventories and Trade receivables also contributed to the growth.

SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity

In 2018 shareholders' equity was HUF 685,745 million, or 3.3% higher compared to the 31 December 2017 figure.

Liabilities

The Group's total liabilities amount to HUF 112,138 million.

Non-current liabilities were HUF 19,987 million, HUF 4,327 million above the 31 December 2017 figure. As stipulated by IFRS the amount of government subsidies that Richter qualifies for and are expected to be received shall be included among Non-current

liabilities. In practice it means that beginning with the reported year this condition is met as soon as the capital expenditure and R&D related subsidy contracts are signed consequently these amounts are accounted for both as Non current liabilities and as Long term receivables.

Current liabilities amounted to HUF 92,151 million as of 31 December 2018, 13.5 % above of the 31 December 2017 figure. The increase is due to the higher level of Trade payables and Other current liabilities and accruals.

2.2 The 2018 income statement

The Group's profit for the year 2018 is HUF 36,193 million, 259.4%, or HUF 26,123 million higher year-on-year. With return from sales and gross margin both unchanged coupled with slightly rising operating costs, the balance of Other income and expenses included Esmya's impairment whose amount was significantly lower in 2018 than in 2017. The aggregate impact of the above was improving Profit from operation, further boosted by shrinking losses on financial income compared to 2017.

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**	
	2017 HUF million	2018 HUF million	2017 HUF million	2018 HUF million	2017 HUF million	2018 HUF million	2017 HUF million	2018 HUF million	**2017 HUF million**	**2018 HUF million**
Total revenues	364,840	364,731	88,461	88,598	5,395	6,255	(14,340)	(14,100)	**444,356**	**445,484**
Gross profit	244,245	245,465	8,241	7,509	647	676	(55)	186	**253,078**	**253,836**
Profit from operations	18,617	44,631	1,777	(97)	391	331	(74)	175	**20,711**	**45,040**
Share of profit of associates and joint ventures	60	(431)	1,466	1,428	58	27	(56)	31	**1,528**	**1,055**
Closing headcounts	10,488	10,739	1,465	1,487	416	441	-	-	**12,369**	**12,667**

2.2.1 Revenue

Revenue from the pharmaceutical production segment

Region	2017 HUF million	2018 HUF million	Variance	
			HUF million	%
Hungary	35,417	38,736	3,319	9.4
Export				
CIS	129,089	121,661	-7,428	-5.8
EU *	125,719	116,887	-8,832	-7.0
USA	27,472	35,985	8,513	31.0
China	24,004	26,384	2,380	9.9
Latin America	6,134	5,779	-355	-5.8
Other countries	17,005	19,299	2,294	13.5
International markets total	329,423	325,995	-3,428	-1.0
Total	*364,840*	*364,731*	*-109*	*0.0*

* Excluding Hungary

The 2018 net income from sales **totalled** HUF 364,731 million, HUF 109 million below the 2017 previous financial figure.

Income from the 2018 sales in Hungary was 9.4% higher compared to the reference year. International markets in HUF was 1.0 % down; and in EUR 3.9% up year-on-year compared to 2017.

There were changes in the breakdown of sales by regions compared to the reference year: after a decrease of 5.8 percentage points the CIS markets' share was 33%. The EU states' share decreased 2 percentage points and contributed 33%. The contribution of Hungary, the United States and the Other countries region was 11%, 10% and 5% respectively. China's turnover contributed 7% in 2018 and increased 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 2018 year-end figures, the pharmaceutical production segment realized HUF 38,736 million sales **in the Hungarian market**, 9.4% (or HUF 3,319 million) above the 2017 figure.
The main factor was increasing Tanydon/Tanydon HCT, Politrate, Xeter and Bemfola sales, reduced by dropping Esmya. In 2018 oral contraceptives were the leading item in terms of sales contributing 7.6% to sales income.

After years of perpetual uncertainties and repeated cuts since 2006, the Hungarian pharmaceutical market was characterised by relative stability in 2018. 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.

In 2018 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 213 million in 2017 and HUF 221 million in 2018.

With this performance the Company's market share was 5.0% in 2018, 0.1% below the reference year's figure. Richter ranked second in the prescription drugs market with a share of 7.5%.

The pharmaceutical production segment's income for **international markets** decreased from HUF 329,423 million (EUR 1,065.2 million) in 2017 to HUF 325,995 million (EUR 1,023.2 million) in 2018.

The Russian operation continues to be the leading market of the **CIS** region and also of the Company with turnover denominated in RUB 5.2% above, in EUR 6.3 % below the reference year figure. A lower (12.3%) average exchange rate of the Rouble against the Euro impacted significantly our sales performance in Russia when reported in Euro. The

main products contributing to the decrease were oral contraceptives, Panangin and Diroton curbed by increasing Airtal and Fluomizin sales.
Sales in Ukraine declined by EUR 8.7 million compared to 2017 resulting in a 25.0% decrease in sales income. Most significant decline in Ukraine were Mydocalm, oral contraceptives, Verospiron, while Groprinosin sales were higher.
As regards Other CIS countries, Kazakhstan, Moldova, Turkmenistan and Tajikistan sales significantly decreased.

The total turnover achieved in the CIS market was HUF 121,661 million and contributed 37% to total export. Year-on-year decrease was 5.8% (HUF 7,428 million). Expressed in foreign currency, the turnover was EUR 381.8 million with an 8.5% decrease year-on-year.

Sales in the **European Union** totalled HUF 116,887 million, 7.0% below the 2017 figure. The region's contribution to exports decreased to 36 %. Expressed in foreign currency, the sales amounted EUR 366.8 million with a 9.8% decrease year-on-year.

The turnover realized in the pharmaceutical markets of the EU15 region was HUF 58,098 million (EUR 182.3 million), 15.8% (in EUR 18.3%) below the reference year figure. The increasing sales of Bemfola, Reagila and oral contraceptives could not offset the shortfall of Esmya sales.
On the other hand, the CEE Member States increased their contribution to total sales in the EU region to approximately 50% in 2018 with a 0.5% increase in sales income in euro. The increase is attributed primarily due to the performance of oral contraceptives, Bemfola, Fluomizin and Gynazol could offset the declining sales of Esmya.

The turnover realised in the **United States of America** was up by 31.0% (HUF 8,513 million), or expressed in dollar, by 33.1% (USD 33.2 million) which is attributed primarily to the royalty related to Vraylar sales.

Turnover in the **Chinese market** was HUF 26,384 million (EUR 82.8 million) with a year-on-year increase of HUF 2,380 million (or EUR 5.2 million). Increasing sales income generated by Cavinton and emergency contraceptives.

Latin American sales decreased by 5.8% in HUF and 4.0% in USD. The sales reduction 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 19,299 million (EUR 60.6 million). Compared to 2017, turnover was 13.5% higher (in foreign currency, 10.2%). 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 88% to the 2018 sales revenues; the contribution of royalties was 7%, that of contract manufacturing and industrial services and APIs contributed 3% and 2% respectively.

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

2017				2018			
Rank		Sales HUF million	Share %	Rank		Sales HUF million	Share %
1.	Oral contraceptives	90,576	24.8	1.	Oral contraceptives	90,047	24.7
2.	Cavinton/ vinpocetine	30,832	8.5	2.	Cavinton/ vinpocetine	31,791	8.7
3.	Esmya/ ulipristal acetate	28,757	7.9	3.	Cariprazine/ cariprazine	25,127	6.9
4.	Mydeton/ tolperisone	20,042	5.5	4.	Mydeton/ tolperisone	18,913	5.2
5.	Panangin/asparaginates /enalapril, lisinopril	16,799	4.6	5.	Panangin/asparaginates /enalapril, lisinopril	15,106	4.1
6.	Cariprazine/ cariprazine	13,986	3.8	6.	Bemfola/ FSH follitropin alfa	13,348	3.7
7.	Verospiron/ spironolactone	12,925	3.5	7.	Verospiron/ spironolactone	12,189	3.3
8.	Bemfola/ FSH follitropin alfa	10,706	2.9	8.	Aflamin/ aceclofenac	9,931	2.7
9	ACE-inhibitors/ enalapril, lisinorpril	10,210	2.8	9	ACE-inhibitors/ enalapril, lisinorpril	9,920	2.7
10.	Groprinosin/ insine pranobex	8,355	2.3	10.	Groprinosin/ insine pranobex	8,841	2.4
	Total	243,188	66.6		Total	235,213	64.5
	Net income from sales	*364,840*	*100.0*		*Net income from sales*	*364,731*	*100.0*

The contribution of the 10 leading product categories to total sales was 64.5 %, 2.1 percentage points lower than the reference year's figure.

Oral contraceptives are the leading products with a turnover of HUF 90.0 billion, 0.6% lower than in 2017. The change is primarily explained by decreasing Regulon and Novynette sales in Russia and strengthening emergency contraceptive sales in the China. The contribution of this product category to the 2018 total turnover was 24.7%, remained virtually flat. The 2nd most important product is original Cavinton with 3.1% higher turnover compared to the reference year (rising sales income in China and Russia). Ranked 6th in the reference period, Cariprazine became the 3rd best-selling product in 2018. Its market share grew to 6.9% as a joint result of keener sales in the Unites States

and European launch. Despite declining turnover, Mydeton and Panangin are 4th and 5th respectively. Owing to a 24.7% increase in sales Bemfola was the 6th best-selling product in 2018. Verospiron, ACE inhibitors and Groprinosin retained their respective 7th, 9th and 10th place. Esmya dropped out of the TOP 10 list and was replaced by Aflamin (8th), with 2.7% market share.

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

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

	2017				2018	
	HUF million	EUR million			HUF million	EUR million
1 Russia	95,732	309.5	1	Russia	92,404	290.0
2 Hungary	35,417	114.5	2	Hungary	38,736	121.6
3 United States of America	27,472	88.8	3	United States of America	35,985	113.0
4 China	24,004	77.6	4	China	26,384	82.8
5 Poland	23,060	74.6	5	Poland	24,204	76.0
6 Germany	18,739	60.6	6	Germany	18,456	57.9
7 Ukraine	10,769	34.8	7	Romania	10,517	33.0
8 UK	10,279	33.2	8	Ukraine	8,320	26.1
9 Romania	10,054	32.5	9	France	8,228	25.8
10 France	9,854	31.9	10	Spain	7,967	25.0
Total	265,380	858.0		Total	271,201	851.2
Net income from sales	*364,840*	*1,179.7*		*Net income from sales*	*364,731*	*1,144.8*

The 10 leading countries jointly contributed 74.4% to Richter Group's total pharmaceutical sales. Russia continues to head the list despite of a 3.5% drop in HUF terms. In 2018 Hungary came 2nd again. The USA is still on 3rd place with a significant increase of sales (31.0%), thanks primarily to the Vraylar royalty. China (4th), Poland (5th) and Germany (6th) kept their place in the rank. Romania stepped up two places (7th) by the rising sales of Aflamin and Cavinton. Due to a massive decline in turnover, Ukraine slipped back one place. Although the drop in Esmya sales had a negative impact on sales return, France still managed to step one place forward on the list. UK dropped from the TOP 10 list and its place was taken by Spain ranked 10th.

Turnover of the wholesale and retail segment

	2017 HUF million	2018 HUF million	Variance HUF million	Variance %
Hungary	-	-	-	-
Export				
CIS	13,992	14,797	505	5.8
EU *	70,438	69,571	-867	-1.2
USA	-	-	-	-
China	-	-	-	-
Latin America	4,031	4,230	199	4.9
Other countries	-	-	-	-
International markets total	88,461	88,598	137	0.2
Total	*88,461*	*88,598*	*137*	*0.2*

* Excluding Hungary

Based on the year-end figures for 2018 the Wholesale and Retail segment realized HUF 88,598 million (EUR 278.1 million) income from sales remained virtually flat compared to 2017.

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 S.A. network of pharmacies. Sales in Romania decreased by 1.2% in HUF terms. The decline resulted from the temporary suspension of the license to operate of the Pharmafarm on 21 June 2018. Most of the warehousing facilities of the Romanian wholesaler subsidiary resumed operations by 19 September 2018. The drop in the Romanian region was compensated by the performance of the wholesale and retail networks in the CIS (Moldova and Armenia).

Turnover of the other segment

	2017	2018	Variance	
	HUF million	HUF million	HUF million	%
Hungary	5,282	6,084	802	15.2
Export				
CIS	90	103	13	14.4
EU *	15	53	38	253.3
USA	-	-	-	-
China	-	-	-	-
Latin America	-	-	-	-
Other Countries	8	15	7	87.5
International markets total	113	171	58	51.3
Total	*5,395*	*6,255*	*860*	*15.9*

* Excluding Hungary

The turnover of the Other segment was up by 15.9% in HUF, 12.6% in EUR, and 17.8% in USD compared to the 2017 reference year figures. The increase is explained by the Hungarian service companies' rising turnover realized with third parties.

2.2.2 Costs of sales and operation; operating profit

Costs of sales in 2018 amounted to HUF 191,648 million, HUF 370 million higher than the figures achieved in 2017. Costs of sales included depreciation on the intangible asset Esmya amounting to HUF 2,166 million and amortization of other intangible asset Bemfola amounting to HUF 2,061 million.

Gross profit from sales was HUF 253,836 million, an increase of HUF 758 million when compared to the reference year. The gross margin remained at the same level of 57.0% in 2018.

The significant increase in Royalty income received from Allergan in respect of Vraylar and the expanding share in the turnover of the relatively high margin Chinese businesses lifted the gross margin. In addition, gross profitability of Bemfola also increased significantly, as sales levels increased and the negative impact of inventories valued at the time of the acquisition disappeared. Restricted sales of Esmya, weakening average exchange rates of RUB, price erosion experienced on our traditional markets, increasing

labour costs in our manufacturing subsidiaries located in the CEE countries, costs of suspending and resuming our Romanian wholesale activities and an increase of costs related to serialization negatively impacted our gross margin.

Within the operating costs item **Sales and marketing expenses** amounted to HUF 115,584 million in 2018, 0.6% higher year-on-year. Sales and marketing costs were 25.9% of sales revenues in the period of reporting. Somewhat higher marketing costs related to growing promotion costs incurred on the Chinese market were partly offset by a slight decrease of promotion costs incurred in Russia at weakening RUB exchange rates.
Amortisation of the marketing and intellectual property rights of the OC portfolio acquired from Grünenthal in the amount of HUF 4,388 million represented 1.0% of sales achieved in the reported year.

In 2018 **Administration and general expenses** amounted to HUF 24,070 million, HUF 696 million in excess of the 2017 figure. These expenses grew primarily due to higher employee costs, IT related expenses together with increased insurance, legal assistance and other advisory fees.

The rate of **R&D expenses** to sales incomes was 9.1% in the reported year and amounted to HUF 40,545 million, 1.6 % above the reference year figure. These expenses include the ongoing clinical trials being carried out in the field of biotechnology together with those managed in co-operation with Allergan. R&D expenses of the Group also include such costs at the operations of Gedeon Richter Polska and Gedeon Richter Romania.

The balance of Impairment on financial assets and contracts was HUF 407 million in 2018.

The balance of **Other income and expenses** decreased from HUF 54,208 million expense in the reference year to HUF 29,004 million expense in 2017.

Preparation of the annual financial statements required the impairment test of Intangibles and Goodwill in the balance sheet. Due to the PRAC's temporary measures, in the 2017 reporting period significant impairment (HUF 48.7 million) was reported on the

intangible asset Esmya. In 2018 restrictions imposed by the European Commission significantly impaired the sales potentials of Esmya in the European Union, and the FDA decision will delay acquisition of marketing authorisation for the U.S. market and, according to the Executive Board's estimates, it reduces the potential market size. Consequently the Company reported HUF 24.3 billion in impairment on intangibles and goodwill.

In 2018 Richter accounted for one-off income payments from Recordati, in respect of the amended license agreement subsequent to the European authorization of Reagila entering into force, in respect of the gradual launch of Reagila in the EU15 region and connected to the successful clinical trial of cariprazine in the indication of bipolar depression and the reception by FDA of the sNDA submitted by Allergan in respect of the label extension of Vraylar. These milestones amounted altogether to HUF 8,429 million. By contrast, in the reference 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.

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 432 million in 2018.

During the reported year Other income and expenses include liabilities amounting to HUF 4,784 million in respect of the claw-back regimes effective in Romania, Germany, France, Spain, Portugal, Belgium, Italy, Bulgaria, Austria, Poland, Latvia, Slovenia, Croatia and UK.

The 2018 *profit for operations* was HUF 45,040 million, 117.5% above the reference year figure.

The increase was primarily due to a significantly lower amount of Esmya related impairment loss accounted for among Other income and expenses for the reported year when compared to 2017 which in turn impacted less on profit from operations in 2018. Sales and gross margins did not change materially during the reported year.

2.2.3 Other income statement items

Net financial income/loss

The net financial loss in 2018 was HUF 2,142 million, reflecting an increase of HUF 6,196 million when compared to a net financial loss of HUF 8,338 million reported in 2017.

At year-end Forex assets and liabilities were reassessed and reported under Unrealised financial items. The balance of revaluation was HUF 2,079 million loss in the reported year, HUF 1,607 million lower than the HUF 3,686 million loss in 2017. The deterioration of the balance of reassessment of trade payables and receivables was exceeded by the improved balance of Forex loans.

Realised financial gains resulted from Interest income and Foreign exchange gains on conversion of cash, while Exchangeable bonds sold and accounted for among Other financial items resulted in a financial loss. Reassessment gains were a consequence of the period end appreciation of USD and EUR against HUF, while the depreciation of the RUB partly offset the above.

	2017 HUF million	2018 HUF million	Variance HUF million
Unrealised financial items	**(3,660)**	**(2,106)**	**1,554**
Exchange (loss)/gain on trade receivables and trade payables	156	(3,259)	-3,415
Loss on foreign currency loans receivable	(4,276)	1,276	5,552
Period end foreign exchange translation difference of borrowings	65	-	-65
Exchange (loss)/gain on other currency related items	369	(96)	-465
Unrealised forward contracts as of 1 January *	13	13	-
Unrealised forward currency related contracts as of the balance date *	13	(40)	-53
Realised financial items	**(4,678)**	**(36)**	**4,642**
Exchange gain/(loss) realised on trade receivables and trade payables	(5,411)	316	5,727
Foreign exchange difference on conversion cash	(966)	1,305	2,271
Dividend income	675	15	-660
Interest income	1,563	1,349	(214)
Interest expense	(990)	(2)	988
Other financial items	451	(3,019)	-3,470
Net financial loss	**(8,338)**	**(2,142)**	**6,196**

* 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:

	31.12.2017	31.03.2018	30.06.2018	30.09.2018	31.12.2018
EURHUF	310.14	312.55	328.60	323.78	321.51
USDHUF	258.82	253.94	282.06	278.76	280.94
RUBHUF	4.49	4.40	4.50	4.25	4.05
CHFHUF	265.24	265.24	284.05	285.23	285.16

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 2018 profit before income tax amounted to HUF 43,953 million, HUF 30,052 million higher than in 2017.

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 plant in Debrecen for the first time in 2012, proceeding and calculating it in accordance with the applicable laws and regulations.
In the Group recorded HUF 1,978 million corporate tax expense in 2018. Other Group companies are taxed in accordance with the general taxation regulations of their domicile.
Having examined the tax liability foreseeably the Management concluded that most of the deferred tax assets accounted for in the previous years at the Parent cannot be realised, therefore these have to be derecognised in accordance with IFRS regulations.
Tax allowance linked to intensive R&D activities together with increasing proceeds from cariprazine related royalties reached such a level, that most of the above mentioned deferred tax assets cannot be realised as they can be adopted for a related tax carry loss forward within a maximum period of five years. The derecognition of deferred tax assets from the balance sheet of the Parent won't impact the cash flow of the Company, but the amount of deferred tax assets diminishes by HUF 4,049 million with Income and deferred tax expense increasing by the same amount.

Profit for the year

Profit for the year was HUF 36,193 million in the reported period, HUF 26,123 million above the 2017 Group profit.

After a HUF 26,463 million increase, profit attributable to owners of the parent was HUF 35,348 million by the end of December 2018, and was 7.9% of the sales revenues as opposed to 2.0% 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.

The company has been striving to support proprietary R&D activities with the most up-to-date equipment, an effort that continued throughout 2018. In each of the three areas of indication investigated (autism, obesity, and cognitive impairment) translational models have been successfully developed; by means of the models the Company will be able to establish with greater likelihood whether the selected compound would prove effective in clinical trials and later in commercialisation.

All this, coupled with conscious technology procurement indicates the Company's awareness of its capabilities and potential, and therefore considers collaboration and sharing experience and knowledge as well as risks and costs related to development to be crucial. This led to R&D agreements concluded with Forest Laboratories (today Allergan) in 2004, and with Finnish Orion in 2013, which proved beneficial for both sides due to the reasonable sharing of expenditure and risks.

After the 2014 review and rationalisation of the research portfolio, preclinical work continued in 2018; their effectiveness is proved by the fact that new projects are approaching the clinical stage. In 2018 two projects entered in the early clinical phase besides 12 projects at the preclinical stage.

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 December 2017 the two companies announced the second, and in April 2018, the third 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. In possession of these data, in September 2018 the FDA accepted Allergan's application for registration of the expansion of indication.

In March 2016 the European Medicines Agency (EMA) started assessment of the marketing authorisation of cariprazine for the indication of schizophrenia. In August of the same year Richter and Recordati signed an agreement granting Richter exclusive sales license for the product in Western Europe as well as Algeria, Tunisia and Turkey. In July 2017 Richter was granted marketing authorisation for all EU member states for its product Reagila® (cariprazine) for the treatment of adult schizophrenic patients. In most European countries commercialisation only started in 2018 because of prolonged price negotiations.

In addition to the clinical development of cariprazine for the treatment of bipolar 1 depression it is also tested for the additional treatment of major depression.
Cariprazine was the subject of additional studies in 2018, on the one hand, studies started in the field of schizophrenia indication in paediatric treatment in the United States and Europe, and on the other hand, post-authorisation clinical and preclinical trials mandated by EMA also commenced. Most of the latter trials are expected to be completed in 2019.

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 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 acetate in women with uterine fibroids causing irregular uterine bleeding. 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. Consequently, the Group prepared its 2017 report taking into consideration the possible negative effect of PRAC's temporary measures related to Esmya on the business. 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 temporary measures were intended to protect patients' health. In May 2018 the PRAC announced new measures to minimise the risk of rare but serious liver damage. In June 2018 EMA's Committee for Medicinal Products for Human Use (CHMP) issued a statement of opinion and supported the PRAC's recommendations. On 30 July 2018, after the adoption of the CHMP's opinion, the European Commission passed a decision regarding the marketing authorisation of 5 mg Esmya tablet. The decision is valid for all EU member states.

Doctors have been sent a letter of information containing the restrictions imposed by the EC's decision.

On 22 August 2018 Allergan plc announced it received a Complete Response Letter from the FDA regarding registration of ulipristal acetate. The FDA is requesting additional information, citing safety concerns regarding Esmya post-marketing reports outside the United States.

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 2018, Richter had 52 generic development and 15 licence topics in progress. Several projects were carried out in 2018 to coordinate serialisation, and preparations for the launch of biotechnology products also commenced. 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.). The Parent company significantly upped the number of generic development tasks involving the Polish subsidiary.

The Company launched six proprietary products and three licensed products in 2018, all of which are new in the markets where they were launched.

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 started 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 pegfilgrastim. Richter completed the additional clinical studies related to pegfilgrastim in 2017 and in March 2018 the EMA accepted the re-submitted application for marketing authorisation. Nevertheless, in February 2019 the Company again withdrew its application for registration due to its inability to relieve CHMP's concerns by the prescribed deadline.

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 2018 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.
Operating Richter's comprehensive quality system is a highly complex and multifaceted task with the goal of optimal utilisation of opportunities, and to develop value generating processes. To this end, LEAN management was introduced in 2018 with the following starting points: optimisation of the pass-through time of value generation process, automation of non-value added processes, and harmonisation of quality control with the subsidiaries along a common digital strategy.

Similarly to previous years, Group companies had regular inspections by the locally competent authorities in 2018; in addition, the partners conducted 31, and the authorities another 7 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 higher (2.6 %) than the reference year level for the Group as a whole.

As regards finished products manufactured by affiliated companies, both the Russian (packaging transfer) and the Romanian company achieved higher numbers in terms of packaging units, whilst the the Polish subsidiary's number remained unchanged.

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

Preparation for the introduction of serialisation started in 2017, and was largely completed by the end of 2018 with the installation and commissioning of the necessary equipment, thus Richter is prepared for serialisation. These preparations resulted in some loss in production capacity. At the Russian subsidiary IT systems development and start-up is expected in 2019.

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 2018. 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 through the Environmental Management System (KIR) awarded an ISO 14001 certificate. In accordance with the changes of the ISO 14001 standard the entire documentation of the KIR system has been reviewed and updated; the 2018 audit was successful as it verified that the requirements of the amended standard were fully met. 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 through annual inspection audits by an independent certifying body.

Richter compiles its environmental performance indicators in accordance 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 Budapest plant and the Dorog branch have secured the Integrated Pollution Prevention and Control (IPPC) license. Because of the expansion of production capacities, the IPPC license of the Debrecen branch was submitted for review.

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 of the 2018 passed renewal audit of the Occupational Safety and Health Management System (MEBIR: OSHAS 18001) by the supervisory agencies, education and training, regulations, performance evaluation, risk management and occupational hazard measurements are appropriate and in keeping with the rules and regulations. In the course of 2018 the Security Technology Laboratory extended the scope of accreditable measurements and acquired accreditation for two plants.

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 2018, 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.
The next step on 1 January 2018 was to set up the new organisational structure which will be able to provide superior support to the foreign subsidiaries in the course of its operation. Also in 2018 a new IT controlling concept and structure was designed, which will enable accurate costing of IT services required by the various special field of the parent company and the international subsidiaries from 2020, and fair charging of the requesting units and entities.

Similarly to the previous year, major Group level IT development took place in 2018, the most important achievements and events were as follows:

- In the context of the serialisation process started in 2016, several dedicated systems were introduced and used productively in 2018 that support the levels of the Track and Trace project (the system implementing L3 and supporting L4, as well as numerous systems development, interface and integration to coordinate with the ERP and SAP systems). At the Russian subsidiary, systems development and preparations are still in progress due to the different and not yet finalised local regulatory system and the deadline of implementation set to a later date. Completion and delivery to start productive operation is expected in the course of 2019.

- The GDPR preparation and compliance project was necessitated by the EU's general data protection directive effective from May 2018. Simultaneously with the Parent company, GDPR projects were started in several countries of the Group.

- In 2018 the first Digitalisation and Industry 4.0 projects have been launched, which provide specifically Group level uniform solutions:

  - The Digitalisation project also includes an electronic document management system - a project that over a period of almost five years will create a uniform basis and support to electronic work processes from invoicing to the management of research documentation by means of the Enterprise Content Management (ECM) system.

  - Industry 4.0 includes the introduction of a new uniform Group level Manufacturing Execution System (MES), to be extended to the parent company's and subsidiaries' manufacturing units after the pilot plants.

  - Also in the context of Industry 4.0, the project introducing Data Science System offering solutions for analytical support to manufacturing as well research facilities.

- A new, high availability server centre has been created, ensuring much higher operational security required by the new Group level systems. Concurrently, construction of a full-fledged second server centre was started. The two centres will ensure secure and disaster resistant infrastructure that meets the most rigorous international standards.

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

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 2018 the Group's closing headcount was 12,667, 8,325 of whom work in white-collar positions including 7,216 university or college graduates. The closing headcount of the parent company was 7,055 at the same time. Graduate educated personnel represented 87% of white collar staff.

5. Capital expenditure

The Group's capital expenditure and intangible assets amounted to HUF 58,055 million in 2018 as opposed to HUF 39,929 million in 2017. Capital expenditure was dominated by the projects deployed by the parent company.

The capex project aimed at the flexibility and expansion of the Debrecen manufacturing plant has been completed and Production Line-1 has been successfully commissioned, while the parent company deployed significant funds to procure installations for the Budapest biotechnology R&D unit.

In finished products manufacturing at the Group's Budapest facility, the biggest challenge was preparation for serialisation; the capex stage is near conclusion. Installation and trial runs of the Optima filling and freeze-drying machines installed in the RGK VI building was completed by the end of 2018 and preparation for manufacturing started. In the field

of API manufacturing, capex projects in Budapest were aimed at maintaining production capacities. They mainly involved replacement of equipment, and, to a lesser extent, reconstructions to optimise of technology supporting infrastructure. In Dorog the new service building of the Steroids plant has been opened, and production line expansions took place. In Steroid II the expansion of the nitrogen supply capacity has been completed. 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 installed high-value technological equipment in the context of Project DLO 2/2. The Romanian subsidiary completed Stage 2 of the reconstruction of the production premises in the context of which fluidised bed granulation equipment, a tabletting machine and a packaging line were installed.
In Poland a machine boxing products filled in pouches was purchased, and the procurement of machines in the context of the nanotechnology R&D project was continued (with EU funding).

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, pharmaceutical industry related operating and compliance, as well as 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	Priority risk management procedures	Changes in risk
Development and commercialisation of own original or biosimilar products, and licensed specialty products	Prolonged clinical trials and registration process, their high costs, and risk of failure (cariprazine, teriparatide, PEG-filgrastim); Adverse effects revealed by data collected in the PV(pharmacovigilance) system after launching original product; Impairment of intangibles due to poorer performance than expected at the time of acquisition	Development collaboration in the interest of cost sharing and involvement of knowledge (Allergan, Helm, Stada); Careful exploration of risks at preparation of taking license; Conditional payment terms in license agreements; Project based product development, go /no go decisio milestones Development of uniform regulatory control and processes ("Regulatory lead"); Involvement of CROs (Contract Research Organization) and international experts; Operation of product introduction teams, special promotion	Increasing risk
Continued exploitation of market potential of the classical product portfolio	Narrowing of indication or withdrawal in the event of reports of adverse effects and inadequate compliance with tightening regulatory requirements over time	Special attention in PV system, active regulatory dialogue, sustaining development projects,	Increasing risk

Risk	Description	Priority risk management procedures	Changes in risk
Dependence on volatile CIS markets	Shrinking market due to regional conflicts, imposed sanctions and protectionist measures, extreme devaluation of local currency	Outsourcing production to alleviate effects of protectionist measures; Special effort to increase the weight of sales markets outside the CIS region and of specialty products; Securing CIS customer credits,	Unchanged risk
Decrease in the price of subsidised drugs and price erosion, introduction of surtaxes in European markets	Reduced product coverage and corporate profitability in these markets	Development of cheaper API manufacturing procedures, exploration of cheaper API sources, launching new products, efforts to increase sales of non-subsidised products (WH, OTC)	Unchanged risk
Increasing market diversification and complexity of the Group	Lack of uniformity of corporate processes in highly differently regulated markets may result in disruptions in operation and non-compliance; conversely, uniformity increases costs and reduces flexibility; Lack of experience in addressing new challenges in new markets; As a medium-sized company it is difficult to raise alone the critical mass of resources to expand portfolio simultaneously in three totally different therapeutic areas (CNS, WH, biosimilar)	Strengthening and uniformisation of the three lines of HQ control of subsidiaries (functional control, corporate law governance, financial reporting); Developing globally unified processes, introducing more sophisticated control and support systems; Creating corporate collaborations in development and commercialisation; Creating project teams when stepping out to new areas and launching new products, implementation of preparation programs	Unchanged risk

Pharmaceutical industry related operational and compliance risks

Risk	Description	Priority risk management procedures	Changes in risk
Ensuring qualified pharmaceutical workforce	Hiring and supplying qualified pharma workforce is increasingly difficult in the Hungarian, the Polish and the Romanian labour market	Application of pay raise and long-term loyalty enhancing schemes; Special wage increase in Hungarian production facilities in 2018, launching own vocational training; Relocation of production in Russia	Increasing risk
Meeting high Hungarian quality standards of pharmaceutical products development and manufacturing, dependence on suppliers, product liability risk throughout the entire life cycle	Violation of GMP, GLP, GCP (Good Clinical Practice) , GDP (Good Distribution Practice), IT GXP (Good IT Practice) , PV provisions may result in loss of licenses; Product quality non-compliance, delays, costs causing competitive disadvantage and loss of reputation due to shortcomings of suppliers; New adverse effect, contamination, manufacturing error, wilful damage, forgery From 2019 the application of individual identification marks (serialisation) on the packaging is a requirement for entry and staying in the market	Manufacturing as per registration, quality assurance, Implementation of quality assurance systems, SOP regulated operation, Development of own APIs in the case of key products; Supplier qualification system, efforts to register alternative suppliers; Complex project to prepare for serialisation; Product liability insurance, general liability insurance, indemnification	Increasing risk

Risk	Description	Priority risk management procedures	Changes in risk
Commercialisation practices in keeping with industry ethical standards, superior data protection	Employee conduct violating ethical and advertising rules of drug promotion; Violation of GDPR provisions due to unauthorised use of personal data or inadequate data protection	Compliance approved by the Board; GDPR regulations and preparation; IT security developments	Unchanged risk
Ensuring high availability of pharmaceutical equipment and IT systems	API manufacturing is dangerous with fire and explosion hazard; shortage of products due to loss of parts of plants; Drop in production due to single machine defects, inspection risk due to obsolescence; Loss of IT servers, scarcity of data transfer capacities, unauthorised access, data theft	Production security measures based on the recommendations of "Risk survey," asset and business interruption insurance; Capacity maintaining investments, maintenance of appropriate standards, trouble shooting; IT investments and measures ensuring availability and security	Unchanged risk
Maintenance of high-quality occupational health protection system; Application of procedures reducing environmental load below the limits	API exposure, work related accidents, loss of workforce, indemnification; Strict environmental load limits must be observed (noise, dust, wastewater), costly waste disposal	Application and certification of OHSAS; Comprehensive life and accident insurance; Company environmental protection organisation, operating Environmental Management System (KIR), monitoring, certification, investments	Unchanged risk

Financial risks

Risk	Description	Priority risk management procedures	Changes in risk
Exchange rate risk	The Group has substantial RUB and USD income surplus, exchange rate volatility affects HUF and EUR denominated total income;	Partial natural hedge with costs incurred in the same FEX, Financial hedging only by authorisation of the Board of Directors	Unchanged risk
Customer credit risk	Customer credit risk is higher in some of the Group's markets (CIS markets) and with some of the Group members' buyers (Romanian wholesale company)	Insurance with MEHIB on CIS trade receivables of Richter Group's production units Market COFACE insurance on Pharmafam's Romanian customers	Unchanged risk
Investment risk attached to liquid assets	Secure investment of temporarily liquid assets must be solved; Secure management of subsidiaries' occasionally substantial liquid assets must be solved	At parent company: BoD approved financial investment regulations, its strict observation and supervision; Centralised control of subsidiaries' liquid assets	Unchanged risk
Taxation risks	Parent company: certifying eligibility for R&D and royalty related tax allowance; Group: transfer pricing among affiliated undertakings	Parent company: seeking Ministry's position statements and reporting allowances supported by position statements, Group: process established based on transfer pricing Masterfile, local transfer pricing documentations	Unchanged risk

7. Events after the reporting period

On 11 January 2019 the Company announced that Mr. András Radó, Deputy Managing Director for Production and Logistics retired as of 2 January 2019 and will continue to support the company's day-to-day activity as a consultant. Chief Executive Officer Mr Gábor Orbán will supervise Production and Logistics pending the appointment of a new deputy managing director.

Dr. Margit Dr Pellionisz Paróczai, Director of Human Resources also retired at the end of 2018, and will participate in the activities of Richter's foundations. The new HR Director is Katalin Erdei.

In January 2019 the Canadian regulatory authority imposed restrictions on Fibristal (ulipristal acetate) commercialised by Allergan plc in Canada due to a potentially increased risk of liver damage.

On 1 February 2019 Richter announced the withdrawal of application for registration of the proprietary biosimilar product Efgratin (pegfilgrastim) due to its inability to relieve CHMP's concerns by the prescribed deadline.

Richter and the Dutch company Pantharhei announced that they had signed a license and supply agreement for the combined oral contraceptive ARC developed by Pantharhei and containing estradiol, levonorgestrel and dehydroepiandrosterone with the geographic scope covering Europe, Russia, Latin America and Australia. The product is under development with successfully completed Phase II trials and is ready for further clinical studies to obtain marketing approval. ARC (Androgen Restored Contraception) is a novel concept of oral contraception with the aim to restore sexual function with a special focus on sexual desire and arousal and to prevent mood disturbances.

On 5 February 2019 the Company announced that Mr. Lajos Kovács Director of Technical Services will be involved in Richter's day-to-day activity as a consultant. Chief Executive Officer Mr Gábor Orbán will supervise Technical Services pending the appointment of a new deputy managing director.

In February 2019 Richter announced that it had entered into a distribution and supply agreement with a subsidiary of Allergan plc to commercialize its Levosert in Latin American countries.

In February 2019 the Hungarian government decided to establish Maecenas Universitatis Corvini Foundation whose job - it would be to operate Corvinus University of Budapest, and would transfer substantial funds to the Foundation in the form of 10% of State-owned MOL and Richter shares each. The shares are non-alienable.

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

commercialised by the companies operating in the traditional markets, with the support of 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.
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 Richter Group's draft 2018 Consolidated Annual Report pursuant to the IFRS

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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 2018 (in which the total assets is MHUF 797,883), the consolidated income statement, the consolidated statement of comprehensive income (in which the total comprehensive income for the year is MHUF 35,200 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 2018, 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 2018 to 31 December 2018, 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.

Our audit approach

Overview

Overall group materiality	Overall group materiality applied was MHUF 2,700
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 85% of the consolidated total assets, 75% 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 2,700 (2017: MHUF 2,800)
Determination	Approximately 4.5% 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 4.5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

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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 85% of the total assets and 75% of the consolidated revenue.

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

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 2,268 and Esmya intangible asset of MHUF 30,823 MHUF as of 31 December 2018. 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	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; • Checking the comparison of the carrying amount to the recoverable amount and recalculating the impairment accounted for.

Key audit matter	*How our audit addressed the key audit matter*
review. 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.* Management's key assumptions were considered to be within reasonable ranges.
Valuation of other goodwill balances The Group has other goodwill balauce of MHUF 33,118 as of 31 December 2018. See Notes in the accouuting 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 shall 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 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 exchange rates; • Involviug 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; • Checking the comparison of the carrying amount to the recoverable amount based on which no impairment was accounted for.

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Key audit matter	*How our audit addressed the key audit matter*
We focused on this area because of the significance of the goodwill balance 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 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.* Management's key assumptions were considered to be within reasonable ranges.

Other information: the consolidated business report and the annual report

Other information comprises the 2018 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 Snbsection (5) of Section 134 of the Accounting Act.

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In our opinion, the 2018 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 2018 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 communication.

Report on other legal and regulatory requirements

We were first appointed as auditors of the Group on 28 April 2010. Our appointment has been renewed annually by shareholder resolutions representing a total period of uninterrupted engagement appointment of 9 years.

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

Budapest, 20 March 2019

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 Richter Group’s draft 2018 Consolidated Annual Report pursuant to the IFRS

The Supervisory Board of
Gedeon Richter Plc.

Report

to the 2019 Annual General Meeting of Gedeon Richter Plc.

on the 2018

Consolidated Annual Financial Statements of Richter Group

The Supervisory Board reviewed the 2018 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.

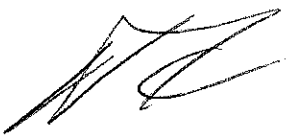
Proposal for the approval of the 2018 Consolidated Annual Financial Statements of Gedeon Richter Plc.

Having reviewed the Consolidated Audited Financial Statements of Richter Group for 2018 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 Supervisory Board proposes that the distinguished members of the Annual General Meeting approve:

- The Consolidated Annual Financial Statements for 2018 submitted to the AGM (with total assets and total liabilities in the Balance Sheet being equally HUF 797,883 million), duly audited in compliance with the International Accounting Standards.

- The after-tax profit specified in the audited Consolidated Income Statement for 2018 (before dividend payment) being HUF 36,193 million.

Budapest, 20 March 2019



Dr. Attila Chikán
Chairman of the Supervisory Board

4.

Approval of the Richter Group’s
draft 2018 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.: 18/2019

The Board of Directors proposes to the AGM to approve the Company's draft 2018 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 2018 business activities of the Company (on the management, the Company’s financial situation and business policy) and presentation of the Company’s draft 2018 individual Annual Report prepared pursuant to the IFRS

GEDEON RICHTER PLC.

IFRS FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

Gábor Orbán
Chief Executive Officer

Budapest, 20 March 2019

Gedeon Richter Plc.

