GEDEON RICHTER PLC.

IFRS FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

Gábor Orbán
Chief Executive Officer

Budapest, 10 March 2021

Gedeon Richter Plc.

FINANCIAL STATEMENTS

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Income Statement

	Notes	2020 HUFm	2019 HUFm Restated*
Revenues	4	**412,974**	**366,524**
Cost of sales		(134,482)	(124,269)
Gross profit		**278,492**	**242,255**
Sales and marketing expenses		(92,271)	(102,819)
Administration and general expenses		(17,034)	(18,407)
Research and development expenses		(53,023)	(48,001)
Other income and other expenses (net)	5	(14,183)	(12,627)
Net impairment losses on financial and contract assets		(1,774)	(446)
Profit from operations	5	**100,207**	**59,955**
Finance income	7	36,101	35,072
Finance costs	7	(37,585)	(38,002)
Net financial income/(loss)	7	**(1,484)**	**(2,930)**
Profit before income tax		**98,723**	**57,025**
Income tax	8	(5,506)	(6,625)
Profit for the year		**93,217**	**50,400**
Consolidated Earnings per share (HUF)	9		
Basic and diluted		563	253

* Restated due to change in Accounting Policy, see Note 40 for details.

The notes on pages 9 to 75 form an integral part of the Financial Statements.

10 March 2021

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Chief Executive Officer

Statement of Comprehensive Income

	Notes	2020 HUFm	2019 HUFm
Profit for the year		**93,217**	**50,400**
Other comprehensive income			
Items that will not be reclassified to profit or loss (net of tax)			
Actuarial loss on retirement defined benefit plans	29	(1,840)	(708)
Changes in the fair value of equity investments at fair value through other comprehensive income	25	(1,588)	4,697
		(3,428)	**3,989**
Other comprehensive income for the year		**(3,428)**	**3,989**
Total comprehensive income for the year		**89,789**	**54,389**

The notes on pages 9 to 75 form an integral part of the Financial Statements.

10 March 2021

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Chief Executive Officer

Balance Sheet

	Notes	31 Dec. 2020 HUFm	31 Dec. 2019 HUFm
ASSETS			
Non-current assets			
Property, plant and equipment	13	196,497	185,786
Intangible assets	13	97,567	81,491
Investments in subsidiaries, associates and joint ventures	14, 15	126,217	131,828
Non-current financial assets carried at fair value through profit or loss	16	10,797	5,427
Non-current financial assets carried at fair value through other comprehensive income	16	37,977	13,760
Loans receivable	18	34,915	45,403
Long term receivables	16	1,481	2,837
		505,451	**466,532**
Current assets			
Inventories	20	77,256	65,198
Trade receivables	21	138,961	138,082
Contract assets	22	1,405	2,074
Other current assets	22	23,040	23,987
Current financial assets at fair value	23	7,142	1,545
Current tax asset	17	70	760
Cash and cash equivalents	24	116,393	102,842
		364,267	**334,488**
Assets classified as held for sale	39	192	-
		364,459	**334,488**
TOTAL ASSETS		**869,910**	**801,020**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	25	18,638	18,638
Treasury shares	26	(951)	(3,875)
Share premium	25	15,214	15,214
Capital reserves	25	3,475	3,475
Revaluation reserve for securities at FVOCI	25	665	9,507
Retained earnings		756,349	674,100
		793,390	**717,059**
Non-current liabilities			
Other non-current liabilities and accruals	31	9,293	11,136
Provisions	29	5,372	3,075
		14,665	**14,211**
Current liabilities			
Borrowings	30	4,961	1,517
Trade payables	27	36,717	45,495
Current tax liabilities	17	590	8
Other payables and accruals	28	18,351	21,519
Provisions	29	1,236	1,211
		61,855	**69,750**
TOTAL EQUITY AND LIABILITIES		**869,910**	**801,020**

The notes on pages 9 to 75 form an integral part of the Financial Statements.

10 March 2021

Chief Executive Officer

Statement of Changes in Equity

	Notes	Share capital	Share premium	Capital reserves	Treasury shares	Revaluation reserve for securities at FVOCI	Retained earnings	Total
		HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
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	29	-	-	-	-	-	(708)	(708)
Revaluation reserve for securities at FVOCI	25	-	-	-	-	4,697	-	4,697
Comprehensive income for year ended 31 December 2019		**-**	**-**	**-**	**-**	**4,697**	**49,692**	**54,389**
Purchase of treasury shares	26	-	-	-	(5,460)	-	-	(5,460)
Transfer of treasury shares	26	-	-	-	1,868	-	(1,868)	-
Recognition of share-based payments	25	-	-	-	-	-	4,498	4,498
Ordinary share dividend for 2018	32	-	-	-	-	-	(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**
Balance at 1 January 2020		**18,638**	**15,214**	**3,475**	**(3,875)**	**9,507**	**674,100**	**717,059**
Profit for the year		-	-	-	-	-	93,217	93,217
Actuarial loss on defined benefit plans	29	-	-	-	-	-	(1,840)	(1,840)
Revaluation reserve for securities at FVOCI	25	-	-	-	-	(8,842)	7,254	(1,588)
Comprehensive income for year ended 31 December 2020		**-**	**-**	**-**	**-**	**(8,842)**	**98,631**	**89,789**
Purchase of treasury shares	26	-	-	-	(1,650)	-	-	(1,650)
Transfer of treasury shares	26	-	-	-	4,574	-	(4,574)	-
Recognition of share-based payments	25	-	-	-	-	-	(67)	(67)
Ordinary share dividend for 2019	32	-	-	-	-	-	(11,741)	(11,741)
Transactions with owners in their capacity as owners for year ended 31 December 2020		**-**	**-**	**-**	**2,924**	**-**	**(16,382)**	**(13,458)**
Balance at 31 December 2020		**18,638**	**15,214**	**3,475**	**(951)**	**665**	**756,349**	**793,390**

The notes on pages 9 to 75 form an integral part of the Financial Statements.

Cash Flow Statement

for the year ended 31 December

	Notes	2020	2019
		HUFm	HUFm
Operating activities			
Profit before income tax		98,723	57,025
Depreciation and amortisation	5,13	27,800	26,570
Non-cash items accounted through Income Statement		5,227	2,217
Net interest and dividend income	7	(8,936)	(12,133)
Reclass of results on changes of property, plant and equipment and intangible assets		697	(103)
Impairment recognised on intangible assets	13	4,477	10,005
Impairment on investments	14	10,553	29,330
Expense recognised in respect of equity-settled share-based payments	25	3,447	2,657
Movements in working capital			
Increase in trade and other receivables	21,22	(181)	(17,260)
Increase in inventories	20	(14,917)	(6,779)
(Decrease)/increase in payables and other liabilities	27,28,31	(10,095)	2,909
Interest paid	7	(219)	(207)
Income tax paid	17	(4,234)	(4,866)
Net cash flow from operating activities		**112,342**	**89,365**
Cash flow from investing activities			
Payments for property, plant and equipment	13	(32,893)	(31,530)
Payments for intangible assets	13	(29,198)	(11,999)
Proceeds from disposal of property, plant and equipment		306	1,352
Payments to acquire financial assets		(46,555)	(19,880)
Proceeds on sale or redemption on maturity of financial assets		11,544	4,731
Disbursement of loans		(5,684)	(7,268)
Loans repaid by borrowers		7,455	10,572
Government grant received related to investments	31	2,197	2,400
Interest received	7	2,589	3,376
Dividend received	7	6,566	5,114
Net cash outflow on acquisition of subsidiaries	14	(3)	-
Net cash flow to investing activities		**(83,676)**	**(43,132)**
Cash flow from financing activities			
Purchase of treasury shares	26	(1,650)	(5,460)
Dividend paid	32	(11,741)	(18,637)
Principal elements of lease payments	13	(887)	(722)
Repayment of borrowings	30	(4,996)	-
Net cash flow to financing activities		**(19,274)**	**(24,819)**
Net increase in cash and cash equivalents		**9,392**	**21,414**
Cash and cash equivalents at beginning of year	**24**	**101,325**	**79,719**
Effect of foreign exchange rate changes on the balances held in foreign currencies		715	192
Cash and cash equivalents at end of year	**24**	**111,432**	**101,325**

The notes on pages 9 to 75 form an integral part of the Financial Statements.

Notes to the Financial Statements

1. General background

I. Legal status and nature of operations

Gedeon Richter Plc. ("the Company") 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:	28 April 2020
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.:	2120'08
Duration of the Company:	Indefinite
Business year:	Corresponding to the calendar year
Name and address of the auditor company:	Deloitte Könyvvizsgáló és Tanácsadó Ltd.
	1068 Budapest, Dózsa György út 84/C.
The person responsible for the audit is:	Tamás Horváth
Registration number at the Chamber of Hungarian Auditors:	003449
Company announcements are published in:	Company Gazette
	www.richter.hu www.bet.hu
Name of the person authorized to sign on behalf of the Company:	Gábor Orbán
Address:	Budapest
The person responsible for the Management and supervision of the tasks relating to book-keeping is:	Judit Kozma
Address:	Budapest
Registration number:	184862

II. Basis of preparation

This report is the Company's separate annual financial statement, and it has been prepared in accordance with the International Financial Reporting Standards ('IFRS') accepted by the European Union (EU).

The statement prepared for the balance sheet date as of 31 December 2020 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 2019.

The Company also prepares consolidated financial statements and consolidated 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. Please see details of the application of the new accounting policies in Note 40.

