GEDEON RICHTER

PROPOSAL OF THE 2020 ANNUAL GENERAL MEETING

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 Tuesday, April 28, 2020 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 2019 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 2019 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 2019 Consolidated Annual Report pursuant to the IFRS
4. Approval of the Richter Group's draft 2019 Consolidated Annual Report pursuant to the IFRS
5. Report of the Board of Directors on the 2019 business activities of the Company (on the management, the Company's financial situation and business policy) and presentation of the Company's draft 2019 individual Annual Report prepared pursuant to the IFRS
6. Report of the Statutory Auditor on the Company's draft 2019 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 2019 individual Annual Report prepared pursuant to the IFRS
8. Approval of the Company's draft 2019 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 (changes due to Act LXVII of 2019 on Promoting Long-Term Shareholder Commitment, especially regarding the remuneration policy and the remuneration report; procedural rules of reporting by the Supervisory Board on the proposals of the Board of Directors, authorizing the Chief Executive Officer to amend the Organizational and Operational Rules and Regulations)
12. Advisory vote on the remuneration policy applicable from 2021
13. Report of the Board of Directors on the treasury shares acquired by the Company based upon the authorization in AGM resolution No.13/2019.04.24.
14. Authorization to the Board of Directors for the purchase of own shares of the Company
15. Election of members of the Board of Directors
16. Resolution on the remuneration of the members of the Board of Directors
17. Resolution on the remuneration of the members of the Supervisory Board
18. Election of the Company's statutory auditor
19. Resolution on the remuneration of the Company's statutory auditor
20. Miscellaneous

1.

Report on the 2019 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 2019

Gabor Orban
Chief Executive Officer

Budapest, 23 March 2020

Gedeon Richter Plc.

CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Income Statement

for the year ended 31 December

	Notes	2019 HUFm	2018 HUFm
Revenues	**5**	**507,794**	**445,484**
Cost of sales		(224,500)	(191,648)
Gross profit		**283,294**	**253,836**
Sales and marketing expenses		(121,819)	(115,584)
Administration and general expenses		(28,977)	(24,070)
Research and development expenses		(48,860)	(40,545)
Other income and other expenses (net)	5	(44,793)	(29,004)
Net impairment losses on financial and contract assets		1,051	407
Profit from operations	**5**	**39,896**	**45,040**
Finance income	7	20,500	19,285
Finance costs	7	(10,206)	(21,427)
Net financial income/(loss)	**7**	**10,294**	**(2,142)**
Share of profit of associates and joint ventures	14	658	1,055
Profit before income tax		**50,848**	**43,953**
Income tax	8	(2,418)	(7,760)
Profit for the year		**48,430**	**36,193**
Profit attributable to			
Owners of the parent		47,135	35,348
Non-controlling interest		1,295	845
Earnings per share (HUF)	9		
Basic and diluted		253	190

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

23 March 2020

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Chief Executive Officer

Consolidated Statement of Comprehensive Income

for the year ended 31 December

	Notes	2019 HUFm	2018 HUFm
Profit for the year		**48,430**	**36,193**
Items that will not be reclassified to profit or loss (net of tax)			
Actuarial loss on retirement defined benefit plans	28	(640)	(353)
Changes in the fair value of equity investments at fair value through other comprehensive income	24	3,810	(5,154)
		3,170	**(5,507)**
Items that may be subsequently reclassified to profit or loss (net of tax)			
Exchange differences arising on translation of foreign operations		8,460	4,609
Exchange differences arising on translation of associates and joint ventures	14	(179)	(95)
		8,281	**4,514**
Other comprehensive income for the year		**11,451**	**(993)**
Total comprehensive income for the year		**59,881**	**35,200**
Attributable to:			
Owners of the parent		58,336	34,168
Non-controlling interest		1,545	1,032

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

23 March 2020

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Chief Executive Officer

Consolidated Balance Sheet

	Notes	31 December 2019 HUFm	31 December 2018 HUFm
ASSETS			
Non-current assets			
Property, plant and equipment	12	244,754	214,880
Investment property		111	135
Goodwill	18	29,503	35,386
Other intangible assets	12	127,635	151,648
Investments in associates and joint ventures	14	16,192	11,755
Other financial assets	15	19,030	9,452
Deferred tax assets	16	6,988	7,895
Loans receivable	17	2,021	2,626
Long term receivables	15	2,837	6,035
		449,071	**439,812**
Current assets			
Inventories	19	98,995	92,687
Trade receivables	20	154,426	129,006
Contract assets	21	3,466	1,425
Other current assets	21	21,376	16,187
Investments in securities	22	1,545	4,728
Current tax asset	16	1,199	1,017
Cash and cash equivalents	23	128,573	113,021
		409,580	**358,071**
Total assets		**858,651**	**797,883**

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

23 March 2020

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Chief Executive Officer

Consolidated Balance Sheet

	Notes	31 December 2019 HUFm	31 December 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	(3,870)	(2,186)
Share premium		15,214	15,214
Capital reserves		3,475	3,475
Foreign currency translation reserves	24	22,213	14,182
Revaluation reserve for securities at FVOCI	24	8,620	4,810
Retained earnings		653,691	626,052
		717,981	**680,185**
Non-controlling interest	13	6,892	5,560
		724,873	**685,745**
Non-current liabilities			
Borrowings	29	-	2
Deferred tax liability	16	1,925	7,176
Other non-current liabilities and accruals	30	18,004	9,255
Provisions	28	4,287	3,554
		24,216	**19,987**
Current liabilities			
Borrowings	29	-	-
Trade payables	26	61,770	54,549
Contract liabilities	27	745	85
Current tax liabilities	16	382	438
Other payables and accruals	27	42,721	33,664
Provisions	28	3,944	3,415
		109,562	**92,151**
Total equity and liabilities		**858,651**	**797,883**

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

23 March 2020

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Chief Executive Officer

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 securities at FVOCI	Foreign currency translation reserves	Retained earnings	Equity attributable to owners of the parent	Non-controlling interest	Total
		HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
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 retirement defined benefit plans	28	-	-	-	-	-	-	(353)	(353)	-	(353)
Revaluation reserve for securities 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**
Purchase of treasury shares	25	-	-	-	(3,607)	-	-	-	(3,607)	-	(3,607)
Transfer of treasury shares	25	-	-	-	1,836	-	-	(1,836)	-	-	-
Recognition of share-based payments	24	-	-	-	-	-	-	1,697	1,697	-	1,697
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
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 10-86 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

	Notes	Share capital	Share premium	Capital reserves	Treasury shares	Revaluation reserve for securities at FVOCI	Foreign currency translation reserves	Retained earnings	Equity attributable to owners of the parent	Non-controlling interest	Total
		HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Balance at 1 January 2019		**18,638**	**15,214**	**3,475**	**(2,186)**	**4,810**	**14,182**	**626,052**	**680,185**	**5,560**	**685,745**
Profit for the year		-	-	-	-	-	-	47,135	47,135	1,295	48,430
Exchange differences arising on translation of foreign operations		-	-	-	-	-	8,210	-	8,210	250	8,460
Exchange differences arising on translation of associates and joint ventures	14	-	-	-	-	-	(179)	-	(179)	-	(179)
Actuarial loss on retirement defined benefit plans	28	-	-	-	-	-	-	(640)	(640)	-	(640)
Revaluation reserve for securities at FVOCI	24	-	-	-	-	3,810	-	-	3,810	-	3,810
Comprehensive income for year ended 31 December 2019		**-**	**-**	**-**	**-**	**3,810**	**8,031**	**46,495**	**58,336**	**1,545**	**59,881**
Purchase of treasury shares	25	-	-	-	(3,539)	-	-	-	(3,539)	-	(3,539)
Transfer of treasury shares	25	-	-	-	1,855	-	-	(1,855)	-	-	-
Recognition of share-based payments	24	-	-	-	-	-	-	1,636	1,636	-	1,636
Ordinary share dividend for 2018	31	-	-	-	-	-	-	(18,637)	(18,637)	-	(18,637)
Dividend paid to non-controlling interest		-	-	-	-	-	-	-	-	(213)	(213)
Acquisition of non-controlling interest		-	-	-	-	-	-	-	-	-	-
Additional paid in capital to subsidiaries		-	-	-	-	-	-	-	-	-	-
Sale of subsidiary		-	-	-	-	-	-	-	-	-	-
Transactions with owners in their capacity as owners for year ended 31 December 2019		**-**	**-**	**-**	**(1,684)**	**-**	**-**	**(18,856)**	**(20,540)**	**(213)**	**(20,753)**
Balance at 31 December 2019		**18,638**	**15,214**	**3,475**	**(3,870)**	**8,620**	**22,213**	**653.691**	**717.981**	**6.892**	**724.873**

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

Consolidated Cash Flow Statement

for the year ended 31 December

	Notes	2019 HUFm	2018 HUFm
Operating activities			
Profit before income tax		50,848	43,953
Depreciation and amortisation	5	39,320	34,907
Non-cash items accounted through Consolidated Income Statement	14	(503)	2,130
Net interest and dividend income	7	(320)	(1,362)
Changes in provision for defined benefit plans	28	733	249
Reclass of results on changes of property, plant and equipment and intangible assets		1,725	312
Impairment recognised on intangible assets and goodwill	12,18	38,055	24,680
Expense recognised in respect of equity-settled share based payments	24	1,636	1,743
Movements in working capital			
Increase in trade and other receivables		(33,063)	(4,617)
Increase in inventories		(6,308)	(8,772)
Increase in payables and other liabilities		13,452	13,300
Interest paid		(1)	(2)
Income tax paid	16	(7,360)	(6,178)
Net cash flow from operating activities		**98,214**	**100,343**
Cash flow from investing activities			
Payments for property, plant and equipment*		(39,507)	(39,073)
Payments for intangible assets*		(18,578)	(18,982)
Proceeds from disposal of property, plant and equipment		1,449	736
Government grant received related to investments		2,428	901
Payments to acquire financial assets		(11,633)	(3,291)
Proceeds on sale or redemption on maturity of financial assets		4,731	17,498
Disbursement of loans net		492	(646)
Interest received	7	914	1,349
Dividend received	7	1	15
Net cash outflow on purchase of group of assets		-	(2,881)
Net cash flow to investing activities		**(59,703)**	**(44,374)**
Cash flow from financing activities			
Purchase of treasury shares	25	(3,539)	(3,653)
Dividend paid	31	(18,850)	(12,673)
Principal elements of lease payments	12	(3,791)	-
Repayment of borrowings	29	(2)	-
Net cash flow to financing activities		**(26,182)**	**(16,326)**
Net increase/(decrease) in cash and cash equivalents		**12,329**	**39,643**
Cash and cash equivalents at beginning of year		**113,021**	**76,041**
Effect of foreign exchange rate changes on the balances held in foreign currencies		3,223	(2,663)
Cash and cash equivalents at end of year		**128,573**	**113,021**

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

Notes to the Consolidated Financial Statements

1. General background

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

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

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

The 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 16 effective from 1 January 2019, 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 2019 and the Group has adopted:

- IFRS 16, Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019, the EU has endorsed the amendments). 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 are 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 the effect of initial application of the standard in Note 38.

B) The following standards and amended standards became effective for the Group from 1 January 2019, but did not have any material impact on the Group:

- IFRIC 23 Uncertainty over income tax treatments (issued on June 2017 and effective for annual 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 annual 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 endorsed the amendments).

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

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

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

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

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

- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020, the EU has endorsed the amendments).

- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual 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 annual periods beginning on or after 1 January 2020, the EU has endorsed the amendments).

- Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020, the EU has endorsed the amendments).

- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022, the EU has not yet endorsed the amendments).

Any other new/modified standards or interpretations are not expected to have a significant impact on the Consolidated Financial Statements of 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 16 from 1 January 2019, 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, revenue and expenses.
Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method.

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

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

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

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

The Group’s share of its associates’ or joint ventures’ post-acquisition profits or losses is recognised in the Consolidated 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 Consolidated 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 Consolidated Income Statement. Foreign exchange gains and losses are presented in the Consolidated Income Statement within finance income or finance expense.

On consolidation, the assets and liabilities of the Group's foreign operations are translated at the exchange rate of the Hungarian National Bank rates prevailing on the balance sheet date except for equity, which is translated at historic value. Income and expense items are translated at the average exchange rates weighted with monthly turnover. Exchange differences arising, if any, are recognised in other comprehensive income.

Such translation differences are recognised as income or as expenses in the period in which the Group disposes of an operation. Conversion into Hungarian Forints of Group's foreign operations that have a functional currency not listed by the National Bank of Hungary is made at the cross rate calculated from Bloomberg's published rate of the given currency to the USD and NBH's rate of the HUF to the USD. The method of translation is the same as mentioned above.

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

IV) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is shown net of value-added tax, returns, rebates and discounts as well as considering the estimated discounts to be provided after the sales already performed and after eliminating sales within the Group. Revenue on sales transactions is recognised upon fulfilment the terms of sales contracts.

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
- performance-related milestone received for products with marketing authorisation (e.g. cumulative sales related milestone),
- 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.
Income arising from the sale/transfer or partial sale of intangible assets - capitalized or not - not directly attributable to current R&D expenses, is recognized as Other income and other expenses (net). Additionally, Other income and expenses (net) include milestone and down-payments realised on the sale/transfer of non-capitalized intangible assets.

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 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). 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, Investment property and Right-of-use assets
A) 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.

B) Investment property

Investment properties, which are held to earn rentals are measured initially at historical 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.

C) Right-of-use assets

The Group as a lessee applies the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset, subject to the requirements as follows:
If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

VI) Goodwill

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

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

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

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

VII) Intangible assets

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

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

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

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

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

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

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

VIII) Impairment of tangible and intangible assets excluding goodwill

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

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

IX) Research and development

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

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

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

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

X) Financial assets

Financial 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), '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.

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.

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

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 XVII) Trade payables.

XII) Contingent-deferred purchase price

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

XIII) Other financial assets
Investments comprise long term bonds and unconsolidated investments in other companies. These investments are measured at amortised cost or fair value through profit or loss as described in Note 15.

XIV) Loans receivable
Loans receivables include given loans measured at amortised cost. It also contains interest free loans given to employees with maximum of 8 years maturity. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. 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 2019. Derivative financial instruments are classified under "Non-current assets" and "Non-current liabilities", if the instrument has a residual maturity of more than 12 months and is not expected to be realized within 12 months. Other derivative contracts are presented under "Other current assets" and "Other payables and accruals".

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 2019 and as of 31 December 2018.

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 Consolidated 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) Leases
The Group has applied IFRS 16 using the modified retrospective approach. Therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately and the impact of changes is disclosed in Note 38.

Accounting policy applicable from 1 January 2019
At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:
- the Group applies comparative pricing method for calculating interest rate. The reference interest rate is determined based on public data related to the specific market taking into consideration the amount, currency, maturity date of the transaction, the borrower's business sector and the purpose of the financing.

Lease payments are allocated between cost of sales, operating expenses and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Exemptions
Contracts may contain both lease and non-lease components. The Group applies the practical expedient allowed by IFRS 16.15 and does not separate non-lease components from lease components and accounts for any lease components and associated non-lease components as a single lease component.

Payments associated with short-term leases for all assets and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets (that the underlying assets, when new, are individually low value that is under HUF 1.5 million) comprise IT and office equipment.

Where the Group acts as a lessor, the lease is classified to be either finance lease (where substantially all of the risks and rewards incidental to ownership are transferred to the lessee) or operating lease. Currently the Group does not act as finance lessor.
For operating lease the Group continues to recognize the underlying asset and do not recognize a net investment in the lease on the balance sheet or initial profit (if any) on the income statement. The underlying asset continues to be accounted for in accordance with applicable accounting standards (e.g., IAS 16). Lessors subsequently recognize lease payments over the lease term on either a straight-line basis or another systematic and rational basis if that basis better represents the pattern in which benefit is expected to be derived from the use of the underlying asset.

Accounting policy based on IAS 17 (in financial year 2018)
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 Consolidated 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 Consolidated 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 Consolidated 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 Consolidated 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 and PRAC recommendation on 13 March 2020 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's final recommendations were published on 18 May 2018 which were adopted by Committee for Medicinal Products for Human Use (CHMP) (01 June 2018) and based on CHMP's opinion the European Commission decided to implement them on 26 July 2018
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. Management has incorporated the effects of the restrictions on the expected future cash flows.

In August 2019 the deadline to take further response and actions regarding the CPL expired and no further actions were taken, therefore the FDA withdrew the request for drug application. Neither the Company nor the licensing partner Allergan intend to submit a new application.

On 13 March 2020 the Company announced, subsequent to its meeting held on 09-12 March 2020 the Pharmacovigilance Risk Assessment Committee (PRAC) of European Medicines Agency (EMA) has started a review procedure following a recent case of liver injury which led to liver transplantation in a patient taking ESMYA®. PRAC recommends suspension of ulipristal acetate for uterine fibroids during ongoing review of liver injury risk. The PRAC has recommended, as a precautionary measure, that women should stop taking 5-mg ulipristal acetate (Esmya and generic medicines) for uterine fibroids while a safety review started this month is ongoing. No new patients should start treatment with these medicines.

The Group concluded that according to IAS 10 the event mentioned above is an adjusting event after the reporting period.

The Group prepared its Consolidated Financial Statements for 2018, considering the negative effects of European Commission's decision on ESMYA®, the PRAC recommendation issued in 2020 and the withdrawn application 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. The overall value is totalled to HUF 31,222 million. Please see further details in Notes 18 and 12.2.

As a result of EC's resolution, PRAC's recommendation and the withdrawn application for US territory, 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 2019 HUFm**	**31 December 2018 HUFm**
Goodwill	0	2,268
ESMYA EU, NA and other ESMYA intangible assets	759	30,823
Total exposure	**759**	**33,091**

Taken into account the PRAC's recommendation issued in 2020, the Group discloses the ESMYA® related inventory on 31 December 2019 as a further exposure:

ESMYA® related inventory	**31 December 2019 HUFm**
EU	163
Other countries	230
Total exposure	**393**

The recoverability of these inventories may be partly affected by the PRAC's recommendation issued in 2020. The Group does not expect the effect of potential returns to be material, therefore did not take into account during the preparation of the Consolidated Financial Statements.

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 was lower by 10% in comparison to management's estimates, depreciation for the year ended 31 December 2019 would be greater by HUF 3,958 million (2018: increase by 3,878 HUF million).

The Group recorded depreciation and amortisation expense in the amount of HUF 35,628 million and HUF 34,907 million for the years ended 31 December 2019 and 2018, respectively.

Unlike property, plant and equipment and intangible assets, there is another type of decision uncertainty when reviewing the depreciation of the right-of-use assets, whereas the estimated useful lives of these assets are essentially determined by the duration of the lease and not by the useful life of the asset. The depreciation of the right-of-use assets during the current year was not significant (HUF 3,692 million) comparing to the depreciation of the fixed assets (HUF 35,628 million). For these reasons, the uncertainty arising from the depreciation of the right-of-use asset is not quantified.

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., annulling 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 had been recognised in 2018.

3.2 Critical judgements in applying entities accounting policies

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 unused tax losses 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. On consolidated level there are further taxable temporary differences associated to the Parent Company (related to the BEMFOLA intangible asset as disclosed in Note 16) that provides partial recoverability to these deductible temporary differences in accordance with the guidance of IFRIC issued on May 2014 on "Income taxes- recognition and measurement on deferred tax assets when an entity is loss-making".

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**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
3rd party revenues	397,712	356,024	109,244	88,596	838	864	-	-	507,794	445,484
Inter segment revenues	9,630	8,707	2	2	5,804	5,391	(15,436)	(14,100)	-	-
Revenues	**407,342**	**364,731**	**109,246**	**88,598**	**6,642**	**6,255**	**(15,436)**	**(14,100)**	**507,794**	**445,484**
Profit from operations	38,835	44,631	734	(97)	340	331	(13)	175	39,896	45,040
Total assets	927,894	867,803	63,279	52,726	4,027	3,777	(136,549)	(126,423)	858,651	797,883
Contract assets	3,466	1,425	-	-	-	-	-	-	3,466	1,425
Total liabilities	102,468	89,088	51,794	40,927	979	990	(21,463)	(18,867)	133,778	112,138
Contract liabilities	745	85	-	-	-	-	-	-	745	85
Capital expenditure**	57,350	57,167	537	650	198	238	-	-	58,085	58,055
Depreciation and amortization*	37,801	33,965	1,237	702	217	240	65	-	39,320	34,907
from this: IFRS16 related	*3,145*	-	*547*	-	-	-	-	-	*3,692*	-
Share of profit of associates and joint ventures	(388)	(431)	1,230	1,428	43	27	(227)	31	658	1,055
Investments in associates and joint ventures	6,957	2,794	8,112	7,722	1,289	1,316	(166)	(77)	16,192	11,755

* 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

2019	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	39,763	137,285	199,627	13,405	18,975	10,663	18,868	438,586
Over time	739	114	9,220	57,696	-	2	1,437	69,208
Revenues	**40,502**	**137,399**	**208,847**	**71,101**	**18,975**	**10,665**	**20,305**	**507,794**
Total assets	625,054	77,377	127,565	2,843	2,345	8,611	14,856	858,651
Capital expenditure	49,807	2,239	4,715	-	-	98	1,226	58,085

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	-	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

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

Analyses of revenue by category	2019	2018
	HUFm	HUFm
Sale of goods	438,586	408,280
Revenue from services	13,556	12,068
Royalty income	55,652	25,136
Total revenues	**507,794**	**445,484**

Revenues of approximately HUF 54,637 million (2018: HUF 24,221 million) are derived from a single external customer (Allergan) that exceeded 10% of total revenues. The revenue is royalty and milestone payments, related to Vraylar™ and are attributable to the Pharmaceuticals segment and located in the USA region. There was no other customer exceeding 10% of revenues in 2019. In 2018, there was no customer exceeding 10% of total revenues.

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

	31 December 2019	31 December 2018
	HUFm	HUFm
Contract assets	3,466	1,425
Contract liabilities	745	85

5. Profit from operations – expenses by nature

	2019	2018
	HUFm	HUFm
Revenues	507,794	445,484
From this: royalty and other similar income	*55,652*	*25,136*
Changes in inventories of finished goods and work in progress, cost of goods sold	(129,668)	(82,268)
Material type expenses	(122,768)	(133,645)
Personnel expenses	(132,400)	(121,027)
Depreciation and amortisation (Note 12)	(39,320)	(34,907)
from this: IFRS16 related	(3,692)	-
Other income and other expenses (net)	(44,793)	(29,004)
from this: IFRS16 related	22	-
Net impairment losses on financial and contract assets	1,051	407
Profit from operations	**39,896**	**45,040**

In 2019 the statutory auditor provided other assurance services for HUF 30 million (HUF 17 million in 2018), and other non-audit services for HUF 38 million (HUF 33 million in 2018). There were no fees charged for tax advisory services (HUF 5 million in 2018). The fee for the statutory audit amounted to HUF 22 million in 2019 and HUF 19 million in 2018.

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 1,051 million in 2019 and HUF 407 million in 2018.

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

The balance of other income and expense changed from HUF 29,004 million (expense) in the base period to HUF 44,793 million (expense) in 2019.

The impairment tests of ESMYA for the 2019 financial statements had to be conducted in consideration of decisions by the regulatory authorities and market effects. As a result, the Group reported HUF 29,114 million impairment of the intangible asset ESMYA. (See details in Note 3.1). Furthermore Executive Board decided to discontinue the Trastuzumab development project resulting in HUF 2,096 million in impairment. In 2018 the impairment of the intangible asset ESMYA was HUF 13,788 million.

In the reported period HUF 5,717 million one-off milestone income was reported in conjunction with the extended indication of cariprazine and the related licensing agreements. In the previous year 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 indication extension.

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 3,300 million in 2019 (in 2018 HUF 4,784 million). The 20% tax obligation payable in respect of turnover related to reimbursed sales in Hungary amounted to HUF 631 million in 2019 and HUF 432 million in 2018.

In 2019 an impairment loss amounting to HUF 7,104 million was recorded in respect of the Goodwill related to PregLem S A., GR Med and GR Mexico. In 2018, HUF 10,482 million was charged in respect of PregLem related Goodwill. For details please see in Note 18.

Depreciation charge of right-of-use assets:

	2019
	HUFm
Land	(20)
Building	(2,181)
Machinery	(1)
Office equipment	(15)
Vehicles	(1,475)
Total	**(3,692)**

The Consolidated Income Statement includes HUF 2,829 million expenses from short-term, low-value and variable lease payments.

6. Employee information

	2019	**2018**
Average number of people employed during the year	12,906	12,696

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:

	2019 HUFm	2018 HUFm
Unrealised financial items	**(740)**	**(2,106)**
Exchange gain/(loss) on trade receivables and trade receivables	360	(3,259)
Gain on foreign currency loans receivable	1,166	1,276
Foreign exchange and fair valuation difference of other financial assets and liabilities	(1,582)	(96)
Result of unrealised forward exchange contracts	-	(27)
Interest expenses related to IFRS 16 standard	(594)	-
Year-end foreign exchange difference related to IFRS 16 standard	(90)	-
Realised financial items	**11,034**	**(36)**
Exchange gain realised on trade receivables and trade payables	8,971	316
Foreign exchange difference on conversion of cash	1,283	1,305
Dividend income	1	15
Interest income	914	1,349
Interest expense	(1)	(2)
Other financial items	(134)	(3,019)
Total	**10,294**	**(2,142)**

Unrealised financial gain was heavily affected by the 4.74 RUB/HUF, 294.74 USD/HUF and 330.52 EUR/HUF exchange rates as of 31 December 2019 (4.05 RUB/HUF on 31 December 2018, 280.94 USD/HUF and 321.51 EUR/HUF respectively) which impacted the revaluation of currency related Balance Sheet items, primarily foreign currency loans receivable. This gain was partly offset by a fair valuation loss of the acquired Mycovia asset, presented as financial assets measured at fair value through profit or loss (Note 10, 11 and 15). These translation and fair valuation differences together resulted in a loss of HUF 56 million in the net financial loss for 2019. For the sensitivity analysis relating to foreign currency exposure see Note 10.

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

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

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.

	2019 HUFm	2018 HUFm
Corporate income tax	(2,469)	(1,978)
Local business tax	(4,079)	(3,529)
Innovation contribution	(614)	(533)
Current tax	**(7,162)**	**(6,040)**
Deferred tax (Note 16)	4,744	(1,720)
Income tax	**(2,418)**	**(7,760)**

The average effective tax rate calculated on the basis of the current tax is 14.1% and 4.8% taking into account the effect of deferred tax as well, in 2018 these rates were 13.7% and 17.7% 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

	2019 HUFm	2018 HUFm
Profit before income tax	**50,848**	**43,953**
Tax calculated at domestic tax rates applicable to profits in the respective countries*	8,907	8,660
Tax effects of:		
Associates results reported net of tax	(59)	(95)
Income not subject to tax	(2,262)	(1,267)
Expense not deductible for tax purposes	504	331
Expense eligible to double deduction**	(3,203)	(2,839)
The effect of changes in tax loss for which no deferred income tax has been recognised***	(44)	2,752
Effect of change in tax rate	(1,622)	-
Impact of deferred tax exceptions on subsidiaries and goodwill****	197	218
Tax charge	**2,418**	**7,760**

* 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 equipment that formed part of the project was commissioned. The Company took 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 2019, the Company did not have corporate income tax liability, therefore it did not utilize any development tax benefit.
The remaining tax relief in connection with the Debrecen project is available for subsequent year's with an amount of HUF 2,049 million at current value. Therefore Richter is able to take advantage of the tax relief up to 2021, at the latest.

Accounting treatment of the tax credit

The Company assessed this tax credit to be an investment tax credit and applied the initial recognition exception stated in IAS 12.24 and did not recognise any deferred tax in connection with tax credit.

9. Consolidated earnings per share

Basic earnings per share is calculated by reference to the net profit attributable to shareholders of the Parent Company and the weighted average number of ordinary shares outstanding during the year. These exclude the average number of ordinary shares purchased by the Company and held as Treasury shares.
For diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to assume conversion of all dilutive potential ordinary shares. As of 31 December 2018 and 31 December 2019 there are no potential dilutive instruments issued by the Group.

EPS (basic and diluted)

	2019	2018
Net consolidated profit attributable to owners of the parent (HUFm)	47,135	35,348
Weighted average number of ordinary shares outstanding (thousands)	186,011	186,314
Earnings per share (HUF)	**253**	**190**

10. Financial instruments

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

	Notes	Carrying value		Fair value	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
		HUFm	HUFm	HUFm	HUFm
Financial assets[1]					
Financial assets measured at amortised cost					
Investments in debt securities	22	-	4,728	-	4,728
Loans receivable	21	673	225	673	225
Trade receivables	20	154,426	129,006	154,426	129,006
Other current assets	21	7,315	5,595	7,315	5,595
Cash and cash equivalents	23	128,573	113,021	128,573	113,021
Financial assets measured at fair value through profit or loss					
Other securities[2]	22	1,545	-	1,545	-
Current		**292,532**	**252,575**	**292,532**	**252,575**
Financial assets measured at amortised cost					
Investments in debt securities	15	57	55	57	55
Loans receivable	17	2,021	2,171	2,021	2,171
Financial assets measured at fair value through OCI					
Investments	15	13,546	9,397	13,546	9,397
Financial assets measured at fair value through profit or loss					
Other financial assets	15	5,427	-	5,427	-
Convertible loan	17	-	455	-	455
Non-current		**21,051**	**12,078**	**21,051**	**12,078**
Financial liabilities					
Liabilities carried at amortised cost					
Borrowings		-	-	-	-
Trade payables	26	61,770	54,549	61,770	54,549
Other payables and accrual	27	33,706	25,381	33,706	25,381
from this: Lease liabilities		3,729	-	3,729	-
Current		**95,476**	**79,930**	**95,476**	**79,930**
Liabilities carried at amortised cost					
Borrowings	29	-	2	-	2
Other non-current liabilities[3]	30	11,318	164	11,318	164
from this: Lease liabilities		10,296	-	10,296	-
Non-current		**11,318**	**166**	**11,318**	**166**

[1] All financial assets are free from liens and charges.
[2] Convertible promissory note to associates is presented as Other securities

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

Financial risk management

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

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

Security price risk
Convertible promissory note denominated in foreign currency is presented as Investment in securities. The value of this financial instrument is influenced by the FX change. The most significant investments of the Group are represented by the interest held in Protek Group and Themis Medicare Ltd. Most of the security price risk is related to Protek investment which is stated in Note 15.

I.) Capital management

The capital structure of the Group consists of net debt (borrowings as detailed in Note 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, and also taking into account the Company's net cash flow and the financing needs of the ongoing acquisition projects.
The amount of 2019 dividend per ordinary share is HUF 63 as proposed by the Board of Directors.

The capital risk of the Group was still limited in both 2019 and 2018, 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 2019	**31 December 2018**
	HUFm	HUFm
Borrowings (Note 29)	-	2
Less: cash and cash equivalents (Note 23)	(128,573)	(113,021)
Net debt	**(128,573)**	**(113,019)**
Total equity	724,873	685,745
Total capital	**596,300**	**572,726**
EBITDA*	75,524	79,947
Net debt to EBITDA ratio	**(1.70)**	**(1.41)**
Net debt to equity ratio	**(0.18)**	**(0.16)**

* The Group defines EBITDA as operating profit increased by depreciation and amortization expense. From 1 January 2019 the Group applies the IFRS 16 Leases standard. As a result of the new standard certain rental expenses are capitalised and the expense is charged as depreciation and interest expense. Such depreciation related to the right-of-use assets is not added back when determining the EBITDA.

	2019 HUFm	2018 HUFm
Profit from operations	39,896	45,040
Depreciation (except for right-of-use asset)	35,628	34,907
EBITDA*	**75,524**	**79,947**

* The Group defines EBITDA as operating profit increased by depreciation and amortization expense. From 1 January 2019 the Group applies the IFRS 16 Leases standard. As a result of the new standard certain rental expenses are capitalised and the expense is charged as depreciation and interest expense. Such depreciation related to the right-of-use assets is not added back when determining the EBITDA.

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:

		Exchange rates								Effect on operating profit	Effect on profit before income tax	
2019												
*	EUR/HUF	USD/HUF	EUR/USD	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	KZT/HUF	CNY/HUF	HUFm	HUFm	
103.07%	**335.35**											
		305.15	**1.10**	**77.95**	**70.84**	**4.94**	**305.96**	**0.84**	**43.36**	**12,239**	**13,380**	**largest growth**
		290.62	1.15	75.63	68.73	4.49	291.39	0.76	42.07	1,039	1,192	
		276.09	1.21	73.31	66.62	4.04	276.82	0.68	40.78	(10,161)	(10,997)	
100.00%	325.36											
		305.15	1.07	77.95	70.84	4.94	305.96	0.84	43.36	11,200	12,188	
		290.62	1.12	75.63	68.73	4.49	291.39	0.76	42.07	0	0	
		276.09	1.18	73.31	66.62	4.04	276.82	0.68	40.78	(11,200)	(12,188)	
96.93%	**315.37**											
		305.15	1.03	77.95	70.84	4.94	305.96	0.84	43.36	10,161	10,997	
		290.62	1.09	75.63	68.73	4.49	291.39	0.76	42.07	(1,039)	(1,192)	
		276.09	**1.14**	**73.31**	**66.62**	**4.04**	**276.82**	**0.68**	**40.78**	**(12,239)**	**(13,380)**	**greatest decrease**

* Change of EUR/HUF average exchange rates.

2018	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	
103.14%	**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.

Based on the yearly average currency rate sensitivity analysis of 2019 the combination of weak Hungarian Forint –335.35 EUR/HUF against other currencies – would have caused the largest growth in the amount of HUF 12,239 million on the Group's consolidated operating profit and HUF 13,380 million on the Group's consolidated profit for the year.
The greatest decrease HUF 12,239 million on operating and HUF 13,380 million on profit for the year would have been caused by the combination of exchange rates of 315.37 EUR/HUF against other currencies.

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.

Currency sensitivity of balance sheet items

Foreign currency risk can only arise on financial instruments that are denominated in a currency other than the functional currency in which they are measured. Translation exposures arise from financial and non-financial items held by an entity with a functional currency different from the Group's presentation currency.
Currency sensitivity analysis of balance sheet items is applied to third party trade receivables and trade payables, bank accounts, loans receivable, borrowings and 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. Recently, Management has experienced higher sensitivity in case of certain currencies, therefore these currencies have been diverted more when determining the exchange rate combinations (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:

2019		**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	
	103.07%	**340.67**										
			309.48	**1.10**	**79.97**	**71.20**	**5.21**	**319.61**	**0.85**	**43.64**	**7,353**	**best case scenario**
			294.74	1.16	77.59	69.08	4.74	304.39	0.77	42.34	402	
			280.00	1.22	75.21	66.96	4.27	289.17	0.69	41.04	(6,548)	
	100.00%	330.52										
			309.48	1.07	79.97	71.20	5.21	319.61	0.85	43.64	6,950	
			294.74	1.12	77.59	69.08	4.74	304.39	0.77	42.34	-	
			280.00	1.18	75.21	66.96	4.27	289.17	0.69	41.04	(6,950)	
	96.93%	**320.37**										
			309.48	1.04	79.97	71.20	5.21	319.61	0.85	43.64	6,548	
			294.74	1.09	77.59	69.08	4.74	304.39	0.77	42.34	(402)	
			280.00	**1.14**	**75.21**	**66.96**	**4.27**	**289.17**	**0.69**	**41.04**	**(7,353)**	**worst case scenario**

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

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.

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 7,353 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 7,353 million.

In 2018 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 6,791 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 6,799 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:

2019	**Currencies** (all amounts in millions)							
	EUR	USD	CHF	RUB	RON	PLN	KZT	CNY
Loans receivable	0.5	2.1	-	-	-	-	-	-
Trade receivables	63.2	93.9	0.9	8,090.9	494.9	88.8	1,910.6	130.4
Investments in securities	-	26.3	-	-	-	-	-	-
Bank deposits	57.6	34.2	0.8	27.3	0.2	3.6	519.5	47.1
Trade payables	(31.3)	(3.5)	(0.4)	(47.3)	(415.8)	(9.6)	(33.3)	-
Other liabilities	(0.1)	(16.7)	-	(225.7)	-	-	-	-
Lease liabilities	(63.0)	(0.7)	(0.6)	(32.2)	(0.9)	(22.1)	-	-
Total	**26.9**	**135.6**	**0.7**	**7,813.0**	**78.4**	**60.7**	**2,396.8**	**177.5**

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**

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 on a regular basis 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. In 2019 there is only one customer (Allergan) where the turnover exceeds 10% of total revenues. The revenue is royalty and milestone payments, related to Vraylar™.

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	Type of security		
	31 December 2019	Credit insurance	Bank guarantee	L/C
	HUFm	HUFm	HUFm	HUFm
CIS	30,747	13,433	17,314	-
EU	420	-	420	-
USA	-	-	-	-
China	-	-	-	-
Latin America	171	171	-	-
Other	698	351	149	198
Total	**32,036**	**13,955**	**17,883**	**198**

Regions	Trade receivables secured as at	Type of security		
	31 December 2018	Credit insurance	Bank guarantee	L/C
	HUFm	HUFm	HUFm	HUFm
CIS	27,206	15,819	11,387	-
EU	411	-	411	-
USA	-	-	-	-
China	-	-	-	-
Latin America	-	-	-	-
Other	938	440	129	369
Total	**28,555**	**16,259**	**11,927**	**369**

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 75% 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 2019 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 December 2019	31 December 2018
Banca Commerciala Romana SA *	BBB+	BBB+
Bank of China Ltd. Magyarországi Fióktelepe	A	A
BNP Paribas Magyarországi Fióktelepe	A+	A
CIB Bank Zrt. *	BBB-	BBB-
Erste Bank Hungary Zrt. *	BBB+	BBB
K&H Bank Zrt.*	BBB+	BBB
KDB Bank Európa Zrt. (ultimate parent - Korea Development Bank)	AA	AA-
OTP Bank Nyrt.	BBB-	BBB-
Raiffeisen Bank Zrt. **	BAA2	-
UniCredit Bank Hungary Zrt. (ultimate parent - UniCredit SpA)	BBB	BBB

* For these financial institutes we present the rating of Fitch Ratings, since rating of Standard and Poor's is not available.
** For this financial institute only rating of Moody's is 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.
The Group has a customer (Allergan) where the turnover exceeds 10% of net sales. The customer has settled all open item up to the balance sheet date.

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 2019 and 2018, 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:

	2019	**2018**
	HUFm	HUFm
Bank guarantee for National Tax and Customs Administration of Hungary – collaterals for customs and excise duty related liabilities	196	197
Bank guarantee for Romanian suppliers	3,408	3,140
Other, individually not significant bank guarantees	185	114

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 2019				31 December 2018			
		Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets									
Other financial assets	15	13,546	-	5,427	**18,973**	9,397	-	-	**9,397**
Investments in securities	22	-	-	1,545	**1,545**	-	-	-	**-**
Convertible loan	17	-	-	-	**-**	-	-	455	**455**
Total assets recurring fair value measurements		**13,546**	**-**	**6,972**	**20,518**	**9,397**	**-**	**455**	**9,852**

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 2019 and 2018.

The valuation technique, inputs used in the fair value measurement for most significant level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2018 and 2019 (Note 3.1):

	Fair value at 31 December 2019 HUFm	Valuation technique	Unobservable inputs	Range of inputs (weighted average)		Sensitivity of fair value measurement
Assets at fair value						
Convertible bond option Prima Temp	1,545	Option valuation model	· Price of the stock	37.5	USD/share	The change of the stock price multiples the fair value
			· Strike price of the option	0.96	USD/share	The higher the strike price the lower the fair value
			· Time in years	0.25	year	The longer the time in years the higher the fair value
			· The annualised risk free rate	1.54	%	The higher the annualised risk free rate the higher the fair value
			· Standard deviation of the stock's returns (volatility)	11.92	%	The higher the standard deviation the higher the fair value
Other financial asset Mycovia	5,427	Discounted cash flows (DCF)	· Estimated future profit			The higher estimated future profits the higher the fair value
			· Foreign currency rate	294.74	HUF/USD	The higher the FX rate the higher the fair value
			· Discount rate	12.08	%	The higher the discount rate the lower the fair value
Total recurring fair value measurements at Level 3	**6,972**					

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

(b) Non-recurring fair value measurements

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

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

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

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

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

12. Property, plant and equipment, Right-of-use assets and other intangible assets

12.1 Property, plant and equipment

	31 December 2019	31 December 2018
	HUFm	HUFm
Property, plant and equipment without right-of-use assets	230,979	214,880
Right-of-use assets	13,775	-
Total	**244,754**	**214,880**

12.1.1 Property, plant and equipment without Right-of-use assets

	Land and buildings	Plant and equipment	Construction in progress	Total
	HUFm	HUFm	HUFm	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**

	Land and buildings	Plant and equipment	Construction in progress	Total
	HUFm	HUFm	HUFm	HUFm
Gross value				
at 31 December 2018	**170,836**	**294,801**	**22,383**	**488,020**
Translation differences	2,401	2,373	274	**5,048**
Effect of newly acquired companies	-	-	-	**-**
Capitalization	9,881	26,354	(36,235)	**-**
Transfers and capital expenditure	1,365	674	39,526	**41,565**
Disposals	(2,858)	(7,594)	(467)	**(10,919)**
at 31 December 2019	**181,625**	**316,608**	**25,481**	**523,714**
Accumulated depreciation				
at 31 December 2018	**52,048**	**221,092**	**-**	**273,140**
Translation differences	510	1,431	-	**1,941**
Current year depreciation	5,151	18,714	-	**23,865**
Net foreign currency exchange differences	24	123	-	**147**
Disposals	(321)	(6,037)	-	**(6,358)**
at 31 December 2019	**57,412**	**235,323**	**-**	**292,735**
Net book value				
at 31 December 2018	**118,788**	**73,709**	**22,383**	**214,880**
at 31 December 2019	**124,213**	**81,285**	**25,481**	**230,979**

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.

From 2019 leased assets are presented among Property, plant and equipment in the Consolidated Balance Sheet, see note 12.1.2. Refer to note 38 for details about the changes in accounting policy.

12.1.2 Right-of-use assets

The Consolidated Balance Sheet shows the following amounts relating to leases:

	31 December 2019	1 January 2019
	HUFm	HUFm
Land	1,397	1,353
Building	9,790	7,766
Machinery	6	7
Office equipment	54	66
Vehicles	2,528	2,337
Total	**13,775**	**11,529**

The gross value of the right-of-use assets increased by HUF 5,938 million which was offset by the depreciation in the current year (HUF 3,692 million, see Note 5). Therefore the net increase was HUF 2,246 million in the value of right-of-use assets in 2019, which comprises of new transactions, revaluations and modifications.

12.2 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 depreciation						
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**	**-**	**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.

Other intangible assets	Rights	Intellectual property	Research and development	ESMYA*	BEMFOLA**	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Gross value						
at 31 December 2018	**159,863**	**5,162**	**423**	**83,530**	**53,613**	**302,591**
Translation differences	500	71	-	4,842	-	**5,413**
Acquisition	18,588	466	-	-	-	**19,054**
Disposals	(1,388)	(25)	-	-	-	**(1,413)**
at 31 December 2019	**177,563**	**5,674**	**423**	**88,372**	**53,613**	**325,645**
Accumulated depreciation						
at 31 December 2018	**87,835**	**3,238**	**423**	**54,086**	**5,361**	**150,943**
Translation differences	409	58	-	3,313	-	**3,780**
Current year amortization	7,855	406	-	1,357	2,145	**11,763**
Net foreign currency exchange differences	19	6	-	56	-	**81**
Impairment and reversal of impairment (net)	2,928	-	-	28,801	-	**31,729**
Disposals	(263)	(23)	-	-	-	**(286)**
at 31 December 2019	**98,783**	**3,685**	**423**	**87,613**	**7,506**	**198,010**
Net book value						
at 31 December 2018	**72,028**	**1,924**	**-**	**29,444**	**48,252**	**151,648**
at 31 December 2019	**78,780**	**1,989**	**-**	**759**	**46,107**	**127,635**

* 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.
Started in 2017 and completed by the end of 2018, Richter's integration of the company's operations into Richter's system took over the full distribution of Bemfola®, the Western European marketing of the product and the secondary packaging of the product. As a result, the business model of the product has changed and the profit center has been moved from Finox to the parent company. Finox has transferred the commercial rights of Bemfola® under an agreement, so that from the date of the contract all profits/losses will be realized at the Parent Company. Accordingly, the BEMFOLA intangible asset recognized at the acquisition, at the consolidated level, also owned by the Parent Company, which means that the value previously recorded in EUR - Finox Group currency - was converted into the currency of the Parent (HUF) at the date of the transfer. Net book value of BEMFOLA intangible is HUF 44,705 million as of 31 December 2019.
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 1,402 million as of 31 December 2019.

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

Net book value	**31 December 2019** HUFm	**31 December 2018** HUFm
ESMYA LatAm	0	410
Grünenthal	25,989	30,378
Levosert	2,633	3,310
Bemfola®/Afolia	6,242	6,447
Mithra/Estelle	11,365	11,365
Trastuzumab	0	2,096
Mifepristone	3,502	1,238
Terrosa	2,999	1,849
Mycovia	6,025	-
Pharmacy licenses	2,630	2,328
Other, individually not significant rights	17,395	12,607
Total	**78,780**	**72,028**

Rights – ESMYA EU intangible asset
Taken into account the circumstances and events presented in Note 3.1 the Group determined that 100% impairment should be accounted for the ESYMA EU intangible asset. The total impairment expense accounted amounts to HUF 22,873 million and the remaining carrying value of the asset is HUF 0.

Key assumptions of impairment test as of 31 December 2018

EU forecasts as of 31 December 2018
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.

ESMYA North American intangible asset
The registration application of ESMYA® in the USA was withdrawn and neither the Company nor its license partner Allergan would like to submit a new application. Based on the above the Company determined that 100% impairment should be accounted for the USA related part of the NA ESMYA intangible asset.

As a result of the impairment test it was found that the recoverable amount of the ESMYA NA intangible asset's part which is allocated to USA is HUF 0, which meant a need to account for an impairment amounting to HUF 5,928 million. The remaining Canada related recoverable amount is 20% higher than its book value, therefore no impairment deemed to be necessary to be accounted for. The remaining book value of the ESMYA NA intangible asset is HUF 759 million.

The discount rates (NA post tax: 8.5%, in 2018 10.5%) 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.

The recoverable amount of both intangibles was determined by the fair value less cost of disposal applying the Multi-Period Excess Earnings Method.

North American (NA) intangible asset forecasts as of 31 December 2018
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.
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 ESMYA EU and NA intangible asset impairment tests as of 31 December 2018
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%; NA post tax: 10.5%,) 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
During 2019 there were no significant changes in circumstances which would have resulted in any reversal of previously recognised impairment.

Rights – ESMYA other countries' intangible assets
Taken into account the impairment accounted for PregLem goodwill, ESMYA North-America intangible asset and ESMYA LatAm intangible assets (Brazil, Mexico) the Company concluded that 100% impairment is necessary to be recognised regarding the remaining ESMYA related intangible assets, which were determined as individually not significant assets in previous financial statements. The impairment expense recognised is HUF 1,275 million.

Rights – Grünenthal
The product rights acquired from Grünenthal in 2010 containing manufacturing rights (amounted to EUR 600 thousand) and market authorisation (amounted to EUR 235.9 million) together with the value of the established products brand are presented as Rights. The estimated useful life for both rights is 15 years. The amortization period started in 2010. Net book value of the rights in relation to Grünenthal is HUF 25,989 million as of 31 December 2019 and HUF 30,378 million as of 31 December 2018.

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 2,633 million as of 31 December 2019 and HUF 3,310 million as of 31 December 2018.

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. As of 31 December 2019, we performed impairment test for intangible assets based on qualitative indicators and concluded that there was no need to recognize any impairment loss.

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. 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. As of 31 December 2019, we performed impairment test for intangible assets based on qualitative indicators and concluded that there was no need to recognize any impairment loss.

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. Executive Board decided to discontinue the trastuzumab development project resulting in HUF 2,096 million in impairment.

Rights – Mycovia

On 16 October 2019 Richter and Mycovia Pharmaceuticals, Inc. announced that they have entered into an exclusive license and development and technology transfer agreement to commercialize and manufacture VT-1161, currently in Phase III clinical trials for the treatment of Recurrent Vulvovaginal Candidiasis.

The geographic scope of the license agreement covers Europe, Russia, the other CIS countries, Latin America and Australia. Under the terms of the agreement Richter shall make milestone payments related to the clinical development process. These payments shall extend over the next two years and will total USD 20 million. Additional development and sales milestone payments shall be due depending on the progress of the regulatory process and commercial success of the product.). The value of Mycovia intangible asset is HUF 6,025 million as of 31 December 2019.