FINANCIAL STATEMENTS

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Income Statement

for the year ended 31 December

	Notes	2018 HUFm	2017 HUFm
Revenues	**4**	**330,084**	**328,533**
Cost of sales		(111,127)	(110,189)
Gross profit		**218,957**	**218,344**
Sales and marketing expenses		(103,942)	(98,034)
Administration and general expenses		(15,038)	(13,386)
Research and development expenses		(39,314)	(39,172)
Other income and other expenses (net)	5	(13,962)	(11,891)
Net impairment losses on financial and contract assets		(144)	-
Profit from operations	**5**	**46,557**	**55,861**
Finance income	7	34,544	23,779
Finance costs	7	(43,688)	(72,845)
Net financial income/(loss)	7	**(9,144)**	**(49,066)**
Profit before income tax		**37,413**	**6,795**
Income tax	8	(5,834)	(477)
Profit for the year		**31,579**	**6,318**
Consolidated Earnings per share (HUF)	**9**		
Basic and diluted		190	48

The notes on pages 8 to 77 form an integral part of the Financial Statements.

20 March 2019

.....
Chief Executive Officer

Statement of Comprehensive Income

for the year ended 31 December

	Notes	2018 HUFm	2017 HUFm
Profit for the year		**31,579**	**6,318**
Items that will not be reclassified to profit or loss (net of tax)			
Actuarial loss on retirement defined benefit plans	28	(27)	(102)
Changes in the fair value of equity investments at fair value through other comprehensive income	24	(5,063)	-
		(5,090)	**(102)**
Items that may be subsequently reclassified to profit or loss (net of tax)			
Revaluation of available for sale investments	24	-	1,566
		-	**1,566**
Other comprehensive income for the year		**(5,090)**	**1,464**
Total comprehensive income for the year		**26,489**	**7,782**

The notes on pages **8** to 77 form an integral part of the Financial Statements.

20 March 2019.

.....
Chief Executive Officer

Balance Sheet

	Notes	31 Dec. 2018 HUFm	31 Dec. 2017 HUFm
ASSETS			
Non-current assets			
Property, plant and equipment	12	169,453	157,075
Intangible assets	12	80,971	78,295
Investments in subsidiaries, associates and joint ventures	13,14	149,525	169,596
Other financial assets	15	9,571	35,025
Deferred tax assets	16	1,424	2,948
Loans receivable	17	57,971	62,170
Other long term receivable	15	6,416	737
		475,331	**505,846**
Current assets			
Inventories	19	64,132	65,312
Trade receivables	20	122,979	123,483
Contract assets	21	1,417	-
Other current assets	21	25,747	17,743
Investment in securities	22	4,728	-
Current tax asset	16	578	488
Cash and cash equivalents	23	80,696	46,845
		300,277	**253,871**
TOTAL ASSETS		**775,608**	**759,717**
EQUITY AND LIABILITIES			
Equity			
Share capital	24	18,638	18,638
Treasury shares	25	(283)	(404)
Share premium	24	15,214	15,214
Capital reserves	24	3,475	3,475
Revaluation reserve for available-for sale investments	24	-	10,093
Revaluation reserve for securities at FVOCI	24	4,810	
Retained earnings		640,415	621,423
		682,269	**668,439**
Non-current liabilities			
Borrowings	29	-	-
Deferred tax liability	16	-	-
Other non-current liabilities and accruals	30	8,868	3,614
Provisions	28	2,428	2,248
		11,296	**5,862**
Current liabilities			
Borrowings	29	21,789	7,498
Trade payables	26	36,825	58,570
Other payables and accruals	27	22,577	18,239
Provisions	28	852	1,109
		82,043	**85,416**
TOTAL EQUITY AND LIABILITIES		**775,608**	**759,717**

The notes on pages 8 to 77 form an integral part of the Financial Statements.

20 March 2019.

.....
Chief Executive Officer

Statement of Changes in Equity

	Notes	Share capital	Share premium	Capital reserves	Treasury shares	Revaluation reserve for available for sale investments	Revaluation reserve for securities at FVOCI	Retained earnings	Total
		HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
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 ended 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 ended 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**
Reclassification	24	-	-	-	-	(10,093)	10,093	-	-
Impact of initial application of IFRS 9	39	-	-	-	-	-	(220)	1,288	1,068
Impact of initial application of IFRS 15	39	-	-	-	-	-	-	1,005	1,005
Balance at 1 January 2018 (as restated)		**18,638**	**15,214**	**3,475**	**(404)**	**-**	**9,873**	**623,716**	**670,512**
Profit for the year		-	-	-	-	-	-	31,579	31,579
Actuarial loss on defined benefit plans	28	-	-	-	-	-	-	(27)	(27)
Change in fair value of securities measured at FVOCI	24	-	-	-	-	-	(5,063)	-	(5,063)
Comprehensive income for year ended 31 December 2018		**-**	**-**	**-**	**-**		**(5,063)**	**31,552**	**26,489**
Net treasury shares transferred and purchased	25	-	-	-	121	-	-	-	121
Ordinary share dividend for 2017	31	-	-	-	-	-	-	(12,673)	(12,673)
Recognition of share-based payments	24	-	-	-	-	-	-	(2,180)	(2,180)
Transactions with owners in their capacity as owners for year ended 31 December 2018		**-**	**-**	**-**	**121**	**-**	**-**	**(14,853)**	**(14,732)**
Balance at 31 December 2018		**18,638**	**15,214**	**3,475**	**(283)**	**-**	**4,810**	**640,415**	**682,269**

The notes on pages 8 to 77 form an integral part of the Financial Statements.

Cash Flow Statement

for the year ended 31 December

	Notes	2018 HUFm	2017 HUFm
Operating activities			
Profit before income tax		37,413	6,795
Depreciation and amortization	5, 12	25,396	24,793
Non-cash items accounted through the Income Statement		(3,032)	3,429
Year-end foreign exchange translation difference of borrowings	7	213	(66)
Net interest and dividend income	7	(18,567)	(13,061)
Reclass of results on changes of property, plant and equipment and intangible assets		139	165
Impairment recognised on intangible assets	12	13,429	8,594
Impairment on investments	13	25,303	51,840
Expense recognised in respect of equity-settled share-based payments	24	3,360	3,641
Movements in working capital			
Increase in trade and other receivables	20, 21	(12,156)	(13,844)
Increase in inventories	19	(1,196)	(18,081)
(Increase)/decrease in payables and other liabilities	26, 27	(14,177)	12,717
Interest paid	7	(32)	(990)
Income tax paid	16	(4,100)	(4,023)
Net cash flow from operating activities		**51,993**	**61,909**
Cash flow from investing activities			
Payments for property, plant and equipment	12	(30,434)	(24,919)
Payments for intangible assets	12	(18,910)	(8,938)
Proceeds from disposal of property, plant and equipment		137	136
Payments to acquire financial assets		(3,652)	(2,291)
Proceeds from sale or redemption on maturity of financial assets		16,791	-
Disbursement of loans		(4,338)	(3,961)
Loans repaid by borrowers		8,892	10,318
Prepaid grants received	30	40	276
Interest received	7	3,188	3,626
Dividend received	7	15,411	10,425
Net cash outflow on acquisition of subsidiaries	27,36,30	(285)	(8,079)
Net cash flow to investing activities		**(13,160)**	**(23,407)**
Cash flow from financing activities			
Purchase of treasury shares	25	(3,607)	(4,224)
Dividend paid	31	(12,673)	(19,756)
Repayment of borrowings	29	-	(36,286)
Proceeds from borrowings		11,233	6,734
Net cash flow to financing activities		**(5,047)**	**(53,532)**
Net (decrease)/increase in cash and cash equivalents		**33,786**	**(15,030)**
Cash and cash equivalents at the beginning of year	**23**	**46,015**	**61,596**
Effect of foreign exchange rate changes on the balances held in foreign currencies		(82)	(551)
Cash and cash equivalents at the year end	**23**	**79,719**	**46,015**

The notes on pages 8 to 77 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. 4031 Debrecen, Kígyóhagyma utca 8. 6720 Szeged, Eötvös u 6. 7673 Kővágószőlős, 513/2 hrsz.
Website of the Company:	www.richter.hu
Date of the first Articles of Association:	24 July 1923
Date of the effective Articles of Association:	25 April 2018
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).

The statement prepared for the balance sheet date as of 31 December 2018 is a complete separate IFRS financial statement of the Company, including comparative figures for the previous period, i.e. the closing balance of 31 December 2017.

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 principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated. Please see details of the application of the new accounting policies in note 39.

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.

III) Adoption of new and revised Standards

A) New standards which became effective from 1 January 2018 and the Company has adopted

- IFRS 9 "Financial Instruments: Classification and Measurement" (issued in July 2014 and effective for financial 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 (hereinafter FVOCI) and those to be measured subsequently at fair value through profit or loss (hereinafter FVTPL).

  - 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 (hereinafter 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 FVTPL (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 (hereinafter 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 elected not to restate comparatives. Details of the initial application of IFRS 9 is presented in Note 39.

- 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 transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must be generally 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 for the following case. 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, while the Company has enforceable right to payment for performance completed to date. The details of the initial application of IFRS 15 is presented in Note 39.

- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for financial 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 presenting the details of the initial application of IFRS 15 in Note 39.

B) The following standards and amended standards became effective for the Company from 1 January 2018, but did not have any material impact on the Company

- IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for financial periods beginning on or after 1 January 2018, the EU has endorsed the interpretation).

- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for financial periods beginning on or after 1 January 2018, the EU has 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 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 financial periods beginning on or after 1 January 2018).

- Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for financial periods beginning on or after 1 January 2018, the EU has endorsed the changes).

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

- IFRS 16, Leases (issued in January 2016 and effective for financial 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 Company is presenting operating lease commitments according to IAS 17 in Note 33. The Company will apply IFRS 16 retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application (i.e. 1 January 2019). Taking into consideration the amount of these commitments, the effect of the application of IFRS 16 will be moderate on the financial statements. For leases previously classified as operating leases under IAS 17, the Company recognizes a lease liability measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. At the same time, recognizes a right-of-use asset at the amount equal to the lease liability, adjusted for previously recognized prepaid or accrued lease payments. The Company applies a single discount rate to a portfolio of leases with reasonably. The Company will not apply IFRS 16 to the accounting for intangible assets, low-value assets and leases with lease term of less than one year. Similar characteristics the Company expects that the application of IFRS 16 will have no impact on the equity. The value of the lease liability and a right-of-use asset will not exceed 4% of the total assets.

D) 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 financial 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.)

- 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 and effective for financial periods beginning on or after 1 January 2019, the EU has endorsed the amendments).

- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for financial periods beginning on or after 1 January 2019, the EU has endorsed the amendments).

- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017, the EU has endorsed the amendment on 11 February 2019).

- 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).

- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (issued on 7 February 2018 and effective for financial periods beginning on or after 1 January 2019, the EU has endorsed the amendment on 13 March 2019).

- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for financial periods beginning on or after 1 January 2020, the EU has not yet endorsed the amendments).

- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of financial reporting period that starts on or after 1 January 2020, the EU has not yet endorsed the amendments).

- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for financial periods beginning on or after 1 January 2020, 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. The Company has applied IFRS 9 and IFRS 15 from 1 January 2018, therefore the comparatives are presented based on different accounting policies. In this Note both the old and the new accounting policies are presented, if it relates to only one of the periods presented it is indicated.

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 Hungarian Forint (HUF).

Foreign currency transactions are translated to 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, the Company uses the Bloomberg transactional currency/USD and the MNB HUF/USD cross rates for determining the foreign exchange rate.

II) Revenue recognition

Accounting policy based on IAS 11 and IAS 18 (in financial year 2017)

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 fulfillment 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 significant risks and rewards of ownership of the goods to the buyer;
- 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 an 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 for these transactions. Revenue from profit sharing agreements are accounted in that accounting period when the underlying sales is performed. If the actual settlement of the transaction takes place after the reporting period, the Company accrues for the amount of the 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.

Accounting policy based on IFRS 15 (in financial year 2018)

The Company has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in the accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Company has adopted the new rules with modified retrospectively application and has not restated comparatives for the 2017 financial year.

A) Sales revenue
Revenue is defined as income arising in the course of an entity's ordinary activities. The Company's revenue primarily comes from:

- sale of pharmaceutical products produced by the Company,
- wholesale and retail activity within the pharmaceutical industry,
- royalty and license income from products already on the market,
- contract manufacturing service,
- other services including provision of marketing service, performing transportation activity etc.

B) Sale of pharmaceutical products (including wholesale and retail activity)
The Company manufactures and sells a range of pharmaceutical products. Revenue is accounted for in the amount of consideration to which an entity expects to be entitled in exchange for goods or services transferred. The Company includes in the transaction price some or all of an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Company accounts for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity. Sales are recognised when control of the products has transferred, generally when the products are delivered to the wholesaler or other third party customer. Generally sale of pharmaceutical products are satisfied at point in time. To determine the point in time at which a customer obtains control, the Company consider indicators that include, but are not limited, to the following:

- the Company has a present right to the payment for the good,
- the customer has legal title to the good,
- the Company has transferred physical possession of the good to the customer,
- the customer has the significant risks and rewards of ownership of the good,
- the customer has accepted the good.

In case the Company produces customer products, which does not create a good/service with an alternative use to the Company and the Company has an enforceable right to the payment for performance completed to date, the Company accounts for the revenue over time (similarly to contract manufacturing services).

C) Licences and royalties
A license arrangement establishes a customer's rights related to the Company's intellectual property and the obligations of the Company to provide those rights. The Company assesses each arrangement where licenses are sold with other goods or services to conclude whether the license is distinct and therefore a separate performance obligation. For licenses that are not distinct, the Company combines the license with other goods and services in the contract and recognize revenue when (or as) it satisfies the combined, single performance obligation. Licenses that provide access to a Company's IP are performance obligations satisfied over time, and therefore revenue is recognized over time once the license period begins, as the customer is simultaneously receiving and consuming the benefit over the period it has access to the IP.
Licenses that provide a right to use the Company's IP are performance obligations satisfied at the point in time when the customer can first use the IP, because the customer is able to direct the use of and obtain substantially all of the benefits from the license at the time that control of the license is transferred to the licensee.
The revenue standard includes an exception for the recognition of revenue relating to licenses of IP with sales- or usage-based royalties. Consideration from a license of IP that is based on future sales or usages by the customer is included in the transaction price when the subsequent sales or usages occur.

D) Interest income
Interest income from financial assets at FVTPL is included in the net fair value gains/(losses) on these assets, presented as Finance income or Finance expense. Interest income on financial assets at amortised cost (hereinafter AC) and financial assets at FVOCI (2017 – available-for-sale securities, held-to-maturity investments and loans and receivables) calculated using the effective interest method is recognised in the statement of profit or loss as part of Finance income.

E) Dividend income
Dividends are received from financial assets measured at fair value through profit or loss (FVTPL), at fair value through other comprehensive income (FVOCI) (2017 – from financial assets at FVTPL, available-for-sale financial assets), and from subsidiaries, joint ventures, associates. Dividends are recognised as Finance income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment.

F) Contract manufacturing and other services
Rendering services, such contract manufacturing, marketing services and transportation are performance obligations, which are satisfied over time. At the end of each reporting period, the Group remeasures the progress towards complete satisfaction of such services and recognizes revenue accordingly.

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	1-10%
Plant and equipment	
Plant and machinery	*5-20%*
Vehicles	*20%*
Office equipments	*8-33,33%*

The Company accounts full depreciation for 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 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 straight-line 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 reviews the carrying amount of the 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

Accounting policy based on IAS 39 (in financial year 2017)

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 at FVTPL where the financial asset is either held for trading or it is designated 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, XVIII) 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 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 expense. 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 the 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.

Accounting policy based on IFRS 9 (in financial year 2018)

Financial assets are classified into the following categories: financial assets 'at fair value through profit or loss' (FVTPL), 'at fair value through other comprehensive income' (FVOCI), 'at amortised cost'.

Classification of financial assets depends on:

- whether the asset is an equity investment or a debt instrument,
- if the financial asset is a debt instrument considerations are required to assess:
  - the business model for managing the financial asset,
  - contractual cash flow characteristics of the financial asset.

A) Debt instruments measured at amortised cost

A financial asset is measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The adoption of IFRS 9 results in reclassification of financial assets carried at amortized cost to fair value through profit and loss for the exchangeable bonds and convertible loans as presented in Note 39.

B) Debt instruments measured at fair value through OCI

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met cumulatively:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("hold & sell" business model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

C) Debt instruments measured at fair value through profit or loss

Under the new model, FVTPL is the residual category: a financial asset that is not measured at amortized cost or at fair value in other comprehensive income is measured at fair value through profit or loss.

D) Equity instruments measured at fair value through OCI

Investments in equity instruments are always measured at fair value. Equity instruments that are held for trading are classified at FVTPL. For all other equity instrument, the Company has the ability to make an irrevocable election on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in OCI rather than profit or loss. If this election is made, all fair value changes, excluding dividends that are a return on investment, will be included in OCI. The Company has elected to measure all of its equity instrument in the scope of IFRS 9 at fair value through OCI.

E) Equity instruments measured at fair value through profit or loss

Investments in equity instruments are always measured at fair value. Equity instruments that are held for trading are required to be classified to FVTPL.

The effect of implemantation of IFRS 9 on classification of finacial assets is presented in Note 39.

Impairment

Credit loss allowance for ECL: The Company assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts, for contract assets.

The Company measures ECL and recognises Net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC and contract assets are presented in the separated statement of financial position net of the allowance for ECL. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. The expected loss rates are based on the historical payment profiles of sales and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information. Historical loss rates are determined by the Company based on the payment experience of the previous 3 years. Defining forward-looking information, the Company takes into account the change in the Probability of Default (PD) of the receivables with the largest receivable amount (based on market information) and thus corrects historical loss rates. The impact of forward-looking information on impairment is not significant.

The Company applies a three stage model for impairment, based on changes in credit quality since initial recognition.

A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Company identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL. If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL.

VIII) Financial liabilities

The implementation on IFRS 9 did not effect the financial liability classification and measurement relevant for the Company.

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

Financial liabilities are classified at FVTPL where the financial liability is either held for trading or it is designated 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 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 XV) 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 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 any 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 the Income statement.
The accounting policy for accounting for dividend income from subsidiaries, associates and joint ventures is included in Note 2./ II.

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 Financial expense (or Financial Income), while the change in the probability and the change in the estimated cash-flow to be paid is recognized as Other income and other expenses (net).

XI) Other financial assets

Accounting policy based on IAS 39 (in financial year 2017)
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.

Accounting policy based on IFRS 9 (in financial year 2018)
Investments comprise long term bonds and investments in companies. These investments are measured at amortised cost or fair value through at fair value through other comprehensive income 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.
Loans are initially recognized at fair value both under IAS 39 and IFRS 9, and subsequently generally measured at amortized cost using the effective interest method. Exception from this treatment are the capital contributions qualified as debt instruments and the supplementary payments which were classified as available-for-sale financial assets under IAS 39.
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 substance 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. According to IAS 39 these instruments are classified as available-for-sale financial assets, so 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. According to IFRS 9 these instruments are measured at amortised cost.

XIII) Trade receivables

Receivables are measured at cost, less impairment and adjusted by reversal of the previously recognized impairment as described in accounting policy section VII) above.
Realized exchange gains or losses arising on the settlement of foreign currency receivables shall be recognized directly in the net financial income/(loss) 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 net financial income/(loss). 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 sbould be classified in accordance with its substance, so in case of credit balance is presented as liability in the Balance Sheet.

XIV) Contract asset

The Company's right to consideration in exchange for goods or services that the Company has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance), less provision for impairment as described in accounting policy section VII) above.

XV) 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.

XVI) Contract liability

If a customer pays consideration or the Company has a right to an amount of consideration that is unconditional before the entity transfers a good or service to the customer, the Company shall present the contract as a contract liability when the payment is made or the payment is due. A contract liability is an obligation of the Company to transfer goods and services to a customer for which the Company has received consideration from the customer.

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 the end of each reporting period to their fair value. The resulting gain or loss is immediately recognized against the profit, because hedge accounting is not applied in current year. Derivative financial instruments are classified under "Non-current assets" and "Non-current liabilities", if the instrument has a residual maturity of more tban 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".

XVIII) 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

XIX) 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 XXIV) Borrowing costs.

XX) 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 a 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 or 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.

XXI) 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 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 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 fulfil 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 XXVI) Retirement Benefits.

XXII) Income taxes

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 tax 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).

XXIII) Segment information

According to IFRS 8, the Company is obliged to present segment information since it's shares are traded 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 decisions about the resources to be allocated to the segment and to evaluate its performance (Note 4.).
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.

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) 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 obtain or control 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 all the risks and rewards of ownership to the lessee. 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 or 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.

XXVI) 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.

XXVII) 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 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.

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 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.

XXIX) 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.

XXX) 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 IAS 33 standard the Company presents the same EPS in its separate financial statement that was determined in the consolidated financial statement.

XXXI) 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 shareholders of the Company.

3. Key sources of estimation uncertainty and critical accounting judgements

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 the 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 European Commission decision 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® (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 recommended that new treatments using ESMYA® should not be started, but ongoing treatments could be completed. These measures were of a temporary nature and are intended to protect the health of patients.

The PRAC's final recommendations were published on 18.05.2018 which were adopted by Committee for Medicinal Products for Human Use (CHMP) (01.06.2018) and based on CHMP's opinion the European Commission decided to implement them on 26.07.2018. According to PRAC's recommendations the measures include: contraindication in women with known liver problems; liver tests before, during and after stopping treatment; a card for patients to inform them about the need for liver monitoring and to contact their doctor should they develop symptoms of liver injury. In addition, use of the medicine for more than one treatment course has been restricted to women who are not eligible for surgery.
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.

In August, 2018, Richter's license partner for North-America Esmya sales, Allergan received a Complete Response Letter (CRL) from the U.S. Food and Drug Administration (FDA) in response to the New Drug Application (NDA) for ulipristal acetate (UPA) for the treatment of abnormal uterine bleeding in women with uterine fibroids.

The letter from the FDA indicates it is not able to approve the ulipristal acetate NDA in its current form and is requesting additional information. The agency cited safety concerns regarding ESMYA post-marketing reports outside the United States and Canada.

In January 2019 the Canadian regulatory authority imposed restrictions on Fibristal (ulipristal acetate) commercialised by Allergan Plc in Canada due to a potentially increased risk of liver damage. The management has incorporated the effects of the restrictions on the expected future cash flows.

The Company's judgment that the CRL issued by the FDA gives rise to significant uncertainty about the launch and date of the US market.

The Company prepared its audited financial statements for 2018, considering the negative effects of European Commission's decision on ESMYA® and CLR issued by FDA. Based on that, Management has reduced its long term sale forecasts for ESMYA® in markets in EU and North-America. In addition to the revised forecasts, the Company has accounted for impairment on investment in PregLem (in addition to prior year's impairment) and on intangible assets in North-America. The overall value is totalled to HUF 35.4 billion. Please see further details in Notes 12.2 and 13.

As a result of EC's resolution and FDA's letter, 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 *	**31.12.2018** HUFm	**31.12.2017** HUFm
Shareholding in the subsidiary of PregLem S.A.	29,368	51,327
Esmya North-America intangible assets	6,781	20,431
Esmya other intangible assets	1,379	1,485
All exposures	**37,528**	**73,243**

*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 inventories, because the risk of obsolescence is not significant consideringly the inventory turnover period.

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 would be lower by 10%, depreciation for 2018 would be higher by HUF 2,822 million compared to what is currently recorded in the Financial Statement. This change would have been HUF 2,755 million in 2017.

3.2 Critical judgements in applying entities accounting policies

Hybrid tax
The Company prepared its first separate IFRS financial statements on 31 December 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 2018 (similarly to 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 transition to IFRS had not happened and the value of corporate tax is defined accordingly. Therefore no other expense is recognized in the financial statements related to the corporate income tax.

Deferred tax
The Company has significant deductible temporary differences, part of which is related to the tax loss carried forward. Deferred tax asset should be recognized for accrued unused negative tax bases to the extent that it is probable that sufficient future taxable profit will be available against which unused negative tax bases can be utilised.
Despite of the profitable operation of the Company, the tax base is expected to be negative in the next 5 years, considering the tax base adjusting items, there for the realization of a significant part is not probable.
The Company's calculated deferred tax asset is HUF 5,473 million, of which HUF 4,049 million is not recognized in the balance sheet because no taxable profit is expected when the related temporary differences reverse. The management of the Company expects to realise the deferred tax related to temporary differences that reverses after 5 years. These temporary differences are:

- difference between IFRS value and the tax value of the intangible assets or property, plant and equipment,
- fair-valuation difference of financial assets,
- the provision for post-employment and other long term benefits.

The deferred tax expense is presented in Note 16.

4. Segment Information

4.1 The Richter Group 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	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
3rd party revenues	356,024	355,194	88,596	88,458	864	704	-	-	445,484	444,356
Inter segment revenues	8,707	9,646	2	3	5,391	4,691	(14,100)	(14,340)	-	-
Revenues	**364,731**	**364,840**	**88,598**	**88,461**	**6,255**	**5,395**	**(14,100)**	**(14,340)**	**445,484**	**444,356**
Profit from operations	44,631	18,617	(97)	1,777	331	391	175	(74)	45,040	20,711
Total assets	867,803	831,128	52,726	47,753	3,777	3,402	(126,423)	(121,418)	797,883	760,865
Current contract asset	1,425	-	-	-	-	-	-	-	1,425	-
Total liabilities	89,088	74,620	40,927	35,743	990	797	(18,867)	(14,314)	112,138	96,846
Contract liability	85	-	-	-	-	-	-	-	85	-
Capital expenditure	57,167	39,077	650	656	238	196	-	-	58,055	39,929
Depreciation and amortization	33,965	33,839	702	675	240	233	-	-	34,907	34,747
Share of profit of associates and joint ventures	(431)	60	1,428	1,466	27	58	31	(56)	1,055	1,528
Investments in associates and joint ventures	2,794	2,996	7,722	7,398	1,316	1,561	(77)	(108)	11,755	11,847

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

2018	Hungary	CIS	EU	USA	China	Latin America	Other countries	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Timing of revenue recognition								
At a point in time	38,708	133,260	173,059	10,841	26,384	9,205	16,822	408,280
Over time	764	96	8,706	25,144	-	1	2,492	37,204
Revenues	39,472	133,356	181,765	35,985	26,384	9,206	19,314	445,484
Total assets	592,915	61,361	106,587	2,639	11,821	7,535	15,025	797,883
Capital expenditure	49,376	2,816	5,450	1	-	62	349	58,055

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

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 approximately HUF 16,674 million (in 2017 HUF 19,496 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 Company assesses the risk of customer concentration as not significant.

4.2 The revenue information of Company

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	2018 HUFm	2017 HUFm
Sales of goods	304,450	313,325
Revenue from services	440	532
Royalty income	25,194	14,676
Total revenues	**330,084**	**328,533**

5. Profit from operations - expenses by nature

	2018 HUFm	2017 HUFm
Revenues	330,084	328,533
From this: royalty and other similar income	*25,194*	*14,676*
Changes in inventories of finished goods and work in progress	6,388	8,129
Cost of goods sold	(18,000)	(21,146)
Material type expenses	(163,019)	(159,171)
Personnel expenses	(69,836)	(64,339)
Depreciation and amortization	(25,396)	(24,793)
Compensation of expenses*	442	539
Net impairment losses on financial and contract assets	(144)	-
Other income and other expenses (net)	(13,962)	(11,891)
Profit from operations	**46,557**	**55,861**

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

The statutory auditor provided other assurance services for HUF 17 million, other non-audit services for HUF 33 million, and tax advisory service for HUF 5 million in 2018. The fee for the statutory audit was HUF 19 million.

The balance of Impairment on financial assets and contracts

The net Impairment recognised on financial and contract assets in accordance with in IFRS 9 was HUF 144 million in 2018 and its biggest contributor was the impairment recognised on loans and capital contribution as a result of IFRS 9 (HUF 173 million). In the comparative these are presented as Other income and other expenses (net) or Net financial (loss)/income.

Other income and other expenses

The balance of other income and expense increased from HUF 11,891 million (expense) in the base period to HUF 13,962 million (expense) in 2018.

The restrictions imposed by the European Commission significantly impaired the sales potentials of Esmya in the European Union, and the FDA's decision delays market authorisation for the U.S. market and, according to the Executive Board's estimates, it reduces the potential market size. The impairment tests of Esmya for the 2018 statements had to be conducted in consideration of these decisions by the regulatory authorities and market effects. As a result, the Company reported HUF 13,423 million impairment of the intangible asset Esmya. 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 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 period one-off milestone income amounted to HUF 8,429 million mainly related to Reagila's European authorisation and introduction to the EU15 markets, successful clinical trials of cariprazine for the treatment of bipolar I depression, and FDA's acceptance of Allergan's application for registration of the extension of indication. 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.

Claw-back in 2018 comprised payments related to the Hungarian, Romanian, German, French, Spanish, Portuguese, Belgian, Italian, Bulgarian, Austrian, Polish, Lithuanian, Croatian, Slovenian and British markets totalling HUF 4,746 million (HUF 6,668 million in 2017).

In 2018 inventory impairment and disposal of HUF 1,803 million (HUF 1,483 million in 2017) was recorded and HUF 168 million (HUF 594 million in 2017) was reversed. Please see Note 19. for details.

The Company presented non-income taxes (HUF 947 million in 2018, HUF 1,115 million in 2017) in Other Expenses.

6. Employee information

	2018	2017
Average number of people employed during the year	7,144	6,886

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	2017 HUFm
Unrealised financial items	**(26,838)**	**(55,865)**
Exchange (loss) on trade receivables and trade payables	(2,623)	(298)
Gain/(loss) on foreign currency loans receivable	812	(4,570)
Year-end foreign exchange difference of borrowings	(213)	66
Exchange gain/(loss) on other currency related items	8	(100)
Result of unrealised forward exchange contracts	(26)	26
Impairment loss on investments (Note 13)	(25,306)	(51,866)
Impairment loss on loans	-	74
Unwinding of interest on interest-free loans	510	803
Realised financial items	**17,694**	**6,799**
Exchange (loss) realised on trade receivables and trade payables	(47)	(5,329)
Foreign exchange difference on conversion of cash	1,370	(933)
Dividend income	15,411	10,425
Interest income	3,188	3,626
Interest expense	(32)	(990)
Other financial items	(2,196)	-
Total	**(9,144)**	**(49,066)**

The impairment tests of Esmya for 2018 had to be conducted in consideration of decisions by the regulatory authorities and market effects. As a result, the Company reported HUF 21,959 million impairment on the investment in PregLem related to Esmya. Further impairment in 2018 was related to Gedeon Richter Mexico S.A.P.I. de C.V., GR Columbia S.A.S. and GR Brasil SA (HUF 3,334 million), other impairments are not significant neither individually nor in aggregate.
The 2017 net financial income/loss was significantly deteriorated by the impairment on the investment in PregLem S.A. related to the PRAC's temporary measures (HUF 51,526 million) and additional impairment was reported on Nedermed B.V.

Unrealised financial results for 2018 were largely influenced by the result of exchange rate revaluations with 4.05 RUB/HUF, 280.94 USD/HUF, 285.16 CHF/HUF and the 321.51 EUR/HUF on 31th December 2018 (4.49 RUB/HUF, 258.82 USD/HUF, 265.24 CHF/HUF 310.14 EUR/HUF on 31th December 2017). The combined impact of the revaluation resulted a HUF 2,016 million financial loss in 2018, and HUF 4,902 million for 2017, resulting a HUF 2,886 million increase in results comparing with 2017. See the results of the foreign sensitivity tests in Note 10.

The other financial items contain the fair value change of the MNV exchangeable bond before it was sold.

The Company did not apply hedge accounting under IAS 39 and IFRS 9 derivative transactions are reported at fair value as established by the bank.

Exchange rate losses realized from trade receivables, payables and other items were HUF 47 million as opposed to a HUF 5,329 million loss in the preceeding year. The lower level of exchange loss contributed HUF 5,282 million to a year-on-year increase in earnings, mainly due to receivables settled in RUB.

Dividend income contributed HUF 15,411 million to the 2018 finance income, which was HUF 4,986 million higher than the HUF 10,425 million realized in 2017.

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.

	2018 HUFm	2017 HUFm
Corporate income tax	(22)	30
Local business tax	(3,464)	(3,481)
Innovation contribution	(524)	(525)
Current tax	**(4,010)**	**(3,976)**
Deferred tax (Note 16)	(1,824)	3,499
Income tax*	**(5,834)**	**(477)**

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

In 2018 the average effective tax rate calculated on the basis of the current tax is 10.7 % and 15.6 % taking into account the effect of deferred tax as well (In 2017: 58.5% and 7.0%).
The corporate income tax rate effective in 2018 and in 2017 is 9%.

The tax authority performed full scale tax audit in 2018 covering the financial periods 2015-2016. The decision was received on 11 February 2019, which does not contain any significant findings.

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

	2018 HUFm	2017 HUFm
Profit before income tax	**37,413**	**6,795**
Tax calculated based on statutory corporate income tax rate*	3,367	611
Tax effects of		
Dividend income not subject to taxation	(1,455)	(938)
Royalty tax incentive	(1,267)	(65)
Expense not deductible for tax purposes	132	23
R&D tax incentives**	(2,839)	(2,960)
Local business tax and innovational contribution	3,629	3,646
Deferred tax asset that is not expected to be realised	4,049	-
Reversal of temporary differences that are subject to exception from deferred tax	146	387
Other, individually insignificant items	72	(227)
Tax charge	**5,834**	**477**

* In 2018 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 finished 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 financial year 2012, proceeding and calculating it in accordance with the applicable laws and regulations. For financial year 2018, 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 year's amounts to HUF 2,021 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 2017 and 2018 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)	**2018**	**2017**
Net consolidated profit attributable to owners of the parent (HUFm)	35,348	8,885
Weighted average number of ordinary shares outstanding (thousands)	186,314	186,221
Earnings per share (HUF)	**190**	**48**

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 31 Dec. 2017 HUFm	Fair value 31 Dec. 2017 HUFm
Financial assets[1]			
Available for sale investments carried at fair value			
Investments in securities[2]	22	-	-
Loans receivable	21	535	535
Held to maturity investments carried at amortized cost			
Investments in securities[2]	22	-	-
Loans and receivables carried at amortized cost			
Loans receivable	21	9,393	9,393
Trade receivables	20	123,483	123,483
Other current assets	21	2,755	2,755
Cash and cash equivalents	23	46,845	46,845
Financial assets carried at fair value through profit or loss			
Foreign exchange forward contracts[4]	21	26	26
Current		**183,037**	**183,037**
Available for sale investments carried at fair value			
Investments[3]	15	15,136	15,136
Loans receivable		8,517	8,517
Held to maturity investments carried at amortized cost			
Investments	15	1,595	1,595
Loans and receivables carried at amortized cost			
Loans and receivable investments	15	15,903	15,903
Loans receivable	17	53,653	53,653
Financial assets carried at fair value through profit or loss			
Convertible loan option[7]	15	45	45
"Exchangeable bonds" option[8]	15	2,346	2,346
Non-current		**97,195**	**97,195**
Financial liabilities			
Liabilities carried at amortized cost			
Borrowings	29	7.498	7.498
Trade payables	26	58.570	58.570
Other payables and accrual	27	15.059	15.059
Financial liabilities carried at fair value through profit or loss			
Other payables[5]	11, 27	-	-
Current		**81.127**	**81.127**
Liabilities carried at amortized cost			
Borrowings	29	-	-
Other non-current liabilities	30	-	-
Financial liabilities carried at fair value through profit or loss			
Other non-current liabilities[6]	11, 30, 27	-	-
Non-current		-	-

[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
[3] Level 1: on 31.12.2017: HUF 15,136 million
[4] Level 2: the entire balance on 31.12.2017 HUF 26 million
[5] Level 3: Short-term constituting contingent-deferred purchase price: on 31.12.2017 none
[5] Level 3: Long-term constituting contingent-deferred purchase price: on 31.12.2017 none
[7] Level 3: on 31.12.2017 HUF 45 million
[8] Level 3: on 31.12.2017 HUF 2,346 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).

	Notes	Carrying value		Fair value	
		31 December 2018 HUFm	1 January 2018 HUFm	31 December 2018 HUFm	1 January 2018 HUFm
Financial assets[1]					
Measured at amortised cost					
Investments in debt securities[2]	22	4,728	-	4,728	-
Loans	21	13,646	10,436	13,646	10,436
Trade receivables	20	122,979	122,987	122,979	122,987
Other current receivable	21	6,985	2,755	6,985	2,755
Cash and cash equivalent	23	80,696	46,845	80,696	46,845
Measured at fair value through profit or loss					
Foreign exchange forward contracts	21	-	26	-	26
Current		**229,034**	**183,049**	**229,034**	**183,049**
Measured at amortised cost					
Investments in debt securities[3]	15	-	1,595	-	1,595
Loans	17	57,516	62,024	57,516	62,024
Measured at fair value through OCI					
Investments	15	9,571	15,136	9,571	15,136
Measured at fair value through profit or loss					
Convertible loan	17	455	400	455	400
„Exchangeable bond"	15	-	19,200	-	19,200
Non-current		**67,542**	**98,355**	**67,542**	**98,355**
Financial liabilities					
Liabilities carried at amortised cost					
Borrowings	29	(21,789)	(7,498)	(21,789)	(7,498)
Trade payables	26	(36,825)	(58,570)	(36,825)	(58,570)
Other payables and accrual	27	(19,566)	(15,059)	(19,566)	(15,059)
Financial liabilities carried at fair value through profit or loss					
Other payables[5]	11,27	-	-	-	-
Current		**(78,180)**	**(81,127)**	**(78,180)**	**(81,127)**
Liabilities carried at amortised cost					
Borrowings	29	-	-	-	-
Other non-current liabilities	30	-	-	-	-
Non-current		-	-	-	-

[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 31.12.2018 none
Level 2: on 31.12.2018 none
[3] Level 1: on 31.12.2018 none (on 31.12.2017 HUF 15,136 million).
[4] Level 2: the entire balance on 31.12.2018. none (on 31.12.2017 HUF 26 million).
[5] Level 3: Short-term constituting contingent-deferred purchase price: on 31.12.2018 none
[6] Level 3: Long-term constituting contingent-deferred purchase price: on 31.12.2018 none

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 pursuing constant dividend policy, providing dividend from the profit to the owners every year. The Board of Directors recommends for the Annual General Meeting the payment of dividend calculated from the Group's IFRS consolidated profit attributable to the owners of the parents adjusted with the impairment of Esmya, intangible assets and goodwill related to the Preglem S.A. net of deferred tax effect, and also taking into account the Company's net cash flow and the financing needs of the ongoing acquisition projects.

The capital risk of the Company was still limited in both 2018 and 2017, 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 2018 HUFm	**31 December 2017** HUFm
Borrowings (Note 29)	21,789	7,498
Less: cash and cash equivalents (Note 23)	(80,696)	(46,845)
Net debt	**(58,907)**	**(39,347)**
Total equity	682,269	668,439
Total capital	**623,362**	**629,092**
EBITDA*	87,364	91,079
Net debt to EBITDA ratio	**(0.67)**	**(0.43)**
Net debt to equity ratio	**(0.09)**	**(0.06)**

* EBITDA has been determined, as operating profit increased by dividend income and depreciation and amortization expense

Net debt reconciliation:

Net debt	**31 December 2018** HUFm	**31 December 2017** HUFm
Cash and cash equivalents	80,696	46,845
Cash-pool	(977)	(830)
Borrowings - within one year (excluding cash-pool)	(20,812)	(6,668)
Borrowings - after one year	-	-
Net debt	**58,907**	**39,347**

	Other Assets	**Liabilities from financing activities**		
	Cash and cash-pool overdraft HUFm	**Borrowing due within one year** HUFm	**Borrowing due after one year** HUFm	**TOTAL** HUFm
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**
Cash flows	33,786	(13,931)	-	**19,855**
Effect of foreign exchange of borrowings	-	(213)	-	**(213)**
Other non-cash movements	(82)	-	-	**(82)**
Reclassification from long-term to short-term	-	-	-	-
Net debt as at 31 December 2018	**79,719**	**(20,812)**	**-**	**58,907**

	2018 HUFm	**2017** HUFm
Profit from operations	46,557	55,861
Depreciation	25,396	24,793
Dividend income	15,411	10,425
EBITDA	**87,364**	**91,079**

At the time of the preparation of the Company's audited financial statements for financial year 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 Finance income/(loss). This amount has no effect on EBITDA.