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

III. The impact of the COVID-19 pandemic on the Company

A vertically integrated business model coupled with a corporate culture based on trust and cooperation enabled the Company to continue its business undisturbed despite the extraordinary situation.
Richter continues to be well capitalised with a positive cash flow, and its stringent customer credit policy continues to contribute to maintaining its resilience to stress in periods of global economic challenge. There has been no deterioration whatsoever in solvency or willingness to pay in the period of reporting or in the period that has elapsed since the drafting of the report. Receivables from customers and allowances for such receivables are presented in Note 21 to the Financial Statements.
Amidst the uncertainty brought by the pandemic, regulatory authorities put greater emphasis on expectations regarding corporate liquidity and liquidity risk management. Disclosures on the Company's liquidity are reported in Point IV) of Note 10.
The COVID-19 pandemic caused significant changes and volatility to exchange rates in the course of 2020. Obviously the Company strives to ease exchange rate risks by natural hedging. Many of the currencies important for the Company saw exchange rates change significantly, by over 10% (EUR and CHF strengthened and RUB weakened) compared to the forint. Disclosures regarding HUF-related exchange rate risks are reported in Point II) of Note 10.
The Company has not concluded major lease agreements; therefore the value of COVID-19-related lease payment allowances is not significant. The Company did not make use of the single lessee accounting model introduced by the new IFRS 16 lease accounting standard. Disclosures in respect of right-of-use assets are reported in Note 13, and lease liabilities are disclosed in Notes 28 and 31.
In sales, demand dropped as a result of limitations in physical doctor-patient contacts, and supply dropped because of more stringent regulations imposed on promotion involving personal visits. Notwithstanding the above restrictions related to the COVID-19 pandemic, the Company's business was balanced throughout the year, and customers' needs were satisfied fully and in a timely fashion. The rising trend of revenues has been unbroken, and record profit was ensured by steadily rising income from Vraylar® sales in the USA. Detailed information on revenue by segments is reported in Note 4.
The Company successfully managed disruptions in the supply chain; however, inventories are kept at higher levels in preparation for possible future difficulties. Inventories are reported in detail in Note 20.
The Company introduced additional protective measures in harmony with the nationwide extraordinary restrictions imposed by the Hungarian government.
Preserving the health of staff continues to be the Company's top priority goal. Measures have been introduced regarding social distancing in common areas. The Company supported home office for employees who are able to meet their job-related duties by remote work. Face masks were provided for staff members who have to come to work, and the Company installed sanitizing equipment in all common areas. In an effort to help commuting staff avoid the use of public transport Richter supports the use of own vehicles by paying a contribution based on daily accounting. The above measures generated unforeseen expenditure amounting to HUF 355 million in 2020, and an additional HUF 486 million were paid in extraordinary wage bonus to employees working in hazardous jobs.
The arising additional expenditure was partially offset by the state support from European Union resources (HUF 461 million) the Company received as wage subsidy to highly qualified research, development and innovation staff pursuant

to Government Decree 103 of 2020 (10 April) on the Economy Protection Action Plan supporting employment in the RD&I sector during the state of danger.
In consideration of the extraordinary situation caused by the COVID-19 pandemic and specifically of the challenges facing health care institutions Gedeon Richter Plc. paid HUF 2 million in support of each hospital and health care clinic Richter has cooperated with over the past 10 years in the context of the Heath City Programme. The total of HUF 140 million was made available to the 70 recipient Hungarian health care institutions in the form of free immediate support.

IV. Adoption of new and revised standards

A) The following standards and amended standards became effective for the Company from 1 January 2020, but did not have any material impact on the Company:

- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018, adopted by EU on 29 November 2019, effective for annual periods beginning on or after 1 January 2020),

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Material (issued on 31 October 2018, adopted by EU on 29 November 2019, effective for annual periods beginning on or after 1 January 2020),

- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures" – Interest rate Benchmark Reform (issued on 26 September 2019, adopted by EU on 15 January 2020, effective for annual periods beginning on or after 1 January 2020),

- Amendments to IFRS 16 "Leases" – Covid 19-Related Rent Concessions (issued on 28 May 2020, adopted by EU on 9 October 2020, effective for annual periods beginning on or after 1 June 2020),

- Amendments to IFRS 3 "Business Combinations" (issued on 22 October 2018, adopted by EU on 21 April 2020, effective for annual periods beginning on or after 1 January 2020).

B) New and revised Standards issued by IASB and adopted by the EU but not yet effective

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 2020, adopted by EU on 13 January 2021, effective for annual periods beginning on or after 1 January 2021)

- Amendments to IFRS 4 "Insurance Contracts" deferral of IFRS 9 (issued on 25 June 2020, adopted by EU on 15 December 2020, effective for annual periods beginning on or after 1 January 2021)

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at [date of publication of financial statements] (the effective dates stated below is for IFRS in full):

- IFRS 17 "Insurance Contracts" including amendments to IFRS 17 (issued on 18 May 2017; and 25 June 2020, effective for annual periods beginning on or after 1 January 2023),

- Amendments to IFRS 3 "Business Combinations"; IAS 16 "Property, Plant and Equipment"; IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" - Annual Improvements (All issued 14 May 2020, effective for annual periods beginning on or after 1 January 2022),

- Amendments to IAS 1 "Presentation of Financial Statements" - Classification of Liabilities as Current or Non-Current (issued on 23 January 2020 and 15 July 2020 respectively, effective for annual periods beginning on or after 1 January 2023),

- Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2 - Disclosure of Accounting policies (issued on 12 February 2021, effective for annual periods beginning on or after 1 January 2023),

- Amendments to IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors" – Definition of Accounting Estimates (issued on 12 February 2021, effective for annual periods beginning on or after 1 January 2023),

- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

- Proposed amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021 (issued on 17 February 2021, expected effective date 1 April 2021)

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.

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, interest and dividend income

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 13.

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) Debt instruments designated at fair value through profit or loss using fair value option
The Company has chosen the fair value option for certain financial instruments, i.e. it recognizes the financial asset or financial liability at fair value through profit or loss if it eliminates or materially reduces recognition or measurement inconsistencies (accounting mismatch) which would have existed, if the Company had not selected the fair value option. The use of the fair value option also provides more relevant information about financial instruments in the financial statements. The fair value option is not applied to all financial assets or liabilities, but only to certain financial instruments designated by the Company at initial recognition. The Company irrevocably decides to exercise the fair value option at initial measurement to these designated items.

E) 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.

F) 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 of financial assets
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.

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 allowance is measured based on Lifetime ECL. If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and itsECL allowance 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 (except for a derivative that is a financial guarantee contract). 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. 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 considers any contingent purchase price as part of the consideration. 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) Non-current financial assets carried at fair value

Non-current financial assets measured at fair value through profit or loss comprise long term corporate bonds and other financial instrument. Non-current financial assets measured at fair value through other comprehensive income comprise long term government securities and other financial instrument. These investments are described in Note 16.

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 allowance 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 in the Income Statement , because hedge accounting is not applied in current year. Derivative financial instruments are classified under "Non-current assets" and "Non-current liabilities", depending on whether the instruments have a positive or negative year-end fair value, 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

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, 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 8).

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.

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 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.

XXVI) Pension program and other long-term employee benefits

The Company pays benefit to retiring employees according to the Collective Agreement as defined-benefit.
As an additional benefit, the Company financially rewards those employees who had been employed for significant period. This amount is paid in the subsequent year the employee reaches the end pf the specific jubilee period and it is accounting for as other long-term employee benefit through profit or loss.

Defined benefit pension plan
The Company operates a post-employment defined benefit program, which is presented as Provision in the Balance Sheet. In line with IAS 19 for post-employment 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. Service costs and interest expense are recognised in the profit or loss. 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 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.

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 33 standard 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 on 11 January 2021 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 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 prepared its financial statements for 2019, 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.

On 15.01.2021 the Company announced that the European Commission (EC) implemented a decision concerning the marketing authorisations of ulipristal acetate 5 mg (Esmya®) as a result of cases of serious liver injury. This decision follows the opinion from the CHMP on 13 November 2020 and is applicable for all Member States in the European Economic Area.

Esmya® can now only be used to treat uterine fibroids in premenopausal women for whom surgical procedures (including uterine fibroid embolisation) are not appropriate or have not worked. Esmya® must not be used for controlling symptoms of uterine fibroids while awaiting surgical treatment.

Information on the risk of liver failure (requiring liver transplantation in some cases) will be added to the summary of product characteristics and the package leaflets for ulipristal acetate 5 mg medicines as well as in educational material for doctors and cards for patients.

Based on Company's estimation, taking into account the currently available market and other information, the effect of the aforementioned EC resolution to the future sales of ESMYA® does not give rise to reversal of impairments previously accounted for assets related to ESMYA®.

Exposure factors	**31 December 2020** HUFm	**31 December 2019** HUFm
Shareholding in the subsidiary of PregLem S.A.	0	0
Esmya North-America intangible assets	0	911
Esmya other intangible assets	0	0
All exposures	**0**	**911**

Taken into account the EC's resolution issued in 2021, the Company discloses the ESMYA® related inventory on 31 December 2020 as a further exposure:

ESMYA® related inventory	**31 December 2020** HUFm	**31 December 2019** HUFm
EU countries	109	97
Non- EU countries	51	252
All exposures	**160**	**349**

The recoverability of these inventories may be partly affected by the PRAC's recommendation issued in March, 2020 and EC's resolution issued in January, 2021. The Company does not expect the effect of potential returns to be material, therefore did not take it 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 2020 would be higher by HUF 3,089 million compared to what is currently recorded in the Financial Statement. This change would have been HUF 2,868 million in 2019.

The Company recognised depreciation and amortisation cost of HUF 26,967 million in 2020, and HUF 25,808 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 833 million) comparing to the depreciation of the fixed assets (HUF 26,967 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 6,595 million (in 2019 HUF 6,681 million), which is not recognized in the balance sheet because no taxable profit is expected when the related temporary differences reverse. Contrary to management's previous expectations, sales of Vraylar® in the US region generated outstanding revenue in 2020. Accordingly, the Company had a positive tax base in 2020. Nevertheless, there is no change in the management's estimate of the return of deferred tax asset compared to 2019. There is no change in Management’s assessment of recovery compared to 2019. The deferred tax expense is presented in Note 17.

4. Segment Information

4.1 The Richter Group segment information

Management has determined the operating segments based on the reports prepared on an IFRS basis and 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 women 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	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
3rd party revenues	446,066	397,712	119,775	109,244	935	838	-	-	566,776	507,794
Inter segment revenues	11,198	9,630	4	2	5,984	5,804	(17,186)	(15,436)	-	-
Revenues	**457,264**	**407,342**	**119,779**	**109,246**	**6,919**	**6,642**	**(17,186)**	**(15,436)**	**566,776**	**507,794**
Profit from operations	114,482	38,835	975	734	238	340	(606)	(13)	115,089	39,896
Total assets	1,021,643	927,894	66,657	63,279	3,893	4,027	(143,604)	(136,549)	948,589	858,651
Current contract asset	3,080	3,466	-	-	-	-	-	-	3,080	3,466
Total liabilities	97,292	102,468	55,641	51,794	978	979	(19,261)	(21,463)	134,650	133,778
Contract liabilities	772	745	-	-	-	-	-	-	772	745
Capital expenditure**	65,733	57,350	693	537	214	198	(2)	-	66,638	58,085
Depreciation and amortization*	38,307	37,801	1,344	1,237	195	217	-	65	39,846	39,320
from this: IFRS16 related	3,457	3,145	731	547	-	-	-	-	4,188	3,692
Share of profit of associates and joint ventures	(719)	(388)	1,398	1,230	22	43	199	(227)	900	658
Investments in associates and joint ventures	2.314	6,957	8,747	8,112	1,312	1,289	(104)	(166)	12,269	16,192

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

2020	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	40,914	139,496	223,367	14,600	10,764	10,999	25,093	465,233
Over time	977	119	4,166	93,909	-	-	2,372	101,543
Revenues	**41,891**	**139,615**	**227,533**	**108,509**	**10,764**	**10,999**	**27,465**	**566,776**
Total assets	718,602	61,000	140,404	3,688	1,512	9,145	14,238	948,589
Capital expenditure	57,282	2,155	6,653	-	-	329	219	66,638

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

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	2020	2019
	HUFm	HUFm
Sales of goods	322,622	310,323
Revenue from services	774	506
Royalty income	89,578	55,695
Total revenues	**412,974**	**366,524**

Revenues of approximately HUF 86,895 million (2019: HUF 54,637 million) derived from one single external customer (Allergan), that almost exceeded 21% 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 2020 and 2019.