Rights – Pharmalicences

Impairment test was performed on the value of pharmacy licenses in Romania (presented in the Wholesale and retail segment) which resulted in impairment of HUF 84 million and reversal of impairment of HUF 527 million in 2019. In 2018, impairment losses of HUF 158 million and reversal of HUF 128 million were recognized for the same reason.
Acquisitions were performed in 2019 in the Romanian pharmaceutical market, from which the prices of the transactions became public for the listed companies. The area coverage of the pharmacy chain in question is very similar to that of the pharmacies of Gedeon Richter Farmacia, so we were able to use these information to update our estimate on the residual value of the pharmacy licences. When performing the impairment assessment at year end we have applied the market approach instead of the income approach applied in prior years.
When performing the impairment assessment on the carrying amount of the assets of the pharmacies taking into account goodwill, the fair value of the pharmacy licences exceeded the carrying amount, hence no impairment was required.

The average remaining useful life of the intellectual properties does not exceed 8 years, in 2018 it was 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
			2019	2018	2019	2018	
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, Marketing services
4	Richter Themis Pvt. Ltd.	India	51.00	51.00	51.00	51.00	Pharmaceutical manufacturing
5	Gedeon Richter Pharma GmbH	Germany	100.00	100.00	100.00	100.00	Pharmaceutical trading, Marketing services
6	Gedeon Richter USA Inc.	USA	100.00	100.00	100.00	100.00	Pharmaceutical trading
7	RG Befektetéskezelő Kft.	Hungary	100.00	100.00	100.00	100.00	Financial-accounting and controlling activities
8	Gedeon Richter UA PAT	Ukraine	98.16	98.16	98.16	98.16	Pharmaceutical trading
9	Gedeon Richter UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading, Marketing services
10	Gedeon Richter Iberica S.A.U	Spain	100.00	100.00	100.00	100.00	Pharmaceutical trading, Marketing services
11	Nedermed B.V. (1)	The Netherlands	100.00	100.00	100.00	100.00	Pharmaceutical trading
12	Medimpex Jamaica Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
13	Medimpex West Indies Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
14	Humanco Kft.	Hungary	100.00	100.00	100.00	100.00	Social, welfare services
15	Pesti Sas Holding Kft.	Hungary	100.00	100.00	100.00	100.00	Portfolio management
16	Richter Szolgáltató Kft.	Hungary	100.00	100.00	100.00	100.00	Catering services
17	Reflex Kft.	Hungary	100.00	100.00	100.00	100.00	Transportation, carriage
18	Chemitechnik Pharma Kft.	Hungary	66.67	66.67	66.67	66.67	Engineering services
19	GYEL Kft.	Hungary	66.00	66.00	66.00	66.00	Quality control services
20	Armedica Trading S.R.L.	Romania	99.92	99.92	99.92	99.92	Portfolio management
21	Gedeon Richter Farmacia S.A.	Romania	99.92	99.92	99.92	99.92	Pharmaceutical retail
22	Gedeon Richter France S.A.S.	France	100.00	100.00	100.00	100.00	Pharmaceutical trading, Marketing services
23	I.M. Gedeon Richter-Retea Farmaceutica S.R.L.	Moldavia	51.00	51.00	51.00	51.00	Pharmaceutical retail
24	Richter-Helm BioLogics GmbH & Co. KG	Germany	70.00	70.00	70.00	70.00	Biotechnological manufacturing and research
25	Richter-Helm BioLogics Management GmbH	Germany	70.00	70.00	70.00	70.00	Asset management
26	Medimpex UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
27	Farnham Laboratories Ltd. (2)	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
28	Gedeon Richter Aptyeka SP OOO	Armenia	51.00	51.00	51.00	51.00	Pharmaceutical trading
29	Pharmafarm S.A.	Romania	99.92	99.92	99.92	99.92	Pharmaceutical wholesale
30	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
			2019	2018	2019	2018	
31	Gedeon Richter Italia S.R.L.	Italy	100.00	100.00	100.00	100.00	Pharmaceutical trading, Marketing services
32	PregLem S.A.	Switzerland	100.00	100.00	100.00	100.00	Manufacturing and research
33	Gedeon Richter Marketing ČR s.r.o.	Czech Republic	100.00	100.00	100.00	100.00	Marketing services
34	Gedeon Richter Slovakia s.r.o.	Slovak Republic	100.00	100.00	100.00	100.00	Marketing services
35	Richter-Lambron SP OOO	Armenia	51.00	51.00	51.00	51.00	Pharmaceutical trading
36	Gedeon Richter Austria GmbH	Austria	100.00	100.00	100.00	100.00	Marketing services
37	Gedeon Richter (Schweiz) AG	Switzerland	100.00	100.00	100.00	100.00	Marketing services
38	Pharmarichter OOO	Russia	100.00	100.00	100.00	100.00	Pharmaceutical sales promotion
39	I.M. Rihpangalpharma S.R.L.	Moldavia	65.00	65.00	65.00	65.00	Pharmaceutical wholesale
40	Gedeon Richter Portugal S.A.	Portugal	100.00	100.00	100.00	100.00	Marketing services
41	PregLem France SAS	France	100.00	100.00	100.00	100.00	Management services
42	Gedeon Richter Slovenija, d.o.o.	Slovenia	100.00	100.00	100.00	100.00	Marketing services
43	Gedeon Richter Benelux SPRL	Belgium	100.00	100.00	100.00	100.00	Marketing services
44	Gedeon Richter Nordics AB	Sweden	100.00	100.00	100.00	100.00	Marketing services
45	TOO Gedeon Richter KZ	Kazakhstan	100.00	100.00	100.00	100.00	Pharmaceutical trading, Marketing services
46	GRMed Company Ltd. (3)	Hong-Kong	100.00	100.00	100.00	100.00	Marketing services, distribution
47	Rxmidas Pharmaceuticals Company Ltd. (3)	China	100.00	100.00	100.00	100.00	Marketing services
48	Gedeon Richter Pharmaceuticals (China) Co. Ltd.	China	100.00	100.00	100.00	100.00	Marketing services
49	Gedeon Richter Colombia S.A.S.	Columbia	100.00	100.00	100.00	100.00	Pharmaceutical trading
50	Gedeon Richter Croatia d.o.o.	Croatia	100.00	100.00	100.00	100.00	Marketing services
51	Gedeon Richter Mexico, S.A.P.I. de C.V	Mexico	100.00	100.00	100.00	100.00	Pharmaceutical trading
52	Gedeon Richter do Brasil Importadora, Exportadora e Distribuidora S.A.	Brazil	100.00	100.00	100.00	100.00	Pharmaceutical trading
53	Gedeon Richter Chile SpA	Chile	100.00	100.00	100.00	100.00	Pharmaceutical trading
54	Mediplus (Economic Zone) N.V.	Curaçao	100.00	100.00	100.00	100.00	Pharmaceutical trading, Marketing services
55	Gedeon Richter Peru S.A.C.	Peru	100.00	100.00	100.00	100.00	Pharmaceutical trading
56	GEDEONRICHTER Ecuador S.A.	Ecuador	100.00	100.00	100.00	100.00	Pharmaceutical trading
57	Gedeon Richter Bolivia SRL	Bolivia	100.00	100.00	100.00	100.00	Pharmaceutical trading
58	Gedeon Richter Rxmidas Joint Venture Co. Ltd. (3)	Hong-Kong	100.00	100.00	100.00	100.00	Marketing services
59	Gedeon Richter Australia PTY Ltd.	Australia	100.00	100.00	100.00	100.00	Trading of biotech products

	Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
			2019	2018	2019	2018	
60	Finox AG	Switzerland	100.00	100.00	100.00	100.00	Biotechnological services
61	Finox Biotech AG	Lichtenstein	100.00	100.00	100.00	100.00	Biotechnological services
62	Finox Biotech Germany GmbH	Germany	100.00	100.00	100.00	100.00	Marketing services
63	Finox Biotech Nordics AB. [4]	Sweden	-	100.00	-	100.00	Marketing services
64	Finox Biotech UK and Ireland Ltd.	UK	100.00	100.00	100.00	100.00	Marketing services
65	Finox Biotech Benelux BV [4]	Belgium	-	100.00	-	100.00	Marketing services
66	GR Ireland Ltd.	Ireland	100.00	100.00	100.00	100.00	Marketing services
67	Gedeon Richter Bulgaria	Bulgaria	100.00	100.00	100.00	100.00	Marketing services
68	Gedeon Richter Pharma O.O.O	Russia	100.00	100.00	100.00	100.00	Marketing services
69	Pharmapolis Gyógyszeripari Tud. Park Kft.	Hungary	100.00	100.00	100.00	100.00	Building project management, rental services

[1] The company had been liquidated in January 2020.
[2] The company's principal activity has been suspended.
[3] The principal activity is carried forward by GRMed Company Ltd. after Rxmidas Pharmaceuticals Company Ltd. and Gedeon Richter Rxmidas Joint Venture Co. Ltd. finished their activity.
[4] Finox's marketing companies, along with their activities, have merged with their parent companies in their country.

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

The total non-controlling interest as of 31 December 2019 is HUF 6,892 million (in 2018 HUF 5,560 million), of which HUF 4,312 million (in 2018 HUF 3,299 million) is for Richter-Helm BioLogics GmbH & Co. KG, HUF 1,431 million (in 2018 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.

2019	Medimpex West Indies Ltd. (13) HUFm	Richter-Helm BioLogics GmbH & Co. KG (24) HUFm
Accumulated non-controlling interest	1,431	4,312
Non-current assets	56	6,672
Current assets	4,252	11,554
Non-current liabilities	-	1,129
Current liabilities	573	3,327
Revenues	3,234	14,312
Profit/(loss)	443	3,031
Dividends paid	512	-
Total cash-flow	(50)	916

2018	Medimpex West Indies Ltd. (13) HUFm	Richter-Helm BioLogics GmbH & Co. KG (24) 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	-
Total cash-flow	79	1,478

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

	2019 HUFm	2018 HUFm
At 1 January	**11,755**	**11,847**
Acquisition/capital increase	4,840	-
Share of profit of associates and joint ventures	658	1,055
Net investments*	28	345
Dividend	(910)	(1,104)
Reclassification to subsidiary (Pharmapolis Gyógyszeripari Tud. Park Kft)	-	(293)
Exchange difference	(179)	(95)
At 31 December	**16,192**	**11,755**
out of investment in associates	14,902	10,440
out of investment in joint ventures	1,290	1,315

* 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 2019 are related to the subscription of newly issued Evestra shares (HUF 4,840 million). As a result of these transactions Richter has become Evestra's biggest shareholder, please see Note 39.

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.

	2019 HUFm	2018 HUFm
Opening net assets at 1 January of Hungaropharma Zrt.	**24,755**	**23,697**
Profit for the year*	2,065	2,137
Dividends	(818)	(1,079)
Closing net assets of Hungaropharma Zrt. at 31 December	**26,002**	**24,755**
Interest in associate (at 30.85%)	8,026	7,637
Unrealised profit elimination	(166)	(77)
Interest in other associates	7,043	2,880
Carrying value at 31 December	**14,902**	**10,440**

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

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

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

Name	Place of incorporation	Principal activity	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenues	Profit / (loss)	Interest held
			HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	%
2019									
Hungaropharma Zrt.	Hungary	Pharmaceutical wholesale	13,030	66,588	7,278	47,679	371,434	3,974	30.85
Salvia-Med Bt.	Hungary	Pharmaceutical retail	1	136	-	93	651	33	32.79
Szondi Bt.	Hungary	Pharmaceutical retail	36	160	-	25	612	40	33.00
Top Medicina Bt.	Hungary	Pharmaceutical retail	26	38	-	26	382	3	20.00
Vita-Richter SP OOO	Azerbaijan	Pharmaceutical trading	-	-	-	-	-	-	49.00
Pharmatom Kft.	Hungary	Biotechnological research, development	438	9	-	447	-	(3)	24.00
Pesti Sas Patika Bt.	Hungary	Pharmaceutical retail	2	13	-	14	122	(3)	49.00
Evestra Inc.	USA	Biotechnological research, development	1,247	4,441	3	457	-	(1,359)	35.45
Prima Temp Inc.	USA	Pharmaceutical research	395	1,345	59	1,649	721	(610)	27.73

Name	Place of incorporation	Principal activity	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenues	Profit / (loss)	Interest held
			HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	%
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	-	33	368	4	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	Biotechnological research, 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

The financial statements for 2019 of Hungaropharma Zrt, the most significant associate of the Group have not been audited yet. Corresponding data for year 2018 has not been amended in 2018 Consolidated Financial Statements as there were no material differences between the audited and unaudited figures of 2018.
Amounts of assets, liabilities, revenues and profit/loss are presented at 100%.
The associates did not have any item in Other Comprehensive Income (in 2019 and 2018).

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	%
2019										
Medimpex Irodaház Kft. *	Hungary	Renting real estate	2,018	154	-	57	346	89	-	50.00
Richter-Helm BioTec Management GmbH	Germany	Asset management	-	7	-	1	-	-	-	50.00
Richter-Helm BioTec GmbH & Co. KG	Germany	Trading of biotech products, Marketing services	-	2,478	11,905	174	3,684	1,588	111	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	%
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, Marketing services	-	680	11,291	310	368	(338)	155	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 2019	31 December 2018
	HUFm	HUFm
Financial assets measured at amortised cost	57	55
Financial assets measured at fair value through OCI	13,546	9,397
Financial assets measured at fair value through profit or loss	5,427	455
Total	**19,030**	**9,907**

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

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 increase in the share price, and a positive change of RUB/HUF exchange rate, a significant increase has been recorded against revaluation reserve for securities at FVOCI. As a result of the above mentioned reasons, a significant revaluation gain was recorded in 2019 (Note 24).

	31 December 2019	31 December 2018
Opening value (HUFm)	8,327	12,971
Change in the fair value (HUFm)	*4,204*	*(4,644)*
Closing value (HUFm)	12,531	8,327
Share price (RUB/share)	100.3	78.0
RUB/HUF exchange rate	4.74	4.05
Change in the fair value (HUFm)	*4,204*	*(4,644)*

The other available-for-sale investment is a 9.63% 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 16 million revaluation loss was recorded against revaluation reserve for securities at FVOCI in 2019. A closing fair value is HUF 1,167 million.

On 16 October 2019 Gedeon Richter Plc. and Mycovia Pharmaceuticals Inc. signed a royalty purchase agreement according to which Richter acquires a certain portion of the net turnover of US sales of the future product (for more details pls. see Note 12) for the purchase price of USD 25 million. The amount of purchased royalty right is presented as a financial asset and valued at fair value through profit or loss as of 31 December 2019. The fair value of Mycovia financial assets was HUF 5,427 million at 31 December 2019.

15.2. Long term receivables

Since the Group complies with all attached conditions there is a reasonable assurance that the government grant will be received. Therefore the Group recognised HUF 2,837 million approved but not financially settled, due over one year as long term receivables. This amount is related to property, plant and equipment and research and development activities.

	31 December 2019	31 December 2018
	HUFm	HUFm
Government grants	2,837	6,034
Total	**2,837**	**6,034**

16. Current income tax and deferred tax

Current tax assets and liabilities

	31 December 2019	31 December 2018
	HUFm	HUFm
Current tax assets	1,199	1,017
Current tax liabilities	(382)	(438)

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 2019	31 December 2018
	HUFm	HUFm
Deferred tax assets	6,988	7,895
Deferred tax liabilities	(1,925)	(7,176)

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

Deferred tax assets	PPE and intangible assets	Provision	Impairment	Other temporary differences	Unrealised profit elimination	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
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**
(Debited)/credited to the income statement	191	(251)	(1,995)	(559)	458	**(2,156)**
(Debited)/credited to other comprehensive income	-	(11)	-	510	-	**499**
Exchange differences	(5)	10	-	42	-	**47**
Transfer	(4)	(53)	-	760	-	**703**
31 December 2019	**(222)**	**243**	**-**	**1,033**	**5,934**	**6,988**

* Deferred tax assets and liabilities debited/credited to other comprehensive income was HUF 383 million in 2019 and HUF 405 million in 2018 (expense), out of which accounted through revaluation reserve HUF 377 million in 2019 and HUF 410 million in 2018 (expense, see Note 24) and HUF 11 million in 2019 and HUF 5 million in 2018 (expense) presented through retained earnings.

Deferred tax liabilities	PPE and intangible assets	Provision	Impairment	ESMYA	BEMFOLA	Other temporary differences	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
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**
(Debited)/credited to the income statement	(2,319)	(417)	(199)	(2,226)	(1,541)	(198)	**(6,900)**
(Debited)/credited to other comprehensive income	-	(4)	-	-	-	886	**882**
Exchange differences	-	-	-	49	-	6	**55**
Transfer	2	50	-	-	-	660	**712**
31 December 2019	**(2,287)**	**(372)**	**(199)**	**-**	**3,753**	**1,030**	**1,925**

* Deferred tax assets and liabilities debited/credited to other comprehensive income was HUF 383 million in 2019 and HUF 405 million in 2018 (expense), out of which accounted through revaluation reserve HUF 377 million in 2019 and HUF 410million in 2018 (expense, see Note 24) and HUF 11 million in 2019 and HUF 5 million in 2018 (expense) presented through retained earnings.

From the deferred tax balance presented above it is expected that HUF 1,992 million (in 2018 HUF 7,519 million) of the liabilities and HUF 154 million (in 2018 HUF 293 million) of the assets will reverse after 12 months.

The Parent Company has significant deductible temporary differences, part of which is related to the tax loss carried forward. Deferred tax asset should be recognized for unused tax losses 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. On consolidated level there are further taxable temporary differences associated to the Parent Company (related to the BEMFOLA intangible asset) that provides partial recoverability to these deductible temporary differences.

The balance of deferred tax liability decreased due to the following events: from 1 January 2019 the consolidated intangible asset BEMFOLA is recognised as an asset of the Parent Company, because of the restructuring of Finox's activities, and hence its value is determined in HUF (See Note 12). The related deferred tax liability is determined with the tax rate of the parent (9%), while in the previous year it was determined with the tax rate of Finox (10.97%). This amount is partially offset by the deferred tax asset of the Parent Company that was previously not recognized, in the lack of sufficient taxable profit. As a result of impairment of ESMYA intangible asset, the related deferred tax liability was also derecognized.

In addition to the Parent Company, there were significant tax loss carried forward at Romanian subsidiaries (in the amount of HUF 7,474 million) on which no deferred tax assets have been recognized as of 31 December 2019. This would have resulted in a deferred tax asset in the amount of HUF 1,196 million. In 2018 the Romanian subsidiaries had HUF 2,404 million unused tax loss (that would have resulted in HUF 385 million deferred tax asset).

The expiration of the unrecognised deferred tax asset effect of the tax loss carried forward of the Group is as follows: within 3 years HUF 2,573 million, between 3 and 5 years HUF 2,496 million over 5 years HUF 281 million.

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

17. Loans receivable

	31 December 2019	31 December 2018
	HUFm	HUFm
Loans given to related parties	815	1,510
Loans given to employees	1,032	917
Other loans given	174	199
Total	**2,021**	**2,626**

18. Goodwill

	Goodwill
	HUFm
Cost	
At 1 January 2018	**44,377**
Exchange differences	1,851
Impairment charged for the year	(10,842)
At 31 December 2018	**35,386**
At 1 January 2019	35,386
Decrease deriving from sale of subsidiary	(17)
Exchange differences	1,387
Impairment charged for the year	(7,253)
At 31 December 2019	**29,503**

The above mentioned impairment was charged in Pharmaceuticals segment related to PregLem, GRMed Company and Gedeon Richter Mexico goodwill.

Closing goodwill on Cash Generating Units (Companies)

	31 December 2019	31 December 2018
	HUFm	HUFm
Pharmaceuticals segment		
Gedeon Richter Polska Sp. z o.o.	1,160	1,119
Richter-Helm BioLogics GmbH & Co. KG	105	102
PregLem S.A.	-	2,268
GRMed Company Ltd.	25,514	28,972
Gedeon Richter do Brasil Importadora, Exportadora e Distribuidora S.A.	61	60
Gedeon Richter Mexico, S.A.P.I. de C.V	1,625	1,811
Wholesale and retail segment		
Armedica Trading Group	977	993
Other segment		
Pesti Sas Holding Kft.	61	61
Total	**29,503**	**35,386**

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

Gedeon Richter Polska Sp. z o.o.
Gedeon Richter Polska Sp. z o.o. is profitable on consolidated level (taking into account the intercompany eliminations) in 2019. 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 2019 similar to 2018. Any reasonable change in the key assumptions is still not expected to result in an impairment of Goodwill.

Armedica Trading Group
Acquisitions were performed in 2019 in the Romanian pharmaceutical market, from which the prices of the transactions became public for the listed companies. The area coverage of the pharmacy chain in question is very similar to that of the pharmacies of Gedeon Richter Farmacia, so we were able to use these information to update our estimate on the residual value of the pharmacy licences. When performing the impairment assessment at year end we have applied the market approach instead of the income approach applied in prior years.
When performing the impairment assessment on the carrying amount of the assets of the pharmacies taking into account goodwill, the fair value of the pharmacy licences exceeded the carrying amount, hence no impairment was required in connection with goodwill.

In 2018 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 2019. 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 Group conducted an impairment test of PregLem goodwill for the 2019 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 and ESMYA North-America 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 and also the USA registration withdrawal and PRAC's recommendation issued in 2020 were taken into account, as presented in Note 3.1.
As a consequence of the modification of ESMYA EU sales forecast the recoverable amount is 0. This resulted in an impairment against goodwill amounting to HUF 2,421 million. The remaining book value of goodwill amounts to HUF 0.

The discount rate (EU-based cash flows post tax: 6.6%, 9.1% in 2018; NA-based cash flows 8.5%, 10.5% in 2018 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.

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 2019 and it was found that there was a need to account for impairment amounting to HUF 4,478 million.

Since the Goodwill has been allocated to the traditional products, the Group disregarded the cash flows and assets connected to products launched or planned to be launched after the acquisition when determining the recoverable amount and the carrying value.

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.

The Company reconsidered the market position of the products and concluded that sales targets set earlier could not be achieved to that extent. According to the current projections, only less than two thirds of cash flows will be obtainable compared to previous expectations.

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

The present value of the 2020-2029 cash flows and (by applying a conservative estimate of) residual value reckoning with 0% growth is 12% below the tested amount. The remaining book value of goodwill amounts to HUF 25,514 million.

The discount rate (post tax: 12.2%; 2018: 13.7%) 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 decrease in post-tax discount rate to 10.7% or a 4% increase in forecasted sales volumes would remove the difference between the carrying value of goodwill and the recoverable amount of the CGU.

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 2019 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 (2020-2029), 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).

Since the Goodwill has been allocated to the traditional products, the Company disregarded the cash flows and assets connected to products launched or planned to be launched after the acquisition when determining the recoverable amount and the carrying value.

Long term expectations regarding traditional products turnover have worsened. Current forecast shows that only a little over two-third of previously projected sales revenue can be achieved affecting free cash flows adversely.

The present value of the 2020-2029 cash flows represents around 50% of total recoverable amount.

Since the recoverable amount determined based on the assumptions above also requires contribution of certain fixed 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 constitutes only the 83.5% of the CGU book value which meant a need to account for impairment amounting to HUF 354 million. The remaining book value of goodwill amounts to HUF 1,625 million.

The discount rate (post tax: 8.6%; in 2018 8.4%) 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.

19. Inventories

	31 December 2019	31 December 2018
	HUFm	HUFm
Raw materials, packaging and consumables	51,416	46,163
Production in progress	3,039	1,837
Semi-finished and finished goods	44,540	44,687
Total	**98,995**	**92,687**

Inventories include impairment and scrapping in value of HUF 8,273 million and reversal of impairment in value of HUF 1,423 million in 2019 (HUF 3,370 million impairment and scrapping and HUF 507 million reversal was made in 2018).
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 2019 the total carrying amount of inventories that are valued at net realisable value amounts to HUF 12,435 million (in 2018 it was HUF 10,144 million).
All items of Inventories are free from liens and charges.

20. Trade receivables

	31 December 2019	31 December 2018
	HUFm	HUFm
Trade receivables (3rd parties)	148,307	118,953
Amounts due from related companies and other participations (Note 37)	6,119	10,053
Total	**154,426**	**129,006**

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

	2019	2018
	HUFm	HUFm
At 1 January	7,187	7,643
Provision for receivables impairment	804	1,125
Reversal of impairment for trade receivables	(1,800)	(1,935)
Exchange difference	(46)	354
Total	**6,145**	**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 2019 nor in 2018.

Impairment of financial assets

31 December 2019	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	0.24%	0.44%	1.59%	2.55%	10.86%	95.40%	**3.83%**
Gross carrying amount – trade receivables	139,594	8,479	4,791	1,257	580	5,870	**160,571**
Loss allowance	337	37	76	32	63	5,600	**6,145**

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**

21. Other current assets and contract assets

21.1 Other current asset

	31 December 2019	31 December 2018
	HUFm	HUFm
Loans receivable	673	225
Other receivables	7,315	5,595
Subtotal of financial assets (Note 10)	**7,988**	**5,820**
Tax and duties recoverable	6,078	5,211
Advances	3,979	2,308
Prepayments	3,331	2,848
Total	**21,376**	**16,187**

21.2 Contract assets

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

	31 December 2019	31 December 2018
	HUFm	HUFm
Current contract assets	3,466	1,425
Total	**3,466**	**1,425**

22. Investments in securities

	31 December 2019	31 December 2018
	HUFm	HUFm
Government bonds*	-	4,728
Other securities**	1,545	-
Total (Note 10)	**1,545**	**4,728**

* Treasury bills and government securities are issued or granted by the Hungarian State.
** Convertible promissory note to associates is presented as Other securities

23. Cash and cash equivalents

	31 December 2019	31 December 2018
	HUFm	HUFm
Bank deposits	122,401	112,827
Cash on hand	6,172	194
Total (Note 10)	**128,573**	**113,021**

The total amount of Cash and cash equivalents at the balance sheet date was mainly (more than 75%) 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

	31 December 2019		31 December 2018	
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 31 December 2019

Ordinary shares	**Ownership**	**Voting rights***	**Share capital**
	number	%	%
Domestic ownership	**64,010,047**	**34.47**	**34.34**
State ownership total	47,052,641	25.34	25.24
out of which MNV Zrt.**	28,415,029	15.30	15.24
out of which Maecenas Universitatis Corvini Foundation**	18,637,486	10.04	10.00
out of which Municipality	126	0.00	0.00
Institutional investors	8,411,253	4.53	4.51
Retail investors	8,546,153	4.60	4.59
International ownership	**121,677,349**	**65.52**	**65.29**
Institutional investors	121,381,988	65.36	65.13
Retail investors	295,361	0.16	0.16
Undisclosed ownership	**12,999**	**0.01**	**0.01**
Treasury shares***	**674,465**	**0.00**	**0.36**
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%.
** Maecenas Universitatis Corvini Fundation and MNV Zrt. are controlled by the same investor (the Hungarian State). Even if representing themselves individually at the Annual General Meeting, their votes are determined by the ultimate parent (MNV Zrt.).
*** The treasury shares, except for the ones owned by Employee Share Ownership Trust's (ESOT), have no voting rights.

Detailed ownership structure of the Parent 31 December 2018

Ordinary shares	**Ownership**	**Voting rights***	**Share capital**
	number	%	%
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**
Institutional investors	121,914,003	65.43	65.41
Retail investors	335,369	0.18	0.18
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**

* Article 13.8 of the Statutes restricts the voting rights of shareholders, alone or together with other related persons to no more than 25%.
** MNV Zrt. are controlled by the Hungarian State. At the Annual General Meeting, its votes are determined by the ultimate parent.
*** The treasury shares, except for the ones owned by Employee Share Ownership Trust's (ESOT), have no voting rights.

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 securities at FVOCI (based on IFRS 9)

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

	Revaluation reserve for securities at FVOCI
	HUFm
At 1 January 2018	**9,964**
Revaluation gross	(5,564)
Deferred tax effect	410
At 31 December 2018	**4,810**
Revaluation gross	4,187
Deferred tax effect	(377)
At 31 December 2019	**8,620**

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.

	2019 HUFm	2018 HUFm
Expense recognized in current year	1,636	1,697
Treasury share given (Note 25)	1,855	1,836
Total changes in reserve presented in the Consolidated Statement of Changes in Equity	**(219)**	**(139)**

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 941 million, while in 2018 it was HUF 1,510 million.

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 and 2019, 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 2019, the program was redesigned: the bonus for managers was paid in cash. As a result in 2019 just 15,327 shares were granted to 281 key employees of the Company while in 2018 14,473 shares were granted to 284 employees.

Individual bonuses
No treasury shares were granted to qualified employees as bonuses during the year due to the introduction of the Employee's Share-Ownership Program. In 2018, 7,543 treasury shares were granted.

Employee's Share- Ownership Program (ESOP)
In order to strengthen the performance and loyalty of senior executives and senior employees, the Company started Employee's Share- Ownership Programme (ESOP) in 2018.
The Company established the ESOP Organization on 26 February 2018 and approved the ESOP Organization's First Remuneration Policy in 2018, and the Second Remuneration Policy for two years (2019-2020) in 2019. The total amount related to the First Remuneration Policy was HUF 1.8 billion, and HUF 1.5 billion related to the Second.
Regarding each participant, the Company transferred a certain number of shares to the ESOP Organization, determined by the market value of the transferred shares and the determined amount of the remuneration. The shares can not be disposed until the end of the evaluation period.
The benefit is only vested if the remuneration condition is met. Remuneration condition: the level of the unweighted average consolidated revenues realized in the measurement period shall exceed the consolidated revenues of the comparative period. The First Remuneration Policy vested, therefore the employees received the benefits in 2019.

Staff Stock Bonus Plan
Pursuant to the program related to employee share bonuses (Staff Stock Bonus Plan 2019), the Company granted 320,534 treasury shares to 4,484 employees in 2019. The shares will be deposited on the employees' security accounts with UniCredit Bank Hungary Ltd. until 2 January 2022. In 2018 324,226 shares were granted to 4,346 employees deposited on their accounts until 2 January 2021.

The AGM held on 24th April 2019 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 607,752 treasury shares during the year.

Treasury shares	**2019** Numbers	**2018** Numbers
at 1 January	**389,028**	**66,183**
Out of these, number of shares owned by subsidiaries	*5,500*	*5,550*
Share purchase	607,752	661,049
Transferred as part of bonus program	(15,327)	(14,473)
Individual bonuses	-	(7,543)
Granted pursuant to employee share bonuses	(320,534)	(324,226)
Shares of the employees share bonus that have not vested	13,546	8,038
at 31 December	**674,465**	**389,028**
Out of these, number of shares owned by subsidiaries	*5,500*	*5,500*

Book value	**2019** HUFm	**2018** HUFm
at 1 January	**2,186**	**415**
Share purchase	3,539	3,607
Transferred as part of bonus program	(88)	(77)
Individual bonuses	-	(40)
Granted pursuant to employee share bonuses	(1,839)	(1,764)
Shares of the employees share bonus that have not vested	72	45
at 31 December	**3,870**	**2,186**

26. Trade payables

	31 December 2019 HUFm	**31 December 2018** HUFm
Trade payables (3rd parties)	61,426	54,429
Amount due to related companies and other participations (Note 37)	344	120
Total	**61,770**	**54,549**

27. Other payables and accruals and Contract liabilities

27.1 Other payables and accruals

	31 December 2019 HUFm	31 December 2018 HUFm
Short term accruals	12,993	16,573
Other liabilities	16,829	8,656
Dividend payable	155	152
Current lease liabilities	3,729	-
Subtotal of financial liabilities (Note 10)	**33,706**	**25,381**
Wages and payroll taxes payable	6,911	6,599
Other taxes	1,282	1,260
Deposits from customers	822	424
Total	**42,721**	**33,664**

27.2 Contract liabilities

	31 December 2019 HUFm	31 December 2018 HUFm
Contract liabilities	745	85
Total	**745**	**85**

28. Provisions

	31 December 2019 HUFm	31 December 2018 HUFm
Other short term provisions	3,944	3,415
Long term provisions – for retirement and other long term benefits*	4,287	3,554
from this defined retirement benefit plans at the Parent	*2,466*	*1,857*
from this defined retirement benefit plans at GR Polska	*877*	*773*
from this defined retirement benefit plans at PregLem	*230*	*259*
from this defined retirement benefit plans at GR Ecuador	*21*	*13*
Total	**8,231**	**6,969**

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

At 31 December 2019 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 Collective Agreement of Gedeon Richter Plc., if the Employee is eligible for an old-age pension or disability care and his/her employment is being terminated for that reason by either parties unilaterally or by mutual consent, or the Employee retire in the end of a fix-term employment contract, the Employer may provide

a) 1 month's absentee pay after an uninterrupted employment relationship of at least 15 years at the Employer
b) 2 months' absentee pay after an uninterrupted employment relationship of at least 30 years at the Employer
c) 3 months' absentee pay after an uninterrupted employment relationship of at least 35 years at the Employer
d) 4 months' absentee pay after an uninterrupted employment relationship of at least 40 years at the Employer

in addition to his/her other emoluments, if the following exclusion does not arise.

As a prior obligatory condition of payment, the Employee shall not engage in any misconduct which may lead to the immediate termination of his/her employment, until the closing of the employment.

For renumerations defined in subsections b)-d) above, the Employee is entitled to an additional absentee pay equal to 45 calendar days, except if the Employee is exempted from work for a longer period.

Provided that the exemption period is longer than 45 days, the entitlement period for the absentee pay (for the "uninterrupted employment relationship at the Employer") determined at subpoints a)-d) shall be reduced by the amount exceeding the 45 days of the exemption period.

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.

	2019	**2018**
	HUFm	HUFm
Opening value of retirement benefit	1,857	1,711
Interest costs (charged to the P&L)	3	58
Current service costs (charged to the P&L)	122	149
Settlement	(224)	(90)
Actuarial loss/(gain) (charged to the OCI)	708	29
Retirement benefit liability	**2,466**	**1,857**

The principal actuarial assumptions were as follows:

The estimation was performed with a 2.3% 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 applied 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, opposite the previously applied method, for discount calculations in 2019 we switched to using the yield curve based on the Hungarian government securities and adjusted to cash-flows. We use the latest available ÁKK (Government Debt Management Center) yield data and the yield data derived from the so-called Nelson-Siegel methodology after the interpolation to interim dates.

For the purpose of determining the value of the liabilities, an interest rate of 3.51% was applied for 2018. In 2019 a yield curve adjusted to cash-flows was used. Upon maturity an interest rate of 0-2% is used in the first 10 years, 2-3% between years 10-20, 3% over 20 years.

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.

Term of employment at Richter	**Annual average probability of resigning**
Relevant data applied during the actuarial calculation:	
up to 3 years	20.0%
between 3-6 years	10.0%
between 6-10 years	8.0%
between 10-15 years	7.0%
between 16-25 years	5.0%
between 26-35 years	3.0%
over 35 years	2.0%

29. Net debt reconciliation

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

Net debt	**31 December 2019**	**31 December 2018**
	HUFm	HUFm
Cash and cash equivalents	128,573	113,021
Borrowings-non-current	-	(2)
Net debt	**128,573**	**113,019**

	Other assets	**Liabilities from financing activities**		
	Cash/bank overdraft	Borrowings due within 1 year	Borrowing due after 1 year	**Total**
	HUFm	HUFm	HUFm	**HUFm**
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)**
Net debt as at 31 December 2018	**113,021**	**-**	**(2)**	**113,019**
Cash flows	12,353	-	2	**12,355**
Effect of foreign exchange changes	3,199	-	-	**3,199**
Net debt as at 31 December 2019	**128,573**	**-**	**-**	**128,573**

30. Other non-current liabilities and accruals

	31 December 2019	31 December 2018
	HUFm	HUFm
Government grants	6,685	9,091
Other non-current liabilities	1,023	164
Non-current lease liabilities	10,296	-
Total	**18,004**	**9,255**

Government grants relate to property, plant and equipment and research and development activities.

31. Dividend on ordinary shares

	2019	2018
	HUFm	HUFm
Dividend on ordinary shares	18,637	12,673

A dividend of HUF 100 per share (HUF 18,637 million) was declared in respect of the 2018 results, approved at the Company's Annual General Meeting on 24 April 2019 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 2019	31 December 2018
	HUFm	HUFm
Contractual capital commitments of Parent	6,914	5,925
Contractual capital commitments of AO Gedeon Richter -RUS	538	431
Capital expenditure that has been authorised by the directors but has not yet been contracted for at Parent	35,387	36,479
Capital expenditure that has been authorised by the directors but has not yet been contracted for at AO Gedeon Richter-RUS	2,511	2,532

The above commitments were not recorded either in the Consolidated Income Statement or in the Consolidated Balance Sheet.

33. Operating lease – Group as lessee

The Group recognised the lease contracts in compliance with IAS 17 in 2018 and compliance with IFRS 16 following its becoming effective in 2019.

Operating lease commitments of the Group (based on the contracts effective as of 31 December 2018) are mainly related to vehicle, equipment and building rental. The non-cancellable operating lease commitments are as follows:

	2018
	HUFm
Within 1 year	2,957
Between 1 and 5 years	4,312
Over 5 years	3,919
Total	**11,188**

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 6,478 million has been recorded as operating lease expense.

According to IFRS 16 the difference between opening leasing liability and lease payments liabilities arising from non-cancellable lease contracts is demonstrated in Note 38.

In 2019 the Group leases various offices, warehouses, land, parking places, energy systems, retail stores, equipment and vehicles. Rental contracts are typically made for fixed periods of 11 months to 95 years, but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.
Lease payments are allocated between cost of sale, operating expenses and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Variable lease payments
Some real estate leases contain variable leasing elements that are related to sales on the business premises. The leasing fee for individual stores includes a fixed part that is payable periodically in each case. If 5% of the net sales revenue of the periodic sales of the business exceeds the fixed part, then the difference is paid in the form of a variable lease payment. The variable payment terms that are not based on an index or a rate are not part of the lease liability. Such variable lease payments are recognised in profit or loss in the period in which the condition that triggers those payments occurs

Extension and termination options
Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

The Consolidated Income Statement includes HUF 2,954 million expenses from short-term, low-value and variable lease payments.

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% until 30 June 2019 and 17.5% from 1 July and vocational training contribution amounting to 1.5% of gross salaries which are paid during 2019 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 1,705 million in 2019 (in 2018: HUF 1,537 million).

Pension contribution paid by Hungary based subsidiaries in respect of their employees amounted to HUF 40 million in 2019 and HUF 35 million in 2018.

Foreign subsidiaries pay contributions to various pension funds in respect of their employees which amounted to HUF 1,718 million and HUF 712 million in 2019 and 2018, 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.

36. Contingent liabilities

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., annulling 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 had been recognised in 2018. 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.

	2019	2018
	HUFm	HUFm
Dividend paid to MNV Zrt.	2,847	3,201

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 2019	31 December 2018
	HUFm	HUFm
Loans to joint ventures	-	480
Loans to associated companies	158	1,204
Convertible promissory note to associates	1,545	-
Trade receivables (joint ventures)	195	254
Trade receivables (associates)	2,548	9,702
Trade payables (joint ventures)	53	2
Trade payables (associates)	222	118
Revenue from joint ventures	1,434	895
Revenue from associates	17,323	14,933

The loans are in Hungarian Forint, Euro and US dollars, all of them are short term as at 31 December 2019.
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 2019.

According to the Memorandum of Understanding signed on 24 September 2010 with Helm AG, Richter has financing obligations related to costs of projects managed by Richter-Helm BioTec GmbH & Co. KG (joint ventures). In accordance with the request of the management, this funding is provided in the form of capital contribution and the company records these liabilities separately by owners. In 2019 the revenues of the company exceeded the development costs incurred, therefore no further capital contribution payment was required in the financial period.

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	
	2019	**2018**
	HUFm	HUFm
Board of Directors	74	71
Supervisory Board	27	24
Total	**101**	**95**

37.3 Key management compensation

	2019	**2018**
	HUFm	HUFm
Salaries and other employee benefits	1,678	1,563
Share based payments	536	716
Total compensation	**2,214**	**2,279**
Pension contribution paid by the employer	309	305
Total	**2,523**	**2,584**

From 2018 share based payments were modified due to the introduction of the Employee's Share-Ownership Program, please see further details in Note 25.

The table above contains the compensation received by the chief executive officer, directors and other senior members of management, constituting 58 people.
There were no redundancy payments to key management members neither in 2018 nor in 2019.

38. Changes in accounting policy

The Group has adopted IFRS 16 Leases from 1 January which resulted in changes in accounting policy and adjustments to the amounts recognised in the financial statements.

The Group has adopted IFRS 16 *Leases* retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2 (XXVII).

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.65%.

38.1 Practical Expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has elected to reassess all existing contracts that are, or contain, a lease applying the criteria in IAS 17 / IFRIC 4 whether they still are, or contain, a lease under the lease definition in IFRS 16. The same assessment has been done for contracts assessed as not being or containing a lease under IAS 17 / IFRIC 4.

Measurement of the lease liability

	HUFm
Operating lease commitments disclosed as at 31 December 2018	**11,188**
Discounted using the lessee's incremental borrowing rate of at the date of initial application	9,732
(Less): short-term leases not recognised as a liability	(552)
Add/(less): contracts reassessed as lease contracts*	2,049
(Less): low-value leases not recognised as a liability and other individually non-significant items	300
Lease liability recognised as at 1 January 2019	**11,529**
Of which are:	
Current lease liabilities	2,552
Non-current lease liabilities	8,977
	11,529

* On the line "contracts reassessed as lease contracts" contains the 95 years usufruct agreement of Gedeon Richter Polska Sp.z.o.o. payable to local municipalities, that is assessed to be a lease agreement under IFRS 16, but classified as not being a lease under IFRIC-4.

The right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

38.2 Adjustments recognized in the Consolidated Balance Sheet on 1 January 2019

The changes in the accounting policy affected the following items in the Consolidated Balance Sheet on 1 January 2019:

- Property, plant and equipment – increase by HUF 11,529 million.
- Lease liability – increase by HUF 11,529 million

There was no impact on retained earnings on 1 January 2019.

38.3 Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16. Note however that the number of leases in which the Company acts as a lessor is very limited and not material.

39. Notable events in 2019

The pharmaceutical production segment's income from the United States, the EU (mainly the EU15) and Other CIS regions as well as Ukraine increased, dampened by dropping income from Russia and China.

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 on 5 February 2019 an announcement was made that Mr. Lajos Kovács, Director of Technical Services would be involved in Richter's day-to-day activity as an expert advisor. Chief Executive Officer Mr Gábor Orbán will supervise both directorates pending the appointment of new directors. As of 31 December 2018 Dr Margit Dr Pellionisz Paróczai, Director of Human Resources also retired, and will in future be engaged in the work 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.

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 with the aim to operate Corvinus Universtiy of Budapest. The government transferred substantial funds to the Foundation in the form of 10% of state-owned MOL and Richter shares each. The shares are non-alienable.

On 27 March 2019 Richter announced subscription of convertible bonds amounting to USD 5 million issued by Prima-Temp Inc. The transaction was concluded after Richter and Prima-Temp Inc. of the United States announced, in October 2017, that they had entered into an exclusive license and distribution agreement for Richter to commercialize the innovative medical device, PriyaRing globally, except for the USA and Canada. PriyaRing is an internal sensor that identifies the subtle temperature changes that occur prior to ovulation. The above agreement was complemented by the acquisition of a minority stake in Prima-Temp for a consideration of USD 5 million.

On 24 May 2019 Richter announced the conclusion of a license agreement with Sequirus Pty Ltd for the exclusive commercialisation of cariprazine in Australia and New Zealand. Under the terms of the agreement, Richter shall receive upfront payment upon signature of the agreement as well as subsequent milestone payments.

In a joint statement on 28 May 2019 Richter and its American partner Allergan announced that the U.S. Food and Drug Administration (FDA) had approved a supplemental New Drug Application (sNDA) for Vraylar™ for expanded use to treat depressive episodes associated with bipolar I disorder in adults. In September 2015 Vraylar™ was also approved in the U.S. to treat schizophrenia and manic or mixed episodes associated with bipolar I disorder in adults.

In July 2019 Richter announced subscription of newly issued Evestra Inc. shares amounting to USD 15 million. The transaction was part of a capital increase initiated by Richter. At the same time Richter's USD 1.5 million loan provided to Evestra in 2017 was converted to shares. As a result of these transactions Richter has become Evestra's biggest shareholder with a stake of 35.45%.

On 25 July 2019 Richter and Hikma Pharmaceuticals Plc. announced the signing of an exclusive license agreement to commercialize cariprazine, a novel antipsychotic drug in certain Middle East and North African (MENA) markets. Richter receives a preliminary payment upon execution of the agreement followed by milestone payments upon meeting certain targets commensurate with sales once the product is launched.

In August 2019 Richter announced that Mitsubishi Tanabe Pharma Corporation's subsidiaries in ASEAN obtained the regulatory approval of cariprazine for the treatment of schizophrenia. Current approvals have been granted in Singapore and in Thailand. Richter is entitled to milestone payments in conjunction with the registration procedure, and then to royalty depending on sales.

On 20 August 2019 Richter announced that it launched its biosimilar teriparatide in Europe. The product has been launched through Richter's subsidiaries under the brand name Terrosa® after the expiry of the patent protection of the European reference product (Eli Lilly's Forsteo). The biosimilar teriparatide has been developed by the Company's subsidiary Richter-Helm BioTec GmbH & Co. KG.

In September 2019 Richter announced that its license partner Mochida Pharmaceutical Co. received marketing authorization for biosimilar teriparatide and launched the product in November.

On 16 October 2019 Richter and Mycovia Pharmaceuticals announced that they entered into an exclusive license and development and technology transfer agreement to commercialize and manufacture a molecule currently in Phase III clinical trials for the treatment of recurrent vulvovaginal candidiasis. The geographic scope of the license agreement covers Europe, Russia, the other CIS countries, Latin America and Australia. In addition, the two companies signed a royalty purchase agreement according to which Richter also acquires a certain portion of the net turnover of US sales of the product.

In 2019 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

In January 2020 Nedermed B.V. was wound up without a successor.

On 2 March 2020 Richter and WhanIn Pharm. Co., Ltd. announced the signing of an exclusive license and supply agreement to commercialize cariprazine, a novel antipsychotic in South Korea. Richter receives a one-off milestone payment upon signature and will be entitled to further sales-related milestone payments after the product is launched if certain targets are met.

In accordance with the applicable laws of the Russian Federation, ZAO Firma CV «PROTEK», has submitted a voluntary bid to buy back the shares issued by PAO «PROTEK» at a purchase price of RUB 100 (one hundred) per share. The Company considers the purchase offer to be a non-adjusting event after the balance sheet date. The offer has no significant impact on these financial statements nor on 2020's, given that according to IFRS 9 standard, the investment in Protek is valued at fair value based on stock exchange price. Share price was RUB 100.3 per share as at 31 December 2019 (See Note 15.2).

In late 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally and its negative impact had gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event.
While this is still an evolving situation at the time of issuing these separate financial statements, to date there has been no discernible impact on the Group's sales or supply chain, however the future effects cannot be predicted. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects.

On 13 March 2020 the Company announced, subsequent to its meeting held on 09-12 March 2020 the Pharmacovigilance Risk Assessment Committee (PRAC) of European Medicines Agency (EMA) has started a review procedure following a recent case of liver injury which led to liver transplantation in a patient taking ESMYA®. PRAC recommends suspension of ulipristal acetate for uterine fibroids during ongoing review of liver injury risk. The PRAC has recommended, as a precautionary measure, that women should stop taking 5-mg ulipristal acetate (ESMYA® and generic medicines) for uterine fibroids while a safety review started this month is ongoing. No new patients should start treatment with these medicines. The Group concluded that according to IAS 10 the event mentioned above is an adjusting event after the reporting period, related exposure please see more detailed in Note 3.1.

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 23 March 2020.

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 2019

Orbán Gábor
Chief Executive Office

Budapest, 23 March 2020

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1. General data

1.1 A 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 requested additional information, citing safety concerns regarding Esmya post-marketing reports outside the United States. As after 12 months no agreement was reached in respect of the resubmission of the application, as of August 2019 the application for registration of Esmya is considered withdrawn.

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 biosimilar market. On 10 July 2018 Richter announced that it concluded an agreement with Fertility Biotech AG in connection with the transfer of intellectual property rights, relevant studies, related data and documents of Bemfola® / Afolia, for 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 2019 revenue was outstanding. This resulted primarily from the contract work export done for the parent company, and increasing sales achieved in the Romanian market. The Company made significant profits in 2019, while in the previous year it was negative, mainly due to the fine imposed by the Romanian tax authority

In 2019 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 building renovation works.

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

Richter's Polish manufacturing subsidiary, **Gedeon Richter Polska Sp. z o. o.** is also responsible for Richter Group's registration, pharmacovigilance, PR as well as marketing activities in Poland. The first full year of this expanded scope of activities was 2019, as the company acquired, then merged **Gedeon Richter Marketing Polska Sp. z o. o.**, which supported the commercialization of proprietary products in the Polish market through marketing activities.