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 fulfils this obligation of presentation below:

	31 December 2018 HUFm	31 December 2017 HUFm
Capital under IFRS	682,269	668,439
Supplementary payment	(330)	(321)
Adjusted equity	**681,939**	**668,118**
Subscribed capital	18,638	18,638
Capital reserve	18,406	18,285
Revaluation reserve	4,810	10,093
Retained earnings	608,506	614,784
Post-tax profit or loss	31,579	6,318
Total equity	**681,939**	**668,118**
Thereof:		
Registered capital	**18,638**	**18,638**
retained earnings reserve available for dividend payment per local regulation	**640,085**	**621,102**

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, from 2011 PLN, RON, RUB, CHF, from 2015 KZT, 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 therefore according to the decision of the Management these currencies have been diverted in a reasonable level when determining the exchange rate combination (RUB, KZT +/- 10%, USD, CHF, +/- 5%).

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:

2018		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	
103.14	**328.61**											
		282.93	**1.16**	**77.18**	**70.62**	**4.75**	**288.87**	**0.87**	**42.08**	**9,579**	**9,116**	**largest growth**
		269.46	1.22	74.83	68.47	4.32	275.11	0.79	40.80	383	(102)	
		255.99	1.28	72.48	66.32	3.89	261.35	0.71	39.52	(8,812)	(9,320)	
100.00	318.61											
		282.93	1.13	77.18	70.62	4.75	288.87	0.87	42.08	9,195	9,218	
		269.46	1.18	74.83	68.47	4.32	275.11	0.79	40.80	0	0	
		255.99	1.24	72.48	66.32	3.89	261.35	0.71	39.52	(9,195)	(9,218)	
96.86	**308.61**											
		282.93	1.09	77.18	70.62	4.75	288.87	0.87	42.08	8,812	9,320	
		269.46	1.15	74.83	68.47	4.32	275.11	0.79	40.80	(383)	102	
		255.99	**1.21**	**72.48**	**66.32**	**3.89**	**261.35**	**0.71**	**39.52**	**(9,579)**	**(9,116)**	**greatest decrease**

* Change of EUR/HUF average exchange rates (%).

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	8,524	8,117	
		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 (%).

Based on the yearly average currency rate sensitivity analysis of 2018 the combination of weak Hungarian Forint – (328.6 EUR/HUF 282.9 USD/HUF, 77.2 PLN/HUF, 70.6 RON/HUF, 4.8 RUB/HUF, 288.8 CHF/HUF, 0.9 KZT/HUF and 42.1 CNY/HUF) against other currencies - would have caused the largest growth in the amount of HUF 9,579 million on the Company's operating profit and HUF 9,116 million on the Company's profit before income tax for the year.
The greatest decrease HUF 9,579 million on operating and HUF 9,116 million on profit before income tax for the year would have been caused by the combination of exchange rates of 308.6 EUR/HUF, 256.0 USD/HUF, 72.5 PLN/HUF, 66.3 RON/HUF, 3.9 RUB/HUF, 261.4 CHF/HUF, 0.7 KZT/HUF and 39.5 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 therefore according to the decision of the Management these currencies have been diverted in reasonable level when determining the exchange rate combination (RUB, KZT +/- 10%, USD, CHF, +/- 5%).

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

2018		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	
103.14%	331.60										**best case scenario**
		295.00	1.12	299.40	4.50	71.20	77.20	0.80	45.00	11,579	
		280.94	1.18	285.16	4.05	69.01	74.82	0.75	40.90	1,353	
		266.90	1.24	270.90	3.60	66.80	72.50	0.70	36.80	(8,851)	
100.00%	321.51										
		295.00	1.09	299.40	4.50	71.20	77.20	0.80	45.00	10,226	
		280.94	1.14	285.16	4.05	69.01	74.82	0.75	40.90	0	
		266.90	1.20	270.90	3.60	66.80	72.50	0.70	36.80	(10,203)	
96.86%	311.40										
		295.00	1.06	299.40	4.50	71.20	77.20	0.80	45.00	8,871	
		280.94	1.11	285.16	4.05	69.01	74.82	0.75	40.90	(1,355)	
		266.90	1.17	270.90	3.60	66.80	72.50	0.70	36.80	(11,558)	**worst case scenario**

* Change of EUR/HUF average exchange rates (%).

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										**best case scenario**
		267.20	1.20	291.80	4.90	68.70	76.80	0.90	43.70	12,666	
		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 (%).

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 11,558 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 11,579 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:

2018	Currencies							
							(all amounts in millions)	
	EUR	USD	CHF	RUB	RON	PLN	KZT	CNY
Trade receivables	92.1	61.0	0.8	10,024.7	42.6	47.0	8,458.3	246.8
Trade payables	(43.9)	(5.3)	(1.9)	(32.2)	(2.5)	(19.4)	(362.5)	(40.7)
Loans receivable	31.3	29.9	82.8	4,976.4	-	-	-	-
Bank deposits	54.6	11.2	0.4	19.6	0.5	18.9	357.7	125.0
Borrowings	-	-	(73.0)	-	-	-	-	-
Total	**134.1**	**96.8**	**9.1**	**14,988.5**	**40.6**	**46.5**	**8,453.5**	**331.1**

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**

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 2018 the Company does not recognise customer exceeding 10% of net sales. Provisions for doubtful debts are estimated by the Company's management based on the expected credit loss model from 1 January 2018. The following securities are applied to minimize the credit risk.

Regions	Trade receivables secured as at 31 December 2018	Type of security		
		Credit insurance	Bank guarantee	L/C
	HUFm	HUFm	HUFm	HUFm
CIS	15,819	15,819	-	-
EU	411	-	411	-
USA	-	-	-	-
China	-	-	-	-
Latin America	-	-	-	-
Other	938	440	129	369
Total	**17,168**	**16,259**	**540**	**369**

Regions	Trade receivables secured as at 31 December 2017	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**

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 2018 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"):

	31.12.2018	31.12.2017
Bank of China Zrt. Hungary (ultimate parent – Bank of China Ltd)	A	A
BNP Paribas Hungary Branch (ultimate parent – BNP Paribas SA)	A	A
K&H Bank Zrt.*	BBB	BBB
OTP Bank Nyrt.	BBB-	BBB-
UniCredit Bank Zrt (ultimate parent - UniCredit SpA)	BBB	BBB
Banca Commerciala Romana SA*	BBB+	BBB+
Raiffeisen Bank Zrt. (ultimate parent – Raiffeisen Bank Intl AG)	BBB+	BBB+
CIB Bank Zrt.	BBB-	BBB-
ING Bank N.V. Magyarországi Fióktelepe (ultimate parent – ING Bank NV)	A+	A+
KDB Bank Európa Zrt. (ultimate parent - Korea Development Bank)	AA-	AA-

* 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 98% of its cash and cash equivalents as of 31 December 2018 in the financial institutions presented above. As of 31 December 2017 the Company holds 95% 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.

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 2018, 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. 2018 HUFm	31. Dec. 2017 HUFm
Bank guarantee for National Tax and Customs Administration of Hungary – collaterals for customs and excise duty related liabilities	197	194
Other, individually not significant bank guarantees	39	106

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. 2018				1. Jan. 2018			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets									
Other financial assets	15	9,571	-	-	**9,571**	15,136	-	-	**15,136**
Investments in securities	22	-	-	-	-	19,200	-	-	**19,200**
Foreign exchange forward contracts	21	-	-	-	-	-	26	-	**26**
Convertible loan	17	-	-	455	**455**	-	-	400	**400**
"Exchangeable bonds" option	15	-	-	-	-	-	-	-	-
Total assets recurring fair value measurements		**9,571**	-	**455**	**10,026**	**34,336**	**26**	**400**	**34,762**

HUFm	Notes	31. Dec. 2017			
		Level 1	Level 2	Level 3	Total
Financial assets					
Other financial assets	15	15,136	-	-	**15,136**
Loans receivable	17, 21		9,052		**9,052**
Investments in securities	22	-	-	-	-
Foreign exchange forward contracts	21	-	26	-	**26**
Convertible loan option	15	-	-	45	**45**
"Exchangeable bonds" option	15	-	-	2,346	**2,346**
Total assets recurring fair value measurements		**15,136**	**9,078**	**2,391**	**26,605**

There was no financial liability measured at fair value.
There is no financial liability mesasured at fair value in 2017 and in 2018.

Please see the details of the Other investments' fair value (presented in other financial assets) in Note 15. The loans are available for sale financial assets. The fair value of these instruments is determined using the interest rates and currency rates effective as of the balance sheet date.

There were no changes in the valuation method neither for Level 1, Level 2 nor for Level 3 recurring fair value measurements during the year ended 31 December 2018 and 2017.

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 2018 and 2017 (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**				

* 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 Financial Statements (for detailed information see Note 15).

The above table shows the sensitivity analysis of the inputs used to determine the fair value of financial assets and liabilities. By changing one or more unobservable inputs, we analyse at the direction and degree of change in the fair value. In doing so, we judge the significance of the result for the year and the total value of assets and liabilities, or of the items that change the comprehensive income for equity.
The effect of IFRS 9 adaptation is detailed in Note 39.
The Company does not have exchangeable bonds since these were repurchased by the issuer in 2018. The value of the convertible loan is not significant.

(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 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)**	-	**(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**

	Land and buildings	Plant and equipment	Construction in progress	Total
	HUFm	HUFm	HUFm	HUFm
Gross value				
at 31 December 2017	**129,667**	**225,593**	**19,973**	**375,233**
Capitalization	7,809	22,391	(30,200)	**0**
Transfers and capital expenditure	-	-	30,434	**30,434**
Other Increase/(Disposals)	(146)	(3,478)	(66)	**(3,690)**
at 31 December 2018	**137,330**	**244,506**	**20,141**	**401,977**
Accumulated depreciation				
at 31 December 2017	**(38,118)**	**(180,040)**	-	**(218,158)**
Current year depreciation	(3,881)	(13,764)	-	**(17,645)**
Other (Increase)/Disposals	44	3,235	-	**3,279**
at 31 December 2018	**(41,955)**	**(190,569)**	-	**(232,524)**
Net book value				
at 31 December 2017	**91,549**	**45,553**	**19,973**	**157,075**
at 31 December 2018	**95,375**	**53,937**	**20,141**	**169,453**

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 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**

	Rights	Intellectual property	Research and development	Total
	HUFm	HUFm	HUFm	HUFm
Gross value				
at 31 December 2017	**144,258**	**1,933**	**804**	**146,995**
Capitalization	22,911	1,011	-	**23,922**
Scrapping	(2,368)	(28)	-	**(2,396)**
Other (Increase)/Disposals	(68)	-	-	**(68)**
at 31 December 2018	**164,733**	**2,916**	**804**	**168,453**
Accumulated depreciation				
at 31 December 2017	**(66,530)**	**(1,451)**	**(719)**	**(68,700)**
Current year depreciation	(7,542)	(124)	(85)	**(7,751)**
Impairment and reversal of impairment	(13,423)	-	-	**(13,423)**
Scrapping	2,362	28	-	**2,390**
Other (Increase)/Disposals	2	-	-	**2**
at 31 December 2018	**(85,131)**	**(1,547)**	**(804)**	**(87,482)**
Net book value				
at 31 December 2017	**77,728**	**482**	**85**	**78,295**
at 31 December 2018	**79,602**	**1,369**	**-**	**80,971**

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 2018 HUFm	31 December 2017 HUFm
Esmya	969	1,056
Esmya LatAm	410	429
Esmya North America	6,781	20,431
Grünenthal	30,378	34,766
Levosert	3,310	3,575
Bemfola/Afolia	6,447	0
Mithra/Estelle	11,365	0
Trastuzumab	2,096	1,986
Other, individually non-material rights	19,215	16,052
Total	**80,971**	**78,295**

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 since then 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 2018 balance sheet date similarly to prior year.
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 HUF 13,423 million impairment shall be recognised in regard to the Esmya North America intangible asset. After accounting for the impairment the net book value of the asset is HUF 6,781 million.
The discount rates (post tax: 10.5% in 2017: 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.

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 Company split the purchase price among markets and recognised intangible assets accordingly. The amortization of these intangibles had already been started in the markets where the product launches occurred.
In 2018 no significant changes occurred. In 2017 among the rights (in use), the Mexican asset was significant, while among the assets not yet in use the Brazilian was the only significant. The Company prepared an impairment test for the Mexican and Brazilian intangible assets in 31 December 2017, 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.

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.

In 2017 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.

During 2018 there were no significant changes in circumstances which would have resulted in any reversal of previously recognised impairment.

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 30,378 million as of 31 December 2018 and HUF 34,766 million as of 31 December 2017.

Rights – Levosert
The product commercializing rights of Levosert® for the Central and Eastern European region were presented as Rights accordingly to the contract signed with Uteron Pharma in 2011. In 2017 Richter 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 had been launched by Allergan in a number of these countries. The estimated average useful life for the rights is 10 years. The amortization period started in 2014 and 2017 (for the rights not used yet the amortization starts in line with market launches). Net book value of the rights in relation to Levosert® is HUF 3,310 million as of 31 December 2018 and HUF 3,575 million as of 31 December 2017.

Rights – Bemfola/Afiola
On 30 June 2016 Richter acquired Finox Holding, a privately held Swiss biotech company focused on development and commercialisation of innovative and cost effective products addressing female fertility. Finox's product, BEMFOLA® is a recombinant-human Follicle Stimulating Hormone (r-hFSH) which was the first biosimilar r-hFSH launched in Europe. Richter obtained global rights for BEMFOLA® except for the US. As a result of the acquisition Richter expanded its Women's Healthcare portfolio with the female fertility therapeutic area and was able to increase its biosimilar market potential. On 10 July 2018 Richter announced that it established a sale and purchase agreement with Fertility Biotech AG, in connection with the transfer of intellectual property rights, relevant studies, related data and documents of r-hFSH containing product, BEMFOLA® / AFOLIA, for the use in the United States. The transaction is considered to be a current year event, we examined at 31 December 2018 whether there are any indicators of the intangible asset's impairment and came to the conclusion, that there is no need to account for impairment.

Rights – Mithra/Estelle
As part of Richter's Specialty Pharma strategy on 2 September, 2018 Richter announced that it entered into an exclusive license and supply agreement with Mithra Pharmaceuticals to commercialize Estelle®, a combined oral contraceptive, containing esterol and drospirenone. Richter is going to commercialize the product under a different brand name. The geographic scope of the agreement covers Europe and Russia. Under the terms of the agreement Richter made upon signature of the contract an upfront payment totaling EUR 35 million. Mithra is entitled to receive additional milestone payments amounting to EUR 20 million depending on the progress of development and regulatory process of the product. Besides, further sales related royalties will become payable to Mithra subsequent to the launch of the product and Mithra will receive guaranteed annual recurring revenues based on minimum annual quantities (MAQ), in addition to tiered royalties on net sales. The transaction is considered to be a current year event, we examined at 31 December 2018 whether there are any indicators of the intangible asset's impairment and came to the conclusion, that there is no need to account for impairment.

Rights – Trastuzumab
In 2016 Richter announced that it had signed a technology transfer and license-in agreement with DM Bio ("DM Bio") in respect of the development and commercialization of DM Bio's biosimilar monoclonal antibody, Trastuzumab. According to the agreement, Richter receives exclusive distribution rights for Europe, the CIS region and Latin American countries and it also obtains the pilot technology for further development. Under the terms of the agreement Richter made an upfront payment upon signature of the contract and further milestone payments were and shall be made depending on the progress of the technology transfer and clinical programme of the product. In addition, further sales related royalties will become payable to DM Bio subsequent to the launch of the product. Based on the management evaluation there is no need to account for impairment, based on this the Net book value of the intangible asset is HUF 2,096 million as of 31 December 2018 and HUF 1,986 million as of 31 December 2017.

The average remaining useful life of the intellectual properties in use does not exceed 12.5 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. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	
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	Gedeon Richter Marketing Polska Sp. z o.o.[1]	Poland	-	99.97	-	99.97	Marketing services
5	Richter Themis Pvt. Ltd.	India	51.00	51.00	51.00	51.00	Pharmaceutical manufacturing
6	Gedeon Richter Pharma GmbH	Germany	100.00	100.00	100.00	100.00	Pharmaceutical trading
7	Gedeon Richter USA Inc.	USA	100.00	100.00	100.00	100.00	Pharmaceutical trading
8	RG Befektetéskezelő Kft.	Hungary	100.00	100.00	100.00	100.00	Financial-accounting and controlling activities
9	Gedeon Richter UA PAT	Ukraine	98.16	98.16	98.16	98.16	Pharmaceutical trading
10	Gedeon Richter UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
11	Gedeon Richter Iberica S.A.U	Spain	100.00	100.00	100.00	100.00	Pharmaceutical trading
12	Nedermed B.V.	The Netherlands	100.00	100.00	100.00	100.00	Pharmaceutical trading
13	Medimpex Japan Co. Ltd.[2]	Japan	-	90.90	-	90.90	Pharmaceutical trading
14	Medimpex Jamaica Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
15	Medimpex West Indies Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
16	Humanco Kft.	Hungary	100.00	100.00	100.00	100.00	Social, welfare services
17	Pesti Sas Holding Kft.	Hungary	100.00	100.00	100.00	100.00	Portfolio management
18	Richter Szolgáltató Kft.	Hungary	100.00	100.00	100.00	100.00	Catering services
19	Reflex Kft.	Hungary	100.00	100.00	100.00	100.00	Transportation, carriage
20	Chemitechnik Pharma Kft.	Hungary	66.67	66.67	66.67	66.67	Engineering services
21	GYEL Kft.	Hungary	66.00	66.00	66.00	66.00	Quality control services
22	Armedica Trading S.R.L.	Romania	99.92	99.92	99.92	99.92	Asset management
23	Gedeon Richter Farmacia S.A.	Romania	99.92	99.92	99.92	99.92	Pharmaceutical retail
24	Gedeon Richter France S.A.S.	France	100.00	100.00	100.00	100.00	Pharmaceutical retail
25	I.M. Gedeon Richter-Retea Farmaceutica S.R.L.	Moldavia	51.00	51.00	51.00	51.00	Pharmaceutical retail
26	Richter-Helm BioLogics GmbH & Co. KG	Germany	70.00	70.00	70.00	70.00	Biotechnological manufacturing and research
27	Richter-Helm BioLogics Management GmbH	Germany	70.00	70.00	70.00	70.00	Asset management
28	Medimpex UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
29	Farnham Laboratories Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
30	Gedeon Richter Aptyeka SP OOO	Armenia	51.00	51.00	51.00	51.00	Pharmaceutical retail
31	Pharmafarm S.A.	Romania	99.92	99.92	99.92	99.92	Pharmaceutical wholesale

	Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
			31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	
32	Gedeon Richter Ukrfarm TOV	Ukraine	100.00	100.00	100.00	100.00	Pharmaceutical retail
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. Richpangalpharma S.R.L.	Moldavia	65.00	65.00	65.00	65.00	Pharmaceutical trading
42	Gedeon Richter Portugal, Unipessoal S.A.	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
46	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	100.00	Asset management
49	Rxmidas Pharmaceuticals Company Ltd.	China	100.00	100.00	100.00	100.00	Marketing services
50	Gedeon Richter Pharmaceuticals (China) Co. Ltd.	China	100.00	100.00	100.00	100.00	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	99.99	99.99	Pharmaceutical trading
54	Gedeon Richter do Brasil Importadora, Exportadora e Distribuidora S.A.(3)	Brazil	100.00	51.00	100.00	51.00	Pharmaceutical trading
55	Comercial Gedeon Richter Chile SpA.	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
60	Gedeon Richter Rxmidas Joint Venture Co. Ltd.	Hong-Kong	100.00	100.00	100.00	100.00	Marketing services

	Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
			31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	
61	Grmidas Medical Service (China) Co.Ltd.[2]	China	-	100.00	-	100.00	Pharmaceutical trading
62	Gedeon Richter Australia PTY Ltd. [4]	Australia	100.00	100.00	100.00	100.00	Trading of biotech products
63	Finox Holding AG[5]	Switzerland	100.00	100.00	100.00	100.00	Asset management
64	Finox AG	Switzerland	100.00	100.00	100.00	100.00	Biotechnological manufacturing
65	Finox Biotech AG	Lichtenstein	100.00	100.00	100.00	100.00	Trading of biotech products
66	Finox Biotech Germany GmbH	Germany	100.00	100.00	100.00	100.00	Marketing services
67	Finox Biotech Nordics AB.	Sweden	100.00	100.00	100.00	100.00	Marketing services
68	Finox Biotech Iberia S.L. [6]	Spain	-	100.00	-	100.00	Marketing services
69	Finox Biotech France SARL [6]	France	-	100.00	-	100.00	Marketing services
70	Finox Biotech Italy S.r.l. [6]	Italy	-	100.00	-	100.00	Marketing services
71	Finox Biotech UK and Ireland Ltd.	UK	100.00	100.00	100.00	100.00	Marketing services
72	Finox Biotech Benelux BV	Belgium	100.00	100.00	100.00	100.00	Marketing services
73	Gedeon Richter Ireland Ltd.	Ireland	100.00	100.00	100.00	100.00	Marketing services

[1] The company merged with Gedeon Richter Polska Sp. z o.o.
[2] The Company wound up in 2018.
[3] Richter acquired shares of the minority owner, increasing its share from 51% to 100%
[4] Formerly named as Finox Biotech Australia PTY Ltd. and owned by Finox AG. At the second half of 2018 Gedeon Richter Plc. acquired the investment and directly owned by the Parent.
[5] Finox Holding AG merged with Finox AG
[6] Finox's marketing companies, along with their activities, have merged with their parent companies in their country.

New subsidiaries

	Name	Date of establishment/ acquisition	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
				31. Dec. 2018	31. Dec. 2017	31. Dec. 2018	31 Dec. 2017	
74	Gedeon Richter Bulgaria Ltd.	02.2018	Bulgaria	100.00	-	100.00	-	Marketing services
75	Gedeon Richter Pharma O.O.O.	10.2018	Russia	100.00	-	100.00	-	Marketing services
76	Pharmapolis Gyógyszeripari Tud. Park Kft.*	11.2018	Hungary	100.00	24.00	100.00	24.00	Building construction project organization

* Richter acquired shares of the other two owners in November 2018, increasing its share from 24% to 100%

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

Name	31. Dec. 2018 HUFm	Event for the change in 2018 HUFm	Reason	1. Jan. 2018 HUFm
AO Gedeon Richter – RUS	10,954	-		10,954
Gedeon Richter Pharma O.O.O.	1,184	1,184	Founding	-
Gedeon Richter Romania S. A.	19,106	-		19,106
Gedeon Richter Polska Sp. z o.o.	10,217	-		10,217
Richter-Helm BioLogics GmbH & Co. KG	3,308	-		3,308
PregLem S.A.	29,368	(21,959)	Impairment	51,327
Grmed Company Ltd.	28,207	(753)	Decrease in capital	28,960
Gedeon Richter Mexico, S.A.P.I. de C.V	1,404	(2,257)	Impairment	3,661
Finox Holding AG	28,014	-		28,014
Gedeon Richter Australia PTY Ltd	4,840	4,840	Aqusition	-
Other subsidiaries	8,115	(1,125)	Impairment and other non significant changes	9,240
Total	**144,717**	**(20,070)**		**164,787**

Name	31. Dec. 2017 HUFm	Event for the change in 2017 HUFm	Reason	1. Jan. 2017 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**

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 has 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 2018 balance sheet date by taking into consideration the potential impact of EC's restrictive measures on Esmya (see note 3.1 Key sources of estimation uncertainty)

The restrictions imposed by the European Commission significantly impaired the sales potentials of Esmya in the European Union, and the FDA's decision delays market authorisation for the U.S. market and, according to the Board of Directors' estimates, it reduces the potential market size. The impairment tests of Esmya for the 2018 statements had to be conducted in consideration of these decisions by the regulatory authorities and market effects.

EU forecasts

Considering the negative effects of the European Commission's restrictive measures on the business, the Company reviewed and modified the ESMYA® EU sales forecast in connection with the impairment test as of 31 December 2018. The modifications were made on the basis of the following assumptions:

2019-2020
Sales:
In 2019 the sales expected to increase continuously, after the relaunch and expected to be higher year on year by 108% compared to 2018.
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) which assumed to decrease the sales by 17% compared to 2019.

Costs:
2019 costs are expected at a level comparable to 2018 actual costs. Some activities that had been discontinued in 2018 due to stop in promotion will need to be revamped.
In 2020 the total costs are expected to be 13% less than in 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, 12% and 11% in 2022 and 2023, 9% in 2024 and 6% from 2025 to 2035 each year.

Costs:
In 2021 the spending planned to be cut to 50% of previous year costs. The costs/sales ratio is expected to decrease continuously until 2025, from where the cost/sales considered to be a constant 10% which is expected to be necessary for the maintenance of optimal cost vs. sales ratio.

North American (NA) 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. In August, 2018, Richter's license partner for North-America Esmya sales, Allergan received a Complete Response Letter (CRL) from the U.S. Food and Drug Administration (FDA) in response to the New Drug Application (NDA) for ulipristal acetate (UPA) for the treatment of abnormal uterine bleeding in women with uterine fibroids.
The letter from the FDA indicates it is not able to approve the ulipristal acetate NDA in its current form and is requesting additional information. The agency cited safety concerns regarding ESMYA post-marketing reports outside the United States.
There are two major assumptions that has changed in contrast to the previous year expectations: due to the CRL issued by FDA and taken into account the possible negative effects of EC decision (based on EU actual sales data for 2018), the expected sales are decreased by 75% and the expected launch of the ESMYA is postponed by one year.

After the market launch according to Company's estimation the sales will achieve their maximum over 5 years, with a CAGR of 62% and after it due to generic competition they are likely to drop significantly and 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.
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 was 37% below the tested book value. This resulted in an impairment amounting to HUF 21,959 million. The remaining book value of the investment amounts to HUF 29,368 million.
The discount rate (EU-based cash flows post tax: 9.1% in 2017 8,0%; NA-based cash flows 10.5%, in 2017 8.1% 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 1,867 million decrease or HUF 2,054 million increase in the recoverable amount. Adjusting the forecasted sales volume by +/- 10% would result in around HUF 5,597 million higher (in case of sales volume increase) or in around HUF 6,390 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. This was purchased in a later transaction as presented in note 12.
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.
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 and the Bemfola related intangible assets were compared to the adjusted equity (representing the recoverable amount).
On 10 July 2018 Richter announced that it established a sale and purchase agreement with Fertility Biotech AG, in connection with the transfer of intellectual property rights, relevant studies, related data and documents of r-hFSH containing product, BEMFOLA® / AFOLIA, for the use in the United States.

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 2019 to 2022 in connection with the increase in sales (CAGR 15.9%) after 2022 the growth is expected to be slower (3.3% until 2028) and remain quite stable 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: 9.2%, in 2017 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.

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 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.

The investment in subsidiary was tested for impairment as of the balance sheet date of 31 December 2018 and 2017 and it was found that there is no need to account for impairment in 2018 similar to the previous years. Taking into consideration the reorganization of the business (in 2017) and the reporting structure, the book value of Richter investment as of 31 December 2018 (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 (2019-2028) due to the average annual 2.1% 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 2019-2028 cash flows and (by applying a conservative estimate of) residual value reckoning with 0% growth is 31% higher than the tested amount.
The discount rate (post tax: 13.7% in 2018 and 12.8% in 2017) 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 in post-tax discount rate to 17.97% or 8.4% decrease in forecasted sales volumes would remove the remaining headroom.

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 2018 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 (2019-2028), 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 development in the Mexican operations is the inclusion of several new license-in products that are expected to contribute to a better "economies of scale".

In the impairment test the current assets and all liabilities of the Mexican subsidiary were taken into account. (Consistently with the cash flow projections.)

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 2019-2028 cash flows represents the 51% of total cash flows. Residual value was calculated without further growth in sales.

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 the carrying value of CGU assets, an impairment of the investment was needed which amounts to HUF 2,257 million. The recoverable amount determined based on the assumptions was below the carrying value by 54.9%.

The discount rate (post tax: 8.4%; in 2017 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.

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.

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 establish- ment/ acquisition	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		31. Dec 2018	31. Dec 2017	31. Dec 2018	31. Dec 2017	
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 was HUF 620 million at 31 December 2017 and it was not changed in 2018.

14.2 Investments in associates

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

Name	Place of establish- ment/ acquisition	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		31. Dec 2018	31. Dec 2017	31. Dec 2018	31. Dec 2017	
Hungaropharma Zrt.	Hungary	30.85	30.85	30.85	30.85	Pharmaceutical trading
Pharmapolis Gyógyszeripari Tud. Park Kft.*	Hungary	-	24.00	-	24.00	Building construction project organization
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
Szondi Patika Bt.	Hungary	33.00	33.00	33.00	33.00	Pharmaceutical retail
Salvia-Med Bt.	Hungary	32.80	32.80	32.80	32.80	Pharmaceutical retail
Evestra Inc.	USA	14.04	17.26	14.04	17.26	Biotechnological manufacturing
Prima Temp Inc.	USA	22.99	26.76	22.99	26.76	Pharmaceutical research and development

* Pharmapolis Kft's share was reclassified to subsidiaries as a result of the buy-out in November 2018.

Name	31. Dec. 2018	Event for the change in 2018		1. Jan. 2018
	HUFm	HUFm	Reason	HUFm
Hungaropharma Zrt.	1,191			1,191
Evestra Inc.	1,620			1,620
Prima Temp Inc.	1,376			1,376
Other associates	1	(1)	Reclassification to subsidiaries as a result of the buy-out	2
Total	**4,188**	**(1)**		**4,189**

Name	31. Dec. 2017	Event for the change in 2017		1. Jan. 2017
	HUFm	HUFm	Reason	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 analysed 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 2019. 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.

15. Other financial assets and Other long term receivable

15.1 Other financial assets

	31 December 2018	1 January 2018	31 December 2017
	HUFm	HUFm	HUFm
Financial assets previously classified as held to maturity investments carried at amortised cost	-	1,595	1,595
Investments previously classified as Investments carried at amortized cost as loans and receivables	-	-	15,903
Financial assets previously classified as Available-for-sale investments carried at fair value	-	15,136	15,136
Financial assets carried at fair value through profit or loss		19,200	2,391
Financial assets carried at fair value through OCI	9,571	-	
Total	**9,571**	**35,931**	**35,025**

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 comprised "exchangeable bonds" that were issued at 6 December 2013 and were repurchased in 2018 by the Hungarian State Holding Company (MNV Zrt.).
MNV bond contained an "exchangeable bond" option classified as embedded derivative according to IAS 39 until 31 December 2017. After the separation of this option the net value of the bond was HUF 15,903 million as of 31 December 2017. The instrument is measured at fair value through profit or loss from 1 January 2018 based on the requirements of IFRS 9, without bifurcating the embedded derivative. The fair value of the instrument was HUF 19,200 million.the instrument was repurchased by the issuer during 2018.

The 'exchangeable bond' previously measured at fair value through profit or loss was sold in November 2018 and the related option was derecognised by the Company.Its value in 2017 was HUF 2,346 million in the item "Financial assets at fair value through profit or loss".

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 2018 since there was significant decrease in the share price, and a negative change of RUB/HUF exchange rate, a decrease has been recorded against revaluation reserve

for securities at FVOCI. As a result of the above mentioned reasons, a significant revaluation loss was recorded in 2018 (Note 24).

	31 December 2018	31 December 2017
Opening value (HUFm)	12,971	12,536
Change in fair value (HUFm)	*(4,644)*	*435*
Closing value (HUFm)	8,327	12,971
Share price (RUB/share)	78,0	109.7
RUB/HUF exchange rate	4,05	4.49
Change in the fair value (HUFm)	*(4,644)*	*435*

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 decrease in the share price a revaluation loss (HUF 920 million) was recorded against revaluation reserve for securities at FVOCI in 2018. A closing fair value is HUF 1,183 million.

15.2. Other long term receivable

	31 December 2018 HUFm	31 December 2017 HUFm
Government grants	6,034	-
Other assets	382	737
Total	**6,416**	737

The Company recognised a subsidy amount of HUF 6,034 million approved but not financially settled, due over one year. From this amount, HUF 3,829 million is related to research and development activities, HUF 2,205 million for purchasing equipment.

16. Current income tax and deferred tax

Current tax assets and liabilities

	31 December 2018 HUFm	31 December 2017 HUFm
Current tax assets	578	488
Current tax liabilities	-	-

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 2018 HUFm	31 December 2017 HUFm
Deferred tax assets	1,424	2,948
Deferred tax liabilities	-	-

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 2017	**(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**
Deferred tax effect of adoption of IFRS 9 and IFRS 15 to the income statement	(86)	-	-	(40)	(100)	**(226)**
Deferred tax effect of adoption of IFRS 9 and IFRS 15 to other comprehensive income*	-	-	-	-	22	**22**
1 January 2018	**(1,088)**	**670**	**302**	**534**	**2,326**	**2,744**
(Debitable)/creditable to the income statement*	77	1,045	(9)	(600)	1,712	**2,225**
- from this non-recoverable within 5 years			(77)	66	(4,038)	**(4,049)**
(Debitable)/creditable to other comprehensive income**	501	-	3	-	-	**504**
- from this non-recoverable within 5 years						
31 December 2018	**(510)**	**1,715**	**219**	**-**	**-**	**1,424**

* 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 501 million (income) was accounted for against Revaluation reserve for securities at FVOCI.

The Company did not recognize deferred tax assets of HUF 4,049 million, as these are related to temporary differences that are expected to reverse within 5 years when the Company is not expected to have sufficient taxable profit to recover them. The most significant item of these deductible temporary difference relates to the tax loss carried forward (tax effect of HUF 3,588 million).
Of the amount of deferred taxes presented above, deferred tax liability of HUF 1,067 million (31 December 2017: HUF 30 million) was offset against deferred tax assets according to IAS 12.

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 2018 HUFm	1 January 2018 HUFm	31 December 2017 HUFm
Loans given to related parties	57,198	61,780	61,526
Loans given to employees	575	516	516
Other loans given	198	128	128
Total	**57,971**	**62,424**	**62,170**

The loans given to related parties contains the convertible loan provided to Evestra Inc. in the amount of HUF 455 million (1 January 2018 HUF 400 million, 31 December 2017 HUF 355 million).

18. Goodwill

The Company does not have any Goodwill balance.

19. Inventories

	31 December 2018 HUFm	1 January 2018. HUFm	31 December 2017 HUFm
Raw materials, packaging and consumables	20,390	25,432	25,432
Production in progress	122	597	597
Semi-finished and finished goods	43,620	38,724	39,283
Total	**64,132**	**64,753**	**65,312**

Decrease of the inventory value of 1.8% was not significant. The value of purchased stock decreased by 19.8%, while the value of own produced inventory increased by 11.0%. The structural change in the current period derived from the result of the purchase of BEMFOLA®stock in previous year, a product that aims to treat infertility, and its production started in the second half of the last year.

In 2018 impairment and disposal of HUF 1,803 million was recorded and HUF 168 million was reversed, while HUF 1,483 million and HUF 594 million respectively in 2017. 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 2018 the total carrying amount of inventories that are valued at net realizable value amounts to HUF 173 million, as of 31 December 2017 it was HUF 204 million.

All items of Inventories are free from liens and charges.

20. Trade receivables

	31 December 2018 HUFm	1 January 2018 HUFm	31 December 2017 HUFm
Trade receivables	43,710	45,295	45,563
Amounts due from related companies and other participations	79,269	77,692	77,920
Total	**122,979**	**122,987**	**123,483**

Ageing of Trade receivables

	31 December 2017 HUFm
Trade receivables not yet due	**109,012**
Trade receivables overdue	**17,485**
1-90 days	*13,019*
91-180 days	*1,300*
181-360 days	*634*
>360 days	*2,532*
Impairment on trade receivables	**(3,014)**
Not yet due	*(444)*
1-90 days	*(179)*
91-180 days	-
181-360 days	*(39)*
>360 days	*(2,352)*
Total	**123,483**

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

	HUFm
At 1 January 2017	**3,151**
Provision for receivables impairment	499
Reversal of impairment for trade receivables, withdrawal	(636)
At 31 December 2017	**3,014**
Impact of initial adoption of IFRS 9*	520
At 1 January 2018	**3,534**
Provision for receivables impairment	786
Reversal of impairment for trade receivables, withdrawal	(816)
At 31 December 2018	**3,504**

* The Company recognizes the revaluation of the impairment loss in the financial result taking into account the effect (HUF 23 million).

Impairment of financial assets (HUFm)

31 December 2018	Current	1-30 day	30-90 nap	91-180 nap	181-360 nap	>360 nap	Total
Expected loss rate	0.39%	0.38%	2.75%	6.75%	16.39%	88.53%	**2.77%**
Trade receivable	105,992	11,169	3,705	1,452	1,165	3,000	**126,483**
Impairment	**414**	**43**	**102**	**98**	**191**	**2,656**	**3,504**

1 January 2018	Current	1-30 nap	30-90 nap	91-180 nap	181-360 nap	>360 nap	Total
Expected loss rate	0.74%	1.26%	1.46%	2.85%	17.03%	94.94%	**2.79%**
Trade receivable	109,012	8,553	4,466	1,300	634	2,532	**126,497**
Impairment	**812**	**108**	**65**	**37**	**108**	**2,404**	**3,534**

21. Other current assets

21.1 Other current assets

	31 December 2018 HUFm	1 January 2018 HUFm	31 December 2017 HUFm
Loans receivable	13,647	10,436	9,928
Other receivables	4,680	1,446	1,446
Prepayments	2,305	1,309	1,309
Fair value of open forward exchange contracts	-	26	26
Total of financial assets (Note 10)	**20,632**	**13,217**	**12,709**
Tax and duties recoverable	2,965	2,366	2,366
Advances	437	1,211	1,211
Prepayments	1,713	1,457	1,457
Total	**25,747**	**18,251**	**17,743**

21.2 Contract assets

The Company has recognised the following assets related to the contracts with customers:

	31 December 2018 HUFm	1 January 2018 HUFm	31 December 2017 HUFm
Contract assets (Note 10)	1,417	1,663	-

Detailed information is presented in Note 39.

22. Investments in securities

	31 December 2018 HUFm	31 December 2017 HUFm
Government bonds*	2,997	-
Money market funds	-	-
Other securities	1,731	-
Total (Note 10)	**4,728**	-

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

A zero-coupon treasury bill is presented as Government bonds.

23. Cash and cash equivalents

23.1 Cash and cash equivalents

	31 December 2018 HUFm	31 December 2017 HUFm
Bank deposits	80,656	46,784
Cash on hand	40	61
Total	**80,696**	**46,845**

The total amount of Cash and cash equivalents at 31 December 2018 and 2017 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 2018 HUFm	31 December 2017 HUFm
Cash and cash equivalents	80,696	46,845
Cash-pool overdraft	(977)	(830)
Balances per cash flow statement	**79,719**	**46,015**

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

	31 December 2018		31 December 2017	
Share capital	Number	HUFm	Number	HUFm
Ordinary shares of HUF 100 each	186,374,860	18,638	186,374,860	18,638

Detailed ownership structure of the Parent on 31 December 2018:

Ownership	Ordinary shares number	Voting rights** %	Share capital %
	31 December 2018	31 December 2018	31 December 2018
Domestic ownership	**64,050,195**	**34.37**	**34.37**
State ownership total	47,051,794	25.25	25.25
out of which MNV Zrt.	47,051,668	25.25	25.25
out of which Municipality	126	0.00	0.00
Institutional investors	7,776,700	4.17	4.17
Retail investors	9,221,701	4.95	4.95
International ownership	**122,249,372**	**65.62**	**65.59**
Retail investors	335,369	0.18	0.18
Institutional investors	121,914,003	65.44	65.41
Undisclosed ownership	**19,963**	**0.01**	**0.01**
Treasury shares*	**55,330**	**0.00**	**0.03**
Share capital	**186,374,860**	**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%.

Detailed ownership structure of the Parent on 31 December 2017:

Ownership	Ordinary shares number	Voting rights** %	Share capital %
	31 December 2017	31 December 2017	31 December 2017
Domestic ownership	**60,272,583**	**32.35**	**32.34**
State ownership total	47,051,794	25.25	25.25
out of which MNV Zrt.	47,051,668	25.25	25.25
out of which 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**
Retail investors	801,326	0.43	0.43
Institutional investors	125,223,994	67.21	67.18
out of which Aberdeen Asset Mgmt. Plc.	18,243,530	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	5.03	5.03
Undisclosed ownership	**10,774**	**0.01**	**0.01**
Treasury shares*	**66,183**	**0.00**	**0.04**
Share capital	**186,374,860**	**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 (based on IAS 39)

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 securities at FVOCI (based on IFRS 9)

When measuring financial assets measured at fair value through OCI (Note 15, 22), the difference shall be recognized as Revaluation reserve for securities at FVOCI. It shall not be recycled to the Income Statement subsequently.