5. Profit from operations – expenses by nature

	2020 HUFm	2019 HUFm
Revenues	412,974	366,524
From this: royalty and other similar income	*89,578*	*55,695*
Changes in inventories of finished goods and work in progress	7,804	2,045
Cost of goods sold	(21,434)	(18,344)
Material type expenses	(184,564)	(183,356)
Personnel expenses	(71,518)	(68,926)
Depreciation and amortisation	(27,800)	(26,570)
from this: IFRS16 related (Note 13.1.2)	*(833)*	*(762)*
Compensation of expenses*	702	*1,655*
Net impairment losses on financial and contract assets	(1,774)	(446)
Other income and other expenses (net)	(14,183)	(12,627)
from this: IFRS16 related (Note 13.1.2)	*91*	-
Profit from operations	**100,207**	**59,955**

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

The fee for the statutory audit amounted to HUF 27 million in 2020.

Net impairment losses on financial and contract assets

The net impairment losses on financial and contract assets amounted to HUF 1,774 million in 2020 and HUF 446 million losses in 2019. The net impairment losses in 2020 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 12,627 million (expense) in the base period to HUF 14,183 million (expense) in 2020.

In the period of reporting the Company realised one-off milestone income of HUF 900 million mainly in conjunction with cariprazine and tocilizumab. By contrast, one-off milestone income in the reference period amounted to HUF 5,717 million in respect of the authorisation of cariprazine for a new indication and of its licensing.

In 2020 the balance of Other income and expenses was negatively affected by the impairment reported on Intangibles (HUF 4,477 million) including HUF 1,561 million related to Evestra developments, HUF 1,339 million to Bemfola's American license, HUF 685 million to the Canadian license rights of Esmya, and HUF 812 million to the product Balanca® related to Germany.

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 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 missed the amount reported in the reference year by HUF 923 million.

Claw-back in 2020 comprised payments related to the Hungarian, Romanian, German, French, Spanish, Portuguese, Belgian, Italian, Bulgarian, Austrian, Polish, Latvian, Lithuanian, Croatian, Slovenian, Greek, Irish and UK markets totalling HUF 5,357 million. (HUF 3,418 million in 2019)

In 2020, the Company presented other non-income taxes of HUF 983 million in Other income and other expenses (net). (HUF 1,114 million in 2019)

Depreciation charge of right-of-use assets:

	2020 HUFm	2019 HUFm
Buildings	(679)	(611)
Machinery	(63)	(63)
Vehicles	(91)	(88)
Total	**(833)**	**(762)**

The separate income statement includes HUF 86 million expenses from short-term, low-value and variable lease payments.

6. Employee information

	2020	2019
Average number of people employed during the year	6,481	6,364

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:

	2020 HUFm	2019 HUFm
Unrealised financial items	**(11,901)**	**(25,511)**
Exchange (loss)/gain on foreign currency on trade receivables and trade payables	(400)	522
(Loss)/gain on foreign currency loans receivable	(1,540)	3,881
Exchange gain/(loss) on other currency related items	1,738	(1,471)
Impairment loss on investments (Note 14)	(10,553)	(29,330)
Unwinding of interest on interest-free loans	(984)	1,135
Interest expenses related to IFRS 16 standard	(189)	(183)
Exchange difference related to IFRS 16 standard	27	(65)
Realised financial items	**10,417**	**22,581**
Exchange (loss)/gain realised on trade receivables and trade payables	(55)	8,947
Foreign exchange difference on conversion of cash	1,294	1,420
Dividend income	6,566	8,964
Interest income	2,589	3,376
Interest expense	(30)	(24)
Other financial items	53	(102)
Total	**(1,484)**	**(2,930)**

The net finance loss was HUF 1,484 million and HUF 2,930 million in 2020 and 2019, respectively.

HUF 1,738 million exchange loss/(gain) on other currency related items includes HUF 43 million loss on derivatives.

In 2020, an impairment of HUF 4,800 million was recognised on the investment in GR Mexico SAPI. In respect of GR Columbia S.A.S additional impairment was recognised in amount of HUF 906 million. Furthermore HUF 4,836 million was recognised on the investment in Evestra Inc in 2020.

The 2020 unrealized financial items were largely affected by the 3.96 RUB/HUF exchange rate and 365.13 EUR/HUF related translation on 31 December 2020 (31 December 2019 RUB/HUF 4.74 and EUR/HUF 330.52). The cumulative effect of translation was a HUF 205 million slip in the 2019 net financial loss as opposed to HUF 2,932 million increase

in 2019, a total of HUF 2,727 million from one year to the next. See the results of the foreign sensitivity tests in Note 10.

The Company does not apply hedge accounting under IFRS 9.

Realized foreign exchange gain from trade receivables, payables and other items were HUF 8,947 million as opposed to HUF 55 million loss in the preceding year. The aggregate loss contributed HUF 8,892 million to a year-on-year increase in earnings.

Dividend income contributed HUF 6,566 million to the 2020 financial income, HUF 2,398 million lower than HUF 8,964 million realized in 2019.

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.

	2020 HUFm	**2019** HUFm
Corporate income tax	(974)	(90)
Local business tax	(3,938)	(3,998)
Innovation contribution	(594)	(603)
Current tax	**(5,506)**	**(4,691)**
Deferred tax (Note 17)	-	(1,934)
Income tax*	**(5,506)**	**(6,625)**

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

In 2020, the average effective tax rate calculated on the basis of the current tax is 5.6% and also 5.6 % taking into account the effect of deferred tax as well (In 2019: 8.2% and 11.6%). The corporate income tax rate effective in 2020 and in 2019 is 9%.

The Municipality of Budapest as tax authority performed local business tax audit in 2020 covering the financial periods of 2015-2016. The conclusion was received on 29 January 2021, which did not contain any 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

	2020 HUFm	2019 HUFm
Profit before income tax	**98,723**	**57,025**
Tax calculated based on statutory corporate income tax rate*	8,885	5,132
Tax effects of:		
In previous years unused, in current year used tax loss	(441)	-
Dividend income not subject to taxation	(591)	(807)
Royalty tax incentive	(3,986)	(2,262)
R&D tax incentives**	(3,233)	(3,097)
Expense not deductible for tax purposes	160	93
Local business tax and innovational contribution	4,124	4,188
Other income taxes	899	-
Deferred tax asset that is not expected to be realised	76	3,253
Reversal of temporary differences that are subject to exception from deferred tax	2	197
Other, individually insignificant items	(23)	(72)
Investment tax credit	(366)	-
Tax charge	**5,506**	**6,625**

* 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. The amount of investment tax credit used as advantage in 2020 is HUF 353 million.
The remaining tax relief in connection with the Debrecen project is available for subsequent year's with an amount of HUF 1.731 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 2019 and 31 December 2020 there are no potential dilutive instruments issued by the Company.

EPS (basic and diluted)	**2020**	**2019**
Net consolidated profit attributable to owners of the parent (HUFm)	104,683	47,135
Weighted average number of ordinary shares outstanding (thousands)	185,971	186,011
Earnings per share (HUF)	**563**	**253**

10. Financial instruments

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

	Notes	Carrying value 31 December 2019 HUFm	Fair value 31 December 2019 HUFm
Financial assets[1]			
Financial assets measured at amortised cost			
Loans receivable	22	10,146	10,146
Trade receivables	21	138,082	138,082
Other current receivable	22	7,609	7,609
Cash and cash equivalents	24	102,842	102,842
Financial assets measured at fair value through profit or loss			
Government securities, corporate bonds	23	-	-
Other securities[2]	23	1,545	1,545
Current		**260,224**	**260,224**
Financial assets measured at amortised cost			
Loans receivable	18	45,403	45,403
Financial assets measured at fair value through OCI			
Investments	16	13,760	13,760
Financial assets measured at fair value through profit or loss			
Government securities, corporate bonds	16	-	-
Other financial instruments (Mycovia)	16	5,427	5,427
Non-current		**64,590**	**64,590**
Financial liabilities			
Liabilities carried at amortised cost			
Borrowings	30	(1,517)	(1,517)
Trade payables	27	(45,495)	(45,495)
Other payables and accrual	28	(18,275)	(18,275)
from this: Lease liabilities		*(746)*	*(746)*
Current		**(65,287)**	**(65,287)**
Liabilities carried at amortised cost			
Other non-current liabilities	31	(4,645)	(4,645)
from this: 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.

	Notes	Carrying value 31 December 2020 HUFm	Fair value 31 December 2020 HUFm
Financial assets[1]			
Financial assets measured at amortised cost			
Loans receivable	22	6,543	6,543
Trade receivables	21	138,961	138,961
Other current receivable	22	7,593	7,593
Cash and cash equivalents	24	116,393	116,393
Financial assets measured at fair value through OCI			
Goverment securities[3]	23	5,478	5,478
Financial assets measured at fair value through profit or loss			
Other securities[2]	23	1,664	1,664
Current		**276,632**	**276,632**
Financial assets measured at amortised cost			
Loans receivable	18	34,915	34,915
Financial assets measured at fair value through OCI			
Goverment securities[3]	16	36,612	36,612
Investments	16	1,365	1,365
Financial assets measured at fair value through profit or loss			
Corporate bonds[3]	16	4,479	4,479
Other financial instruments (Mycovia)	16	6,318	6,318
Non-current		**83,689**	**83,689**
Financial liabilities			
Liabilities carried at amortised cost			
Borrowings		(4,961)	(4,961)
Trade payables	27	(36,717)	(36,717)
Other payables and accrual	28	(14,627)	(14,627)
from this: Lease liabilities		(513)	(513)
Current		**(56,305)**	**(56,305)**
Liabilities carried at amortised cost			
Other non-current liabilities	31	(2,720)	(2,720)
from this: Lease liabilities		(985)	(985)
Non-current		**(2,720)**	**(2,720)**

[1] All financial assets are free from liens and charges.
[2] Under „Other securities" a convertible promissory note to associates is shown.
[3] The fair valuation of securities was based on bank data supply.
Level 1: on 31.12.2020 none
Level 2: on 31.12.2020 HUF 46,569 million
The fair value of interest swap rates was discounted to present value by the Company using the available interest rate curve on the market. In case of those corporate bonds, which are recognised under the fair value option, the present value was determined using the discounted cash flow method. Based on the mentioned valuation techniques the financial instruments were assigned to Level 2 category.