Operating as a subsidiary manufacturing and development company on a contract basis also for the benefit of the parent company, Gedeon Richter Polska Sp. z o. o. has grown to be a strategically highly important member of the Group. With the incorporated marketing unit, the company operated with a headcount of 822 people.

In the 2019 business year the market was characterised by the intense competition and aggressive price race experienced in previous years. Added to it was a mild flu season,

which resulted in the pull product Groprinosin losing approximately one-third of sales income year-on-year. The decline in finished products sales was somewhat offset by contract manufacturing sales, resulting in a balance of sales income 5% below the reference year's figure.

In 2019 Richter's Russian manufacturing subsidiary **ZAO Gedeon Richter-RUS** was affected by several factors. While the planned turnover in local currency was not met, this was partially compensated for by lower RUB–EUR exchange rates. In 2019 the review of registered prices of key products was started and is expected to cause a significant loss of revenue in 2020. The loss was already felt in 2019 as a result of the massive price reduction of Cavinton drugs. The rate of income from sales of own products to purchased products has not changed, income from sales of purchased products being slightly higher than that of own products. Volatility of sales income continues to be a challenge and will affect the performance of subsequent years. On the positive side, the payment discipline of buyers has been relatively good.

The company's main function will continue to be manufacturing and distribution supported by marketing activity funded by the parent company. 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 shake-up.

The company financed its 2019 capex projects partly from its own funds, and partly by the capital increase contributed by the parent company , which helped whittle down the considerable delay in settling its accounts payable to the parent company.

Richter Themis Ltd. continued to be active as a manufacturer and distributor of intermediate products and APIs for Group members in 2019. The core segment of the products portfolio has been the same over the years but the company adds new APIs on a continuous basis in an effort to meet the demands of the Group's manufacturing companies. Capacities are fully and continuously exploited. In addition to API production the company is also active in development in the field of manufacturing technology. Fracturing 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. KG**'s turnover in 2019 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 supply of API to teripartide and other developments are 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 2019 **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 feature in the company's activities.

On 30 June 2016 Richter acquired **Finox Holding AG**, a Swiss based biotech company engaged in the development and commercialisation of female fertility products. 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. Started in 2017, full integration of the company's activities into Richter's system was concluded by late 2018 with Richter taking over the full distribution of Bemfola®, its marketing in Western Europe, and secondary packaging. As a result, the business model of the product changed, and the profit centre moved from Finox to the parent company. In the context of an agreement, Finox transferred the commercial rights attached to Bemfola® to Richter against royalty payment on Bemfola®' sales. In 2019 the company's activities were limited to supporting central marketing tasks related to the Western European region.

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 2019 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 company (**Gedeon Richter UK Ltd.)** and French company (**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 2019.

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 with 2019 being its first full business year. The companies operate on a basis of invoicing net costs plus margin, which ensures cost coverage and stable liquidity on a continuous basis.

The turnover of products promoted by **Gedeon Richter (China) Pharmaceuticals Co. Ltd.** was below plans in 2019 due primarily sales related problems. In the wake of withdrawing the subsidy of Cavinton injection, a key contributor to sales, developments to expand the narrow portfolio have become crucial.

Active in promotional purchases, storage and distribution, Moscow based **Pharmarichter O.O.O.** proved to be a high-performing company in 2019 in both technical and financial terms.

Established in 2018, the Russian subsidiary **Gedeon Richter Farma O.O.O.** took over sales support to Richter's representative offices in Russia from 1 January 2019. Its activity

is financed on the basis of the 'cost-plus' marketing service agreement applied within Richter Group. Registration tasks have been retained by the Moscow representative office. Transforming and continuously maintaining the operating conditions of this large company with numerous staff was an important task for 2019.

Gedeon Richter KZ L.L.P. fully owned by Richter is active in the field of distribution and marketing. Its profit for 2019 met the parent company's expectations with risk management in accordance with legislative changes.

The core business of **Richter-Helm BioTec GmbH & Co. KG** has been project management and business development in the field of microbial biotechnology, currently focusing exclusively on teriparatide. Similarly to the previous year, the 2019 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.

In Brazil **Gedeon Richter do Brasil Importadora Exportadora e Distribuidora SA** continued the sales of Richter's women's healthcare products in 2019 and realised a steadily increasing turnover throughout the year.

In May 2014 Richter signed an acquisition agreement in respect of **Mediplus N.V.**, which resulted in holdings in Curaçao, Bolivia, Chile, Peru and Ecuador and strengthens Richter's penetration in Latin America. In 2015 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 2019 the Mediplus Group strengthened its presence in the regional market.

b. Wholesale and retail

Romania

99.99% owned by **Gedeon Richter Romania S. A.**, **Armedica Trading S.R.L.** is a holding company managing the assets of Richter Group's Romanian distribution and retail enterprises.
The Hungarian parent company developed a full-fledged vertical sales network in Romania with the companies owned by Armedica as endpoints. The two organisations play an important role in the commercialisation of the finished products of the Hungarian and Romanian companies and in strengthening acceptance of the Richter Group in Romania.

The Group's wholesale company in Romania is **Pharmafarm S.A.** The company generated a 29% increase in sales in 2019, also contributed by the low reference figure due to a two-month suspension of the company’s operating license. The introduction of serialisation led to shortages of numerous products in the Romanian market. Income from sales was influenced by two additional factors: by Q4 sales of high-price-low-margin products advertised in the country programme dropped; on the other hand, hospital sales were boosted by the end-of-year rush to make full use of supplementary budgets. Net operating income was 53% up compared to prior year.

Gedeon Richter Farmacia S.A. is the Romanian group's retail company. In 2019 one pharmacy license was sold, so in December the network consisted of 91 fully operating outlets. Turnover per outlet was 6% higher on the average than prior year. Unfortunately, suspension of Richter's wholesale company also affected the retail company and resulted in a reference year performance below the usual standards. In the course of 2019 several outlets were relocated to more profitable locations, and as part of the new strategy, a new pharmacy was opened in a small village with promising results. In rural areas where pharmaceutical supply is problematic, legislation enables economic organisations

operating licensed pharmacies to open pharmacies on the strength of only a permit of establishment.

The CIS

Due to the provided supplier contracts the profitability of Richter's exclusive distributor in Moldova, **Rihpangalfarma S.R.L.**, improved significantly. Earlier 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 position and maintenance of the market share achieved earlier.

The quality and efficiency related transformation of the Moldovan retail network **GR–Retea Farmaceutica S.R.L.** continued as two more loss making outlets were closed down and the proceeds from the sale of the related real properties owned by the company were used to repay the loan provided by the parent company. As new outlets were opened, the number of functioning pharmacies has not changed. The sales income the network of pharmacies dropped by 5% and could no longer finance costly pharmacy replacements, therefore the company's profitability deteriorated over the reference year.

Armenia had a new government formed after the general elections at the end of 2018, and in February 2019 Parliament adopted the new government's five-year programme. After massive expansion in 2017 and 2018 (7.5% and 5.2% respectively), the economic growth continued to be vigorous in 2019. After 2.5% in 2018, the annual average inflation dropped to 1.8% by August 2019 with low external and internal inflationary pressure. These steady and positive changes are reflected by the 2019 profitability of the wholesale subsidiary **Richter Lambron O.O.O.**

The ramifications of the national economic growth have not yet been reflected in the profitability of the Armenian retail company **Gedeon Richter Apteka Sp O.O.O.** and its network of 27 pharmacies. The network continues to adjust itself to the conditions shaped by the market and competition and in 2019 it retained its position achieved earlier.

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 2019. 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 better results compared to the reference period. Richter directly holds 30.68% of the company's shares.

c. 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 m^2 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%.

Richter and the U.S. based pharmaceutical company **Evestra Inc.** signed a cooperation agreement in 2015. Financial support from Richter will allow the American company to move its innovative portfolio to the clinical stage. In July 2019 Richter subscribed newly issued Evestra Inc.'s shares amounting to USD 15 million. The transaction was part of a capital increase initiated by Richter. At the same time Richter's USD 1.5 million loan provided to Evestra in 2017 was converted to shares; as a result of these transactions Richter has become Evestra's biggest shareholder.

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 2019. Operation of these affiliated undertakings is focused predominantly to Hungary.

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 establishment and continuous expansion of a 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 continued regional expansion whilst maintaining stable positions in its traditional markets on one hand, and strengthening its presence in the EU and the United States on the other hand with original and generic products, and has sought to build long-term co-operation in supplying API (Active pharmaceutical ingredient). The primary focus of the Group is on the expansion of the women's healthcare business and an increase in generic products' sales, the latter in preparation for upcoming patent expiry. In the United States the Group 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 schemes the Group strengthened its position in the Western European and Chinese markets and due to acquisitions, also in the Central and South American region. In consequence, the contribution of international markets to total sales exceeded 90% in 2019.

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 companies are classified into the following six categories:

- **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 2019

The Group's main objectives for 2019 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’s healthcare’s business; to develop a new original CNS (Central Nervous System) product; and to take further steps in the development of biosimilar products.

In 2019 major changes took place in the following areas:

- The pharmaceutical production segment's income from the United States, the EU (mainly the EU15) and Other CIS regions as well as Ukraine increased, dampened by dropping income from Russia and China.

- 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 on 5 February 2019 an announcement was made that Mr. Lajos Kovács, Director of Technical Services would be involved in Richter's day-to-day activity as an expert advisor. Chief Executive Officer Mr Gábor Orbán will supervise both directorates pending the appointment of new directors. As of 31 December 2018 Dr Margit Dr Pellionisz Paróczai, Director of Human Resources also retired, and will in future be engaged in the work 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.

- 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 with the aim to operate Corvinus University of Budapest. The government transferred substantial funds to the Foundation in the form of 10% of State-owned MOL and Richter shares each. The shares are non-alienable.

- On 27 March 2019, Richter announced subscription of convertible bonds amounting to USD 5 million issued by Prima-Temp Inc. The transaction was concluded after Richter and Prima-Temp Inc. of the United States announced, in October 2017, that they had entered into an exclusive license and distribution agreement for Richter to commercialize the innovative medical device, PriyaRing globally, except for the USA and Canada. PriyaRing is an internal sensor that identifies the subtle temperature changes that occur prior to ovulation. The above agreement was complemented by the acquisition of a minority stake in Prima-Temp for a consideration of USD 5 million.

- On 24 May 2019, Richter announced the conclusion of a license agreement with Sequirus Pty Ltd for the exclusive commercialisation of cariprazine in Australia and New Zealand. Under the terms of the agreement, Richter shall receive upfront payment upon signature of the agreement as well as subsequent milestone payments.

- In a joint statement on 28 May 2019 Richter and its American partner Allergan announced that the U.S. Food and Drug Administration (FDA) had approved a

supplemental New Drug Application (sNDA) for Vraylar™ for expanded use to treat depressive episodes associated with bipolar I disorder in adults. In September 2015 Vraylar™ was also approved in the U.S. to treat schizophrenia and manic or mixed episodes associated with bipolar I disorder in adults.

- In July 2019, Richter announced subscription of newly issued Evestra Inc. shares amounting to USD 15 million. The transaction was part of a capital increase initiated by Richter. At the same time, Richter's USD 1.5 million loan provided to Evestra in 2017 was converted to shares. As a result of these transactions, Richter has become Evestra's biggest shareholder with a stake of 35.45%.

- On 25 July 2019, Richter and Hikma Pharmaceuticals Plc. announced the signing of an exclusive license agreement to commercialize cariprazine, a novel antipsychotic drug in certain Middle East and North African (MENA) markets. Richter receives a preliminary payment upon execution of the agreement followed by milestone payments upon meeting certain targets commensurate with sales once the product is launched.

- In August 2019, Richter announced that Mitsubishi Tanabe Pharma Corporation’s subsidiaries in ASEAN countries obtained the regulatory approval of cariprazine for the treatment of schizophrenia. Current approvals have been granted in Singapore and in Thailand. Richter is entitled to milestone payments in conjunction with the registration procedure, and then to royalty depending on sales.

- On 20 August 2019, Richter announced that it launched its biosimilar teriparatide in Europe. The product has been launched through Richter's subsidiaries under the brand name Terrosa® after the expiry of the patent protection of the European reference product (Eli Lilly's Forsteo). The biosimilar teriparatide has been developed by the Company's subsidiary Richter-Helm BioTec GmbH & Co. KG.

- In September 2019, Richter announced that its license partner Mochida Pharmaceutical Co. received marketing authorization for biosimilar teriparatide and launched the product in November.

- On 16 October 2019, Richter and Mycovia Pharmaceuticals announced that they entered into an exclusive license and development and technology transfer agreement to commercialize and manufacture a molecule currently in Phase III clinical trials for the treatment of recurrent vulvovaginal candidiasis. The geographic scope of the license agreement covers Europe, Russia, the other CIS countries, Latin America and Australia. In addition, the two companies signed a royalty purchase agreement according to which Richter also acquires a certain portion of the net turnover of US sales of the product.

- In 2019, 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 Richter Group

	Ordinary shares Number	Voting rights* %	Share capital %
Domestic ownership	64,010,047	34.47	34.34
State ownership total	47,052,641	25.34	25.24
including MNV Zrt. **	*28,415,029*	*15.30*	*15.24*
including Maecenas Universitatis Corvini Foundation **	*18,637,486*	*10.04*	*10.00*
including Municipality	*126*	*0.00*	*0.00*
Institutional investors	8,411,253	4.53	4.51
Retail investors	8,546,153	4.60	4.59
International ownership	121,677,349	65.52	65.29
Institutional investors ***	121,381,988	65.36	65.13
Retail investors	295,361	0.16	0.16
Treasury shares ****	674,465	0.00	0.36
Undisclosed ownership	12,999	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%.

**Maecenas Universitatis Corvini Fundation and MNV Zrt. are controlled by the same investor (the Hungarian State). Even if representing themselves individually at the Annual General Meeting, their votes are determined by the ultimate parent (MNV Zrt.).

*** On 19 August 2019 BlackRocks, Inc.’s influence decreased below 5 %.

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

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 2019 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 2019.

The closing price of shares as of 30 December 2018 was HUF 5,430 compared to HUF 6,415 as of 29 December 2019. Average monthly share prices in 2019 varied between the minimum of HUF 4,920 per share (in August) and the maximum of HUF 6,101 per share (in December).

1.4 Treasury shares held by the Group

Group	Ordinary shares	
	31.12.2018	31.12.2019
Shares	389,028	674,465
Nominal value HUF`000	38,903	67,446
Book value HUF`000	2.185,880	3.870.316

The number of Richter shares held by subsidiaries was 5,500 in 2019.

Following the decision of the Board of Directors 15,327 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 320,534 Treasury shares to 4,484 employees on 17 December 2019.

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 2019 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 Secretary of the Board is responsible for liaising with the Board of Directors. 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 the duty of the directors responsible for the respective strategic pillars determined in the Company's strategy.
- 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. It is every manager's job to serve as an example in managing diversity, tolerance and inclusion, and to promote the practical manifestation of the Company's commitment to diversity as best as possible. 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. Accepted for five-year periods, the Diversity Policy's 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.

The resolutions adopted by the 2019 AGM regarding the composition of the Board of Directors did not affect the age distribution of the Board on the merit. With the resignation of Mr. János Csák of his position on the Board of Directors with effect from 31 August 2019 the rate of women Board members increased to 30% by Q4.

Women's 30% participation in the Supervisory Board stayed unchanged throughout 2019.

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

The Global Compliance Program was introduced by Richter 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, then its extension started in 2018 and continued in 2019 to Latin American countries, and to the subsidiaries and representative offices in the CIS states, where strict anti-corruption legislation and local regulations also require guidance by the parent company. As part of the extension of the Program, relevant chapters of the Compliance Handbook were translated to the local languages and were adapted to the local environments so that they become enshrined in local rules and regulations. Once compliance education and training materials had been localised, local staff could undergo the necessary training.

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 provided to, and agreements concluded with, patient organisations, health professionals and service providers. The Transparency Report for 2018 was published by the end of June 2019.

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 operated by the Legal and Global Operations Management 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. Over the past few years the use of the Compliance Hotline has become widely accepted; employees ask questions regarding the Compliance Manual and the Global Compliance Program with increasing frequency.

In 2019 several reports were made on the Compliance Hotline regarding conflict of interests, therefore decision was made to create corporate Compliance Rules in order to resolve conflict of interest currently found in the Code of Ethics. The Rules are at the stage of finalisation and are expected to be introduced in the first half of 2020. Staff will be acquainted with the new rules in the context of web-based training.

Revision and updating of the Compliance Manual started in the second half of 2019; the process is expected to be concluded in Q1 of 2020 so that the revised Manual should enter into effect in the first half of 2020. Richter intends to further strengthen the compliance function, which will help the parent company exercise a higher level of control in Richter Group's geographical area of operation through an international compliance network.

Other information

On 2 September 2019 the Board of Directors announced that Mr János Csák resigned of his position on the Board with effect from 31 August 2019.

1.6 Other information

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

The parent company prepared consolidated audited financial statements for the first time for the 2002 fiscal year. Since 2003 the quarterly 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 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 2019 operating review

2.1 The balance sheet as of 31 December 2019

ASSETS

The Group’s assets amounted to HUF 858,651 million, an increase of HUF 60,768 million (7.6 %) compared to the opening value. Non-current assets were HUF 9,259 million higher, and current assets HUF 51,509 million higher compared to the reference year.

Non-current assets

Non-current assets amounted to HUF 449,071 million in the reported period, HUF 9,259 million (or 2.1 %) up from the reference figure. The increase in mainly attributed to **Property, plant and equipment** (including the installation of several new lines in finished products manufacturing and biotechnology API production), as well as to the fact that according to IFRS 16 applicable since 2019, right-of-use assets representing the right to use the underlying leased asset are recognised in the Property, plant and equipment line item. Concurrently, related lease liabilities must be reported on the liabilities side. The increase in **Other financial assets** is the combined effect of acquiring the rights to a share of future sales income from the VT-1161 molecule (Mycovia) in the United States, and the increase in the fair value of the Russian pharmaceutical wholesale and retail group Protek. The impairment reported on Esmya reduced **Goodwill** and **Other intangible assets**. Other intangible assets were further reduced by as a result of the discontinuation of the trastuzumab intangible development project, and increased by the milestone payments received in conjunction with teriparatide and mifepristone, as well as by the acquisition of Mycovia's VT-1161 molecule.

Current assets

Current assets were 14.4 % or HUF 51,509 million above the reference figure of HUF 358,071 million. The increase in **Trade receivables** is attributed to expanding U.S. sales and to of exchange rate impacts. **Cash and cash equivalents** increased as a combined result of the positive net cash flow from the Group's operating activities and from tying up the securities maturing in 2019 as deposits.

EQUITY AND LIABILITIES

Shareholders' equity

In 2019 shareholders' equity was HUF 724,873 million, or 5.7% higher compared to the 31 December 2018 figure.

Liabilities

The Group's total liabilities amount to HUF 133,778 million.

Non-current liabilities were HUF 24,216 million, HUF 4,229 million above the 31 December 2018 figure. The increase in **Other non-current liabilities and accruals** reflects mainly the impact of the long-term lease liability relating to right-of-use under IFRS 16 mentioned in conjunction with Property, plants and equipment. The long-term deferred portion of the purchase price of the intangible VT-1161 (Mycovia) also contributed to the increase. The following effects are in the background of the decrease in **Deferred tax liability**: from 1 January 2019 the consolidated intangible asset Bemfola is recognised in the parent company's assets because of the restructuring of Finox's activities after its acquisition; consequently, as of 2019 it is valued in HUF and the related consolidated-level deferred tax is determined at the rate applicable to the parent company (9%). The amount thus generated is partially offset by the parent company's deferred previously tax not recognised (due to recovery). Deferred tax liability were further decreased by the deferred tax expenses resulting from the impairment of the intangible asset Esmya in the reported year and recognised at PregLem. **Current liabilities** amounted to HUF 109,562 million as of 31 December 2019, 18.9% above of the 31 December 2018 figure. The increase was mainly caused by the short-term lease liability relating to right-of-use reported under IFRS 16 as mentioned in conjunction with Property, plant and equipment; the short-term portion of the deferred purchase price of the intangible asset VT-

1161 (Mycovia) also contributed to the increase. The increase in **Trade payables** also contributed to the increase of current liabilities.

2.2 The 2019 income statement

The Group’s profit for the year 2019 is HUF 48,430 million, 33.8%, or HUF 12,237 million higher year-on-year.

Besides considerably increasing sales return (that included royalty and one-off sales related milestone payment on Vraylar™ received from Allergan), decreasing gross margin, with rising operating costs the 2019 Other income and other expenses included much higher impairment of Esmya than the figure reported in 2018. As a combined result of the above, profit from operations decreased, which, however, was lessened by financial profit due to favourable exchange rates, and mainly by the deferred tax income resulting from the restructuring of Bemfola's business model and the impairment of the intangible asset Esmya.

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 companies		Wholesale and Retail Trade segment		Other consolidated companies		Eliminations		**Group total**	
	2018 HUF million	2019 HUF million	2018 HUF million	2019 HUF million	2018 HUF million	2019 HUF million	2018 HUF million	2019 HUF million	**2018 HUF million**	**2019 HUF million**
Total sales	364,731	407,342	88,598	109,246	6,255	6,642	(14,100)	(15,436)	**445,484**	**507,794**
Gross margin	245,465	271,996	7,509	10,436	676	880	186	(18)	**253,836**	**283,294**
Profit from operations	44,631	38,835	(97)	734	331	340	175	(13)	**45,040**	**39,896**
Share of profit of associates and joint ventures	(431)	(388)	1,428	1,230	27	43	31	(227)	**1,055**	**658**
Closing headcounts	10,738	11,090	1,487	1,512	450	423	-	-	**12,675**	**13,025**

2.2.1 Revenue

Revenue from the pharmaceutical production segment

Region	2018 HUF million	2019 HUF million	Variance	
			HUF million	%
Hungary	38,736	39,809	1,073	2.8
International markets				
CIS	121,661	123,969	2,308	1.9
EU*	116,887	125,982	9,095	7.8
USA	35,985	71,101	35,116	97.6
China	26,384	18,975	-7,409	-28.1
Latin America	5,779	7,210	1,431	24.8
Other countries	19,299	20,296	997	5.2
Total International markets	325,995	367,533	41,538	12.7
TOTAL	*364,731*	*407,342*	*42,611*	*11.7*

*Excluding Hungary

The 2019 net income from sales totalled HUF 407,342 million, HUF 42,611 million above the 2018 figure.

Income from the 2019 sales in Hungary was 2.8% higher compared to the reference year. International markets in HUF was 12.7% up; and in EUR 10.4% up year-on-year.

Compared to the reference year, the breakdown of sales by regions changed as follows: After an increase of 3.0 percentage points the CIS markets' share was 30.4%. The EU

states' share decreased 1 percentage points and contributed 30.9%. The contribution of Hungary, the United States and the Other countries region was 9.8%, 17.5% and 4.9% respectively. China's turnover contributed 4.7% in 2017 and decreased 2.5 percentage point year-on-year. Latin America's share from sales was nearly 2% in both the reference and the reported period.

Based on the 2019 year-end figures, the pharmaceutical production segment realized HUF 39,809 million sales in the Hungarian market, 2.8% (or HUF 1,073 million) above the 2018 figure. The increase was driven primarily by Bemfola, Tanydon/Tanydon HCT, Aktil and Reagila, attenuated by dropping sales income from oral contraceptives Cavinton and Nortivan/Nortivan HCT (Valsartan). In 2019 oral contraceptives were the leading item in terms of sales contributing 6.7% to sales income.

After years of perpetual uncertainties and repeated cuts since 2006, the Hungarian pharmaceutical market was characterised by relative stability in 2019. 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 2019 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 282 million in 2019 after HUF 221 million in 2018.

Richter's market share was 5.0% in 2019, same as the reference year's figure. Richter ranked second in the prescription drugs market with a share of 7.7%.

The pharmaceutical production segment's income for international markets decreased from HUF 325,995 million (EUR 1,023.2 million) in 2018 to HUF 367,533 million (EUR 1,129.6 million) in 2019.

The Russian operation continues to the leading market of the **CIS region** and also of the Company with turnover denominated in RUB 9.5%, in EUR 7.9% below the reference year figure. The RUB-EUR exchange rate was 1.8% stronger than in the reference year. As regards the main pull products, sales of Cavinton and Mydocalm dropped, which was to some extent attenuated but increasing Panangin and Verospiron sales.

Sales in Ukraine rose by EUR 9.2 million compared to 2018 resulting in a 35.2% boost in sales income. Keen sales of oral contraceptives, Panangin and Stopdiar were the main contributors to the Ukrainian success, affected to a lesser extent by decreasing Esmya sales. As regards Other CIS countries, turnover grew mainly in Uzbekistan and Belarus.

The turnover achieved in the CIS market is HUF 123,969 million, and the region contributed 34% to international turnover, 1.9% (or HUF 2,309 million) above the 2018 figure. Expressed in foreign currency, the turnover was EUR 381.0 million with an 0.2% decrease year-on-year.

Sales in the European Union totalled HUF 125,982 million, 7.8% above the 2018 figure. The region’s contribution to exports decreased to 34.3%. Expressed in foreign currency, the increase amounted to EUR 387.2 million with a 5.6 % increase year-on-year.

The turnover realized in the pharmaceutical markets of the EU15 region was HUF 65,524 million (EUR 201.4 million), 12.8% (in EUR 10.5%) above the reference year figure. Increasing Terrosa, Bemfola and Caplacizumab sales return offset losses generated by Filgrastim sales.
On the other hand, the CEE Member States decreased their contribution to total sales in the EU region to approximately 48% in 2019 with a 0.7% increase in sales income in euro. Rising Reagila, Papilocare and oral contraceptives sales managed to offset declining Groprinosin sales return.

The turnover realised in the **United States** was up by 97.6% (HUF 35,116 million), or expressed in dollar, by 83.2% (USD 111.1 million), attributed primarily to the royalty and one-off milestone payment related to Vraylar sales.

Turnover in the **Chinese market** was HUF 18,975 million (EUR 58.3 million) with a year-on-year decrease of HUF 7,409 million (or EUR 24.5 million). Among the reasons dropping Panangin and Cavinton sales should be highlighted (the latter having been removed from the list of subsidized products).

Latin American sales grew by 24.8% in HUF and 15.3 % in USD. The sales reduction is attributed mainly to rising sales of oral contraceptives. The region's share from the total income achieved in international markets is 2%.

In the **Other countries segment** Terrosa and Bemfola sales generated the highest revenues. In the Other countries region the turnover was HUF 20,296 million (EUR 62.4 million). Compared to 2018, turnover was 5.2% higher (in foreign currency, 3.0%). The contribution of the region to international sales was 5.5 %.

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

Finished products contributed 81% to the 2019 sales revenues; the contribution of royalties was 14%, 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:

2018				2019			
Rank Rank		Sales HUF million	Share %	Rank Rank		Sales HUF million	Share %
1	Oral contraceptives	90,047	24.7	1	Oral contraceptives	95,097	23.3
2	Cavinton/vinpocetine	31,791	8.7	2	Cariprazine/ cariprazine	57,686	14.2
3	Cariprazine/ cariprazine	25.127	6.9	3	Cavinton/vinpocetine	24,529	6.0
4	Mydeton/tolperisone	18,913	5.2	4	Mydeton/tolperisone	19,811	4.9
5	Panangin/asparaginates /enalapril, lisinopril	15,106	4.1	5	Bemfola/FSH follitropin alfa	16.127	4.0
6	Bemfola/FSH follitropin alfa	13,348	3.7	6	Panangin/asparaginates /enalapril, lisinopril	15,118	3.7
7	Verospiron/ /spironolactone	12,189	3.4	7	Verospiron/ /spironolactone	13,542	3.3
8	Aflamin/aceclofenac	9,931	2.7	8	Aflamin/aceclofenac	10,759	2.6
9	Ace inhibitors/ /enalapril, lisinopril	9,920	2.7	9	Esmya /ulipristal acetate	9,432	2.3
10	Groprinosin/ inisine pranobex	8,841	2.4	10	Ace inhibitors/ /enalapril, lisinopril	8,798	2.2
	Total	235,213	64.4		Total	270,896	66.5
	Net income from sales	*364,731*	*100.0*		*Net income from sales*	*407,342*	*100.0*

The contribution of the 10 leading product categories to total sales was 66.5%, 2.1 percentage points higher than the reference year's figure.

Oral contraceptives are the leading products with a turnover of HUF 95.1 billion, 5.6% higher than in 2018. The change was primarily due to increasing emergency contraceptives' sales in China and the United States, and Lindynette sales in Russia, somewhat slowed by dropping Regulon turnover in Russia. The contribution of this product category to the 2019 total turnover was 23.3%, less compared to the reference year. Third in 2018, the second most important product was Cariprazine with 129.6% higher turnover than in the reference year. Its contribution to sales grew to 14.2 % as the combined result of increasing turnover in the United States (thanks to the related royalty and one-off milestone payments received), and launch in additional European, CIS and Other regional countries. After being second in the reference year, the original Cavinton was only third in 2019 (having been removed from the list of subsidized products in China). With 4.7% sales increase Mydeton retained its fourth place. Owing to a 20.8% increase in sales Bemfola was the fifth best-selling product in 2019. Panangin lost a place despite sales almost the same as in 2018. Verospiron and Aflamin retained their respective seventh and eighth place. Groprinosin dropped out; instead, Esmya (9th) features on the Top 10 list with 2.3% sales contribution. Ninth in 2018, ACE inhibitors finished tenth in 2019 after a 11.3% shrinkage.

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

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

	2018				2019	
	HUF million	EUR million			HUF million	EUR million
1 Russia	92,404	290.0	1	Russia	86,911	267.1
2 Hungary	38,736	121.6	2	United States of America	71,101	218.5
3 United States of America	35,985	113.0	3	Hungary	39,809	122.4
4 China	26,384	82.8	4	Poland	23,428	72.0
5 Poland	24,204	76.0	5	Germany	18,989	58.4
6 Germany	18,456	57.9	6	China	18,975	58.3
7 Romania	10,517	33.0	7	Ukraine	11,470	35.3
8 Ukraine	8,320	26.1	8	Romania	11,173	34.3
9 France	8,228	25.8	9	Spain	9,661	29.7
10 Spain	7,967	25.0	10	France	8,797	27.0
Total	271,201	851.2		Total	300,314	923.0
Net income from sales	*364,731*	*1,144.8*		*Net income from sales*	*407,342*	*1,252.0*

The 10 leading countries jointly contributed 73.7 % to Richter Group’s total pharmaceutical sales. Russia continues to head the list despite of a 5.9% drop in HUF terms. With a massive upswing in sales return (97.6%) the United States stepped up to second place primarily as a result of Vraylar royalty and one-off milestone proceeds. Consequently, Hungary only finished third in 2019 despite an almost 1.1 billion forints increase in sales. Poland advanced to fourth place in spite of a 3.2% decrease in sales income due primarily to Groprinosin sales, which slumped to two-thirds of the previous year's level. Germany improved one place with a 2.9% increase in sales. Conversely, China slipped to sixth place in 2019 as a result of declining Cavinton sales. Due to a massive improvement in turnover, Ukraine climbed one place. Although Romania only finished eighth, its sales increased 6.2%. As a result of keen Esmya and Bemfola sales, sales income in Spain was up 18.8% earning the country ninth place. While further decline in Esmya sales affected France's sales income, higher turnover from keen Bemfola and oral contraceptives sales managed to offset the negative effect and the balance earned France tenth place on the Top Ten list.

Turnover of the wholesale and retail segment

	2018	2019	Variance	
	HUF million	HUF million	HUF million	%
Hungary	-	-	-	-
International markets				
CIS	14,797	16.674	1,877	12.7
EU *	69,571	88,162	18,591	26.7
USA	-	-	-	-
China	-	-	-	-
Latin America	4,230	4,410	180	4.3
Other countries	-	-	-	-
International markets TOTAL	88,598	109,246	137	0.2
Total	*88,598*	*109,246*	*20,648*	*23.3*

*Excluding Hungary

Based on the year-end figures for 2019 the Wholesale and Retail segment realized HUF 109,246 million (EUR 335.8 million) income, 23.3% up from sales in 2018.

The most significant portion of income generated by this segment was contributed by the Romanian pharmaceutical wholesale company (Pharmapharm S.A.) and Gedeon Richter Farmacia network of pharmacies. Denominated in HUF, Romanian sales were 26.7% up year-on-year as Pharmapharm's operating license had been temporarily suspended in the summer of 2018 and warehousing returned to normal only in September of that year. The segment's performance was further improved by the wholesale and retail networks in the CIS (Moldova and Armenia).

Turnover of the other segment

	2018 HUF million	2019 HUF million	Variance HUF million	Variance %
Hungary	6,084	6,433	349	5.7
International markets				
CIS	103	134	31	30.1
EU *	53	66	13	24.5
USA	-	-	-	-
China	-	-	-	-
Latin America	-	-	-	-
Other countries	15	9	-6	-40.0
International markets TOTAL	171	209	38	22.2
Total	*6,255*	*6,642*	*387*	*6.2*

*Excluding Hungary

The turnover of the Other segment was up by 6.2% in HUF, 4.1% in EUR, and 1.7% in USD compared to the 2018 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 2019 amounted to HUF 224,500 million, HUF 32,852 million more than the figures achieved in 2018. Costs of sales included depreciation on the intangible asset Esmya amounting to HUF 1,357 million and amortization of other intangible asset Bemfola amounting to HUF 2,080 million.

Gross profit from sales was HUF 283,294 million, an increase of HUF 29,458 million when compared to the reference year. The **gross margin** was down from 57.0 % in the reference year to 55.8 % in 2019.

The significant increase in royalty received from Allergan in respect of Vraylar, as well as the one-off milestone payment received on Vraylar sales coupled with favourable exchange rates and the increasing share of Bemfola and some high-margin oral contraceptives within

sales improved the gross margin. On the other hand, the drastic decline in Cavinton sales, eroding prices in traditional markets, increasing wage costs in the Central European production facilities, and serialisation adding to the expenditure side narrowed the margin.

Within the operating costs item **Sales and marketing expenses** amounted to HUF 121,819 million in 2019, 5.4% higher year-on-year. The increase is attributed mainly to exchange rate impacts and wage increases in Central and Eastern Europe. Sales and marketing costs were 24.0% of sales revenues in the period of reporting. Depreciation of marketing and brand related rights of the contraceptives acquired from Grünenthal added HUF 4,389 million to the level of costs and contributed 0.9% to total sales.

In 2019 **Administration and general expenses** amounted to HUF 28,977 million, HUF 4,907 million in excess of the 2018 figure. The increase was mainly due to rising wage and IT costs.

The rate of **R&D expenses** to sales incomes was 9.6% in the reported year and amounted to HUF 48,860 million, 20.5% above the reference year figure. These expenses include the ongoing clinical trials being carried out in the field of biotechnology and women's healthcare together with those managed in collaboration with Allergan. R&D expenses of the Group also include such costs at the operations of the subsidiaries Gedeon Richter Polska and Gedeon Richter Romania.

The balance of **Impairment on financial assets and contracts** was HUF 1,051 million in 2019.

The balance of **Other income and expenses** dropped from HUF 29,044 million expense in the reference year to HUF 44,793 million expense in 2019.

Preparation of the annual financial statements required the impairment test of Intangible assets and Goodwill in the balance sheet. After calculation of the recoverable amount on Esmya intangible asset, the Executive Board considered it necessary to recognise impairment in 2019 (HUF 29,114 million), given the expiry, in May 2020, of exclusiveness in the European Union and the fact that 2019 sales fell short of the 2018 projection as well as PRAC's recommendations published in March 2020.

Furthermore, as within the twelve months following the Complete Response Letter dated August 2018, Allergan and the FDA reached no agreement regarding the conditions of resubmitting an application for registration in respect of Esmya, the application is considered withdrawn and the Company reported impairment on the U.S. intangible Esmya.

Discontinuation of development of the intangible asset trastuzumab justified further impairment (HUF 2,096 million). In addition, a total of HUF 7,104 million impairment of goodwill had to be reported in relation to PregLem and the Group's Chinese and Mexican subsidiaries. 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. As a consequence the Group reported a total of HUF 24,270 million in impairment of intangible assets and goodwill.

In the reported period HUF 5,717 million one-off milestone income was reported in conjunction with the provided indication of Cariprazine and the related licensing agreements from Allergan, Sequirus, Recordati, Hikma, and Mitsubishi amounting. In 2018 Richter accounted for one-off milestone 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.

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 631 million in 2019.

The 2019 Other income and other expenses line item included HUF 3,300 million claw-back payments in Romania, Germany, France, Spain, Portugal, Belgium, Italy, Bulgaria, Austria, Poland, Latvia, Lithuania, Croatia, Slovenia, Greece, and the United Kingdom.

The 2019 *profit from operations* was HUF 39,896 million, 11.4 % below the reference year figure. Besides increasing sales, dropping gross margin and mounting operating costs, the decrease was primarily due to a significantly higher amount of Esmya related impairment

loss recognised in Other income and expenses for the reported year when compared to 2018.

2.2.3 Other income statement items

Net financial income/loss

The net financial profit in 2019 was HUF 10,294 million, reflecting an increase of HUF 12,436 million after the net financial loss of HUF 2,142 million reported in 2018.

At year-end Forex assets and liabilities were reassessed and reported under Unrealised financial items. The balance of revaluation was HUF 56 million loss in the reported year, HUF 2,023 million up from the HUF 2,079 million loss in 2018. The improvement of the balance of revaluation of trade payables and receivables exceeded the loss on the fair valuation of Mycovia.

Realised financial items comprised significant gains realised on Foreign exchange difference on conversion and Exchange gains realised on trade receivables and trade payables. Revaluation gains were caused by the period-end appreciation of the dollar, euro and rouble against the forint.

	2018 HUF million	2019 HUF million	Variance HUF million
Unrealised financial items	**(2,106)**	**(740)**	**1,366**
Exchange (loss)/gain on trade receivables and trade payables	(3,259)	360	3,619
Loss on foreign currency loans receivable	1,276	1,166	-110
Exchange (loss)/gain on other currency related items	(96)	(1,582)	-1,486
Result of unrealised forward exchange contracts	(27)	-	27
Interest expenses related to IFRS 16 standard	-	(594)	(594)
Year-end foreign exchange difference related to IFRS 16 standard	-	(90)	(90)
Realised financial items	**(36)**	**11,034**	**11,070**
Exchange gain realised on trade receivables and trade payables	316	8,971	8,655
Gains on foreign exchange conversion	1,305	1,283	-22
Dividend income	15	1	-14
Interest income	1,349	914	-435
Interest expense	(2)	(1)	1
Other income statement items	(3,019)	(134)	2,885
Net financial profit/loss	**(2,142)**	**10,294**	**12,436**

Closing rates applied in revaluation:

	31.12.2018	**31.03.2019**	**30.06.2019**	**30.09.2019**	**31.12.2019**
EUR/HUF	321.51	320.79	323.54	334.65	330.52
USD/HUF	280.94	286.14	284.08	306.06	294.74
RUB/HUF	4.05	4.42	4.50	4.73	4.74
CHF/HUF	285.16	287.23	291.66	308.19	304.39

Gedeon Richter Plc. describes the details of classification, valuation and risks of its financial instruments in the following chapters of the Annual Report prepared 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 2019 profit before income tax amounted to HUF 50,848 million, HUF 6,895 million higher than in 2018.

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.

The Group's corporate tax liability for 2019 amounts to HUF 2,469 million. Other Group companies are taxed in accordance with the general taxation regulations of their domicile. Having examined the tax liability foreseen for subsequent years, the Management concluded that most of the deferred tax assets reported by the parent company in previous years cannot be realised and should therefore 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 company in 2018 did not affect the cash flow of the Company, but the amount of deferred tax diminished by HUF 4,049 million with income and deferred tax expense increased by the same amount.

From 1 January 2019 the consolidated intangible asset Bemfola is recognised as an asset of the Parent Company, because of the restructuring of Finox's activities, and hence its value is determined in HUF. The related deferred tax liability is determined with the tax rate of the parent (9%), while in the previous year it was determined with the tax rate of Finox (10.97%). This amount is partially offset by the deferred tax asset of the Parent Company that was previously not recognized, in the lack of sufficient taxable profit. As a result of impairment of Esmya intangible asset, the related deferred tax liability was also derecognized.

Profit for the year

Profit for the year was HUF 48,430 million in the reported period, HUF 12,237 million above the 2018 Group profit.

After a HUF 11,787 million increase, profit attributable to owners of the parent was HUF 47,135 million by the end of December 2019, and was 9.3% of the sales revenues as opposed to 7.9% 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 1,000 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.

R&D expenses was 9.6% of sales income in 2019 and amounted HUF 48,860 million.

Original research of Central Nervous System

Benefiting from Richter's experiences related to the development of Cariprazine and in line with the revamped strategy, reviewing possible CNS indications and giving research a more state-of-the-art footing commenced in 2019. This, however, did not affect the development of already selected molecules in the preclinical stage. In light of all that, Richter plotted out three lines of proprietary development classified in terms of the decisive symptoms clearly defined and applicable in preclinical research. The symptom clusters are as follows: general negative, positive, and cognitive impairment symptoms. Each of the three symptom clusters comprises several indications, as indeed most CNS drugs have been proved effective and licensed for several indications.

In the course of the year Richter revamped its preclinical research along these principles, and future clinical candidates will be selected along these lines. On the whole, three projects entered in the early clinical phase besides 12 projects at the preclinical stage.

R&D has always played a leading role in the introduction of IT systems. An example was in 2019 the introduction of artificial intelligence (AI) based software at the parent company to underpin the chemical aspect of research and support new molecular structure and synthesis. The new AI system is expected to enhance efficiency.

Clinical research and registration support related to Cariprazine continued in 2019, including mandatory post-registration clinical studies; as a result, the number of countries where Cariprazine is commercialised has increased. In a joint statement in May 2019 Richter and its American partner Allergan announced that the U.S. Food and Drug Administration (FDA) approved a supplemental New Drug Application (sNDA) for Vraylar™ for expanded use to treat depressive episodes associated with bipolar I disorder (bipolar depression) in adults.

Women's Healthcare

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 provided for this indication was granted in January 2014. In May 2015 EMA provided 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 in July 2013 under the name Fibristal and the Canadian drug agency also approved its long-term application in November 2016.

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 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. 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 requested additional information, citing safety concerns regarding Esmya post-marketing reports outside the United States. As after 12 months no agreement was reached in respect of the resubmission of the application, as of August 2019 the application for registration of Esmya is considered withdrawn.

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.

Generic research

At the closing of 2019, Richter had over 26 generic development and 15 licence topics in progress. Several projects were carried out in 2019 regarding serialisation including the

coordination of serialisation in Russia and implementation of European serialisation provisions. 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 launched two proprietary products and six licensed products in 2019, all of which are new in the markets where they were launched. It is also to be noted that Cariprazine capsule has been launched in an increasing number of countries.

In the course of the year Richter secured 144 new regulatory approvals (EU member states: 40, CIS: 66, Latin America: 12, Other countries: 26), and submitted 24 new applications for registration (CIS: 10, Latin America: 5, Other countries: 9).

In 2019, 199 marketing authorisations were renewed (EU: 69, CIS: 88, Latin America: 14, Other countries: 28), and 269 applications for withdrawal were submitted (EU: 161, CIS: 101, Latin America: 1, Other countries: 6). In the same year 550 applications for marketing authorisation submitted by Richter are pending with the regulatory authorities (EU: 300, CIS: 194, Latin America: 19, Other countries: 37).

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, 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. Candidates of the biosimilar portfolio are teriparatide and denosumab (osteoporosis), and pegfilgrastim (oncology). These products belong to the fastest-evolving therapeutic groups.

On 20 August 2019 Richter announced that it launched its biosimilar teriparatide in Europe. The product has been launched through Richter's subsidiaries under the brand name Terrosa® after the expiry of the patent protection of the European reference product (Eli Lilly's Forsteo). The biosimilar teriparatide has been developed by the Company's subsidiary Richter-Helm BioTec GmbH & Co. KG. Based on the effective license, Stada also launched the product in Europe with the brand name Movymia. In September 2019 Richter announced that its license partner Mochida Pharmaceutical Co. received marketing authorization for biosimilar teriparatide in Japan and launched the product in November.

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. However, in February 2019 the Company again withdrew its application for registration due to its inability to relieve CHMP's concerns by the prescribed deadline. Nevertheless, Richter continues to be committed to product research for the European markets, which has entered the last clinical phase.

In the course of 2019 denosumab (reference product: Amgen's branded products Prolia and Xgave) for the European and U.S. markets also proceeded to the last preclinical phase.

Development and distribution of biotechnology products is supported in Europe by Stada, in Japan by Mochida 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.

Review of quality assurance processes takes place with the concurrent strengthening of IT support; to this end, 2019 saw the launch of several complex projects. They included the parent company's LIMS (Laboratory Information Management System) pilot project aimed at preparing the decision on the introduction of an 'enterprise LIMS.' The pilot was concluded successfully and in September 2019 decision was made to introduce LIMS, expected to result in savings on time and data hygiene. Preparation of the selection of a Quality Management System (QMS) also took place in 2019; the QMS is designed to cover the wide area of quality assurance and pharmacovigilance. Long-term goals include extension of the system to subsidiaries and foreign representations.

The purpose of the Batch Release Dashboard project is to improve the efficiency of batch release. The envisioned IT system will expedite the work of QM staff by automatically gathering batch related data from the various systems and will thus eliminate parallel filing. The data gathered will enable staff to schedule and analyse release tasks, and will allow quick intervention.

Similarly to previous years, Group companies had regular inspections by the locally competent authorities in 2019; in addition, the partners conducted 14, and the authorities another 10 inspections at the parent company.

3.3 Production

Production in the manufacturing plants: measured in terms of packaging units, the increase in the output of plants was 2.2% over the reference year level for the Group as a whole.

As regards finished products manufactured by subsidiaries, the Russian company achieved considerably higher numbers in terms of packaging units (with full-cycle local production

of an expanding choice of products), the Romanian subsidiary achieved lesser growth, and the Polish company's production was practically unchanged.

Due to regulatory changes, there was a temporary drop in exploitation of capacities at the Indian manufacturer of APIs and intermediate products.

At the beginning of 2019 the parent company started production in accordance with the European serialisation regulations, which led to increasing machine time in packaging. As a result there was a drop in productivity and it was not until Q4 that outputs returned to the pre-serialisation level, albeit with a higher number of shifts. Efficiency is measured by a newly introduced IT device to be fully commissioned in early 2020. Introduction of serialisation of the Russian products required technical preparation of the packaging lines, a process fully completed.

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 procurement 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 procurement resulted in substantial savings on funds, capacities and time in 2019. In certain areas of procurement, 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 2019 KIR was successfully audited for the renewed ISO 14001 certificate.

The KIR analyses and manages risks affecting the environment, particularly the natural environment, in according with the provisions of the ISO standard (emission limits, data supply, and the requisite licenses). Functioning and risk management under the KIR is verified 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.

Richter submitted the documentation for revision of the Budapest plant's Integrated Pollution Prevention and Control (IPPC) license in December 2019. The revision of the IPPC license of the Debrecen plant was mandated by the competent authority. In Dorog the water use license was amended due to the updating of the self-audit plan.

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 and as a result, in 2019, passed the audit of the Occupational Safety and Health Management System (MEBIR: OSHAS 18001) by the supervisory agencies, proving that internal audits, education and training, regulations, performance evaluation, risk management and occupational hazard measurements are appropriate and in keeping with the relevant rules and regulations. In the course of 2019 Richter began the process of mandatory conversion to the MEBIR standard required under Hungarian Standard MSZ ISO 45001:2018. The Security Technology Laboratory was among the first to embrace the new mandatory regulations to be adopted by accredited test laboratories (MSZ EN ISO/IEC 17025:2018); the authorities found no deviation after the conversion.

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 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 procurement 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 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 of the process was to set up, in 2018, the new organisational structure which is able to provide superior support to the foreign subsidiaries, and from 2020 the new IT controlling concept and structure will enable accurate costing of IT services required by the various special fields of the parent company and the international subsidiaries from 2020, and fair charging of the requesting units and entities. In the context of this process a catalogue of IT services was drawn up in 2019, and service agreements were signed with the special fields of the parent company.
In September 2019 IT was organisationally transferred to Technology in order to ensure a better coordinated IT support to the special fields.

Similarly to the previous year, major Group level IT development took place in 2019, the most important achievements and events were as follows:

- A priority task was to keep the parent company's production and commercialisation capacities conforming to the European serialisation regulations at high standards (Serialisation, Track and Trace project), and from the second half, to support conformity with the Russian serialisation requirements. At the Russian subsidiary, systems development and preparations took place in 2019 due to the different and not yet finalised local regulatory system and the deadline of implementation set to a later date.

- In the context of the project Richter IT 2020 the preconditions of infrastructure needed for the services required by the parent company's business have been created, and purchases required to enhance IT security have been made.

- In the framework of the GDPR program Richter successfully assessed and identified the applications and services concerned by the GDPR where after developing the necessary action plans compliance will be introduced.