	Revaluation reserve for available for sale investments HUFm
At 1 January 2017	**8,527**
Revaluation gross	1,844
Deferred tax effect	(278)
At 31 December 2017	**10,093**
Reclassification	(10,093)
At 31 December 2018	**-**

	Revaluation reserve for securities at FVOCI HUFm
At 31 December 2017	**-**
Reclassification	10,093
Impact of initial application of IFRS 9	(220)
Balance at 1 January 2018 (as restated)	**9,873**
Revaluation of available for sale investments	(5,564)
Deferred tax effect	501
At 31 December 2018	**4,810**

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.

	2018 HUFm	2017 HUFm
Expense recognized in current year	3,360	3,641
Treasury share given (Note 25)	(3,728)	(4,888)
Repurchase obligation from ESOP	(1,812)	-
Total changes in reserve presented in the Statement of Changes in Equity	**(2,180)**	**(1,247)**

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 four 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. In 2018, the Company launched the Employee's Share-Ownership Programme, according to which a worker receives a benefit after the conditions specified in the program have been met.

Bonus program
Richter operates a bonus share program since 1996 to further incentivise managers and key employees of the Company. In 2017, the program was redesigned: the bonus for managers was paid in cash. As a result in 2018 14,473 shares were granted to 284 key employees of the Company, while in 2017, 441 employees were granted. The total number of shares distributed were 72,904.

Individual bonuses
7,543 treasury shares were granted to qualified employees as bonuses during the year (in 2017 431,800). The significant decrease was due to the introduction of the Employee's Share-Ownership Programme.

Employee's Share- Ownership Programme (ESOP)
In order to strengthen the performance and loyalty of senior executives and senior employees through the Company's success in 2018, the Company started Employee's Share- Ownership Programme (ESOP). In the second quarter of 2018, the Company transferred 333,698 treasury shares to the ESOP in two tranches, in accordance with the Employee Share Ownership Trust's (ESOT) Articles of Association and Remuneration Policy.

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 2018), the Company granted 324,226 treasury shares to 4,346 employees in 2018. The shares will be deposited on the employees' security accounts with UniCredit Bank Hungary Ltd. until 2 January 2021. In 2017 245,163 treasury shares were granted to 4,266 employees which will be deposited on the employees' security accounts until 2 January 2020.

The AGM held on 25 April 2018 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 661,049 treasury shares during the year.

Treasury shares	2018 numbers	2017 numbers
At 1 January	60,683	**181,350**
Share purchase	661,049	616,283
Transferred as part of bonus program	(14,473)	(72,904)
Individual bonuses	(7,543)	(431,800)
Transferred of shares to ESOT	(333,698)	-
Granted pursuant to the National Tax and Customs Administration - approved plan	(324,226)	(245,163)
Granted pursuant to the National Tax and Customs Administration - repurchased	8,038	12,917
At 31 December	**49,830**	**60,683**

Book Value	2018 HUFm	2017 HUFm
At 1 January	**404**	**1,068**
Share purchase	3,607	4,224
Transferred as part of bonus program	(77)	(428)
Individual bonuses	(40)	(2,850)
Transferred of shares to ESOT	(1,892)	
Granted pursuant to the National Tax and Customs Administration - approved plan	(1,764)	(1,696)
Granted pursuant to the National Tax and Customs Administration - repurchased	45	86
At 31 December	**283**	**404**

26. Trade payables

	31 December 2018 HUFm	31 December 2017 HUFm
Trade payables	23,281	20,246
Amount due to related companies and other participations	13,544	38,324
Total (Note 10)	**36,825**	**58,570**

27. Other payables and accruals

27.1 Other payables and accruals

	31 December 2018 HUFm	31 December 2017 HUFm
Short term accruals	13,558	13,301
Other liabilities	5,859	1,610
Dividend payable	149	148
Subtotal of financial liabilities (Note 10)	**19,566**	**15,059**
Wages and payroll taxes payable	2,785	2,910
Other taxes	64	126
Deposits from customers	162	144
Total	**22,577**	**18,239**

27.2 Contract liabilities

The Company in the separate IFRS annual report does not have any contract liabilities balance.

28. Provisions

	31 December 2018 HUFm	31 December 2017 HUFm
Other short term provisions	852	1,109
Long term provisions – for jubilee programs	571	537
Long term provisions – for retirement benefits	1,857	1,711
Total	**3,280**	**3,357**

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

	31 December 2018 HUFm	Reversal HUFm	Provision HUFm	31 December 2017 HUFm
Compensation	766	-	-	766
Long term provisions – to defined benefit liabilities (according to actuarial valuations)	2,428	(108)	288	2,248
Other	86	(343)	86	343
Total	**3,280**	**(451)**	**374**	**3,357**

	31 December 2017 HUFm	Reversal HUFm	Provision HUFm	1 January 2017 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**

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.

	2018 HUFm	2017 HUFm
Opening value of retirement benefit	1,711	1,525
Interest expense (charged to the P&L)	58	48
Current service costs (charged to the P&L)	149	130
Settlement	(90)	(92)
Actuarial loss/(gain) (charged to the OCI)	29	100
Retirement benefit liability	**1,857**	**1,711**

The principal actuarial assumptions were as follows:

The estimation was performed with a 2.2% 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 2018 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 3.13% for 2017 and a rate of 3.51% for 2018 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	12.0%	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 2018 HUFm	31 December 2017 HUFm
Borrowings non-current	-	-
Borrowings current	21,789	7,498
Total	**21,789**	**7,498**

The Company has not non-current borrowings.
Current borrowings consist of loans taken from Finox AG and PregLem S.A. (HUF 20,812 million) and cash pool liabilities (HUF 977 million) on 31.12.2018.

30. Other non-current liabilities and accruals

	31 December 2018 HUFm	31 December 2017 HUFm
Government grant -deferred income	7,982	987
Government grant – prepayments received	886	2,627
Total	**8,868**	**3,614**

Government grants relates to property, plant and equipment.

31. Dividend on ordinary shares

	2018 HUFm	2017 HUFm
Dividend on ordinary shares	12,673	19,756

A dividend of HUF 68 per share (HUF 12,673 million) was declared in respect of the 2017 results, approved at the Company's Annual General Meeting on 25 April 2018 and paid during the year.

32. Agreed capital commitments and expenses related to investments

	31 December 2018 HUFm	31 December 2017 HUFm
Contractual capital commitments of the Company	5,925	9,143

The capital expenditure program of the Company approved by the Board of Directors totaling HUF 36,479 million comprises all costs associated with capital expenditure planned for 2018. 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 equipment and building rental. The non-cancellable operating lease commitments are as follows:

	31 December 2018 HUFm	31 December 2017 HUFm
Within 1 year	1,132	1,029
Between 1 and 5 years	433	862
Over 5 years	194	152
Total	**1,759**	**2,043**

Intangible assets are not included in the above values, the other lease contracts have been taken into account with a minimum lease term.
The agreements do not include purchase option.
In 2018 HUF 3,258 million has been recorded as operating lease expense, in 2017 it was HUF 3,098 million.

The Company expects that the application of IFRS 16 will have no impact on equity. The value of the lease liability and a right-of-use asset will not exceed 4% of the total assets.

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 19.5% and vocational training contribution amounting to 1.5% of gross salaries which are paid during 2018 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 1,537 million in 2018 (in 2017 HUF 1,354 million).

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

36. Acquisition of subsidiaries

Acquisition of subsidiaries in 2018

On 31 October 2018 **Gedeon Richter Pharma O.O.O.** was established, it takes over the activities of Richter's Moscow office with the exception of registration tasks.

Established in January 2018, the subsidiary **Gedeon Richter Bulgaria Ltd.** operates a network of pharmaceutical representatives and provides marketing services in Bulgaria.

During the year, the Company acquired 100% stake in **Gedeon Richter Australia PTY Ltd.** from Finox AG subsidiary.

In November 2018 the Company bought out the other two **Pharmapolis Gyógyszeripari Tudományos Park Kft.**'s quota holders thereby increasing its share from 24% to 100%.

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.

37. Contingent liabilities

HRA licence fee
In 2017 after the end of the financial period HRA Pharma, the partner of Richter related to ESMYA®, initiated a negotiation on the interpretation of the license agreement between the parties that was different from the past practice. The discussion with HRA was at a preliminary phase, therefore the exposure could not be determined at that point. At the end of 2018 the negotiations were ongoing for the period 2012-2018 retrospectively and for the period after 2018 on the French and Canadian royalty. The resulting exposure is not significant.

Bank guarantee
The bank guarantee provided by UniCredit Bank secures a bank guarantee facility of RON 72 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.

	2018 HUFm	2017 HUFm
Dividend paid to MNV Zrt.	3,201	4,994

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 2018 HUFm	31 December 2017 HUFm
Loans provided to subsidiaries	61,449	64,830
Loans provided to joint-ventures	4,931	5,128
Loans provided to associates	613	3,783
Impairment on loans provided to subsidiaries	(2,208)	(2,914)
Impairment on loans provided to associates	(1)	(155)
Accounts receivables from subsidiaries	69,497	67,674
Accounts receivables from joint-ventures	118	143
Accounts receivables from associates	2,545	2,077
Impairment on accounts receivables from subsidiaries	(391)	(752)
Accounts payables from subsidiaries	13,535	38,275
Accounts payables from joint-ventures	2	5
Accounts payables from associates	7	44
Revenue from subsidiaries	136,163	132,593
Revenue from joint-ventures	277	281
Revenue from associates	14,929	13,273

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, 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	
	2018 HUFm	**2017** HUFm
Board of Directors	71	78
Supervisory Board	24	24
Total	**95**	**102**

38.3 Key management compensation

	2018 HUFm	**2017** HUFm
Salaries and other short term employee benefits	1,563	1,157
Share based payments	761	1,457
Total short term compensation	**2,324**	**2,614**
Pension contribution paid by the employer	305	575
Total	**2,629**	**3,189**

The table above contains the compensation received by the chief executive officer, directors and other senior members of management, constituting 49 people. There were no redundancy payments to key management members in 2018 and 2017.

39. Changes in Accounting Policy

The Company has adopted IFRS 15 Revenue from contracts with customers and IFRS 9 Financial instruments from 1 January which resulted in changes in accounting policy and adjustments to the amounts recognised in the financial statements. For more information on new standards, please see Note 1/III/A.

Impact on the financial statements:

The following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

ASSETS	Notes	31 December 2017 HUFm	IFRS 15 adjustments HUFm	IFRS 9 adjustments HUFm	1 January 2018 HUFm
Non-current assets					
Property, plant and equipment	12	157,075	-	-	157,075
Intangible assets	12	78,295	-	-	78,295
Investments in subsidiaries, associates and joint ventures	13,14	169,596	-	-	169,596
Other financial assets	15	35,025	-	906	35,931
Deferred tax assets	16	2,948	(99)	(104)	2,745
Loans receivable	17	62,170	-	254	62,424
Other long term receivable	15	737	-	-	737
		505,846	**(99)**	**1,056**	**506,803**
Current assets					
Inventories	19	65,312	(559)	-	64,753
Trade receivables	20	123,483	-	(496)	122,987
Contract assets	21	-	1,663		1,663
Other current assets	21	17,743		508	18,251
Investment in securities	22	-	-	-	-
Current tax asset	16	488	-	-	488
Cash and cash equivalents	23	46,845	-	-	46,845
		253,871	**1,104**	**12**	**254,987**
TOTAL ASSETS		**759,717**	**1,005**	**1,068**	**761,790**
EQUITY AND LIABILITIES					
Equity					
Share capital	24	18,638	-	-	18,638
Treasury shares	25	(404)	-	-	(404)
Share premium	24	15,214	-	-	15,214
Capital reserves	24	3,475	-	-	3,475
Revaluation reserve for available-for sale investments	24	10,093	-	(10,093)	-
Revaluation reserve for securities at FVOCI		-	-	9,873	9,873
Retained earnings		621,423	1,005	1,288	623,716
		668,439	**1,005**	**1,068**	**670,512**
Non-current liabilities					
Borrowings	29	-	-	-	-
Deferred tax liability	16	-	-	-	-
Other non-current liabilities and accruals	30	3,614	-	-	3,614
Provisions	28	2,248	-	-	2,248
		5,862	-	-	**5,862**
Current liabilities					
Borrowings	29	7,498	-	-	7,498
Trade payables	26	58,570	-	-	58,570
Other payables and accruals	27	18,239	-	-	18,239
Provisions	28	1,109	-	-	1,109
		85,416	-	-	**85,416**
TOTAL EQUITY AND LIABILITIES		**759,717**	**1,005**	**1,068**	**761,790**

Had IFRS 15 not been adopted in the year to 31 December 2018 then it would have reported the following amounts by applying IAS 18 Revenue, IAS 11 Construction Contracts and related Interpretations:

	As reported on IFRS 15 basis HUFm	Effect of IFRS 15 HUFm	As would have been reported HUFm
Revenue	330,084	246	330,330
Cost of sales	(111,127)	(99)	(111,226)
Profit before tax	37,413	147	37,560
Tax	(5,834)	(99)	(5,933)
Profit of the year	31,579	48	31,627

The impact on the Company retained earnings as at 1 January 2018 is as follows:

	Notes	2018 HUFm
Closing retained earnings 31 December 2017 – IAS 39, IAS 18		**621,423**
Increase in provision for trade receivables and contract assets	20	(496)
Decrease in provision for debt investments at amortised cost	17, 21	960
Reclassification investments from loans and receivables to FVTPL	15	951
Change in deferred tax assets relating to IFRS9 adjustments	16	(127)
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018		**1,288**
Opening retained earnings 1 January - IFRS 9 (before restatement for IFRS 15)		**622,711**

	Notes	2018 HUFm
Retained earnings after IFRS 9 restatement		**622,711**
Recognition of revenue for sale of goods meeting the overtime revenue recognition criteria	5	1,663
Recognition of cost for sale of goods meeting over time revenue recognition criteria	5	(559)
Increase in deferred tax liabilities	16	(99)
Adjustment to retained earnings from adoption of IFRS 15		**1,005**
Opening retained earnings 1 January (IFRS 9 and 15)		**623,716**

In accordance with the requirements of IFRS 15 the Company recognizes revenue when the expenditures are incurred for those sale of good transactions where the Company's performance does not create an asset with an alternative use and provides enforceable right to payment for performance completed to date. This results in an earlier revenue and cost recognition from the past practice of the Company. The table above summarises the effect of this change.

On 1 January 2018 (the date of initial application of IFRS 9), the Company's management has assessed which business models apply to the financial assets held by the Company and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

	FVTPL HUFm	FVOCI HUFm	Amortised cost HUFm
Closing balance 31 December 2017 – IAS 39	**2,417**	**24,188**	**253,627**
Reclassifications from amortised cost to FVTPL	16,258	-	(16,258)
Related FV adjustment	951	-	-
Release of related AFS reserves	-	(9,052)	8,809
Effect of IFRS 9 impairment	-	-	464
Opening balance 1 January 2018	**19,626**	**15,136**	**246,642**

40. Notable events in 2018

In 2018 major changes took place in the following areas:

Sales dropped in the EU, particularly in the EU 15 (member states that joined before 01.05.2004) member states as well as in the CIS, particularly in Russia and Ukraine; conversely, they soared in the United States, China, and the domestic market. Please see Note 4 for details.

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 Company's audited financial statements for 2017 are going to be prepared taking into account the expected negative impact on business as a result of the temporary measures imposed by PRAC in respect of Esmya. 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. In May 2018 the PRAC announced new measures to minimise the risk of rare but serious liver damage. In June 2018 EMA's Committee for Medicinal Products for Human Use (CHMP) also issued a statement of opinion and supported the PRAC's recommendations. On 30 July 2018, after the adoption of the CHMP's opinion, the European Commission passed a decision regarding the marketing authorisation of 5 mg Esmya tablet. The decision is valid for all EU member states. Doctors have been sent a letter of information containing the restrictions imposed by the EC's decision.

To benefit from synergies the merger of Gedeon Richter Polska and Gedeon Richter Marketing Polska was performed in 2018.

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 in this trial. Then in December 2017 the two companies announced the second, and in April 2018, the third 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). Thus the efficacy and safety of cariprazine for the treatment of patients suffering from bipolar I depression are underpinned by three clinical trials for regulatory submission. In possession of these data, in September 2018 the FDA accepted Allergan's application for registration of the expansion of indication.

On 16 April 2018 Richter announced that on the basis of its mandate from the Board of Directors of the Company it approved the Statutes of the Richter Gedeon Nyrt. Employee Share Ownership Trust (ESOT) and the respective remuneration policy related to the allocations to be provided within the framework of an Employee's Share-Ownership Programme for certain of its titleholders and key employees. The aim of the establishment of the ESOT is to strengthen the performance and loyalty of the titleholders and key employees through tbe sharing tbe success of the Company.

On 21 June 2018 Richter announced that with effect from 21 June 2018, the Romanian National Agency for Medicines and Medical Devices (NAMMD) suspended the licence of operation of Pharmafarm S.A., Richter's wholesaler subsidiary following a breach of Good Distribution Practice. After the suspension Pharmafarm's staff embarked without delay upon the development of a package of corrective and preventive measures that are in keeping with the requirements of the Authority. As a result, NAMMD lifted the withdrawal with effect from 18 September 2018.

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. Richter has obtained global rights for Bemfola (with the exception of the United States). On 10 July 2018 Richter announced that it concluded a sale and purchase agreement with Fertility Biotech AG in connection with the transfer of intellectual property rights, relevant studies, related data and documents of Bemfola® / Afolia, for the use in the United States.

Based on the successful U.S. Venus I and Venus II trials whose results were published in May 2016 and January 2017 respectively, our partner Allergan plc started in 2017 the registration application process for ulipristal acetate in treating women with uterine fibroids causing irregular uterine bleeding. On 22 August 2018 Allergan Plc. announced it received a Complete Response Letter from the U.S. Food and Drug Administration (FDA) regarding registration. The FDA is requesting additional information, citing safety concerns regarding ESMYA post-marketing reports outside the United States. Please see Note 3 for details.

In line with the specialty pharma strategy, on 12 September 2018 the Company announced that it had entered into a license and supply agreement with Mithra Pharmaceuticals to commercialize Estelle®, a combined oral contraceptive, containing esterol and drospirenone. Richter is going to commercialize the product under a different brand name. The geographic scope of the agreement covers Europe and Russia.

On 18 September 2018 Richter announced that it had entered into a license and distribution agreement with L.D. Collins & Co. Limited, a UK based company, to commercialize its progesterone containing assisted reproduction technology (ART) product, Cyclogest®. The product will be commercialized in 27 EU countries for which marketing authorizations have already been granted.

In 2018 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.

41. Events after the date of the balance sheet

On 11 January 2019 the Company announced that Mr. András Radó, Deputy Managing Director for Production and Logistics retired as of 2 January 2019 and will continue to support the company's day-to-day activity as a consultant. Chief Executive Officer Mr Gábor Orbán will supervise Production and Logistics pending the appointment of a new deputy managing director.

Dr. Margit Dr Pellionisz Paróczai, Director of Human Resources also retired at the end of 2018, and will participate in the activities of Richter's foundations. The new HR Director is Katalin Erdei.

In January 2019 the Canadian regulatory authority imposed restrictions on Fibristal (ulipristal acetate) commercialised by Allergan plc in Canada due to a potentially increased risk of liver damage.

On 1 February 2019 Richter announced the withdrawal of application for registration of the proprietary biosimilar product Efgratin (pegfilgrastim) due to its inability to relieve CHMP's concerns by the prescribed deadline.

Richter and the Dutch company Pantharhei announced that they had signed a license and supply agreement for the combined oral contraceptive ARC developed by Pantharhei and containing estradiol, levonorgestrel and dehydroepiandrosterone with the geographic scope covering Europe, Russia, Latin America and Australia. The product is under development with successfully completed Phase II trials and is ready for further clinical studies to obtain marketing approval. ARC (Androgen Restored Contraception) is a novel concept of oral contraception with the aim to restore sexual function with a special focus on sexual desire and arousal and to prevent mood disturbances.

On 5 February 2019 the Company announced that Mr. Lajos Kovács Director of Technical Services will be involved in Richter's day-to-day activity as a consultant. Chief Executive Officer Mr Gábor Orbán will supervise Technical Services pending the appointment of a new deputy managing director.

In February 2019 Richter announced that it had entered into a distribution and supply agreement with a subsidiary of Allergan Plc. to commercialize its Levosert in Latin American countries.

In February 2019 the Hungarian government decided to establish Maecenas Universitatis Corvini Foundation whose job it would be to operate Corvinus University of Budapest, and would transfer substantial funds to the Foundation the form of 10% of State-owned MOL and Richter shares each. The shares are non-alienable.

The management is not aware of other post-balance sheet date events that might be material to the Company's business.

42. Approval of financial statements

Current Financial Statements have been approved by the Board of Directors and authorized for release at 20 March 2019.

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.

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GEDEON RICHTER PLC.

CONFIDENTIAL

Business Report
2018

Gábor Orbán
Chief Executive Officer

Budapest, 20 March 2019

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1. General data

1.1 Brief history of the Company

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

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

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

Privatization

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

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

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

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

the new bonds were launched on the Frankfurt Stock Exchanges Open Market (Freiverkehr). At the end of 2018 the State repurchased the bond maturing in April 2019 and convertible to Richter shares. On 11 February 2019 it was announced that of Richter's shares held by the State a packet of 10% of the total shares would be transferred to Maecenas Universitatis Corvini Foundation, an entity exclusively owned by the State and set up to operate Corvinus University of Budapest starting from 1 July 2019.

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 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 May 2015 the European Commission granted approval for the intermittent use of Esmya in the long term management of uterine fibroids. The marketing authorization is applicable in all countries of the European Union.

In December 2017 EMA's Pharmacovigilance Risk Assessment Committee (PRAC) started a review in the EU member states of Esmya (ulipristal acetate) investigating liver damage 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. In May 2018 the PRAC announced new measures to minimise the risk of rare but serious liver damage. In June 2018 EMA's Committee for Medicinal Products for Human Use (CHMP) also issued a statement of opinion and supported the PRAC's recommendations. On 30 July 2018, after the adoption of the CHMP's opinion, the European Commission passed a decision regarding the marketing authorisation of 5 mg Esmya tablet. The decision is valid for all EU member states. Doctors have been sent a letter of information containing the restrictions imposed by the EC's decision.

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 treating women with uterine fibroids causing irregular uterine bleeding. The two successful trials enabled our licence partner Allergan plc to put together the regulatory dossier for securing marketing authorisation for the United States. On 22 August 2018 Allergan plc announced it received a Complete Response Letter from the U.S. Food and Drug Administration (FDA) regarding registration. The FDA is requesting additional information, citing safety concerns regarding Emya post-marketing reports outside the United States.

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

At the end of June 2016 Richter announced the acquisition of Finox Holding, a Swiss based biotech company engaged in the development and commercialisation of innovative

and cost effective products addressing female fertility. Finox Holding's product Bemfola® is a recombinant human follicle stimulating hormone (r-hFSH), the first biosimilar r-hFSH product for which marketing authorisation was granted in Europe. Richter has obtained global rights for Bemfola® (with the exception of the United States). Consequent to this acquisition Richter added female fertility to its growing specialised Women's Healthcare business, and also managed to enhance its opportunities in the biolsimilar market. On 10 July 2018 Richter announced that it concluded a sale and purchase agreement with Fertility Biotech AG in connection with the transfer of intellectual property rights, relevant studies, related data and documents of Bemfola® / Afolia, for the use in the United States.

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 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 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 2010, 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 2018.

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 2018

The Company's main objectives for 2018 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 2018 major changes took place in the following areas:

- Sales dropped in the EU, particularly in the EU 15 member states as well as in the CIS, particularly in Russia and Ukraine; conversely, they soared in the United States, China, and the domestic market.

- 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 Company's audited financial statements for 2017 were prepared taking into account the expected negative impact on business as a result of the temporary measures imposed by PRAC in respect of Esmya. 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. In May 2018 the PRAC announced new measures to minimise the risk of rare but serious liver damage. In June 2018 EMA's Committee for Medicinal Products for Human Use (CHMP) also issued a statement of opinion and supported the PRAC's recommendations. On 30 July 2018, after the adoption of the CHMP's opinion, the European Commission passed a decision regarding the marketing authorisation of 5 mg Esmya tablet. The decision is valid for all EU member states. Doctors have been sent a letter of information containing the restrictions imposed by the EC's decision.

- To benefit from synergies the merger of Gedeon Richter Polska and Gedeon Richter Marketing Polska commenced in 2018.

- 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

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- On 16 April 2018 Richter announced that on the basis of its mandate from the Board of Directors of the Company it approved the Statutes of the Richter Gedeon Nyrt. Employee Share Ownership Trust (ESOT) on 26 February 2018 and the respective remuneration policy related to the allocations to be provided within the framework of an Employee's Share-Ownership Program for certain of its titleholders and key employees. The aim of the establishment of the ESOT is to strengthen the performance and loyalty of the executive officers and key employees through sharing the success of the Company.

- On 21 June 2018 Richter announced that with effect from 21 June 2018, the Romanian National Agency for Medicines and Medical Devices (NAMMD) suspended the licence of operation of Pharmafarm S.A., Richter's wholesaler subsidiary following a breach of Good Distribution Practice. After the suspension Pharmafarm's staff embarked without delay upon the development of a package of corrective and preventive measures that meet the regulatory requirements of the Authority. As a result, NAMMD lifted the withdrawal with effect from 18 September 2018.

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- In 2018 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	64,050,195	34.37	34.37
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	7,776,700	4.17	4.17
Retail investors	9,221,701	4.95	4.95
International ownership	122,249,372	65.62	65.59
Institutional investors ***	121,914,003	65.44	65.41
Retail investors	335,369	0.18	0.18
Treasury shares**	55,330	0.00	0.00
Undisclosed ownership	19,963	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 15 August 2018 Standard Life Aberdeen plc's influence decreased to 4.77%.

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 2018 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 2018.

The closing price of shares as of 29 December 2017 was HUF 6,780 compared to HUF 5,430 as of 28 December 2018. Average monthly share prices in 2018 varied between the minimum of HUF 4,897 per share (in July) and the maximum of HUF 6,677 per share (in January).

1.4 Treasury shares

	Ordinary shares	
	31.12.2017	31.12.2018
Shares	60,683	49,830
Nominal value HUF`000	6,068	4,983
Book value HUF`000	404,353	283,411

Following the decision of the Board of Directors 22,016 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 324,226 Treasury shares to 4,346 employees on 18 December 2018.

In accordance with the ESOT Statutes and the Company's Remuneration Policy, in Q2 of 2018 Richter transferred a total of 333,698 treasury shares to the ESOT in two instalments.

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 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 2018 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 simple 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 AGM. 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. The offices of CEO and Chairman are held separately. 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 of 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 oversight 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 reports 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 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 various functional areas are responsible for managing the operational risks arising in their particular field and the compliance risks within their sphere of competence. 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 way 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. According to the Company's creed the exploitation of varying characteristics is the corner stone of innovation and success, 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. To implement the Company's views in practice, on 28 May 2018 the Board of Directors adopted the Diversity Policy regarding the Company's leading bodies, i.e the Executive Board, the Board of Directors and the Supervisory Board, which was announced on 21 June 2018. The Diversity Policy accepted for a five-year periods, whose implementation is closely tracked by the Board, determines the diversity aspects and objectives applicable for the Company's business management, executive and supervisory bodies.

In the spirit of diversity, when composing the Company's leading bodies priority will be given to knowledge related to Richter's main business, expertise in the economic, social and environmental contexts of the Company's operation, as well as professional and personal reputation. Richter's position is that these diversity considerations are best promoted if the leading bodies have members with qualification and experience in the pharmaceutical industry as well as finance and economics; Richter, therefore, makes an effort to have members with appropriately diverse professional backgrounds serving on its leading bodies. The goals formulated in the Policy in conjunction with the leading bodies envision that

- both sexes should be represented among the members to the extent that the aggregate rate of women should be at least 30%,
- the age distribution of members should be balanced, and
- members should also include gifted under-50 persons with appropriate competences.

The Company pays attention to the considerations and goals determined in the Policy when nominating members to the Board of Directors, the Supervisory Board and the Audit Board, and when selecting members and planning potential successors to serve on the Executive Board. As a public limited company, Richter has no power other than nominating members on the company's boards; their election is the exclusive competence of the AGM.

As a result of the changes that took place in the course of 2018 and of the AGM's resolutions regarding the composition of the boards the rate of women on the Board of Directors has improved and the age distribution of directors has become more balanced. While the number of women on the Supervisory Board and the Audit Board decreased by one in 2018, women's rate on the Supervisory Board remained 30%. In the course of the

year one new member below 50 were elected to serve on the Supervisory and the Audit Boards respectively.

The Company considers it important to regularly inform the shareholders about its Diversity Policy in the Annual Report and the Report on Corporate Governance including changes in, and achievements through, the Policy.

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. In 2018 the Program was extented to Latin American countries, where strict anti-corruption legislation and other local regulations also require guidance by the parent company, and to the subsidiaries and representative offices in the CIS member states.

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 Legal and Global Operations Management, it functions as a Group level system for handling reports related to the Compliance 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.

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 presents the transparency principles and practices prescribed by the self-regulating pharmaceutical organization Medicines for Europe. 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. A transparency report was first published for 2017, in June of 2018.

In the first half of 2018 the Legal and Global Operations Management Department revised the Compliance Manual. Since the introduction of the Compliance Program in 2016 the following factors justified the need for reviewing the compliance Manual:

- Changes in the legal environment (with special regard to the GDPR, the European Union's General Data Protection Directive that entered into effect in the meantime);
- Development of new internal regulations (for example the Insider Trading Regulations and the Rules of Procedure for Crisis Communication);
- Personal and organizational changes at the Company, and
- Feedback from the areas concerned regarding the day-to-day application of regulations.

In accordance with the Global Compliance Program, Legal and Global Operations Management Department held several training sessions in March and April of 2018 training with a dawn raid was organised for the colleagues concerned with the involvement of external experts. In May of 2018 every employee of the Company had data protection training. In November of 2018 training in competition law, and in December of 2018 anticorruption and anti-bribery training was provided to staff accessible via the Company's Internet-based educational platform fine-tuned in 2018.

In 2018 the use of the Compliance Hotline became widely accepted; employees asked questions regarding the Compliance Manual and the Global Compliance Program with increasing frequency. In 2018 there was a report of an HR issue and was handled with the involvement of the Directorate of Human Resources. At the end of the year a political and a possible bribery report were made; they are in the process of investigation.

Other information

On 2 January 2018 the Board of Directors announced that Christopher William Long resigned of his position on the Board with effect from 31 December 2017, and on 3 April it was announced that Dr. Gábor Perjés resigned of his position on the Board with effect from 25 April 2018.

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

8 Kígyóhagyma utca, H-4031 Debrecen

6 Eötvös utca, H-6720 Szeged

513/2 hrsz. H-7673 Kővágószőlős

1.7 Other information

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

The Company's non-financial performance indicators are the number of new products launched, the number of renewal application (3.1), the volume of production (3.3) and the data on employee diversity and the number 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.

Separate IFRS financial statements

As its securities are traded on regulated markets of EEA countries, the Company has prepared its financial statements according to the International Financial Reporting Standards, in compliance with Sections 9/A (1)&(2) of the Accounting Act.

2. 2018 operating review

2.1 The balance sheet as of 31 December 2018

ASSETS

The Company's assets amounted to HUF 775,608 million, HUF 15,891 million (2.1%) higher than the opening value. Non-current assets were down by HUF 30,515 million, and current assets were up by HUF 46,406 million.

Non-current assets

The value of **Property, plant and equipment** was HUF 12,378 million above the reference year figure (+7.9%). The increase was contributed by the rising Plant and equipment item (in finished products manufacturing, several new manufacturing and packaging lines have been installed and commissioned), as well as by Property (Debrecen).

Intangible assets amount to HUF 80,971 million, 3.4% higher than the reference year figure, due mainly to an increase in **Rights**. The restrictions imposed by the European Commission significantly impaired the sales potentials of Esmya in the European Union, and the FDA's decision delay the acquisition of marketing authorisation for the U.S. market and, according to the Executive Board's estimates, it reduces the potential market size. The impairment tests of Esmya for the 2018 statements had to be conducted in consideration of these decisions by the regulatory authorities and market effects. As a result, the Company reported HUF 13,423 million impairment of the intangible asset Esmya. In addition, Rights were increased by the purchase of intellectual property rights related to the intangibles Bemfola and Estelle.

Depreciation on tangibles and intangibles was HUF 25,396 million in 2018, HUF 603 million in excess of the figure in 2017.

As of 31 December 2018 the value of Richter's **Investments in subsidiaries, associates and joint ventures** and **Other financial assets investments** was HUF 159,096 million, down by HUF 45,525 million. The decline was shaped primarily by above mentioned

impacts related to Esmya. The recoverable amount of impairment on PregLem calculated on the basis of impairment tests (HUF 21,959 million). The decrease was further pushed by the fact that State repurchased the bond maturing in 2019 convertible to Richter's ordinary shares; the 2018 book value of the bond was HUF 15,903 million. Change in the stock market and fair value of Protek shares (HUF -4,644 million) and other Government securities and bonds becoming current receivables (HUF -1,595 million) also contributed to the decrease. A total impairment of HUF 3,334 million was reported on three subsidiaries, GR Mexico SAPI de CV, GR Columbia S.A.S. and GR Brasil SA. The drop was attenuated by the Australian company acquired from Finox Group (GR Australia HUF +4,840 million) and the foundation of a new Russian subsidiary, GR Farma O.o.o. (HUF +1,184 million).

Loans receivable amount to HUF 57,971 million and include predominantly long-term loans extended to Finox Holding, Richter-Helm BioTec (capital contribution) and the manufacturing companies.

The value of **Other long-term receivables** amounted to HUF 6.416 million after a HUF 5.679 million increase. In accordance with IFRS, state support and subsidies where there is reasonable assurance that Richter would meet the conditions and will actually receive the subsidies must be reported in the Other long-term receivables item. As regards R&D support, experience shows that in the reported year this criterion will be met already at the time the support contract is signed; therefore these amounts must be reported in Other long-term receivables as well as in Other long-term liabilities in the balance sheet.

Current assets

Inventories amounted to HUF 64,132 million, are 1.8% lower the opening figure.

Trade receivables were HUF 122,979 million, HUF 504 million down year-on-year, resulting mainly from decreasing trade receivables from the Rest of the Word. The figure also contains a HUF 1,349 million increase in receivables from affiliated undertakings and undertakings linked by significant or other participating interest. Receivables from affiliated undertakings and undertakings linked by a significant share or other

participating interest and cash pool is HUF 3,719 million are above the reference year's closing figure mainly due to the increase in the Romanian cash pool and the loans to Gedeon Richter Romania S.A. and Mediplus N.V. due within the year. This effect was dampened by loans to GR RUS classified as long-term, and GR RUS and Richter-Helm BioLogics GmbH & Co loan repayment.

The value of **Cash and cash equivalents** is HUF 33,851 million above the opening value. The main items contributing to the increase are the pecuniary countervalue of the State-repurchased bond convertible to Richter's ordinary shares, and credit extended by subsidiaries.

EQUITY AND LIABILITIES

Shareholders' equity

In 2018 **shareholders' equity** increased 2.1% to reach HUF 682,269 million, mainly as a result of the profit of the year for the reported period.

Liabilities

The Company's total liabilities amount to HUF 93,339 million, HUF 2,061 million more than in the reference year. **Non-current liabilities** were up by HUF 5,434 million, primarily as a result of subsidies. In accordance with IFRS, state support and subsidies where there is reasonable assurance that Richter would meet the conditions and will actually receive the subsidies must be reported in the Other long-term liabilities item. As regards R&D support, experience shows that in the reported year this criterion will be met already at the time the support contract is signed; therefore these amounts must be reported in Other long-term liabilities as well as in Other long-term receivables in the balance sheet.

Current liabilities were 3,373 million down and comprised HUF 36,825 million liabilities to **Trade payables** with the related companies as the main item (HUF -21,745 million). **Current borrowings** amounted to HUF 21,789 million as of 31 December 2018, movements include the loan received from Preglem SA (million 13.5 CHF); and the loan repaid to and received from Finox AG (million 37.9 CHF). Current liabilities also include cash pool. The year-on-year (y/y) increase in the combined value of **Other**

payables and accruals (HUF +4,338 million) to drawing the ESOT liabilities, and to the rising amount of foreign drug price subsidies.

2.2 The 2018 income statement

The Group's profit for the year for 2018 was 31,579 million, 399.8%, or HUF 25,261 million, above year-on-year.

Royalty from Vraylar™ sales received from Allergan slightly increased sales income. The restrictions imposed by the European Commission significantly impaired the sales potentials of Esmya in the European Union, and the FDA's decision delay the acquisition of marketing authorisation for the U.S. market and, according to the Executive Board's estimates, it reduces the potential market size. The impairment tests of Esmya for the 2018 statements had to be conducted in consideration of these decisions by the regulatory authorities and market effects. As a result, the Company reported impairment on its PregLem holdings in connection with Esmya (Financial expenses), and on the intangible asset Esmya (Other expenses). A total impairment of HUF 35.4 billion was reported. In addition to the impact of differing composition of one-off items in Other income and expenses, increase in sales and marketing costs and increasing Financial income should be highlighted resulting from an favourable exchange rates, and lower impairment on PregLem holdings in connection with Esmya.

2.2.1 Revenue

	2017 HUF million	2018 HUF million	Variance HUF million	Variance %
Hungary	35,163	38,608	3,445	9.8
International markets				
CIS	118,359	114,047	-4.312	-3.6
EU *	107,560	96,399	-11,161	-10.4
USA	26,624	34,889	8,265	31.0
China	23,056	26,440	3,384	14.7
Latin America	3,626	3,387	-239	-6.6
Other countries	14,145	16,314	2,169	15.3
International markets TOTAL	293,370	291,476	-1,894	-0.6
Total	**328,533**	**330,084**	**1,551**	**0.5**

* Excluding Hungary

Revenue from the 2018 domestic sales was 9.8% up compared to the reference year. Sales in international markets were 0.6% down compared to the previous financial year.

There were some changes in the breakdown of revenue by regions compared to the reference year: With some decrease, the CIS markets continue to retain the biggest share (34.6%). The EU states' share decreased by 3.6 percentage points and contributed 29.2%. The USA increased its share by 2.5 percentage point over 2017 and achieved to 10.6%. China's share was 1.0 percentage points higher (8.0%) than prior year. The share of Other countries was 0.6 percentage point more (4.9%) than prior year. The contribution of Latin America to sales income was 1.0%, 0.1 percentage points below the reference period figure. Income from domestic sales increased by 1.0 percentage points and achieved 11.7%.

Based on the year-end figures for 2018 the Company realized HUF 38,608 million income from sales **in the domestic market**, 9.8% (HUF 3,445 million) more than in 2017. With this performance the Company's market share was 5.0% in 2018, 0.1% percentage point below the reference year's figure. Richter ranked second in the prescription drugs market with a share of 7.5%.

The main factor was increasing Tanydon / Tanydon HCT, Politrate, Bemfola, Xeter, Quamatel, Duciltia, Lamolep and Coltowan sales, reduced by dropping Esmya, Nortivan, Klion and Aktil.

In 2018 oral contraceptives were the leading item in terms of sales contributing 7.6% to sales income.

In 2018 no significant changes took place in terms of price regulations in the domestic pharmaceutical market. Pharmaceutical representatives' registration fee was HUF 213 million in 2017 and HUF 221 million in 2018.

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 7 million in 2018, the Company was able to compensate for it by introducing new products.

The Company's sales income in **international markets** is HUF 291,476 million, and decreased by 0.6% compared the 2017 figure of HUF 293,370 million. In euro, income from exports was 3.6% down and amounted to EUR 914.8 million.

The Russian operation continues to be the leading market of the **CIS region,** with turnover denominated in EUR 6.1% down the reference year figure, also largely influenced by the massive (12.3%) devaluation of the rouble against the euro. Sales in rouble were 5.5% of

RUB 1,010.4 million up. The increase in rouble denominated sales was contributed by Diroton, Mydocalm, and oral contraceptives and dampened by lagging Groprinosin and Gordox sales.

Euro denominated sales in Ukraine were 25.0% or EUR 8.7 million down year-on-year, with decreasing Mydocalm, oral contraceptives, Verospiron, Panangin, Gordox, Cavinton and Decaris sales and growing Groprinosin sales.

EUR sales income from other CIS countries grew by 1.2% of EUR 0.8 million. Increacing sales in Kazakhstan were partially offset by declining sales in Moldova and Turkmenistan.