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 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 30, the amount of total borrowings of the Company is not significant, therefore the interest rate risk is negligible.

Security price risk
The Company holds a foreign denominated convertible promissory note to associate, corporate bonds and corporate bonds among investments and securities. The fair value of these instruments is exposed to foreign currency risk. In 2019, the investment in Protek Group and the investment in Themis Medicare Ltd were material. In 2020, the investment in Protek Group was sold.

I) Capital management

The capital structure of the Company consists of net debt (borrowings as detailed in Notes 30 offset by cash and bank balances in Note 24) 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 2020 dividend per ordinary share is HUF 225 as proposed by the Board of Directors.

The capital risk of the Company was still limited in both 2020 and 2019, 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 2020 HUFm	**31 December 2019** HUFm
Borrowings (Note 29) *	4,961	1,517
Less: cash and cash equivalents (Note 23)	(116,393)	(102,842)
Net debt	**(111,432)**	**(101,325)**
Total equity	793,390	717,059
Total capital	**681,958**	**615,734**
EBITDA	133,740	94,727
Net debt to EBITDA ratio	**(0.83)**	**(1.07)**
Net debt to equity ratio	**(0.14)**	**(0.14)**

* 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.

	2020 HUFm	2019 HUFm
Profit from operations	100,207	59,955
Depreciation (except for right of use asset)	26,967	25,808
Dividend income	6,566	8,964
EBITDA	**133,740**	**94,727**

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 2020 HUFm	31 December 2019 HUFm
Equity under IFRS	793,390	717,059
Supplementary payment	(377)	(377)
Adjusted equity	**793,013**	**716,682**
Subscribed capital	18,638	18,638
Capital reserve	17,738	14,814
Revaluation reserve	665	9,507
Retained earnings	652,755	623,323
Statutory reserve	10,000	-
Post-tax profit or loss	93,217	50,400
Total equity	**793,013**	**716,682**
Thereof:		
Registered capital	**18,638**	**18,638**
Retained earnings reserve available for dividend payment per local regulation	**745,972**	**673,723**

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:

2020		**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	
105.00	**368.53**											
		322.62	**1.14**	**83.12**	**76.23**	**4.68**	**344.56**	**0.83**	**47.03**	**13,168**	**12,598**	**largest growth**
		307.26	1.20	79.16	72.60	4.25	328.15	0.75	44.79	813	1,383	
		291.90	1.26	75.20	68.97	3.83	311.74	0.68	42.55	(11,542)	(9,833)	
100.00	350.98											
		322.62	1.09	83.12	76.23	4.68	344.56	0.83	47.03	12,355	11,215	
		307.26	1.14	79.16	72.60	4.25	328.15	0.75	44.79	0	0	
		291.90	1.20	75.20	68.97	3.83	311.74	0.68	42.55	(12,355)	(11,215)	
95.00	**333.43**											
		322.62	1.03	83.12	76.23	4.68	344.56	0.83	47.03	11,542	9,833	
		307.26	1.09	79.16	72.60	4.25	328.15	0.75	44.79	(813)	(1,383)	
		291.90	**1.14**	**75.20**	68.97	3.83	311.74	0.68	42.55	**(13,168)**	**(12,598)**	**greatest decrease**

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

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 (%).

Based on the annual average currency rate sensitivity analysis of 2020, the combination of weak Hungarian Forint – (368.5 EUR/HUF, 322.6 USD/HUF, 83.1 PLN/HUF, 76.2 RON/HUF, 4.7 RUB/HUF, 344.6 CHF/HUF, 0.8 KZT/HUF and 47.0 CNY/HUF) against other currencies - would have caused the largest growth in the amount of HUF 13,168 million on the Company's operating profit and HUF 12,598 million on the Company's profit before income tax for the year.
The greatest decrease of HUF 13,168 million on operating and HUF 12,598 million on profit before income tax for the year was caused by the combination of exchange rates of 333.4 EUR/HUF, 291.9 USD/HUF, 75.2 PLN/HUF, 68.9 RON/HUF, 3.8 RUB/HUF, 311.7 CHF/HUF, 0.7 KZT/HUF and 42.6 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 sensitivity in case of certain currencies, therefore these currencies have been diverted more when determining the exchange rate combinations (RUB, KZT +/- 10%)

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

2020		**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	
105.00%	**383.39**										
		312.23	**1.23**	**354.28**	**4.36**	**78.74**	**83.25**	**0.78**	**47.72**	**14,718**	**best case scenario**
		297.36	1.29	337.41	3.96	74.99	79.29	0.71	45.45	3,240	
		282.49	1.36	320.54	3.56	71.24	75.33	0.64	43.18	(8,200)	
100.00%	365.13										
		312.23	1.17	354.28	4.36	78.74	83.25	0.78	47.42	11,479	
		297.36	1.23	337.41	3.96	74.99	79.29	0.71	45.45	0	
		282.49	1.29	320.54	3.56	71.24	75.33	0.64	43.18	(11,440)	
95.00%	**346.87**										
		312.23	1.11	354.28	4.36	78.74	83.25	0.78	47.42	8,239	
		297.36	1.17	337.41	3.96	74.99	79.29	0.71	45.45	(3,240)	
		282.49	**1.23**	**320.54**	**3.56**	**71.24**	**75.33**	**0.64**	**43.18**	**(14,679)**	**worst case scenario**

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

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 (%).

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 14,679 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 14,718 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:

2020	**Currencies**							
								(all amounts in millions)
	EUR	USD	CHF	RUB	RON	PLN	KZT	CNY
Trade receivables	97.7	135.3	0.8	8,893.6	41.7	54.9	6,046.1	102.9
Trade payables	(41.0)	(5.7)	(1.6)	(402.9)	(3.0)	(28.1)	(231.2)	(35.7)
Loans receivable	28.1	19.4	10.5	4,049.7	-	5.0	-	-
Investments in securities	31.1	30.2	-	-	-	-	-	-
Bank deposits	68.7	187.7	0.3	0.3	0.1	13.7	306.8	25.7
Other liabilities	(7.2)	(4.8)	-	(107.4)	(7.9)	(0.2)	(25.6)	-
Total	**177.4**	**362.1**	**10.0**	**12,433.3**	**30.9**	**45.3**	**6,096.1**	**92.9**

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**

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 had not recognised any incurred loss derived from overdue receivables in 2020. The Company had one single customer where the annual turnover exceeded 10%. This turnover 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 2020**	**Type of security**		
	HUFm	**Credit insurance*** HUFm	**Bank guarantee** HUFm	**L/C** HUFm
CIS	18,396	18,396		
EU	463		463	
USA	-			
China	-			
Latin America	-			
Other	1,635	1,497		138
Total	**20,494**	**19,893**	**463**	**138**

Regions	**Trade receivables secured as at 31 December 2019**	**Type of security**		
	HUFm	**Credit insurance*** HUFm	**Bank guarantee** HUFm	**L/C** 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**

*The balance of trade receivables included in the (export credit) insurance program is presented as secured portfolio as at the balance sheet date, regardless of whether its risk relating to non-payment is additionally secured by other instruments or not.

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 2020 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 2020	31 December 2019
Banca Commerciala Romana SA*	BBB+	BBB+
Bank of China Ltd. Hungarian Branch	A	A
BNP Paribas Hungarian Branch	A+	A+
CIB Bank Zrt.*	BB+	BBB-
ING Bank N.V. Hungaria Branch	A+	A+
K&H Bank Zrt.*	BBB+	BBB+
KDB Bank Európa Zrt. (ultimate parent - Korea Development Bank)	AA	AA
JSC OTP Bank*	BB+	BB+
OTP Bank Nyrt.	BBB	BBB-
UniCredit Bank Zrt (ultimate parent - UniCredit SpA)	BBB	BBB

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

The Company holds more than 97% of its cash and cash equivalents as of 31 December 2020 in the financial institutions presented above. As of 31 December 2019 the Company holds more than 99% of its cash and cash equivalents at these financial institutions. In 2020 the Company invested into government and corporate bonds in the amount of HUF 46 billion that is presented as non-current assets in the Balance Sheet. These financial assets are hold at above listed high quality 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 2020, 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 2020 HUFm	31 December 2019 HUFm
Bank guarantee for National Tax and Customs Administration of Hungary – collaterals for customs and excise duty related liabilities	194	196
Other, individually not significant bank guarantees	76	69

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 2020				31 December 2019			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets									
Other financial assets	16	1,365	-	6,318	**7,683**	13,760	-	5,427	**19,187**
Securities measured at fair value through OCI (short term)	23	-	-	1,664	**1,664**	-	-	1,545	**1,545**
Securities measured at fair value through profit and loss (short term)	23	-	5,478	-	**5,478**	-	-	-	**-**
Securities measured at fair value through OCI (long term)	16	-	36,612	-	**36,612**	-	-	-	**-**
Securities measured at fair value through profit and loss (long term)	16	-	4,479	-	**4,479**	-	-	-	**-**
Total assets recurring fair value measurements		**1,365**	**46,569**	**7,982**	**55,916**	**13,760**	**-**	**6,972**	**20,732**

There was no financial liability and contract liability measured at fair value neither in 2019 nor in 2020.

Please see the details of the Other investments' fair value (presented in other financial assets) in Note 16. The fair value of these instruments is determined using the interest rates and currency rates effective as of the balance sheet date.

The Company decides to exercise the governments securities at fair value through OCI at initial recognition. The Company recognizes corporate bonds at fair value through profit or loss due to eliminate or materially reduce recognition or measurement inconsistencies (accounting mismatch) which would have existed, if the Company had not selected the fair value option. The Company has derivative financial instruments on balance sheet date, which can be found in Note 12.

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 2020 and 2019.