- A successful SAP upgrade took place at the Polish subsidiary, and the Stability Testing applications of the SAP QM module is running live.

- The first Digitalisation and Industry 4.0 projects launched in 2018 to provide specifically Group level uniform solutions:

  - As part of the Digitalisation project the FileNet platform of the first electronic document management system ECM (Enterprise Content Management) was introduced, and will be followed by the implementation of new business processes and functions in 2020.

  - In the context of the project title Industry 4.0 a new uniform Group level manufacturing execution system (MES), and Data Science system is in the process of introduction.

  - The first application for funding for both MES and Data Science was successfully concluded and was the resulting systems presented within the Company.

- Expansion of the IT infrastructure supporting manufacturing at the Dorog and Debrecen plant was started.

- 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.

The Group 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 Group's female employees.

As of 31 December 2019 the Group’s closing headcount was 13,025, 8,578 of whom work in white-collar positions including 7,451 university or college graduates. The closing headcount of the parent company was 6,439 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 58,085 million in 2019 as opposed to HUF 58,055 million in 2018. Capital expenditure was dominated by the projects deployed by the parent company.

In the Debrecen API plant installation of the second production line was completed, and construction of the central office building entered in the last stage of implementation; besides these projects, in the area of R&D significant amounts were spent on expanding the TKNL (Technology Experimental Lab) building.

At the Budapest manufacturing facility the packaging line installed in the finished products packaging plant should be highlighted, which was purchased with the intent to offset the reduction in production capacities caused by the introduction of serialisation. 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. Other notable capex projects include the expansion of DFA (Development related tax incentive at Dorog site) intermediate production capacities in Dorog, and in API manufacturing, the installation of a conical screw vacuum dryer in Chemical I Plant in Budapest. 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.

The most important capex projects of the subsidiaries included expenditures on production companies. Construction works of the new packaging plant started at the Russian subsidiary. Capex projects at the Romanian subsidiary were typically aimed at expanding and maintaining production capacities. In this context a high-shear mixer granulator and a washer were installed. In Poland construction of a new building was started; it will house quality assurance labs and an IT server centre. In addition, development of R&D equipment also continued.

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
Cariprazine's considerable significance in contributing to the company's sales return and profits	Cariprazine's contribution overwhelmingly depends on the net sales income achieved by our U.S. license partner and the long-term existence of the American drug pricing environment conducive to the introduction of innovative medicinal products	Joint indication extension and PASS studies with our U.S. partner, license agreements with new partners to extend the geographic areas	Unchanged risk
Higher risk involved by original CNS (central nervous system) research projects entering into advanced stages	Several CNS research projects are entering the clinical trials stage with highly increasing costs and continued high dropout risk	Regular review of projects along rigorous criteria ("go–no go" decisions), involvement of developing and license partner from the proof of concept stage	Increasing risk
Women's health specialty and biosimilar product development and commercialisation with own resources and with partners	Compared to generic development, registration involves high-cost and high-risk clinical studies meeting special regulatory requirements; with scarce own R&D resources	Development of medical and regulatory fields, close monitoring of clinical studies and CROs (Contract Research Organization); Conclusion of complex cooperation agreements for the development and licensing of women's health specialty and biosimilar products	Unchanged risk
Maintenance of commercialisation of branded generic products	The markets of our branded generic products are characterised by government-induced price pressure, keen competition, eroding prices, and short product cycles	Development of well-chosen new generic products and being among the first to launch them in our key markets	Unchanged risk
Protection of our classic product portfolio amidst shrinking market opportunities	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 (pharmacovigilance) system, active regulatory dialogue, sustaining development projects	Increasing risk

Pharmaceutical industry related price reimbursement, operational and compliance risks

Risk	Description	Priority risk management procedures	Changes in risk
Negative changes in drug price subsidy in the CEE region, Russia and China; claw-back taxes in European countries	Cutting the price and range of subsidised drugs may reduce the margin in the CEE region, in Russia and China; claw-back taxes reduce operating profit	Exposure may be reduced by introducing new products and focusing promotion on less threatened products	Increasing risk
Difficulties of hiring qualified workforce at the Group's CEE subsidiaries	Hiring and supplying qualified pharma workforce is increasingly difficult in the Hungarian, Romanian and Polish labour markets	Application of pay raise and long-term loyalty enhancing schemes; Special wage increase in production facilities in 2019; launching own vocational training Relocation of production to Russia University training partnerships	Unchanged risk
Increasing costs and decreasing output due to EU serialisation requirements entering into effect and preparation for serialisation in Russia	Printing of packaging unit level ID marks and transferring them through the IT systems requires substantial investment, reduces output, and causes shortages in the market	Employment of additional workforce, introduction of weekend shifts, purchasing new packaging lines	Unchanged 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

Risk	Description	Priority risk management procedures	Changes in risk
Meeting in some cases extremely high quality standards of pharmaceutical product development and manufacturing; monitoring adverse effects and 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 condition 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	Unchanged risk
Ensuring high-standard availability of pharmaceutical installations and IT systems, maintenance of appropriate level of IT security	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 Forex, 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, Other countries) and with some of the Group members' buyers (Romanian wholesale company)	Extended insurance with MEHIB on CIS and Other countries trade receivables of Richter Group Market COFACE insurance on Pharmafam's Romanian customers	Decreasing risk
Investment risk attached to liquid assets	Secure investment of the parent company's 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: corroboration of transfer pricing among affiliated undertakings	Procedure to report royalty related tax allowance agreed upon by the tax authority, possibility for the parent company to carry forward unused tax credit from unused tax losses (TLCF) Group: process established based on transfer pricing Masterfile, local transfer pricing documentations	Decreasing risk

7. Events after the reporting period

In January 2020, Nedermed B.V. was wound up without a successor.

On 2 March, 2020 Richter and WhanIn Pharm. Co., Ltd. announced the signing of an exclusive license and supply agreement to commercialize cariprazine, a novel antipsychotic in South Korea. Richter receives a one-off milestone payment upon signature and will be entitled to further sales-related milestone payments after the product is launched if certain targets are met.

In accordance with the applicable laws of the Russian Federation, ZAO Firma CV PROTEK, has submitted a voluntary bid to buy back the shares issued by PAO PROTEK at a purchase price of RUB 100 (one hundred) per share.
The Company considers the purchase offer to be a non-adjusting event after the balance sheet date. The offer has no significant impact on these financial statements nor on 2020's, given that according to IFRS 9 standard, the investment in Protek is valued at fair value based on stock exchange price. Share price was RUB 100.3 per share as at 31 December 2019.

In late 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally and its negative impact had gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event. While this is still an evolving situation at the time of issuing these consolidated financial statements, to date there has been no discernible impact on the Group’s sales or supply chain, however the future effects cannot be predicted. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects.

On 13 March 2020, the Company announced, subsequent to its meeting held on 09-12 March 2020 the Pharmacovigilance Risk Assessment Committee (PRAC) of European Medicines Agency (EMA) has started a review procedure following a recent case of liver injury which led to liver transplantation in a patient taking Esmya. PRAC recommends suspension of ulipristal acetate for uterine fibroids during ongoing review of liver injury

risk. The PRAC has recommended, as a precautionary measure, that women should stop taking 5-mg ulipristal acetate (Esmya and generic medicines) for uterine fibroids while a safety review started this month is ongoing. No new patients should start treatment with these medicines. The company concluded that according to IAS 10 the event mentioned above is an adjusting event after the reporting period.

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 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 Group focuses on strengthening its presence in, and increasing exports to, European Union, primarily in the EU15 (including UK), 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 2019 Consolidated Annual Report pursuant to the IFRS

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 2019 (in which the consolidated total assets is MHUF 858,651), the consolidated income statement, the consolidated statement of comprehensive income (in which the total comprehensive income for the year is MHUF 59,881 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 2019, 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 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 2019 to 31 December 2019, are disclosed in Note 5 of the consolidated 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 3,200
Group Scoping	We have identified seven companies in five countries which, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics. These companies amount up to 86% of the consolidated total assets, 80% 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 3,200
Determination	Approximately 3.9% 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 measure the performance of the Group against the profit before tax adjusted by one-off transactions. We chose 3.9% ratio as suitable considering the operation of the Group and the users of the consolidated financial statements.

Group audit scope

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

We have identified seven companies, which, in our view, required an audit of their complete financial information, due to their financial significance to the group or based on their risk characteristics. Those reporting components are the major manufacturing entities in Hungary, Russia, Poland and Romania and included other entities from Switzerland and Romania. These companies represent 86% of the total assets and 80% 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's consolidated 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 net book value of the Group's goodwill related to PregLem S.A. amounts to HUF zero and the Esmya intangible asset amounts to MHUF 759 as of 31 December 2019 as a result of recording an impairment of MHUF 2,421 on the goodwill and an impairment of MHUF 28,801 on the intangible asset in the reporting period. See Notes in the accounting policy section VI)-VIII), Note 3.1 (Key sources of estimation uncertainty), Note 12.2 and 18 of the consolidated financial statements for management's disclosures of the balances, judgments and estimates on these assets. Uncertainties related to the Esmya intangible asset and the factors led to the write-off of PregLem S.A. goodwill are disclosed in Note 3.1 of the consolidated financial statements. Management has identified the events presented in Note 3.1 of the consolidated	Before becoming aware of the events after the balance sheet date disclosed in Note 3.1 of the consolidated financial statements, 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 Group 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*
financial statements as impairment indicators related to the Esmya intangible asset, therefore the Management has performed an impairment 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). We paid special attention to the intangible asset and goodwill due the existing uncertainty through the year as well as the material impact of their impairment on the results.	Adverse events after the balance sheet date presented in Note 3.1 to the consolidated financial statements significantly reduced the uncertainties related to impairment of intangible asset and goodwill. We have assessed the events to be adjusting events in accordance with *IAS 10 Events after the Reporting Period.* 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.*
Valuation of other goodwill balances The Group has other goodwill balance of MHUF 29,503 as of 31 December 2019. Management's disclosures of the balances, judgments and estimates on these assets were disclosed in notes in the accounting policy section VI, Note 3.1 (Key sources of estimation uncertainty) and 18 of the consolidated financial statements. 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 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.	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 based on which no impairment was accounted for. 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.

Key audit matter	*How our audit addressed the key audit matter*
We focused on goodwill related to GRMed Company Ltd. which represents more than 86% of the entire balance.	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.*

Other information: the consolidated business report and the annual report

Other information comprises the 2019 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 its consolidated business report relating to the companies included in the consolidation. In this respect, we shall state whether the consolidated business report includes the non-financial statement required by Section 95/C, and Subsection (5) of Section 134 of the Accounting Act.

In our opinion, the 2019 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 2019 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 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 10 years.

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

Budapest, 23 March 2020

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 2019 Consolidated Annual Report pursuant to the IFRS

The Supervisory Board of
Gedeon Richter Plc.

Report

to the 2020 Annual General Meeting of Gedeon Richter Plc.

on the

Consolidated Financial Statements of Richter Group for 2019

The Supervisory Board reviewed the 2019 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 to the 2020 Annual General Meeting
for the approval of the
2019 Consolidated Annual Financial Statements of Gedeon Richter Plc.

Having reviewed the Consolidated Audited Financial Statements of Richter Group for 2019 prepared by Gedeon Richter Plc. as parent company and submitted to the Annual General Meeting, the analysis and statement of authentication made by the Auditor PricewaterhouseCoopers, and the insight gained during the discussion of the Report, the SB proposes that the distinguished members of the Annual General Meeting approve:

- The Consolidated Annual Financial Statements for 2019 submitted to the AGM (with total assets and total liabilities in the Balance Sheet being equally HUF 858,651 million), duly audited in compliance with the International Accounting Standards.

- The after-tax profit specified in the audited Consolidated Income Statement for 2019 (before dividend payment) being HUF 48,430 million.

Budapest, 23 March 2020

Dr. Attila Chikán
Chairman of the Supervisory Board

4.

Approval of the Richter Group's
draft 2019 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.: 22/2020

The Board of Directors proposes to the AGM to approve the Company's draft 2019 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 2019 business activities of the Company (on the management, the Company’s financial situation and business policy) and presentation of the Company’s draft 2019 individual Annual Report prepared pursuant to the IFRS

GEDEON RICHTER PLC.

IFRS FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

Gábor Orbán
Chief Executive Officer

Budapest, 23 March 2020

Gedeon Richter Plc.

FINANCIAL STATEMENTS

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Income Statement

for the year ended 31 December

	Notes	2019 HUFm	2018 HUFm
Revenues	**4**	**366,524**	**330,084**
Cost of sales		(118,266)	(111,127)
Gross profit		**248,258**	**218,957**
Sales and marketing expenses		(108,822)	(103,942)
Administration and general expenses		(18,407)	(15,038)
Research and development expenses		(48,001)	(39,314)
Other income and other expenses (net)	5	(12,627)	(13,962)
Net impairment losses on financial and contract assets		(446)	(144)
Profit from operations	**5**	**59,955**	**46,557**
Finance income	7	35,072	34,544
Finance costs	7	(38,002)	(43,688)
Net financial income/(loss)	**7**	**(2,930)**	**(9,144)**
Profit before income tax		**57,025**	**37,413**
Income tax	8	(6,625)	(5,834)
Profit for the year		**50,400**	**31,579**
Consolidated Earnings per share (HUF)	**9**		
Basic and diluted		253	190

The notes on pages 9 to74 form an integral part of the Financial Statements.

23 March 2020

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Chief Executive Officer

Statement of Comprehensive Income

for the year ended 31 December

	Notes	2019 HUFm	2018 HUFm
Profit for the year		**50,400**	**31,579**
Items that will not be reclassified to profit or loss (net of tax)			
Actuarial loss on retirement defined benefit plans	28	(708)	(27)
Changes in the fair value of equity investments at fair value through other comprehensive income	24	4,697	(5,063)
		3,989	**(5,090)**
Other comprehensive income for the year		**3,989**	**(5,090)**
Total comprehensive income for the year		**54,389**	**26,489**

The notes on pages 9 to74 form an integral part of the Financial Statements.

23 March 2020

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Chief Executive Officer

Balance Sheet

	Notes	31 Dec. 2019 HUFm	31 Dec. 2018 HUFm
ASSETS			
Non-current assets			
Property, plant and equipment	12	185,786	169,453
Intangible assets	12	81,491	80,971
Investments in subsidiaries, associates and joint ventures	13,14	131,828	149,525
Other financial assets	15	19,187	9,571
Deferred tax assets	16	-	1,424
Loans receivable	17	45,403	57,971
Other long-term receivable	15	2,837	6,416
		466,532	**475,331**
Current assets			
Inventories	19	65,198	64,132
Trade receivables	20	138,082	122,979
Contract assets	21	2,074	1,417
Other current assets	21	23,987	25,747
Investment in securities	22	1,545	4,728
Current tax asset	16	760	578
Cash and cash equivalents	23	102,842	80,696
		334,488	**300,277**
TOTAL ASSETS		**801,020**	**775,608**
EQUITY AND LIABILITIES			
Equity			
Share capital	24	18,638	18,638
Treasury shares	25	(3,875)	(283)
Share premium	24	15,214	15,214
Capital reserves	24	3,475	3,475
Revaluation reserve for securities at FVOCI	24	9,507	4,810
Retained earnings		674,100	640,415
		717,059	**682,269**
Non-current liabilities			
Borrowings	29	-	-
Deferred tax liability	16	-	-
Other non-current liabilities and accruals	30	11,136	8,868
Provisions	28	3,075	2,428
		14,211	**11,296**
Current liabilities			
Borrowings	29	1,517	21,789
Trade payables	26	45,495	36,825
Current tax liabilities	16	8	-
Other payables and accruals	27	21,519	22,577
Provisions	28	1,211	852
		69,750	**82,043**
TOTAL EQUITY AND LIABILITIES		**801,020**	**775,608**

The notes on pages 9 to74 form an integral part of the Financial Statements.

23 March 2020

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Chief Executive Officer

Statement of Changes in Equity

	Notes	Share capital	Share premium	Capital reserves	Treasury shares	Revaluation reserve for available for sale investments	Retained earnings	Total
		HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Balance at 1 January 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**
Purchase of treasury shares	25	-	-	-	(3,607)	-	-	(3.607)
Transfer of treasury shares	25	-	-	-	3,728	-	(3,728)	-
Recognition of share-based payments	24	-	-	-	-	-	1,548	1,548
Ordinary share dividend for 2017	31	-	-	-	-	-	(12,673)	(12,673)
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**
Balance at 1 January 2019		**18,638**	**15,214**	**3,475**	**(283)**	**4,810**	**640,415**	**682,269**
Profit for the year		-	-	-	-	-	50,400	50,400
Actuarial loss on defined benefit plans	28	-	-	-	-	-	(708)	(708)
Change in fair value of securities measured at FVOCI	24	-	-	-	-	4,697	-	4,697
Comprehensive income for year ended 31 December 2019		**-**	**-**	**-**	**-**	**4,697**	**49,692**	**54,389**
Purchase of treasury shares	25	-	-	-	(5,460)	-	-	(5,460)
Transfer of treasury shares	25	-	-	-	1,868	-	(1,868)	-
Recognition of share-based payments	24	-	-	-	-	-	4,498	4,498
Ordinary share dividend for 2018	31	-	-	-	-	-	(18,637)	(18,637)
Transactions with owners in their capacity as owners for year ended 31 December 2019		**-**	**-**	**-**	**(3,592)**	-	**(16,007)**	**(19,599)**
Balance at 31 December 2019		**18,638**	**15,214**	**3,475**	**(3,875)**	**9,507**	**674,100**	**717,059**

The notes on pages 9 to74 form an integral part of the Financial Statements.

Cash Flow Statement

for the year ended 31 December

	Notes	2019 HUFm	2018 HUFm
Operating activities			
Profit before income tax		57,025	37,413
Depreciation and amortization	5, 12	26,570	25,396
Non-cash items accounted through the Income Statement		2,217	(3,032)
Year-end foreign exchange translation difference of borrowings	7	-	213
Net interest and dividend income	7	(12,133)	(18,567)
Reclass of results on changes of property, plant and equipment and intangible assets		(103)	139
Impairment recognised on intangible assets	12	10,005	13,429
Impairment on investments	13	29,330	25,303
Expense recognised in respect of equity-settled share-based payments	24	2,657	3,360
Movements in working capital			
Increase in trade and other receivables	20, 21	(17,260)	(12,156)
Increase in inventories	19	(6,779)	(1,196)
Increase/(decrease) in payables and other liabilities	26,27,30	2,909	(15,035)
Interest paid	7	(207)	(32)
Income tax paid	16	(4,866)	(4,100)
Net cash flow from operating activities		**89,365**	**51,135**
Cash flow from investing activities			
Payments for property, plant and equipment	12	(31,530)	(30,434)
Payments for intangible assets	12	(11,999)	(18,910)
Proceeds from disposal of property, plant and equipment		1,352	137
Payments to acquire financial assets		(19,880)	(3,652)
Proceeds from sale or redemption on maturity of financial assets		4,731	16,791
Disbursement of loans		(7,268)	(4,338)
Loans repaid by borrowers		10,572	8,892
Government grant received related to investments	30	2,400	898
Interest received	7	3,376	3,188
Dividend received	7	5,114	15,411
Net cash outflow on acquisition of subsidiaries	13,27,30	-	(285)
Net cash flow to investing activities		**(43,132)**	**(12,302)**
Cash flow from financing activities			
Purchase of treasury shares	25	(5,460)	(3,607)
Dividend paid	31	(18,637)	(12,673)
Principal elements of lease payments		(722)	-
Repayment of borrowings	29	-	-
Proceeds from borrowings		-	11,233
Net cash flow to financing activities		**(24,819)**	**(5,047)**
Net (decrease)/increase in cash and cash equivalents		**21,414**	**33,786**
Cash and cash equivalents at the beginning of year	**23**	**79,719**	**46,015**
Effect of foreign exchange rate changes on the balances held in foreign currencies		192	(82)
Cash and cash equivalents at the year end	**23**	**101,325**	**79,719**

The notes on pages 9 to74 form an integral part of the Financial Statements.

Notes to the Financial Statements

1. General background

Legal status and nature of operations

Gedeon Richter Plc. ("the Company") is 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, 505/2 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:	24 April 2019
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

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 2019 is a complete set of separate IFRS financial statement of the Company, including comparative figures for the previous period, i.e. the closing balance of 31 December 2018.

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 16 effective from 1 January 2019, 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 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.

Adoption of new and revised standards

A) New standards which became effective from 1 January 2019 and the Company has adopted

- IFRS 16, Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019, the EU has endorsed the amendments) 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 are 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 the effect of initial application of the standard in Note 38.

B) The following standards and amended standards became effective for the Company from 1 January 2019, but did not have any material impact on the Company:

- IFRIC 23 Uncertainty over income tax treatments (issued on June 2017 and effective for annual 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 annual 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 endorsed the amendments).

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

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

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

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

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

- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020, the EU has endorsed the amendments).

- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual 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 annual periods beginning on or after 1 January 2020, the EU has endorsed the amendments).

- Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020, the EU has endorsed the amendments).

- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022, the EU has not yet endorsed the amendments).

Any other new/modified standard or interpretation is not expected to have a significant impact on the financial statements of 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 16 from 1 January 2019, 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

Revenue is measured at the fair value of the consideration received or receivable. Revenue is shown net of value-added tax, returns, rebates, discounts as well as 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 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,
- performance-related Milestone received for products with marketing authorisation (eg, cumulative sales related milestone),
- 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.
Income arising from the sale/transfer or partial sale of intangible assets - capitalized or not - not directly attributable to current R&D expenses, is recognized as Other income and other expenses (net). Additionally, Other income and expenses (net) include milestone and down-payments realised on the sale / transfer of non-capitalized intangible assets.

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 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), 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 Company remeasures the progress towards complete satisfaction of such services and recognizes revenue accordingly.

III) Property, plant and equipment, Right-of-use assets

A) 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.

B) Right-of-use assets

The Company as a lessee applies the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset, subject to the requirements as follows:
If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. In an opposite case the Company shall recognise the depreciation of the right-of-use asset from the commencement date to the earlier of the following dates: a) the end of the useful life of the underlying asset and b) the end of the lease term.

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 method and scheduling of the utilisation of the resources can be demonstrated;
- The development costs of the intangible asset can be reliably measured.

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

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

VII) Financial assets

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

Financial assets are classified into the following categories: financial assets 'at fair value through profit or loss' (FVTPL), '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.

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.

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 separate 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

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

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, or fair value through profit or loss 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, and subsequently generally measured at amortized cost using the effective interest method.
If the loan is off-market conditions (for example: interest free loan to employees, interest free capital contribution, supplementary payment), then the difference between the fair value and the transaction value should be recognized in profit or loss or as a capital increase in the investment depending on the economic 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 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 should be classified in accordance with its substance, so in case of credit balance is presented as liability in the Balance Sheet.

XIV) Contract assets

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.

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 than 12 months and is not expected to be realized within 12 months. Other derivative contracts are presented under "Other current assets" and "Other payables and accruals".

XVIII) Cash and cash equivalents

In the Consolidated Cash Flow Statement 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 and increasing the value of the reversed 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

The Company has applied IFRS 16 using the modified retrospective approach. Therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately and the impact of changes is disclosed in Note 38.

Policy applicable from 1 January 2019
At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Company under residual value guarantees
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If this rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:
The Company applies comperative pricing method for calculating interest rate. The reference interest rate is determined based on public data related to the specific market taking into consideration the amount, currency, maturity date of the transaction, the borrower's business sector and the purpose of the financing.

Lease payments are allocated between cost of sales, operating expenses and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Exemptions
Contracts may contain both lease and non-lease components. The Company applies the practical expedient allowed by IFRS 16.15 and does not separate non-lease components from lease components and accounts for any lease components and associated non-lease components as a single lease component.

Payments associated with short-term leases for all assets and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets (that the underlying assets, when new, are individually low value that is under HUF 1.5 million) comprise IT and office equipment.

Where the Company acts as a lessor, the lease is classified to be either finance lease (where substantially all of the risks and rewards incidental to ownership are transferred to the lessee) or operating lease. Currently the Company does not act as finance lessor.

For operating lease, the Company continues to recognize the underlying asset and do not recognize a net investment in the lease on the balance sheet or initial profit (if any) on the income statement. The underlying asset continues to be accounted for in accordance with applicable accounting standards (e.g., IAS 16). Lessors subsequently recognize lease payments over the lease term on either a straight-line basis or another systematic and rational basis if that basis better represents the pattern in which benefit is expected to be derived from the use of the underlying asset.

Accounting policy based on IAS 17 (in financial year 2018)
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 transfer 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. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

XXVI) 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's final recommendations were published on 18 May 2018 which were adopted by Committee for Medicinal Products for Human Use (CHMP) (01 June 2018) and based on CHMP's opinion the European Commission decided to implement them on 26 July 2018.
Richter takes the safety of patients seriously. Based on the data collected during clinical trials, 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. Management has incorporated the effects of the restrictions on the expected future cash flows.

In August 2019 the deadline to take further response and actions regarding the CRL expired and no further actions were taken, therefore the FDA withdrew the request for drug application. Neither the Company nor the licensing partner Allergan intend to submit a new application.

On 13 March 2020 the Company announced, subsequent to its meeting held on 09-12 March 2020 the Pharmacovigilance Risk Assessment Committee (PRAC) of European Medicines Agency (EMA) has started a review procedure following a recent case of liver injury which led to liver transplantation in a patient taking Esmya®. PRAC recommends suspension of ulipristal acetate for uterine fibroids during ongoing review of liver injury risk. The PRAC has recommended, as a precautionary measure, that women should stop taking 5-mg ulipristal acetate (Esmya and generic medicines) for uterine fibroids while a safety review started this month is ongoing. No new patients should start treatment with these medicines.

The company concluded that according to IAS 10 the event mentioned above should be determined as an adjusting event after the reporting period.

The Company prepared its audited financial statements for 2018, considering the negative effects of European Commission's decision on ESMYA® the PRAC recommendation issued in 2020 and the withdrawn application 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 HUF 29,368 million for impairment on investment in PregLem and HUF 6,918 million on North-America and other related intangible assets . Please see further details in Notes 5, 12.2 and 13.

As a result of EC's resolution and the withdrawn application for US territory, 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 December 2019	31 December 2018
	HUFm	HUFm
Shareholding in the subsidiary of PregLem S.A.	0	29,368
Esmya North-America intangible assets	911	6,781
Esmya other intangible assets	0	1,379
All exposures	**911**	**37,528**

Taken into account the PRAC's recommendation issued in 2020, the Company discloses the Esmya® related inventory on 31 December 2019 as a further exposure:

Esmya® related inventory	31 December 2019
	HUFm
EU countries	97
Non- EU countries	252
All exposures	**349**

On 31 December 2019 the value of Esmya® inventories held by the subsidiaries is HUF 1,754 Million. The recoverability of these inventories may be partly affected by the PRAC's recommendation issued in 2020. The Company does not expect the effect of potential returns to be material, therefore did not take into account during the preparation of the financial statements.

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 was lower by 10%, depreciation for 2019 would be higher by HUF 2,868 million compared to what is currently recorded in the Financial Statement. This change would have been HUF 2,822 million in 2018.

The Company recognised depreciation and amortisation cost of HUF 25,808 million in 2019, and HUF 25,396 million in 2019. This amount does not contain the depreciation calculated for right-of-use assets.

Unlike property, plant and equipment and intangible assets, there is another type of decision uncertainty when reviewing the depreciation of the right-of-use assets, whereas the estimated useful lives of these assets are essentially determined by the duration of the lease and not by the useful life of the asset. The depreciation of the right-of-use assets during the current year was not significant (HUF 762 million) comparing to the depreciation of the fixed assets (HUF 25,808 million). For these reasons, the uncertainty arising from the depreciation of the right-of-use assets is not quantified.

3.2 Critical judgements in applying entities accounting policies

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 6,681 million (in 2018 HUF 4,049 million), which is not recognized in the balance sheet because no taxable profit is expected when the related temporary differences reverse. There was no change in Management's assessment of recovery compared to 2018. The deferred tax expense is presented in Note 16.

4. Segment Information

4.1 The Richter Group 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	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
3rd party revenues	397,712	356,024	109,244	88,596	838	864	-	-	507,794	445,484
Inter segment revenues	9,630	8,707	2	2	5,804	5,391	(15,436)	(14,100)	-	-
Revenues	**407,342**	**364,731**	**109,246**	**88,598**	**6,642**	**6,255**	**(15,436)**	**(14,100)**	**507,794**	**445,484**
Profit from operations	38,835	44,631	734	(97)	340	331	(13)	175	39,896	45,040
Total assets	927,894	867,803	63,279	52,726	4,027	3,777	(136,549)	(126,423)	858,651	797,883
Current contract asset	3,466	1,425	-	-	-	-	-	-	3,466	1,425
Total liabilities	102,468	89,088	51,794	40,927	979	990	(21,463)	(18,867)	133,778	112,138
Contract liability	745	85	-	-	-	-	-	-	745	85
Capital expenditure	57,350	57,167	537	650	198	238	-	-	58,085	58,055
Depreciation and amortization	37,801	33,965	1,237	702	217	240	65	-	39,320	34,907
from this: IFRS 16 related	*3,145*		*547*		-		-		*3,692*	
Share of profit of associates and joint ventures	(388)	(431)	1,230	1,428	43	27	(227)	31	658	1,055
Investments in associates and joint ventures	6,957	2,794	8,112	7,722	1,289	1,316	(166)	(77)	16,192	11,755

The data presented in the segment information significantly differs from the data that is presented in the primary statements, because the former contains consolidated, while the latter contains stand-alone financial information of the Company. Therefore, Management has concluded that a reconciliation between the two would not provide relevant and useful information to the users of the financial statements.

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

2019	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	39,763	137,285	199,627	13,405	18,975	10,663	18,868	438,586
Over time	739	114	9,220	57,696	-	2	1,437	69,208
Revenues	**40,502**	**137,399**	**208,847**	**71,101**	**18,975**	**10,665**	**20,305**	**507,794**
Total assets	625,054	77,377	127,565	2,843	2,345	8,611	14,856	858,651
Capital expenditure	49,807	2,239	4,715	-	-	98	1,226	58,085

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	25,144	-	1	2,492	37,204
Revenues	**39,472**	**133,356**	**181,765**	**35,985**	**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	5,450	1	-	62	349	58,055

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

4.2 The revenue information of Company

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

Analyses of revenue by category	2019	2018
	HUFm	HUFm
Sale of goods	310,323	304,450
Revenue from services	506	440
Royalty income	55,695	25,194
Total revenues	**366,524**	**330,084**

Approximately HUF 54,637 million (2018: HUF 24,239 million) revenue derived from one single external customer (Allergan), that almost exceeded 15% of total revenues.The revenue is mainly royalty and milestone payments, related to Vraylar and are attributable to the Pharmaceuticals segment and located in the USA region. There was no other customer exceeding 10% of revenues in 2019. In 2018, there was no customer exceeding 10% of total revenues.

5. Profit from operations – expenses by nature

	2019 HUFm	2018 HUFm
Revenues	366,524	330,084
From this: royalty and other similar income	*55,695*	*25,194*
Changes in inventories of finished goods and work in progress	2,045	6,388
Cost of goods sold	(18,344)	(18,000)
Material type expenses	(183,356)	(163,019)
Personnel expenses	(68,926)	(69,836)
Depreciation and amortization	(26,570)	(25,396)
From this: IFRS 16 related (Note 12.2)	*(762)*	-
Compensation of expenses*	1,655	442
Net impairment losses on financial and contract assets	(446)	(144)
Other income and other expenses (net)	(12,627)	(13,962)
From this: IFRS 16 related (Note 12.2)	-	-
Profit from operations	**59,955**	**46,557**

* 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 30 million and other non-audit services for HUF 38 million in 2019. There were no fees charged for tax advisory services. The fee for the statutory audit amounted to HUF 22 million.

The decrease of the personnel expenses is due to the fact that some of the foreign representative offices of the Company have been transferred into independent legal entities within the Group. Personnel expenses of the significant number of employees transferred were recorded in the newly established subsidiaries.

Net impairment losses on financial and contract assets

The net impairment losses on financial and contract assets amounted to HUF 446 million in 2019 and HUF 144 million in 2018. The net impairment losses in 2019 comprised of the reversal of impairment recognised on trade receivables and the impairment recognised on loans and capital contributions.

Other income and other expenses (net)

The other income and expense (net) increased from HUF 13,962 million (expense) in the base period to HUF 12,627 million (expense) in 2019.

The impairment tests of Esmya for the 2019 financial statements had to be conducted in consideration of decisions by the regulatory authorities and market effects. As a result, the Company reported net impairment of HUF 6,918 million on impairment on the Esmya intangible asset. (See details in Note 3.1.) Executive Board decided to discontinue the trastuzumab development project resulting in HUF 2,096 million in impairment. In 2018, other income and other expenses (net) were greatly affected adversely by the impairment of the Esmya intangible asset in North America (HUF 13,423 million).

In the reported period, HUF 5,717 million one-off milestone income was reported in conjunction with the extended indication of Cariprazine and the related licensing agreements. In the previous year, 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 indication extension.

In 2019, HUF 3,589 million in impairment and scrapping of inventories was recorded mainly on Esmya and Bemfola. Impairment and scrapping of inventories in current year exceeded the amount reported in the reference year by HUF 1,954 million.

Claw-back in 2019 comprised payments related to the Hungarian, Romanian, German, French, Spanish, Portuguese, Belgian, Italian, Bulgarian, Austrian, Polish, Lithuanian, Croatian, Slovenian and British markets totalling HUF 3,418 million.

In 2019, the Company presented other non-income taxes of HUF 1,114 million in Other income and other expenses (net).

Depreciation charge of right-of-use assets:

	2019 HUFm
Buildings	(611)
Machinery	(63)
Vehicles	(88)
Total	**(762)**

The separate income statement includes HUF 45 million expenses from short-term, low-value and variable lease payments.

6. Employee information

	2019	2018
Average number of people employed during the year	6,364	7,144

The decrease is due to the fact that some of the foreign representative offices of the Company have been transferred into independent legal entities within the Group.

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 Management of the Company is analysing these translation differences on net basis, balances are presented on net basis as follows:

	2019 HUFm	2018 HUFm
Unrealised financial items	**(25,511)**	**(26,838)**
Exchange (loss) on trade receivables and trade payables	522	(2,623)
Loss/(gain) on foreign currency loans receivable	3,881	812
Year-end foreign exchange difference of borrowings	-	(213)
Exchange loss/(gain) on other currency related items	(1,471)	8
Result of unrealised forward exchange contracts	-	(26)
Impairment loss on investments (Note 13)	(29,330)	(25,306)
Unwinding of interest on interest-free loans	1,135	510
Interest expenses related to IFRS 16 standard	(183)	-
Exchange difference related to IFRS 16 standard	(65)	-
Realised financial items	**22,581**	**17,694**
Exchange gain/(loss) realised on trade receivables and trade payables	8,947	(47)
Foreign exchange difference on conversion of cash	1,420	1,370
Dividend income	8,964	15,411
Interest income	3,376	3,188
Interest expense	(24)	(32)
Other financial items	(102)	(2,196)
Total	**(2,930)**	**(9,144)**

The net finance loss was HUF 2,930 million and HUF 9,144 million in 2019 and 2018, respectively.

The impairment tests of Esmya for the 2019 financial statements had to be conducted in consideration of decisions by the regulatory authorities and market effects. As a result, the Company recorded an impairment of HUF 29,368 million in 2019 and HUF 21,959 million in 2018 on the investment in PregLem related to Esmya. In 2018, an impairment of HUF 2,257 million was recognised on the investment in GR Mexico SAPI from which HUF 296 million was reversed in 2019. In 2019, Richter reported impairment of additional HUF 250 million in respect of GR Columbia S.A.S. after recording HUF 575 million in the reference year. Impairment regarding GR Brasil SA. amounted to HUF 502 million in 2018.

The 2019 unrealized financial items were largely affected by the 4.74 RUB/HUF exchange rate and 294.74 USD/HUF related translation on 31 December 2019 (31 December 2018 RUB/HUF 4.05 and USD/HUF 280.94). The cumulative effect of translation was a HUF 2,932 million slip in the 2018 net financial loss as opposed to HUF 2,016 million increase in 2019, a total of HUF 4,948 million from one year to the next. See the results of the foreign sensitivity tests in Note 10.

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

Realized foreign exchange gain from trade receivables, payables and other items were HUF 8,947 million as opposed to HUF 47 million loss in the preceding year. The aggregate gain contributed HUF 8,994 million to a year-on-year increase in earnings.

Dividend income contributed HUF 8,964 million to the 2019 financial income, HUF 6,447 million lower than HUF 15,411 million realized in 2018.

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.

	2019 HUFm	**2018** HUFm
Corporate income tax	(90)	(22)
Local business tax	(3,998)	(3,464)
Innovation contribution	(603)	(524)
Current tax	**(4,691)**	**(4,010)**
Deferred tax (Note 16)	(1,934)	(1,824)
Income tax*	**(6,625)**	**(5,834)**

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

In 2019, the average effective tax rate calculated on the basis of the current tax is 8.2 % and 11.6 % taking into account the effect of deferred tax as well (In 2018: 10.7% and 15.6%). The corporate income tax rate effective in 2019 and in 2018 is 9%.

The tax authority performed full scale tax audit in 2018 covering the financial periods of 2015-2016. The conclusion was received on 11 February 2019, which did 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

	2019 HUFm	2018 HUFm
Profit before income tax	**57,025**	**37,413**
Tax calculated based on statutory corporate income tax rate*	5,132	3,367
Tax effects of		
Dividend income not subject to taxation	(807)	(1,455)
Royalty tax incentive	(2,262)	(1,267)
R&D tax incentives**	(3,097)	(2,839)
Expense not deductible for tax purposes	93	132
Local business tax and innovational contribution	4,188	3,629
Deferred tax asset that is not expected to be realised	3,253	4,049
Reversal of temporary differences that are subject to exception from deferred tax	197	146
Other, individually insignificant items	(72)	72
Tax charge	**6,625**	**5,834**

* In 2019 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 took 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 2019, the Company did not have corporate income tax liability, therefore it did not utilize any development tax benefit.
The remaining tax relief in connection with the Debrecen project is available for subsequent year's with an amount of HUF 2,049 million at current value. Therefore, Richter is able to take advantage of the tax relief up to 2021, at the latest.

Accounting treatment of the tax credit

The Company assessed this tax credit to be an investment tax credit and applied the initial recognition exception stated in IAS 12.24 and did not recognise any deferred tax in connection with tax credit.

9. Consolidated earnings per share

Basic earnings per share is calculated by reference to the net profit attributable to shareholders of the Parent Company and the weighted average number of ordinary shares outstanding during the year. These exclude the average number of ordinary shares purchased by the Company and held as Treasury shares.

For diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to assume conversion of all dilutive potential ordinary shares. As of 31 December 2018 and 31 December 2019 there are no potential dilutive instruments issued by the Company.

EPS (basic and diluted)	**2019**	**2018**
Net consolidated profit attributable to owners of the parent (HUFm)	47,135	35,348
Weighted average number of ordinary shares outstanding (thousands)	186,011	186,314
Earnings per share (HUF)	**253**	**190**

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 December 2018 HUFm	Fair value 31 December 2018 HUFm
Financial assets[1]			
Measured at amortised cost			
Investments in debt securities[2]	22	4,728	4,728
Loans	21	13,646	13,646
Trade receivables	20	122,979	122,979
Other current receivable	21	6,985	6,985
Cash and cash equivalent	23	80,696	80,696
Current		**229,034**	**229,034**
Measured at amortised cost			
Loans	17	57,516	57,516
Measured at fair value through OCI			
Investments	15	9,571	9,571
Measured at fair value through profit or loss			
Convertible loan	17	455	455
Non-current		**67,542**	**67,542**
Financial liabilities			
Liabilities carried at amortised cost			
Borrowings	29	(21,789)	(21,789)
Trade payables	26	(36,825)	(36,825)
Other payables and accrual	27	(19,566)	(19,566)
Current		**(78,180)**	**(78,180)**

[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

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 31 December 2019 HUFm	Fair value 31 December 2019 HUFm
Financial assets[1]			
Measured at amortised cost			
Loans	21	9,210	9,210
Trade receivables	20	138,082	138,082
Other current receivable	21	7,609	7,609
Cash and cash equivalent	23	102,842	102,842
Measured at fair value through profit or loss			
Other securities[2]	22	1,545	1,545
Current		**259,288**	**259,288**
Measured at amortised cost			
Loans	17	46,339	46,339
Measured at fair value through OCI			
Investments	15	13,760	13,760
Measured at fair value through profit or loss			
Other financial asset	15	5,427	5,427
Non-current		**65,526**	**65,526**
Financial liabilities			
Liabilities carried at amortised cost			
Borrowings	29	(1,517)	(1,517)
Trade payables	26	(45,495)	(45,495)
Other payables and accrual	27	(18,275)	(18,275)
out of which: Lease liabilities		*(746)*	*(746)*
Current		**(65,287)**	**(65,287)**
Liabilities carried at amortised cost			
Other non-current liabilities	30	(4,645)	(4,645)
out of which: Lease liabilities		*(3,663)*	*(3,663)*
Non-current		**(4,645)**	**(4,645)**

[1] All financial assets are free from liens and charges.
[2] Under „Other securities" a convertible promissory note to associates is shown.

Financial risk management

During the year Gedeon Richter Plc. has identified its relevant financial risks that are continuously monitored and evaluated by 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 29, the amount of total borrowings of the Company is not significant, therefore the interest rate risk is negligible.

Security price risk
Convertible promissory note denominated in foreign currency is presented as Investment in securities. The value of this financial instrument is influenced by the FX change. 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, and other reserves).

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, and also taking into account the Company's net cash flow and the financing needs of the ongoing acquisition projects.
The amount of 2019 dividend per ordinary share is HUF 63 as proposed by the Board of Directors.

The capital risk of the Company was still limited in both 2019 and 2018, 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 2019 HUFm	**31 December 2018** HUFm
Borrowings (Note 29)*	1,517	21,789
Less: cash and cash equivalents (Note 23)	(102,842)	(80,696)
Net debt	**(101,325)**	**(58,907)**
Total equity	717,059	682,269
Total capital	**615,734**	**623,362**
EBITDA	94,727	87,364
Net debt to EBITDA ratio	**(1.07)**	**(0.67)**
Net debt to equity ratio	**(0.14)**	**(0.09)**

* Without leases

The Company defines EBITDA as operating profit increased by depreciation and amortization expense. From 1 January 2019 the Company applies the IFRS 16 Leases standard. As a result of the new standard, certain rental expenses are capitalised and the expense is charged as depreciation and interest expense. Such depreciation related to the right-of-use assets is not added back when determining the EBITDA.

	2019 HUFm	**2018** HUFm
Profit from operations	59,955	46,557
Depreciation	25,808	25,396
Dividend income	8,964	15,411
EBITDA	**94,727**	**87,364**

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 2019 HUFm	**31 December 2018** HUFm
Equity under IFRS	717,059	682,269
Supplementary payment	(377)	(330)
Adjusted equity	**716,682**	**681,939**
Subscribed capital	18,638	18,638
Capital reserve	14,814	18,406
Revaluation reserve	9,507	4,810
Retained earnings	623,323	608,506
Post-tax profit or loss	50,400	31,579
Total equity	**716,682**	**681,939**
Thereof:		
Registered capital	**18,638**	**18,638**
retained earnings reserve available for dividend payment per local regulation	**673,723**	**640,085**

II) Foreign currency risk

The Company performs significant transactions in currencies other than the functional and the presentation currency, therefore it 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 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 those balances which are exposed to exchanges of foreign currencies. Management assumes changes in exchange rates and analysis the risk of these changes on the profit.

Recently, Management has experienced higher sensitivity in case of certain currencies (rubels, Swiss francs, Kazakh tenges, US dollars), therefore these currencies have been diverted more when determining the exchange rate combinations.

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:

2019		**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	
103.07	**335.36**											
		305.15	**1.10**	**77.95**	**70.84**	**4.94**	**305.96**	**0.84**	**43.36**	**10,407**	**10,711**	**largest growth**
		290.62	1.15	75.63	68.73	4.49	291.39	0.76	42.07	606	763	
		276.09	1.21	73.31	66.62	4.04	276.82	0.68	40.78	(9,196)	(9,185)	
100.00	325.36											
		305.15	1.07	77.95	70.84	4.94	305.96	0.84	43.36	9,801	9,948	
		290.62	1.12	75.63	68.73	4.49	291.39	0.76	42.07	0	0	
		276.09	1.18	73.31	66.62	4.04	276.82	0.68	40.78	(9,801)	(9,948)	
96.93	**315.36**											
		305.15	1.03	77.95	70.84	4.94	305.96	0.84	43.36	9,196	9,185	
		290.62	1.09	75.63	68.73	4.49	291.39	0.76	42.07	(606)	(763)	
		276.09	**1.14**	**73.31**	**66.62**	**4.04**	**276.82**	**0.68**	**40.78**	**(10,407)**	**(10,711)**	**greatest decrease**

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

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 (%).

Based on the annual average currency rate sensitivity analysis of 2019, the combination of weak Hungarian Forint – (335.4 EUR/HUF 305.2 USD/HUF, 78.0 PLN/HUF, 70.8 RON/HUF, 4.9 RUB/HUF, 306.0 CHF/HUF, 0.8 KZT/HUF and 43.4 CNY/HUF) against other currencies - would have caused the largest growth in the amount of HUF 10,407 million on the Company's operating profit and HUF 10,711 million on the Company's profit before income tax for the year.
The greatest decrease of HUF 10,407 million on operating and HUF 10,711 million on profit before income tax for the year was caused by the combination of exchange rates of 315.4 EUR/HUF, 276.1 USD/HUF, 73.3 PLN/HUF, 66.6 RON/HUF, 4.0 RUB/HUF, 276.8 CHF/HUF, 0.7 KZT/HUF and 40.8 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, lease liabilities and 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. Recently, Management has experienced higher sansitivity in case of certain currencies, therefore these currencies have been diverted more when determining the exchange rate combinations (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:

2019		**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	
103.07%	**340.67**										
		309.48	**1.10**	**319.61**	**5.21**	**71.20**	**79.97**	**0.85**	**46.57**	**11,384**	**best case scenario**
		294.74	1.16	304.39	4.74	69.08	77.59	0.77	42.34	1,264	
		280.00	1.22	289.17	4.27	66.96	75.21	0.70	38.11	(8,839)	
100.00%	330.52										
		309.48	1.07	319.61	5.21	71.20	79.97	0.85	46.57	10,120	
		294.74	1.12	304.39	4.74	69.08	77.59	0.77	42.34	0	
		280.00	1.18	289.17	4.27	66.96	75.21	0.70	38.11	(10,103)	
96.93%	**320.37**										
		309.48	1.04	319.61	5.21	71.20	79.97	0.85	46.57	8,855	
		294.74	1.09	304.39	4.74	69.08	77.59	0.77	42.34	(1,264)	
		280.00	**1.14**	**289.17**	**4.27**	**66.96**	**75.21**	**0.70**	**38.11**	**(11,368)**	**worst case scenario**

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

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										
		295.00	**1.12**	**299.40**	**4.50**	**71.20**	**77.20**	**0.80**	**45.00**	**11,579**	**best case scenario**
		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 (%).

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 10,970 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 11,494 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:

2019	**Currencies**							
								(all amounts in millions)
	EUR	USD	CHF	RUB	RON	PLN	KZT	CNY
Trade receivables	106.5	109.5	0.9	9,330.8	45.1	54.7	4,262.5	144.0
Trade payables	(63.3)	(6.1)	(1.7)	(404.4)	(3.1)	(31.2)	(220.1)	(40.9)
Loans receivable	30.8	32.3	9.2	4,440.3	-	15.0	-	-
Securities	-	26.3	-	-	-	-	-	-
Bank deposits	52.0	34.0	0.8	27.2	0.2	3.6	519.5	47.1
Other liabilities	(1.5)	(17.4)	-	(257.9)	-	-	-	-
Total	**124.5**	**178.6**	**9.2**	**13,136.0**	**42.2**	**42.1**	**4,561.9**	**150.2**

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**

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 on a regular basis 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. In 2019, there is only one customer (Allergan) where the turnover exceeds 10% of net sales. The revenue is mainly the royalty and milestone payments related to Vraylar.

The following securities are applied to minimize the credit risk.