The total turnover achieved in the CIS market was HUF 114,047 million, 39.1% of total export. Year-on-year decrease was 3.6% (HUF 4.312 million). Expressed in foreign currency, the turnover was EUR 357.9 million (USD 423.2 million) with a 6.5% decrease in EUR (2.1% in USD) year-on-year.

The turnover achieved in the **European Union** was HUF 96,399 million, 10.4% down year-on-year. The EU region's share from the total income achieved in international markets is 33.1%. Expressed in foreign currency, the income amounted to EUR 302.6 million.

The EU 15 region's EUR 45.9 million (or 23.1%) drop is primarily related to the drastic fall in Esmya sales, moderated by rising sales of oral contraceptives, Bemfola and Reagila.

The CEE member states increased their contribution to total sales in the EU region from 42.8% in 2017 to 49.4% in 2018. Expressed in EUR, the sales increase was 0.5% in euro. Rising sales are the balance of keener sales of Bemfola and oral contraceptives and dropping Esmya sales.

Sales in the **United States** were 31.0% (or HUF 8,265 million) up; denominated in dollar; the increase was 33.1% (or USD 32.2 million) mainly due to Vraylar™ royalty income.

Turnover in the **Chinese region** was HUF 26.440 million (EUR 83.0 million) and was HUF 3,384 million (or EUR 8.4 million) higher year-on-year. Increase in Cavinton and oral contraceptives sales were outstanding.

Turnover in **Latin America** experienced a 6.6% (expressed in dollar, a 4.5%) decrease and amounted to HUF 3,387 million (USD 12.6 million). Decreasing sales of Esmya were partially offset by growing oral contraceptives sales. 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 16,314 million (EUR 51.2 million). Compared to 2017, sales income was 15.3% above (in euro, 12.0%). The increased sales was contributed by Bemfola and oral contraceptives and dampened by lagging Esmya sales. The contribution of the region to international sales was 5.6%.

Net income from sales **totalled** HUF 330,084 million in 2018, a HUF 1,551 million increase over the 2017 figure.

2.2.2 Costs of sales and operation; operating profit

Aggregate direct and indirect costs of sales were HUF 8,640 million higher year-on-year.

Payroll costs significantly increased across the Company year-on-year as in 1st March 2018 the basic wage was raised by 6.0% (retroactively from January), an additional 11% raise extended to key staff groups and positions and 1.5% differentiated increase for the rest of the human resource groups. The latter was allocated in consideration of individual performance, labour market trends, and importance of the particular jobs. The company has used the entire amount of saving from the current decrease of contributions (2%) to increase wages.

Costs of sales totalled HUF 111,127 million and were HUF 938 million over the 2017 figure. Expenses reflect the joint effect of changing in volumes and in the breakdown of the products portfolio. Among spending, the HUF 4,887 million increase in income and related items, the rise in material and other overhead costs, and the HUF 5,617 million decrease in license fees (mainly due to the effect of Esmya) should be mentioned.

Gross profit is HUF 218,957 million, HUF 613 million above the reference year figure; with almost the same as the reference year margin (66.3%).

Operating costs amounted to HUF 158,294 million in 2018, HUF 7,702 million above the 2017 figure.

Sales and marketing expenses were HUF 5,908 million over the 2017 figure with a 31.5% costs-of-sales to sales revenues ratio (2017: 29.8%). Advertising and promotion contributed HUF 7.443 million to the increase of the item. Growing marketing costs on the Western European and Chinese markets were only partially offset by dropping sales costs of Esmya and decreasing costs related to the use of Russian offices. Besides those mentioned above, the HUF 1,029 million drop in foreign sales costs is worth highlighting, mainly contributed by the Chinese market.

In 2018 **Administration and general expenses** amounted to HUF 15,038 million, HUF 1,652 million in excess of the 2017 figure. More than half of the change (HUF 950 million)

is related to the increase in income and contributions; administrative costs billed by PregLem rose by HUF 515 million and lease fees (mainly of IT software) were HUF 256 million higher y/y.

After a HUF 142 million y/y increase **Research and development expenses** amounted to HUF 39,314 million in 2018. Income and related items generated a surplus of HUF 1,221 million, and depreciation was HUF 412 million higher y/y. Conversely, the costs of research commissions resulted in a decrease of HUF 1,589 million, its most important item being costs related to cariprazine.

The balance of Impairment on financial assets and contracts was HUF 144 million in 2018 and its biggest contributor was the impairment recognised on loans and capital contribution as a result of IFRS 9 (HUF 173 million).

The balance of **other income and other expenses** increased from HUF 11,891 million expenses in the reference year to HUF 13,962 million expenses in 2018.
The impairment tests of Esmya for the 2018 statements had to be conducted in consideration of decisions by the regulatory authorities and market effects. As a result, the Company reported HUF 13,423 million impairment of the intangible asset Esmya. 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 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 period one-off milestone income amounted to HUF 8,429 million mainly related to Reagila's European authorisation and introduction to the EU15 markets, successful clinical trials of cariprazine for the treatment of bipolar I depression, and FDA's acceptance of Allergan's application for registration of the extension of indication. 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.
Claw-back in 2018 comprised payments related to the Hungarian, Romanian, German, French, Spanish, Portuguese, Belgian, Italian, Bulgarian, Austrian, Polish, Latvian, Lithuanian, Croatian, Slovenian and British markets totalling HUF 4,746 million.

In 2018 inventory impairment and disposal of HUF 1,803 million was recorded and HUF 168 million was reversed. In 2018, the Company presented non-income taxes of HUF 946 million in Other Expenses.

The Company's *Profit from operation* was HUF 46,557 million, 16.7% down (HUF 9,304 million) compared to 2017. After a 2.9 percentage point decrease, the operating margin was 14.1%.

2.2.3 Other income statement items

Net financial income/loss

Net financial income/loss was a loss in 2018 (HUF 9,144 million) compared to a net financial loss of HUF 49,066 million recorded in 2017.

The impairment tests of Esmya for the 2018 statements had to be conducted in consideration of decisions by the regulatory authorities and market effects. As a result, the Company reported HUF 21,959 million impairment of the stake in PregLem related to Esmya. 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). Further impairment in 2018 was related to GR Mexico SAPI de CV, GR Columbia S.A.S. and GR Brasil SA, and in 2017 additional impairment was reported on Nedermed B.V.

The 2018 unrealized financial items was largely affected by the 4.05 RUB/HUF exchange rate and 280.94 USD/HUF related restatements on 31 December 2018 (31 December 2017 RUB/HUF 4.49 and USD/HUF 258.82). The cumulative effect of restatements was a HUF 2,016 million slip in the 2018 net financial loss as opposed to HUF 4,902 million decrease in 2017, a total of HUF 2,886 million deterioration year-on-year.

The Company did not apply any hedge accounting rules under IAS 39 and IFRS9; 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 47 million as opposed to a HUF 5,329 million loss in the preceding year. The aggregate gain contributed HUF 5,282 million to a year-on-year increase in earnings.

Dividends income is contributed HUF 15,411 million to the 2018 financial income, HUF 4,986 million is higher than the HUF 10,425 million realized in 2017.

Profit before income tax

The 2018 profit before income tax amounted to HUF 37,413 million, HUF 30,618 million more than in 2017.

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 and 2018 it did not use the development related tax relief.

The 2018 taxes payable (including corporate tax, local business tax, and innovation contribution) amounted to HUF 4,010 million compared to HUF 3,976 million in 2017. In 2018 Richter reported HUF 1,824 million deferred tax liabilities as opposed to HUF 3,499 million deferred tax assets in 2017. Based on the analysis of tax payment liabilities expected in the coming years, the Company concluded that a significant portion of the Deferred tax assets reported in the balance sheet earlier cannot be realized and will thus have to be derecognized in compliance with the IFRS regulations. The aggregate amount related to intensive R&D activities and rising income from royalty from cariprazine that could reduce taxable income is of a magnitude that most of these deferred tax assets cannot be realised as they are predominantly related only to loss carry forward to be used within the five-year period after its occurrence. This boosts the balance of Deferred tax by HUF 4,215 million.

Profit for the year

The Company's profit after taxes for 2017 was HUF 6,318 million and HUF 31,579 million in 2018.

2.2.4 Contribution of key products to sales revenues

Finished products contributed approximately 83% to the 2018 sales revenues. The contribution of APIs was 4%, royalties was 8% and the sales of purchased materials were 5%.

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

2017				2018			
Rank		Sales HUF million	Share %	Rank		Sales HUF million	Share %
1	Oral contraceptives	85,185	25.9	1	Oral contraceptives	88,992	26.8
2	Cavinton/vinpocetine	29,270	8.9	2	Cavinton/vinpocetine	30,751	8.9
3	Esmya /ulipristal acetate	28,786	8.8	3	Cariprazine /cariprazine	25,129	8.8
4	Mydeton/tolperisone	16,214	4.9	4	Mydeton/tolperisone	16,322	4.9
5	Cariprazine /cariprazine	13,987	4.3	5	Panangin/asparaginates	12,888	4.3
6	Panangin/asparaginates	13,894	4.2	6	Bemfola / FSH follitropin alfa	11,972	4.2
7	Verospiron /spironolactone	12,200	3.7	7	Ace inhibitors/ /enalapril, lisinopril	11,736	3.7
8	Ace inhibitors/ /enalapril, lisinopril	9,564	2.9	8	Verospiron /spironolactone	11,630	2.9
9	Bemfola / FSH follitropin alfa	8,681	2.7	9	Aflamin/aceclofenac	9,429	2.7
10	Lisonorm lisinopril, amlodipine	7,924	2.4	10	Lisonorm lisinopril, amlodipine	7,913	2.4
	Total	**225,705**	**68.7**		**Total**	**226,662**	**68.7**
	Net income from sales	*328,533*	*100.0*		*Net income from sales*	*330,084*	*100.0*

The contribution of the top ten product groups was the same in both 2017 and 2018, a total of 68.7%.

Oral contraceptives are the leading products with a turnover of HUF 89.0 billion, 4.5% higher the 2017 figure, mainly due to the increasing sales of Escapelle, Diegonest, Grünenthal portfolio and Drospirenone. The contribution of this product category to the 2018 total turnover was 26.8%, 0.9 percentage points above the reference year.

Richter's original drug Cavinton is the second most important product achieved an increase in turnover (rising sales in China and declining sales in Russia). Mainly due to rising Vraylar™ royalty sales income Cariprazine advanced to 3rd place from 5th place in the reference year. Mydeton kept its 4th place, in both periods contributing 4.9% to total sales income. Compared to the reference year, Panangin advanced one place (5th). Thanks to rising sales in the EU 15 and EU 10 regions Bemfola has become Richter's 6th best selling product with a contribution of 4.2% to total sales income, and owing to keenly rising Russian sales, ACE inhibitors finished 7th in 2018. Conversely, Lisonorm slipped from 7th to 8th place despite a 6% sales drop. Aflamin, 11th in the reference year, managed to climb back on the TOP 10 list (9th), and Lisonorm kept its 10th place. As a consequence of the temporary measures proposed by the PRAC, Esmya, 3rd in the reference year, dropped out of the TOP 10 list and finished 11th.

2.2.5 Contribution of key markets to sales revenue

The Company's ten leading markets were as follows:

Country		2017		Country		2018	
		HUF million	EUR million			HUF million	EUR million
1.	Russia	86,097	278.4	1.	Russia	83,333	261.5
2.	Hungary	35,163	113.7	2.	Hungary	38,608	121.2
3.	United States of America	26,624	86.1	3.	United States of America	34,889	109.5
4.	China	22,983	74.3	4.	China	26,390	82.9
5.	Germany	16,630	53.8	5.	Poland	16,102	50.5
6.	Poland	15,393	49.8	6.	Germany	13,741	43.1
7.	Ukraine	10,769	34.8	7.	Ukraine	8,320	26.1
8.	France	9,844	31.8	8.	France	8,094	25.4
9.	Great Britain	9,753	31.5	9.	Kazakhstan	7,619	23.9
10.	Spain	9,070	29.3	10.	Romania	7,579	23.8
	Total	242,326	783.5		Total	244,675	767.9
	Net income from sales	**328,533**	**1,062.3**		**Net income from sales**	**330,084**	**1,036.0**

The 10 leading countries jointly contributed approximately 74.1% to Richter's total sales.

There has been no change in the top four places: Russia continues to head the list followed by Hungary, the United States, and China. Thanks to increasing sales revenues from oral contraceptives, Poland advanced a place, while Germany slipped one place due to the drastic drop in Esmya sales. Ukraine and France kept their positions on the list of TOP 10 countries (7th and 8th respectively). The Great Britain and Spain (Esmya sales) did not make it to the TOP 10 and yielded its place to Kazakhstan and Romania 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.

The company has been striving to support proprietary R&D activities with the most up-to-date equipment, an effort that continued throughout 2018. In each of the three areas of indication investigated (autism, obesity, and cognitive impairment) translational models have been successfully developed; by means of the models the Company will be able to establish with greater likelihood whether the selected compound would prove effective in clinical trials and later in commercialisation.

All this, coupled with conscious technology procurement indicates the Company's awareness of its capabilities and potential, and therefore considers collaboration and sharing experience and knowledge as well as risks and costs related to development to be crucial. This led to R&D agreements concluded with Forest Laboratories (today Allergan) in 2004, and with Finnish Orion in 2013, which proved beneficial for both sides due to the reasonable sharing of expenditure and risks.

After the 2014 review and rationalisation of the research portfolio, preclinical work continued in 2018; their effectiveness is proved by the fact that new projects are approaching the clinical stage. In 2018 two projects entered in the early clinical phase besides 12 projects at the preclinical stage.

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 December 2017 the two companies announced the second, and in April 2018, the third 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. In possession of these data, in September 2018 the FDA accepted Allergan's application for registration of the expansion of indication.

In March 2016 the European Medicines Agency (EMA) started assessment of the marketing authorisation of cariprazine for the indication of schizophrenia. In August of the same year Richter and Recordati signed an agreement granting Richter exclusive sales license for the product in Western Europe as well as Algeria, Tunisia and Turkey. In July 2017 Richter was granted marketing authorisation for all EU member states for its product Reagila® (cariprazine) for the treatment of adult schizophrenic patients. In most European countries commercialisation only started in 2018 because of prolonged price negotiations.

In addition to the clinical development of cariprazine for the treatment of bipolar 1 depression it is also tested for the additional treatment of major depression.
Cariprazine was the subject of additional studies in 2018, on the one hand, studies started in the field of schizophrenia indication in paediatric treatment in the United States and Europe, and on the other hand, post-authorisation clinical and preclinical trials mandated by EMA also commenced. Most of the latter trials are expected to be completed in 2019.

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 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 causing irregular uterine bleeding. 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. Consequently, the Company prepared its 2017 report taking into consideration the possible negative effect of PRAC's temporary measures related to Esmya on the business. 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 temporary measures were intended to protect patients' health. In May 2018 the PRAC announced new measures to minimise the risk of rare but serious liver damage. In June 2018 EMA's Committee for Medicinal Products for Human Use (CHMP) issued a statement of opinion and supported the PRAC's recommendations. On 30 July 2018, after the adoption of the CHMP's opinion, the European Commission passed a decision regarding the marketing authorisation of 5 mg Esmya tablet. The decision is valid for all EU member states.

Doctors have been sent a letter of information containing the restrictions imposed by the EC's decision.

On 22 August 2018 Allergan plc announced it received a Complete Response Letter from the FDA regarding registration of ulipristal acetate. The FDA is requesting additional information, citing safety concerns regarding Esmya post-marketing reports outside the United States.

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 2018 and amounted HUF 39,314 million.

At the closing of 2018, Richter had 52 generic development and 15 licence topics in progress. Several projects were carried out in 2018 to coordinate serialisation, and preparations for the launch of biotechnology products also commenced. 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.). The Company significantly upped the number of generic development tasks involving the Polish subsidiary.

The Company launched six proprietary products and three licensed products in 2018, all of which are new in the markets where they were launched.

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 started 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 pegfilgrastim. Richter completed the additional clinical studies related to pegfilgrastim in 2017 and in March 2018 the EMA accepted the re-submitted application for marketing authorisation. Nevertheless, in February 2019 the Company again withdrew its application for registration due to its inability to relieve CHMP's concerns by the prescribed deadline.

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 2018 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.

Operating Richter's comprehensive quality system is a highly complex and multifaceted task with the goal of optimal utilisation of opportunities, and to develop value generating processes. To this end, LEAN management was introduced in 2018 with the following starting points: optimisation of the pass-through time of value generation process, automation of non-value added processes, and harmonisation of quality control with the subsidiaries along a common digital strategy.

Over the past year Richter was inspected on 31 occasions by its partners and 7 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 and solid drugs production were marginally up, whilst the lesser contributor injectables drop by 14%.

The production value, at settlement price, of own-produced APIs for non-steroid products was down by 7.9% (drop in demand for export and rising intermediate product manufacturing by subsidiaries) whilst for steroids was up by 10.6% in 2018.

Preparation for the introduction of serialisation started in 2017, and was largely completed by the end of 2018 with the installation and commissioning of the necessary equipment,

thus Richter is prepared for serialisation. These preparations resulted in some loss in production capacity.

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 2018 the value of inventories was HUF 64,132 million, below the opening balance by 1.8%.

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 2018. 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. In 2018 a separate sourcing unit was set up in Debrecen in order to better serve the needs, frequently specialised, of the biotechnology business.

In the second half of 2018 the independent organisational unit Operational Technology Department was set up; its priority is to support production units. Besides developing a long-term technological strategy the new unit will also create an optimal industrial IT infrastructure, and will introduce, elaborate and operate a Management Information System (MIS) closely linked to operation.

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 energy projects to be highlighted include the upgrading of the cooling system in Budapest, commissioning a new freezer centre in Dorog, and expanding the capacity of the energy supply system 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 2018 system monitoring and measurement systems related development included upgrading projects.

In the same year the cost of energy usage dropped to a very slight extent across the Company compared to 2017. The 1.8% drop emerged as the balance of 2.7% decrease in energy use and 1.0% increase in energy prices. Energy and water costs amounted to HUF 7.4 billion for the entire Company and included HUF 90.4 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 through the Environmental Management System (KIR) awarded an ISO 14001 certificate. In accordance with the changes of the ISO 14001 standard the entire documentation of the KIR system has been reviewed and updated; the 2018 audit was successful as it verified that the requirements of the amended standard were fully met. 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 through annual inspection audits by an independent certifying body.

Richter compiles its environmental performance indicators in accordance 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 Budapest plant and the Dorog branch have secured the Integrated Pollution Prevention and Control (IPPC) license. Because of the expansion of production capacities, the IPPC license of the Debrecen branch was submitted for review.

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 of the 2018 passed renewal audit of the Occupational Safety and Health Management System (MEBIR: OSHAS 18001) by the supervisory agencies, education and training, regulations, performance evaluation, risk management and occupational hazard measurements are appropriate and in keeping with the rules and regulations. In the course of 2018 the Security Technology Laboratory extended the scope of accreditable measurements and acquired accreditation for two plants.

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 2018, no deficiencies of note were found by the relevant authorities, and no fine was imposed. Employees apply individual protective devices on an ongoing basis.

Water pollution, protection of water quality and noise management

The review and necessary repair of the wastewater 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 Wastewater management plant is an ongoing process.

Preparations for the 2019 reconstruction of emergency reservoirs started, the first step being the renovation of some of the basins and dismantling a disused basin.

The Company checks the quality of its wastewaters in the context of the statutory monitoring system.

Waste management

In 2018 hazardous wastes were incinerated, deposited or composted. Waste has been collected selectively since 2012. After 8.3% rise, the costs of waste management amounted to HUF 1,036 million in 2018.

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. The next step on 1 January 2018 was to set up the new organisational structure which will be able to provide superior support to the foreign subsidiaries in the course of its operation. Also in 2018 a new IT controlling concept and structure was designed, which will enable accurate costing of IT services required by the various special field of the parent company and the international subsidiaries from 2020, and fair charging of the requesting units and entities.

Similarly to the previous year, major Group level IT development took place in 2018, the most important achievements and events were as follows:

- In the context of the serialisation process started in 2016, several dedicated systems were introduced and used productively in 2018 that support the levels of the Track and Trace project (the system implementing L3 and supporting L4, as well as numerous systems development, interface and integration to coordinate with the ERP and SAP systems).

- The GDPR preparation and compliance project was necessitated by the EU's general data protection directive effective from May 2018.

- In 2018 the first Digitalisation and Industry 4.0 projects have been launched, which provide specifically Group level uniform solutions:

    - The Digitalisation project also includes an electronic document management system - a project that over a period of almost five years will create a uniform basis and support to electronic work processes from invoicing to the

management of research documentation by means of the Enterprise Content Management (ECM) system.

- Industry 4.0 includes the introduction of a new uniform Group level Manufacturing Execution System (MES), to be extended to the parent company's and subsidiaries' manufacturing units after the pilot plants.
- Also in the context of Industry 4.0, the project introducing Data Science System offering solutions for analytical support to manufacturing as well research facilities.

- A new, high availability server centre has been created, ensuring much higher operational security required by the new Group level systems. Concurrently, construction of a full-fledged second server centre was started. The two centres will ensure secure and disaster resistant infrastructure that meets the most rigorous international standards.

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

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 nearly 50% 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 general 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 late of 2018 electronic self-service employee and management HR system was launched; one of its modules is intended to reduce paper-based administration related to peformance assessment and next-year goal setting.

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 7,055 including 5,623 persons employed in Hungary. Of the Hungarian headcount 2,945 work in white-collar positions including 2,300 university or college graduates. Graduate educated personnel in Hungary represented 78% of white collar staff.

5. Capital expenditure on tangibles and intangibles

In 2018 capital expenditure on tangible and intangible assets amounted to HUF 54,154 million and included HUF 41,729 million capitalization. Tangible assets in the course of construction amounted to HUF 20,141 million as of 31 December 2018.

The Company's main CAPEX areas in 2018 were as follows:

Biotechnology

Richter spent a total of HUF 8,145 million on investments related to the biotechnology business in 2018. The building of the Debrecen Molecular Biology Lab has been completed. The capex project aimed at the flexibility and expansion of the Debrecen manufacturing plant has been completed and Production Line-1 has been successfully commissioned. In the Debrecen injectables development plant the infrastructure part of the Fulvestrant project has been implemented, and the filling equipment has been converted so that they are suitable for the filling of several other products. The company deployed significant funds to procure installations for the Budapest biotechnology R&D unit.

Production

The 2018 investments related to production plants amounted to HUF 12,881 million.

In finished products manufacturing, the biggest challenge was preparation for serialisation; the capex stage is near conclusion. Installation and trial runs of the Optima filling and freeze-drying machines installed the RGK VI building was completed by the end of 2018 and preparation for manufacturing started. Expansion works on the hormone packaging plant in the buildings RGK II-III have been completed but conversion works related to the full integration of the two areas have been postponed in the interest of meeting production targets. 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 the new service building of the Steroids plant has been opened, and the Ulipristal production line has been commissioned. In Steroid II the expansion of the nitrogen supply capacity has been completed ensuring the parallel operation of several micronization equipment. In Synthetics III two centrifuges were installed in order to expand limited production capacities. In connection with API production in the Budapest facility, the autoclaves in the plant Chemistry I were replaced and the full revamping of the ventilation system in Hall 3 took place; in BIO I, transformation of the PW system was completed; in Chemistry III, two autoclaves were replaced, and the next stage of the multi-year program of reconstruction of the electric wiring took place; in BIO II, three small-batch fermentors and one centrifuge were replaced.

Production support

CAPEX projects related to production support amounted to HUF 5,038 million in 2018. In the context of environmental projects the multi-year renovation of the wastewater system was continued, and finished the separate firewater network at the Dorog facility. In Budapest reconstruction of the wastewater management plants and optimisation of the operation of even side-odd side units continued, and the firewater reservoir at the Vasgyár Street warehousing base was commissioned.

Energy supply related capex projects included the upgrading of refrigerators and continuation of the separation of the technological and office cooling systems at headquarters. In Dorog the new deepfreeze centre was commissioned and trial runs started; at the same time the old facility was dismantled. Creation of the new central PW system's supply and distribution modules required the deployment of significant resources.

In warehousing a comprehensive logistics concept encompassing all of the Hungarian plants was developed in 2018; in this context, the entire warehouse logistics infrastructure has been reviewed. In the last days of the year the concept was presented to, and approved by the Company's management. In future, capex projects related to warehousing will be evaluated and decisions will be made about subsequent steps in an annual basis in light of the strategy. 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 2018 Richter deployed a total of HUF 1,641 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 2018 expenditure on licenses and other intangibles amounted to HUF 19,604 million and comprised expenditure on the acquisition of licences (estetrol + drospirenone - Mithra; Bemfola / Afolia – Fertility Biotech AG), as well as well as on new registrations and renewals.

Other

In 2018 Richter spent HUF 2,475 million on IT development supporting operation, and HUF 637 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 2018 revenue was outstanding. This resulted primarily from the contract work export done for the parent company, and increasing sales achieved in the Romanian market. However, the company's after-tax profit decreased year-on-year owing to rising production costs and the fine imposed by the Romanian tax authority.

In 2018 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 development of the Track and trace and temper evidence system, and finish of building renovation works on manufacturing premises.

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. In 2018 the company's duties grew significantly with the acquisition and fusion of **Gedeon Richter Marketing Polska Sp. z o. o.** in the course of the year - a company distributing its own products and undertaking marketing for Richter Group in Poland.

Operating as a subsidiary as a manufacturing and development company on a contract basis, the company has grown to be a strategically highly important member of the Group. With the incorporated marketing unit, the company operated with a headcount of 805 people.

In the 2018 business year the market was characterised by the intense competition and aggressive price race experienced in previous years. This was coupled with a weak flu' season that resulted in sales income from the key product Groprinosin lagging 11.5% behind the reference year's figure, and the consequent sales income PLN 9 million below the 2017 level. As a result of the merger the company's sales income was PLN 42 million higher than in the reference period.

In 2018 activity of Richter's Russian manufacturing subsidiary **ZAO Gedeon Richter-RUS** was effected by more negative trends. The rate of the rouble weakened overall, with some volatility, reflecting the geopolitical situation and consequent general problems of the Russian economy. The price return target was met with tremendous efforts, albeit the distribution was highly uneven throughout the year. On the positive side, the payment discipline of buyers was relatively good. Sales income targets relied on the sales of purchased products and the sales volumes of own products stagnated as a consequence of a delayed start of new production compared to plans.

The company's main function will continue to be production and distribution supported by the parent company's marketing activity. Continued full-cycle production and dropping some of the products will not only increase the volume of the portfolio but will also result in a significant change.

The company financed its 2018 capex projects from its own funds; however, it managed to settle its accounts payable to the parent company with considerable delay.

Richter Themis Ltd. continued to be active as a manufacturer and distributor of intermediate products and APIs for Group members in 2018. The portfolio of products has been stabilised but minor changes had naturally affected the company's results. Capacities are fully and continuously exploited, and as in previous years, manufactured products were supplied to third parties.

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 2018 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 2018 **PregLem S.A.** continued to support the 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 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. Full integration of the company's activities into Richter's system commenced in 2017 and continued in 2018.

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 2018 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 Luxembourg (**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. In 2017 the Company added a new subsidiary in Ireland named **Gedeon Richter Ireland Ltd.** The portfolio of the network was expanded by additional women's healthcare products in 2018.

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. Established in January 2018, the subsidiary **Gedeon Richter Bulgaria Ltd.** operates with a network of pharmaceutical representatives and provides marketing services in Bulgaria. The companies operate on a basis of invoicing net costs plus margin, which ensures cost coverage and stable liquidity on a continuous basis.

In 2018 **Gedeon Richter (China) Pharmaceuticals Co. Ltd.** met the sales target for 2018 primarily thanks to the good performance of the OTC business. At the same time, difficulties related to the limited portfolio are increasingly conspicuous and hinder further expansion. In the next three or four years significant capex should be aimed at development so that Richter products' share should continue to increase as a result of launching new products.

Active in promotional purchases, storage and distribution, Moscow based **Pharmarichter O.O.O.** proved to be a high-performing company in 2018 in both technical and financial terms.

On 31 October 2018 **Gedeon Richter Pharma O.O.O.** was established; it takes over the activities of Richter's Moscow office with the exception of registration tasks. Creating and continuously maintaining the operating conditions of this large company with numerous staff will be an important task for 2019.

Kazakhstan has recently experienced a stagnating economic performance. Risks have grown these changes in the economic environment had a negative 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 2018 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.

Seated in the Central and South American region, Richter's fully owned subsidiaries, **Gedeon Richter Colombia S.A.S.** and **Gedeon Richter Mexico SAPI de CV**, continued their commercialisation and marketing activities in the region. The product portfolio of both subsidiaries was expanded in 2018; securing the licenses and registration necessary for portfolio diversification is currently underway.

In Brazil **Gedeon Richter do Brasil Importadora Exportadora e Distribuidora SA** continued the sales of Richter's women's healthcare products in 2018. At the end of the year Richter acquired 100% stake in the company and at the same time replaced the senior manager.

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 Richter became the sole shareholder of Mediplus Group. In 2016 Esmya had been launched in these markets, followed by new women's healthcare products added to the portfolio. The Bolivian subsidiary had been shelled in 2017; distribution is undertaken by an external partner. In 2018 the group stabilised its presence in the regional market.

6.2. Wholesale and retail

Romania

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

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

The Group's wholesale company in Romania is **Pharmafarm S.A.** In the first half of 2018 the company managed to increase its sales income beyond expectations with a stable contribution margin. This was achieved between fierce competition, increasing numbers of competitors and deteriorating allowance conditions. In June, the Romanian authority suspended the operating license of Pharmafarm for two months for violating the provisions of Good Distribution Practice. In August, the authority approved of the remedial measures and the wholesale outlets gradually reopened for operation. By Q4 Pharmafarm regained most of its market position and again managed to achieve sales return exceeding expectations. For the reasons described above, operating profit fell short of the planned figure. 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. In 2018 two pharmacy licenses were sold, so in December the network consisted of 92 fully operating outlets. Turnover per outlet was 4% higher on the average year-on-year. Unfortunately, the suspension of the wholesale company also affected the performance of the retail company. Because of poorer performance by the pharmacies impairment of pharmacy license was reported.

The CIS

Due to the amended sales contract concluded with the parent company, the profitability of Richter's exclusive distributior in Moldova, **Rihpangalfarma S.R.L.,** improved significantly. Changes in the company's wage policy had a positive effect on the earlier

volatility of headcount, and also helped eliminate occasional shortages of professionals. 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 performance and maintenance of the market share achieved earlier.

The Moldovan retail network **GR-Retea Farmaceutica S.R.L.** entered into the stage of quality and efficiency related transformation as several loss making outlets were closed down. As new outlets were opened, the number of functioning pharmacies has not changed. Although sales income was somewhat lower, the margin strengthened, which, however was not able to offset the cost-intensive pharmacy replacements.

Armenia's economy has been steadily growing since the 2016 recession. The year 2018 was also characterised by a small growth. The increase in private consumption was the result of rising wages, a decreasing unemployment rate, and climbing currency transfers. This steady, albeit slow, positive change is reflected by the 2018 statements of the wholesale subsidiary **Richter Lambron O.O.O.**

With a network of 27 pharmacies, the Armenian retail company **Gedeon Richter Aptyeka Sp O.O.O.** also struggles with the market environment, similarly to the wholesale company, in an effort to adapt to conditions shaped by the market and competitors. In 2018 it aimed at the maintenance of its previous performance.

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 2018. 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 efficiency enhancing measures launched in the past few years, **Hungaropharma Zrt.** achieved somewhat lower but still significant results compared to the reference period. Richter directly holds 30.68% of the company's shares.

6.3 Other consolidated companies

Established in 2009 **Pharmapolis Gyógyszeripari Tudományos Park Kft.**'s core activity is to implement and maintain the project titled 'Creation of a pharmaceutical research, development and innovation centre in Debrecen' with the help of funds awarded in the context of GOP 1.2.2. The greenfield capex project was concluded in 2012. The resulting building complex of a floor area of 10,683 m2 has been tailored to suit the needs of lease holders. The company's income is from the lease fees charged on the basis of the relevant lease agreements. Once the five-year term of the project terminated at year-end of 2017, in November 2018 Richter bought out the other two quota holders thereby increasing its share from 24% to 100%.

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 2018. Operation of these affiliated undertakings is focused predominantly to Hungary.

In this segment, some of the foreign branches that performed no activity on the merit continue to be dormant (Nedermed B.V. and Ambee Pharmaceuticals Ltd.); other companies were voluntarily liquidated in 2018 (Medimpex Japan Co. 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, pharmaceutical industry related operating and compliance, as well as 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	Priority risk management procedures	Changes in risk
Development and commercialisation of own original or biosimilar products, and licensed specialty products	Prolonged clinical trials and registration process, their high costs, and risk of failure (cariprazine, teriparatide, PEG-filgrastim); Adverse effects revealed by data collected in the PV(pharmacovigilance) system after launching original product; Impairment of intangibles due to poorer performance than expected at the time of acquisition	Development collaboration in the interest of cost sharing and involvement of knowledge (Allergan, Helm, Stada); Careful exploration of risks at preparation of taking license; Conditional payment terms in license agreements; Project based product development, go /no go decisio milestones Development of uniform regulatory control and processes ("Regulatory lead"); Involvement of CROs (Contract Research Organization) and international experts; Operation of product introduction teams, special promotion	Increasing risk
Continued exploitation of market potential of the classical product portfolio	Narrowing of indication or withdrawal in the event of reports of adverse effects and inadequate compliance with tightening regulatory requirements over time	Special attention in PV system, active regulatory dialogue, sustaining development projects,	Increasing risk

Risk	Description	Priority risk management procedures	Changes in risk
Dependence on volatile CIS markets	Shrinking market due to regional conflicts, imposed sanctions and protectionist measures, extreme devaluation of local currency	Outsourcing production to alleviate effects of protectionist measures; Special effort to increase the weight of sales markets outside the CIS region and of specialty products; Securing CIS customer credits,	Unchanged risk
Decrease in the price of subsidised drugs and price erosion, introduction of surtaxes in European markets	Reduced product coverage and corporate profitability in these markets	Development of cheaper API manufacturing procedures, exploration of cheaper API sources, launching new products, efforts to increase sales of non-subsidised products (WH, OTC)	Unchanged risk
Increasing market diversification and complexity of the Group	Lack of uniformity of corporate processes in highly differently regulated markets may result in disruptions in operation and non-compliance; conversely, uniformity increases costs and reduces flexibility; Lack of experience in addressing new challenges in new markets; As a medium-sized company it is difficult to raise alone the critical mass of resources to expand portfolio simultaneously in three totally different therapeutic areas (CNS, WH, biosimilar)	Strengthening and uniformisation of the three lines of HQ control of subsidiaries (functional control, corporate law governance, financial reporting); Developing globally unified processes, introducing more sophisticated control and support systems; Creating corporate collaborations in development and commercialisation; Creating project teams when stepping out to new areas and launching new products, implementation of preparation programs	Unchanged risk

Pharmaceutical industry related operational and compliance risks

Risk	Description	Priority risk management procedures	Changes in risk
Ensuring qualified pharmaceutical workforce	Hiring and supplying qualified pharma workforce is increasingly difficult in the Hungarian, the Polish and the Romanian labour market	Application of pay raise and long-term loyalty enhancing schemes; Special wage increase in Hungarian production facilities in 2018, launching own vocational training; Relocation of production in Russia	Increasing risk
Meeting high Hungarian quality standards of pharmaceutical products development and manufacturing, dependence on suppliers, product liability risk throughout the entire life cycle	Violation of GMP, GLP, GCP (Good Clinical Practice) , GDP (Good Distribution Practice), IT GXP (Good IT Practice) , PV provisions may result in loss of licenses; Product quality non-compliance, delays, costs causing competitive disadvantage and loss of reputation due to shortcomings of suppliers; New adverse effect, contamination, manufacturing error, wilful damage, forgery From 2019 the application of individual identification marks (serialisation) on the packaging is a requirement for entry and staying in the market	Manufacturing as per registration, quality assurance, Implementation of quality assurance systems, SOP regulated operation, Development of own APIs in the case of key products; Supplier qualification system, efforts to register alternative suppliers; Complex project to prepare for serialisation; Product liability insurance, general liability insurance, indemnification	Increasing risk

Risk	Description	Priority risk management procedures	Changes in risk
Commercialisation practices in keeping with industry ethical standards, superior data protection	Employee conduct violating ethical and advertising rules of drug promotion; Violation of GDPR provisions due to unauthorised use of personal data or inadequate data protection	Compliance approved by the Board; GDPR regulations and preparation; IT security developments	Unchanged risk
Ensuring high availability of pharmaceutical equipment and IT systems	API manufacturing is dangerous with fire and explosion hazard; shortage of products due to loss of parts of plants; Drop in production due to single machine defects, inspection risk due to obsolescence; Loss of IT servers, scarcity of data transfer capacities, unauthorised access, data theft	Production security measures based on the recommendations of "Risk survey," asset and business interruption insurance; Capacity maintaining investments, maintenance of appropriate standards, trouble shooting; IT investments and measures ensuring availability and security	Unchanged risk
Maintenance of high-quality occupational health protection system; Application of procedures reducing environmental load below the limits	API exposure, work related accidents, loss of workforce, indemnification; Strict environmental load limits must be observed (noise, dust, wastewater), costly waste disposal	Application and certification of OHSAS; Comprehensive life and accident insurance; Company environmental protection organisation, operating Environmental Management System (KIR), monitoring, certification, investments	Unchanged risk

Financial risks

Risk	Description	Priority risk management procedures	Changes in risk
Exchange rate risk	The Group has substantial RUB and USD income surplus, exchange rate volatility affects HUF and EUR denominated total income;	Partial natural hedge with costs incurred in the same FEX, Financial hedging only by authorisation of the Board of Directors	Unchanged risk
Customer credit risk	Customer credit risk is higher in some of the Group's markets (CIS markets) and with some of the Group members' buyers (Romanian wholesale company)	Insurance with MEHIB on CIS trade receivables of Richter Group's production units Market COFACE insurance on Pharmafam's Romanian customers	Unchanged risk
Investment risk attached to liquid assets	Secure investment of temporarily liquid assets must be solved; Secure management of subsidiaries' occasionally substantial liquid assets must be solved	At parent company: BoD approved financial investment regulations, its strict observation and supervision; Centralised control of subsidiaries' liquid assets	Unchanged risk
Taxation risks	Parent company: certifying eligibility for R&D and royalty related tax allowance; Group: transfer pricing among affiliated undertakings	Parent company: seeking Ministry's position statements and reporting allowances supported by position statements, Group: process established based on transfer pricing Masterfile, local transfer pricing documentations	Unchanged risk

8. Events after the reporting period

On 11 January 2019 the Company announced that Mr. András Radó, Deputy Managing Director for Production and Logistics retired as of 2 January 2019 and will continue to support the company's day-to-day activity as a consultant. Chief Executive Officer Mr Gábor Orbán will supervise Production and Logistics pending the appointment of a new deputy managing director.

Dr. Margit Dr Pellionisz Paróczai, Director of Human Resources also retired at the end of 2018, and will participate in the activities of Richter's foundations. The new HR Director is Katalin Erdei.

In January 2019 the Canadian regulatory authority imposed restrictions on Fibristal (ulipristal acetate) commercialised by Allergan plc in Canada due to a potentially increased risk of liver damage.

On 1 February 2019 Richter announced the withdrawal of application for registration of the proprietary biosimilar product Efgratin (pegfilgrastim) due to its inability to relieve CHMP's concerns by the prescribed deadline.

Richter and the Dutch company Pantharhei announced that they had signed a license and supply agreement for the combined oral contraceptive ARC developed by Pantharhei and containing estradiol, levonorgestrel and dehydroepiandrosterone with the geographic scope covering Europe, Russia, Latin America and Australia. The product is under development with successfully completed Phase II trials and is ready for further clinical studies to obtain marketing approval. ARC (Androgen Restored Contraception) is a novel concept of oral contraception with the aim to restore sexual function with a special focus on sexual desire and arousal and to prevent mood disturbances.

On 5 February 2019 the Company announced that Mr. Lajos Kovács Director of Technical Services will be involved in Richter's day-to-day activity as a consultant. Chief Executive Officer Mr Gábor Orbán will supervise Technical Services pending the appointment of a new deputy managing director.

In February 2019 Richter announced that it had entered into a distribution and supply agreement with a subsidiary of Allergan plc to commercialize its Levosert in Latin American countries.

In February 2019 the Hungarian government decided to establish Maecenas Universitatis Corvini Foundation whose job - it would be to operate Corvinus University of Budapest, and would transfer substantial funds to the Foundation in the form of 10% of State-owned MOL and Richter shares each. The shares are non-alienable.