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 2020 and 2019 (Note 3.1):

	Fair value at 31 Dec. 2020 HUFm	Valuation technique	Unobservable inputs	Range of inputs (weighted average)	Sensitivity of fair value measurement
Assets at fair value					
Convertible bond option Prima Temp	1,664	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	0.81 USD/share	The higher the strike price the lower the fair value
			● Time in years	0.5 year	The longer the time in years the higher the fair value
			● The annualised risk free rate	0.12 %	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	6,318	Discounted cash flows (DCF)	● Estimated future profit		The lower estimated future profits, the lower the fair value.
			● Foreign currency rate	297.36 HUF/USD	The higher the FX rate the higher the fair value
			● Discount rate	9.19 %	The higher the discount rate the lower the fair value
Total recurring fair value measurements at Level 3	**7,982**				

	Fair value at 31 Dec 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
Other financial asset 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. Financial derivative instruments

Government bonds and corporate bonds purchased by the Company are fixed interest rate debt securities. In order to manage the market risk arising from fixed interest rates, the Company has entered into interest rate swaps in the case of corporate bonds, during which it exchanges fixed interest rates for variables. The maturity and currency data of these transactions are summarized in the table below.

Name	Nominal value	Maturity date	Carrying value (HUFm)
Interest rate swap (HUF)	3,000,000,000	2029	(41)
Interest rate swap (EUR)	5,000,000	2027	(2)
Total			**(43)**

The Company's derivative instruments are interest rate swaps. The Company does not apply the hedge accounting.

	31 December 2020 HUFm	31 December 2019 HUFm
Liabilities		
Long term financial derivative instruments		
Interest rate swaps	(27)	-
Short term financial derivative instruments		
Interest rate swaps	(16)	-
Total financial derivative liabilities	**(43)**	**-**

The Company recognizes the corporate bonds and related interest rate swaps at fair value through profit or loss due to eliminate or materially reduce recognition or measurement inconsistencies (accounting mismatch) which would have existed, if the Company had not selected the fair value option based on IFRS 9. The relevant part of the accounting policy can be found in Note 2, paragraph VII/D.

13. Property, plant and equipment and Intangible assets

13.1 Property, plant and equipment

	31 December 2020 HUFm	31 December 2019 HUFm
Property, plant and equipment without right of use assets	195,050	181,482
Right-of-use assets	1,447	4,304
Total	**196,497**	**185,786**

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

	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**

	Land and buildings HUFm	Plant and equipment HUFm	Construction in progress HUFm	Total HUFm
Gross value				
at 31 December 2019	**145,712**	**258,313**	**22,774**	**426,799**
Capitalization	9,092	19,414	(28,506)	**-**
Transfers and capital expenditure	-	-	32,893	**32,893**
Other Increase/(Disposals)	(644)	(4,453)	(203)	**(5,300)**
at 31 December 2020	**154,160**	**273,274**	**26,958**	**454,392**
Accumulated depreciation				
at 31 December 2019	**(45,987)**	**(199,330)**	**-**	**(245,317)**
Current year depreciation	(4,370)	(14,254)	-	**(18,624)**
Other Increase/(Disposals)	262	4,337	-	**4,599**
at 31 December 2020	**(50,095)**	**(209,247)**	**-**	**(259,342)**
Net book value				
at 31 December 2019	**99,725**	**58,983**	**22,774**	**181,482**
at 31 December 2020	**104,065**	**64,027**	**26,958**	**195,050**

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.

13.1.2 Right-of-use assets

The balance sheet shows the following amounts relating to leases:

	31 December 2020 HUFm	31 December 2019 HUFm
Building	1,297	3,571
Machinery	-	569
Vehicles	150	164
Total	**1,447**	**4,304**

The gross value of the right-of-use-assets increased by HUF 2,968 million. The depreciation is HUF 832 million in the current year (HUF 762 million in 2019, see Note 5), but new transactions, revaluations and modifications and the retirements are increase the profit and loss by HUF 943 million. It generated a net decrease of HUF 2,857 million in the value of right-of-use-assets in 2020.

13.2 Intangible assets

	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**

	Rights	Intellectual property	Research and development	Total
	HUFm	HUFm	HUFm	HUFm
Gross value				
at 31 December 2019	**182,000**	**2,916**	**804**	**185,720**
Acquisition	29,538	-	-	**29,538**
Scrapping	(2,682)	-	-	**(2,682)**
Other Increase/(Disposals)	(641)	-	-	**(641)**
at 31 December 2020	**208,215**	**2,916**	**804**	**211,935**
Accumulated depreciation				
at 31 December 2019	**(101,754)**	**(1,671)**	**(804)**	**(104,229)**
Current year amortization	(8,225)	(118)	-	**(8,343)**
Impairment and reversal of impairment (net)	(1,831)	-	-	**(1,831)**
Scrapping	36	-	-	**36**
Other (Increase)/Disposals	(1)	-	-	**(1)**
at 31 December 2020	**(111,775)**	**(1,789)**	**(804)**	**(114,368)**
Net book value				
at 31 December 2019	**80,246**	**1,245**	**-**	**81,491**
at 31 December 2020	**96,440**	**1,127**	**-**	**97,567**

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:

Net book value	**31 December 2020** HUFm	**31 December 2019** HUFm
Grünenthal	20,865	25,989
Bemfola/Afolia	4,649	6,242
Mithra/Estelle	14,138	11,365
Mifepristone	4,218	3,502
Relugolix	16,442	-
Mycovia	6,178	6,025
Other, individually not significant rights	31,077	28,368
Total	**97,567**	**81,491**

The following details the intangible assets considered to be most significant by Management.

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 20,865 million as of 31 December 2020 and HUF 25,989 million as of 31 December 2019.

Rights – Relugolix
On 31 March 2020, the Company announced that it had entered into an exclusive agreement with Myovant Sciences GmbH to market the combination tablet of relugolix (containing 40 mg relugolix, 1.0 mg estradiol and 0.5 mg norethindrone acetate) in the indications for uterine fibroids and endometriosis. The geographic scope of the agreement covers Europe, CIS countries including Russia, Latin America, Australia and New Zealand. Myovant is a healthcare company developing innovative products in the field of gynecology and prostate cancer. Under the agreement, Myovant will receive 40 MUSD milestone revenue at the time of the contract and will be entitled to additional milestone revenue of up to 40 MUSD tied to the achievement of each milestone of regulatory approvals. The milestone revenues tied to post-authorization sales levels could amount to 107.5 MUSD and the parties will also tie the amount of royalty to be paid in band to the level of sales. Myovant reserves all rights in the United States with respect to relugolix combination tablets, as well as its rights to non-gynecological indications for relugolix. Net book value of the rights is HUF 16,442 million as of 31 December 2020. As of 31 December 2020, 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 2020 the value of right is 14,138 HUF million. We performed impairment test for intangible assets based on qualitative indicators and concluded that there was no need to recognize any impairment loss.

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 6,178 million as of 31 December 2020. As of 31 December

2020, we performed impairment test for intangible assets based on qualitative indicators and concluded that there was no need to recognize any impairment loss.

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. During 2020, the Company recognized 100% impairment loss of HUF 1,389 million on intellectual property rights in relation to the US territory. Richter does not intend to launch the product in the US as significant additional clinical development costs in accordance with FDA regulations would occur, which would significantly decrease the profitability of the product taken into account the potential market size and market share. As of 31 December 2020, we performed impairment test for the remaining intangible assets of HUF 4,649 million based on qualitative indicators and concluded that there was no need to recognize any impairment loss.

The average remaining useful life of the intellectual properties in use does not exceed 10.7 years (11.6 years in 2019).

14. 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. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019	
1	AO Gedeon Richter - RUS	Russia	100.00	100.00	100.00	100.00	Pharmaceutical manufacturing, Pharmaceutical wholesale
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 Medicare (India) 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	100.00	98.16	100.00	98.16	Pharmaceutical trading
9	Gedeon Richter UK Ltd.	United Kingdom	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	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.	United Kingdom	100,00	100,00	100,00	100,00	Pharmaceutical trading
27	Farnham Laboratories Ltd. (2)	United Kingdom	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

	Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
			31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019	
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	Research and development, Marketing services
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, trženje, 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	Gedeon Richter KZ LLP	Kazakhstan	100.00	100.00	100.00	100.00	Pharmaceutical trading, Marketing services
46	GRMed Company Ltd.	Hong-Kong	100.00	100.00	100.00	100.00	Marketing services, distribution
47	Gedeon Richter Pharmaceuticals (China) Co. Ltd.	China	100.00	100.00	100.00	100.00	Marketing services
48	Gedeon Richter Colombia S.A.S.	Columbia	100.00	100.00	100.00	100.00	Pharmaceutical trading, Marketing services
49	Gedeon Richter Croatia d.o.o.	Croatia	100,00	100,00	100,00	100,00	Marketing services
50	Gedeon Richter Mexico, S.A.P.I. de C.V	Mexico	100,00	100,00	100,00	100,00	Pharmaceutical trading, Marketing services
51	Gedeon Richter do Brasil Importadora, Exportadora e Distribuidora S.A.	Brazil	100,00	100,00	100,00	100,00	Pharmaceutical trading, Marketing services
52	Gedeon Richter Chile SpA	Chile	100,00	100,00	100,00	100,00	Pharmaceutical trading
53	Mediplus (Economic Zone) N.V.	Curaçao	100,00	100,00	100,00	100,00	Pharmaceutical trading, Marketing services
54	Gedeon Richter Peru S.A.C.	Peru	100,00	100,00	100,00	100,00	Pharmaceutical trading
55	GEDEONRICHTER Ecuador S.A.	Ecuador	100,00	100,00	100,00	100,00	Pharmaceutical trading
56	Gedeon Richter Bolivia SRL	Bolivia	100,00	100,00	100,00	100,00	Pharmaceutical trading
57	Gedeon Richter Australia PTY Ltd.	Australia	100,00	100,00	100,00	100,00	Trading of biotech products, Marketing services
58	Finox AG	Switzerland	100,00	100,00	100,00	100,00	Biotechnological services

	Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
			31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019	
59	Finox Biotech AG	Lichtenstein	100.00	100.00	100.00	100.00	Biotechnological services
60	Finox Biotech Germany GmbH	Germany	100.00	100.00	100.00	100.00	Marketing services
61	Finox Biotech UK and Ireland Ltd.	United Kingdom	100.00	100.00	100.00	100.00	Marketing services
62	Gedeon Richter Ireland Ltd.	Ireland	100.00	100.00	100.00	100.00	Marketing services
63	Gedeon Richter Bulgaria Ltd.	Bulgaria	100.00	100.00	100.00	100.00	Marketing services
64	Gedeon Richter Pharma O.O.O.	Russia	100.00	100.00	100.00	100.00	Marketing services
65	Pharmapolis Gyógyszeripari Tud. Park Kft.	Hungary	100.00	100.00	100.00	100.00	Building project management

(1) The company was liquidated in January 2020.
(2) The company's principal activity has been suspended.