Regions	**Trade receivables secured as at 31 December 2019**	**Type of security**		
		Credit insurance	**Bank guarantee**	**L/C**
	HUFm	HUFm	HUFm	HUFm
CIS	13,873	13,433	440	-
EU	420	-	420	-
USA	-	-	-	-
China	-	-	-	-
Latin America	171	171	-	-
Other	698	351	149	198
Total	**15,162**	**13,955**	**1,009**	**198**

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**

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 most significant banks as of 31 December 2019 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 December 2019	31 December 2018
Banca Commerciala Romana SA*	BBB+	BBB+
Bank of China Zrt. Hungary (ultimate parent – Bank of China Ltd)	A	A
BNP Paribas Hungary Branch (ultimate parent – BNP Paribas SA)	A+	A
CIB Bank Zrt.	BBB-	BBB-
ERSTE Bank Hungary Zrt. *	BBB+	BBB
K&H Bank Zrt.*	BBB+	BBB
KDB Bank Európa Zrt. (ultimate parent - Korea Development Bank)	AA	AA-
OTP Bank Nyrt.	BBB-	BBB-
Raiffeisen Bank Zrt. (ultimate parent – Raiffeisen Bank Intl AG) **	BAA2	-
UniCredit Bank Zrt (ultimate parent - UniCredit SpA)	BBB	BBB

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

The Company holds more than 99% of its cash and cash equivalents as of 31 December 2019 in the financial institutions presented above. As of 31 December 2018 the Company holds 98% of its cash and cash equivalents at these financial institutions. The other bank relations of the Company are widely dispersed, therefore the credit exposure with one financial institution is limited.
The Company has no significant concentration of credit risk, with its exposure spread over a large number of counterparties and customers.

IV) Liquidity risk

Cash flow forecasting is performed and updated on a monthly basis based on actual data. Company finance monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. Such forecasting takes into consideration the Company's debt financing plans and 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 2019, 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 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 December 2019 HUFm	31 December 2018 HUFm
Bank guarantee for National Tax and Customs Administration of Hungary – collaterals for customs and excise duty related liabilities	196	197
Other, individually not significant bank guarantees	69	39

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 the fair value hierarchy to categorize financial instruments. If a fair value measurement uses unobservable inputs that require significant judgement, than 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 December 2019				31 December 2018			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets									
Other financial assets	15	13,760	-	5,427	**19,187**	9,571	-	-	**9,571**
Investments in securities	22	-	-	1,545	**1,545**	-	-	-	**-**
Foreign exchange forward contracts	21	-	-	-	**-**	-	-	-	**-**
Convertible loan	17	-	-	-	**-**	-	-	455	**455**
"Exchangeable bonds" option	15	-	-	-	**-**	-	-	-	**-**
Total assets recurring fair value measurements		**13,760**	**-**	**6,972**	**20,732**	**9,571**	**-**	**455**	**10,026**

There was no financial liability measured at fair value in 2019.

There is no financial liability measured at fair value in 2018 and in 2019.

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 2019 and 2018.

The valuation technique, inputs used in the fair value measurement for the most significant Level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2019 and 2018 (Note 3.1):

	Fair value at 31 December 2019 HUFm	Valuation technique	Unobservable inputs	Range of inputs (weighted average)	Sensitivity of fair value measurement
Assets at fair value					
Convertible bond option Prima Temp	1,545	Option valuation model	• Price of the stock	37.5 USD/share	The change of the stock price multiples the fair value
			• Strike price of the option	0.96 USD/share	The higher the strike price the lower the fair value
			• Time in years	0.25 year	The longer the time in years the higher the fair value
			• The annualized risk free rate	1.54 %	The higher the annualized risk free rate the higher the fair value
			• Standard deviation of the stock's returns (volatility)	11.92 %	The higher the standard deviation the higher the fair value
Financial Instrument Mycovia	5,427	Discounted cash-flows (DCF)	• Estimated future profits		The lower estimated future profits, the lower the fair value.
			• Foreign exchange rate	294.74 HUF/USD	The higher the FX rate the higher the fair value
			• Discount rate	12.08%	The higher the discount rate the lower the fair value
Total recurring fair value measurements at Level 3	**6,972**				

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.

(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

	31 December 2019	31 December 2018
	HUFm	HUFm
Property, plant and equipment without right-of-use assets	181,482	169,453
Right-of-use assets	4,304	-
Total Property, plant and equipment	**185,786**	**169,453**

12.1.1 Property, plant and equipment without right-of-use assets

	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**

	Land and buildings HUFm	Plant and equipment HUFm	Construction in progress HUFm	Total HUFm
Gross value				
at 31 December 2018	**137,330**	**244,506**	**20,141**	**401,977**
Capitalization	8,817	19,640	(28,457)	**-**
Transfers and capital expenditure	-	-	31,530	**31,530**
Other Increase/(Disposals)	(435)	(5,833)	(440)	**(6,708)**
at 31 December 2019	**145,712**	**258,313**	**22,774**	**426,799**
Accumulated depreciation				
at 31 December 2018	**(41,955)**	**(190,569)**	**-**	**(232,524)**
Current year depreciation	(4,179)	(13,714)	-	**(17,893)**
Other (Increase)/Disposals	147	4,953	-	**5,100**
at 31 December 2019	**(45,987)**	**(199,330)**	**-**	**(245,317)**
Net book value				
at 31 December 2018	**95,375**	**53,937**	**20,141**	**169,453**
at 31 December 2019	**99,725**	**58,983**	**22,774**	**181,482**

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.

12.1.2 Right-of-use assets

The balance sheet shows the following amounts relating to leases:

Right-of-use assets	**31 December 2019** HUFm	**1 January 2019** HUFm
Buildings	3,571	3,444
Machinery	569	616
Vehicles	164	215
	4,304	**4,275**

The gross value of the right-of-use-assets increased by HUF 791 million which was offset by the depreciation in the current year (HUF 762 million, see Note 5). It generated a net increase of HUF 29 million in the value of right-of-use-assets in 2019, which comprises of new transactions, revaluations and modifications.

12.2 Intangible assets

	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**

	Rights	Intellectual property	Research and development	Total
	HUFm	HUFm	HUFm	HUFm
Gross value				
at 31 December 2018	**164,733**	**2,916**	**804**	**168,453**
Capitalization	18,507	-	-	**18,507**
Scrapping	(730)	-	-	**(730)**
Other (Increase)/Disposals	(510)	-	-	**(510)**
at 31 December 2019	**182,000**	**2,916**	**804**	**185,720**
Accumulated depreciation				
at 31 December 2018	**(85,131)**	**(1,547)**	**(804)**	**(87,482)**
Current year depreciation	(7,791)	(124)	-	**(7,915)**
Impairment and reversal of impairment	(9,014)	-	-	**(9,014)**
Scrapping	24	-	-	**24**
Other (Increase)/Disposals	158	-	-	**158**
at 31 December 2019	**(101,754)**	**(1,671)**	**(804)**	**(104,229)**
Net book value				
at 31 December 2018	**79,602**	**1,369**	**-**	**80,971**
at 31 December 2019	**80,246**	**1,245**	**-**	**81,491**

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 2019** HUFm	**31 December 2018** HUFm
Esmya	0	969
Esmya LatAm	0	410
Esmya North America	911	6,781
Grünenthal	25,989	30,378
Levosert	2,633	3,310
Bemfola/Afolia	6,242	6,447
Mithra/Estelle	11,365	11,365
Trastuzumab	0	2,096
Mifepristone	3,502	1,238
Terrosa	2,999	1,849
Mycovia	6,025	-
Other, individually non-material rights	21,825	16,128
Total	**81,491**	**80,971**

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 the previous 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.

In 2019, the application for drug registration was withdrawn, hence the Company determined that 100% impairment is necessary to be accounted for regarding the US territory of the Esmya North America intangible asset. The amount recognised as impairment expense in 2019 amounts to HUF 5,928 million. After accounting for the impairment, the net book value of the asset is HUF 911 million as of 31 December 2019.
The discount rates (post tax: 8.5% in 2018: 10.5%) 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
During 2019, there were no significant changes in circumstances which would have resulted in any reversal of previously recognised impairment.

Rights – Esmya other countries' intangible assets
Taken into account the impairment accounted for PregLem investment, Esmya North-America intangible asset and Esmya LatAm intangible assets (Brazil, Mexico) the Company concluded that 100% impairment is necessary to be recognised regarding the remaining Esmya related intangible assets, which were determined as individually not significant assets in previous financial statements. The impairment expense recognised is HUF 1,275 million.

Rights – Grünenthal
The product rights acquired from Grünenthal in 2010 containing manufacturing rights (amounted to EUR 600 thousand) and market authorization (amounted to EUR 235.9 million) together with the value of the established products brand are presented as Rights. The estimated useful life for both rights is 15 years. The amortization period started in 2010. Net book value of the rights in relation to Grünenthal is HUF 25,989 million as of 31 December 2019 and HUF 30,378 million as of 31 December 2018.

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 2,633 million as of 31 December 2019 and HUF 3,310 million as of 31 December 2018.

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 had 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. As of 31 December 2019, we performed impairment test for intangible assets based on qualitative indicators and concluded that there was no need to recognize any impairment loss.

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 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. 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. As of 31 December 2019, we performed impairment test for intangible assets based on qualitative indicators and concluded that there was no need to recognize any impairment loss.

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.

Executive Board decided to discontinue the trastuzumab development project resulting in HUF 2,096 million in impairment.

The average remaining useful life of the intellectual properties in use does not exceed 11.6 years (12.5 years in 2018).

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. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018	
1	AO Gedeon Richter - RUS	Russia	100.00	100.00	100.00	100.00	Pharmaceutical manufacturing
2	Gedeon Richter Romania S.A.	Romania	99.92	99.92	99.92	99.92	Pharmaceutical manufacturing
3	Gedeon Richter Polska Sp. z o.o.	Poland	99.84	99.84	99.84	99.84	Pharmaceutical manufacturing
4	Richter Themis Pvt. Ltd.	India	51.00	51.00	51.00	51.00	Pharmaceutical manufacturing
5	Gedeon Richter Pharma GmbH	Germany	100.00	100.00	100.00	100.00	Pharmaceutical trading
6	Gedeon Richter USA Inc.	USA	100.00	100.00	100.00	100.00	Pharmaceutical trading
7	RG Befektetéskezelő Kft.	Hungary	100.00	100.00	100.00	100.00	Financial-accounting and controlling activities
8	Gedeon Richter UA PAT	Ukraine	98.16	98.16	98.16	98.16	Pharmaceutical trading
9	Gedeon Richter UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
10	Gedeon Richter Iberica S.A.U	Spain	100.00	100.00	100.00	100.00	Pharmaceutical trading
11	Nedermed B.V. (1)	The Netherlands	100.00	100.00	100.00	100.00	Pharmaceutical trading
12	Medimpex Jamaica Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
13	Medimpex West Indies Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
14	Humanco Kft.	Hungary	100.00	100.00	100.00	100.00	Social, welfare services
15	Pesti Sas Holding Kft.	Hungary	100.00	100.00	100.00	100.00	Portfolio management
16	Richter Szolgáltató Kft.	Hungary	100.00	100.00	100.00	100.00	Catering services
17	Reflex Kft.	Hungary	100.00	100.00	100.00	100.00	Transportation, carriage
18	Chemitechnik Pharma Kft.	Hungary	66.67	66.67	66.67	66.67	Engineering services
19	GYEL Kft.	Hungary	66.00	66.00	66.00	66.00	Quality control services
20	Armedica Trading S.R.L.	Romania	99.92	99.92	99.92	99.92	Asset management
21	Gedeon Richter Farmacia S.A.	Romania	99.92	99.92	99.92	99.92	Pharmaceutical retail
22	Gedeon Richter France S.A.S.	France	100.00	100.00	100.00	100.00	Pharmaceutical retail
23	I.M. Gedeon Richter-Retea Farmaceutica S.R.L.	Moldavia	51.00	51.00	51.00	51.00	Pharmaceutical retail
24	Richter-Helm BioLogics GmbH & Co. KG	Germany	70.00	70.00	70.00	70.00	Biotechnological manufacturing and research
25	Richter-Helm BioLogics Management GmbH	Germany	70.00	70.00	70.00	70.00	Asset management
26	Medimpex UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
27	Farnham Laboratories Ltd.(2)	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
28	Gedeon Richter Aptyeka SP OOO	Armenia	51.00	51.00	51.00	51.00	Pharmaceutical retail
29	Pharmafarm S.A.	Romania	99.92	99.92	99.92	99.92	Pharmaceutical wholesale
30	Gedeon Richter Ukrfarm TOV	Ukraine	100.00	100.00	100.00	100.00	Pharmaceutical retail
31	Gedeon Richter Italia S.R.L.	Italy	100.00	100.00	100.00	100.00	Pharmaceutical retail
32	PregLem S.A.	Switzerland	100.00	100.00	100.00	100.00	Manufacturing and research

	Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
			31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018	
33	Gedeon Richter Marketing ČR s.r.o.	Czech Republic	100.00	100.00	100.00	100.00	Marketing services
34	Gedeon Richter Slovakia s.r.o.	Slovak Republic	100.00	100.00	100.00	100.00	Marketing services
35	Richter-Lambron SP OOO	Armenia	51.00	51.00	51.00	51.00	Pharmaceutical trading
36	Gedeon Richter Austria GmbH	Austria	100.00	100.00	100.00	100.00	Marketing services
37	Gedeon Richter (Schweiz) AG	Switzerland	100.00	100.00	100.00	100.00	Marketing services
38	Pharmarichter OOO	Russia	100.00	100.00	100.00	100.00	Pharmaceutical sales promotion
39	I.M. Richpangalpharma S.R.L.	Moldavia	65.00	65.00	65.00	65.00	Pharmaceutical trading
40	Gedeon Richter Portugal, Unipessoal S.A.	Portugal	100.00	100.00	100.00	100.00	Marketing services
41	PregLem France S.A.S.	France	100.00	100.00	100.00	100.00	Marketing services
42	Gedeon Richter Slovenija, d.o.o.	Slovenia	100.00	100.00	100.00	100.00	Marketing services
43	Gedeon Richter Benelux SPRL	Belgium	100.00	100.00	100.00	100.00	Marketing services
44	Gedeon Richter Nordics AB	Sweden	100.00	100.00	100.00	100.00	Marketing services
45	TOO Gedeon Richter KZ	Kazakhstan	100.00	100.00	100.00	100.00	Marketing services
46	Grmed Company Ltd.(3)	Hong-Kong	100.00	100.00	100.00	100.00	Asset management
47	Rxmidas Pharmaceuticals Company Ltd.(3)	China	100.00	100.00	100.00	100.00	Marketing services
48	Gedeon Richter Pharmaceuticals (China) Co. Ltd.	China	100.00	100.00	100.00	100.00	Marketing services
49	Gedeon Richter Colombia S.A.S.	Columbia	100.00	100.00	100.00	100.00	Pharmaceutical trading
50	Gedeon Richter Croatia d.o.o.	Croatia	100.00	100.00	100.00	100.00	Marketing services
51	Gedeon Richter Mexico, S.A.P.I. de C.V	Mexico	100.00	100.00	99.99	99.99	Pharmaceutical trading
52	Gedeon Richter do Brasil Importadora, Exportadora e Distribuidora S.A.)	Brazil	100.00	100.00	100.00	100.00	Pharmaceutical trading
53	Comercial Gedeon Richter Chile SpA.	Chile	100.00	100.00	100.00	100.00	Pharmaceutical trading
54	Mediplus (Economic Zone) N.V.	Curaçao	100.00	100.00	100.00	100.00	Pharmaceutical trading
55	Gedeon Richter Peru S.A.C.	Peru	100.00	100.00	100.00	100.00	Pharmaceutical trading
56	GEDEONRICHTER Ecuador S.A.	Ecuador	100.00	100.00	100.00	100.00	Pharmaceutical trading
57	Gedeon Richter Bolivia SRL	Bolivia	100.00	100.00	100.00	100.00	Pharmaceutical trading
58	Gedeon Richter Rxmidas Joint Venture Co. Ltd.(3)	Hong-Kong	100.00	100.00	100.00	100.00	Marketing services
59	Gedeon Richter Australia PTY Ltd.	Australia	100.00	100.00	100.00	100.00	Trading of biotech products
60	Finox AG	Switzerland	100.00	100.00	100.00	100.00	Biotechnological manufacturing
61	Finox Biotech AG	Lichtenstein	100.00	100.00	100.00	100.00	Trading of biotech products

	Name	Place of incor-poration (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
			31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018	
62	Finox Biotech Germany GmbH	Germany	100.00	100.00	100.00	100.00	Marketing services
63	Finox Biotech Nordics AB.(4)	Sweden	-	100.00	-	100.00	Marketing services
64	Finox Biotech UK and Ireland Ltd.	UK	100.00	100.00	100.00	100.00	Marketing services
65	Finox Biotech Benelux BV(4)	Belgium	-	100.00	-	100.00	Marketing services
66	Gedeon Richter Ireland Ltd.	Ireland	100.00	100.00	100.00	100.00	Marketing services
67	Gedeon Richter Bulgaria Ltd.	Bulgaria	100.00	100.00	100.00	100.00	Marketing services
68	Gedeon Richter Pharma O.O.O.	Russia	100.00	100.00	100.00	100.00	Marketing services
69	Pharmapolis Gyógyszeripari Tud. Park Kft.	Hungary	100.00	100.00	100.00	100.00	Building construction project organization, rental

(1) The company was liquidated in January 2020.
(2) The company's principal activity has been suspended.
(3) The principal activity is carried forward by GRMed Company Ltd. after Rxmidas Pharmaceuticals Company Ltd. and Gedeon Richter Rxmidas Joint Venture Co. Ltd. finished their activity.
(4) Finox's marketing companies, along with their activities, have merged with their parent companies in their country.

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

Name	31 Dec. 2019	Event for the change in 2019		1 Jan. 2019
	HUFm	HUFm	Reason	HUFm
AO Gedeon Richter – RUS	17,672	6,718	Increase in capital	10,954
Gedeon Richter Pharma O.O.O.	1,184			1,184
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)	Impairment	29,368
Grmed Company Ltd.	28,207			28,207
Gedeon Richter Mexico, S.A.P.I. de C.V	1,700	296	Reversal of impairment	1,404
Finox Holding AG	28,014			28,014
Gedeon Richter Australia PTY Ltd	4,840			4,840
Other subsidiaries	7,931	(184)	Impairment and other non significant changes	8,115
Total	**122,179**	**(22,538)**		**144,717**

Name	31 Dec. 2018	Event for the change in 2018		1 Jan. 2018
	HUFm	HUFm	Reason	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**

At every year end, the Company assesses if there are any impairment indicators in place in relation to the investment in subsidiaries, joint ventures and associates, and whether impairment is required to be recognised in accordance with IAS 36. If the carrying value of an investment exceeds the proportionate value of the equity of the investment, the Company considers this as an impairment indicator. Impairment is recognised when the carrying value of the investment exceeds its 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. The reversal of an impairment loss shall not exceed the carrying amount that would have been determined if no impairment loss had 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) 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 2019 balance sheet date by taking into consideration the potential impact of EC's restrictive measures, PRAC's recommendations published in March, 2020 and the withdrawal of US drug application on Esmya (see Note 3.1 Key sources of estimation uncertainty).
The events mentioned above significantly impaired the sales potentials of Esmya in the European Union, in U.S. territory and, according to the Company's estimates, it reduces the potential market size. Therefore as of 31 December 2019 the Company determined that 100% impairment is need to be accounted for in relation with the Company's investment in PregLem S.A. The total impairment expense accounted is HUF 29,368 million and the carrying value of the PregLem S.A investment is HUF 0.

Key assumptions of impairment test as of 31 December 2018

EU forecasts as of 31 December 2018
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 as of 31 December 2018
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 as of 31 December 2018
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%; NA-based cash flows 10.5%) 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 30 June 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 by using Multi-Period Excess Earnings Method based on fair value less cost of disposal, since this intangible has a significant value, but not recognized in 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 had 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 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 is expected to be compensated by new launches (in connection with further

geographical expansion) on the other hand, however the effects of new launches are not taken into account in the impairment model.

As a consequence, cash flows show upward trend from 2020 to 2023 in connection with the increase in sales (CAGR 6.1%) after 2023 the growth is expected to be slower (2% until 2028) and after the peak is achieved a slow downturn of sales are taken into account (CAGR: -2.5% until 2041).

The recoverable amount substantially (more than one and a half times) higher than the investment's book value.
The discount rate (post tax: 6.5%, in 2018 9.2%) 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 the reorganisation, the reporting structure has changed as well, therefore the recoverable amount of the two investments is assessed together.

The investment in subsidiary was tested for impairment as of the balance sheet date of 31 December 2019 and 2018 and it was found that there is no need to account for impairment in 2019 similar to the previous years. Taking into consideration the reorganization of the business (in 2017) and the reporting structure, the book value of Richter's investment as of 31 December 2019 (after the prior 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 approved by 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.

In the first 3 years of the projection period (2020-2029) cash flows are expected to decline. From 2023, continuous growth is anticipated in connection with new product launches. As for the whole forecasted period, the compound average growth rate is 14%.

In the impairment test, the net assets of the Chinese 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 sum of the present value of 2020-2029 cash flows (representing 45% of the total recoverable amount) and the conservatively estimated residual value (reckoning with 0% growth) is 52% higher than the tested amount.

The discount rate (post tax: 12.2% in 2018 and 13.7% 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 16.4% or 11.3% 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 2019 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 approved by Management (2020-2029), 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.

In the past 1-1,5 years, the Company took some actions in order to achieve greater efficiency and cost reduction, which resulted in more positive expectations regarding the long-term profitability of the Mexican business. Cash flows are

expected to increase considerably until 2023 and to remain stable in the next couple of years. Moderate decline is expected to start in 2026 in accordance with the projections. The present value of the 2020-2029 cash flows represents the 46,3% of total cash flows.

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

The recoverable amount determined on the basis of the above assumptions exceeded the carrying value by 17,6% which enabled the Company to reverse HUF 350 million impairment loss that was accounted for in the previous years.

The discount rate (post tax: 8.6%; in 2018: 8.4%) 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.

Gedeon Richter Australia Pty Ltd.

Gedeon Richter Australia Pty Ltd. was acquired in 2018 under a share purchase agreement concluded between the Company and Finox AG. The investment in subsidiary was tested for impairment as of the balance sheet date of 31 December 2019 for the first time.

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 approved by Management (2020-2030), 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.

A multi-digit level increase in the yearly cash flows is envisioned till 2026 when it turns to single-digit and slows down continuously over the remaining period. The compound average growth rate (CAGR) of sales revenue from third parties regarding the whole projection period (2020-2030) is around 9%. The present value of the 2020-2030 cash flows represents the 31% of total cash flows. Residual value was calculated without further growth in sales.

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

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

The recoverable amount determined based on the assumptions above exceeded the carrying value considerably, by 119%.

The discount rate (post tax: 6.4%) 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 11.4% or 14.6% decrease in forecasted sales volumes would remove the remaining headroom.

Medimpex UK

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

Acquisition of subsidiaries in 2019

The Company did not perform acquisitions in 2019.

Acquisition of subsidiaries in 2018

On 31 October 2018 **Gedeon Richter Pharma O.O.O.** was established, it took 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.

In August 2018, 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%.

14. Investments in associates and joint ventures

14.1 Investments in joint ventures

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

Name	Place of establishment/ acquisition	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018	
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 2018 and it was not changed in 2019.

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 was loss making and had negative equity balance until 2019.
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 first result of the development of biosimilar products was the launch of the teriparatide product in Europe in 2019. The launch in the further country is in progress. The company is expected to be profitable which provides profit for the losses accumulated in previous years. Recognition of impairment loss is not necessary (recognition of impairment loss is not necessary related to the capital contribution handled as loan either).

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. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018	
Hungaropharma Zrt.	Hungary	30.85	30.85	30.85	30.85	Pharmaceutical trading
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	35.18	14.04	35.18	14.04	Biotechnological manufacturing
Prima Temp Inc.	USA	27.73	22.99	27.73	22.99	Pharmaceutical research and development

Name	31 Dec. 2019 HUFm	HUFm	Event for the change in 2019 Reason	1 Jan. 2019 HUFm
Hungaropharma Zrt.	1,191	-		1,191
Evestra Inc.	6,460	4,840	Share purchase	1,620
Prima Temp Inc.	1,376	-		1,376
Other associates	1	-		1
Total	**9,028**	**4,840**		**4,188**

Name	31 Dec. 2018 HUFm	HUFm	Event for the change in 2018 Reason	1 Jan. 2018 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**

In 2019, the Company acquired further ownership in **Evestra Inc.** associate. On the one hand the convertible loan was transferred to ownership ratio, on the other hand the Company purchased more shares. As a result of these transactions the ownership ratio of the Company amounts to 35.45% as of 31 December 2019.

15. Other financial assets and Other long-term receivable

15.1 Other financial assets

	31 December 2019 HUFm	31 December 2018 HUFm
Financial assets carried at fair value through profit or loss	5,427	
Financial assets carried at fair value through OCI	13,760	9,571
Total	**19,187**	**9,571**

On 16 October 2019, Gedeon Richter Plc. and Mycovia Pharmaceuticals Inc. signed a royalty purchase agreement according to which Richter acquires a certain portion of the net turnover of US sales of the future product (for more details pls. see Note 12) for the purchase price of USD 25 million. The amount of purchased royalty right is presented as a financial asset and valued at fair value through profit or loss as of 31 December 2019. The fair value of Mycovia financial assets was HUF 5,427 million at 31 December 2019.

The available-for-sale investment contains 5% ownership in Protek Holding and 9.63% ownership in Themis Medicare Ltd. valued at fair value based on the closing stock exchange price. In 2019, since there was significant increase in the share price and a positive change of RUB/HUF exchange rate, increase has been recorded against revaluation reserve for securities at FVOCI. As a result of the above mentioned reasons, a significant revaluation gain was recorded in 2019 (Note 24).

	31 December 2019	31 December 2018
Opening value (HUFm)	8,327	12,971
Change in fair value (HUFm)	*4,204*	*(4,644)*
Closing value (HUFm)	12,531	8,327
Share price (RUB/share)	100.3	78,0
RUB/HUF exchange rate	4.74	4,05
Change in the fair value (HUFm)	*4,204*	*(4,644)*

The other available-for-sale investment is a 9.63% ownership in Themis Medicare Ltd. valued at fair value based on the closing stock exchange price. Since there was a decrease in the share price a revaluation loss (HUF 16 million) was recorded against revaluation reserve for securities at FVOCI in 2019. A closing fair value is HUF 1,167 million.

15.2. Other long-term receivable

	31 December 2019 HUFm	31 December 2018 HUFm
Government grants	2,837	6,034
Other assets	-	382
Total	**2,837**	**6,416**

Government grants balance approved amounts to HUF 2,837 million as of 31 December 2019 which are due over one year and relates to acquisition of property, plant and equipment and research and development activities.

16. Current income tax and deferred tax

Current tax assets and liabilities

	31 December 2019 HUFm	31 December 2018 HUFm
Current tax assets	760	578
Current tax liabilities	8	-

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 2019 HUFm	31 December 2018 HUFm
Deferred tax assets	-	1,424
Deferred tax liabilities	-	-

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

Deferred tax assets/(liabilities)	**Investments** HUFm	**PPE and intangible assets** HUFm	**Provision** HUFm	**Impairment** HUFm	**Other temporary differences** HUFm	**Total** HUFm
1 January 2018	**(1,088)**	**670**	**302**	**534**	**2,326**	**2,744**
(Debited)/credited 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)**
(Debited)/credited to other comprehensive income*	501	-	3	-	-	**504**
- from this non-recoverable within 5 years						
31 December 2018	**(510)**	**1,715**	**219**	**-**	**-**	**1,424**
(Debitable)/creditable to the income statement	-	(1,715)	(219)	-	-	**(1,934)**
(Debitable)/creditable to other comprehensive income	510	-	-	-	-	**510**
31 December 2019	**-**	**-**	**-**	**-**	**-**	**-**

* 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 6,681 million, as these are related to temporary differences that are expected to reverse because 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 4,636 million),from which HUF 2,492 million will be able to utilised within 3 years, HUF 2,144 million within 3-5 years.
Of the amount of deferred taxes presented above, deferred tax liability of HUF 1,067 million 31 December 2018 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 2019 HUFm	31 December 2018 HUFm
Loans given to related parties	44,621	57,198
Loans given to employees	609	575
Other loans given	173	198
Total	**45,403**	**57,971**

Convertible loan provided to Evestra Inc. and carried at HUF 455 million as of 31 December 2018 was converted to shares during 2019 as disclosed in Note 14.2.

18. Goodwill

The Company does not have any Goodwill balance.

19. Inventories

	31 December 2019 HUFm	31 December 2018 HUFm
Raw materials, packaging and consumables	24,437	20,390
Production in progress	1,117	122
Semi-finished and finished goods	39,644	43,620
Total	**65,198**	**64,132**

Increase of the inventory value of 1.7% was not significant. The value of purchased stock decreased by 19.8%, while the value of self-produced inventory increased by 9.1%. If the significant value of the production in progress at the end of the current year is taken into consideration, the value of self-production inventories at the year-end was 6.8% lower compared to the base period.

Regarding purchased stocks, the impact of the raw materials for the production of Teriparatide should be highlighted. The decrease in self-produced stocks was due to scrapping and year-end lower inventory value related to Esmya and certain Bemfola products.

In 2019, impairment and disposal of HUF 5,533 million was recorded and HUF 75 million was reversed, while HUF 1,803 million and HUF 168 million respectively in 2018. 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 2019 the total carrying amount of inventories that are valued at net realizable value amounts to HUF 245 million, as of 31 December 2018 it was HUF 173 million.

All items of Inventories are free from liens and charges.

20. Trade receivables

	31 December 2019 HUFm	31 December 2018 HUFm
Trade receivables (3rd parties)	62,923	43,710
Amounts due from related companies and other participations	75,159	79,269
Total	**138,082**	**122,979**

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

	HUFm
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**
Provision for receivables impairment	693
Reversal of impairment for trade receivables, withdrawal	(1,053)
At 31 December 2019	**3,144**

Impairment of financial assets (HUFm)

31 December 2019	Current	1-30 day	30-90 day	91-180 day	181-360 day	>360 day	Total
Expected loss rate	0.40%	0.88%	1.46%	2.08%	13.27%	88.05%	**2.23%**
Trade receivable	116,163	12,697	7,263	1,684	784	2,635	**141,226**
Impairment	**467**	**112**	**106**	**35**	**104**	**2,320**	**3,144**

31 December 2018	Current	1-30 day	30-90 day	91-180 day	181-360 day	>360 day	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**

21. Other current assets

21.1 Other current assets

	31 December 2019 HUFm	31 December 2018 HUFm
Loans receivable	10,146	13,646
Other receivables	4,896	4,680
Prepayments	2,713	2,305
Fair value of open forward exchange contracts	-	-
Total of financial assets (Note 10)	**17,755**	**20,631**
Tax and duties recoverable	2,554	2,966
Advances	1,847	437
Prepayments	1,831	1,713
Total	**23,987**	**25,747**

21.2 Contract assets

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

	31 December 2019 HUFm	31 December 2018 HUFm
Contract assets (Note 10)	2,047	1,417

22. Investments in securities

	31 December 2019 HUFm	31 December 2018 HUFm
Government bonds*	-	4.728
Other securities	1,545	-
Total (Note 10)	**1,545**	**4,728**

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

Under „Other securities" a convertible promissory note to associates is shown.

23. Cash and cash equivalents

23.1 Cash and cash equivalents

	31 December 2019 HUFm	31 December 2018 HUFm
Bank deposits	102,813	80,656
Cash on hand	29	40
Total	**102,842**	**80,696**

The total amount of Cash and cash equivalents as at 31 December 2019 and 2018 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 2019 HUFm	31 December 2018 HUFm
Cash and cash equivalents	102,842	80,696
Cash-pool overdraft	(1,517)	(977)
Balances per cash flow statement	**101,325**	**79,719**

The Company recognises the assets according to the IFRS of daily liquidity management as a part of the cash and cash equivalents. The value of the discount treasury bill (HUF 5,999 million) with a duration of less than 3 months is recognised as the Cash and cash equivalents. The Cash-pool liability includes the liabilities exposure with the Hungarian subsidiaries.

24. Share capital and reserves

Share capital	31 December 2019		31 December 2018	
	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 Company on 31 December 2019:

Ownership	Ordinary shares number	Voting rights* %	Share capital %
	31 December 2019	31 December 2019	31 December 2019
Domestic ownership	**64,012,307**	**34.47**	**34.34**
State ownership total	47,052,641	25.34	25.24
out of which MNV Zrt.**	28,415,029	15.30	15.24
out of which Maecenas Universitatis Corvini Alapítvány**	18,637,486	10.04	10.00
out of which Municipality	126	0.0	0.0
Institutional investors	8,413,513	4.53	4.51
Retail investors	8,546,153	4.60	4.59
International ownership	**121,677,349**	**65.52**	**65.29**
Retail investors	295,361	0.16	0.16
Institutional investors	121,381,988	65.36	65.13
Undisclosed ownership	**12,999**	**0.01**	**0.01**
Treasury shares***	**672,205**	**-**	**0.36**
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%.
** Maecanas Universitatis Corvini Fundation and MNV Zrt. are controlled by the same investor (the Hungarian State). Even if representing themselves individually at the Annual General Meeting, their votes are determined by the ulitmate parent (MNV Zrt.).
*** The treasury shares have no voting rights.

Detailed ownership structure of the Company 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**

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

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. and Maecanas Universitatis Corvini Fundation.

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 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 securities at FVOCI HUFm
At 1 January 2018	**9,873**
Revaluation of available for sale investments	(5,564)
Deferred tax effect	501
At 31 December 2018	**4,810**
Revaluation of available for sale investments	4,187
Deferred tax effect	510
At 31 December 2019	**9,507**

During the previous years, deferred tax was accounted for, relating to the taxable temporary difference of the investments carried at FVOCI. As the Company cannot demonstrate the recoverability of its net deferred tax asset position, the deferred tax asset position was derecognised. (See details Note 16.)

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.

	2019 HUFm	**2018** HUFm
Expense recognized in current year	2,657	3,360
Treasury share given (Note 25)	(1,868)	(3,728)
Repurchase obligation from ESOP	1,841	(1,812)
Total changes in reserve presented in the Statement of Changes in Equity	**2,630**	**(2,180)**

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 and 2019, 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 2019, 15,327 shares were granted to 281 key employees of the Company, while in 2018, 284 employees were granted. The total number of shares distributed were 14,473.

Individual bonuses
In 2018 7,543 treasury shares were granted to qualified employees as bonuses. In 2019 no treasury shares were granted. The reason of this was 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, the Company started Employee's Share- Ownership Programme (ESOP) in 2018.
The Company established the ESOP Organization on 26 February 2018 and approved the ESOP Organization's First Remuneration Policy in 2018, and the Second Remuneration Policy for two years (2019-2020) in 2019. The total amount related to the First Remuneration Policy was HUF 1.8 billion, and HUF 1.5 billion related to the Second.
Regarding each participant, the Company transferred a certain number of shares to the ESOP Organization, determined by the market value of the transferred shares and the determined amount of the remuneration. The shares can not be disposed until the end of the evaluation period.
The benefit is only vested if the remuneration condition is met. Remuneration condition: the level of the unweighted average consolidated revenues realized in the measurement period shall exceed the consolidated revenues of the comparative period. The First Remuneration Policy vested, therefore the employees received the benefits in 2019.

Staff Stock Bonus Plan
Pursuant to a program related to employee share bonuses (Staff Stock Bonus Plan 2019), the Company granted 320,534 treasury shares to 4,484 employees in 2019. The shares will be deposited on the employees' security accounts with UniCredit Bank Hungary Ltd. until 2 January 2022. In 2018, 324,226 treasury shares were granted to 4,346 employees which will be deposited on the employees' security accounts until 2 January 2021.

The AGM held on 24 April 2019 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 607,752 treasury shares during the year.

Treasury shares	**2019** numbers	**2018** numbers
At 1 January	**49,830**	**60,683**
Share purchase	607,752	661,049
Transferred as part of bonus program	(15,327)	(14,473)
Individual bonuses	-	(7,543)
Transferred to ESOT	331,438	(333,698)
Granted pursuant to employees share bonus	(320,534)	(324,226)
Shares of the employees share bonus that have not vested	13,546	8,038
At 31 December	**666,705**	**49,830**

Book value	2019 HUFm	2018 HUFm
At 1 January	**283**	**404**
Share purchase	3,539	3,607
Transferred as part of bonus program	(88)	(77)
Individual bonuses	-	(40)
Transferred to ESOT	1,908	(1,892)
Granted pursuant to employees share bonus	(1,839)	(1,764)
Shares of the employees share bonus that have not vested	72	45
At 31 December	**3,875**	**283**

26. Trade payables

	31 December 2019 HUFm	31 December 2018 HUFm
Trade payables (3rd parties)	23,545	23,281
Amount due to related companies and other participations	21,950	13,544
Total (Note 10)	**45,495**	**36,825**

27. Other payables and accruals

27.1 Other payables and accruals

	31 December 2019 HUFm	31 December 2018 HUFm
Short term accruals	9,628	13,558
Other liabilities	7,749	5,859
Lease liabilities	746	
Dividend payable	152	149
Subtotal of financial liabilities (Note 10)	**18,275**	**19,566**
Wages and payroll taxes payable	3,024	2,785
Other taxes	151	64
Deposits from customers	69	162
Total	**21,519**	**22,577**

27.2 Contract liabilities

The Company in the separate IFRS Financial Statement does not have any contract liabilities balance.

28. Provisions

	31 December 2019 HUFm	31 December 2018 HUFm
Other short-term provisions	1,211	852
Long term provisions – for jubilee programs	609	571
Long term provisions – for retirement benefits	2,466	1,857
Total	**4,286**	**3,280**

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

	31 December 2019	Reversal	Provision	31 December 2018
	HUFm	HUFm	HUFm	HUFm
Compensation	1,211	(103)	548	766
Long term provisions – to defined benefit liabilities (according to actuarial valuations)	3,075	(331)	978	2,428
Other	-	(86)	-	86
Total	**4,286**	**(520)**	**1,526**	**3,280**

	31 December 2018	Reversal	Provision	31 December 2017
	HUFm	HUFm	HUFm	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**

Defined retirement benefit plans at the Company

Actuarial valuation related to retirement benefit plans

According to the Collective Agreement of Gedeon Richter Plc., if the Employee is eligible for an old-age pension or disability care and his/her employment is being terminated for that reason by either parties unilaterally or by mutual consent, or the Employee retire in the end of a fix-term employment contract, the Employer may provide

a) 1 month's absentee pay after an uninterrupted employment relationship of at least 15 years at the Employer
b) 2 months' absentee pay after an uninterrupted employment relationship of at least 30 years at the Employer
c) 3 months' absentee pay after an uninterrupted employment relationship of at least 35 years at the Employer
d) 4 months' absentee pay after an uninterrupted employment relationship of at least 40 years at the Employer

in addition to his/her other emoluments, if the following exclusion does not arise.

As a prior obligatory condition of payment, the Employee shall not engage in any misconduct which may lead to the immediate termination of his/her employment, until the closing of the employment.

For renumerations defined in subsections b)-d) above, the Employee is entitled to an additional absentee pay equal to 45 calendar days, except if the Employee is exempted from work for a longer period.

Provided that the exemption period is longer than 45 days, the entitlement period for the absentee pay (for the "uninterrupted employment relationship at the Employer") determined at subpoints a)-d) shall be reduced by the amount exceeding the 45 days of the exemption period.

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.

	2019 HUFm	2018 HUFm
Opening value of retirement benefit	1,857	1,711
Interest expense (charged to the P&L)	3	58
Current service costs (charged to the P&L)	122	149
Settlement	(224)	(90)
Actuarial loss/(gain) (charged to the OCI)	708	29
Retirement benefit liability	**2,466**	**1,857**

The principal actuarial assumptions were as follows:

The estimation was performed with a 2.3% 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, opposite the previously applied method, for discount calculations in 2019 we switched to using the yield curve based on the Hungarian government securities and adjusted to cash-flows. We use the latest available ÁKK (Government Debt Management Center) yield data and the yield data derived from the so-called Nelson-Siegel methodology after the interpolation to interim dates.
For the purpose of determining the value of the liabilities, an interest rate of 3.51% was applied for 2018. In 2019 a yield curve adjusted to cash-flows was used. Upon maturity an interest rate of 0-2% is used in the first 10 years, 2-3% between years 10-20, 3% over 20 years.

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.

Term of employment at Richter	Annual average probability of resigning
Relevant data applied during the actuarial calculation:	
up to 3 years	20,0%
between 3-6 years	10,0%
between 6-10 years	8,0%
between 10-15 years	7,0%
between 16-25 years	5,0%
between 26-35 years	3,0%
over 35 years	2,0%

29. Borrowings

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

	31 December 2019 HUFm	31 December 2018 HUFm
Borrowings non-current	-	-
Borrowings current	1,517	21,789
Total	**1,517**	**21,789**

The Company does not have any non-current borrowings.
Current borrowings consist of loans taken cash pool liabilities on 31 December 2019.

Net debt reconciliation:

Net debt	**31 December 2019** HUFm	**31 December 2018** HUFm
Cash and cash equivalents	102,842	80,696
Cash-pool	(1,517)	(977)
Borrowings - within one year (excluding cash-pool)	-	(20,812)
Borrowings - after one year	-	-
Net debt	**101,325**	**58,907**

	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 1 January 2018	**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**
Cash flows	21,414	-	-	21,414
Effect of foreign exchange of borrowings	-	-	-	-
Other non-cash movements	192	20,812	-	21,004
Reclassification from long-term to short-term	-	-	-	-
Net debt as at 31 December 2019	**101,325**	**-**	**-**	**101,325**

As of 31 December 2018, the Company had two short-term borrowings in the value of HUF 20,812 million. Both borrowings comprised claims against subsidiaries. Both of them were settled by a transaction without cash-flow. One borrowing was offset against outstanding borrowing of the subsidiary, the other borrowing was offset against the dividend income payable for the Company. Accordingly, in the Cash-flow statement these transactions are recognised in net method.

30. Other non-current liabilities and accruals

	31 December 2019 HUFm	**31 December 2018** HUFm
Government grant - deferred income	5,605	7,982
Government grant - prepayments received	886	886
Other non-current liabilities	982	-
Lease liabilities	3,663	-
Total	**11,136**	**8,868**

Government grants relate to acquisition of property, plant and equipment and research and development activities.

31. Dividend on ordinary shares

	2019 HUFm	2018 HUFm
Dividend on ordinary shares	18,637	12,673

A dividend of HUF 100 per share (HUF 18,637 million) was declared in respect of the 2018 results, approved at the Company's Annual General Meeting on 24 April 2019 and paid during the year.

32. Agreed capital commitments and expenses related to investments

	31 December 2019 HUFm	31 December 2018 HUFm
Contractual capital commitments of the Company	6,914	5,925

The Company’s capital expenditure program for 2020 approved by the Board of Directors is HUF 42,301 million, from which the contractual capital commitments comprises amounts to HUF 6,914 million which is not shown in the Company’s financial statements.
The above commitments were not recorded neither in the Income Statement, or in the Balance Sheet.

33. Lease – Company as lessee

The Company recognised the lease contracts in compliance with IAS 17 in 2018 and compliance with IFRS 16 following its becoming effective in 2019.

Operating lease commitments of the Company (based on the contracts effective as of 31 December 2018) are mainly related to equipment and building rental. The non-cancellable operating lease commitments are as follows:

	31 December 2018 HUFm
Within 1 year	1,132
Between 1 and 5 years	433
Over 5 years	194
Total	**1,759**

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.

According to IFRS 16, the difference between opening leasing liability and lease payments liabilities arising from non-cancellable lease contracts is demonstrated in Note 38.

In 2019, the Company leases various buildings, machineries and vehicles. Rental contracts are typically made for fixed periods of 12 months to 10 years, but may have extension options as described below.
Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.
Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Extension and termination options
Extension and termination options are included in a number of property and equipment leases across the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

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 36.

35. Social security and pension schemes

The Company has provided in relation to the employees in Hungary social contribution tax amounting to 19.5% till 30 June 2019, 17,5 % from 1 July 2019 and vocational training contribution amounting to 1.5% of gross salaries which are paid during 2019 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 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 Company was HUF 1,705 million in 2019 (in 2018 HUF 1,537 million).

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

36. Contingent liabilities

Bank guarantee
In 2018 and 2019 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.

37. 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.

	2019 HUFm	**2018** HUFm
Dividend paid to MNV Zrt.	2,847	3,201

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.

37.1 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 2019 HUFm	31 December 2018 HUFm
Loans provided to subsidiaries	45,744	61,449
Loans provided to joint-ventures	5,287	4,931
Loans provided to associates	158	613
Impairment on loans provided to subsidiaries	(2,275)	(2,208)
Impairment on loans provided to associates	-	(1)
Convertible promissory note to associates	1,545	-
Accounts receivables from subsidiaries	68,844	69,497
Accounts receivables from joint-ventures	195	118
Accounts receivables from associates	2,548	2,545
Impairment on accounts receivables from subsidiaries	(861)	(391)
Accounts payables from subsidiaries	21,728	13,535
Accounts payables from joint-ventures	-	2
Accounts payables from associates	222	7
Revenue from subsidiaries	123,635	136,163
Revenue from joint-ventures	448	277
Revenue from associates	17,317	14,929

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, 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.

37.2 Remuneration of the Board of Directors and the Supervisory Board

	Short-term benefits - Allowance	
	2019 HUFm	2018 HUFm
Board of Directors	74	71
Supervisory Board	27	24
Total	**101**	**95**

37.3 Key management compensation

	2019 HUFm	2018 HUFm
Salaries and other employee benefits	1,678	1,563
Share based payments	506	761
Total compensation	**2,184**	**2,324**
Pension contribution paid by the employer	309	305
Total	**2,493**	**2,629**

The share-based payment benefits have been changed since 2018. The Company established the Employee's Share-Ownership Programme (ESOP). (See details in Note 25.)

The table above contains the compensation received by the chief executive officer, directors and other senior members of Management, constituting 58 people. There were no redundancy payments to key Management members in 2019 and 2018.

38. Changes in Accounting Policy

The Company has adopted IFRS 16 Leases from 1 January which resulted in changes in accounting policy and adjustments to the amounts recognised in the financial statements.

The Company has adopted IFRS 16 *Leases* retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2 (XXVII).

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases.* These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.21%.

38.1 Practical Expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has elected to reassess all existing contracts that are, or contain, a lease applying the criteria in IAS 17 / IFRIC 4 whether they still are, or contain, a lease under the lease definition in IFRS 16. The same assessment has been done for contracts assessed as not being or containing a lease under IAS 17 / IFRIC 4.

Measurement of the lease liability

	2019 HUFm
Operating lease commitments disclosed as at 31 December 2018	1,759
Discounted using the lessee's incremental borrowing rate at the date of initial application	1,636
(Less): short-term and low-value leases not recognised as a liability and other, individually insignificant items	(801)
Add/(less): adjustment as a result of a different treatment of extension option	3,501
Add/(less): adjustments relating to changes in the index or rate affecting variable payments	(61)
Lease liability recognised as at 1 January 2019	**4,275**
Of which are:	
- Current lease liabilities	546
- Non-current lease liabilities	3,729

The right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

38.2 Adjustments recognized in the Consolidated Balance Sheet on 1 January 2019

The changes in the accounting policy affected the following items in the balance sheet on 1 January 2019:

- Property, plant and equipment – increase by HUF 4,275 million
- Lease liability – increase by HUF 4,275 million

There was no net impact on retained earnings on 1 January 2019.

38.3 Lessor accounting

The Company did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16. Note however that the number of leases in which the Company acts as a lessor is very limited and not material.

39. Notable events in 2019

In 2019 major changes took place in the following areas:

The pharmaceutical production segment's income from the United States, the EU and Other CIS regions as well as Ukraine increased, dampened by dropping income from Russia and China.

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 on 5 February 2019 an announcement was made that Mr. Lajos Kovács, Director of Technical Services would be involved in Richter's day-to-day activity as an expert advisor. Chief Executive Officer Mr Gábor Orbán will supervise both directorates pending the appointment of new directors. As of 31 December 2018 Dr Margit Dr Pellionisz Paróczai, Director of Human Resources also retired, and will in future be engaged in the work 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.

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 with the aim to operate Corvinus Universtiy of Budapest. The government transferred substantial funds to the Foundation in the form of 10% of state-owned MOL and Richter shares each. The shares are non-alienable.

On 27 March 2019, Richter announced subscription of convertible bonds amounting to USD 5 million issued by Prima-Temp Inc. The transaction was concluded after Richter and Prima-Temp Inc. of the United States announced, in October 2017, that they had entered into an exclusive license and distribution agreement for Richter to commercialize the innovative medical device, PriyaRing globally, except for the USA and Canada. PriyaRing is an internal sensor that identifies the subtle temperature changes that occur prior to ovulation. The above agreement was complemented by the acquisition of a minority stake in Prima-Temp for a consideration of USD 5 million.

On 24 May 2019, Richter announced the conclusion of a license agreement with Sequirus Pty Ltd for the exclusive commercialisation of cariprazine in Australia and New Zealand. Under the terms of the agreement, Richter shall receive upfront payment upon signature of the agreement as well as subsequent milestone payments.