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 commercialised by

the companies operating in the traditional markets, with the support of 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.

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 Company's draft 2018 individual Annual Report prepared pursuant to the IFRS

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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 2018 (in which the total assets is MHUF 775,608), the income statement, the statement of comprehensive income (in which the total comprehensive income for the year is MHUF 26,489 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 2018, 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 2018 to 31 December 2018, 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.

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Our audit approach

Overview

Overall materiality	Overall materiality applied was MHUF 2,700
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.
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

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. Misstatemeuts 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 2,700 (2017: MHUF 2,800)
Determination	Approximately 4.5% of the profit before tax adjusted with the impairment of Esmya intangible asset and impairment of the investmeut iu PregLem S.A.
Rationale for the materiality benchmark applied	The impairment of Esmya intangible asset and the impairmeut of the investment in PregLem S.A. is a one-off eveut 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 measure the performance of the Company against the profit before tax adjusted by one-off transactions. We chose 4.5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Valuation of Esmya intangible asset and the investment in PregLem S.A. The Company has an investment in PregLem S.A. of MHUF 29,368 and intangible asset relating to Esmya of MHUF 8,160 as of 31 December 2018. See Notes in the accounting policy section IV)-V), IX) and Notes 12 and 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 following: • 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; • 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; 12 and 13 to the requirements of *IAS 1 Presentation of Financial Statements* and *IAS 36 Impairment of Assets*. Management's key assumptions were considered to be within reasonable ranges.

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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 120,157.

See Notes in the accounting policy section IX),Note 13 and Note 14 of the financial statements for management's disclosures of the balances, judgments and estimates on these investments.

We focused on this area because of the 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.

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 following:

- 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;
- 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 disclosnres presented in Note 13 to the requirements of *IAS 1 Presentation of Financial Statements* and *IAS 36 Impairment of Assets.*

Management's key assumptions were considered to be within reasonable ranges.

Other information: the business report and the annual report

Other information comprise the 2018 business report and the annual 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 and for the preparation of the annual report in accordance with Act CXX. of 2001 on Capital Market. Our opinion on the financial statements expressed in the "Opinion" section of our independent auditor's report does not cover the business report and the annual report.

In connection with our audit of the financial statements, our responsibility is to read the business report and the annual report and, in doing so, consider whether the business report and annual 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 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 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.

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 2018 business report and the annual 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 2018 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 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 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.

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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 reasonableuess 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.

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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 9 years.

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

Budapest, 20 March 2019

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 Company's draft 2018 individual Annual Report prepared pursuant to the IFRS

The Supervisory Board of
Gedeon Richter Plc.

REPORT

to the 2019 Annual General Meeting of Gedeon Richter Plc.

Budapest, 20 March 2019

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 2018

As in previous years, in 2018 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.
The three-year mandate of the former members of the SB expired at the 2018 AGM. Upon the proposal of the Board of Directors, the AGM held on 25 April 2018 re-elected Dr Attila Chikán and Dr Jonathán Róbert Bedros, independent members of the SB, for a term of three years, and elected Dr Zsolt Harmath to serve on the SB as a new member for a term of three years. There has been no change in employees' delegates; upon the nomination by the Works Council and the proposal of the Board of Directors, Klára Kovács Csikós and Dr Éva Kovács Kozsda were re-elected for a period of three years. At its inaugural meeting the new SB once again elected Dr Attila Chikán as its president.
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 items on its agenda with the exception of one issue, which h was dropped, and instead, an originally not designated topic was adopted on the agenda.
It held ten meetings in the interval between the Annual General Meetings with a 96% rate of attendance. 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 2018

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 2018 business plans of the parent company and of Richter Group (including the consolidated plans), the interim balance of 31.08.2018, the parent company's Financial Statements and the Consolidated Financial Statements for 2018, as well as the Report on Corporate Governance the Independent Auditor's Report, and the annual report of the Audit Board.

While discussing the quarterly reports, CEO Dr Gábor Orbán and Deputy CEO Dr Gábor Gulácsi responsible for finance 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 quarterly 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 2018 the SB discussed the following issues: The company's energy management; Richter's Global Compliance Program; The progress and impacts of IT changes; Industrial property rights at Richter; Risk management, safety, security and insurance; CIS trade; HR development and remuneration (Hay analysis); The activities of the Audit Department; and Company strategy.

Having listened to the presentations the SB discussed and evaluated the proposals in detail. Responses to the questions were acknowledged, the proposals were approved and the related resolutions were passed, taking into consideration the evaluations and supplementations. 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 2018.
2. Industrial property rights at Richter
3. Discussion and approval of the Report on Corporate Governance.
4. Discussion and approval of the 2018 financial statements, operating report, and the Independent Auditor's Report.
5. Discussion and approval of Richter Group's 2018 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 2018.

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.
The Audit Board regularly monitored the auditor's independence in the course of the year. In this context, it approved on numerous occasions for the Company's Independent Auditor or the auditor belonging to the network of auditors of the Independent Auditor to provide services that are not qualified as prohibited services under Regulation 537/2014 of the EU and its Hungarian implementation.

1. 2. Brief evaluation of the Company's performance in 2018 and feedback on the Board of Directors' Report to the Annual General Meeting

The Company's main objectives for 2018 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.
In 2018 major changes took place including but not limited to the following areas:
Return from sales dropped in the EU, particularly in the EU 15 member states as well as in the CIS, particularly in Russia; conversely, they soared in the United States, China, and the domestic market.
In December 2017 EMA's Pharmacovigilance Risk Assessment Committee (PRAC) started a review in the EU member states of Esmya (ulipristal acetate) investigating liver damage possibly induced by the product. The Company's financial statements for 2017 were prepared taking into account the expected negative impact on business as

a result of the measures. The EMA adopted temporary measures on 9 February 2018, and the PRAC recommended that no new patients should be started on Esmya but treatments in progress could be completed. These recommendations are temporary measures to protect patients' health. In May 2018 the PRAC announced new measures to minimise the risk of rare but serious liver damage; in June 2018 EMA's Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion (CHMP) also issued a statement of opinion and supported the PRAC's recommendations; and finally, on 30 July 2018, after the adoption of the CHMP's opinion, the European Commission passed a decision regarding the marketing authorisation of Esmya. Doctors have been sent a letter of information containing the restrictions imposed by the EC's decision.

Based on the successful Venus I and Venus II trials in the United States our partner Allergan started the registration application process for ulipristal acetate in treating women with uterine fibroids causing irregular uterine bleeding. On 22 August 2018 Allergan announced that FDA issued a Complete Response Letter requesting additional information, citing safety concerns regarding post-marketing reports outside the United States.

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 Q1 of 2016 the product will be sold in pharmacies of the United States under the trade name of Vraylar. In possession of the positive 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), Allergan submitted an application for the extension of indication, which FDA accepted in September 2018.

On 16 April 2018 Richter announced that on the basis of its mandate from the Board of Directors of the Company it approved the Statutes of the Richter Employee Participation Program Organization (Richter EPP Organization) and the allocations to be provided within the framework of the Employee Share Option Program. The aim of the establishment of the Richter EPP Organization is to strengthen the performance and loyalty of officers and key employees.

On 21 June 2018 the Romanian National Agency for Medicines and Medical Devices (NAMMD) suspended the licence of operation of Pharmafarm SA, Richter's wholesaler subsidiary following a breach of Good Distribution Practice. As a result of a promptly developed package of corrective and preventive measures the withdrawal was lifted with effect from 18 September 2018.

On 10 July 2018 Richter announced that it concluded a sale and purchase agreement with Fertility Biotech AG in connection with the transfer of intellectual property rights of Bemfola® / Afolia, for use in the United States. In 2016 Richter acquired Finox Holding, whose product Bemfola® is a recombinant human follicle stimulating hormone (r-hFSH) for the treatment of female fertility. With the acquisition Richter obtained global rights of commercialization with the exception of the United States.

On 12 September 2018 the Company announced that it had entered into a license and supply agreement with Mithra Pharmaceuticals to commercialize Estelle, a combined oral contraceptive in Europe and Russia.

On 18 September 2018 Richter announced that it had entered into a license and distribution agreement with L.D. Collins & Co. Limited, a UK based company, to commercialize its progesterone containing assisted reproduction technology (ART) product, Cyclogest.

To benefit from synergies the merger of Gedeon Richter Polska and Gedeon Richter Marketing Polska commenced in 2018.
In the course of 2018 Richter further expanded its international business through capital increase in its manufacturing companies and through continued capital expenditure (with special regard to the Russian subsidiary).
In November 2018 the Hungarian State repurchased the bonds issued by MNV Zrt. convertible to Gedeon Richter Plc's ordinary shares. MNV Zrt. continues to hold 25.3% of Richter's shares.
The Company's earnings for 2018:
The Group's profit for the year for 2018 was 31,579 million, 399.8%, or HUF 25,261 million, higher year-on-year.
There was a small increase in sales income mainly as a result of royalty from Vraylar sales received from Allergan. In addition to the impact of differing composition of one-off items in Other income and expenses, increasing Financial income should be highlighted, resulting from an increase in sales and marketing costs, favourable exchange rates, and lower impairment on Esmya. Limitations imposed by the European commission significantly impaired the sales potentials of Esmya in the European Union, and the FDA decision will delay acquisition of marketing authorisation for the United States, and, according to the Management's estimates, will reduce the size of the potential market. Consequently, the Company reported an aggregate HUF 35,4 million impairment of Esmya-related Preglem share (Financial expenses) and of the intangible asset Esmya (Other expenses).
Net income from sales totalled HUF 330,084 million in 2018, a HUF 1,551 million increase over the 2017 figure.
In the Hungarian market income from sales were 9.8% up with an overall market share of 5.0%, and a 7.5% share in the prescription drugs market, where Richter is second. In 2018 oral contraceptives were the leading item in terms of sales (7.6%). In 2018 no significant changes took place in terms of price regulations in the domestic pharmaceutical market.
The company's sales income from international markets was HUF 291,476 million, 0.6% below the 2017 figure; the drop in euro is EUR 914.8 million or 3.6%.
The Russian operation continues to be the Company's leading market with turnover denominated in EUR 6.1% down from the reference year figure, also largely influenced by the massive (12.3%) devaluation of the rouble against the euro. Denominated in rouble, sales was 5.5% up, contributed by Diroton, Mydocalm, and oral contraceptives and dampened by lagging Groprinosin and Gordox sales. Sales in Ukraine in euro were 25.0% lower year-on-year. The total turnover achieved in the CIS market was HUF 114,047 and contributed 39.1% to export, 3.6% down from the 2017 figure.
Income from sales in the EU was HUF 96,399 million, 10.4% below the 2017 figure, and contributed 33.1% to export. The EU 15 region's EUR 45.9 million (or 23.1%) drop is primarily related to the drastic fall in Esmya sales, attenuated by rising sales of oral contraceptives, Bemfola and Reagila. The contribution of turnover achieved in the Central and East European member states of the EU region grew to 49.4% from 42.8% in the reference year; turnover in euro grew 0.5%.
The contribution of sales in the United States was 31.0% higher year-on-year, and 33.1% higher expressed in dollar, thanks mainly to income from Vraylar related royalty.
The 2018 turnover in the Chinese region was HUF 26,440 million, HUF 3,384 million in excess of 2017, with Cavinton and oral contraceptives performing particularly well.

The Latin American region's turnover declined by 6.6%; the region contributed HUF 3,387 million, or 1.2%, to sales in international markets.
The Other countries segment achieved HUF 16,314 million in turnover, 15.3% up from last year (and 12.0% up in EUR) with oral contraceptives contributing the most to sales. The contribution of Other countries to turnover in international markets is 5.6%.
Aggregate direct and indirect costs of sales were HUF 8,640 million higher year-on-year. Payroll costs increased significantly as the basic wage was raised by 6.0%, an additional 11% raise extended to key staff groups and positions and 1.5% differentiated increase for the rest of the human resource groups.
Costs of sales were HUF 938 million higher as a joint result of changes in volumes of production and product mix.
Gross margin is HUF 218,957 million, HUF 613 million above the reference year figure; with almost the same as the reference year margin at 66.3%.
Operating costs amounted to HUF 158,294 million in 2018, HUF 7,707 million above the 2017 figure. Sales and marketing expenses to sales revenues were up (from 29.8% to 31.5%); administration and general expenses were HUF 1,652 million in excess of the 2017 figure, and R&D expenses were HUF 142 million over the reference year.
The balance of Other income and expenses increased from HUF 11,891 million expenses in the reference year to HUF 13,962 million expenses in 2018. The balance was greatly affected by the HUF 13,423 million impairment reported on the intangible asset Esmya. In the reported year HUF 8.429 million in milestone income was reported (predominantly in conjunction with cariprazine), and claw back amounted to HUF 4,746 million in payments obligation.
The Company's Profit from operation was HUF 46.557 million, 16.7% down compared to 2017. After a 2.9 percentage point decrease, the operating margin was 14.1%.
Net financial income/loss was a loss in 2018 (HUF 9,144 million) compared to a net financial loss of HUF 49,066 million recorded in 2017. As a result of the impairment tests of Esmya the Company reported HUF 21,959 million in impairments on its holding in Preglem. The Unrealized financial items entry was largely affected by the HUF 2,016 million aggregate impact of Forex reassessments. Exchange rate losses realized from trade receivables, payables and other items were HUF 47 million as opposed to a HUF 5,329 million loss in the preceding year.
The 2018 profit before income tax amounted to HUF 37,413 million, HUF 30,618 million more than in 2017.
The Company's profit for 2018 was HUF 31,579 million as opposed to HUF 6,318 million in 2017.
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 2018 highlighting some of the key issues addressed by the Supervisory Board in the course of the year

Energy management

Energy supply must meet high standards of requirements: supply must be reliable, economical and environmentally sound. The required energy must be supplied in a constantly changing environment where not only do the quantitative and qualitative parameters of the required energy forms change on an ongoing basis but global energy prices are highly volatile, and the relevant legislation also changes; added to this are increasingly extreme weather conditions. The parent company's 2017 energy costs were 3.5% of operating expenses, the largest cost items being electricity and distance heating. The Company purchases primary energy sources (electricity, natural gas, distance heating, drinking water, and water for industrial purposes) from external suppliers. The wide spectrum of energies required in pharmaceutical technology is supplied to, and distributed at, the branches. The company's energy consumption is slightly decreasing; considerable amounts of water are saved and wasteful water utilisation has been eliminated. Simultaneously with a downward trend in utilisation, energy costs (power and water) have been steadily decreasing since 2012 despite the start-up, in 2016, of a plant with an area of several thousand square meters. The guiding principle of the company's energy policy is to comply with its statutory requirements. Every supply system has been revamped or is in the process of upgrading. In order to be able to track energy processes, the computerised systems of the supply systems are continuously developed by integrating autonomously controlled energy equipment; the energy measurement system in Budapest was expanded by water meters integrated into the computerised surveillance system. In Dorog and Debrecen development was aimed at increasing cooling capacities to meet the needs of the new installations. Over the next period the Company envisions to develop the electric systems in Budapest and Dorog. The main goal is to develop measuring systems and create a uniform energy system. As regards wastewater management, in Debrecen an equalisation basin has been constructed. If there is a substantial increase in electricity performance demand the Budapest facility will probably have to be converted from the current 10KV to a 120KV system. As the Budapest plant's industrial water usage has been steadily diminishing, over time this service is expected to be terminated. Richter is striving to use renewable energy sources wherever it is feasible and reasonable.

Global Compliance Program

Every compliance program must start with the commitment of senior management followed by the commitment of medium-level managers; this is the basis of the continued and general commitment of all of the employees. The purpose of the Program is to adhere to and cause to adhere to industrial, ethical and business standards. Its introduction was justified by the expansion of the Company's business area and the changes in its portfolio resulting in the need to comply with a complex and challenging regulatory environment, and to keep up with international industrial practice. Richter's Board of Directors adopted a decision to introduce the Program in February 2016. A key features of the Program include the publication of a Compliance Manual adapted and localised to the parent company and affiliated undertakings (currently in the EEA), and training for the "Dawn Raid" (the unannounced site inspection by the competition authority). One of the components of the Compliance Manual is the reviewed and updated Code of Ethics. One of the most important chapters is the Business Conduct and Transparency Regulations, whose localisation is a difficult task as each country has its specific, often differing, regulatory environment. The Anti-bribery and Anti-corruption Manual, the Manual on Liaising with Health Professionals, the Manual of Pharmaceutical Legislation, and the

Transparency Manual are also included. The Compliance Manual is complete with the Data Protection Regulations, the Manual on Compliance with Competition Law (a particularly important manual, which includes the Manual of Unannounced Site Inspection), the Corporate Communication Manual, the Websites Contents Manual (whose role has appreciated recently), the Manual of Capital Market and Corporate Law Regulations, the Pharmacovigilance Regulations, and the Compliance Hotline Regulations. Mention should be made of data protection compliance. Directly effective and applicable from 25 May 2018, Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (GDPR) provides for the protection, control, and free movement of personal data of natural persons. New features include the high fines for infringement, strict documentation requirements, the principle of accountability, and extended rights of individuals concerned. In this context, Richter's task is to assess highly complex data systems, to explore and track the data concerned at each organisational unit, to amend contracts in order to ensure compliance, to revise the previous Data Protection Regulations, and, overall, to ensure harmony with international regulations. Education, coordination and guidance are indispensable for the implementation so that Richter meet all of the requirements under the Program.

HR development and remuneration (Hay Job Evaluation)

Hay Job Evaluation is a sophisticated system of profiling. The value of a job within the organisation is determined by three factors: know-how, problem solving, and accountability. Know-how is the sum total of the knowledge and experience required for adequate performance in a particular job. Its dimensions are the breadth and depth of technical knowledge, the breadth of management skills, and human relations skills (communication skills and influence). Problem solving shows the degree or extent to which a job requires the identification, analysis and solving of problems. The two dimensions of problem solving are thinking environment, and thinking challenge. Accountability is the magnitude of impact a job exercises on the company's business. Its dimensions are the freedom to act, and the nature and magnitude of impact or influence. The system is beneficial for both employees and Richter. It makes recruitment more reliable as it enables Richter to map out job roles in the context of the organisational structure. Hay Evaluation also makes jobs and work experience more comparable with experience gained in similar jobs at other firms. Wages can be compared to industrial benchmarks in the case of newly hired and old employees alike. It supports career planning and management, and improves succession planning. The Hay system is not only about wages. The Korn Ferry Hay job profiling and evaluation project was launched in 2018. Its goal was to develop a consistent classification system and to evaluate every job at Richter based on Hay Group's methodology, to prepare a job matrix broken down by organisational units, and to review, simplify and make more transparent the current job designations. The Company's medium-term goal is to develop an integrated HR approach based on the results (unequivocal clarification of responsibilities, career management, training, developments, and remuneration policy). The achievement for 2018 is the completion of the job matrix broken down by organisational units, identification of job denominations, and creating names in line with market trends to facilitate recruitment. Managers gave careful consideration to the jobs and the duties of employees within their organisational units. Jobs with the same duties and activities at different directorates will have the same name and grading in future, which makes the

organisational structure and processes more transparent. These changes concern all units across the entire Company. Introduction of the new system requires serious preparation; communication will be developed by the Directorate of Human Resources, and will be channelled through managers with the assistance of employee advocacy organisations.

Trade in the CIS

After the disintegration of the Soviet Union in 1995 and the subsequent stabilisation of the pharmaceutical supply system the Company adopted a decision on building its own market network in the CIS states. The scope of activities includes wholesale and retail trading, a network of pharma representatives, logistics, and in Russia, registration, clinical trials and pharmacy visits. The main therapeutic indications areas are gynaecologic, cardiologic and neurologic, but several other indications occur particularly in Russia. Network development has been aligned with corporate strategy; specialisation enabled Richter to focus on particular therapeutic areas, which generated a significant increase in turnover. Within pharmaceutical production the CIS market as a whole contributes 33-35% to sales income, and Russia alone contributes 25-26%. The special nature of the CIS pharma market also stems from the fact that the member states are poorer and pharmaceutical consumption is low. The rates of the GDP, per capita pharmaceutical consumption and state subsidy are, to a lesser or greater extent, below those of Hungary.

Russia is the Company's number one market. Until 2014 it had been one of the driving engines of growth with steadily climbing sales income expressed in euro. This process faltered in the wake of the 2014 Russia-Ukraine crisis, falling oil prices, a massive devaluation of the rouble, the economic recession, and declining GDP. Since 2017 there has been a noticeable change in the Russian economy, markets have started to grow, and inflation has been low. With a 1.8% total market share Richter is 17th. The Company's position is outstanding in the main therapeutic areas, and our main strength in the market is prescription drugs. The product mix in Russian market greatly differs from that of the EU mix. The rate of OTC products is very high, 40-45%, which indicates a tendency to self-treat. Meeting the Russian regulatory requirements, which are partially different from those in the EU, is also a challenge: the authorities do strict GMP audits every three years, also involving our subsidiaries. Russia is also planning to introduce serialisation but it will not follow the EU standards, which will be additional costs for the Company and will also create technical problems.

Similarly to Russia, sales income from Ukraine had risen steadily until 2014, then plummeted after the Russia-Ukraine crisis. The environment was characterised by declining purchasing power and cheap local manufacturers gaining ground. There has been some stabilisation since 2016. However, a strongly decreasing population hinders the market. Per capita pharmaceutical consumption is extremely low. In addition, the hospital market is stagnating, the retail chains play an important role and competition is keen in this area.

The other 10 CIAS states (former republics of the Soviet Union) are characterised by similar trends. For years the Company had achieved a significant growth in these countries, too, which peaked in 2014. The Russian economic crisis had its ramifications in these countries with some delay, and the national currencies had been devalued in every state. The decline stopped, and currently the Company's sales income is stagnating.

1. 2. 2. Summary and the Supervisory Board's recommendation to the Annual General Meeting

The documents supporting the 2018 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.

Net income from sales totalled HUF 330,084 million in 2018, a HUF 1,551 million increase over the 2017 figure. The Company's sales income from international markets was HUF 291,476 million, 0.6% below the 2017 figure; the drop in euro is EUR 914.8 million or 3.6%.

Russia continues to be the Company's leading market with turnover denominated in EUR 6.1% down from the reference year figure, also largely influenced by the massive (12.3%) devaluation of the rouble against the euro. Sales in rouble were 5.5% up. Sales in Ukraine in euro were 25.0% lower year-on-year. The total turnover achieved in the CIS market was HUF 114,047 and contributed 39.1% to export, 3.6% down from the 2017 figure. Income from sales in the EU was HUF 96,399 million, 10.4% below the 2017 figure, and contributed 33.1% to export. The significant decline in the EU15 region was primarily caused by falling Esmya sales. The contribution of turnover achieved in the Central and East European member states of the EU region grew to 49.4% from 42.8% in the reference year; turnover in euro grew 0.5%. The contribution of sales in the United States was 31.0% higher year-on-year, and 33.1% higher expressed in dollar, thanks mainly to income from Vraylar related royalty. The 2018 turnover in the Chinese region was HUF 26,440 million, HUF 3,384million higher year-on-year, after a 6.6% decline, Latin America generated HUF 3,387 million in turnover, and turnover from Other countries was HUF 16,314 million, 15.3% up from the reference year (the increase in EUR was 12.0%).

Aggregate direct and indirect costs of sales were HUF 8,640 million higher year-on-year. Payroll costs increased significantly. Sales and marketing costs were HUF 938 million up year-on-year. Gross margin is HUF 218,957 million, HUF 613 million above the reference year figure; with almost the same as the reference year margin at 66.3%.

Operating costs amounted to HUF 158,294 million in 2018, HUF 7,707 million above the 2017 figure. Sales and marketing expenses to sales revenues were up (from 29.8% to 31.5%); administration and general expenses were HUF 1,652 million in excess of the 2017 figure, and R&D expenses were HUF 142 million over the reference year.

The balance of Other income and expenses increased from HUF 11,891 million expenses in the reference year to HUF 13,962 million expenses in 2018. The balance strongly reflects the impairment reported on the intangible asset Esmya, the milestone income related to cariprazine, and claw back expenditure.

The Company's Profit from operation was HUF 46.557 million, 16.7% down compared to 2017. After a 2.9 percentage point decrease, the operating margin was 14.1%.

Net financial income/loss was a loss in 2018 (HUF 9,144 million) compared to a net financial loss of HUF 49,066 million recorded in 2017. As a result of the impairment tests of Esmya the Company reported HUF 21,959 million in impairment on its

holding in Preglem. The Unrealized financial items entry was largely affected by the HUF 2,016 million aggregate impact of Forex reassessments.
The 2018 profit before income tax amounted to HUF 37,413 million, HUF 30,618 million more than in 2017. The Group's profit for the year for 2018 was 31,579 million, 399.8%, or HUF 25,261 million, higher year-on-year. The factors having a major impact on the profit include the slight rise in sales income (royalty from Allergan and Vraylar sales should be mentioned specifically), the impact of one-off items in Other income and expenses, increase in Sales and marketing costs, and, on the other side, favourable exchange rates and lower impairment reported on Esmya, which boosted the Profit from financial transactions.
The Company fulfilled its obligations at all times to the state, the banks, authorities and its partners in the market and elsewhere. It had a well-balanced financial status throughout the year.
The SB agrees with the contents of the Company's Annual Financial Report for 2018 and the statements made in the Independent Auditor's Report. Hence, it proposes the Company's 2018 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 2018 Annual Report

2. 1. Proposal for the appropriation of Gedeon Richter Plc's Balance Sheet and after-tax profit for 2018

Based on the Company's audited Annual Financial Statement for 2018 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 2018 submitted to the AGM (with total assets and total liabilities in the Balance Sheet being equally HUF 775,608 million), duly audited in compliance with the International Accounting Standards.
- The after-tax profit specified in the audited Profit and Loss Statement for 2018 (before dividend payment) being HUF 31,579 million.

2. 2. Proposal for the appropriation of Gedeon Richter Plc's after-tax profit:

The proposal made by the Board of Directors is approved and supported by the Supervisory Board.

Hence, the Supervisory Board makes the following proposals to the distinguished members of the Annual General Meeting:

- To approve the payment of dividend equal to the face value of the shares, i.e. HUF 100 on each ordinary share.

Budapest, 20 March 2019

Dr Attila Chikán
Chairman of the Supervisory Board

8.

Approval of the Company’s draft 2018 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.: 22/2019

The Board of Directors proposes to the AGM to approve the Company's draft 2018 individual annual report pursuant to the IFRS.

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.: 23/2019

The Board of Directors proposes to the AGM to state the rate of dividend relating to common shares payable after the result of business year 2018 in 31.26% of the consolidated after tax profit adjusted by the impairment loss of Esmya and attributable to the Owners of the parent company, which is 100 HUF/share.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

10.

Corporate Governance Report

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RICHTER GEDEON

Report on Corporate Governance[1]

In order to comply with international and domestic legal and regulatory requirements and the highest ethical standards in all of its operations Gedeon Richter Plc. is committed to developing and maintaining a corporate governance system. This commitment is highlighted by the practice of transparent and efficient differentiation of the rights and responsibilities of the General Meeting, the Board of Directors (which has operated two subcommittees since 2004, the Corporate Governance and Nomination Subcommittee and the Remuneration Subcommittee), the Supervisory Board, and the Executive Management.

The corporate governance system and practice developed and applied by Richter is in keeping with the Corporate Governance Recommendations of the Budapest Stock Exchange, 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.

General Meeting, rules for the conduct of the General Meeting

Törölt: The Company's governing bodies:¶ ¶

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;
- 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;

[1] The report concerns the 2018 business year.

Törölt: 2017

- 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.

The Annual General Meeting shall be convened by the Board of Directors unless otherwise provided by the Civil Code[2]. The person or organ convoking the General Meeting shall determine its time, venue, and agenda.

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.

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.

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; and the requirements laid down in these Statutes of exercising the right to supplement the agenda of the General Meeting, 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).

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

[2] Act V of 2013 on the Civil Code

and non-monetary benefits granted to these members in this role, detailed by members and legal title to said benefit simultaneously with the notice convening the General Meeting.

The General Meeting is chaired by the Chairman of the Board of Directors or another person previously invited by the Board of Directors to take the chair. The General Meeting shall approve the identity of the chairman of the General Meeting prior to substantive discussion of further items on the agenda and until this has happened the General Meeting cannot make a further substantive decision in respect of the items on the agenda.

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.

With the exception of cases where the presence of a larger number of shareholders is required 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.

If the General Meeting has no quorum, the General Meeting shall be reconvened. With the exception of cases where under the given circumstances the presence of a larger number of shareholders is required 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.

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. The representative may be also other person than shareholder. Representatives may obtain voting cards if they present authorization contained in an official deed or private deed of full probative value to the Company at the place and time indicated in the announcement regarding the General Meeting.

The name of a shareholder or shareholder's representative who wishes to participate in the General Meeting shall be recorded in the Share Register by the second working day preceding the first day of the General Meeting.

Only those shareholders may exercise their rights at the General Meeting who are the owners of the shares on the reference date for the identification of ownership and whose names are contained in the Share Register on the second business day before the first day of the General Meeting. The keeper of the Share Register shall ensure the possibility of exercising of the right of registration until 6.00 PM (Budapest time) on the second business day before the first day of the General Meeting.

Every share of nominal value HUF 100 shall entitle its holder to one vote. At general meetings a shareholder may not exercise voting rights on his own account or as a representative of another shareholder, alone or in concert with affiliated persons, in excess of twenty-five percent (25%) of the voting rights attached to the shares by shareholders present or represented at the General Meeting. A shareholder shall not be entitled to exercise voting rights prior to having effected full payment of its contribution in cash.

Shareholders are entitled to receive a share of the Company's profits that are distributable and where a dividend is declared by the General Meeting. Such dividend shall be in proportion to the number of nominal shares held by the shareholder (right to a dividend). However, dividends with respect to treasury shares shall be divided to shareholders entitled to dividends, payable in proportion of the nominal value of their shares. Shareholders that have been registered in the Share Register as a result of the identification of ownership prepared on the reference date established and announced by the Board of Directors regarding the payment of dividends are entitled to dividends. The date relevant with respect to the entitlement to dividends established by the Board of Directors may differ from the date of the General Meeting adopting the resolution for the payment of dividends.

In the event of termination of the Company without legal successor, the shareholder shall be entitled - based on the payments and in-kind contributions made by the shareholder for the shares - to a proportion of any remaining assets of the Company following the satisfaction of creditors. Such proportion of the remaining assets shall be distributed to the shareholder in proportion to the ratio of the nominal value of its shareholding in the Company's registered capital and the total registered capital of the Company (proportional right to liquidation assets).

The Board of Directors

The Board of Directors of Gedeon Richter Plc. is the ultimate decision making body of the Company in matters other than those that are within the exclusive remit of the General Meeting.

Increasing value for shareholders, profitability, enhancing efficiency and transparency of operation and providing the conditions for environmental protection and safe operation as well as good shareholder relations based on consistent information are priority considerations and goals for the Board of Directors.

The structure, remit and operation of the Board of Directors

Pursuant to the Company's Statutes the Board of Directors is made up of at least three and not more than eleven members. Members of the Board of Directors are elected by the General Meeting for a definite term of not more than five years. Currently the Board of Directors consists of eleven members. The present term of mandate of the members of the Board of Directors is stated in the declaration attached to this report as Annex 1.
To members of the Board of Directors as executive officers the Company applies the same criteria of independence as those stated in the Civil Code[4] related to the members of the Supervisory Board. With respect to these criteria seven members of the Board of Directors are independent.
The Company's Chief Executive Officer is a member of the Board of Directors. Separation of the office of Chairman of the Board of Directors and the Chief Executive Officer is a key aspect of corporate governance. Two different people holding the tasks of the Chief Executive Officer and of the Chairman of the Board of Directors.
The Board of Directors elects its Chairman and Deputy Chairman from among its members. The Board of Directors may withdraw this mandate 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.

Chairman of the Board of Directors: Erik Bogsch (dependent)
Members of the Board of Directors:
János Csák (independent)

[4] In case of those public companies limited by shares which do not have one tier system (Board), but where operate a two tier system - there is an independent Supervisory Board beside the Board of Directors - the Civil Code do not state criteria of independence to the members of the Board of Directors.

Törölt: [3]
Törölt: ,
Törölt: whom
Törölt: The Company applies the criteria of independence of the Civil Code.
Törölt: Managing Director
Törölt: c
Törölt: Managing Director
Törölt: 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.
Törölt: Managing Director
Törölt: c
Törölt: d
Törölt: c
Törölt: /from January 1, 2017/
Törölt: William de Gelsey /until April 26, 2017/
Formázott: Magyar

Dr. Gábor Gulácsi (dependent)
Dr. Ilona Hardy (independent)
Csaba Lantos (independent)
Gábor Orbán (dependent)
Dr. Gábor Perjés /until April 25, 2018/ (independent)
Anett Pandurics /from April 25, 2018/ (independent)
Bálint Szécsényi /from April 25, 2018/ (independent)
Dr. Norbert Szivek (independent)
Prof. Dr. Szilveszter E. Vizi (independent)
Dr. Kriszta Zolnay (dependent)

Törölt: /from April 26, 2017/
Törölt: Dr. László Kovács /until April 26, 2017/¶
Törölt: Christopher William Long /until December 31, 2017/¶
Törölt: /from April 26, 2017/

The introduction of the members of the Board of Directors is available on the Company's website at www.richter.hu.

Törölt: A detailed
Törölt: and their independent status

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 2018 the Board of Directors held ten (10) meetings with an average attendance rate of 94.45 %.

Törölt: 2017
Törölt: eleven
Törölt: 1
Törölt: 87.59

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.

The honoraria of the members of the Board of Directors are determined by the Annual General Meeting. Pursuant to the resolution of the Annual General Meeting of 25 April, 2018 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, for year 2018 effective as of January 1, 2018.

Törölt: 6
Törölt: 2017

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 (independent)

Members: János Csák (independent)
Dr. Gábor Perjés /until 25 April, 2018/ (independent)
Dr. Ilona Hardy /from 25 April, 2018/ (independent)

Törölt: Permanent invitee: William de Gelsey (until April 26, 2017) ¶

The introduction of each members of the Subcommittee is available on the Company's website in framework of the introduction of the members of the Board of Directors. The term of mandate of Subcommittee members' equals with their term of mandate as members 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 2018 business year the Corporate Governance and Nomination Subcommittee held four (4) meetings with an average attendance rate of 100%.

Törölt: 2017

In the 2018 business year the Corporate Governance and Nomination Subcommittee discussed the below subjects:
- audition of the candidates to the Board of Directors;
- audition of the new candidate to the Supervisory Board;
- assessment of the activity of the Board of Directors;
- Corporate Governance Report for year 2017.

Members of the Corporate Governance and Nomination Subcommittee with respect to their position and activity in the Subcommittee did not get separate remuneration over the honoraria they were entitled to as members of the Board of Directors.

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 (independent)

Members:

Dr. Gábor Gulácsi (dependent)

Dr. Gábor Perjés /until April 25, 2018/ (independent)

Anett Pandurics /from April 25, 2018/ (independent)

Törölt: (from February 27, 2017)

Törölt: William de Gelsey (until April 26, 2017)

Törölt: Dr. László Kovács (until April 26, 2017)¶

Törölt: (from April 26, 2017)

Törölt: (from April 26, 2017)

The introduction of the members of the Subcommittee is available on the Company's website in framework of the introduction of the members of the Board of Directors. The term of mandate of Subcommittee members' equals with their term of mandate as members of the Board of Directors.

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 2018 business year the Remuneration Subcommittee held two (2) meeting with an average attendance rate of 100%.

Törölt: 2017

Törölt: four

Törölt: 4

In the 2018 business year the Remuneration Subcommittee discussed the below subjects:
- remuneration of members of the Board of Directors for year 2018;
- remuneration of members of the Supervisory Board for year 2018;
- reviewing the Chief Executive Officer's basic wage and other remuneration.

Members of the Remuneration Subcommittee with respect to their position and activity in the Subcommittee did not get separate remuneration over the honoraria they were entitled to as members of the Board of Directors.

Division of responsibilities and duties between the Executive Board and the Board of Directors

Törölt: Management

The Executive Board is responsible for management and control of the Company's operative activities. The chairman of the Executive Board is the Chief Executive Officer 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 Chief Executive Officer for a period determined by the Board of Directors. 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.

Törölt: Management
Törölt: Management
Törölt: Managing Director
Törölt: Managing Director
Törölt: Managing Director

The Executive Board 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 Board the final decision shall be made by the Chief Executive Officer or the Board of Directors, depending on their competence.

Törölt: Management
Törölt: Management
Törölt: Managing Director

As set out by the Statutes the Board of Directors shall determine the remit of the Chief Executive Officer 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 Chief Executive Officer 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.

Törölt: Managing Director
Törölt: Managing Director

Under the Rules of Organization and Operation the Chief Executive Officer 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 Chief Executive Officer 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.

Törölt: Managing Director
Törölt: Managing Director

The Chief Executive Officer 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 the Company's Rules of Organization and Procedure.

Törölt: Managing Director
Törölt: in Annex B of the Company's Statutes and

The Chief Executive Officer makes decisions regarding the evaluation and remuneration of the work of the Executive Board 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 Chief Executive Officer in the context of the annual plan and the bonus system and on the basis of the proposal of the Remuneration Subcommittee.

Törölt: Managing Director
Törölt: Management
Törölt: Managing Director

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 Board:

Törölt: Management

Gábor Orbán - Chief Executive Officer

Erik Bogsch	- Executive Director responsible for Commercial, for Legal and Global Operations, for PR and Government Relations
Dr. Gábor Gulácsi	- Deputy Managing Director of Finance
Lajos Kovács	- Technical Director
András Radó	- Deputy Managing Director of Production and Logistics
Tibor Horváth	- Commercial Director
Dr. István Greiner	- Director of Research
Dr. György Thaler	- Director of Development

The introduction of the members of the Executive Board is available on the Company's website at www.richter.hu.

Törölt: - Managing Director (until October 31, 2017)¶

Törölt: Gábor Orbán - Director of Corporate Strategy (from September 5, 2016 to December 31, 2016)¶
- Chief Operating Officer (from January 1, 2017 to October 31, 2017)¶
- Chief Executive Officer (from November 1, 2017)¶

Törölt: (from August 1, 2017)

Törölt: A detailed

Törölt: Management

Conflict of interest and independence

In order to avoid conflict of interest of members of the Board of Directors and of the Executive Board in their relations to third parties the employment contract of members of the Executive Board 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.
In case of those public companies limited by shares which do not have one tier system (Board), but where operate a two tier system - there is an independent Supervisory Board beside the Board of Directors - the Civil Code do not state criteria of independence to the members of the Board of Directors. Apart from this the Company applies the criteria of independence concerning Supervisory Board members stated by the Civil Code in respect of both members of the Board of Directors and of the Supervisory Board.

Törölt: Management

Törölt: Management

Törölt: T

Törölt: provided

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. The present term of mandate of the members of the Supervisory Board is stated in the declaration attached to this report as Annex 1.

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. The criteria of independence stated in the Civil Code shall be applied to the members of the Company's Supervisory Board. With respect to these criteria the principle of majority of the independent members are fully enforced in respect of the composition of the Supervisory Board. Two of its members represent the employees and the remaining three members are independent (external) persons.

Chairman of the Supervisory Board: Dr. Attila Chikán (independent)

Members of the Supervisory Board: Prof. Dr. Jonathán Róbert Bedros (independent)
Mrs. Tamásné Méhész /until 25 April, 2018/ (independent)
Dr. Zsolt Harmath /from 25 April, 2018/ (independent)
Dr. Éva Kozsda Kovácsné (employees' representative) (dependent)
Mrs. Klára Csikós Kovácsné (employees' representative) (dependent)

The introduction of the members of the Supervisory Board is available on the Company's website at www.richter.hu.

Törölt: A detailed

Törölt: and their independent status

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 2018 business year the Supervisory Board held ten (10) meetings with an average attendance rate of 96 %.

Törölt: 2017

Törölt: nine

Törölt: 9

Törölt: 100

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.

The honoraria of the members of the Board of Directors are determined by the Annual General Meeting. At the Annual General Meeting of April 25, 2018 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, for year 2018 effective as of January 1, 2018.

Törölt: 6

Törölt: 2017

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 /until 25 April, 2018/
Dr. Zsolt Harmath /from 25 April, 2018/

The introduction of the professional background of members of the Audit Board is available on the Company's website at www.richter.hu.

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 2018 business year the Audit Board held five (5) meetings with an average attendance rate of 100%. In 2018 business year the Audit Board held consultation and adopted resolution without session furthermore at five (5) occasions.