	Name	Date of establishment / acquisition	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
				31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019	
68	Forhercare Kft.	03.2020	Hungary	100.00	-	100.00	-	Pharmaceutical retail

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

Name	31 Dec. 2020	Event for the change in 2020		1 Jan. 2020
	HUFm	HUFm	Reason	HUFm
AO Gedeon Richter - RUS	17,672			17,672
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
GRMed Company Ltd.	28,207			28,207
Gedeon Richter Mexico, S.A.P.I. de C.V	1,106	(594)	Increase in capital, impairment	1,700
Finox AG	28,014			28,014
Gedeon Richter Australia PTY Ltd.	4,840			4,840
Other subsidiaries	7,751	(180)	Impairment and other non significant changes	7,931
Total	**121,405**	**(774)**		**122,179**

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**

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.
The business impact of the EC decision of 11 January 2021 (further details in Note 3.1 Key sources of estimation uncertainty) on future cash flow cannot be estimated. Accordingly, as of 31 December 2020, the Company did not recognize a reversal of a previously recognized impairment loss. The value of the Company's share in PregLem S.A. as of 31 December 2020 is HUF 0.

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 13.
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. 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.

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).

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, hence 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), however the effects of new launches are not taken into account in the impairment model.

As a consequence, cash flows show upward trend from 2021 to 2024 in connection with the increase in sales (CAGR 8.2%) after this period the growth is expected to be slower (0.3% until 2030) and after the peak is achieved a slow downturn of sales are taken into account (CAGR: -2.0% until 2041).
The recoverable amount is significantly higher than the investment's book value.

The discount rate (post tax: 4.5%, 6.5% in 2019) 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 2020 and 2019 and it was found that there is no need to account for impairment in 2020 like 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 2020 (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.

Between 2021 and 2030 a continuous increase in cash flows is expected mainly due to new product launches. The share of net sales in connection to these new products increase from 3% in 2022 to 45% in 2030. As for the whole forecasted period, the compound average growth rate of cash-flows is 34%.

In the impairment test, the net assets of the Chinese subsidiary were considered. (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 2021-2030 cash flows (representing 24% of the total recoverable amount) and the conservatively estimated residual value (reckoning with 0% growth) is significantly (more than two times) higher than the tested amount.

The discount rate (post tax: 6.4% in 2020 and 12.2% in 2019) 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 15.1% or 22.0% 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 2020 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 (2021-2030), 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.

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.

In the past 2-2,5 years, the Company has implemented various measures to achieve greater efficiency, reduce and control operating costs in order to increase the long-term profitability of the Mexican business. The revised long term forecasts show no significant differences compared to previous year, however in 2020 the issued capital of Gedeon Richter Mexico was increased, which was taken into account as an increase in the investment's carrying amount. The recoverable amount based on current forecast do not cover the net book value of investment and other assets. Due to the listed factors, HUF 4,800 million impairment loss has recognized in 2020 resulted a net book value of HUF 1,063 million as at 31 December 2020.

The discount rate (post tax: 7.1% in 2020; 8.6% in 2019) 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 2020 as well.

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 (2021-2030), 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.

Based on the forecasts, significant new products are expected to be launched from 2023 and 2024, which will be supported by a significant increase in the subsidiary's resources. As a result of the above mentioned tendency, negative cash flows will occur until 2024, and then in parallel with the introduction of new products the cash-generation of the subsidiary will continuously improve. The compound average growth rate (CAGR) of sales revenue is projected to be close to 13.5% over the period 2021-2030.

The sum of the present value of 2021-2030 cash flows represents 12% of the total recoverable amount. The residual value of cash-flows was estimated using a conservative approach (reckoning with 0% growth).

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. A rise in post-tax discount rate to 10.7% or 12.6% decrease in forecasted sales volumes would remove the remaining headroom.

The discount rate (post tax: 5.7%, 6.4% in 2019) 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.

Acquisition of subsidiaries in 2020

In March 2020, the Company founded Forhercare Ltd. as its subsidiary.

Acquisition of subsidiaries in 2019

The Company did not perform acquisitions in 2019.

15. Investments in associates and joint ventures

15.1 Investments in joint ventures

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

Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019	
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	Asset management
Richter Helm BioTec GmbH & Co.KG.	Germany	50.00	50.00	50.00	50.00	Trading of biotech products, Marketing services

The book value of joint ventures was HUF 620 million at 31 December 2019 and it was not changed in 2020.

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 2020. 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).

15.2 Investments in associates

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

Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019	
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 SP 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	35.42	35.45	35.42	35.45	Biopharmaceutical research and development
Prima-Temp Inc.	USA	22.99	27.73	22.99	27.73	Pharmaceutical research and development

Name	31 Dec. 2020	Event for the change in 2020		1 Jan. 2020
	HUFm	HUFm	Reason	HUFm
Hungaropharma Zrt.	1,191	-		1,191
Evestra Inc.	1,624	(4,836)	Impairment	6,460
Prima-Temp Inc.	1,376	-		1,376
Other associates	1	-		1
Total	**4,192**	**(4,836)**		**9,028**

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

In 2019 the Company increased its shares in its associate company, **Evestra Inc**. On the one hand a convertible loan was converted into shares and on the other hand the Company purchased further shares. In 2020, Richter has terminated its license agreements for two products under development with Evestra Inc. Due to unfavourable market conditions and license agreements terminated the expected future cash flows have significantly worsened. Based on the assumptions the recoverable amount of the investment is significantly lower than the book value therefore HUF 4,836 million impairment loss was recognized in 2020. The net book value of the investments in Evestra after the impairment loss is HUF 1,624 million as at 31 December 2020.

16. Non-current financial assets and Other long-term receivable

As at 31 December 2019 Non-current financial assets carried at fair value through OCI and Non-current financial assets carried at fair value through profit or loss were presented in a single line item (Other financial assets) in the Balance Sheet. In 2020, the Company acquired government securities and corporate bonds in a significant amount that are measured at fair value through OCI and profit or loss. Therefore, the Company decided to present financial assets measured on different basis on the face of the Balance Sheet separately.

16.1 Non-current financial assets carried at fair value through profit or loss

	31 December 2020 HUFm	31 December 2019 HUFm
Corporate bonds	4,479	-
Other financial instruments (Mycovia)	6,318	5,427
Total	**10,797**	**5,427**

The Company initially recognizes the corporate bonds and related interest rate swaps at fair value through profit or loss due to eliminate or materially reduce recognition or measurement inconsistencies (accounting mismatch) which would have existed, if the Company had not selected the fair value option based on IFRS 9. The relevant part of the accounting policy can be found in Note 2, paragraph VII/D.

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 13) 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 6,318 million at 31 December 2020. (HUF 5,427 million in 31 December 2019.

16.2 Non-current financial assets carried at fair value through OCI

	31 December 2020	31 December 2019
Government securities	36,612	-
Investments	1,365	13,760
Total	**37,977**	**13,760**

The Company accounts for the government securities at fair value through OCI model because the business model is hold to collect and sell. The relevant part of the accounting policy can be found in Note 2, paragraph VII/D.

In 2020, the Company sold its 5% interest, measured at fair value, in Protek Holding to its majority owner (ZAO Firma CV Protek). The Buyer proposed a 100 RUB/share price at the beginning of 2020 that was approved by the Bord of Directors of the Company.

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 an increase in the share price a revaluation gain (HUF 136 million) was recorded against revaluation reserve for securities at FVOCI in 2020. A closing fair value is HUF 1,303 million.

16.3 Other long-term receivable

	31 December 2020 HUFm	31 December 2019 HUFm
Government grants	1,481	2,837
Other assets	-	-
Total	**1,481**	**2,837**

The Company was granted government grant relating to property, plant and equipment and research and development activities. As at the end of 2020 HUF 1,481 million was approved but not financially settled, due over one year as long term receivables. Current portion of related asset is disclosed in Note 22.1.

17. Current income tax and deferred tax

Current tax assets and liabilities

	31 December 2020 HUFm	31 December 2019 HUFm
Current tax assets	70	760
Current tax liabilities	590	8

Deferred tax is calculated by the balance sheet method based on the temporary differences. The Company does not recognise any deferred tax asset or liability in its Balance Sheet.
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 2019	**(510)**	**1,715**	**219**	**-**	**-**	**1,424**
(Debited)/credited to the income statement	-	(1,715)	(219)	-	-	**(1,934)**
(Debited)/credited to other comprehensive income	510	-	-	-	-	**510**
31 December 2019	**-**	**-**	**-**	**-**	**-**	**-**
(Debited)/credited to the income statement	-	-	-	-	-	**-**
(Debited)/credited to other comprehensive income	-	-	-	-	-	**-**
31 December 2020	**-**	**-**	**-**	**-**	**-**	**-**

The Company did not recognize deferred tax assets of HUF 6,595 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 from 2017, 2018, 2019 (tax effect of HUF 4,184 million), from which HUF 3,445 million will be able to utilised within 3 years, HUF 739 million within 3-5 years.
Of the amount of deferred taxes presented above, deferred tax liability of HUF 1,202 million 31 December 2020 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.

18. Loans receivable

The loans receivables are loans given to related parties, employees and other given loans. The relevant part of accounting policy can be found in Note 2, section XII.

	31 December 2020 HUFm	31 December 2019 HUFm
Loans given to related parties	34,289	44,621
Loans given to employees	571	609
Other loans given	55	173
Total	**34,915**	**45,403**

19. Goodwill

The Company does not have any Goodwill balance.

20. Inventories

	31 December 2020 HUFm	31 December 2019 HUFm
Raw materials, packaging and consumables	31,176	24,437
Production in progress	664	1,117
Semi-finished and finished goods	45,416	39,644
Total	**77,256**	**65,198**

The 2020-year end balance of inventory increased by 18.5% (HUF 12 billion) compared to the end of the comparative period.
The value of purchased stock increased by 27.6%, while the value of self-produced inventory increased by 14.6%. The value of self-production inventories at the year-end was 40.6% lower compared to the base period.

In terms of raw materials and commodities, the main driver of the growth was the increase in active ingredient inventories related to Teriparatide, which resulted from the establishment of safety inventory levels. An additional reason for change in inventories was the increase in imported active ingredients, excipients, purchased finished drugs and our own products as part of our risk reduction strategy in the event of a COVID outbreak.

In 2020, impairment and disposal of HUF 2,800 million was recorded and HUF 134 million was reversed, while HUF 5,533 million and HUF 75 million respectively in 2019. 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 2020 the total carrying amount of inventories that are valued at net realizable value amounts to HUF 78 million, as of 31 December 2019 it was HUF 245 million.

All items of Inventories are free from liens and charges.