In a joint statement on 28 May 2019, Richter and its American partner Allergan announced that the U.S. Food and Drug Administration (FDA) had approved a supplemental New Drug Application (sNDA) for Vraylar™ for expanded use to treat depressive episodes associated with bipolar I disorder in adults. In September 2015, Vraylar™ was also approved in the U.S. to treat schizophrenia and manic or mixed episodes associated with bipolar I disorder in adults.

In July 2019, Richter announced subscription of newly issued Evestra Inc. shares amounting to USD 15 million. The transaction was part of a capital increase initiated by Richter. At the same time, Richter's USD 1.5 million loan provided to Evestra in 2017 was converted to shares. As a result of these transactions, Richter has become Evestra's biggest shareholder with a stake of 35.45%.

On 25 July 2019, Richter and Hikma Pharmaceuticals Plc. announced the signing of an exclusive license agreement to commercialize cariprazine, a novel antipsychotic drug in certain Middle East and North African (MENA) markets. Richter receives a preliminary payment upon execution of the agreement followed by milestone payments upon meeting certain targets commensurate with sales once the product is launched.

In August 2019, Richter announced that Mitsubishi Tanabe Pharma Corporation’s subsidiaries in ASEAN obtained the regulatory approval of cariprazine for the treatment of schizophrenia. Current approvals have been granted in Singapore and in Thailand. Richter is entitled to milestone payments in conjunction with the registration procedure, and then to royalty depending on sales.

On 20 August 2019, Richter announced that it launched its biosimilar teriparatide in Europe. The product has been launched through Richter's subsidiaries under the brand name Terrosa® after the expiry of the patent protection of the European reference product (Eli Lilly's Forsteo). The biosimilar teriparatide has been developed by the Company's subsidiary Richter-Helm BioTec GmbH & Co. KG.

In September 2019, Richter announced that its license partner Mochida Pharmaceutical Co. received marketing authorization for biosimilar teriparatide and launched the product in November.

On 16 October 2019, Richter and Mycovia Pharmaceuticals announced that they entered into an exclusive license and development and technology transfer agreement to commercialize and manufacture a molecule currently in Phase III clinical trials for the treatment of recurrent vulvovaginal candidiasis. The geographic scope of the license agreement covers Europe, Russia, the other CIS countries, Latin America and Australia. In addition, the two companies signed a royalty purchase agreement according to which Richter also acquires a certain portion of the net turnover of US sales of the product.

In 2019, 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

In January 2020, Nedermed B.V. was wound up without a successor.

On 2 March 2020, Richter and WhanIn Pharm. Co., Ltd. announced the signing of an exclusive license and supply agreement to commercialize cariprazine, a novel antipsychotic in South Korea. Richter receives a one-off milestone payment upon signature and will be entitled to further sales-related milestone payments after the product is launched if certain targets are met.

In accordance with the applicable laws of the Russian Federation, ZAO Firma CV «PROTEK», has submitted a voluntary bid to buy back the shares issued by PAO «PROTEK» at a purchase price of RUB 100 (one hundred) per share.
The Company considers the purchase offer to be a non-adjusting event after the balance sheet date. The offer has no significant impact on these financial statements nor on 2020's, given that according to IFRS 9 standard, the investment in Protek is valued at fair value based on stock exchange price. Share price was RUB 100.3 per share as at 31 December 2019 (See Note 15.2).

In late 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally and its negative impact had gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event.
While this is still an evolving situation at the time of issuing these separate financial statements, to date there has been no discernible impact on the Company's sales or supply chain, however the future effects cannot be predicted. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects. (The related exposure factors are presented in Note 3.1.)

On 13 March 2020 the Company announced, subsequent to its meeting held on 09-12 March 2020 the Pharmacovigilance Risk Assessment Committee (PRAC) of European Medicines Agency (EMA) has started a review procedure following a recent case of liver injury which led to liver transplantation in a patient taking Esmya. PRAC recommends suspension of ulipristal acetate for uterine fibroids during ongoing review of liver injury risk. The PRAC has recommended, as a precautionary measure, that women should stop taking 5-mg ulipristal acetate (Esmya and generic medicines) for uterine fibroids while a safety review started this month is ongoing. No new patients should start treatment with these medicines. The company concluded that according to IAS 10 the event mentioned above should be determined as an adjusting event after the reporting period.

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 Financial Statements have been approved by the Board of Directors and authorized for release at 23 March 2020.

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
2019

Gábor Orbán
Chief Executive Officer

Budapest, 23 March 2020

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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 requested additional information, citing safety concerns regarding Emya post-marketing reports outside the United States. As after 12 months no agreement was reached in respect of the resubmission of the application, as of August 2019 the application for registration of Esmya is considered withdrawn.

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 establishment and continouos expansion of a 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 continued regional expansion whilst maintaining stable positions in its traditional markets on one hand, and strengthening its presence in the EU and the United States on the other hand with original and generic products, and has sought to build long-term co-operation in supplying API (Active pharmaceutical ingredient). 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 2019.

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 companies are classified into the following six categories:

- **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 2019

The Company's main objectives for 2019 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 2019 major changes took place in the following areas:

- Sales dropped in China as well as in the CIS region, particularly in Russia and Other CIS countries; conversely, they soared in the United States, the EU, particularly in the EU 15 member states, and Ukraine.

- 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 on 5 February 2019 it was annunced that Mr. Lajos Kovács Director of Technical Services will be involved in Richter's day-to-day activity as an expert advisor. Chief Executive Officer Mr Gábor Orbán will supervise both areas 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.

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- In September 2019, Richter announced that its license partner Mochida Pharmaceutical Co. received marketing authorization for biosimilar teriparatide and launched the product in November.

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In addition, the two companies signed a royalty purchase agreement according to which Richter also acquires a certain portion of the net turnover of US sales of the product.

- In 2019, 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	64,012,307	34.47	34.34
State ownership total	47,052,641	25.34	25.24
including MNV Zrt. **	*28,415,029*	*15.30*	*15.24*
including Maecenas Universitatis Corvini Foundation **	*18,637,486*	*10.04*	*10.00*
including Municipality	*126*	*0.00*	*0.00*
Institutional investors	8,413,513	4.53	4.51
Retail investors	8,546,153	4.60	4.59
International ownership	121,677,349	65.52	65.29
Institutional investors ***	121,381,988	65.36	65.13
Retail investors	295,361	0.16	0.16
Treasury shares**	672,205	0.00	0.36
Undisclosed ownership	12,999	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%.

** Maecenas Universitatis Corvini Fundation and MNV Zrt. are controlled by the same investor (the Hungarian State). Even if representing themselves individually at the Annual General Meeting, their votes are determined by the ultimate parent (MNV Zrt.).

*** On 19 August 2019 BlackRock, Inc.'s influence decreased to 5%.

**** Treasury shares include the treasury shares of the parent company, and the subsidiaries.

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 2019 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 2019.

The closing price of shares as of 28 December 2018 was HUF 5,430 compared to HUF 6,415 as of 30 December 2019. Average monthly share prices in 2019 varied between the minimum of HUF 4,920 per share (in August) and the maximum of HUF 6,101 per share (in December).

1.4 Treasury shares

	Ordinary shares	
	31.12.2018	31.12.2019
Shares	49,830	666,705
Nominal value HUF`000	4,983	66,670
Book value HUF`000	283,411	3,874,929

Following the decision of the Board of Directors 15,327 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 320,534 Treasury shares to 4,484 employees on 17 December 2019.

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 2019 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 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 the duty of the directors responsible for the respective strategic pillars determined in the Company's strategy.
- 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. It is every manager's job to serve as an example in managing diversity, tolerance and inclusion, and to promote the practical manifestation of the Company's commitment to diversity as best as possible. 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 was adopted and on 21 June 2018 was announced by the Board of Directors the Diversity Policy regarding the Company's leading bodies, i.e the Executive Board, the Board of Directors and the Supervisory Board. 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.

The resolutions adopted by the 2019 AGM regarding the composition of the Board of Directors did not affect the age distribution of the Board on the merit. With the resignation of Mr. János Csák of his position on the Board of Directors with effect from 31 August 2019 the rate of women Board members increased to 30% by Q4.

Women's 30% participation in the Supervisory Board stayed unchanged throughout 2019.

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

The Global Compliance Program was introduced by Richter 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 and in 2019 the Program was extented to Latin American countries, and to the subsidiaries and representative offices in the CIS member states, where strict anti-corruption legislation and other local regulations also require guidance by the parent company. As part of the extension of the Program, relevant chapters of the Compliance Handbook were translated to the local languages and were adapted to the local environments so that they become enshrined in local rules and

regulations. Once compliance education and training materials had been localised, local staff could undergo the necessary training.

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 provided to, and agreements concluded with, patient organisations, health professionals and service providers. A transparency report was published for 2018, at the end of June of 2019.

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 is 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. Over the past years, 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 2019 several reports were made on the Compliance Hotline regarding conflict of interests, therefore decision was made to create corporate Compliance Rules in order to resolve conflict of interest currently found in the Code of Ethics. The Rules are at the stage of finalisation and are expected to be introduced in the first half of 2020. Staff will be acquainted with the new rules in the context of web-based training.

Revision and updating of the Compliance Manual started in the second half of 2019; the process is expected to be concluded in Q1 of 2020 so that the revised Manual should enter into effect in the first half of 2020. Richter intends to further strengthen the compliance function, which will help the parent company exercise a higher level of control in Richter Group's geographical area of operation through an international compliance network.

Other information

On 2 September 2019 the Board of Directors announced that János Csák resigned of his position on the Board with effect from 31 August 2019.

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 separate financial statements according to the International Financial Reporting Standards, in compliance with Sections 9/A (1)§(2) of the Accounting Act.

2. 2019 operating review

2.1 The balance sheet as of 31 December 2019

ASSETS

The Company's assets amounted to HUF 801,020 million, HUF 25,412 million (3.3%) higher than the opening value. Non-current assets were down by HUF 8,799 million, and current assets were up by HUF 34,790 million.

Non-current assets

The value of **Property, plant and equipment** was HUF 16,333 million above the reference year figure (+9.6%). The increase was contributed by the rising Property item (Debrecen), as well as Plant and equipment (in finished products manufacturing and in biotechnology API, several new manufacturing and packaging lines have been installed and commissioned). Another contributing factor was that according to IFRS 16 applicable since 2019, right-of-use assets representing the right to use the underlying leased asset, amouunting to HUF 4,304 million in 2019.

Intangible assets amount to HUF 81,491 million, 0.6% higher than the reference year figure, due mainly to an increase in **Rights**. The item was increased by the acquisition of rights attached to VT-1161 (Mycovia) and the milestone payment related to mifepristone (Litaphar) (HUF +8,289 million combined), and decreased by the impairment of Esmya and trastuzumab (HUF 9,014 million combined) recognised on the basis of impairment tests.

Depreciation on tangibles and intangibles was HUF 26,570 million in 2019, HUF 1,174 million above the 2018 figure and included HUF 762 million in depreciation of right-of-use of leased assets under IFRS 16.

As of 31 December 2019 the value of Richter's **Investments in subsidiaries, associates and joint ventures** and **Other financial assets investments** was HUF 151,015 million, down by HUF 8,081 million, and primarily attributed to the following: impairment on the

share held in PregLem calculated on the basis of impairment tests (HUF -29,368 million), offset by the capital increase in ZAO Gedeon Richter-RUS (HUF+ 6,718 million) and share purchase and conversion of the loan provided to Evestra Inc. into a business share (HUF +4,840 million). Financial assets were increased by the combined effect of acquiring the rights to a share of future sales income from the VT-1161 molecule (Mycovia) in the United States reported at fair value (HUF +5,427 million), and the increase in the fair value of the Russian pharmaceutical wholesale and retail group Protek (HUF +4,205 million).

Loans receivable amount to HUF 45,403 million and include predominantly long-term loans provided to Finox Holding, Richter-Helm BioTec (capital contribution) and the manufacturing companies.

Tax base decreasing items related to intensive R&D activities and rising income from royalty from cariprazine resulted in negative taxable income in 2019. This effect is expected to continue in future, consequently, **Deferred tax assets** were derecognised in their entirety (HUF 1,424 million).

The value of **Other long-term receivables** amounted to HUF 3,579 million after a HUF 2,837 million decrease due to the reclassification of the portion of government grants expected to be received due within one year.

Current assets

Inventories amounted to HUF 65,198 million, are 1.7% higher than the opening figure.

Trade receivables were HUF 138,082 million, HUF 15,103 million up from the opening value, resulting mainly from increasing trade receivables from 3rd parties in the European Union and CIS region. The figure also contains a HUF 4,110 million decrease in related party’s receivables. **Loans receivables** and cash pool are HUF 3,500 million below the reference year's closing figure mainly due to the loans to Pharmapolis Gyógyszeripari Kft. and Mediplus N.V classified as long-term and S.C. Gedeon Richter România loan repayment.

The value of **Cash and cash equivalents** is HUF 22,146 million above the opening value as a combined result of the positive net cash flow from operation and from tying up the securities maturing in 2019 as deposits.

EQUITY AND LIABILITIES

Shareholders' equity

In 2019 **shareholders**' **equity** increased 5.1% to reach HUF 717,059 million, mainly as a result of the profit of the year for the reported period.

Liabilities

The Company's total liabilities amount to HUF 83,961 million, HUF 9,378 million less than in the reference year. **Non-current liabilities** were HUF 2,915 million higher than last year, and was the result of the balance of the long-term portion of the above-mentioned right-to-lease liability under IFRS16, long-term liability of the purchase price of the intangible VT-1161 (Mycovia) and the reclassification of government grants where the associated expensesare expected to be incurred within 12 months.

Current liabilities were 12,293 million down and comprised HUF 45,495 million liabilities to **Trade payables** with the related companies as the main item (HUF +8,670 million). **Current borrowings** were down by HUF 20,272 million, movements include the loan received from Preglem S.A. (million 13.5 CHF); and the loan repaid to and received from Finox AG (million 59.5 CHF). Current liabilities also include cash pool. The year-on-year decrease in the combined value of **Other payables and accruals** (HUF -1,058 million), was mainly due to the diminishing amount of foreign drug price subsidies offset by ESOT liabilities and the short-term portion of the price of the intangible asset VT-1161 (Mycovia).

2.2 The 2019 income statement

The Group's profit for the year for 2019 was 50,400 million, 59.6 %, or HUF 18,821 million, above prior year.

Sales revenues were boosted mainly by the royalty received from Allergan in respect of Vraylar™, as well as the one-off milestone payment received on Vraylar sales.

Preparation of the annual financial statements required the impairment test of Intangible assets and Investments in the balance sheet. After calculation of the recoverable amount on Esmya intangible asset, the Executive Board considered it necessary to recognise impairment in 2019, given the expiry, in May 2020, of exclusiveness in the European Union, and the fact that 2019 sales fell short of the 2018 projection as well as PRAC's recommendations published in March 2020. Furthermore, as within the twelve months following the Complete Response Letter dated August 2018, Allergan and the FDA reached no agreement regarding the conditions of resubmitting an application for registration in respect of Esmya, the application is considered withdrawn and the Company reported impairment on the U.S. intangible 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. As a result, the Company reported impairment on its PregLem holdings in connection with Esmya in both years (Other financial expenses), and on the intangible asset Esmya (Other expenses). The amounts reported were HUF 36.0 billion in 2019 and HUF 35.4 billion in 2018.

2.2.1 Revenue

	2018 HUF million	2019 HUF million	Variance HUF million	Variance %
Hungary	38,608	39,682	1,074	2.8
International markets				
CIS	114,047	109,672	-4.375	-3.8
EU *	96,399	107,835	11,436	11.9
USA	34,889	67,917	33,028	94.7
China	26,440	18,984	-7,456	-28.2
Latin America	3,387	3,974	587	17.3
Other countries	16,314	18,460	2,146	13.2
International markets TOTAL	291,476	326,842	35,366	12.1
Total	**330,084**	**366,524**	**36,440**	**11.0**

* Excluding Hungary

Revenue from the 2019 domestic sales was 2.8 % up compared to the reference year. Sales in international markets were 12.1 % up 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 (29.9 %). The EU states' share increased by 0.2 percentage points and contributed 29.4 %. The USA increased its share by 8.0 percentage point over 2018 and achieved to 18.6 %. China's share was 2.8 percentage points lower (5.2 %) than prior year. The share of Other countries was 0.1 percentage point more (5.0 %) than prior year. The contribution of Latin America to sales income was 1.1 %, 0.1 percentage points higher the reference period figure. Income from domestic sales decreased by 0.9 percentage points and achieved 10.8 %.

Based on the year-end figures for 2019 the Company realized HUF 39,682 million income from sales **in the domestic market**, 2.8 % (HUF 1,074 million) more than in 2018. With this performance the Company's market share was 5.0 % in 2019, same as in the reference year. Richter ranked second in the prescription drugs market with a share of 7.7 %.

The main factor was increasing Bemfola, Tanydon / Tanydon HCT, Aktil, Reagila, Savulin and Coltowan sales, reduced by dropping Cavinton, Valsartan, Moduxin, Fentanyl and Drospirenone. In 2019 oral contraceptives were the leading item in terms of sales contributing 6.7% to sales income.

In 2019 no significant changes took place in terms of price regulations in the domestic pharmaceutical market. Pharmaceutical representatives' registration fee was HUF 282 million in 2019 and HUF 221 million in 2018.

The semi-annual blind bidding process introduced in 2011 designed to force the pharma companies to cut their prices resulted in a loss of approximately HUF 2 million in 2019.

The Company's sales income in **international markets** is HUF 326,842 million and increased by 12.1% compared the 2018 figure of HUF 291,476 million. In euro, income from exports was 8.7% up and amounted to EUR 1,126.5 million.

The Russian operation continues to be the leading market of the **CIS region,** with turnover denominated in EUR 9.8 % down from the reference year figure caused partly by the appreciation of the rouble against the euros (1.7 %). Sales in rouble were 11.3 % of RUB 2,186.1 million down. The decrease in rouble denominated sales was contributed by Lizinopril-dihidrat, Verospiron, Cavinton and Esmya and dampened by lagging oral contraceptives and Aflamin sales.

Euro denominated sales in Ukraine were 35.2 % or EUR 9.2 million up comparing to 2018, with increasing oral contraceptives, Panangin, Nifuroksa, Cavinton Verospiron and reducing Esmya sales.

EUR sales income from other CIS countries dropped by 6.4 % of EUR 4.5 million. Decreacing sales in Kazakhstan were partially offset by increasing sales in Uzbegistan and Belarus.

The total turnover achieved in the CIS market was HUF 109,672 million, 33.6 % of total export. Compared to 2018, the revenues decrease was 3.8 % (HUF 4.375 million). Expressed in foreign currency, the turnover was EUR 337.1 million (USD 377.4 million) with a 5.8 % decrease in EUR (10.8% in USD) compared to base period.

The turnover achieved in the **European Union** was HUF 107,835 million, 11.9 % up year-on-year. The EU region's share from the total income achieved in international markets is 33.0 %

increased by 11.9 % compared to 2018. Expressed in foreign currency, the income amounted to EUR 331.4 million.

The EU 15 region's EUR 23.9 million (or 15.6 %) rise is primarily related to the significant growth in Esmya, Terrosa, Bemfola, Reagila emelkedése sales, moderated by falling sales of oral contraceptives.

The CEE member states increased their contribution to total sales in the EU region from 49.4 % in 2018 to 46.6 % in 2019. Expressed in EUR, the sales increase was 3.3 % in euro. Rising sales are the balance of keener sales of Reagila, Papilocare, Cavinton, oral contraceptives and Bemfola, and dropping Groprinosin sales.

Sales in the **United States** were 94.7 % (or HUF 33,028 million) up; denominated in dollar; the increase was 80.5 % (or USD 104.2 million) mainly due to Vraylar™ royalty and the one-off sales related milestone income.

Turnover in the **Chinese region** was HUF 18,984 million (EUR 58.3 million) and was HUF 7.456 million (or EUR 24.7 million) lower than prior year. Decrease in Cavinton and Panangin sales were outstanding.

Turnover in **Latin America** experienced a 17.3 % (expressed in dollar, 8.7%) increase and amounted to HUF 3,974 million (USD 13.7 million). Increasing sales of Tamsol, Lenzetto and oral contraceptives were partly offset by reducing Curiosin 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 18.460 million (EUR 56.7 million). Compared to 2018, sales income was 13.2 % above (in euro, 10.7 %). The increasing sales was contributed by Terrosa, Bemfola and oral contraceptives, and dampened by lagging Ednyt and Cavinton sales. The contribution of the region to international sales was 5.6%.

Net income from sales **totalled** HUF 366,524 million in 2019, a HUF 36,440 million increase over the 2018 figure.

2.2.2 Costs of sales and operation; operating profit

Aggregate direct and indirect costs of sales were HUF 24,075 million higher than prior year.

Payroll costs increased across the Company compared to prior year as in 1st March 2019 the basic wage was raised by 6.0 %, 5.0 % and 3.0 % (depend on payroll categories) and 3% differentiated increase. On the whole, while average wages increased, headcount decreased due to the transformation of the representative offices in Russia into a company. Before the transformation, the staff's wages were reported in payroll expenses; from 2019 they are recognised as marketing costs, hence the high increase of that line item.

Costs of sales totalled HUF 118,266 million and were HUF 7,139 million over the 2018 figure. Expenses reflect the joint effect of changing in volumes and in the breakdown of the products portfolio. The change of the Cost of sales was related to the HUF 3,503 million increase in wages and contributions, the change in own-produced stocks, and the HUF 1,011 million increase in license fees (mainly due to the effect of Esmya) should be mentioned.

Gross profit is HUF 248,258 million, HUF 29,301 million above the reference year figure. The gross margin is 67.7%, which is 1.4 percentage point higher than the reference year.

Operating costs amounted to HUF 175,230 million in 2019, HUF 16,936 million above the 2018 figure.

Sales and marketing expenses were HUF 4,880 million over the 2018 figure with a 29.7% costs-of-sales to sales revenues ratio (2018: 31.5 %). Advertising and promotion contributed HUF 13,342 million to the increase of the item. The reduction of the costs of Esmya's commercialisation only partially offset marketing costs transferred as a result of the transformation of the Russian representative offices. In this context the Wages and contributions generated by the Russian offices decreased by HUF 7,447 million.

In 2019 **Administration and general expenses** amounted to HUF 18,407 million, HUF 3,369 million in excess of the 2018 figure. Almost half of the change (HUF 1,223 million) is related to the increase in wages and contributions and lease fees (mainly lease fees of the cloud computing) are HUF 396 million higher than 2018.

After a HUF 8,687 million y/y increase, **Research and development expenses** amounted to HUF 48,001 million in 2019. The costs of research commissions resulted in an increase of HUF 5,979 million, its most important item being costs related to cariprazine. Use of own materials increased by HUF 1,027 million, while wages and contributions grew by HUF 1,023 million.

The **net impairment** losses **on financial and contract assets** amounted to HUF 446 million in 2019 and HUF 144 million in 2018. The net impairment losses in 2019 comprised of the reversal of impairment recognised on trade receivables and the impairment recognised on loans and capital contributions.

The **other income and expense (net)** increased from HUF 13,962 million (expense) in the base period to HUF 12,627 million (expense) in 2019.
The impairment tests of Esmya for the 2019 financial statements had to be conducted in consideration of decisions by the regulatory authorities and market effects. As a result, the Company reported net impairment of HUF 6,918 million on impairment on the Esmya intangible asset. Executive Board decided to discontinue the trastuzumab development project resulting in HUF 2,096 million in impairment. In 2018 other income and other expenses (net) were greatly affected adversely by the impairment of the Esmya intangible asset in North America (HUF 13,423 million).

In the reported period HUF 5,717 million one-off milestone income was reported in conjunction with the provided indication of Cariprazine and the related licensing agreements. In the previous year 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 indication extension.

In 2019, HUF 3,589 million in impairment and scrapping of inventories was recorded mainly on Esmya and Bemfola. Impairment and scrapping of inventories in current year exceeded the amount reported in the reference year by HUF 1,954 million.
Claw-back in 2019 comprised payments related to the Hungarian, Romanian, German, French, Spanish, Portuguese, Belgian, Italian, Bulgarian, Austrian, Polish, Latvian, Lithuanian, Croatian, Slovenian, Greek and British markets totalling HUF 3,418 million.
In 2019, the Company presented other non-income taxes of HUF 1,114 million in Other income and other expenses (net).

The Company's *Profit from operation* was HUF 59,955 million, 28.8% up (HUF 13,398 million) compared to 2018. After a 2.3 percentage point increase, the operating margin was 16.4%.

2.2.3 Other income statement items

Net financial income/loss

Net financial loss was HUF 2,930 million and HUF 9,144 million in 2019 and 2018, respectively.

The impairment tests of Esmya for the 2019 financial statements had to be conducted in consideration of decisions by the regulatory authorities and market effects. As a result, the Company recorded an impairment of HUF 29,368 million in 2019 and HUF 21,959 million in 2018 on the investment in PregLem related to Esmya. In 2018, an impairment of HUF 2,257 million was recognised on the investment in GR Mexico SAPI from which HUF 296 million was reversed in 2019. In 2019 Richter reported impairment of additional HUF 250 million in respect of GR Columbia S.A.S. after recording HUF 575 million in the reference year. Impairment regarding GR Brasil SA. amounted to HUF 502 million in 2018.
The 2019 unrealized financial items were largely affected by the 4.74 RUB/HUF exchange rate and 294.74 USD/HUF related translation on 31 December 2019 (31 December 2018 RUB/HUF 4.05 and USD/HUF 280.94). The cumulative effect of translation was a HUF 2,932 million slip in the 2018 net financial loss as opposed to HUF

2,016 million increase in 2019, a total of HUF 4,948 million improving from one year to the next.

Gedeon Richter Plc. describes the details of classification, valuation and risks of its financial instruments in the following chapters of the Annual Report prepared 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.

Realized foreign exchange gain from trade receivables, payables and other items were HUF 8,947 million as opposed to HUF 47 million loss in the preceding year. Compared to the base year, these resulted profit increase of HUF 8,994 million.
Dividend income contributed HUF 8,964 million to the 2019 financial income, HUF 6,447 million lower than HUF 15,411 million realized in 2018.

Profit before income tax

The 2019 profit before income tax amounted to HUF 57,025 million, HUF 19,612 million more than in 2018.

Income tax

By virtue of Hungarian Tax Regulations, the taxable profit 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 2018 and 2019 it did not use the development related tax relief.
The 2019 taxes payable (including corporate tax, local business tax, and innovation contribution) amounted to HUF 4,692 million compared to HUF 4,010 million in 2018. Richter reported HUF 1,933 million deferred tax liabilities in 2019 as opposed to HUF 1,824 million deferred tax liabilities in 2018. 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.

Profit for the year

The Company's profit after taxes for 2018 was HUF 31,579 million and HUF 50,400 million in 2019.

2.2.4 Contribution of key products to sales revenues

Finished products contributed approximately 78% to the 2019 sales revenues. The contribution of APIs was 4%, royalties was 15% and the sales of purchased materials were 3%.

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

2018				2019			
Rank		Sales HUF million	Share %	Rank		Sales HUF million	Share %
1	Oral contraceptives	88,992	27.0	1	Oral contraceptives	95,382	26.0
2	Cavinton/vinpocetine	30,751	9.3	2	Cariprazine /cariprazine	57,976	15.8
3	Cariprazine /cariprazine	25,129	7.6	3	Cavinton/vinpocetine	22,741	6.2
4	Mydeton/tolperisone	16,322	4.9	4	Mydeton/tolperisone	16,797	4.6
5	Panangin/asparaginates	12,888	3.9	5	Bemfola / FSH follitropin alfa	14,745	4.0
6	Bemfola / FSH follitropin alfa	11,972	3.6	6	Panangin/ asparaginates	13,066	3.5
7	Ace inhibitors/ /enalapril, lisinopril	11,736	3.6	7	Aflamin/aceclofenac	12,335	3.4
8	Verospiron/ spironolactone	11,530	3.5	8	Esmya /ulipristal acetate	9,062	2.5
9	Aflamin/aceclofenac	9,429	2.9	9	Lisinorm/lisinopril, amlodipine	8,065	2.2
10	Lisonorm/ lisinopril, amlodipine	7,913	2.4	10	Verospiron/spironolact one	7,921	2.2
	Total	**226,662**	**68.7**		**Total**	**258,090**	**70.4**
	Net income from sales	*330,084*	*100.0*		*Net income from sales*	*366,524*	*100.0*

The contribution of the top ten product groups was in 2019, a total of 70.4%.

Oral contraceptives are the leading products with a turnover of HUF 95.4 billion, 7.2 % higher the 2018 figure, mainly due to the increasing sales of Diegonest, Lindynette, Escapelle and Drospirenone. The contribution of this product category to the 2019 total turnover was 26.0%, 1.0 percentage points below the reference year.

Advancing one place compared to the reference year, the second most important product is Cariprazine, mainly due to increasing Vraylar™ royalty and the one-off sales-related

milestone income. Second in 2018, Cavinton was third in 2019 with a 26.0% decrease in sales income as a consequence of lagging sales in China and Russia. Mydeton kept its 4th place, in both periods contributing 4.6% to total sales. Thanks to rising sales in the EU15 and EU10 regions Bemfola has become Richter's fifth best selling product with a contribution of 4.0% to total sales, while Panangin, after finishing fifth in the reference year, slipped one place and finished sixth. With a boost of approximately 31% in sales Aflamin advanced from ninth to seventh thanks mainly to a keen rise of sales in the Russian market. Esmya realised an 18% increase in sales income and finished eighth after dropping out from among the TOP10 products in 2018 as a result of the temporary measures taken by the PRAC. Ninth in 2018, Lisonorm stepped up to eighth position on the top list, and Verospiron slid from eighth to tenth place, chiefly because of sluggish sales in Russia.

2.2.5 Contribution of key markets to sales revenue

The Company's ten leading markets were as follows:

Country		2018		Country		2019	
		HUF million	EUR million			HUF million	EUR million
1.	Russia	83,333	261.5	1.	Russia	76,797	236.0
2.	Hungary	38,608	121.2	2.	United States of America	67,917	208.8
3.	United States of America	34,889	109.5	3.	Hungary	39,682	122.0
4.	China	26,390	82.9	4.	China	18,870	58.0
5.	Poland	16,102	50.5	5.	Poland	16,171	49.7
6.	Germany	13,741	43.1	6.	Germany	15,527	47.7
7.	Ukraine	8,320	26.1	7.	Ukraine	11,471	35.3
8.	France	8,094	25.4	8.	Spain	10,066	30.9
9.	Kazahstan	7,619	23.9	9.	France	8,735	26.8
10.	Romania	7,579	23.8	10.	Italy	8,653	26.6
	Total	244,675	767.9		Total	273,889	841.8
	Net income from sales	**330,084**	1,036.0		**Net income from sales**	**366,524**	1,126.5

The 10 leading countries jointly contributed approximately 74.7% to Richter's total sales. Russia continues to head the list followed by the United States, advancing one place and kicking Hungary to third in rank, thanks to increasing sale income due to Vraylar royalty and the one-off sales-related milestone. China, Poland, Germany and Uktaine kept their position among the TOP 10 countries. Spain found its way onto the list of key markets

and finished eighth as a rsult of to rising Esmya sales. It is followed by France, which lost one place. Kazakhstan and Romania do not feature on the 2019 list; conversely, Spain is among the TOP10, as mentioned above, as well as Italy, finishing tenth.

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.

R&D expenses was 13.1% of sales income in 2019 and amounted HUF 48,001 million.

Original research of Central Nervous System

Benefiting from Richter's experiences related to the development of Cariprazine and in line with the revamped strategy, reviewing possible CNS indications and giving research a more state-of-the-art footing commenced in 2019. This, however, did not affect the development of already selected molecules in the preclinical stage. In light of all that, Richter plotted out three lines of proprietary development classified in terms of the decisive symptoms clearly defined and applicable in preclinical research. The symptom clusters are as follows: general negative, positive, and cognitive impairment symptoms. Each of the three symptom clusters comprises several indications, as indeed most CNS drugs have been proved effective and licensed for several indications.

In the course of the year Richter revamped its preclinical research along these principles, and future clinical candidates will be selected along these lines. On the whole, three projects entered in the early clinical phase besides 12 projects at the preclinical stage.

R&D has always played a leading role in the introduction of IT systems. An example was in 2019 the introduction of artificial intelligence (AI) based software at the parent company to underpin the chemical aspect of research and support new molecular structure and synthesis. The new AI system is expected to enhance efficiency.

Clinical research and registration support related to Cariprazine continued in 2019, including mandatory post-registration clinical studies; as a result, the number of countries where Cariprazine is commercialised has increased. In a joint statement in May 2019 Richter and its American partner Allergan announced that the U.S. Food and Drug Administration (FDA) approved a supplemental New Drug Application (sNDA) for Vraylar™ for expanded use to treat depressive episodes associated with bipolar I disorder (bipolar depression) in adults.

Women's Healthcare

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 procided for this indication was granted in January 2014. In May 2015 EMA provided 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 in July 2013 under the name Fibristal and the Canadian drug agency also approved its long-term application in November 2016.

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 requested additional information, citing safety concerns regarding Esmya post-marketing reports outside the United States. As after 12 months no agreement was reached in respect of the resubmission of the application, as of August 2019 the application for registration of Esmya is considered withdrawn.

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.

Generic research

At the closing of 2019, Richter had 26 generic development and 15 licence topics in progress. Several projects were carried out in 2019 regarding serialisation including the coordination of serialisation in Russia and implementation of European serialisation

provisions. 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 launched two proprietary products and six licensed products in 2019, all of which are new in the markets where they were launched. It is also to be noted that Cariprazine capsule has been launched in an increasing number of countries.

In the course of the year Richter secured 144 new regulatory approvals (EU member states: 40, CIS: 66, Latin America: 12, Other countries: 26), and submitted 24 new applications for registration (CIS: 10, Latin America: 5, Other countries: 9).

In 2019, 199 marketing authorisations were renewed (EU: 69, CIS: 88, Latin America: 14, Other countries: 28), and 269 applications for withdrawal were submitted (EU: 161, CIS: 101, Latin America: 1, Other countries: 6). In the same year 550 applications for marketing authorisation submitted by Richter are pending with the regulatory authorities (EU: 300, CIS: 194, Latin America: 19, Other countries: 37).

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.
The primary candidates in the biosimilar portfolio are teriparatide and denosumab (osteoporosis), as well as pegfilgrastim (oncology). These products belong to the fastest-evolving therapeutic groups.

On 20 August 2019 Richter announced that it launched its biosimilar teriparatide in Europe. The product has been launched through Richter's subsidiaries under the brand name Terrosa® after the expiry of the patent protection of the European reference product (Eli Lilly's Forsteo). The biosimilar teriparatide has been developed by the Company's subsidiary Richter-Helm BioTec GmbH & Co. KG. Based on the effective license, Stada also launched the product in Europe with the brand name Movymia. In September 2019 Richter announced that its license partner Mochida Pharmaceutical Co. received marketing authorization for biosimilar teriparatide in Japan and launched the product in November.

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. Nevertheless, Richter continues to be committed to product research for the European markets, which has entered the last clinical phase.

In the course of 2019 denosumab (reference product: Amgen's branded products Prolia and Xgave) for the European and U.S. markets also proceeded to the last preclinical phase.

Development and distribution of biotechnology products is supported in Europe by Stada, in Japan by Mochida 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.

Review of quality assurance processes takes place with the concurrent strengthening of IT support; to this end, 2019 saw the launch of several complex projects. They included the parent company's LIMS (Laboratory Information Management System) pilot project aimed at preparing the decision on the introduction of an 'enterprise LIMS.' The pilot was concluded successfully and in September 2019 decision was made to introduce LIMS, expected to result in savings on time and data hygiene. Preparation of the selection of a Quality Management System (QMS) also took place in 2019; the QMS is designed to cover the wide area of quality assurance and pharmacovigilance. Long-term goals include extension of the system to subsidiaries and foreign representations.

The purpose of the Batch Release Dashboard project is to improve the efficiency of batch release. The envisioned IT system will expedite the work of QM staff by automatically gathering batch related data from the various systems and will thus eliminate parallel filing. The data gathered will enable staff to schedule and analyse release tasks, and will allow quick intervention.

Over the past year Richter was inspected on 14 occasions by its partners and 10 times by the competent supervisory authorities.

3.3 Production

Production in the manufacturing plants: the output of plants manufacturing semi-finished products decreased by a total of 10%, which is explained by 10% drop in solid drugs production and a 19% drop in injectables.

The production value, at settlement price, of own-produced APIs for non-steroid products was down by 10% (drop in demand for export and and temporary drop in demand because of packaging problems), and for steroids was down by 11.8% in 2019.

At the beginning of 2019 the Company started production in accordance with the European serialisation regulations, which led to increasing machine time in packaging. As a result, there was a drop in productivity and it was not until Q4 that outputs returned to the pre-serialisation level, albeit with a higher number of shifts. Efficiency is measured by a newly introduced IT device to be fully commissioned in early 2020.

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 2019 the value of inventories was HUF 65,198 million, above the opening balance by 1.7%.

3.4 Technology

In recent years the Company has developed a new procurement 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 procurement resulted in substantial savings on funds, capacities and time in 2019. In certain areas of procurement the parent company and its subsidiaries cooperated successfully.

In 2015 Richter developed a uniform Procurement Policy along with unified Company-wide regulation of procurement processes and the general terms and conditions of contracts with a view to promoting efficiency and enhancing control. In 2018 a separate procurement unit was set up in Debrecen in order to better serve the needs, frequently specialised, of the biotechnology business.

In H2 of 2018 the independent organisational unit Operational Technology IT Department was set up; its priority is to provide strong support to 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. In the course of the year a Service Desk was introduces creating end-to-end defect management in production and building maintenance.

In September 2019 IT was organisationally transferred to Technology in order to ensure a better coordinated IT support to the special fields.

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. In the course of 2019, there was one instance of malfunctioning that strongly affected production: as a combined result of the extremely hot weather and the simultaneous breakdown of multiple refrigeration equipment coolong limitations had to be introduced.

Priority energy projects continue to focus on enhancing the energy efficiency and functional security of cooling systems. In 2019 revamping and extension of the sewerage system and waste water treatment facilities took place; in addition, the replacement of computerised surveillance systems and the expansion of energy measurement systems was continued.

In the same year the cost of energy usage increased across the Company compared to 2018. The 14.5% increace emerged as the balance of 1.6% decrease in energy use and 16.4% increase in energy prices. Energy and water costs amounted to HUF 8.5 billion for the entire Company and included HUF 95.6 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 2019 KIR was successfully audited for the renewed ISO 14001 certificate.

The KIR analyses and manages risks affecting the environment, particularly the natural environment, in according with the provisions of the ISO standard (emission limits, data supply, and the requisite licenses). Functioning and risk management under the KIR is verified 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.

Richter submitted the documentation for revision of the Budapest plant's Integrated Pollution Prevention and Control (IPPC) license in December 2019. The revision of the IPPC license of the Debrecen plant was mandated by the competent authority. In Dorog the water use license was amended due to the updating of the self-audit plan.

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 2019 passed revision 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 2019 Richter began the process of mandatory conversion to the MEBIR standard required under Hungarian Standard MSZ ISO 45001:2018. The Security Technology Laboratory was among the first to embrace the new mandatory regulations to be adopted by accredited test laboratories (MSZ EN ISO/IEC 17025:2018); the authorities found no deviation after the conversion.

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 was no technology related fatal, serious or mass accidents in 2019, 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.
In this context the damage control system mandated by the environmental authorities has been developed in Budapest.
In Debrecen capex projects related to the sewerage system in conjunction with expanding production were completed in 2019.
The Company checks the quality of its wastewaters in the context of the statutory monitoring system.

Waste management
In 2019 hazardous wastes were incinerated, deposited or composted. Waste has been collected selectively since 2012.

With a view to strengthen selective waste disposal and enhance waste management and environmental awareness, the Company has developed a comprehensive waste management concept. After 3.4% decrease, the costs of waste management amounted to HUF 1,001 million in 2019.

3.5 IT support

The Company's business processes are captured in the SAP system. SAP tracks every step of the process from procurement 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 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 in 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. In the context of this process a catalogue of IT services was drawn up in 2019, and service agreements were signed with the special fields of the parent company.

In September 2019 IT was organisationally transferred to Technology in order to ensure a better coordinated IT support to the special fields.
Similarly to the previous year, major Company level IT development took place in 2019, the most important achievements and events were as follows:

A priority task was to keep the parent company's production and commercialisation capacities conforming to the European serialisation regulations at high standards (Serialisation, Track and Trace project), and from the second half, to support conformity with the Russian serialisation requirements.

- In the context of the project Richter IT 2020 the preconditions of infrastructure needed for the services required by the parent company's business have been created, and purchases required to enhance IT security have been made.

- In the framework of the GDPR program Richter successfully assessed and identified the applications and services concerned by the GDPR where after developing the necessary action plans compliance will be introduced.

- The first Digitalisation and Industry 4.0 projects launched in 2018 to provide specifically Group level uniform solutions:

    - As part of the Digitalisation project the FileNet platform of the first electronic document management system ECM (Enterprise Content Management) was introduced, and will be followed by the implementation of new business processes and functions in 2020.

    - In the context of the project title Industry 4.0 a new uniform Group level manufacturing execution system (MES), and Data Science system is in the process of introduction.

    - The first application for funding for both MES and Data Science was successfully concluded and was the resulting systems presented within the Company.

- Expansion of the IT infrastructure supporting manufacturing at the Dorog and Debrecen plant was started.

- 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 top management) 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 was rolled out from 2016 to include blue-collar staff and white-collar staff with secondary qualifications.

As of 31 December 2019 headcount was 6,439 including 5,797 persons employed in Hungary. Of the Hungarian headcount 3,042 work in white-collar positions including 2,382 university or college graduates. Graduate educated personnel in Hungary represented 78% of white collar staff.

5. Capital expenditure on tangibles and intangible assets

In 2019 capital expenditure on tangible and intangible assets amounted to HUF 49,611 million and included HUF 34,802 million capitalization. Tangible assets in the course of construction amounted to HUF 22,774 million as of 31 December 2019.

The Company's main CAPEX areas in 2019 were as follows:

Biotechnology

Richter spent a total of HUF 7,020 million on investments related to the biotechnology business in 2019. In the Debrecen API plant installation of the second production line was completed, and construction of the central office building entered in the last stage. At the Budapest plant, works on the extension of the TKNL (Technology Research and Development Lab) building were started; as a result, expansion of Biotechnology's research capacities can be expanded in their current building.

Production

The 2019 investments related to production plants amounted to HUF 11,416 million.

The main projects to be highlighted in the field of finished products include the packaging line installed in the Packaging plant, which was purchased with the intent to offset the reduction in production capacities caused by the introduction of serialisation, as well as the “top loader” line installed in the packaging plant of Injectables, which can also be used for the packaging of Bemfola. 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. Other notable capex projects include the expansion of DFA (Development related tax incentive at Dorog site) intermediate production capacities in Dorog, and in API manufacturing, the installation of a conical screw vacuum dryer in Chemical I Plant in Budapest.

Production support

CAPEX projects related to production support amounted to HUF 6,399 million in 2019. Environmental capex projects included the ongoing revamping and extension of the sewerage systems and waste water management plants at all three sites. To improve safety, the liquefied gas supply system was upgraded. 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 first stage of the new central PW (Purified Water) system has been commissioned. In warehousing a comprehensive logistics concept encompassing all of the Hungarian plants was developed and approved by the Executive Board; in this context, the entire warehouse logistics infrastructure had been reviewed, and infrastrucure development projects were carried out at the Vecsés site in order to construct Input and Expedition warehouses. In quality management, the Company deployed significant amounts to purchase instruments in order to improve the conditions of quality control and reduce lead time of tests.

R&D

In 2019 Richter deployed a total of HUF 3,150 million investments to maintain the level and quality of research and development. With significant (HUF 1,325 million) capex expenditure, the expansion of the TKNL (Technology Reseach and Development Lab) building started.

Licences and other intangibles

The 2019 expenditure on licenses and other intangibles amounted to HUF 13,837 million and comprised expenditure on the acquisition of licences (teriparatide - Richter-Helm BioTec, mifepristone - Lithaphar VT-1161 - Mycovia), as well as on new registrations and renewals.

Other

In 2019 Richter spent HUF 4,226 million on IT development supporting operation, and HUF 286 million on improving the conditions of the representative office’s 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 2019 revenue was outstanding. This resulted primarily from the contract work export done for the parent company, and increasing sales achieved in the Romanian market. The Company made significant profits in 2019, while in the previous year it was negative, mainly due to the fine imposed by the Romanian tax authority

In 2019 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 building renovation works.

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

Richter's Polish manufacturing subsidiary, **Gedeon Richter Polska Sp. z o. o.** is also responsible for Richter Group's registration, pharmacovigilance, PR as well as marketing activities in Poland. The first full year of this expanded scope of activities was 2019, as the company acquired, then merged **Gedeon Richter Marketing Polska Sp. z o. o.** in 2018, which supported the commercialization of proprietary products in the Polish market through marketing activities.

Operating as a subsidiary manufacturing and development company on a contract basis also for the benefit of the parent company, Gedeon Richter Polska Sp. z o. o. has grown to be a strategically highly important member of the Group. With the incorporated marketing unit, the company operated with a headcount of 822 people.

In the 2019 business year the market was characterised by the intense competition and aggressive price race experienced in previous years. Added to it was a mild flu season, which resulted in the pull product Groprinosin losing approximately one-third of sales income in comparasion to 2018. The decline in finished products sales was somewhat offset by contract manufacturing sales, resulting in a balance of sales income 5% below the reference year's figure.

In 2019 Richter's Russian manufacturing subsidiary **ZAO Gedeon Richter-RUS** was affected by several factors. While the planned turnover in local currency was not met, this was partially compensated for by lower RUB–EUR exchange rates. In 2019 the review of registered prices of key products was started and is expected to cause a significant loss of revenue in 2020. The loss was already felt in 2019 as a result of the massive price reduction of Cavinton drugs. The rate of income from sales of own products to purchased products has not changed, income from sales of purchased products being slightly higher than that of own products. Volatility of sales income continues to be a challenge and will affect the performance of subsequent years. On the positive side, the payment discipline of buyers has been relatively good.

The company's main function will continue to be manufacturing and distribution supported by marketing activity funded by the parent company. 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 shake-up.

The company financed its 2019 capex projects partly from its own funds, and partly by the capital increase contributed by the parent company, which helped whittle down the considerable delay in settling its accounts payable to the parent company.

Richter Themis Ltd. continued to be active as a manufacturer and distributor of intermediate products and APIs for Group members in 2019. The core segment of the products portfolio has been the same over the years, but the company adds new APIs on a continuous basis in an effort to meet the demands of the Group's manufacturing companies. Capacities are fully and continuously exploited. In addition to API production the company is also active in development in the field of manufacturing technology. Fracturing 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. KG**'s turnover in 2019 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 supply of API to teripartide and other developments are 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 2019 **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 feature in the company's activities.

On 30 June 2016 Richter acquired **Finox Holding AG**, a Swiss based biotech company engaged in the development and commercialisation of female fertility products. 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. Started in 2017, full integration of the company's activities into Richter's system was concluded by late 2018 with Richter taking over the full distribution of Bemfola®, its marketing in Western Europe, and secondary packaging. As a result, the business model of the product changed, and the profit centre moved from Finox to the parent company. In the context of an agreement, Finox transferred the commercial rights attached to Bemfola® to Richter against royalty payment on Bemfola®' sales. In 2019 the company's activities were limited to supporting central marketing tasks related to the Western European region.

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 2019 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 company (**Gedeon Richter UK Ltd.)** and French company (**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 2019.

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 with 2019 being its first full business year. The companies operate on a basis of invoicing net costs plus margin, which ensures cost coverage and stable liquidity on a continuous basis.

The turnover of products promoted by **Gedeon Richter (China) Pharmaceuticals Co. Ltd.** was below plans in 2019 due primarily sales related problems. In the wake of withdrawing the subsidy of Cavinton injection, a key contributor to sales, developments to expand the narrow portfolio have become crucial.

Active in promotional purchases, storage and distribution, Moscow based **Pharmarichter O.O.O.** proved to be a high-performing company in 2019 in both technical and financial terms.

Established in 2018, the Russian subsidiary **Gedeon Richter Farma O.O.O.** took over sales support to Richter's representative offices in Russia from 1 January 2019. Its activity is financed on the basis of the 'cost-plus' marketing service agreement applied within Richter Group. Registration tasks have been retained by the Moscow representative office. Transforming and continuously maintaining the operating conditions of this large company with numerous staff was an important task for 2019.

Gedeon Richter KZ L.L.P. fully owned by Richter is active in the field of distribution and marketing. Its profit for 2019 met the parent company's expectations with risk management in accordance with legislative changes.

The core business of **Richter-Helm BioTec GmbH & Co. KG** has been project management and business development in the field of microbial biotechnology, currently focusing exclusively on teriparatide. Similarly to the previous year, the 2019 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.

In Brazil **Gedeon Richter do Brasil Importadora Exportadora e Distribuidora SA** continued the sales of Richter's women's healthcare products in 2019 and realised a steadily increasing turnover throughout the year.