Törölt: 2017
Törölt: three
Törölt: 3
Törölt: 2017
Törölt: eight

In the 2018 business year the Audit Board discussed the below subjects:
- examining of individual annual report and consolidated annual report and the business reports;
- reviewing the auditor's reports;
- examining of the Corporate Governance Report for year 2017;
- determination of the annual report of the Audit Board;
- the Company's interim financial statement regarding the accounting date of August 31, 2018;
- services not related to auditing (falling out of the scope of auditing the consolidated and individual report) rendered by the business entity acting as statutory auditor and/or entities connecting to the statutory auditor's net.

In 2018 the Board of Directors did not passed such resolution which was against the proposal of Audit Board.

Members of the Audit Board with respect to their position and activity in the Audit Board did not get separate remuneration over the honoraria they were entitled to as members of the Supervisory Board.

Introduction to the diversity policy applied to the members of governing bodies

In its operation Richter lays great store by personal values and individual characteristics. According to the Company's creed the exploitation of varying characteristics is the corner stone of innovation and success, 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.
To implement the Company's views in practice, on 28 May 2018 the Board of Directors adopted the Diversity Policy regarding the Company's governing bodies (Board of Directors, Supervisory Board and Executive Board), which was announced on 21 June 2018. The Diversity Policy accepted for a five-year period, whose implementation is closely tracked by the Board, determines the diversity aspects and objectives applicable for the Company's business management, executive and supervisory bodies.
In the spirit of diversity, when composing the Company's governing bodies priority will be given to knowledge related to Richter's main business, expertise in the economic, social and environmental contexts of the Company's operation, as well as professional and personal reputation. Richter's position is that these diversity considerations are best promoted if the governing bodies have members with qualification and experience in the pharmaceutical industry as well as finance and economics; Richter, therefore, makes an effort to have members with appropriately diverse professional backgrounds serving on its governing boards. The goals formulated in the Policy in conjunction with the governing bodies envision that both sexes should be represented among the members to the extent that the aggregate rate of women should be at least 30%, the age distribution of members should be balanced, and members should also include gifted under 50 year aged persons with appropriate competences.
The Company pays attention to the considerations and goals determined in the Policy when nominating members to the Board of Directors, the Supervisory Board and the Audit Board,

Törölt: governinggoverning bodiesCsnew 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 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 - v ... [1]

and when selecting members and planning potential successors to serve on the Executive Board. As a public limited company, Richter has no power other than nominating members on the Company's boards; their election is the exclusive competence of the AGM.
Comparing year 2018 with 2017, as a result of the changes that took place in the course of 2018 and of the AGM's resolutions regarding the composition of the boards the rate of women on the Board of Directors has improved and the age distribution of directors has become more balanced. While the number of women on the Supervisory Board and the Audit Board decreased by one in 2018, but women's rate on the Supervisory Board remained 30%. In the course of the year one new member below the age of 50 was elected to serve on the Supervisory and the Audit Boards respectively.
The Company considers it important to regularly inform the shareholders about its Diversity Policy in the Annual Report and the Report on Corporate Governance including changes in, and achievements through, the Policy.

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.
- Total Quality Management and Regulatory direction handling the Company's GxP compliance risks extensively. Compliance risks in connection with sales also handled through a centralized organizational unit responsible for legal direction.
- The various functional areas are responsible for operating risk management in their particular areas. 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.

Formázott: Felsorolás és számozás

Törölt: and compliance

Törölt: The risk management efforts of the heads of functional areas are supported by the meetings of the Company's bodies.

- 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 examining 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.

In 2018 emerged the risks in connection with obtaining qualified employees and with developing and launching special products, but setting up the Directorate of Regulatory is a step forward in handling of compliance risks.

Statutory Auditor

In 2018 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: 2017

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).

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 2018 year is HUF 19,000,000.00 + VAT, which includes the fee for the auditing of the 2018 non consolidated annual report, the fee for examining the consonance between the non-consolidated annual report and business report for 2018, the fee for the auditing of the 2018 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, 2018 in accordance with the Hungarian Accounting Act.

Törölt: 2017
Törölt: 2017
Törölt: 2017
Törölt: 2017
Törölt: 2017

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.

The statutory auditor did not perform any activity that might have compromised its independence.

The Audit Board decides on all non-auditing services provided to the statutory auditor and/or to members belonging to the statutory auditor's net and the related contract may only be concluded with the approval of the Audit Board, after the resolution in subject has been passed.

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 General Terms of Service 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: Regulations for Listing, Continued Trading and Disclosure

The Company does not determine own publication policy. The Company in connection with its publications follows the rules of the Statutes, the effective legal regulations, and the regarding regulations of the Budapest Stock Exchange and the National Bank of Hungary.

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.

The Company does not determine own policy regarding insider trading. The 596/2014/EU Regulation and other regarding legal rules are applicable to the trading of persons deemed to be insider at the Company. The Company's internal regulations - which covering also regulations related to prohibiting of insider trading - states prohibitions related to trading of insider person in compliance with the legal regulations.

The persons deemed to be insider regarding the Company have individual responsibility to comply with the rules related and connected to prohibition of insider trading and with the Company's internal regulations covering previous subjects.

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.

Törölt: The Company plans a revision and update of its compliance manuals in 2018.¶

In the first half of 2018, the Company conducted a review of the Compliance Manuals and the Code of Ethics. Since the introduction of the compliance program in 2016, the following factors justified the update of the Compliance Handbook:

- changes in the legal environment (with particular regard to the European Union's General Data Protection Regulation, i.e. the GDPR, which entered into force in May 2018);
- implementations of new internal regulations (such as the Crisis Communication Procedure);
- personal and organizational changes at the Company; and
- experiences gained from the everyday application of the manuals.

In the course of 2018, the Company held several trainings in connection with the Global Compliance Program. The use of the Compliance Hotline has become general at the Company, and last year, employees have increasingly asked questions about the Code of Ethics, the Compliance Handbook and the Global Compliance Program.

In 2018, the Global Compliance Program was started to be extended to affiliates and representative offices in Latin American countries and CIS member states.

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. Gedeon Richter Plc. has established various foundations to provide 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 2018 was HUF 337 million donated to 68 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.

Every two years – the last time concerning the period of 2016-2017 – 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: The

Törölt: Foundation for Hungarian Health Care provides

Törölt: 2017

Törölt: 300

Törölt: 61

Törölt: 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.¶

Törölt: being in 2016,

Törölt: 2014-2015

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.

The Company finds it important to focus on environmental protection as a whole and on its particular areas. In order to protect environmental elements the Company takes care to identifying, assessing and reducing the environmental impact, and potential risks associated with its business, and also to the disposal and recovery of waste generated in accordance with the applicable requirements. In interest of reducing environmental impacts the Company

- constantly upgrades its production technologies and seeks to use the best available technology;
- modernizes the infrastructure for storage and supply of chemicals in order to reduce the risk of soil and groundwater contamination;
- continuously monitoring the condition of the neighboring soil and air, the quality of waste water emitted and the noise impact of the site.

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 stakeholders in its regular Sustainability reports.

Törölt: the authorities and general public

Budapest, 24 April, 2019

Törölt: 25

Törölt: 2018

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Prof. Dr. E. Szilveszter Vizi
Member of the Board of Directors,
Chairman of the Corporate Governance
and Nomination Subcommittee

.....

Erik Bogsch
Chairman of the Board of Directors

Annex 1

Declaration from remuneration of members of the governing bodies

I./ Remuneration of the members of the Board of Directors and members of the Supervisory Board

Gedeon Richter Plc. provide information from the remuneration 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 2018 according to the followings:

Members of the Board of Directors

Name	Position	Term of the present mandate	Title of remuneration	Sum of remuneration	Total remuneration in 2018 /HUF/
Erik Bogsch	Board member, and Chairman of the Board of Directors	from April 26, 2017 for a period of 3 (three) years expiring on the AGM in 2020	honoraria	650,000 HUF/month	7,800,000
János Csák	Board member	From April 26, 2017 for a period of 3 (three) years expiring on the AGM in 2020	honoraria	540,800 HUF/month	6,489,600
Dr. Gábor Gulácsi	Board member	From April 26, 2016 for a period of 3 (three) years expiring on the AGM in 2019	honoraria	540,800 HUF/month	6,489,600
Dr. Ilona Hardy	Board member	From April 26, 2017 for a period of 3 (three) years expiring on the AGM in 2020	honoraria	540,800 HUF/month	6,489,600
Csaba Lantos	Board member	From April 26, 2016 for a period of 3 (three) years expiring on the AGM in 2019	honoraria	540,800 HUF/month	6,489,600
Gábor Orbán	Board member	From April 26, 2017 for a period of 3 (three) years expiring on the AGM in 2020	honoraria	540,800 HUF/month	6,489,600
Dr. Gábor Perjés	Board member	From April 26, 2017 until April 25, 2018	honoraria	540,800 HUF/month	2,163,200
Anett Pandurics	Board member	From April 25, 2018 for a period of 3 (three) years expiring on the AGM in 2021	honoraria	540,800 HUF/month	4,326,400
Bálint Szécsényi	Board member	From April 25, 2018 for a period of 3 (three) years expiring on the AGM in 2021	honoraria	540,800 HUF/month	4,326,400
Dr. Norbert Szivek	Board member	From April 26, 2016 for a period of 3 (three) years expiring on the AGM in 2019	honoraria	540,800 HUF/month	6,489,600
Prof. Dr. E. Szilveszter Vizi	Board member	From April 26, 2017 for a period of 3 (three) years expiring on the AGM in 2020	honoraria	540,800 HUF/month	6,489,600
Dr. Krisztа Zolnay	Board member	From April 26, 2017 for a period of 3 (three) years expiring on the AGM in 2020	honoraria	540,800 HUF/month	6,489,600

Members of the Supervisory Board

Name	Position	Term of the present mandate	Title of remuneration	Sum of remuneration	Total remuneration in 2018 /HUF/
Dr. Attila Chikán	Chairman of the Supervisory Board	from April 25, 2018 for a period of 3 (three) years expiring on the AGM in 2021	honoraria	478,400 HUF/month	5,740,800
Prof. Dr. Jonathán Róbert Bedros	Board member	from April 25, 2018 for a period of 3 (three) years expiring on the AGM in 2021	honoraria	390,000 HUF/month	4,680,000

Törölt: 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 ... [2]

Tamásné Méhész	Board member	from April 28, 2015 for a period of 3 (three) years expiring on the AGM in 2018	honoraria	390,000 HUF/month	1,560,000
Dr. Zsolt Harmath	Board member	from April 25, 2018 for a period of 3 (three) years expiring on the AGM in 2021	honoraria	390,000 HUF/month	3,120,000
Mrs. Klára Csikós Kovácsné	Board member	from April 25, 2018 for a period of 3 (three) years expiring on the AGM in 2021	honoraria	390,000 HUF/month	4,680,000
dr. Éva Kozsda Kovácsné	Board member	from April 25, 2018 for a period of 3 (three) years expiring on the AGM in 2021	honoraria	390,000 HUF/month	4,680,000

Honoraria of the members of the Board of Directors for year 2018, effective as of January 1, 2018 was determined and approved by the Company's AGM in 2018 in resolution No. 24/2018.04.25. Honoraria of the members of the Supervisory Board for year 2018, effective as of January 1, 2018 was determined and approved by the Company's AGM in 2018 in resolution No. 25/2018.04.25.

In 2018 Members of the Board of Directors and of the Supervisory Board have received remuneration only in cash.

II./ Remuneration of the Executive Board of the Company

Decision on compensation of the Chief Executive Officer is within the competence of the Board of Directors. The Board of Directors decides in subject of the compensation of the Chief Executive Officer based upon the proposal of the Remuneration Subcommittee.

Compensation of the other members of the Executive Board falls into the competence of the Chief Executive Officer.

Annex 2

Corporate Governance Report on compliance with the Corporate Governance Recommendations

As part of the Corporate Governance Report, the Company makes a statement regarding the extent to which it has implemented in its own corporate governance practice the recommendations and proposals specified in the relevant sections of the Corporate Governance Recommendations issued by the Budapest Stock Exchange Ltd., by completing the following tables.
These tables provide an overview for the investors of the extent of the compliance - by the relevant company - with certain requirements set out in the Corporate Governance Recommendations at glance, and enable easy comparison of the practices of the specific companies.

The Recommendations contain both recommendations that are binding for all issuers and non-binding proposals. Issuers may derogate both from binding recommendations and non-binding proposals. In the event of derogation from the recommendations, issuers are required to publish and justify the derogation in their corporate governance reports ('comply or explain'). This enables issuers to take industry and company-specific requirements into account. Accordingly, even issuers derogating from the recommendations can comply with corporate governance requirements under specific circumstances. Concerning the proposals, issuers should indicate whether they apply a given guideline or not, and they can also explain any derogation from the proposals.

The basic principle and purpose of the corporate governance report is to have companies give a report of their previous business year and to reveal the measure of their compliance with the Recommendations. The Recommendations may, however, include recommendations and proposals relating to events which did not occur at the issuer in the given period. In accordance with the current practice, these 'event type' questions can be answered with 'YES' also when the relevant event did not occur in the business year (for instance, no dividend was paid, or no shareholders' comments were received for the proposals to be submitted prior to the General Meeting) if the Company would have responded to the occurrences of such events as set forth in the Recommendations, in line with the provisions of its Articles of Association or its practices. In a situation like that, the solution that comes closest to the principle of transparent operation is for the issuer to select YES and also to add an explanation that though the event in question did not occur in the previous business year, there are appropriate mechanisms in place to handle it.

Level of compliance with the Recommendations

The Company indicates whether it follows the relevant recommendation or not, and if not, briefly explains the reasons why it did not follow that specific recommendation.

1.1.1. Does the Company have an organisational unit dealing with investor relationship management, or a designated person to perform these tasks?

Yes

Explanation: -

1.1.2. Are the Company's Articles of Association available on the Company's website?

Yes

Explanation: -

1.1.4. If the Company's Articles of Association allow shareholders to exercise their rights in their absence, did the Company publish the methods and conditions of doing so, including all necessary documents?

Yes

Explanation: The announcement (invitation) convening the general meeting contains information regarding the way and conditions to appoint representative (nominee) and the fact that the forms for voting via proxy will be published by the Company on its website 21 days prior to the general meeting.

1.2.1. Did the Company publish on its website a summary document containing the rules applicable to the conduct of its General Meetings and to the exercise of voting rights by shareholders?

Yes

Explanation: The announcement (invitation) convening the general meeting contains the regarding rules.

1.2.2. Did the Company publish the exact date when the range of those eligible to participate in a given company event is set (record date), and also the last day when the shares granting eligibility for participating in a given company event are traded?

Yes

Explanation: -

1.2.3. Did the Company hold its General Meetings in a manner providing for maximum shareholder participation?

Yes

Explanation: -

1.2.6. The Company did not restrict the shareholders' right to designate a different representative for each of their securities accounts to represent them at any General Meeting. (Answer Yes, if not)

Yes

Explanation: -

1.2.7. For proposals for the agenda items, were the Board of Directors' draft resolution and also the Supervisory Board's opinion disclosed to the shareholders?

Yes

Explanation: -

1.3.3. The Company did not restrict the right of its shareholders attending a General Meeting to request information, add comments and submit proposals, or set any preconditions for these with the exception of some measures taken to conduct the General Meeting in a correct manner and as intended. (Answer Yes, if not)

Yes

Explanation: -

1.3.4. By answering the questions raised at the General Meeting, did the Company ensure compliance with the information provision and disclosure principles set out in legal and stock exchange requirements?

Yes

Explanation: -

1.3.5. Did the Company publish on its website the answers to the questions that the representatives of the Company's boards or its auditor present at the General Meeting could not satisfactorily answer at the meeting within 3 working days following the General Meeting, or an official statement explaining why it refrained from giving answers?

No

Explanation: There were no such questions.

1.3.7. Did the Chairman of the General Meeting order a recess or suggest that the General Meeting be postponed when a proposal or proposal relating to a particular issue on the agenda was submitted which the shareholders hadn't had a chance to become familiar with before the General Meeting?

No

Explanation: There were no such suggestions, proposals which would justify ordering a recess or postponing the general meeting.

1.3.8.1. The Chairman of the General Meeting did not use a combined voting procedure for a decision related to electing and recalling executive officers and Supervisory Board members. (Answer Yes, if not)

Yes

Explanation: -

1.3.8.2. For executive officers or Supervisory Board members, whose nominations were supported by shareholders, did the Company disclose the identity of the supporting shareholder(s)?

No

Explanation: The Board of Directors nominates the candidates to the Board of Directors and the non-employee representative candidates to the Supervisory Board with asking the opinion of the major shareholders.

1.3.9. Prior to discussing agenda items concerning the amendment of the Articles of Association, did the General Meeting pass a separate resolution to determine whether to decide on each amendment of the Articles of Association by individual votes, joint votes, or votes combined in a specific way?

No

Explanation: In the announcement (invitation) convening the general meeting it is signed at the agenda item relating to the amendments of the Statutes that the amendments would be proposed in which subjects.

1.3.10. Did the Company publish the minutes of the General Meeting containing the resolutions, the description of the draft resolutions and any important questions and answers related to the draft resolutions within 30 days following the General Meeting?

No

Explanation: The Company fulfill its obligation to deposit the minutes of the general meeting in compliance with the rules of the Civil Code.

1.5.1.1. Did the Board of Directors/Governing Board or a committee consisting of Board of Directors/Governing Board members establish guidelines and rules concerning the performance review and remuneration of the Board of Directors/Governing Board, the Supervisory Board and the management?

No

Explanation: The Company does not established guidelines concerning performance review and remuneration. 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 of the 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. Decision on compensation of the Chief Executive Officer is within the competence of the Board of Directors. The Board of Directors decides in subject of the compensation of the Chief Executive Officer based upon the proposal

of the Remuneration Subcommittee. Compensation of the other members of the Executive Board falls into the competence of the Chief Executive Officer.
Concerning the incentive tool system, the Board of Directors approved that the performance urging of the Chief Executive Officer, other members of the Executive Board and the key employees in 2018 would be executed by establishing and operating EPP Organization (MRP) by the Company, preferred by the legislator.

1.5.1.2. Were the tasks and the level of responsibility of each member, the rate of achievement of the Company's objectives and its economic/financial position taken into consideration for establishing performance-based remuneration for the members of the management?

Yes

Explanation: -

1.5.1.3. Were the remuneration guidelines established by the Board of Directors/Governing Board or a committee consisting of Board of Directors/Governing Board members assessed by the Supervisory Board?

No

Explanation: The Company did not establish remuneration guidelines. See as written under Section 1.5.1.1.

1.5.1.4. Were the guidelines (and any major changes thereof) for the remuneration of Board of Directors/Governing Board and Supervisory Board members approved by the General Meeting?

No

Explanation: The Company did not establish remuneration guidelines. See as written under Section 1.5.1.1.

1.5.2.1. Does controlling the performance of and establishment of the remuneration for the executive management fall within the competence of the Board of Directors/Governing Board?

No

Explanation: Decision on compensation of the Chief Executive Officer is within the competence of the Board of Directors. The Board of Directors decides in subject of the compensation of the Chief Executive Officer based upon the proposal of the Remuneration Subcommittee. Controlling the performance of and deciding on compensation of the other members of the Executive Board falls into the competence of the Chief Executive Officer.

1.5.2.2. Were the terms for extraordinary benefits provided to management members (and any major changes thereto) approved by the General Meeting in a separate agenda item?

No

Explanation: There was no such extraordinary benefit. Decision on compensation of the Chief Executive Officer is within the competence of the Board of Directors. Deciding on compensation of the other members of the Executive Board falls into the competence of the Chief Executive Officer. See as written under Section 1.5.2.1.

1.5.3.1. Did the General Meeting approve the principles of the stock-based remuneration schemes?

No

Explanation: There was no such scheme.

1.5.3.2. Did shareholders receive detailed information before the General Meeting decided about the stock-based remuneration schemes (at least as specified in Section 1.5.3.)

No

Explanation: There was no such scheme.

1.5.4. Does the Company have a remuneration scheme in place which does not incentivize the staff to focus only on short-term maximisation of the share price?

Yes

Explanation: -

1.5.5. Does Supervisory Board members receive a fixed-amount remuneration which does not include any elements linked to share price?

Yes

Explanation: -

1.5.6. Did the Company prepare a report ('Remuneration Statement') for the owners about the remuneration principles relating to and containing the actual remuneration of Board of Directors/Governing Board, Supervisory Board and management members (with the content and the level of detail set out in industry regulations binding for the Company), and did the Company present it to the General Meeting? Did the Remuneration Statement present the remuneration of Board of Directors/Governing Board and Supervisory Board members, as well as the guidelines used to assess their activities and establish their remuneration? Did this information include the disclosure of the total remuneration for Board of Directors/Governing Board and Supervisory Board level, the details of all fixed and variable elements, any other remunerations as well as a presentation of the guidelines for the remuneration scheme and any major changes to those compared to the previous financial year?

No

Explanation: The Company did not establish guidelines concerning remuneration and did not prepare Remuneration Statement in line with Section 1.5.6. 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 of the 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. Decision on compensation of the Chief Executive Officer is within the competence of the Board of Directors. The Board of Directors decides in subject of the compensation of the Chief Executive Officer based upon the proposal of the Remuneration Subcommittee. Compensation of the other members of the Executive Board falls into the competence of the Chief Executive Officer.

1.6.1.1. Do the Company's publication guidelines cover the procedures for electronic, online disclosure?

No

Explanation: The Company did not establish publication guidelines. The Company in connection with its publications follows the rules of the Statutes, the effective legal regulations, and the regarding regulations of the Budapest Stock Exchange and the National Bank of Hungary.

1.6.1.2. Does the Company design its by considering the aspects of disclosure and the information of investors?

Yes

Explanation: -

1.6.2.1. Does the Company have an internal publication policy in place which covers the processing the information listed in Section 1.6.2. of the Recommendations document?

No

Explanation: The Company formed its internal practice relating to disclosures in compliance with the effective legal regulations, rules of the Statutes, and the regarding regulations of the Budapest Stock Exchange and the National Bank of Hungary. But in the subject no internal written regulations have been stated.

1.6.2.2. Do the internal regulations of the Company cover the methods for the assessment of events judged to be important for publication?

No

Explanation: The Company formed its internal practice relating to disclosures in compliance with the effective legal regulations, rules of the Statutes, and the regarding regulations of the Budapest Stock Exchange and the National Bank of Hungary.

1.6.2.3. Did the Board of Directors/Governing Board assess the efficiency of the publication processes?

No

Explanation: See as written under Section 1.6.2.1. and 1.6.2.2.

1.6.2.4. Did the Company publish the findings of the efficiency assessment of the publication process?

No

Explanation: See as written under Section 1.6.2.1. and 1.6.2.2.

1.6.3. Did the Company publish its annual company event calendar?

Yes

Explanation: -

1.6.4. Did the Company publish its strategy, business ethics and policies regarding other stakeholders?

Yes

Explanation: -

1.6.5. Did the Company publish the career information of Board of Directors / Governing Board, Supervisory Board and management members in its annual report or on the company website?

Yes

Explanation: -

1.6.6. Did the Company publish all relevant information about the internal organisation and the operation of the Board of Directors / Governing Board and the Supervisory Board, about the work of the management, the assessments of these and the changes in the current year?

No

Explanation: The Corporate Governance and Nomination Subcommittee assessed the annual work of the members of the Board of Directors. The Supervisory Board reported from its annual work in its report regarding the Company's annual report. Assessing the work of the Chief Executing Officer falls into the competence of the Board of Directors. Assessing the work of other members of the Executive Board falls into the competence of the Chief Executive Officer.

1.6.7.1. Did the Company publish its remuneration guidelines in line with the recommendations set out in Section 1.5.

No

Explanation: The Company did not publish remuneration guidelines. See as written under Section 1.5.1.1.-1.5.1.4.

1.6.7.2. Did the Company publish its remuneration statement in line with the recommendations set out in Section 1.5.?

No

Explanation: The Company did not publish Remuneration Statement in compliance with Section 1.5.6. See more as written under Section 1.5.6.

1.6.8. Did the Company publish its risk management guidelines and information about its system of internal controls, the main risks and the principles for their management?

Yes

Explanation: -

1.6.9.1. Did the Company publish its guidelines relating to the trading of its shares by insiders?

No

Explanation: The Company does not publish own guidelines (policy) relating to the trading of its shares by insiders. The 596/2014/EU Regulation and other regarding legal rules are applicable to the trading of persons deemed to be insider at the Company. The Company's internal regulations - which covering also regulations related to prohibiting of insider trading - states prohibitions related to trading of insider person in compliance with the legal regulations.

1.6.9.2. Did the Company disclose the share of the Board of Directors / Governing Board, Supervisory Board and management members in the securities issued by the Company, as well as the extent of their interest under the equity-based incentive system in the annual report or in some other way?

Yes

Explanation: -

1.6.10. Did the Company publish the relationship of Board of Directors / Governing Board, Supervisory Board and management members may have with third parties which could affect the operation of the Company?

No

Explanation: There was no such case.

2.1.1. Does the Company's Articles of Association contain clear provisions regarding the responsibilities and competences of the General Meeting and the Board of Directors / Governing Board?

Yes

Explanation: -

2.2.1. Does the Board of Directors / Governing Board have a rules of procedure in place defining the organisational structure, the actions for arranging for and conducting the meetings, and the tasks regarding the adopted resolutions, as well as other issues related to the operation of the Board of Directors / Governing Board?

Yes

Explanation: The rules of procedure of the Board of Directors are stated in the Statutes.

2.2.2. Does the Company publish the procedure used for nominating Board of Directors / Governing Board members and the principles for determining their remuneration?

No

Explanation: Draft resolutions regarding the candidates nominated to be the members of the Board of Directors is proposed by the Board of Directors based upon the preliminary motion of the Corporate Governance and Nomination Subcommittee, at the same time providing the curriculum vitae of the candidates.
Members of the Board of Directors and of the Supervisory Board get monthly paid honoraria which determined by the general meeting. Proposal regarding to the honoraria of the members of the Board of Directors and of the Supervisory Board is prepared and submitted with respect to the preliminary motion of the Remuneration Subcommittee.

2.3.1. Does the Supervisory Board provide a detailed description of its operation and duties, as well as the administrative procedures and processes followed by it, in its rules of procedure and work plan?

Yes

Explanation: -

2.4.1.1. Did the Board of Directors / Governing Board and the Supervisory Board hold meetings periodically at a predefined interval?

Yes

Explanation: -

2.4.1.2. Did the rules of procedure of the Board of Directors / Governing Board and the Supervisory Board provide rules for the conduct of meetings that cannot be planned in advance, and for decision-making using electronic telecommunications means?

Yes

Explanation: There is a possibility to hold extraordinary meetings and passing resolution without session, but there isn't decision-making via electronic telecommunication.

2.4.2.1. Did board members have access to the proposals to be presented at the meeting of the respective board at least five days prior to the meeting?

Yes

Explanation: -

2.4.2.2. Did the Company arrange the proper conduct of the meetings, the drawing up of the meeting minutes and management of the resolutions made by the Board of Directors / Governing Board and the Supervisory Board?

Yes

Explanation: -

2.4.3. Do the rules of procedure provide for the regular or ad hoc participation of non-board members at respective board's meetings?

Yes

Explanation: The rules of procedure of the Supervisory Board explicitly regulate the participation of guests. Relating to the Board of Directors the body's established practice make it possible to invite guests if its well-grounded, without it would be explicitly regulated in the rules of procedure.

2.5.1. Were the members of the Board of Directors / Governing Board and the Supervisory Board nominated and elected in a transparent process, and was the information about the candidates made public in due time before the General Meeting?

Yes

Explanation: -

2.5.2. Does the composition and size of the boards comply with the principles set out in Section 2.5.2. of the Recommendations?

Yes

Explanation: -

2.5.3. Did the Company ensure that the newly elected Board of Directors / Governing Board and Supervisory Board members became familiar with the structure and operation of the Company and their tasks were carried out as members of the respective boards?

Yes

Explanation: -

2.6.1. Did the Governing Board / Supervisory Board request (in the context of preparing the annual corporate governance report) its members considered to be independent to confirm their independence at regular intervals?

Yes

Explanation: -

2.6.2. Does the Company provide information about the tools which ensure that the Board of Directors / Governing Board assesses objectively the management's activities?

No

Explanation: Assessing the work of the Chief Executive Officer is falling into the competence of the Board of Directors. Assessing the other members of the Executive Board is the competence of the Chief Executive Officer.

2.6.3. Did the Company publish its guidelines concerning the independence of its Governing Board / Supervisory Board members and the applied independence criteria on its website?

No

Explanation: In case of those public companies limited by shares which do not have one tier (Board) system, but where operate a two tier system – there is independent Supervisory Board beside the Board of Directors - the Civil Code do not state criteria of independence to the members of the Board of Directors. Apart from this the Company applies the criteria of independence stated to the Supervisory Board members by the Civil Code in respect of both members of the Board of Directors and of the Supervisory Board.

2.6.4. Does the Supervisory Board of the Company have any members who has held any position in the Board of Directors or in the management of the Company in the previous five years, not including cases when they were involved to ensure employee participation?

Yes

Explanation: -

2.7.1. Did members of the Board of Directors / Governing Board inform the Board of Directors / Governing Board and (if applicable) the Supervisory Board (or the Audit Committee if a uniform governance system is in place) if they, or individuals they have business relations with, or their relatives have interest in any business transactions of the Company (or any subsidiaries thereof) which excludes their independence?

No

Explanation: There was no such transaction.

2.7.2. Were transactions and assignments between members of boards/ members of the management/individuals closely associated with them and the Company/subsidiaries of the Company carried out in accordance with the Company's general business practice but applying more stringent transparency rules compared to general business practice, and were they approved?

No

Explanation: There was no such transaction.

2.7.3. Did board members inform the Supervisory Board / Audit Committee (Nominating Committee) if they had received an appointment for board membership or management position of a company not belonging to the Company Group?

No

Explanation: There was no such case.

2.7.4. Did the Board of Directors / Governing Board develop guidelines for the flow of information and the management of insider information within the Company, and monitor compliance with them?

Yes

Explanation: The Company set up rules related to handling insider information in frameworks of internal regulations.

2.8.1. Did the Company create an independent internal audit function that reports directly to the Audit Committee / Supervisory Board?

No

Explanation: According to the Rules of Organization and Procedure approved by the Board of Directors at the Company there is an internal audit department, operating subordinated to the Chief Executive Officer, which reports regularly to the Board of Directors and also fulfills tasks given by the Supervisory Board.

2.8.2. Does Internal Audit have unrestricted access to all information necessary for carrying out audits?

Yes

Explanation: -

2.8.3. Did shareholders receive information about the operation of the system of internal controls?

Yes

Explanation: -

2.8.4. Does the Company have a function ensuring compliance (compliance function)?

Yes

Explanation: -

2.8.5.1. Is the Board of Directors / Governing Board or a committee operated by it responsible for the supervision and management of the entire risk management of the Company?

Yes

Explanation: -

2.8.5.2. Did the relevant organisation of the Company and the General Meeting received information about the efficiency of the risk management procedures?

Yes

Explanation: -

2.8.6. With the involvement of the relevant areas, did the Board of Directors / Governing Board develop the basic principles of risk management taking into account the special idiosyncrasies of the industry and the Company?

Yes

Explanation: -

2.8.7. Did the Board of Directors / Governing Board define the principles for the system of internal controls to ensure the management and control of the risks affecting the Company's activities as well as the achievement of its performance and profit objectives?

Yes

Explanation: -

2.8.8. Did internal control systems functions report about the operation of internal control mechanisms and corporate governance functions to the competent board at least once a year?

Yes

Explanation: -

2.9.2. Did the Board of Directors / Governing Board invite the Company's auditor in an advisory capacity to the meetings on financial reports ?

Yes

Explanation: -

Level of compliance with the Proposals

The Company must state whether it follows the relevant proposal included in the Corporate Governance Recommendations, or not (Yes / No). The Company can also explain any derogation from it.

1.1.3. Does the Company's Articles of Association provide an opportunity for shareholders to exercise their voting rights also when they are not present in person?

Yes

(Explanation: -)

1.2.4. Did the Company determine the place and time of General Meetings initiated by shareholders by taking the initiating shareholders' proposal into account?

No

(Explanation: There was no such case.)

1.2.5. Does the voting procedure used by the Company ensure a clear, unambiguous and fast determination of voting results, and in the case of electronic voting, also the validity and reliability of the results?

Yes

(Explanation: -)

1.3.1.1. Were the Board of Directors/Governing Board and the Supervisory Board represented at the General Meeting?

Yes

(Explanation: -)

1.3.1.2. In the event the Board of Directors/Governing Board and the Supervisory Board was absent, was it disclosed by the Chairman of the General Meeting before discussion of the agenda began?

No

(Explanation: There was no absence.)

1.3.2.1. The Articles of Association of the Company did not preclude any individuals from receiving an invitation to the General Meetings of the Company at the initiative of the Chairman of the Board of Directors/Governing Board and being granted the right to express their opinion and to add comments there if that person's presence and expert opinion is

presumed to be necessary or help provide information to the shareholders and help the General Meeting make decisions.(Answer Yes, if not)

No

(Explanation: The Statutes does not contain such explicit possibility but it is approved according to the Company's long-years practice.)

1.3.2.2. The Articles of Association of the Company did not preclude any individual from receiving an invitation to the General Meetings of the Company at the initiative of shareholders requesting to supplement the agenda items of the General Meeting and from being granted the right to express their opinion and to add comments there. (Answer Yes, if not)

No

(Explanation: The Statutes does not contain such explicit possibility but with the consent of the Chairman of the Board of Directors it is approved according to the Company's long-years practice.)

1.3.6. Does the annual report of the Company prepared as specified in the Accounting Act contain a brief, easy-to-understand and illustrative summary for shareholders, including all material information related to the Company's annual operation?

Yes

(Explanation: -)

1.4.1. In line with Section 1.4.1., did the Company pay dividend within 10 working days to those of its shareholders who had submitted all the necessary information and documents?

Yes

(Explanation: -)

1.6.11. Did the Company publish its information in English as well, in line with the provisions of Section 1.6.11?

Yes

(Explanation: -)

1.6.12. Did the Company inform its investors about its operation, financial situation and assets on a regular basis, but at least quarterly?

Yes

(Explanation: -)

2.9.1. Does the Company have in place internal procedures regarding the use of external advisors and outsourced activities?

No

(Explanation: The directorates of the Company are entitled to decide on using external advisors and outsourced activities on ad hoc basis to the debit of their budget. In cases of top priority the decision on using external advisor is falling in competence of the Chief Executive Officer.)

Dated in Budapest, 24 April, 2019

Törölt: 25

Törölt: 2018

.....
Prof. Dr. E. Szilveszter Vizi
Member of the Board of Directors,
Chairman of the Corporate Governance
and Nomination Subcommittee

.....
Erik Bogsch
Chairman of the Board of Directors

11.

Amendments to the Company’s Statutes

(address change of Kővágószőlős branch office, extension of the scope of activities, amendment related to elected officers in the Board of Directors)

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 24, 2019.)

Törölt: 5

Törölt: 8

Törölt: 5

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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, 505/2 hrsz.

Törölt: 513

(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: 5

Törölt: 8

Formázott: Angol (egyesült királysági)

10.86	Manufacture of homogenised food preparations and dietetic food
10.89	Manufacture of other food products n.e.c.
17.22	Manufacture of household and sanitary goods and toilet requisites
20.13	Manufacture of other inorganic basic chemicals
20.14	Manufacture of other organic basic chemicals
20.20	Manufacture of pesticides and other agrochemical products
20.42	Manufacture of perfumes and toilet preparations
20.59	Manufacture of other chemical products n.e.c.
21.10	Manufacture of basic pharmaceutical products
26.60	Manufacture of irradiation, electromedicinal and electrotherapeutic equipment
32.50	Manufacture of medicinal and dental instruments and supplies
35.11	Production of electricity
35.12	Transmission of electricity
35.13	Distribution of electricity
35.14	Trade of electricity
35.21	Manufacture of gas
35.22	Distribution of gas
35.23	Trade of gas
35.30	Steam and air condition supply
36.00	Water collection, treatment and supply
37.00	Sewerage
38.11	Collection of non-hazardous waste
38.12	Collection of hazardous waste
38.21	Treatment and disposal of non-hazardous waste
38.22	Treatment and disposal of hazardous waste
38.32.	Recovery of sorted materials
39.00	Remediation activities and other waste management services
41.10	Development of building projects
46.19	Agents involves in the sale of variety of goods
46.38	Wholesale of other food
46.44	Wholesale of china and glassware and cleaning materials
46.45	Wholesale of perfume and cosmetics
46.46	Wholesale of pharmaceutical goods
46.47	Wholesale of furniture, carpets, and lighting equipment
46 49	Wholesale of other household goods
46.52	Wholesale of electronic and telecommunications equipment and parts
46.69	Wholesale of other machinery and equipment
46.73	Wholesale of wood, construction materials and sanitary equipments
46.75	Wholesale of chemical products
46.76	Wholesale of other intermediate products
46.90	Not specialized wholesale trade
47.41	Retail sale of computers, peripheral units and software in specialized stores
47.42	Retail sale of telecommunication products in specialized stores
47.53	Retail sale of carpets, rugs, wall and floor coverings in specialized stores
47.59	Retail sale of furniture, lighting equipments and other household articles in specialized stores
47.73	Dispensing chemists in specialized stores
47.78	Other retail sale of new goods in specialized stores
49.20	Freight rail transport
49.41	Freight transport by road
52.10	Storage and warehousing
52.21	Service activities incidental to land transportation
52.24	Cargo handling
55.20	Holiday and other short-stay accommodation
55.90	Other accommodation
56.21	Event catering activities
56.29	Other food service activities
64.20	Activities of holding companies
64.30	Trusts, funds and similar financial activities
64.99	Other financial service activities, except insurance and pension funding n.e.c.
68.10	Buying and selling of own real estate
68.20	Renting and operation of own or leased real estate
68.32	Management of real estate on fee or contractual basis
69.20	Accounting, bookkeeping and auditing activities; tax consultancy
70.10	Activities of head offices
70.21	Public relations and communications activity
70.22	Business and other management consultancy activities
71.12	Engineering activities and related technical consultancy
71.20	Technical testing and analysis
72.11	Research and experimental development on biotechnology
72.19	Other research and experimental development on natural sciences and engineering

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Formázott: Angol (egyesült királysági)

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
86.21	General medical practice activities
86.22	Specialist medical practice activities
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

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Formázott: Angol (egyesült királysági)

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 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.

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Formázott: Angol (egyesült királysági)

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.

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).

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Formázott: Angol (egyesült királysági)

7.11 Rights of the shareholder:

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.

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Formázott: Angol (egyesült királysági)

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

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Formázott: Angol (egyesült királysági)

charge. Any further copies shall be provided at the expense of the shareholder requesting them. The Share Register may be inspected by third parties within the limits of the legal regulations concerning the inherent rights and the protection of data. (Section 3:247 of the Civil Code) While inspecting the 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

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Formázott: Angol (egyesült királysági)

holder of any interest in, the shareholder holding or controlling 20% (twenty percent) or more of its registered capital or voting rights at its general meetings. The certificate of incorporation or any other official document of equivalent purpose relating to the member of the shareholder 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

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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.

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,

(b) any two members of the Board of Directors acting **jointly,**

(c) any member of the Board of Directors of the Company **jointly** with an employee of the Company vested by the Board of Directors with the authority to sign on behalf of the Company,

(d) any two employees of the Company vested by the Board of Directors with the authority to sign **jointly** on behalf of the Company.

(11) The General Meeting

11.1 The General Meeting is the highest decision-making body of the Company, and shall be comprised of all of the shareholders.

11.2 An annual General Meeting shall be held no later than by the last day of the fifth month of every business year. The agenda of such annual General Meeting shall contain the following items without limitation:

11.2.1 the Board of Directors' report on the Company's consolidated annual report for the previous business year pursuant to the International Financial Reporting Standards (IFRS);

11.2.2 the Supervisory Board's report on the Company's consolidated annual report for the previous business year pursuant to the IFRS;

11.2.3 the Auditor's report on the Company's consolidated annual report for the previous business year pursuant to the IFRS;

11.2.4 approval of the Company's consolidated annual report for the previous business year pursuant to the IFRS;

11.2.5 the Board of Directors' report on the Company's individual annual report for the previous business year prepared pursuant to the Accounting Act; on the management; the financial situation and the business policy of the Company. (Section 3:284 of the Civil Code);

11.2.6 the Supervisory Board's report on the Company's individual annual report for the previous business year, including also the recommendation regarding the appropriation of after-tax profits;

11.2.7 the Auditor's report on the Company's individual annual report for the previous business year;

11.2.8 approval of the Company's individual annual report for the previous business year, including the resolution on the appropriation of the after-tax profits;

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11.2.9 the Board of Director's report on the practice of corporate governance and on the departures made by the Company in applying the Corporate Governance Recommendations of the Budapest Stock Exchange;

11.2.10 determination of the remuneration of the elected directors;

11.3 The Annual General Meeting shall be convened by the Board of Directors unless otherwise provided by the Civil Code. The person or organ convoking the General Meeting shall determine its time, venue, and agenda.