21. Trade receivables

	31 December 2020 HUFm	31 December 2019 HUFm
Trade receivables (3rd parties)	73,981	62,923
Amounts due from related companies and other participations	64,980	75,159
Total	**138,961**	**138,082**

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

	2020 HUFm	2019 HUFm
At 1 January	**3,144**	**3,504**
Allowances for receivables impairment	190	693
Reversal of impairment for trade receivables, withdrawal	(953)	(1,053)
At 31 December	**2,381**	**3,144**

Impairment of trade receivables (HUFm)

31 December 2020	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	0,01%	0,01%	0,05%	0,11%	0,46%	97,68%	**1,68%**
Gross carrying amount – trade receivables	124,180	8,737	4,198	949	861	2,417	**141,342**
Loss allowance	12	1	2	1	4	2,361	**2,381**

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	0,40%	0,88%	1,46%	2,08%	13,27%	88,05%	**2,23%**
Gross carrying amount – trade receivables	116,163	12,697	7,263	1,684	784	2,635	**141,226**
Loss allowance	467	112	106	35	104	2,320	**3,144**

22. Other current assets

22.1 Other current assets

	31 December 2020 HUFm	31 December 2019 HUFm
Loans receivable	6,543	10,146
Other receivables	7,160	4,896
Prepayments	433	2,713
Subtotal of financial assets (Note 10)	**14,136**	**17,755**
Tax and duties recoverable	3,179	2,554
Advances	3,674	1,847
Prepayments	2,051	1,831
Total	**23,040**	**23,987**

The Company presents approved but not financially settled grants amount of HUF 3,915 million due within 1 year, relate to acquisition of property, plant and equipment and research and development activities.

22.2 Contract assets

The Company has recognised the following assets related to the contracts with customers based on IFRS 15**:**

	31 December 2020 HUFm	31 December 2019 HUFm
Current contract assets	1,405	2,074
Total contract assets	**1,405**	**2,074**

23. Current financial assets at fair value

	31 December 2020 HUFm	31 December 2019 HUFm
Government securities *	5,478	-
Other securities	1,664	1,545
Total (Note 10)	**7,142**	**1,545**

*Government securities are issued or granted by the Hungarian State.

The Company accounts for the government securities at fair value through OCI model because the business model is hold to collect and sell. The relevant part of the accounting policy can be found in Note 2, paragraph VII/D.

Under Other securities a convertible promissory note to associates is shownthat is measured at FVTPL.

24. Cash and cash equivalents

24.1 Cash and cash equivalents

	31 December 2020 HUFm	31 December 2019 HUFm
Bank deposits	116,380	102,813
Cash on hand	13	29
Total (Note 10)	**116,393**	**102,842**

The total amount of Cash and cash equivalents as at 31 December 2020 and 2019 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.

24.2. Reconciliation to cash flow statement

	31 December 2020 HUFm	31 December 2019 HUFm
Cash and cash equivalents	116,393	102,842
Cash-pool overdraft	(4,961)	(1,517)
Total	**111,432**	**101,325**

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 in 2019, but no such item occurred in 2020. The Cash-pool liability includes the liabilities exposure with the Hungarian subsidiaries.

25. Share capital and reserves

Share capital	31 December 2020		31 December 2019	
	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 2020:

Ordinary shares	Ownership number	Voting rights* %	Share capital %
	31 December 2020	31 December 2020	31 December 2020
Domestic ownership	**62,398,808**	**33.51**	**33.49**
State ownership total	9,777,784	5.25	5.25
out of which MNV Zrt.	9,777,658	5.25	5.25
out of which Municipality	126	0.00	0.00
Institutional investors	46,324,479	24.88	24.86
out of which Maecenas Universitatis Corvini Foundation	18,637,486	10.01	10.00
out of which Mathias Corvinus Collegium Foundation	18,637,486	10.01	10.00
Retail investors	6,296,545	3.38	3.38
International ownership	**123,776,762**	**66.46**	**66.41**
Retail investors	222,018	0.12	0.12
Institutional investors	123,554,744	66.34	66.29
Undisclosed ownership	**63,535**	**0.03**	**0.03**
Treasury shares**	**135,755**	**-**	**0.07**
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.

Detailed ownership structure of the Company on 31 December 2019:

Detailed ownership structure of the Parent 31 December 2019

Ordinary shares	Ownership 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 Foundation	18,637,486	10.04	10.00
out of which 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**
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%.
** 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 has neither direct Parent nor Ultimate Controlling Party. On 19 August 2020 Richter informed its shareholders that the transaction of transferring the 18,637,486 Richter common shares – owned by the Hungarian State and held in trust by Maecenas Universitatis Corvini Foundation (MUC Foundation) – to the property of Maecenas Universitatis Corvini Foundation is closed. Because of the transaction, in Gedeon Richter Plc. the influence (voting rights and ownership ratio) of the Hungarian State represented by Hungarian National Asset Management Incorporated (HNMA Inc.) has decreased from 15.25% to 5.25%. Simultaneously the influence (voting rights and ownership ratio) of MUC Foundation increased to 10% in Gedeon Richter Plc.

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 securities at FVOCI (based on IFRS 9)

When measuring financial assets measured at fair value through OCI (Note 16, 23), the difference shall be recognized as Revaluation reserve for securities at FVOCI.

	Revaluation reserve for securities at FVOCI HUFm
At 1 January 2019	**4,810**
Revaluation of investments	4,187
Deferred tax effect	510
At 31 December 2019	**9,507**
Change in the fair value of equity instrument retained	136
Current year change in the fair value of derecognised equity instrument	(1,724)
Reserve of derecognised equity instrument	(7,254)
Deferred tax effect	-
At 31 December 2020	**665**

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 17.)

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 26 Treasury shares.

	2020 HUFm	**2019** HUFm
Expense recognized in current year	3,447	2,657
Treasury share given (Note 25)	(4,574)	(1,868)
Repurchase obligation from ESOP	(3,514)	1,841
Total changes in reserve presented in the Statement of Changes in Equity	**(4,641)**	**2,630**

26. 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 2019 and 2020, 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 2020, 9,715 shares were granted to 238 key employees of the Company, while in 2019, 281 employees were granted. The total number of shares distributed were 15,327.

Individual bonuses
In 2019 and 2020 no treasury shares were granted as bonuses. 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 and approved the ESOP Organization's Remuneration Policy for two years in 2019 and in 2020 as well. The total amount related to the Remuneration Policy was HUF 1.6 billion in 2020, and HUF 1.5 billion in 2019.
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.

Staff Stock Bonus Plan
Pursuant to a program related to employee share bonuses (Staff Stock Bonus Plan 2020), the Company granted 277,947 treasury shares to 4,783 employees in 2020. The shares will be deposited on the employees' security accounts with UniCredit Bank Hungary Ltd. until 2 January 2023. In 2019, 320,534 treasury shares were granted to 4,484 employees which will be deposited on the employees' security accounts until 2 January 2022.

The AGM held on 28 April 2020 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 230,073 treasury shares during the year.

Treasury shares	**2020** Numbers	**2019** Numbers
at 1 January	**666,705**	**49,830**
Share purchase	230,073	607,752
Transferred as part of bonus program	(9,715)	(15,327)
Individual bonuses	-	-
Transferred to ESOT	(493,103)	331,438
Granted pursuant to employee share bonuses	(277,947)	(320,534)
Granted repurchased pursuant to employee share bonuses	14,242	13,546
at 31 December	**130,255**	**666,705**

Book value	2020 HUFm	2019 HUFm
at 1 January	**3,875**	**283**
Share purchase	1,650	3,539
Transferred as part of bonus program	(58)	(88)
Individual bonuses	-	-
Transferred to ESOT	(2,845)	1,908
Granted pursuant to employee share bonuses	(1,766)	(1,839)
Granted repurchased pursuant to employee share bonuses	95	72
at 31 December	**951**	**3,875**

27. Trade payables

	31 December 2020 HUFm	31 December 2019 HUFm
Trade payables (3rd parties)	22,050	23,545
Amount due to related companies and other participations (Note 37)	14,667	21,950
Total (Note 10)	**36,717**	**45,495**

28. Other payables and accruals

28.1 Other payables and accruals

	31 December 2020 HUFm	31 December 2019 HUFm
Short term accruals	8,551	9,628
Other liabilities	5,410	7,749
Lease liabilities	513	746
Dividend payable	153	152
Subtotal of financial liabilities (Note 10)	**14,627**	**18,275**
Wages and payroll taxes payable	3,372	3,024
Other taxes	174	151
Deposits from customers	178	69
Total	**18,351**	**21,519**

28.2 Contract liabilities

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

29. Provisions

	31 December 2020 HUFm	31 December 2019 HUFm
Other short-term provisions	1,236	1,211
Long term provisions – for jubilee programs	1,022	609
Long term provisions – for retirement benefits	4,350	2,466
Total	**6,608**	**4,286**

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

	31 December 2020 HUFm	Reversal HUFm	Provision HUFm	31 December 2019 HUFm
Compensation	1,236	-	25	1,211
Long term provisions – to defined benefit liabilities (according to actuarial valuations)	5,372	(266)	2,563	3,075
Other	-	-	-	-
Total	**6,608**	**(266)**	**2,588**	**4,286**

	31 December 2019 HUFm	Reversal HUFm	Provision HUFm	31 December 2018 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**

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.

	2020 HUFm	2019 HUFm
Opening value of retirement benefit	2,466	1,857
Interest costs (charged to the P&L)	-	3
Service costs (charged to the P&L)	202	122
Settlement	(158)	(224)
Actuarial loss/(gain) (charged to the OCI)	1,840	708
Retirement benefit liability	**4,350**	**2,466**

The principal actuarial assumptions were as follows:

The increase in the amount of the underlying benefit reflected long-term risk-free rates.

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."

The applied discount curve was determined on the basis of the reference yields of Hungarian government securities (available on following website www.akk.hu) , using a Nelson-Siegel curve fitting, based on the market yields at the end of 2020.
For the purpose of determining the value of the liabilities, in 2019 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 in 2019. In 2020, this method was changed and we used the actual fluctuation rate as per each age-group of employees. The reason for this change was that we experienced stronger correlation between these set of information. Our assumptions are disclosed in the tables below.

Annual average rate of fluctuation used in the calculation for 2020:

Age	Annual average rate of fluctuation
0-25	8.3%
26-30	8.2%
31-35	6.8%
36-40	5.5%
41-45	4.1%
46-50	2.8%
51-55	2.3%
56-60	2.1%
61-	1.9%

Annual average rate of fluctuation used in the calculation for 2019:

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%

30. Borrowings, net debt reconciliation

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

	31 December 2020 HUFm	31 December 2019 HUFm
Borrowings non-current	-	-
Borrowings current	4,961	1,517
Total	**4,961**	**1,517**

The Company does not have any non-current borrowings.
Current borrowings consist of loans taken cash pool liabilities on 31 December 2020.