In May 2014 Richter signed an acquisition agreement in respect of **Mediplus N.V.**, which resulted in holdings in Curaçao, Bolivia, Chile, Peru and Ecuador and strengthens Richter's penetration in Latin America. In 2015 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 2019 the Mediplus Group strengthened its presence in the regional market.

6.2. Wholesale and retail

Romania

The 99.99% owned by **Gedeon Richter Romania S. A.**, **Armedica Trading S.R.L.** is a holding company managing the assets of Richter Group's Romanian distribution and retail enterprises.

The Hungarian parent company developed a full-fledged vertical sales network in Romania with the companies owned by Armedica as endpoints. The two organisations play an important role in the commercialisation of the finished products of the Hungarian and Romanian companies and in strengthening acceptance of the Richter Group in Romania.

The Group's wholesale company in Romania is **Pharmafarm S.A.** The company generated a 29% increase in sales in 2019, also contributed by the low reference figure due to a two-month suspension of the company’s operating license. The introduction of serialisation led to shortages of numerous products in the Romanian market. Income from sales was influenced by two additional factors: by Q4 sales of high-price-low-margin products advertised in the country programme dropped; on the other hand, hospital sales were boosted by the end-of-year rush to make full use of supplementary budgets. Net operating income was 53% up compared to prior year.

Gedeon Richter Farmacia S.A. is the Romanian group's retail company. In 2019 one pharmacy license was sold, so in December the network consisted of 91 fully operating outlets. Turnover per outlet was 6% higher on the average than prior year. Unfortunately, suspension of Richter's wholesale company also affected the retail company and resulted in a reference year performance below the usual standards. In the course of 2019 several outlets were relocated to more profitable locations, and as part of the new strategy, a new pharmacy was opened in a small village with promising results. In rural areas where pharmaceutical supply is problematic, legislation enables economic organisations operating licensed pharmacies to open pharmacies on the strength of only a permit of establishment.

The CIS

Due to the provided supplier contracts the profitability of Richter's exclusive distributor in Moldova, **Rihpangalfarma S.R.L.**, improved significantly. Earlier 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 position and maintenance of the market share achieved earlier.

The quality and efficiency related transformation of the Moldovan retail network **GR–Retea Farmaceutica S.R.L.** continued as two more loss making outlets were closed down and the proceeds from the sale of the related real properties owned by the company were used to repay the loan provided by the parent company. As new outlets were opened, the number of functioning pharmacies has not changed. The sales income the network of pharmacies dropped by 5% and could no longer finance costly pharmacy replacements, therefore the company's profitability deteriorated over the reference year.

Armenia had a new government formed after the general elections at the end of 2018, and in February 2019 Parliament adopted the new government's five-year programme. After massive expansion in 2017 and 2018 (7.5% and 5.2% respectively), the economic growth

continued to be vigorous in 2019. After 2.5% in 2018, the annual average inflation dropped to 1.8% by August 2019 with low external and internal inflationary pressure. These steady and positive changes are reflected by the 2019 profitability of the wholesale subsidiary **Richter Lambron O.O.O.**

The ramifications of the national economic growth have not yet been reflected in the profitability of the Armenian retail company **Gedeon Richter Apteka Sp O.O.O.** and its network of 27 pharmacies. The network continues to adjust itself to the conditions shaped by the market and competition and in 2019 it retained its position achieved earlier.

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 2019. 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 better 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 m^2 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%.

Richter and the U.S. based pharmaceutical company **Evestra Inc.** signed a cooperation agreement in 2015. Financial support from Richter will allow the American company to move its innovative portfolio to the clinical stage. In July 2019 Richter subscribed newly issued Evestra Inc.’s shares amounting to USD 15 million. The transaction was part of a capital increase initiated by Richter. At the same time Richter's USD 1.5 million loan provided to Evestra in 2017 was converted to shares; as a result of these transactions Richter has become Evestra's biggest shareholder.

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 2019. Operation of these affiliated undertakings is focused predominantly to Hungary.

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
Cariprazine's considerable significance in contributing to the company's sales return and profits	Cariprazine's contribution overwhelmingly depends on the net sales income achieved by our U.S. license partner and the long-term existence of the American drug pricing environment conducive to the introduction of innovative medicinal products	Joint indication extension and PASS studies with our U.S. partner, license agreements with new partners to extend the geographic areas	Unchanged risk
Higher risk involved by original CNS (central nervous system) research projects entering into advanced stages	Several CNS research projects are entering the clinical trials stage with highly increasing costs and continued high dropout risk	Regular review of projects along rigorous criteria ("go–no go" decisions), involvement of developing and license partner from the proof of concept stage	Increasing risk
Women's health specialty and biosimilar product development and commercialisation with own resources and with partners	Compared to generic development, registration involves high-cost and high-risk clinical studies meeting special regulatory requirements; with scarce own R&D resources	Development of medical and regulatory fields, close monitoring of clinical studies and CROs (Contract Research Organization); Conclusion of complex cooperation agreements for the development and licensing of women's health specialty and biosimilar products	Unchanged risk
Maintenance of commercialisation of branded generic products	The markets of our branded generic products are characterised by government-induced price pressure, keen competition, eroding prices, and short product cycles	Development of well-chosen new generic products and being among the first to launch them in our key markets	Unchanged risk
Protection of our classic product portfolio amidst shrinking market opportunities	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 (pharmacovigilance) system, active regulatory dialogue, sustaining development projects	Increasing risk

Pharmaceutical industry related price reimbursement, operational and compliance risks

Risk	Description	Priority risk management procedures	Changes in risk
Negative changes in drug price subsidy in the CEE region, Russia and China; claw-back taxes in European countries	Cutting the price and range of subsidised drugs may reduce the margin in the CEE region, in Russia and China; claw-back taxes reduce operating profit	Exposure may be reduced by introducing new products and focusing promotion on less threatened products	Increasing risk
Difficulties of hiring qualified workforce at the Group's CEE subsidiaries	Hiring and supplying qualified pharma workforce is increasingly difficult in the Hungarian, Romanian and Polish labour markets	Application of pay raise and long-term loyalty enhancing schemes; Special wage increase in production facilities in 2019; launching own vocational training Relocation of production to Russia University training partnerships	Unchanged risk
Increasing costs and decreasing output due to EU serialisation requirements entering into effect and preparation for serialisation in Russia	Printing of packaging unit level ID marks and transferring them through the IT systems requires substantial investment, reduces output, and causes shortages in the market	Employment of additional workforce, introduction of weekend shifts, purchasing new packaging lines	Unchanged 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

Risk	Description	Priority risk management procedures	Changes in risk
Meeting in some cases extremely high quality standards of pharmaceutical product development and manufacturing; monitoring adverse effects and 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 condition 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	Unchanged risk
Ensuring high-standard availability of pharmaceutical installations and IT systems, maintenance of appropriate level of IT security	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 Forex, 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, Other countries) and with some of the Group members' buyers (Romanian wholesale company)	Extended insurance with MEHIB on CIS and Other countries trade receivables of Richter Group Market COFACE insurance on Pharmafam's Romanian customers	Decreasing risk
Investment risk attached to liquid assets	Secure investment of the parent company's 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: corroboration of transfer pricing among affiliated undertakings	Procedure to report royalty related tax allowance agreed upon by the tax authority, possibility for the parent company to carry forward unused tax credit from unused tax losses (TLCF) Group: process established based on transfer pricing Masterfile, local transfer pricing documentations	Decreasing risk

8. Events after the reporting period

In January 2020, Nedermed B.V. was wound up without a successor.

On 2 March 2020, Richter and WhanIn Pharm. Co., Ltd. announced the signing of an exclusive license and supply agreement to commercialize cariprazine, a novel antipsychotic in South Korea. Richter receives a one-off milestone payment upon signature and will be entitled to further sales-related milestone payments after the product is launched if certain targets are met.

In accordance with the applicable laws of the Russian Federation, ZAO Firma CV PROTEK, has submitted a voluntary bid to buy back the shares issued by PAO PROTEK at a purchase price of RUB 100 (one hundred) per share. The Company considers the purchase offer to be a non-adjusting event after the balance sheet date. The offer has no significant impact on these financial statements nor on 2020's, given that according to IFRS 9 standard, the investment in Protek is valued at fair value based on stock exchange price. Share price was RUB 100.3 per share as at 31 December 2019.

In late 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally and its negative impact had gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event. While this is still an evolving situation at the time of issuing these separate financial statements, to date there has been no discernible impact on the Company’s sales or supply chain, however the future effects cannot be predicted. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects.

On 13 March 2020, the Company announced, subsequent to its meeting held on 09-12 March 2020 the Pharmacovigilance Risk Assessment Committee (PRAC) of European Medicines Agency (EMA) has started a review procedure following a recent case of liver injury which led to liver transplantation in a patient taking Esmya. PRAC recommends suspension of ulipristal acetate for uterine fibroids during ongoing review of liver injury risk. The PRAC has recommended, as a precautionary measure, that women should stop

taking 5-mg ulipristal acetate (Esmya and generic medicines) for uterine fibroids while a safety review started this month is ongoing. No new patients should start treatment with these medicines. The company concluded that according to IAS 10 the event mentioned above is an adjusting event after the reporting period.

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 (including UK), 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 2019 individual Annual Report prepared pursuant to the IFRS

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 2019 (in which the total assets is MHUF 801,020), the income statement, the statement of comprehensive income (in which the total comprehensive income for the year is MHUF 54,389 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 2019, 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 2019 to 31 December 2019, are disclosed in Note 5 of 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 3,200
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. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

Materiality	MHUF 3,200
Determination	Approximately 3.4% of the profit before tax adjusted with the impairment of Esmya intangible asset and impairment of the investment in PregLem S.A.
Rationale for the materiality benchmark applied	The impairment of Esmya intangible asset and the impairment of the investment in PregLem S.A. are one-off events disclosed in Note 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 3.4% ratio as suitable considering the operation of the Company and the users of the financial statements.

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 net book value of the Company's investment in PregLem S.A. amounts to HUF zero and its Esmya intangible asset amounts to MHUF 911 as of 31 December 2019 as a result of recording an impairment of MHUF 29,368 on the investment and a net impairment of MHUF 6,918 on the intangible asset in the reporting period. See Notes in the accounting policy section IV)-V), IX) and Notes 12.2 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 factors led to the write-off of PregLem S.A. investment 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 paid special attention to the intangible asset and investment due the existing uncertainty through the year as well as the material impact of their impairment on the results.	Before becoming aware of the events after the balance sheet date disclosed in Note 3.1 of the financial statements, 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. Adverse events after the balance sheet date disclosed in Note 3.1 to the financial statements significantly reduced the uncertainties related to impairment of intangible asset and investment. We have assessed the events to be adjusting events in accordance with *IAS 10 Events after the Reporting Period*. 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.*

Key audit matter	*How our audit addressed the key audit matter*
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 131,828. 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, GR Australia PTY LTD 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, GR Australia PTY LTD 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 disclosures presented in Note 13 to the requirements of *IAS 1 Presentation of Financial Statements* and *IAS 36 Impairment of Assets.*

Other information: the business report and the annual report

Other information comprise the 2019 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 its 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 2019 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 2019 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.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HNSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HNSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 10 years.

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

Budapest, 23 March 2020

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 2019 individual Annual Report prepared pursuant to the IFRS

The Supervisory Board of
Gedeon Richter Plc.

REPORT

to the 2020 Annual General Meeting of Gedeon Richter Plc.

Budapest, 23 March 2020

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 2019

As in previous years, in 2019 the Supervisory Board (hereinafter: SB) worked in compliance with the provisions of the Hungarian civil Code and the Statutes of Gedeon Richter Plc. (hereinafter: the Company), following its rules of procedure and work plan. There was no change in the composition of the SB in 2019.
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, whose discussion was put off.
It held nine 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 2019

In compliance with the legal regulations, the SB discussed each of the quarterly reports and achievements. It also deliberated on all the significant documents and business policy reports that had been submitted to the AGM. It discussed the 2020 business plans of the parent company and of Richter Group (including the consolidated plans), the interim balance of 31.08.2019, the parent company's Financial Statements and the Consolidated Financial Statements for 2019, 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 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 2019 the SB discussed the following issues: Current state of the Company's trading; Occupational health and safety, OH&S policy; Capex projects and long-term capex plans; Wage development in light of KornFerry job classification; Pharmaceutical production and related maintenance with special regard to the implementation of serialisation; The current state and outlook of the generic portfolio; The current state and future outlook biotechnology; Review of Richter Group's control and supervision system; Activities of the Audit Department; Implementation plan of the strategy adopted by the Board of Directors.
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 2019.
2. Impacts of wage development in light of the KornFerry job classification;
3. Discussion and approval of the Report on Corporate Governance.
4. Discussion and approval of the 2019 financial statements, operating report, and the Independent Auditor's Report.
5. Discussion and approval of Richter Group's 2019 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 2019.

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 2019 and feedback on the Board of Directors' Report to the Annual General Meeting

The Company's main objectives for 2019 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 2019 major changes took place including but not limited to the following areas:
Return from sales dropped in China and the CIS, mainly in Russia and the Other CIS states region, and significantly increased in the United States, the EU, particularly the EU15 states, and in Ukraine.
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.
In 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 signed a license and supply agreement with a defined geographic scope for the combined ARC (androgen restored contraception) oral contraceptive containing estradiol, levonorgestrel and dehydroepiandrosterone developed by Pantharhei. Development is currently at successful Stage II trials.

In March 2019 Richter announced subscription of convertible bonds amounting to USD 5 million issued by Prima-Temp, Inc. The transaction was concluded after Richter had acquired exclusive license and distribution rights in 2017 to commercialize the innovative medical device, PriyaRing globally, except for the USA and Canada. PriyaRing is an internal sensor that identifies the subtle temperature changes that occur prior to ovulation.
In July 2019 Richter announced subscription of newly issued Evestra, Inc. shares amounting to USD 15 million as part of a capital increase. An earlier loan was also converted into shares. As a result of these transactions Richter has become Evestra's biggest shareholder with a stake of 34.45%.
In May 2019 the FDA approved a supplemental New Drug Application (sNDA) for expanded use of Vraylar™. 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. Once clinical trials are successfully concluded, the expansion will include the treatment of adults with major depressive episodes associated with bipolar I disorder (bipolar I depression). The Company announced the conclusion, in May 2019, of a license agreement with Sequirus Pty Ltd for the exclusive commercialisation of cariprazine in Australia and New Zealand; and in July 2019 a similar agreement was signed with Hikma Pharmaceuticals Plc to commercialize cariprazine in certain Middle East and North African (MENA) markets. In August 2019 Richter announced that Mitsubishi Tanabe Pharma Corporation's subsidiaries in ASEAN secured the regulatory approval of cariprazine for the treatment of schizophrenia in Singapore and in Thailand.
In August 2019 Richter launched its first biosimilar product teriparatide in the European market after the expiry of patent protection. The product has been developed by the Company's subsidiary Richter-Helm BioTec GmbH & Co. KG. In September 2019 Richter's license partner Mochida was granted marketing authorization for teriparatide in Japan and launched the product in November.
In October 2019 Richter and Mycovia Pharmaceuticals, Inc. announced that they entered into an exclusive license and development and technology transfer agreement to commercialize and manufacture a molecule currently in Phase III clinical trials for the treatment of recurrent vulvovaginal candidiasis (RVVC). The geographical scope includes the EU, Russia, Other CIS states, Latin America, and Australia. In addition, the two companies signed a royalty purchase agreement whereby Richter also acquires a certain portion of the net turnover of US sales of the product.
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.
In the course of 2019 Richter further expanded its international business through capital increase in its manufacturing companies and through continuing with its capital expenditure projects in progress (with special regard to the Russian subsidiary).

The Company's earnings for 2019:
The Group’s profit for the year for 2019 was 50,400 million, 59.6%, or HUF 18,821 million, higher year-on-year.
Sales revenues were boosted mainly by the royalty received from Allergan in respect of Vraylar™ sales as well as the one-off milestone payment for sales.
In 2019 the Company again reported impairment on its holdings in PregLem in respect of Esmya (Finance expenses) and on the intangible asset Esmya (Other expenses), in

the cumulative amount of HUF 36.0 billion (the 2018 amount was HUF 35.4 billion). The impairment was attributed to sales falling short of the 2018 projection, the expiry of exclusiveness in the EU, the 2020 PRAC proposals regarding Esmya, and the fact that the application for registration of Esmya in the U.S. is considered withdrawn.
Net income from sales totalled HUF 366,524 million in 2019, a HUF 36,440 million increase over the 2018 figure.
In the Hungarian market income from sales were 2.8% up with an overall market share of 5.0%, and a 7.7% share in the prescription drugs market, where Richter is second. In 2019 oral contraceptives again performed the best in terms of sales (6.7%). In 2019 no significant changes took place in terms of price regulations in the Hungarian pharmaceutical market.
The company's sales income from international markets was HUF 326,842 million, 12.1% above the reference year figure; the increase in euro is EUR 1,126.5 million or 8.7%.
The Russian operation continues to be the Company's leading market with turnover denominated in EUR 9.8% down from the reference year influenced by the devaluation (1.7%) of the rouble against the euro. Net turnover of Lisinopril dihydrate, Verospiron, Cavinton and Esmya denominated in rouble dropped by 11.3%; the impact was eased by rising sales in oral contraceptives and Aflamin. Sales in Ukraine in euro were 35.2% lower year-on-year. The total turnover achieved in the CIS market was HUF 109,672 and contributed 33.6% to export, 3.8% down from the 2018 figure.
The turnover achieved in the EU is HUF 107,835 million contributing 33.0% and 11.9% higher than in 2018. The EUR 23.9 million (or 15.6%) increase of the EU15 region is explained primarily by boosting sales of Esmya, Terrosa, Bemfola and Reagila, dampened by declining sales of oral contraceptives. The contribution of turnover achieved in the Central and East European member states of the EU region dropped from 49.4% in the reference year to 46.6%; turnover in euro grew 3.3%.
Sales in the United States were 94.7% (HUF 33,028 million) up in forint and 80.51% up in dollar, due primarily to income from Vraylar related royalty.and one-off milestone income.
China achieved HUF 18,984 million in 2019, HUF 7,456 million short of the previous year resulting predominantly from dropping Cavinton and Panangin sales.
After a 17.3% increase, the Latin American region contributed HUF 3,974 million, or 1.2%, to sales in international markets.
The Other countries segment achieved HUF 18,460 million in turnover, 13.2% up from last year (and 10.7% 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 operating costs of sales were HUF 24,075 million higher year-on-year. Payroll grew only to a lesser extent at company level. On the whole, average wages increased (as of 1st March 2019 the basic wage was raised by categories by 6.0%, 5% and 3%, and a 3% differentiated increase also took place), while head count decreased due to the transformation of the representative offices in Russia into a company (with wages are recognised as marketing costs).
Cost of sales totalled HUF 118,266 million and were HUF 7,139 million over the 2018 figure as a joint result of changes in volumes of production and product mix.
Gross profit is HUF 248,258 million, HUF 29,301 million above the reference year figure. 1.4 percentage points above the reference year margin (67.7%).
Operating costs amounted to HUF 175,230 million, HUF 16,936 million above the 2018 figure. Sales and marketing expenses were HUF 4,880 million over the 2018 figure with a decreasing costs-of-sales to sales revenues ratio (from 31.5% to 29.7%);

administration and general expenses amounted to HUF 18,407 million, HUF 3,369 million in excess of the 2018 figure; and ,after a HUF 8,687 million year-on-year increase, R&D expenses amounted to HUF 48,001 million in 2019.
The balance of Other income and expenses decreased from HUF 13,962 million expenses in the reference year to HUF 12,627 million expenses in 2019. The balance strongly reflects HUF impairment reported on the intangible asset Esmya, and HUF 2,096 million impairment reported in conjunction with the discontinuation of development of trastuzumab. In the reported year HUF 5,717 million in milestone income was reported in conjunction with cariprazine, and clawback amounted to HUF 3,318 million in payments obligation.
Operating profit was HUF 59,955 million, 28.8% up year-on-year. Operating margin was 16.4%, after a 2.3 percentage points increase.
Net financial income/loss was HUF 2,930 million in loss in 2019 compared to a net financial loss of HUF 9,144 million recorded in 2018. Based on the impairment test of Esmya the company reported HUF 29,368 million in impairment on its holdings in PregLem, as well as HUF 250 million in impairment on GR Columbia, while HUF 296 million impairment was reversed in conjunction with the holdings in GR Mexico SAPI.
The unrealized financial item was largely affected by the HUF 2,932 million aggregate impact of Forex reassessments; the balance showed a HUF 4,948 improvement after HUF 2,016 million deterioration in 2018. Exchange rate losses realized from trade receivables and payables HUF 47 million in the reference year as opposed to a HUF 8,947 million gains in the reported year.
The 2018 profit before tax amounted to HUF 57,025 million, HUF 19,612 million more than in 2018.
The Company's after-tax profit for 2019 was HUF 50,400 million as opposed to HUF 31,579 million in 2018.
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 2019 highlighting some of the key issues addressed by the Supervisory Board in the course of the year

Current state of the Company's trading
Richter is involved in providing for patients in 100 countries. It is directly present in 50 countries on five continents though nine manufacturing and development facilities, 29 representative offices and 39 commercial and marketing subsidiaries with over 1,200 staff (over half employed outside Hungary). In 2019 the Group realised net sales income amounting to EUR 1.4 billion 90% of which was generated outside Hungary. Turnover in the EU12 was EUR 184.5 million in 2019, 0.5% over the reference year. In the reported period the aggregate sales of these countries contributed half to pharmaceutical sales in the European Union. Turnover in Hungary was HUF 38,736 million, in HUF, 9.4% and in EUR higher 6.2% higher year-on-year. In the Hungarian market, the Company is second with an overall market share of 5%, and a 7.7% share in the prescription drugs market. Sales income in the CIS states was EUR 35.6 million, 8.5% down from the reference year attributed mainly to the decline of the RUB and the KZT. Russian exposure typically decreased in 2019. In Russia, trade is conducted with a 900-strong organisation with regional offices and large staff ensuring control at the parent company. Turnover in Russia was RUB 21,389.9 million, 5.2% higher year-on-

year; denominated in euro, turnover was EUR 290.0 million, 6.3% short of the reference year. Due to the transformation of the Russian wholesale market and the deteriorating solvency of outlet chains Richter pays special attention to pursuing a conservative customer credit policy. Turnover in China was EUR 82.8 million in 2019, 6.7% higher year-on-year, mainly due to keener sales of Cavinton that included pre-shipment, and of Plan B oral contraceptives. As of 1 January 2019 the currency of invoicing was changed from euro to yuan (CNY). Turnover in euro in the EU15 states dropped by 18.3%. Increasing oral contraceptives and Bemfola sales could not make up for loss of income related to Esmya. Sales in Latin America are focused on Women's Healthcare products. The 2019 sales income amounted to USD 21.5 million, 4.0% below the reference year primarily because of lagging Esmya sales and strengthening competition by generic Plan B contraceptives. In the United States turnover was USD 133.6 million in 2019, 33.2 million higher year-on-year. This substantial increase is attributed to the royalty income related to cariprazine (Vraylar). In 2019 total pharmaceutical sales were practically at the reference year level (HUF 364.731 million) but dropped by 3.0% denominated in euro. Women's Healthcare products contributed EUR 411.9 million, or HUF 131.3 billion, to the 2019 sales, third highest worldwide. Richter is aiming at an even better position in this product category. Richter's Women's Healthcare products provide solutions for gynaecological problems of women of all ages (Richter for Women Program).

Occupational health and safety, OH&S policy

The Company's effort to optimise health and safety requires the designation of responsibilities and duties in all organisations and at all levels of hierarchy. The Health & Safety Department (H&SD) is responsible for interpreting relevant legislation, standards and other professional guidelines and considerations, enshrining them in rules and regulations, and communicating them to every employee of the Company. In discharging it duties the H&SD relies on the guidelines of the Occupational Safety and Health Management System (OHSMS). The regulatory function of OHSMS is implemented through the documents system (policy, manual, procedures, orders, memoranda, safety technology risk management, resource management, and performance evaluation feedback: OH&S policy, OSHAS 18001 certificate). The SB was presented with descriptions of the agencies that constitute the Company's and specifically the H&SD's health and safety network of connections (National Directorate General for Disaster Management, Budapest and county government offices, Hungarian Atomic Energy Authority, National Accreditation Authority, European Chemicals Agency, etc.). The H&SD undertakes its coordination duties at four sites with 66 staff, and is assisted by staff of warehousing and technology organisations. The most important functional actors of occupational health and safety are the safety officers (139) and facility-level firefighters (85); the main responsibilities of the H&SD set out in the Organisational and Operational Rules and Regulations is hazard identification and risk management, organisation of occupational health check-ups and conducting them in collaboration with the occupational health service provider, operation of accredited laboratories, operation of a radiation protection service, firefighter service at the facilities, operation of a civil protection organisation in Budapest, and control of risk posed by external employees. The goals of the H&SD is to comply with the relevant statutory provisions, professional rules and regulations and the provisions of the management system through in order to ensure a healthy and safe workplace in a sustainable fashion. The implementation strategy is comprehensively efficient and transparent regulation and raising safety awareness in

line with the Company's corporate culture and business strategy and through efficient use of IT tools in daily routine. In line with the Company's operation and strategic goals attention must be paid to the operating risk assessment and management of Biotechnology, to assess the hazards involved by chemicals used in research and manufacturing of generic and proprietary products; the H&SD proactively undertakes matrix functioning at operative as well as management levels. Regulation of the Company is in the process of revamping; the OHSMS regulation must stay in line with this process, and the software supporting the OHSMS (H&S IT modules) must be coordinated with the Company's IT development. The regulatory environment is very wide and complex and provides for the identification of thousands of requirements pertaining to the Company in the fields of occupational safety, fire protection, machine safety, disaster management/industrial security, radiation protection, and accreditation. The regulatory support provides a framework for operation and guidance for compliance. In harmony with the paradigm of EU legislation, they typically take the form of umbrella regulations with consequences that are not always clear and requirements that are sometimes contradictory, which can create obstacles.

Capex projects and long-term capex plans

The SB was acquainted with the Company's priority currently pending capex projects. The Microbiology Lab (MBL – the Company's key laboratory infrastructure for microbiological research) has been commissioned thanks to the involvement of support funds. The Debrecen communal and office building, which also houses a high availability server centre was created with the involvement of direct cash subsidy granted with Individual Government Decision. The building is expected to be opened for use in the first half of 2020. Aimed at expanding the manufacturing plant and improving its flexibility, the second stage of the Debrecen biotechnology project (DBP2) is in progress also with Individual Government Decision-based grant; the project is expected to be concluded by the end of 2020. Wide-ranging capex projects are implemented in the field of production. In the field of API manufacturing, capex projects in both Budapest and Dorog were basically aimed at maintaining production capacities (replacement of equipment and minor infrastructure upgrading). In the field of finished major products capex projects involved the supply system; in the Injectables plant, preparation for inspection took place; and in the Packaging plant the obsolete packaging line was replaced. During the summer shutdown the outdated UPS600 machine was replaced by a modern blister and cartoning line. Also in the shutdown period the necessary replacements were carried out in the Tablets plant with appropriate separation, which allows the installation of an additional line to be installed without interrupting production. The main goal of the replacement program is capacity expansion as changes in the portfolio of products require greater flexibility. In the first half of 2019 decision was made to revamp the infrastructure of RDK-II including entire storeys in order to upgrade ampoule manufacturing conditions. The first step of the project is to finalise concept design and to prepare for the disconnection of the area and demolition works to come next year. Complete revamping of the infrastructure is expected to take several years. As regards environmental capex projects, renovation of the settling basin at the Dorog site, and of the sewage treatment plants in Budapest should be highlighted. Auxiliary projects include the continued upgrading of the refrigeration system in Budapest; moreover, preparations of a long-term program to measure the energy consumption of plants and buildings in being prepared. In the field of warehouse management, infrastructure expansion at the Vecsés site and the concept design of Warehouse Management as well as Reception and Shipping

Warehouses is continued in accordance with the approved logistics strategy. In accordance with the real estate strategy, administrative buildings related capex projects will take place (Budapest: creation of archives room, relocation of central changing rooms, commencement of the concept design a new central office building; Debrecen: completion of the new communal and office building including the server centre, day-to-day operation-related IT development, expansion of the Technology R&D Lab). R&D capex projects include the purchase of analytical instruments and development of software for a variety of functions. The API production projects started in Debrecen in 2019 will be concluded. After the conclusion of the projects full closing of the support instrument is a priority. In March 2019 the Company's Welfare strategy goals were adopted. The crèche building project was discontinued and alternative solutions are investigated, and decision is required about further action; A design study was prepared about the construction of the Kőér Street recreation park; the decision required about further action is expected in 2020; A design study was prepared about the conversion of the Balatonszemes holiday facility; designs for securing the requisite licenses are in the making; decision is required about further action; Decision is required and expected in 220 about the extension of the Balatonlelle holiday facility.

The current state and future outlook biotechnology

Growth in the pharma market is driven by biotechnology products: they contribute approximately a quarter in numbers, and half in terms of value to all products in the market. In 2019 seven of the ten best-selling products were of biotechnology origin. Currently about half of the global R&D pipeline is biotechnology products. The dominant therapeutic areas are oncology and immunology with rheumatology and anti-inflammatory products also being important. These products are very expensive; the therapeutic costs involved are extremely high. Biosimilar development involves complex and high-cost procedures, the lead time is much longer than that of generic (small molecule) product development and is much closer to the lead time of biological products. Richter's biotechnology centres are the Budapest R&D facility, the Debrecen site, and Richter-Helm Biologics. As regards products, stepping up the volume of injectables filling is a challenge at the Debrecen site (current products are Bemfola and small molecules), and in the mammalian cell-based API production plant, partners are sought for outsourcing development and production; however, the market is saturated. The main source of risks is that this is a new and individual area with the related childhood diseases; in addition, there is a shortage of experiences workforce. There is little opportunity for training; the feasible option is participation at courses, conferences and networking to gain professional experience. Consultation with the regulatory authorities is a special priority. In some areas of indications such as osteoporosis, women's healthcare and rheumatology, Richter is capable of distributing its own products, while in other indications (e.g. oncology) trading partners must be involved. Richter acquired Bemfola (reproduction and fertility) in 2016; the medicine is currently commercialised in over 30 countries. Marketing authorisation of Terrosa (teriparatide, osteoporosis) was secured in January 2017; the launch took place in August 2019, Richter being the only pharma company offering this biosimilar product in the in European market. Teriparatide is commercialised by seven partners in different countries. Richter is planning to commercialise the product on its own in Australia. Pegfilgrastim (neutropenia) reached the late stage of clinical trials; the targeted geographical areas include the EU, the United States, and the rest of the world with partners.

1.2.2. Summary and the Supervisory Board's recommendation to the Annual General Meeting

The documents supporting the 2019 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 366,524 million in 2019, a HUF 36,440 million increase over the 2018 figure.

The Company's income from domestic sales grew by 2.5%, while income from international sales was HUF 326,842 million, 12.1% above the 2018 figure; in euro, the increase is EUR 1,126.5 million or 8.7%. The Russian operation continues to be the Company's leading market with turnover denominated in EUR 9.8% down from the reference year influenced by the devaluation (1.7%) of the rouble against the euro. Denominated in RUB, the turnover was 11.3% down. Sales in Ukraine in euro were 35.2% lower year-on-year. The total turnover achieved in the CIS market was HUF 109,672 and contributed 33.6% to export, 3.8% down from the 2018 figure. The turnover achieved in the EU is HUF 107,835 million contributing 33.0% and 11.9% higher than in 2018. The EUR 23.9 million (or 15.6%) increase of the EU15 region is explained primarily by boosting sales of Esmya, Terrosa, Bemfola and Reagila. The contribution of turnover achieved in the Central and East European member states of the EU region dropped from 49.4% in the reference year to 46.6%; turnover in euro grew 3.3%. Sales in the United States were 94.7% (HUF 33,028 million) up in forint and 80.51% up in dollar, due primarily to income from Vraylar. The 2019 turnover in the China was HUF 18,984 million, HUF 7,456 million less year-on-year (due to drop in Cavinton and Panangin sales) after a 17.3% rise, Latin America generated HUF 3,974 million in turnover, and turnover from Other countries was HUF 18,460 million, 13.2% up from the reference year (the increase in EUR was 1.70%).

Aggregate direct and operating costs of sales were HUF 24,075 million higher year-on-year. Payroll grew only to a lesser extent at company level. Costs of sales were HUF 118,266 million, HUF 7,139 million up. Gross profit is HUF 248,258 million, HUF 29,301 million above the reference year figure. 1.4 percentage points above the reference year margin (67.7%).

Operating costs amounted to HUF 175,230 million, HUF 16,936 million above the 2018 figure. Sales and marketing expenses were HUF 4,880 million over the 2018 figure with a decreasing costs-of-sales to sales revenues ratio (from 31.5% to 29.7%); administration and general expenses amounted to HUF 18,407 million, HUF 3,369 million in excess of the 2018 figure; and, after a HUF 8,687 million year-on-year increase, R&D expenses amounted to HUF 48,001 million in 2019.

The balance of Other income and expenses decreased from HUF 13,962 million expenses in the reference year to HUF 12,627 million expenses in 2019. The balance strongly reflects the impairment reported on the intangible assets Esmya and trastumab, the milestone income related to cariprazine, and claw back expenditure.

Operating profit was HUF 59,955 million, 28.8% up year-on-year. Operating margin was 16.4%, after an increase of 2.3 percentage points.

Net financial income/loss was HUF 2,930 million in loss in 2019 compared to a net financial loss of HUF 9,144 million recorded in 2018. As a result of the impairment tests of Esmya the Company reported HUF 29,368 million in impairment on its holding in

Preglem. The Unrealized financial items line was largely affected by the HUF 2,932 million aggregate impact of Forex reassessments.
The 2019 profit before tax amounted to HUF 57,025 million, HUF 19,612 million more than in 2018.
The Company's after-tax profit for 2019 was HUF 50,400 million as opposed to HUF 31,579 million in 2018.

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 2019 and the statements made in the Independent Auditor’s Report. Accordingly, it proposes the Company’s 2019 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 2019 Annual Report

2.1. Proposal for the approval of Gedeon Richter Plc's Balance Sheet and after-tax profit for 2019

Based on the Company's audited Annual Financial Statement for 2019 submitted to the Annual General Meeting, the analysis and Auditor's Statement issued by the auditor PricewaterhouseCoopers Ltd., and the SB's own analysis, the Supervisory Board proposes that the distinguished members of the Annual General Meeting approve the following:

- The Annual Financial Statements for 2019 submitted to the AGM (with total assets and total liabilities in the Balance Sheet being equally HUF 801,020 million), duly audited in compliance with the International Accounting Standards.
- The after-tax profit specified in the audited Profit and Loss Statement for 2019 (before dividend payment) being HUF 50,400 million.

2. 2. Proposal for the approval of Gedeon Richter Plc's after-tax profit and payment of dividend for 2019:

The proposal made by the Board of Directors is approved and supported by the Supervisory Board.

Based on this, the Supervisory Board proposes that the distinguished members of the Annual General Meeting

- approve the establishment of 63% dividend on ordinary shares, and payment of HUF 63 per share in dividend as proposed;
- furthermore, approve the recognition of after-tax profit less the dividend paid as the company's balance sheet profit, and order such profit to be allocated to retained earnings in accordance with the applicable statutory provisions.

Budapest, 23 March 2020

Dr. Attila Chikán
Chairman of the Supervisory Board

8.

Approval of the Company’s draft 2019 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.: 26/2020

The Board of Directors proposes to the AGM to approve the Company's draft 2019 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.: 28/2020

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 2019 in 25% of the consolidated after tax profit attributable to the Owners of the parent company, which is HUF 63, i.e. sixty-three Hungarian Forints per 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

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 2019 business year.

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- 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 ten 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.

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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[3] 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:
Dr. György Bagdy (independent) /from 24 April, 2019/
János Csák (independent) /until August 31, 2019/
Dr. Gábor Gulácsi (dependent)

[3] 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.

Dr. Ilona Hardy (independent)
Csaba Lantos (independent)
Gábor Orbán (dependent)
Dr. Anett Pandurics (independent)
Bálint Szécsényi (independent)
Dr. Norbert Szivek (independent) /until 24 April, 2019/
Prof. Dr. E. Szilveszter Vizi (independent)
Dr. Kriszta Zolnay (independent)

törölt: Dr. Gábor Perjés /until April 25, 2018/ (independent)¶
törölt: /from April 25, 2018/
törölt: /from April 25, 2018/

The introduction of the members of the Board of Directors is available on the Company's website at www.richter.hu.

The business activity of the Company is controlled by the Board of Directors in accordance with the Company's Statutes, the resolutions of the General Meeting and the relevant effective legal regulations. The Board's remit includes review and approval of the Company's future outlook, strategic principles and programmes, and its transactions beyond the boundaries of regular business. It monitors and regularly evaluates the Company's performance and the management's operation. It selects and contracts the Managing Director; it evaluates the Managing Director's performance and determines the Managing Director's remuneration. It ensures compliance with the statutory provisions and the Code of Corporate Ethics.

The Board of Directors acts and passes resolutions as a body. The Board of Directors keeps minutes of its meetings and its resolutions are documented. Besides the recurrent items on its agenda the Board discusses and evaluates the performance of each of the key business segments.

In 2019 the Board of Directors held ten (10) meetings with an average attendance rate of 91.36 %.

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törölt: 94.45

The Board of Directors has the quorum required for decisions on the merit of matters if at least two-thirds but at least three of its current members are present. The current number of members shall mean the number of members in office at the given time. If the Board does not have a quorum when it is first called, the Chairman shall call a repeated meeting for a date within three days from the original date. The reconvened meeting shall have a quorum if the majority of, but not less than three, members of the Board are present. The Board of Directors shall pass its resolutions by simple majority.

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 24 April, 2019 the remuneration of the Chairman of the Board of Directors was set at HUF 685,000.00 per month and that of the members of the Board of Directors at HUF 570,000.00 per month, for year 2019 effective as of January 1, 2019.

törölt: 25
törölt: 2018
törölt: 650
törölt: 540
törölt: 800
törölt: 2018
törölt: 2018

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. E. Szilveszter Vizi (independent)

Members: János Csák (independent) /until 31 August, 2019/
Dr. Ilona Hardy (independent)
Dr. György Bagdy (independent) /from 4 November, 2019/

törölt: Dr. Gábor Perjés /until 25 April, 2018/ (independent)¶
törölt: /from 25 April, 2018/

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 2019 business year the Corporate Governance and Nomination Subcommittee held one (1) meeting with an average attendance rate of 100%.

törölt: 2018
törölt: four
törölt: 4
törölt: s

In the 2019 business year the Corporate Governance and Nomination Subcommittee discussed the below subjects:
- audition of the candidates to the Board of Directors;
- assessment of the activity of the Board of Directors;
- Corporate Governance Report for year 2018.

törölt: 2018
törölt: - audition of the new candidate to the Supervisory Board;¶
törölt: 7

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. Anett Pandurics (independent)

törölt: Dr. Gábor Perjés /until April 25, 2018/ (independent)
törölt: /from April 25, 2018/

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 2019 business year the Remuneration Subcommittee held three (3) meetings with an average attendance rate of 100%.

törölt: 8
törölt: two
törölt: 2

In the 2019 business year the Remuneration Subcommittee discussed the below subjects:
- remuneration of members of the Board of Directors for year 2019;
- remuneration of members of the Supervisory Board for year 2019;
- reviewing the Chief Executive Officer's basic wage and other remuneration.

törölt: 8
törölt: 8
törölt: 8

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

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.

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.

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.

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.

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.

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.

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:

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
Tibor Horváth	- Commercial Director
Dr. István Greiner	- Director of Research
Dr. György Thaler	- Director of Development

törölt: Lajos Kovács . . . - Technical Director¶
András Radó . . . - Deputy Managing Director of Production and Logistics ¶

The introduction of the members of the Executive Board is available on the Company's website at www.richter.hu.

Conflict of interest and independence

In order to avoid conflict of interest of members of the Board of Directors and of the Executive 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.

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)
Dr. Zsolt Harmath (independent)
Dr. Éva Kozsda Kovácsné (employees' representative) (dependent)
Mrs. Klára Csikós Kovácsné (employees' representative) (dependent)

törölt: Mrs. Tamásné Méhész /until 25 April, 2018/ (independent)¶
törölt: /from 25 April, 2018/

The introduction of the members of the Supervisory Board is available on the Company's website at www.richter.hu.

The Supervisory Board monitors the operations of the Company. The Supervisory Board holds meetings regularly in accordance with the relevant legal regulations and its agenda, passes resolutions on the topics determined in its work plan, and takes action whenever the Company's operative activity so requires. The Supervisory Board keeps minutes of its meetings and its decisions are recorded.

Within its remit the Supervisory Board submits proposals to the Board of Directors, discusses the Company's strategy, financial results, capital expenditure policies, and internal control, risk management and audit systems. At its meetings the Supervisory Board receives regular and suitably detailed information about the Company's management. The Chairman of the Supervisory Board is entitled to participate in the meetings of the Board of Directors with the right to give advice.

In the 2019 business year the Supervisory Board held eight (8) meetings with an average attendance rate of 97.5 %.

törölt: 2018
törölt: ten
törölt: 10
törölt: 96

The Supervisory Board shall have a quorum if at least each of its members has been duly invited thereto and at least two-thirds, but at least four members are present. The reconvened meeting originally adjourned due to the absence of a quorum shall have a quorum if at least three (3) members of the Supervisory Board - in the ratio defined in Section 16.8 of the Statutes - are present. The Supervisory Board shall pass its resolutions by simple majority of those present.

The honoraria of the members of the Board of Directors are determined by the Annual General Meeting. At the Annual General Meeting of April 24, 2019 the remuneration of the Chairman of the Supervisory Board was set at HUF 570,000,00 per month and that of the members of the Supervisory Board at HUF 410,000.00 per month, for year 2019 effective as of January 1, 2019.

törölt: 5
törölt: 8
törölt: 478,400
törölt: 390
törölt: 8
törölt: 8

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
Dr. Zsolt Harmath

törölt: Mrs. Tamásné Méhész /until 25 April, 2018/¶
törölt: /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 2019 business year the Audit Board held four (4) meetings with an average attendance rate of 100%. In 2019 business year the Audit Board held consultation and adopted resolution without session furthermore at hat (6) occasions.

törölt: 2018
törölt: five
törölt: 5
törölt: 8
törölt: five
törölt: 5
törölt: 8

In the 2019 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 2018;
- determination of the annual report of the Audit Board;
- the Company's interim financial statement regarding the accounting date of August 31, 2019;
- 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.

törölt: 7
törölt: 8

In 2019 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. It is task for all executives to set an example in the area of handling diversity, tolerance, inclusion and diversity management, furthermore to encourage and within its possibilities to promote the practical expression of the Company's commitment to diversity.

Diversity is a tenet at all levels of Richter's operation. Thus 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, 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 resolutions regarding the composition of the boards approved by the AGM in 2019 the age distribution of the Board of Directors definitively did not changed. However due to Mr. János Csák's resignation from his membership in the Board of Directors with effect from 31 August, 2019, the participation rate of woman raised to 30% in the last quarter year among the members of the Board of Directors.

törölt: 8

törölt: n

törölt: ;

törölt: Comparing year 2018 with 2017, as a result of the changes that took place in the course

törölt: 2018 and of

törölt: AGM's

törölt: rate of women on the Board of Directors has improved and the

törölt: d

törölt: has become more balanced

In the Supervisory Board the 30% as a rate of women was provided also without any change in 2019.
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.

törölt: While the number of women on
törölt: and the Audit Board decreased by one in 2018, but
törölt: women's
törölt: on the Supervisory Board remained 30%
törölt: 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.

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 duty of directors responsible for execution of the certain strategic points.
- 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.
- 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

törölt: direct
törölt: ility of the Executive Management

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 2019 from our risks the following risks have emerged:
- Carrying original CNS research projects further into clinical trials stages
- Protection of our classic product portfolio amidst shrinking market opportunities
- Tightening in drug price subsidy in the CEE region, Russia and China
- claw-back taxes in European countries

While the risks below have decreased:
- Customer credit risk
- Taxation risks

törölt: 2018
törölt: the risks
törölt: 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 2019 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: 8

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 24 April, 2019 the remuneration of the Statutory Auditor for the 2019 year is HUF 22,000,000.00 + VAT, which includes the fee for the auditing of the 2019 consolidated annual report under IFRS, the fee for examining the consonance between the consolidated annual report and consolidated 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 non-consolidated interim financial statement, which shall be completed on the accounting date of August 31, 2019.

törölt: 26 April 2016
törölt: 8
törölt: 19
törölt: 8
törölt: non
törölt: non-
törölt: 8
törölt: 8
törölt: prepared in accordance with IFRS accounting principles
törölt: of
törölt: ing
törölt: 8
törölt: in accordance with the Hungarian Accounting Act

With the approval of the General Meeting, the business organization appointed as Auditor has audited the Company's individual financial statements and also audited the Company's consolidated financial statements prepared according to the International Financial Reporting Standards.

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.

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.

In 2018, the Global Compliance Program was started to be extended to affiliates and representative offices in Latin American countries and in the CIS member states. In 2019, the Spanish and Russian versions of the compliance materials were completed, with the help of which the local operating procedures were updated, and the employees of the affiliates could be trained.

In 2019, the Company continued to hold Global Compliance Program-related training, and as a result, "compliance awareness" has gathered ground. This phenomenon has also been reflected in an increase in the number of hotline cases of conflict of interest.

At the end of 2019, the Company initiated a review and update of the Compliance Handbook and the Code of Ethics, which is expected to be completed in the first half of 2020. The following factors justified the renewal of the Compliance Handbook:

- an increase in the number of hotline announcement related to conflicts of interest;
- implementations of new internal regulations;
- personal and organizational changes at the Company; and

törölt: In the first half of 2018,

törölt: conducted

törölt: Manuals

törölt: Since the introduction of the compliance program in 2016, t

törölt: update

törölt: - . 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);¶

törölt: (such as the Crisis Communication Procedure)

- experiences gained from the everyday application of the manuals by the concerned departments.

törölt: 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 2019 was HUF 379 million donated to 75 Hungarian hospitals, which was allocated for improving their equipment.

törölt: 8

törölt: 37

törölt: 68

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.

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.

Budapest, 28 April, 2020

törölt: 24 April, 2019

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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 2019 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 2019 /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	685,000 HUF/month	8,220,000
Dr. György Bagdy	Board member	from April 24, 2019 for a period of 3 (three) years expiring on the AGM in 2022	honoraria	570,000 HUF/month	4,560,000
János Csák	Board member	From April 26, 2017 until his resignation with effect from 31 August, 2019	honoraria	570,000 HUF/month	4,560,000
Dr. Gábor Gulácsi	Board member	From April 24, 2019 for a period of 3 (three) years expiring on the AGM in 2022	honoraria	570,000 HUF/month	6,840,000
Dr. Ilona Hardy	Board member	From April 26, 2017 for a period of 3 (three) years expiring on the AGM in 2020	honoraria	570,000 HUF/month	6,840,000
Csaba Lantos	Board member	From April 24, 2019 for a period of 3 (three) years expiring on the AGM in 2022	honoraria	570,000 HUF/month	6,840,000
Gábor Orbán	Board member	From April 26, 2017 for a period of 3 (three) years expiring on the AGM in 2020	honoraria	570,000 HUF/month	6,840,000
Dr. Anett Pandurics	Board member	From April 25, 2018 for a period of 3 (three) years expiring on the AGM in 2021	honoraria	570,000 HUF/month	6,840,000
Bálint Szécsényi	Board member	From April 25, 2018 for a period of 3 (three) years expiring on the AGM in 2021	honoraria	570,000 HUF/month	6,840,000
Dr. Norbert Szivek	Board member	From April 26, 2016 for a period of 3 (three) years expiring on the AGM in 2019	honoraria	570,000 HUF/month	2,280,000
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	570,000 HUF/month	6,840,000
Dr. Kriszta Zolnay	Board member	From April 26, 2017 for a period of 3 (three) years expiring on the AGM in 2020	honoraria	570,000 HUF/month	6,840,000

Members of the Supervisory Board

Name	Position	Term of the present mandate	Title of remuneration	Sum of remuneration	Total remuneration in 2019

törölt: 8
törölt: 8
törölt: 650,000 HUF/month
törölt: 7,800,000
törölt: for a period of 3 (three) years expiring on the AGM in 2020
törölt: 540,800 HUF/month
törölt: 6,489,600
törölt: 6
törölt: 6
törölt: 19
törölt: 540,800 HUF/month
törölt: 6,489,600
törölt: 540,800 HUF/month
törölt: 6,489,600
törölt: 6
törölt: 6
törölt: 19
törölt: 540,800 HUF/month
törölt: 6,489,600
törölt: 540,800 HUF/month
törölt: 6,489,600
törölt: Dr. Gábor Perjés ... [1]
törölt: 540,800 HUF/month
törölt: 4,326,400
törölt: 540,800 HUF/month
törölt: 4,326,400
törölt: 540,800 HUF/month
törölt: 6,489,600
törölt: 540,800 HUF/month
törölt: 6,489,600
törölt: 540,800 HUF/month
törölt: 6,489,600
törölt: 8

					/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	570,000 HUF/month	6,840,000
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	410,000 HUF/month	4,920,000
Dr. Zsolt Harmath	Board member	from April 25, 2018 for a period of 3 (three) years expiring on the AGM in 2021	honoraria	410,000 HUF/month	4,920,000
Mrs. Klára Csikós Kovácsné	Board member	from April 25, 2018 for a period of 3 (three) years expiring on the AGM in 2021	honoraria	410,000 HUF/month	4,920,000
dr. Éva Kozsda Kovácsné	Board member	from April 25, 2018 for a period of 3 (three) years expiring on the AGM in 2021	honoraria	410,000 HUF/month	4,920,000

Honoraria of the members of the Board of Directors for year 2019, effective as of January 1, 2019 was determined and approved by the Company's AGM in 2019 in resolution No. 17/2019.04.24. Honoraria of the members of the Supervisory Board for year 2019, effective as of January 1, 2019 was determined and approved by the Company's AGM in 2019 in resolution No. 18/2019.04.24.