11.4 The Board of Directors shall have the right to call an extraordinary General Meeting at its discretion. The Board of Directors shall also call an extraordinary General Meeting if persons authorized by the Civil Code or these Statutes request from the Board of Directors that a General Meeting be held. If shareholders holding at least one percent of the votes request for the convening of a General Meeting, stipulating its reason and purpose, such a General Meeting shall be convened. (Sections 3:103 and 3:266 of the Civil Code) In the cases determined by the Civil Code, the Supervisory Board, and the Court of Registration are entitled to convene an extraordinary General Meeting.

The Auditor shall initiate the convocation of the General Meeting in cases described by Section 3:38 of the Civil Code. If a General Meeting is not convened, or if the decision called for by the legislation is not made, the Auditor notifies the Court of Registration supervising the Company.

A General Meeting may only be convened while an action is pending at the court with respect to the registration of a capital increase, and subscribers to the increased registered capital are unable to exercise their voting rights with respect to the shares subscribed in the capital increase as a result of the pending registration, if extraordinary circumstances justify the convening of such General Meeting. Such extraordinary General Meeting may only discuss and resolve items justified by such extraordinary circumstances.

11.5 The convening of the General Meeting shall be published on the Company's homepage at least 30 days prior to the commencement date thereof pursuant to the provisions applicable to the Company's announcements. The Company may notify shareholders regarding the convocation of the General Meeting in an electronic format, if shareholders have so requested. If an extraordinary Meeting is convened due to a shareholder stance rendered in connection with a public offer or following a successful public purchase offer and initiated by the acquirer of influence, the Meeting must be convened at least fifteen days prior to its commencement day.

11.5.1 The members of the Board of Directors and of the Supervisory Board and the auditor shall receive separate invitations to the General Meetings.

11.5.2 The announcement (invitation) convening the General Meeting shall indicate the name and seat of the Company, the venue, date, time, agenda and method of holding of the General Meeting, the conditions placed on the exercise of voting rights as specified in these Statutes as well as the time and venue of the reconvened General Meeting. No more than twenty-one days, but at least ten days shall pass between the General Meeting of an insufficient quorum and the reconvened General Meeting. The announcement convening the General Meeting shall contain the information that a shareholder or nominee may participate on the General Meeting if registered in the Share Register at least two working days prior to the beginning date of the General Meeting (Subsection 3:273 (2) of the Civil Code, Section 13.1 of these Statues); and the requirements laid down in these Statutes (Section 11.5.3.) of exercising the right to supplement the agenda of the General Meeting (Section 3:259 of the Civil Code), as well as the date, place and way of accessing the full and original text of the proposals on the agenda and of the proposed resolutions (including the website of the Company). (Subsection 3:272 (1) of the Civil Code)

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11.5.3 If shareholders with at least one percent of the votes inform the Board of Directors in writing at the latest within eight days following the publication of the agenda about their proposal to amend the Agenda - in accordance with the provisions on detailing the items of the agenda -, or table draft resolutions for items included or to be included on the agenda , the Board of Directors shall render an opinion on the request and publish a notice on the amended agenda and the tabled draft resolution within eight days. The issue indicated in such notice shall be regarded as added to the agenda. The Board of Directors may reject the shareholders' request if the fulfilment thereof infringed upon the law. If the Board of Directors rejects the shareholder's request, the Board of Directors shall publish a notification to that effect along with the reasons for the rejection. (based on Section 3:259 of the Civil Code)

11.5.5 Items not listed in the published agenda may only be discussed and valid resolutions concerning these items shall only be passed if all of the shareholders are present at the General Meeting and they give their unanimous consent to the addition of such items to the agenda. The agenda shall be indicated in the invitation or the proposals for resolutions in sufficient detail to enable the persons entitled to vote to formulate an opinion on the subjects to be discussed.(Section 3:17 of the Civil Code).

11.5.6 The announcement of the General Meeting shall indicate that the shareholders entitled to participate and vote at such General Meeting shall have the right to be represented in participation and voting at the General Meeting by a duly authorized proxy, pursuant to Article 13.4. Such duly authorized representatives are not required to be shareholders of the Company.

11.6 The Company shall publish the key data of its draft consolidated annual report for the previous business year pursuant to the IFRS and its draft individual annual report and of the report of the Board of Directors and the Supervisory Board, the total number (proportion) of shares and voting rights at the date of convening the General Meeting, including separate summaries on the individual share classes, together with a summary of the proposals relating to the items on the agenda, the supervisory board reports on these, and draft resolutions, as well as forms for voting via proxy, on the Company's homepage at least twenty one days prior to the General Meeting. The Company shall publish the names of the members of the Board of Directors and the Supervisory Board and all monetary and non-monetary benefits granted to these members in this role, detailed by members and the legal title for the benefit simultaneously with convening the General Meeting. (Subsections 3:258 (2) and 3:272 (3) of the Civil Code)

11.7 With the exception of cases (that might be issues listed under 12.1. d/ii and y/i) where the presence of a larger number of shareholders is required due to the voting proportions set out in article 12.1 in order to constitute a quorum, a quorum exists if shareholders, personally or through their representatives, representing over half of the votes embodied by the voting shares are present at the General Meeting and have duly evidenced their shareholder or representative status. The General Meeting may be suspended once. If the General Meeting is suspended, it shall be continued within thirty days. Existence of the quorum shall be examined at each decision. With respect to the quorum, shareholders or representatives of a shareholders who submit a "yes", "no", or "abstention" vote shall be deemed as the ones being present.

11.8 If the General Meeting has no quorum, the General Meeting shall be reconvened in accordance with Section 11.5.2. With the exception of cases (that might be any issues listed under 12.1) where under the given circumstances the presence of a larger number of shareholders is required due to the voting proportions set out in article 12.1 in order to constitute a quorum, the reconvened General Meeting shall have a quorum for the purpose of considering items on the agenda of the original General Meeting if the shareholders representing more than 20% of the votes relating to the voting shares issued by the Company are presented personally or via proxy at the reconvened General Meeting and their shareholding or representation right has been duly evidenced.

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11.9 The General Meeting shall be chaired by the Chairman of the Board of Directors or by a person called upon in advance by the Board of Directors. The General Meeting shall approve the identity of the president of the General Meeting prior to the substantive discussion of further items of the agenda and until this has happened, the General Meeting cannot make a further substantive decision in respect of the items on the agenda.

(12) Matters Within the Exclusive Competence of the General Meeting:

12.1 The following matters shall belong to the exclusive competence of the General Meeting:

(a) establishment and - unless these Statutes provide otherwise - modification of the Statutes (three quarter majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares, except for those decisions requiring a greater majority pursuant to the Statues);

(b) decision on the change of the form of operation of the Company (90% majority of the votes present at the General Meeting, but at least 45% + 1 vote of all the voting shares), which enters into force upon the delisting of the Company's shares;

(c) decision on transformation or termination without a legal successor of the Company (90% majority of the votes present at the General Meeting, but at least 45% + 1 vote of all the voting shares);

(d) (i) the election and removal of the members of the Board of Directors, the Supervisory Board, the Audit Board and of the Auditor, and the establishment of their remuneration (for election and the establishment of the remuneration, simple majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares; (ii) for the removal of a member of the Board of Directors, a simple majority of those present but at least 35%+1 vote of all the voting shares , and (iii) for the removal of members of the Supervisory Board and of the Audit Board and of the Auditor, three quarter majority of the votes present at the General Meeting, but at least 35% + 1 vote of all the voting shares);

(e) approval of the consolidated annual report for the previous business year pursuant to the IFRS and of the individual annual report, including the decision on the appropriation of after-tax profits (simple majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(f) decision - unless otherwise stipulated by the Statues - to pay interim dividends (simple majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(g) decision concerning the policies of the long-term remuneration and promotional system of the members of the Board of Directors, the members of the Supervisory Board as well as of executive employees [Subsection 3:268 (2) of the Civil Code]; decision concerning the approval of the report on corporate governance (Subsection 3:289 (2) of the Civil Code); (simple majority of those present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(h) decision – based on the detailed proposal of the Board of Directors - on providing financial aid for third parties to acquire the Company's own shares (Subsection 3:227 (1) of the Civil Code) (upon the approval of at least the three-quarter majority of the voters present, which votes shall represent at least 20%+1 vote of all the voting shares);

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(i) variation of the rights attached to the individual series of shares, and the transformation of categories or classes of shares (three quarter majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(j) decision - unless otherwise stipulated by the Statues - on the issue of convertible, self-converting bonds or bonds with subscription rights (simple majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(k) decision on the acquisition of own shares, unless otherwise provided for by the Statutes, furthermore, the authorization of the Board of Directors for the acquisition of own shares (simple majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(l) decisions on the (i) listing or (ii) delisting of Company shares on the Stock Exchange (three quarter majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares in case of listing, or 35% + 1 vote of all the voting shares in case of delisting, unless the decision would result in the change of the Company's corporate form);

(m) with the exception of commercial transactions, any resolution concerning financial matters of the Company that involves the distribution of funds, the obtaining of loans, the granting of guarantees, or the creation of any other financial liability the aggregate financial effect of which over one year exceeds fifteen percent (15%) of the Company's total assets (saját vagyon) as determined by the last audited balance sheet (simple majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(n) decisions on investments and leases which have a financial effect over one fiscal year equalling or exceeding twenty-five percent (25%) of the Company's total assets as determined by the last audited balance sheet (simple majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(o) decisions on the acquisition of other companies, their share capital, and/or the formation of any other company, if any such transaction has a financial effect over one fiscal year equalling or exceeding thirty percent (30%) of the Company's total assets as determined by the last audited balance sheet (simple majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(p) decisions which may result, in one or more steps, in a fundamental reduction of the research and development or manufacturing activities of the Company in Hungary (90% majority of the votes present at the General Meeting, but at least 45% + 1 vote of all the voting shares);

(q) decisions concerning the renaming, or any amendment to the registered and/or trading name, of the Company (90% majority of the votes present at the General Meeting, but at least 45% + 1 vote of all the voting shares). (Subsection 3:102 (2) of the Civil Code);

(r) decisions concerning the changing of the registered seat of the Company (90% majority of the votes present at the General Meeting, but at least 45% + 1 vote of all the voting shares). (Subsection 3:102 (2) of the Civil Code);

(s) decisions concerning the cancelling of the registration of the following classified activities within the Company's scope of activity: in accordance with the classification under the new TEAOR '08 (21.10) Manufacture of basic pharmaceutical products; (21.20) Manufacture of pharmaceutical preparations; (20.13) Manufacture of other inorganic basic chemicals (20.14) Manufacture of other organic basic chemicals, or the cessation of any of such activities (90% majority of the votes present at the General Meeting, but at least 45% + 1 vote of all the voting shares). (Subsection 3:102 (2) of the Civil Code)

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(t) decision on all matters belonging to the exclusive competence of the General Meeting pursuant to the laws or these Statutes (simple majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares, unless otherwise stipulated by the Statues or by the laws);

(u) decision - unless otherwise stipulated in the Civil Code - on the increase of the registered capital of the Company (three quarter majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(v) decision - unless otherwise stipulated in the Civil Code - on the decrease of the registered capital of the Company (three quarter majority of the votes present at the General Meeting, but at least 35% + 1 vote of all the voting shares);

(w) decision on the exclusion of the exercise of preferential subscription rights (three quarter majority of the votes present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

(x) (The section has been deleted by the AGM held on April 28, 2009.)

(y) if in any year four or more members of the Board of Directors or three or more members of the Supervisory Board are removed, the removal of the fourth and the subsequent member(s) of the Board of Directors or the third or subsequent member(s) of the Supervisory Board (i) a simple majority of those present in the case of the removal of a member of the Board of Directors, but at least 45%+1 vote of all the voting shares; (ii) 90% majority of the votes present at the General Meeting in the case of the removal of a member of the Supervisory Board, but at least 45% + 1 vote of all the voting shares).

12.2 Decisions on matters belonging to the exclusive competence of the General Meeting shall be decided by the majority of votes set forth in Section 12.1.

12.3 If the general meeting of the Company decides on the delisting of the shares listed on a regulated market, the shareholder whose shares are directly affected by the delisting - except if the shareholder contributed to the approval of the delisting by the general meeting - is entitled to demand within a period of 60 days from the publication of such decision (term of preclusion) that the Company buy its shares for the consideration set forth in Section 63/A of the Capital Markets Act. The offer for sale shall not be withdrawn. [Subsection 63(7) of the Capital Markets Act] The share transfer agreement between the Company and the shareholder making the offer for sale shall be deemed concluded on the last day of the period open for the exercise of the right to sell. [Section 63/A (6) of the Capital Markets Act]

(13) Voting

A. General

13.1 Certification of ownership is not required for the exercise of shareholders' rights; the entitlement is verified by way of the identification of ownership procedure. (Subsection 3:254 (6) of the Civil Code) Pursuant to the identification of ownership initiated by the Company, or in the case of a representative, on the basis of the power of attorney, the Board of Directors shall issue a voting card or another certificate containing an entitlement to vote (the "voting card"). At the General Meeting, shareholder rights can be exercised via the voting card. The voting card shall contain the name of and the number of votes entitled to the shareholder or the shareholder's representative.

The Company shall only issue a voting card to a shareholder or shareholder's representative who is registered in the Share Register as the owner of the shares or as the shareholder's representative, or in case of jointly owned shares, as joint representative.

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The name of a shareholder, or of a shareholder's representative, who wishes to participate in the General Meeting shall be recorded in the Share Register by the second working day preceding the commencement day of the General Meeting. [Subsection 3:273 (2) of the Civil Code]

In the case of identification of ownership initiated by the Company, if it is in connection with the closing of the Share Register, the keeper of the Share Register delete all the data in the Share Register at the time of identification of ownership and at the same time shall record in the Share Register the data resulting from the identification of ownership. (Section 3:248 of the Civil Code)

Shareholders' rights at the General Meeting may be exercised by the person who is the owner of the shares on the reference date for the identification of ownership and whose name is contained in the Share Register on the second business day before the first day of the General Meeting. (Subsection 3:273 (3) of the Civil Code). The keeper of the Share Register shall ensure the possibility of exercising of the right of registration until 6.00 PM (Budapest time) of the second business day before the first day of the General Meeting.

The closing of the Share Register shall not impede the transfer of shares following the closing of the Share Register by a person registered in the Share Register. The transfer of shares prior to the commencement day of the General Meeting does not exclude the right of a person registered in the Share Register to participate in the General Meeting and to exercise the rights to which he is entitled as a shareholder. [Subsection 3:273 (3) of the Civil Code]

13.2 Subject to the provisions of Section 13.8 hereafter, every share of nominal value HUF 100 entitles its holder to one vote.

13.3 A shareholder shall not be entitled to exercise voting rights prior to having effected full payment of its contribution in cash.

13.4 Shareholders may also exercise their rights at a General Meeting through an authorized representative. One representative may represent several shareholders; however, one shareholder may have only one representative. If the shareholder holds shares that are held on more than one securities account, it may authorize different representatives for each securities account. However, with respect to the shares held by the same shareholder, the votes cannot be different, otherwise all votes of that shareholder are invalid.

Representatives may obtain voting cards if they present authorization contained in an official deed or a private deed of full probative value to the Company at the time and place indicated in the announcement regarding the General Meeting.

In case of doubt, the power of attorney issued by a shareholder shall be valid for one General Meeting, and applies to any continuations of a suspended General Meeting and also any reconvened General Meetings postponed due to a lack of quorum. Members of the Board of Directors, of the Supervisory Board or the auditor shall not be authorized to represent a shareholder at a General Meeting.

The above provisions do not affect the regulations relating to the "shareholder's nominees".

13.5 If the voting is effected by using voting cards, the Board of Directors shall issue to the shareholders (or to the authorized representatives) entitled to vote such number of voting cards that is equal to the number of items on the agenda of the General Meeting, on which voting is required.

Voting cards shall bear:
- the name of the Company and the class of shares,
- the name of the shareholder,
- the time of the General Meeting,
- the number of votes, and
- clearly indicated spaces for the marking of "yes," "no," and "abstain."

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For the calculation of the votes for the adoption of a valid resolution, only the voting cards that are submitted must be taken into account, and only where "yes," "no," and "abstain" (and only one of these) are clearly marked. A voting card marked as "abstain" shall 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 – if the members find it necessary – 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

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Meeting, and all applicable laws. The remuneration of the members of the Board of Directors shall be determined by the General Meeting.

14.3 The convocation and rules of procedure of the meeting of the Board of Directors:

14.3.1 The Board of Directors shall convene ordinary meetings at least four times a year. The venue, date, time and agenda of such meetings shall be determined by the Chairman of the Board of Directors at his discretion. Members of the Board of Directors shall be notified thereof not less than 8 days before the meeting. The invitation to the meeting of the Board of Directors shall be in writing.

14.3.2 The Chairman of the Board of Directors or, if absent, the Deputy Chairman shall convene the meeting of the Board of Directors if requested by the General Director or by any two members of the Board of Directors jointly. The meeting of the Board of Directors shall be chaired by the Chairman of the Board of Directors or, if prevented from attending, the Deputy Chairman.

14.3.3 If the Chairman and the Deputy Chairman of the Board of Directors are not present at the meeting of the Board of Directors, the members present shall elect a Chairman from among the members of the Board of Directors present.

14.3.4 Two-thirds of the total number of the members of the Board of Directors, but no less than three members, must be present at the meeting of the Board of Directors to constitute the quorum required to pass valid resolutions. The total number of the members of the Board of Directors shall mean the number of the members of the Board of Directors in office at such time.

14.3.5 In lack of a quorum at a Board of Directors' meeting, the Chairman shall convene another meeting to be held within three days from the date of the original meeting. At such second meeting a quorum exists if the majority of the directors in office, but at least three members, are present.

14.3.6 Should the number of the members of the Board of Directors fall below three, an extraordinary General Meeting shall be convened in order to elect new directors.

14.4 The Board of Directors shall have the competence:

(a) to convene an ordinary and extraordinary General Meeting, except in cases defined by the Civil Code;

(b) to prepare, approve and submit to the General Meeting proposals relating to the matters specified in Section 12. of these Statutes;

(c) to prepare reports on the management, financial situation and business strategies of the Company, and to submit such reports to the General Meeting once a year, and to the Supervisory Board every three months;

(d) to decide on the Company's annual and medium term business plans, to be carried out by the management of the Company;

(e) (i) to decide on any financial matters (excluding commercial transactions), involving expenses, borrowing, the granting of guarantees, or the placing of a financial liability on the Company with a value in excess of two percent (2%) but less than fifteen per cent (15%) of the value of the Company's total assets as determined in the Company's last audited balance sheet;

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(ii) to decide on investments and lease-purchases not provided for in the Company's annual business plan, the financial effect of which over one year is in excess of two percent (2%) but less than twenty-five percent (25%) of the value of the Company's total assets, as determined by the Company's last audited balance sheet;

(f) to decide on the acquisition of other companies or a part of their registered/share capital, and/or the foundation of new companies not provided for in the Company's annual business plan, where such transactions have a financial effect over one year in excess of two percent (2%) but less than thirty (30%) of the Company's total assets as determined in the Company's last audited balance sheet, and to make decisions regarding the acquisition of a share interest in another company exceeding 25%;

(g) to determine the scope of authority of the General Director entrusted with the management of the Company;

(h) to approve the Company's internal Organizational and Operational Rules and Regulations;

(i) to determine the employees' right to sign on behalf of the Company;

(j) to decide on acquisition of the Company's own shares (i) if the Company acquires the shares in a court proceeding aimed at the settlement of a claim to which the Company is entitled, or in a restructuring; (ii) if the shares are acquired in order to avoid an imminently threatening serious damage to the Company, except for the case of a public takeover offer aimed at the acquisition of the shares; or (iii) if approved by the General Meeting; to decide on the sale of treasury shares owned by the Company;

(k) to ensure that the books of the company are kept according to the rules;

(l) in the cases set forth in the Civil Code or in the Statues, to accept an interim balance sheet with the prior approval of the Supervisory Board, furthermore to decide on the issuance of bonds, on the increase of the registered capital and on the payment of interim dividends;

(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

15.1. The Board of Directors shall authorize one of its members to control the day-to-day operations of the Company , in any case, for a term of office to be decided by the Board of Directors.

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15.2 The 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.

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.

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.

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.

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.

15.7 The Chief Executive Officer shall:

- prepare the agenda of the General Meeting and the meeting of the Board of Directors, and shall present proposals and motions for decisions at such meetings,
- implement the resolutions and decisions passed at the General Meeting and control the performance of the undertakings falling within the Company's scope of activities.

15.8 Except for the rights assigned to the General Meeting, the employer's rights over the 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.

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.

(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.

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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.

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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

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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.

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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.

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(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.

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If the increase of the registered capital is carried out through a private issuance of new shares for in-kind contribution, the persons entitled to receive such shares shall be indicated in the resolution deciding on the increase of the registered capital. The category and the class, the number, the series, the nominal and issue value of the shares to be received by such persons shall also be indicated in such resolution.

If the increase of the share capital is carried out through a private issuance of new shares for cash contribution, the persons entitled - to the extent the persons entitled to exercise preferential rights to receive shares have not exercised such rights, or the General Meeting has excluded the exercise of such rights - to receive such shares shall be indicated in the resolution. The category and the class, the number, the series, the nominal and issue value of the shares to be received by such persons shall also be indicated in such resolution. (On the basis of Subsection 3:296 (2) of the Civil Code) Upon the public issuance of shares, the resolution of the General Meeting regarding the increase in registered capital shall not specify the group and person of future shareholders taking part in the increase in registered capital. Persons wishing to acquire the new shares shall undertake to pay the consideration due for the shares and become entitled to receive the shares pursuant to the registration proceedings as set forth in the legislation applicable to securities.

The Company may increase its registered capital by its assets in excess of registered capital, or a part thereof, if, according to the balance sheet of the individual annual report prepared for the previous financial year or to the interim balance sheet of the year, the Company has sufficient funds in excess of the share capital, which can be used for increasing the share capital, and if the Company's resulting registered capital does not exceed its adjusted equity capital shown inthe Company's individual balance sheet. The annual report or the interim balance sheet may be taken into consideration for determining the size of funds in excess of the share capital within the six-month period following the balance sheet date. (Section 3:300 of the Civil Code).

20.3 The Board of Directors is, for a period of five (5) years from April 28, 2010 entitled to increase the Company's registered capital by a maximum of twenty-five percent (25%) per year. The largest amount by which the Board of Directors may increase the Company's registered capital within five years shall be HUF 38,239,604,000 that is, thirty-eight billion two hundred and thirty-nine million and six hundred and four thousand Hungarian Forints, thus the amount of the approved registered capital shall be HUF 56,877,090,000 that is, fifty-six billion eight hundred and seventy-seven million and ninety thousand Hungarian Forints.

[NOTE: The Board of Directors does not table a proposal for resolution to the 2019 Annual General Meeting for the amendment of the authorization in Section 20.3.]

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.

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(22) Termination of the Company

22.1 The Company shall be terminated if:

(a) the General Meeting resolves its termination without legal successor;
(b) the General Meeting resolves its termination with legal succession (transformation, merger, demerger);
(c) the court of registration terminates it based on the causes set forth in the Act on Company Registration and Winding-up Proceedings);
(d) the legislation so provides;

22.2 If the Company is terminated without legal successor, the assets of the Company remaining after the claims against the Company have been satisfied, shall be distributed among the shareholders on the basis of the their payments and contributions in kind actually provided, in proportion to the face value of their shares.

(23) Applicable Law, and the Procedure for Settling Legal Disputes

23.1 Matters not provided in these Statutes are governed by the provisions of the Civil Code, the Capital Market Act and Act XXIV of 1988 on Foreign Investments in Hungary (as amended).

23.2 The Permanent Court of Arbitration attached to the Hungarian Chamber of Commerce and Industry shall have exclusive jurisdiction and competence to decide any a) all legal disputes based on a company law relationship between the Company and its shareholders, including excluded shareholders or shareholders who have otherwise parted ways with the Company; b) legal disputes in connection with the Statutes or the operation of the Company between shareholders in their legal relationships; c) any dispute between the Company and its executive officers or Supervisory Board members, arising out of their office or membership in the Supervisory Board, and d) the review of resolutions adopted by the General Meeting. The Court of Arbitration shall apply its rules of procedure and appoint a panel comprised of three arbitrators. The members of the panel or its chairman may be foreign individuals. (Subsections 3:92 (1) and (2) of the Civil Code)

23.3 The venue of the Court of Arbitration shall be Budapest.

23.4 The language of the proceedings of the Court of Arbitration shall be Hungarian.

23.5 Throughout the proceedings before the Court of Arbitration, the parties are mutually obliged, at the request of any one of the adverse parties to give the Court of Arbitration and the adverse party copies of the legal documents in both English and Hungarian.

23.6 In case of legal dispute, applicable law shall be Hungarian law.

(24) Announcements, Advertisements

24.1 Announcements and advertisements of the Company shall be published on its homepage. Furthermore, if required by law, announcements shall be published in the Cégközlöny (the official gazette of the Hungarian Courts of Registration). In addition thereto, as long as the shares of the Company are traded 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 24, 2019

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., 5 and 14.2, as well as Annex (A) provided for by resolutions no. ... and ...passed by the Annual General Meeting held on April 24, 2019.

Date of countersigning: Budapest, May ..., 2019.

Name of attorney at law: dr. András Szecskay
bar identification number: 36069294

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12.

Report of the Board of Directors on the treasury shares acquired by the Company based upon the authorization in AGM resolution No.14/2018.04.25.

Report of the Board of Directors on the treasury shares purchased on the basis of the authorization granted by Resolution No. 14/2018.04.25. of the AGM

The AGM held on 25 April 2018 has authorized the Company to purchase its own common shares (treasury shares) with an aggregated nominal value not exceeding 10% of the registered capital.

Furthermore, the AGM authorized the use of the purchased treasury shares for 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 employee and executive incentive system.

Based on the authorization, in order to satisfy such needs the Company purchased 650,000 treasury shares on the stock exchange and 11,049 outside the stock exchange during the year.

It has been and is the Company's intention to allocate treasury shares to its executives and employees in the context of its incentive policy.

The Company has been operating two share incentive programmes in 2018 described in detail below. Besides these programmes, further 22,016 shares have been transferred during the year to employees showing outstanding performance in the interest of the Company's successful operation.

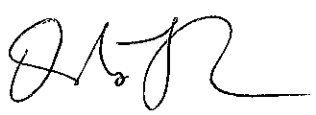
Employee Participation Program (EPP)

The aim of the establishment of the Richter EPP in 2018 is to strengthen the performance and loyalty of the titleholders and key employees of the Company through the sharing the success of the Company. The Company transferred 333,698 shares to the EPP Organisation during the year, in two rounds. Following successful completion of the determined remuneration criteria, the participants acquired cash equivalent of the shares in March 2019.

Programme Related to Employee Share Bonuses

In accordance with its employee share scheme regulated by section 77/C of the Personal Income Tax Act, in 2018 the Company allocated 324,226 treasury shares to 4,346 employees. The shares will be deposited until 1 January 2021 on the employees' securities accounts kept with UniCredit Bank Hungary Ltd. In 2017, 245,163 treasury shares were allocated to 4,266 employees; the shares will remain in deposit until 1 January 2020 on the employees' securities accounts.

Budapest, March 2019



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.: 27/2019

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 2020 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.: 29/2019

The Board of Directors proposes to the AGM to approve the re-election of **Csaba Lantos** as Member of the Board of Directors for a period of 3 (three) years expiring on the AGM in 2022.

The Board of Directors has approved the resolution with the majority of the votes, abstained by Csaba Lantos.

Resolution of the Board of Directors No.: 30/2019

The Board of Directors proposes to the AGM to approve the re-election of **Dr. Gábor Gulácsi** as Member of the Board of Directors for a period of 3 (three) years expiring on the AGM in 2022.

The Board of Directors has approved the resolution with the majority of the votes, abstained by Dr. Gábor Gulácsi.

Resolution of the Board of Directors No.: 31/2019

The Board of Directors proposes to the AGM to approve the election of **Dr. György Bagdy** as Member of the Board of Directors for a period of 3 (three) years expiring on the AGM in 2022.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

CSABA LANTOS

In 1986 he gained a degree in economics and sociology at the Budapest University of Economics.

1987-1989 Budapest Bank
He started his career as a bond trader at Budapest Bank.

1989-2000 CA-IB
Between 1989 and 2000 he worked at Creditanstalt Group (Creditanstalt Bankverein) in different leading positions: first as the leader of the Investment Fund, and later as the CEO of the Hungarian investment banking arm (CA-IB).

2000-2007 OTP Bank Plc.
From 2000 until 2007 he was Member of the Board and Deputy CEO of the OTP Bank Plc., he led the Retail Division of the Bank.

From 2007 Lantos Vagyonkezelő Ltd.
From 2007 he manages his own investments focusing on the life sciences sector.

His current positions

- Member of the Board of Directors of **Richter Gedeon Plc**.
- Chairman of the Board of Directors of **MET Holding AG**
- Member of the Supervisory Board of the **Gutmann Magyarország Ltd.**
- Chairman of the Board of Directors of **"Dunamenti" Power Plant (DERT) Ltd**.

His previous positions

- 1993-2015 **KELER** (Central Securities Depository of Hungary) - Chairman of the Board
- 1990-2002 Member of the Council of the **Budapest Stock Exchange**
- 2005-2011 **Budapest Stock Exchange -** Chairman of the Supervisory Board
- 2007-2013 **Investor Protection Fund -** Member of the Board of Directors

Additional information

He is one of the founders of the **János Bolyai Award**, set up in 1997 as the most prestigious Hungarian scientific awards.

He is the chairman of the **Széll Kálmán Foundation**, a non-public discussion club which was established in 2003 with the aim of providing its members with an invitation-only intellectual

platform where they can share information on social, economic, or even philosophical issues on a regular basis.

Member of the Strategic Advisory Committee of the **Hungarian Academy of Sciences.**

Chairman of the Consistory of the **University of Szeged.**

2015 – The first awarded of the André Kostolany Medal founded by the Hungarian Stock Exchange.

2017 – Wahrmann Mór prizewinner - awarded by Hungarian Academy of Sciences.

March, 2019. Budapest

dr. GÁBOR GULÁCSI

Born 1958 Szeged, Hungary

Education

1977-1981	Karl Marx University of Economic Sciences, Finance Faculty
1985	university doctor's degree
1992	World Bank seminar
1995	JICA seminar, Japan
1999	public administration exam

Work career, specialization

1981 – 1988	National Planning Office, Planned Economy Institute, Research worker Infrastructure development, administration of local councils, Regional affairs
1989 – 1990	Ministry of Transports, Telecommunications and Construction, Senior Counselor Infrastructure development, telecommunications development
1990 – 1997	Ministry of Industry and Trade, Deputy Secretary of State Economic regulation, privatization Enterprise development, regional policy
1997 – 1998	Pénzintézeti Központ Bank Manager Lending activities
1998 – 1998	Pannonplast Plastic Co., Deputy General Manager Controlling
1998 – 2000	Ministry of Economic Affairs, General Secretary of State
2000 -	Gedeon Richter Plc. Deputy Managing Director Finance, controlling, accounting

Offices held

1991 – 1995	Hungarian State Assets Agency, Member of Board
1994 – 1997	Hungarian Productivity Centre Public Foundation, President of Board
1994 – 1997	Hungarian Enterprise Development Foundation. Member of Board
1993 – 1997	Ipari Szemle (Industrial Review), Responsible editor
1997 – 1998	Kemikál Co., Chairman of the Board
2002 - 2007	Medimpex Co. (JV of Richter in Hungary) Member of Supervisory Board
2002 -	GR Polska Sp. z o o (Subsidiary of Richter in Poland) Member of Supervisory Board
2007 -	GRDI Co. (Subsidiary of Richter in Romania) Member of the Board, since 2014 Chairman of the Board
2008 -	RTML Co. (JV of Richter in India) Member of the Board
2010-	Gedeon Richter Plc. Member of the Board
2014 -	GR Farmacia Co. (Subsidiary of Richter in Romania) Chairman of the Board
2015 -	GR RUS, GR USA (Subsidiaries of Richter in Russia and in USA) Member of the Board

Decoration	Eötvös Loránd Award in 1994 and in 1999
Languages	good English, fair German
Publications	about 40 studies, contributions to books, articles in periodicals
Marital Status	married, three grown-up children

Dr. György Bagdy, MSc., Pharm.D., Ph.D., D.Sc.

Contact Information
bagdy.gyorgy@pharma.semmelweis-univ.hu; bag13638@iif.hu

Date and Place of Birth
31st of July, 1955, Budapest, Hungary

Current positions
2013-present Head of MTA-SE Neuropsychopharmacology and Neurochemistry Research Group, Hungarian Academy of Science and Semmelweis University, Budapest, Hungary
2008-present Head and Professor of Pharmacology, Department of Pharmacodynamics, Faculty of Pharmacy, Semmelweis University, Budapest, Hungary

Past positions
2015-2018 Vice Rector for Scientific Affairs, Semmelweis University, Budapest, Hungary

Education and Career History
1974-79 Semmelweis University of Medicine, Faculty of Pharmacy, Budapest, Hungary

1979 *Diploma in Pharmacy*, Semmelweis University of Medicine, Budapest, Hungary

1981 *Doctor in Pharmacology and Toxicology*, Semmelweis University of Medicine, Budapest, Hungary

1981 *Postdoctoral Research Fellow*, Psychopharmacology, National Institute of Nervous and Mental Diseases, Budapest, Hungary

1983 *Specialty Exam in Pharmacology and Toxicology*, OTKI and Semmelweis University of Medicine, Budapest, Hungary

1986-89 *Fogarty Visiting Fellow*, Section on Clinical Neuropharmacology, Laboratory of Clinical Science, National Institute of Mental Health, Bethesda, MD, U.S.A.

1989-90 *Research Consultant*, Clinical Neuroendocrinology Branch, National Institute of Mental Health, Bethesda, MD, U.S.A.

1992 *PhD in Medicine*, Candidate of Sciences, Hungarian Academy of Sciences

1994 *Chief*, Laboratory of Neurochemistry and Experimental Medicine, National Institute of Psychiatry and Neurology, Budapest, Hungary

1998 *Habilitation,* Semmelweis University of Medicine, Budapest, Hungary

1999 *Doctor of Sciences*, thesis "Serotonergic regulation of the nervous and hormonal systems", Hungarian Academy of Sciences, Budapest, Hungary

2002 *Scientific Director*, National Institute of Psychiatry and Neurology, Budapest, Hungary

2007 *Research Professor*, Department of Pharmacology and Pharmacotherapy, Faculty of Medicine, Semmelweis University, Budapest, Hungary

2008 *Head,* Department of Pharmacodynamics, Faculty of Pharmacy, Semmelweis University, Budapest, Hungary

2010 *Full Professor of Pharmacology,* Department of Pharmacodynamics, Faculty of Pharmacy, Semmelweis University, Budapest, Hungary

Career-Related Activities

1988- Organization of international conferences, invited lectures, consultations, reviewer/referee work for international journals

1995- *Council member*, Ph.D. Program of Semmelweis University of Medicine, "The neurobiological basis of neuropsychiatric disorders" Budapest, Hungary

1994-1998 *Secretary of the Scientific and Educational Board*, National Institute of Psychiatry and Neurology, Budapest, Hungary

1999-2002 *Head of the Scientific and Educational Commettee*, National Institute of Psychiatry and Neurology, Budapest, Hungary

2000 *Core and council member, supervisor*, Doctoral School of Mental Health Sciences, Semmelweis University, Budapest

2000 *Supervisor*, Szentágothai János Doctoral School of Neurosciences, Semmelweis University, Budapest

2013 *Head*, MTA-SE Neuropsychopharmacology and Neurochemistry Research Group, Hungarian Academy of Science and Semmelweis University, Budapest, Hungary

2012 *Member*, Expert Commette on Medical Sciences, Hungarian Accreditation Commette

2014 *Supervisor*, Doctoral School of Pharmaceutical Sciences, Semmelweis University, Budapest

Research specialty and field of outstanding interest

Pharmacology of the central nervous system
Endocrine side-effects in psycho- and neuropharmacology
Serotonergic mechanisms in neuroendocrine regulation
Physiology and pharmacology of serotonin
Neuronal and functional damage caused by ecstasy
Depression and anxiety: genomics and systems approach
Regulation of sleep

Most important international research grants

EU 5. FWP, RTD, Quality of Life, Neurosciences, MDMA-induced neuronal damage and behavioural consequences, QLRT-CT-2002-00809;

EU 6. FWP, Life Sciences and Health: „New molecules in mood disorders: a genomic, neurobiological and systems approach in animal models and human disorder". NEWMOOD, LSHM-CT-2004-503474.

Publications

>200 Journal Articles
>6000 citations on these works
Cumulative impact factor: >580
Hirsch-index: 46

Major achievements, functions

1999 Member, Editorial Board, Neuropsychopharmacologia Hungarica
2006 Member, Editorial Board, International Journal of Neuropsychopharmacology
2009 Member, Scientific Council, Semmelweis University
2010 Member, Jury on Experimental Medicine, Hungarian Research Fund (OTKA)
2011 Secretary, IIIrd Doctoral Committee of Section of Medical Sciences, Hungarian Academy of Science
2012 Member, Editorial Board, European Neuropsychopharmacology
2012-14 President, Committee on Pharmaceutical Sciences, Hungarian Academy of Sciences
2013- Member, Academia Europaea
2013- Representative of Doctors, Hungarian Academy of Sciences
2019- Member, European Academy of Sciences and Arts
2 of the supervised 19h.D. students with degree earned "Junior Prima Award" in the category of science

Honours and Awards

1998 Honour of the Secretary of Health
2009 Excellent PhD Supervisor Award, Semmelweis University
2010 Tivadar Huzella Award and Medal, Semmelweis University
2012 Academy Award of the Hungarian Academy of Sciences
2014 Issekutz Award and Medal, the Hungarian Society of Experimental and Clinical Pharmacology

Knowledge of Foreign Languages

English: speaking and writing fluently, experienced lecturer
German: low-intermediate

Date: 14th of January, 2019. Dr. Gyorgy Bagdy

15.

Resolution on the remuneration of the members of the Board of Directors

Proposal to Item No.:15
on the Agenda of the AGM

Resolution of the Board of Directors No.: 32/2019

The Board of Directors proposes to the AGM to approve the honoraria for the members of the Board of Directors for 2019 effective as of January 1, 2019 according to the following:

Chairman of the Board of Directors: HUF 685,000/month
Members of the Board of Directors: HUF 570,000/month/member

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 Supervisory Board

Proposal to Item No.:16
on the Agenda of the AGM

Resolution of the Board of Directors No.: 33/2019

The Board of Directors proposes to the AGM to approve the honoraria for the members of the Supervisory Board for 2019 effective as of January 1, 2019 according to the following:

Chairman of the Supervisory Board: HUF 570,000/month
Members of the Supervisory Board: HUF 410,000/month/member

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

17.

Election of the Company's statutory auditor

Proposal to Item No.:17
on the Agenda of the AGM

Resolution of the Board of Directors No.: 34/2019

The Board of Directors - based upon the motion of the Audit Board - proposes the AGM to approve the election of **PricewaterhouseCoopers Auditing Ltd.** (H-1055 Budapest, Bajcsy-Zsilinszky út 78., Chamber of Hungarian Auditors registration no.: 001464) as the Company's statutory auditor for a period of one year expiring on April 30, 2020 but not later than the approval of the Company's 2019 consolidated report.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

18.

Resolution on the remuneration of the Company's statutory auditor

Proposal to Item No.:18
on the Agenda of the AGM

Resolution of the Board of Directors No.: 35/2019

The Board of Directors - based upon the motion of the Audit Board - proposes the AGM to approve the honoraria amounting to **HUF 22 million + VAT** for **PricewaterhouseCoopers Auditing Ltd**. for its performance as auditor of the Company in 2019. The honoraria includes the fee for the auditing of the 2019 consolidated annual report, the fee for examining the consonance between the consolidated annual report and business report for 2019, the fee for the auditing of the 2019 non-consolidated annual report, the fee for examining the consonance between the non-consolidated annual report and business report for 2019, the fee for reviewing the quarterly reports serving the purpose to inform 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 consolidated interim financial statement which shall be completed on the accounting date of August 31, 2019.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

19.

Miscellaneous