In 2019 Members of the Board of Directors and of the Supervisory Board with reference to their such position 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.

törölt: 478,400 HUF/month
törölt: 5,740,800
törölt: 390,000 HUF/month
törölt: 4,680,000
törölt: Tamásné Méhész ... [2]
törölt: 390,000 HUF/month
törölt: 3,120,000
törölt: 390,000 HUF/month
törölt: 4,680,000
törölt: 390,000 HUF/month
törölt: 4,680,000
törölt: 8
törölt: 8
törölt: 8
törölt: 24
törölt: 8
törölt: 5
törölt: 8
törölt: 8
törölt: 8
törölt: 25
törölt: 8
törölt: 5
törölt: 8

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, in 2017 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 the future basically would be executed by establishing and operating EPP Organization (MRP) by the Company, preferred by the legislator. As the payment for acknowledging performances in 2019 through the EPP could not be made due to changes in statutory provisions - modifying the evaluation period to two years -, the Board of Directors has approved that the Company apply interim performance encouraging system which taking over the conditions of the EPP remuneration policy in as biggest volume as it is possible.

törölt: *2018*

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.

törölt: *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: -

törölt: *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.*

törölt: *, 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: -

törölt: *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, 28 April, 2020

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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

11.

Amendments to the Company’s Statutes

(changes due to Act LXVII of 2019 on Promoting Long-Term Shareholder Commitment, especially regarding the remuneration policy and the remuneration report; procedural rules of reporting by the Supervisory Board on the proposals of the Board of Directors, authorizing the Chief Executive Officer to amend the Organizational and Operational Rules and Regulations)

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 28, 2020.)

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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.

(3) **The Company is the General Legal Successor of Kőbányai Gyógyszerárugyár.**

(4) **The Company is Established for an Indefinite Period of Time.**

The Company shall commence its activities on the day of its foundation.

(5) **Scope of the Activities of the Company (TEÁOR'08):**

The main activity of the Company:

21.20 **Manufacture of pharmaceutical preparations**

Other scope of activities of the Company:

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10.86	Manufacture of homogenised food preparations and dietetic food
10.89	Manufacture of other food products n.e.c.
17.22	Manufacture of household and sanitary goods and toilet requisites
20.13	Manufacture of other inorganic basic chemicals
20.14	Manufacture of other organic basic chemicals
20.20	Manufacture of pesticides and other agrochemical products
20.42	Manufacture of perfumes and toilet preparations
20.59	Manufacture of other chemical products n.e.c.
21.10	Manufacture of basic pharmaceutical products
26.60	Manufacture of irradiation, electromedicinal and electrotherapeutic equipment
32.50	Manufacture of medicinal and dental instruments and supplies
35.11	Production of electricity
35.12	Transmission of electricity
35.13	Distribution of electricity
35.14	Trade of electricity
35.21	Manufacture of gas
35.22	Distribution of gas
35.23	Trade of gas
35.30	Steam and air condition supply
36.00	Water collection, treatment and supply
37.00	Sewerage
38.11	Collection of non-hazardous waste
38.12	Collection of hazardous waste
38.21	Treatment and disposal of non-hazardous waste
38.22	Treatment and disposal of hazardous waste
38.32.	Recovery of sorted materials
39.00	Remediation activities and other waste management services
41.10	Development of building projects
46.19	Agents involves in the sale of variety of goods
46.38	Wholesale of other food
46.44	Wholesale of china and glassware and cleaning materials
46.45	Wholesale of perfume and cosmetics
46.46	Wholesale of pharmaceutical goods
46.47	Wholesale of furniture, carpets, and lighting equipment
46 49	Wholesale of other household goods
46.52	Wholesale of electronic and telecommunications equipment and parts
46.69	Wholesale of other machinery and equipment
46.73	Wholesale of wood, construction materials and sanitary equipments
46.75	Wholesale of chemical products
46.76	Wholesale of other intermediate products
46.90	Not specialized wholesale trade
47.41	Retail sale of computers, peripheral units and software in specialized stores
47.42	Retail sale of telecommunication products in specialized stores
47.53	Retail sale of carpets, rugs, wall and floor coverings in specialized stores
47.59	Retail sale of furniture, lighting equipments and other household articles in specialized stores
47.73	Dispensing chemists in specialized stores
47.78	Other retail sale of new goods in specialized stores
49.20	Freight rail transport
49.41	Freight transport by road
52.10	Storage and warehousing
52.21	Service activities incidental to land transportation
52.24	Cargo handling
55.20	Holiday and other short-stay accommodation
55.90	Other accommodation
56.21	Event catering activities
56.29	Other food service activities
64.20	Activities of holding companies
64.30	Trusts, funds and similar financial activities
64.99	Other financial service activities, except insurance and pension funding n.e.c.
68.10	Buying and selling of own real estate
68.20	Renting and operation of own or leased real estate
68.32	Management of real estate on fee or contractual basis
69.20	Accounting, bookkeeping and auditing activities; tax consultancy
70.10	Activities of head offices
70.21	Public relations and communications activity
70.22	Business and other management consultancy activities
71.12	Engineering activities and related technical consultancy
71.20	Technical testing and analysis
72.11	Research and experimental development on biotechnology
72.19	Other research and experimental development on natural sciences and engineering

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72.20	Research and experimental development on social sciences and humanities
74.90	Other professional scientific and technical activities n.e.c.
77.12	Renting and leasing of trucks
77.32	Renting and leasing of construction and civil engineering machinery
77.33	Renting and leasing of office machinery and equipment (including computers)
77.39	Renting and leasing of other machinery, equipment and tangible goods n.e.c.
77.40	Leasing of intellectual property and similar products, except copyrighted works
81.10	Combined facilities support activities
81.29	Other cleaning activities
82.30	Organization of conventions and trade shows
82.92	Packaging activities
82.99	Other business support service activities n.e.c.
85.10	Pre-primary education
85.51	Sports and recreation education
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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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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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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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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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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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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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) advisory vote on the remuneration policy (at a material change thereof but in any case at least every four years) and advisory vote on the remuneration report on the previous business year [Subsections 3:268 (2)-(3) of the Civil Code]; decision concerning the approval of the report on corporate governance (Subsection 3:289 (2) of the Civil Code); (in each case above simple majority of those present at the General Meeting, but at least 20% + 1 vote of all the voting shares);

Törölt: 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

(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.

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13.9 (Deleted on the basis of the resolution of the AGM of April 28, 2009.)

(14) The Board of Directors

14.1 The Board of Directors shall be the Company's managing body. It shall represent the Company with respect to third parties, in court and before other authorities. The Board of Directors shall develop and control the Company's operations and shall exercise employer's rights over the Chief Executive Officer. 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 Chief Executive Officer 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 proposals relating to the matters specified in Section 12 of these Statutes, in case of a prior approval of the Supervisory Board, to approve such proposals and submit them to the General Meeting; in case of proposals not approved by the Supervisory Board in advance or proposals deviating from the one approved by the Supervisory Board, to send the proposal approved by the Board of Directors to the Supervisory Board again and submit it to the General Meeting;

Törölt: 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;

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(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;

(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 Chief Executive Officer entrusted with the management of the Company;

(h) to approve the Company's internal Organizational and Operational Rules and Regulations and to authorize the Chief Executive Officer to amend parts of the Organizational and Operational Rules and Regulations identified in the resolution of the Board of Directors;

(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.

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(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.

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

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accordance with Subsection 3:124 (1) of the Civil Code . The members of the Supervisory Board shall elect a chairman from among themselves.

The majority of the members of the Supervisory Board must be independent. A member of the Supervisory Board shall be independent if the member has no other legal relationship with the Company than the membership of the Supervisory Board, or legal relationships which are part of the Company's ordinary activities and aims to fulfill the personal needs of the Board member.

A Member of the Supervisory Board is not independent, if he/she:

a) is an employee or previous employee of the Company for five years following the termination of such legal relationship;
b) carries out activities as an expert or in another mandate legal relationship for the Company or its executive officers and their benefit for consideration;
c) is a shareholder in the Company who directly or indirectly possesses at least thirty percent of the votes or is a close relative [Subsection 8:1 (1) 1. of the Civil Code] or common law spouse of such a person;
d) is a close relative or common-law spouse of one of the Company's – not independent – executive officers or executive employees;
e) is entitled to financial benefits as a member of the Supervisory Board upon the successful operation of the Company, or if he is remunerated by the Company, or by a business affiliated with the Company, in addition to the fee received as a member of the Supervisory Committee;
f) is in a legal relationship in a company with a non-independent member of the Board of Directors or the Supervisory Board, 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. If the Supervisory Board examined the General Meeting proposal submitted to the Board of Directors in advance, and the Board of Directors approved that with unchanged content, another examination by the Supervisory Board is not necessary. 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.

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16.6 The procedural rules (standing orders) governing the Supervisory Board shall be established by the Supervisory Board and approved by the General Meeting.

16.7 The Supervisory Board shall have a quorum if each of its members has been duly invited thereto and at least two-thirds, but at least four of the members are present. If there is a lack of quorum, the meeting shall be postponed. The reconvened meeting shall have a quorum if at least three members of the Supervisory Board - in the ratio defined in section 16.8 hereafter - are present. The Supervisory Board shall pass resolutions by simple majority of those present.

16.8 As long as the number of the Company's full time employees exceeds a yearly average of two-hundred, the employees shall participate in the control of the Company's activities through the Supervisory Board. In such case, one-third of the members of the Supervisory Board shall be comprised of employees' representatives. In the event of an uneven number, such one-third shall be calculated in such a manner which is more favorable to the employees.

16.9 If at the time of adopting the Company's annual report it is determined at the Annual General Meeting that the number of employees dropped below two hundred during the previous financial year, the right of employee representatives to participate in the Supervisory Board shall cease. (Subsection 3:125 (4) of the Civil Code)

16.10 Following a statement of opinion from the trade unions represented at the Company, the employees' delegates on the Supervisory Board shall be nominated by the works council from among the employees. Persons nominated by the works council shall be elected as members of the Supervisory Board by the General Meeting at its first meeting following such nomination, unless statutory grounds for disqualification exist in respect of the nominees. In 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;

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e) preparation of the agreement to be concluded with the auditor,

f) observing the enforcement of the professional, conflict of interest and independency requirements applicable to auditors – with special regard to compliance with the requirents in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, undertaking the duties in connection with the co-operation with the auditor, monitoring other services provided by the auditor – or if the auditor belongs to a network, members of such network - to the Company or the companies controlled by the Company besides the auditing of the consolidated and individual annual reports, and in case of need, recommendations to the Supervisory Board regarding the arrangements to be carried out;

g) monitoring of the operation of the financial accounting system and submitting recommendations regarding the necessary arrangements where deemed necessary;

h) assistance with the work of the Supervisory Board in the interest of the appropriate supervision of the financial accounting system as well as

i) monitoring the effectiveness of the company's internal control and risk management systems and submitting recommendations where deemed necessary.

(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.

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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

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body where the annual reports of the Company is discussed. The Auditor shall participate in the meeting, however if the Auditor s absent, the meeting may be held nonetheless. (Section 3:131 of the Civil Code)

(18) Business Year

18.1 The business year shall be the calendar year. The first business year shall commence on the date of the foundation of the Company and shall end on 31 December of the same year.

18.2 Subsequent to the closing of the business year, a consolidated and an individual report shall be prepared with regard to the previous business year.

(19) The Books of the Company and Financial Statements

19.1 The Company shall keep its books in the Hungarian language. The books and other records of the Company shall be kept at the seat of the Company, and shall be available at any time for inspection for the members of the Board of Directors, the Supervisory Board, and the Auditor.

19.2 The members of the Board of Directors shall bear joint and several liability for the preparation of the consolidated and the individual annual report submitted to the General Meeting in accordance with all applicable laws.

19.3 The Company's after-tax profit shall be allocated according to the following principles:

- the General Meeting shall determine the proportion of the Company's after-tax profit to be allocated for profit reserves and for dividend distribution. The General Meeting shall also determine the amount to be withdrawn from the profit reserves for the purpose of dividend distribution, and the actual amount to be distributed as dividends;

- a shareholder shall be entitled to that part of the Company's after-tax profit determined by the General Meeting as a dividend in proportion to his shareholding in the Company. Any dividend that is payable on the company’s own shares shall be divided to shareholders entitled to dividends, payable in proportion of the nominal value of their shares;

- the payment of dividends shall commence at least ten (10) business days after the date of the first publication of the announcement containing also the amount of the dividends and based on the resolutions passed by the General Meeting or the Board of Directors on the amount of the dividends and the commencement date of the payment of dividends.

19.4 At the end of each financial year, a consolidated and an individual annual report shall be prepared regarding the Company's assets. The approval of such report shall fall within the exclusive competence of the General Meeting of the Company. The Company’s individual interim balance sheet relating to the acquisition of the Company's shares by the Company, the payment of interim dividends and the increase of the registered capital from the Company's assets in excess of its registered capital, may also be approved by the Board of Directors with the prior consent of the Supervisory Board.

19.5 During the period between the approval of two consecutive individual financial reports, the General Meeting of the Company may resolve to pay interim dividends, if according to the Company’s individual interim balance sheet according to the Accounting Act, the company has funds sufficient to 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

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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.

(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

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to the consideration of proposals presented to the General Meeting. The General Meeting shall vote regarding the exclusion proposal simultaneously with the vote regarding the proposal relating to the increase of the registered capital. The Board of Directors shall submit to the Court of Registration the resolution of the General Meeting, and shall simultaneously arrange for the publication of an announcement regarding the contents of the resolution in the Company Gazette.

If the increase of the registered capital is carried out through a private issuance of new shares for in-kind contribution, the persons entitled to receive such shares shall be indicated in the resolution deciding on the increase of the registered capital. The category and the class, the number, the series, the nominal and issue value of the shares to be received by such persons shall also be indicated in such resolution.

If the increase of the share capital is carried out through a private issuance of new shares for cash contribution, the persons entitled - to the extent the persons entitled to exercise preferential rights to receive shares have not exercised such rights, or the General Meeting has excluded the exercise of such rights - to receive such shares shall be indicated in the resolution. The category and the class, the number, the series, the nominal and issue value of the shares to be received by such persons shall also be indicated in such resolution. (On the basis of Subsection 3:296 (2) of the Civil Code) Upon the public issuance of shares, the resolution of the General Meeting regarding the increase in registered capital shall not specify the group and person of future shareholders taking part in the increase in registered capital. Persons wishing to acquire the new shares shall undertake to pay the consideration due for the shares and become entitled to receive the shares pursuant to the registration proceedings as set forth in the legislation applicable to securities.

The Company may increase its registered capital by its assets in excess of registered capital, or a part thereof, if, according to the balance sheet of the individual annual report prepared for the previous financial year or to the interim balance sheet of the year, the Company has sufficient funds in excess of the share capital, which can be used for increasing the share capital, and if the Company's resulting registered capital does not exceed its adjusted equity capital shown inthe Company’s individual balance sheet. The annual report or the interim balance sheet may be taken into consideration for determining the size of funds in excess of the share capital within the six-month period following the balance sheet date. (Section 3:300 of the Civil Code).

20.3 The Board of Directors is, for a period of five (5) years from April 28, 2010 entitled to increase the Company's registered capital by a maximum of twenty-five percent (25%) per year. The largest amount by which the Board of Directors may increase the Company's registered capital within five years shall be HUF 38,239,604,000 that is, thirty-eight billion two hundred and thirty-nine million and six hundred and four thousand Hungarian Forints, thus the amount of the approved registered capital shall be HUF 56,877,090,000 that is, fifty-six billion eight hundred and seventy-seven million and ninety thousand Hungarian Forints.

If the Company has issued shares belonging to different types or classes, the General Meeting's resolution on the temporary transfer of the competence relating to the increase of the registered capital shall be valid only if the shareholders of the differing types and classes directly affected by the increase in the registered capital have also granted their consent for the temporary transfer of such competence separately, prior to or simultaneously with the resolution on the increase of the registered capital, with a simple majority of the votes present at the General Meeting. In the course thereof, the provisions on any restriction or exclusion of voting rights attached to such shares may not be applied, save where voting rights relating to shares held by the Company are excluded.

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.

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(21) Foundation Expenses

The Founders agree that any costs and stamp duties in connection with the foundation of the Company shall be borne by the Company.

(22) Termination of the Company

22.1 The Company shall be terminated if:

(a) the General Meeting resolves its termination without legal successor;
(b) the General Meeting resolves its termination with legal succession (transformation, merger, demerger);
(c) the court of registration terminates it based on the causes set forth in the Act on Company Registration and Winding-up Proceedings);
(d) the legislation so provides;

22.2 If the Company is terminated without legal successor, the assets of the Company remaining after the claims against the Company have been satisfied, shall be distributed among the shareholders on the basis of the their payments and contributions in kind actually provided, in proportion to the face value of their shares.

(23) Applicable Law, and the Procedure for Settling Legal Disputes

23.1 Matters not provided in these Statutes are governed by the provisions of the Civil Code, the Capital Market Act and Act XXIV of 1988 on Foreign Investments in Hungary (as amended).

23.2 The Permanent Court of Arbitration attached to the Hungarian Chamber of Commerce and Industry shall have exclusive jurisdiction and competence to decide any a) all legal disputes based on a company law relationship between the Company and its shareholders, including excluded shareholders or shareholders who have otherwise parted ways with the Company; b) legal disputes in connection with the Statutes or the operation of the Company between shareholders in their legal relationships; c) any dispute between the Company and its executive officers or Supervisory Board members, arising out of their office or membership in the Supervisory Board, and d) the review of resolutions adopted by the General Meeting. The Court of Arbitration shall apply its rules of procedure and appoint a panel comprised of three arbitrators. The members of the panel or its chairman may be foreign individuals. (Subsections 3:92 (1) and (2) of the Civil Code)

23.3 The venue of the Court of Arbitration shall be Budapest.

23.4 The language of the proceedings of the Court of Arbitration shall be Hungarian.

23.5 Throughout the proceedings before the Court of Arbitration, the parties are mutually obliged, at the request of any one of the adverse parties to give the Court of Arbitration and the adverse party copies of the legal documents in both English and Hungarian.

23.6 In case of legal dispute, applicable law shall be Hungarian law.

(24) Announcements, Advertisements

24.1 Announcements and advertisements of the Company shall be published on its homepage. Furthermore, if required by law, announcements shall be published in the Cégközlöny (the official gazette of the Hungarian Courts of Registration). In addition thereto, as long as the shares of the Company are traded on the Budapest Stock Exchange (BSE), those announcements required by the BSE shall be published in a manner as set forth by the BSE.

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(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 28, 2020.

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I hereby countersign on the basis of Section 51(3) of Act V of 2006 on Public Company Information, Company Registration and Winding-up Proceedings the Statutes of Chemical Works of Gedeon Richter Plc. which were prepared by me and are consolidated with the amendments of Sections 12.1 (g), 14.4 (b) and (h), 16. 3 (b), as well as Annex (A) provided for by resolutions no. [.] and [.] passed by the Annual General Meeting held on April 28, 2020.

Törölt: *2, 5 and 14.2*

Törölt: *9-11*

Törölt: *, 14-16*

Törölt: *19*

Törölt: *24*

Törölt: *19*

Törölt: *23*

Törölt: *19*

Date of countersigning: Budapest, May [●], 2020

Name of attorney at law: dr. András Szecskay
bar identification number: 36069294

12.

Advisory vote on the remuneration policy applicable from 2021

REMUNERATION POLICY

PREAMBLE

Gedeon Richter Plc. (hereinafter: the Company) shall develop its remuneration policy pursuant to the relevant effective Hungarian and European Union legislation.

The purpose of the Remuneration Policy is to provide an incentive for the Company's senior executives to improve their performance in the interest of the Company's profitable operation.

The Remuneration Policy is compatible with efficient and effective risk management. It does not induce to undertaking risks beyond the Company's limit of exposure, is aligned with the Company's business strategy, long-term interests and sustainability, and promotes their realisation and achievement. Through its Remuneration Policy the Company intends to promote the enhancement of its innovation-based economic performance.

I. PERSONAL SCOPE OF THE REMUNERATION POLICY

1.1. Members of the Board of Directors, the Supervisory Board, as well as the chief executive officer and the deputy chief executive officer(s) (hereinafter: Directors) fall within the personal scope of the Remuneration Policy.

1.2. The Company's Remuneration Policy distinguishes persons who are employed by the Company as Executives to perform the tasks associated with their job, and in consideration of their status as employees they receive separate remuneration (salary and other benefits) in addition to, or in the absence of, their remuneration as members of the Board of Directors or Supervisory Board.

II. GENERAL REMUNERATION CONCEPT

2.1. Increasing the Company's economic performance is supported by the development of a remuneration system that provides transparent and predictable remuneration, in line with the company's business strategy, to the Executives falling within the scope of the Remuneration Policy.

2.2. Equitable and consistent remuneration based on performance and coordinated with business goals, the Company's sustainability and the interests and values of employees is a fundamental the interest for the Company to contribute to enhancing the commitment to the Company and performance of the Executives falling within the scope of the Remuneration Policy with appropriate motivation and incentive.

III. REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

3.1. Members of the Board of Directors receive a fixed monthly remuneration for serving on the Board. Members of the Board of Directors shall receive no remuneration in this capacity that comprises variable components or performance-based remuneration.

3.2. After deliberating the proposal of the Remuneration Subcommittee, the Board of Directors shall submit to the Annual General Meeting the proposal for the resolution on the amount of monthly remuneration due for the current business year.

3.3. The proposal for the amount of remuneration shall be made in consideration of the Company's financial performance in the previous year and the basic wage increase of employees envisioned for the current year.

3.4. The monthly remuneration of the chairman of the Board of Directors shall be higher than that of the members of the Board of Directors.

3.5. If in consideration of the Company's performance in the previous business year a significant shareholder of the Company makes a proposal for a bonus to the members of the Board of Directors in addition to their regular remuneration, the Board of Directors shall submit such proposal to the Annual General Meeting under the agenda item on the remuneration of the members of the Board of Directors. The proposed bonus may only be a one-off fixed amount remuneration.

3.6. Members of the Board of Directors discharge their duties under an agency agreement. The legal relationship of the members of the Board of Directors to the Company shall cover the fixed term set out in the AGM resolution on their appointment. The legal relationship as members of the Board of Directors is created upon acceptance of the appointment. Termination of the legal relationship, *including specifically the cases and conditions for termination,* are governed by the provisions of Book Three, Part Three of the Civil Code (Act V of 2013). After the termination of their legal relationship as members of the Board of Directors, the former Directors shall not be entitled to any payment in regard of their former directorship. Given the nature of the legal relationship, serving on the Board of Directors in itself shall not entitle the member to pension, supplementary pension or early retirement benefit paid by the Company or any of its subsidiaries.

3.7. The remuneration of members of the Board of Directors established by resolution shall be in the public domain.

IV. REMUNERATION OF MEMBERSOF THE SUPERVISORY BOARD

4.1. Members of the Supervisory Board receive a fixed monthly remuneration for serving on the Supervisory Board. Members of the Supervisory Board shall receive no remuneration in this capacity that comprises variable components or performance-based remuneration.

4.2. After deliberating the proposal of the Remuneration Subcommittee, the Board of Directors shall submit to the Annual General Meeting the proposal for the resolution on the amount of monthly remuneration due for the current business year.

4.3. The proposal for the amount of remuneration shall be made in consideration of the Company's financial performance in the previous year and the basic wage increase of employees envisioned for the current year.

4.4. The monthly remuneration of the chairman of the Supervisory Board shall be higher than that of the members of the Supervisory Board.

4.5. Members of the Supervisory Boards discharge their duties under an agency agreement. The legal relationship of the members of the Supervisory Board to the Company shall cover the fixed term set out in the AGM resolution on their appointment. The legal relationship as members of the Supervisory Board is created upon acceptance of the appointment. Termination of the legal relationship, *including specifically the cases and conditions for termination,* are governed by the provisions of Book Three, Part Three of the Civil Code (Act V of 2013). After the termination of their legal relationship as members of the Board of Directors, the former Supervisory Board members shall not be entitled to any payment in regard of their former membership. Given the nature of the legal relationship, serving on the Supervisory Board in itself shall not entitle the member to pension, supplementary pension or early retirement benefit paid by the Company or any of its subsidiaries.

4.6. The remuneration of members of the Supervisory Board established by resolution shall be in the public domain.

4.7. Members of the Audit Committee comprising three independent members of the Supervisory Board shall not receive special remuneration for serving on the Audit Committee.

V. ELEMENTS OF THE REMUNERATION OF DIRECTORS EMPLOYED BY THE COMPANY

Remuneration based on employment may include the following elements:

Fixed elements not linked to performance:
- Basic wage
- Employees' cafeteria benefits
- Company vehicle and fuel card
- Contribution to voluntary pension scheme
- Life and accident insurance
- Corporate health insurance including complex health screening
- Royalty
- Remuneration from subsidiaries
- Other fixed remuneration

Variable elements linked to performance:
- Bonus
- Extraordinary premium
- Employee Participation Program (EPP)
- Program related to employee share bonuses
- Other variable remuneration

5.1. Fixed elements not linked to performance

Basic wage

The basic wage is fixed remuneration reflecting mainly the job, position, responsibility and experience within the organisation ensuring that the Company attracts and retains the best professionals taking into consideration the remuneration offered by potential competitors in the labour market.

Company vehicle and fuel card

The company vehicle and fuel card may be provided in accordance with the Company's Vehicle Use Regulations.

Contribution to voluntary pension scheme

The persons concerned may be extended the contribution to a voluntary pension scheme benefit according to the same principles and rules as those pertaining to every employee. The fact and amount of the benefit shall be determined through negotiations with the representative advocacies.

Life and accident insurance

The persons concerned may be provided extensive life and health insurance according to the same principles and rules as those pertaining to every employee.

Corporate health insurance including complex health screening

The persons concerned may have recourse to private health care services offered by a health service provider contracted by the Company according to the same principles and rules as those pertaining to every employee, and after the expiry of their trial period they may participate in the Company's complex screening program aimed at health maintenance and health awareness and early detection of diseases.

Royalty

The persons concerned may be paid royalty according to the Company's relevant effective regulations.

Remuneration from subsidiaries

If a person concerned is an executive or a board member at a subsidiary of the Company, they may be entitled to remuneration for no more than three such positions.

Other fixed remuneration

Other elements of remuneration not linked to performance and not listed above include remuneration or cost refund based on future market practices, customs or technological innovation, the aggregate amount of which shall not exceed 10% of the annual basic wage.

5.2. Variable elements linked to performance

Bonus

As the persons concerned undertake priority tasks that have material effect on the Company's profits, the company intends to make them interested in improving profitability and maintaining their employment in a longer term. In light of this, the Company rewards work of outstanding importance or effectiveness with a bonus.

The bonus defined as a certain percentage of the basic wage (fixed remuneration) shall also be determined on the basis of market-related current wage benchmark data, also in consideration of the Company's individual classification system.

Detailed conditions of bonus allocation are contained in the Company's effective bonus regulations. One part of the bonus is related to meeting individual goals, the other part is related to meeting corporate goals.

Extraordinary premium

The extraordinary premium serves as an *a posteriori* recognition of employees' outstanding performance in the year to which it refers. The budget available for extraordinary premium is established in consultation with the advocacies in Q4 of the current year, depending on the Company's performance. The amount available annually for variable remuneration is a percentage target of the fixed remuneration. This component of remuneration may be extended to the persons concerned according to the same principles and rules as those pertaining to every employee.
The Company's performance indicators are the expected positive value of consolidated operating profit/loss, which is in the joint interest of evey employee including the persons concerned.
The maximum amount of extraordinary premium shall be no more than 8% of the annual basic wage.

Employee Participation Program (EPP)

The Company has operated an Employee Participation Program (hereinafter: the Program) as a form of remuneration since 2018. Participants in the Program receive financial benefit in cases where the corporate performance criteria set out annually in the remuneration policy or policies (hereinafter: EPP Remuneration Policy) provided for by Act XVIL of 1992 on Employee Participation Programs (hereinafter: the EPP Act) are met. The extent of such remuneration is determined in the EPP Remuneration Policy. Pursuant to the relevant provisions of the EPP Act and Act V of 2013 on the Civil Code, the Company has set up Gedeon Richter Plc. Employee Participation Program Organisation (hereinafter: EPP Őrganisation) for the management of, and benefit payment from, funds that can be acquired in the context of the EPP Remuneration Policy adopted and to be adopted by the Company's Board of Directors. As the supreme powers of the EPP Organisation as a body are not exercised by the Company, it shall be considered independent of the Company pursuant to the provisions of the EPP Act; furthermore, pursuant to the provisions of Act C of 2000 on Accounting, the EPP Organisation shall not be considered as a subsidiary of the Company.

If the statutory provisions do not allow that the EPP Organisation make payments in a given year, the Company may pay a gross amount (payroll cost) premium to participants in the Program with identical terms. Such premium shall be taxed as wage.

Program related to employee share bonuses

This program is a form of remuneration provided for under Section 77C of Act CXVII of 1995 on Personal Income Tax. The framework and basic conditions of this type of remuneration are provided for in the Act cited (e.g. the ceiling of such allocations is HUF 1 million per person per year, a mandatory retention period prescribed for the shares, and senior executives responsible for the preparation of the annual report cannot participate in the program).

Once a resolution is passed on the adoption and implementation of the program related to employee share bonuses, the Company's Board of Directors shall adopt separate regulations on the conditions and detailed rules of participation in the program related to employee share bonuses.

Other variable remuneration

Other forms of premium linked to performance and not listed above include premium based on future market practices, customs or technological innovation, the aggregate amount of which shall not exceed 20% of the annual basic wage.

5.3. The total amount of variable, i.e. performance-linked elements of remuneration shall be no more than 0-80% of fixed remuneration. It is to be noted, however, that the amounts of variable (i.e. performance-linked) remuneration and fixed remuneration upon payment is not constant as such amounts may vary depending on a number of factors not linked to performance (for example vehicle use or health care services used); consequently, a precise rate cannot be determined.

5.4. Allocation of the above variable, i.e. performance-linked remuneration is subject to meeting the financial and other conditions determined in detail for the current period by the Company's Board of Directors and other bodies and officers, taking into consideration the current social, market, legal and taxation environment as well as criteria of corporate social responsibility.

5.6. When determining the above conditions, the Company's Board of Directors and other bodies and officers shall take into account the Company's business strategy, long-term interests and sustainability, considerations of corporate social responsibility, as well as the Company's effective rules and regulations.

5.7. When determining whether measurable criteria have been fulfilled, the Company shall consider the percentage of fulfilment. The Company shall consider non-measurable criteria fulfilled if the given criteria are fully met. When determining the above criteria the Board of Directors of the Company may apply other methods of evaluation that are reasonable or recognised and accepted by the market.

5.8. The condition for paying the above premiums is that the employee must be employed by the Company when the fulfilment of criteria is examined. Premium duly paid based on the fulfilment of the prescribed criteria cannot be reclaimed.

VI. TERM AND TERMINATION OF THE CONTRACT, AND RETUREMENT BENEFITS OF DIRECTORS EMPLOYED BY THE COMPANY

6.1. The employment contract of the persons concerned is for an unlimited term and contains no special stipulations regarding retirement; should the contract be terminated by the employer, given the job, position and responsibility of the persons concerned, the contract may contain a competition clause in accordance with the relevant effective labour law regulations.

6.2. In the event of termination by the employer, the period of notice, conditions of termination and severance pay, other payments related to termination shall be determined n accordance with the relevant effective labour law regulations, the employment contract of the person concerned, and the Company's Collective Contract.

6.3. The persons concerned shall be entitled to old-age pension, supplementary pension benefit or disability benefit in accordance with the relevant effective statutory provisions.

VII. LIABILITY INSURANCE OF THE DIRECTORS

The liability insurance taken out by the Company covers every former, current and future member of the Board of Directors and Supervisory Board including their position at the subsidiaries, as the case may be; furthermore, it covers every pformer, current and future employee of the Company in executive positions.

VIII. THE PROCEDURE OF DETERMINATION AND IMPLEMENTATION THE REMUNERATION POLICY

8.1. Commissioned by the chief executive officer of the Company, the Remuneration Policy shall be drafted by the director of human resources with the support of the deputy managing director for finance and the secretary of the Board of Directors, and shall be submitted to the Board of Directors by the chief executive officer. Based on the proposal of the chief executive officer, the Remuneration Subcommittee of the Board of Directors shall first discuss, appraise, and give an opinion on the draft Remuneration Policy. The Remuneration Subcommittee's appraisal and opinion shall be presented to the Board of Directors by the chairman of the Remuneration Subcommittee. Having heard the appraisal and opinion of the Remuneration Subcommittee, the Board of Directors shall pass a resolution on the agenda item on the Remuneration Policy. The Board of Directors shall approve the Remuneration Policy for a fixed term of four (4) years. The Board of Directors shall submit the Remuneration Policy approved by it to the next Annual General Meeting of the Company to advisory vote. The general rules of conflict of interest shall be applicable for the decision-making.

8.2. In order to take into consideration the wages and terms of employment of its employees when determining the Remuneration Policy, the Company has set up job levels for the entire organisation based on the job evaluation methodology of the internationally renowned human resource consultancy firm Korn Ferry. Building on this basis, the company has created its unique GR (Gedeon Richter)-specific classification which covers every job. Every employee has been classified in the job matrix based on the complexity of their job.

8.3. Participation in the annual income level surveys ensures that basic wages are in harmony with market trends. The Company gathers wage market benchmark data for each job from the income level surveys of Korn Ferry and the internationally renowned consultancy Willis Towers. The annual general basic wage rise is determined in consultation with the representative advocacies.

8.4. The Company may pay remuneration to the Directors on the basis of the Remuneration Policy submitted to the Annual General Meeting to advisory vote.

8.5. In the case of a positive outcome of the advisory vote by the Annual General Meeting, the chief executive officer shall be responsible for the implementation of and supervision of the Remuneration Policy, with the exception of the remuneration of the chief executive officer. Payment of the chief executive officer's remunration shall fall within the executive and supervisory powers of the chairman of the Board of Directors. In the corse of implementation of the Remuneration Policy the secretary of the Board of Directors shall undertake legal control duties; the director of human resources shall provide professional opinuion and operative support in labour issues; and the head of the organisational unit responsible for payroll accounts shall coordinate financial measures based on the instructions of the persons responsible for implementation.

IX. DEROGARION FROM THE REMUNERATION POLICY

9.1. Any derogation from this Remuneration Policy may only be exceptionaln and temporary. Exceptional cases are those cases where derogation from the Remuneration Policy is necessary in order to ensure the Company's long-term interests and sustainable operation or viability, including but not limited to in the event of changes in the market, legislative or tax environment.

9.2. Any derogation from this Remuneration Policy shall be subject to the resolution of the Board of Directors adopted by a qualified (2/3) majority vote.

9.3. In the event of derogation the Board of Directors is entitled to depart from any and all elements of the Remuneration Policy.

X. MISCELLANEOUS AND CLOSING PROVISIONS

10.1. The Board of Directors shall review the Remuneration Policy on an annual basis by 31 March of the year following the closing of the business year, and also on an ad hoc basis if any circumstance or change in relevant legislation so requires.

10.2. The Remuneration Policy shall be in the public domain through the Company's web site. The purpose of publication of the Remuneration Policy is to ensure transparency of the remuneration the company extends to the persons within the personal scope of the Remuneration Policy.

The Board of Directors deliberated and approved the Remuneration Policy - *appraised and proposed for approval by the Remuneration Subcommittee* - and set out in this document on 23 March 2020.

13.

Report of the Board of Directors on the treasury shares acquired by the Company based upon the authorization in AGM resolution No.13/2019.04.24.

Report of the Board of Directors on the treasury shares purchased on the basis of the authorization granted by Resolution No. 13/2019.04.24. of the AGM

The AGM held on 24 April 2019 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 600,000 treasury shares on the stock exchange and 21,298 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 2019 described in detail below. Besides these programmes, further 15,327 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. Pursuant to the Statutes of the EPP Organization and the Remuneration Policy I, the Company purchased 326,700 treasury shares from the EPP Organisation in 2019 and during the closure of the programme, as a result of a settlement between the Company and the EPP Organisation, 6,998 shares were credited to the Company. In accordance with the Remuneration Policy II of the EPP Organization, the Company transferred 2,260 treasury shares to EPP Organization in 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 2019 the Company allocated 320,534 treasury shares to 4,484 employees. The shares will be deposited until 2 January 2022 on the employees' securities accounts kept with UniCredit Bank Hungary Ltd. In 2018, 324,226 treasury shares were allocated to 4,346 employees; the shares will remain in deposit until 2 January 2021 on the employees' securities accounts.

Budapest, March 23, 2020

Gábor Orbán
Chief Executive Officer

14.

Authorization to the Board of Directors for the purchase of own shares of the Company

Proposal to Item No.:14
on the Agenda of the AGM

Resolution of the Board of Directors No.: 33/2020

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 2021 AGM, either in circulation on or outside the stock exchange, the aggregated nominal value of which shall not exceed 10% of the then prevailing registered capital of the Company (that is maximum 18,637,486 registered common shares) and at a purchase price which shall deviate from the trading price at the stock exchange at maximum by +10% upwards and at maximum by –10% downwards.

The purchase of its own shares shall serve the following purposes:

- the facilitation of the realization of Richter's strategic objectives, thus particularly the use of its own shares as means of payment in acquisition transactions,
- the assurance of shares required for Richter's share-based incentive systems for employees and executive employees.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

15.

Election of members of the Board of Directors

Proposal to Item No.:15
on the Agenda of the AGM

Resolution of the Board of Directors No.: 2/2020

The Board of Directors proposes to the AGM to approve the election of **Dr. Péter Cserháti** as Member of the Board of Directors for a period of 3 (three) years expiring on the AGM in 2023.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

Resolution of the Board of Directors No.: 35/2020

The Board of Directors proposes to the AGM to approve the re-election of **Erik Attila Bogsch** as Member of the Board of Directors for a period of 3 (three) years expiring on the AGM in 2023.

The Board of Directors has approved the resolution with the majority of the votes, abstained by Erik Attila Bogsch.

Resolution of the Board of Directors No.: 36/2020

The Board of Directors proposes to the AGM to approve the re-election of **Gábor Orbán** as Member of the Board of Directors for a period of 3 (three) years expiring on the AGM in 2023.

The Board of Directors has approved the resolution with the majority of the votes, abstained by Gábor Orbán.

Resolution of the Board of Directors No.: 37/2020

The Board of Directors proposes to the AGM to approve the re-election of **Dr. Ilona Hardy Dr. Pintérné** as Member of the Board of Directors for a period of 3 (three) years expiring on the AGM in 2023.

The Board of Directors has approved the resolution with the majority of the votes, abstained by Dr. Ilona Hardy Dr. Pintérné.

Resolution of the Board of Directors No.: 38/2020

The Board of Directors proposes to the AGM to approve the re-election of **Prof. Dr. Elek Szilveszter Vizi** as Member of the Board of Directors for a period of 3 (three) years expiring on the AGM in 2023.

The Board of Directors has approved the resolution with the majority of the votes, abstained by Prof. Dr. Elek Szilveszter Vizi.

MR. ERIK BOGSCH (1947)

Chairman of the Company's Board of Directors. Responsible for Commercial, International and Governmental Affairs since November 1, 2017. Chemical engineer, qualified economic engineer. With Richter since 1970 in a number of Research and Development management positions. Medimpex director in Mexico from 1977 to 1983. Managing Director of Medimpex UK from 1988 to 1992. Member of the Board of MAGYOSZ, Chairman between 2006 and 2016. Chief Executive Officer of Gedeon Richter from 1992 to November 2017.

MR. GÁBOR ORBÁN (1979)

Appointed Chief Executive Officer from November 1, 2017. Began his professional career as an economist for the National Bank of Hungary and the European Central Bank. He later joined Aegon Asset Management where he worked as a fund manager and the head of the fixed income desk. He served as the state secretary in charge of taxation and the financial sector at the Minisrty for National Economy for two and a half years, followed by a year spent at Banque Rothschild where he worked as a consultant. He earned is MA degree at the Budapest University of Economics and studied also in the United States. Richter's Director of Corporate Strategy since September 2016, Chief Operating Officer since 2017. Member of the Company's Board of Directors from April 2017.

DR. ILONA HARDY (1956)

Lawyer, securities specialist. Began her professional career at Hungarian State Development Bank. Between 1988 and 1990 Head of Securities Trading Secretariat (the predecessor of Budapest Stock Exchange). Between 1990 and 1992 founder CEO of the Budapest Stock Exchange and member of its Board. From 1992 to 1994 Board Member of Hungarian State Property Agency, Privatization Agencies (ÁVÜ, ÁPV). From 1994 to 2004 she worked as attorney at law. Besides she held numerous positions (member of the Central Bank Council of Hungarian National Bank, Chairperson of the Pension Fund Asset Management Co. – National Social Security, member of the Monetary Council of Hungarian National Bank, Chairperson of the Hungarian Investor's Protection Fund). Currently Chairperson of the Board „Aranykor" Voluntary Pension Fund, chairperson of the Budapest Stock Exchange Advisory Committee, chairperson of the Supervisory Board of BOM, deputy chairperson of the Hungarian Atlantic Council, Board member of ÖPOSZ. Member of the Company's Board of Directors since April 26, 2017.

PROF. DR. E. SZILVESZTER VIZI (1936)

Medical doctor, academician. Graduated from Semmelweis University of Medicine. From 1989 to 2002 Director of the Institute of Experimental Medicine (IEM) of the Hungarian Academy of Sciences. President of the Hungarian Academy of Sciences between 2002 and 2008. Currently a researcher at the IEM. Joined the Board in 2008.

Curriculum Vitae

Name:	**Péter Cserháti, M.D., Ph.D.**
Date of birth:	**03.06.1963**
Place of birth:	**Pécs, Hungary**
Family status:	**married**
Nationality:	**Hungarian**

1. Current position, academic title and field of employment

Position:	**Director general**
Field of employment:	**National Institute of Medical Rehabilitation**
Position and academic title:	**Head of department, honorary associate professor**
Field of employment:	**University of Pécs, Department of Rehabilitation and Physical Medicine**

2. Professional experience

Beginning of employment:	**01.11.2013-30.04.2014, then from 07.05.2018; interrupted from 17.05.2018 to 31.10.2018**
End of employment:	**30.04.2019**
Position:	**Ministerial commissioner**
Employer:	**Ministry of Human Capacities**
Beginning of employment:	**07.06.1010**
End of employment:	**31.06.2010**
Position:	**Deputy minister of state**
Main field of responsibilities:	**Health policy**
Employer:	**Ministry of Human Reseources, Ministry of Humanc Capacities**
Beginning of employment:	**01.04.2015**
End of employment:	**31.12.2019**
Position:	**Head of departnemt, éecturer, them honorary associate professor**
Main field of responsibilities:	**University of Pécs, Department of Rehabilitation and physical Medicine**
Beginning of employment:	**01.06.2014**
End of employment:	**31.05.2020**
Position:	**Director general**
Main field of responsibilities:	**Directorate Generale**
Employer:	**National Institute of Medical Rehabilitation**
Beginning of employment:	**01.11.2013**
End of employment:	**31.05.2014**
Position:	**acting director general**
Employer:	**National Institute of Medical Rehabilitation**
Beginning of employment:	**01.01.2009**
End of employment:	**31.10.2013**
Position:	**Senior physician, chairman of the Institution's Scientific Committee**
Employer:	**National Institute of Medical Rehabilitation**
Beginning of employment:	**01.01.2008**
End of employment:	**31.12.2008**
Position:	**Senior physician**
Employer:	**National Institute of Medical Rehabilitation**

Beginning of employment:	**01.10.2007**
End of employment:	**31.12.2007**
Position:	**Assistant senior physician**
Employer:	**Budapest Municipality, Péterfy S. Street Hospital, Clinic and E&R Centre**
Beginning of employment:	**01.10.1988**
End of employment:	**30.09.2007**
Position:	**Specialist physician, assistand senior physician**
Employer:	**National Institute of Accident and Emergency**

3. Education

University:	**Semmelweis University, Faculty of Medicine,** **doctor of medicine (M.D.)** Thesis: **Treatment of Thoracic Outlet Syndrome** Qualification: **Honours**
Specialist training:	
Specialist training program:	**Health services manager, M.Sc. degree**
Training institution:	**Semmelweis University, Health Services Management Traoning Centre**
Duration of training:	**2002 - 2004**
Publications and research:	
Publications:	**112 papers ad articles**
Academic degrees:	
Academic degree:	**Ph.D. (medicine)**
Qualification:	**Honours**
Dissertation:	**Promotion of osteosynthesis in medial femoral neck fracture based on repeated prospective international epidemiological study**
Awards, decorations and commendations:	
Award, decoration or commendation:	**Kaposi Mór Teaching Hospital of Somogy County, Kaposi Mór Memorial Plaque**
Date of award:	**04.09.2013**
Award, decoration or commendation:	**Evangelical-Lutheran Church of Hungary, Prónay Sándor Award, 2014**
Date of award:	**30.11.2013**
Award, decoration or commendation:	**National Health Insurance Fund, Saint Christopher Award**
Date of award:	**13.12.2013**
Award, decoration or commendation:	**Hungarian Army Medical Centre, Award of the Chief of Staff**
Date of award:	**23.10.2015**
Award, decoration or commendation:	**Batthyány-Strattmann László Award**
Date of award:	**01.07.2019**

16.

Resolution on the remuneration of the members of the Board of Directors

Proposal to Item No.:16
on the Agenda of the AGM

Resolution of the Board of Directors No.: 39/2020

The Board of Directors proposes to the AGM to approve the honoraria for the members of the Board of Directors for 2020 effective as of January 1, 2020 according to the following:

Chairman of the Board of Directors: HUF 708,975/month
Members of the Board of Directors: HUF 589,950/month/member

The Board of Directors has approved the resolution beside one vote against (Dr. Kriszta Zolnay) with the majority of the votes.

17.

Resolution on the remuneration of the members of the Supervisory Board

Proposal to Item No.:17
on the Agenda of the AGM

Resolution of the Board of Directors No.: 40/2020

The Board of Directors proposes to the AGM to approve the honoraria for the members of the Supervisory Board for 2020 effective as of January 1, 2020 according to the following:

Chairman of the Supervisory Board: HUF 589,950/month
Members of the Supervisory Board: HUF 424,350/month/member

The Board of Directors has approved the resolution with the majority of the votes, abstained by Dr. Kriszta Zolnay.

18.

Election of the Company's statutory auditor

Proposal to Item No.:18
on the Agenda of the AGM

Resolution of the Board of Directors No.: 41/2020

The Board of Directors - based upon the motion of the Audit Board - proposes the AGM to approve the election of **Deloitte Auditing and Consulting Ltd.** (H-1068 Budapest, Dózsa György út 84/C., Chamber of Hungarian Auditors registration no.: 000083) as the Company's statutory auditor for a period of three years expiring on April 30, 2023 but not later than the approval of the Company's 2022 consolidated report.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

19.

Resolution on the remuneration of the Company's statutory auditor

Proposal to Item No.:19
on the Agenda of the AGM

Resolution of the Board of Directors No.: 42/2020

The Board of Directors - based upon the motion of the Audit Board - proposes the AGM to approve the honoraria amounting to **HUF 27 million + VAT** for **Deloitte Auditing and Consulting Ltd.** for its performance as auditor of the Company in 2020. The honoraria includes the fee for the auditing of the 2020 consolidated annual report, the fee for examining the consonance between the consolidated annual report and business report for 2020, the fee for the auditing of the 2020 non-consolidated annual report, the fee for examining the consonance between the non-consolidated annual report and business report for 2020, 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, 2020.

The Board of Directors has approved the resolution unanimously, without a vote against and abstention.

20.

Miscellaneous