Net debt reconciliation:

Net debt	31 December 2020 HUFm	31 December 2019 HUFm
Cash and cash equivalents	116,393	102,842
Cash-pool	(4,961)	(1,517)
Borrowings - within one year (excluding cash-pool)	-	-
Borrowings - after one year	-	-
Total	**111,432**	**101,325**

	Other assets	**Liabilities from financing activities**		
	Cash and cash-pool overdraft	**Borrowings due within one year**	**Borrowing due after one year**	**Total**
	HUFm	HUFm	HUFm	**HUFm**
Net debt as at 1 January 2019	**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**
Cash flows	9,393	-	-	**9,393**
Effect of foreign exchange of borrowings	-	-	-	**-**
Other non-cash movements	714	-	-	**714**
Reclassification	-	-	-	**-**
Net debt as at 31 December 2020	**111,432**	**-**	**-**	**111,432**

31. Other non-current liabilities and accruals

	31 December 2020 HUFm	31 December 2019 HUFm
Government grant - deferred income	6,551	5,605
Government grant - prepayments received	-	886
Other non-current liabilities	1,757	982
Lease liabilities	985	3,663
Total	**9,293**	**11,136**

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

32. Dividend on ordinary shares

	2020 HUFm	2019 HUFm
Dividend on ordinary shares	11,741	18,637

A dividend of HUF 63 per share (HUF 11,741 million) was declared in respect of the 2019 results, approved at the Company's Annual General Meeting on 28 April 2020 and paid during the year.

33. Agreed capital commitments and expenses related to investments

	31 December 2020 HUFm	31 December 2019 HUFm
Contractual capital commitments of the Company	7,312	6,914

The Company’s capital expenditure program for 2020 approved by the Board of Directors is HUF 41,762 million, from which the contractual capital commitments comprises amounts to HUF 7,312 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.

34. Lease – Company as lessee

In 2019 and 2020, 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.

35. Guarantees provided by the Company

The Company has not provided directly any guarantees to third parties. Guarantees provided by banks on behalf of the Company are presented in Note 10 and Note 37.

36. Social security and pension schemes

The Company has provided in relation to the employees in Hungary social contribution tax amounting to 17.5% till 30 June 2020, 15.5 % from 1 July 2020 and vocational training contribution amounting to 1.5% of gross salaries which are paid during 2020 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 1,823 million in 2020 (HUF 1,705 million in 2019).

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

37. Contingent liabilities

Bank guarantee
The bank guarantee provided by UniCredit Bank secures a bank guarantee facility of RON 72 million for our Romanian subsidiaries, under which agreement bank guarantees are allowed to be issued for the business partners of subsidiaries up to the amount of the facility.

38. Related party transactions

The transactions among the Company and its subsidiaries and related parties are below.

Untill 2019 the State Holding Company (MNV Zrt.), as a business organization was having a significant interest over Richter nevertheless the Company had no other transactions with the State Holding Company, than the regular dividend payments. On 19 August 2020 Richter informed its shareholders that the transaction of transferring the 18,637,486 Richter common shares – owned by the Hungarian State and held in trust by Maecenas Universitatis Corvini Foundation (MUC Foundation) – to the property of Maecenas Universitatis Corvini Foundation is closed. Because of the transaction, in Gedeon Richter Plc. the influence (voting rights and ownership ratio) of the Hungarian State represented by Hungarian National Asset Management Incorporated (HNMA Inc.) has decreased from 15.25% to 5.25%. Simultaneously the influence (voting rights and ownership ratio) of MUC Foundation increased to 10% in Gedeon Richter Plc.

	2020 HUFm	**2019** HUFm
Dividend paid to MNV Zrt.	1,792	2,847

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

38.1 Significant information of Related parties

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

	31 December 2020 HUFm	31 December 2019 HUFm
Loans provided to subsidiaries	35,471	45,744
Loans to joint ventures	4,841	5,287
Loans to associated companies	158	158
Impairment on loans provided to subsidiaries	(5,550)	(2,275)
Impairment on loans provided to associates	-	-
Convertible promissory note to associates	1,664	1,545
Accounts receivables from subsidiaries	60,409	68,844
Accounts receivables from joint ventures	-	195
Accounts receivables from associates	4,713	2,548
Impairment on accounts receivables from subsidiaries	(140)	(861)
Accounts payables from subsidiaries	14,658	21,728
Accounts payables from joint ventures	-	-
Accounts payables from associates	9	222
Revenue from subsidiaries	125,915	123,635
Revenue from joint ventures	314	448
Revenue from associates	16,739	17,317

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.

38.2 Remuneration of the Board of Directors and the Supervisory Board

	Short-term benefits - Allowance 2020 HUFm	 2019 HUFm
Board of Directors	72	74
Supervisory Board	27	27
Total	**99**	**101**

38.3 Key management compensation

	2020 HUFm	2019 HUFm
Salaries and other employee benefits	2,300	1,678
Share based payments	711	506
Total compensation	**3,011**	**2,184**
Pension contribution paid by the employer	385	309
Total	**3,396**	**2,493**

The Company established the Employee's Share- Ownership Programme (ESOP). (See details in Note 26.)

The table above contains the compensation received by the chief executive officer, directors and other senior members of Management, constituting 56 people. There were no redundancy payments to key Management members in 2020.

39. Asset Held for Sale

The Company decided to sell its investments in following Moldavian subsidiaries: I.M. Gedeon Richter-Retea Farmaceutica S.R.L and I.M. Rihpangalpharma S.R.L. Accordingly, these investments are classified as held for sale in the amount of HUF 192 million. The sales transaction is expected to be closed in 2021.

40. Changes in Accounting Policy

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.
Previously, the amortisation expense of product rights, and other rights related to products are presented in two separate line items in the Income statement:

- Cost of sales
- Sales and marketing expenses.

Beginning from the preparation of the 2020 financial statements, the amortisation of all intangible assets and (other) rights related to products (except customer relationship assets) is presented as part of Cost of sales. This reclassification is in line with the way how management evaluates and manages the business. As a consequence, the new accounting policy provides more relevant information and thus increases the quality of the internal and external financial reporting.

The new accounting policy is applied retrospectively and thus the comparative figures are restated. The Cost of sales increased by HUF 6,003 million and the Sales and marketing expenses decreased by the same amount. The change affects only the Income statement. There was no other change in the comparatives.

	2019 HUFm Presented	Change HUFm	2019 HUFm Restated
Cost of sales	(118,266)	(6,003)	(124,269)
Gross profit	**248,258**	**(6,003)**	**242,255**
Sales and marketing expenses	(108,822)	6,003	(102,819)
Profit from operations	**59,955**	**-**	**59,955**

41. Notable events in 2020

In 2020 major changes took place in the following areas:

- 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. 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.

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

- In February 2020, Richter announced that the European Medicines Agency (EMA) has accepted Richter's regulatory submission for a combined oral contraceptive, containing estetrol (E4) and drospirenone. Richter purchased the novel oral contraceptive had developed by Mithra in September 2018.

- 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.

- 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 PRAC review of serious liver injury with ulipristal acetate 5 mg had found that it was not possible to identify either patients most at risk of liver injury or measures that could reduce the risk. In September 2020, the PRAC had therefore advised that these medicines should not be marketed in the EU.
In November 2020, the Committee for Medicinal Products for Human Use (CHMP) endorsed the PRAC's assessment of the risk of liver injury. However, it considered that the benefits of ulipristal acetate 5 mg in controlling fibroids may outweigh this risk in women who have no other treatment options. As a result, the CHMP recommended that the medicine remains available to treat premenopausal women who could not have surgery (or for whom surgery had not worked).
The CHMP recommendation was forwarded to the European Commission for its decision. The use of Esmya® had been suspended as a precaution while awaiting the outcome of this review.

- On 31 March 2020, Richter and Myovant Sciences GmbH announced that they had signed an exclusive license agreement for Richter to commercialize relugolix combination tablet (relugolix 40 mg, estradiol 1.0 mg, and norethindrone acetate 0.5 mg) for uterine fibroids and endometriosis in Europe, the Commonwealth of Independent States including Russia, Latin America, Australia, and New Zealand. Under the terms of the agreement, Myovant shall receive upfront payment upon signature of the agreement and is eligible to receive subsequent regulatory and sales-related milestones.

- 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. In April 2020, the Board of Directors of Richter has accepted the purchase offer.

- On 29 April 2020, Richter announced that it had entered into an asset purchase agreement with Mycenax Biotech Inc. in respect of biosimilar tocilizumab for the treatment of rheumatoid arthritis. According to the agreement Richter receives worldwide rights to develop, manufacture and commercialize the product. Biosimilar tocilizumab assets comprise the cell lines, intellectual property rights, technology know-how and data generated by Mycenax.

- On 30 April 2020, Richter-Helm Biologics, the joint venture of Richter and Helm AG, announced that it had entered into an agreement with US based INOVIO to expand its manufacturing partnership in order to support large-scale manufacturing of INOVIO's investigational DNA vaccine for COVID-19.

- On 18 June 2020, the Company announced its shareholders that the transaction of transferring the 18,637,486 Richter common shares - owned by the Hungarian State and held by the Hungarian National Asset Management Inc. (HNMA Inc.) - to the property of Tihanyi Foundation was closed. As a result of the transaction, the ownership ratio of the Hungarian State in Richter decreased to 15.25%, simultaneously, the influance of Tihanyi Foundation increased to 10%.

- In August 2020, Richter and its partner Palette Life Sciences AB announced that they had received National Marketing Authorization in the United Kingdom for LIDBREE. The product is a novel, proprietary thermo gelling intrauterine formulation that can provide significant pain relief during common gynaecological procedures.

- On 19 August 2020, the Company announced its shareholders that the transaction of transferring the 18,637,486 Richter common shares - owned by the Hungarian State and held in trust by Maecenas Universitatis Corvini Foundation (MUC Foundation) - to the property of MUC Foundation was closed. As a result of the transaction, the ownership ratio of the Hungarian State in Richter decreased to 5.25%, simultaneously, the influance of MUC Foundation increased to 10%.

- In October 2020, Richter announced the signing of a license agreement with Mochida Pharmaceutical Co. Ltd. in respect of Richter's biosimilar tocilizumab for the treatment of rheumatoid arthritis. According to the agreement, Mochida receives rights to develop, manufacture and commercialize the product in Japan. Under the terms of the agreement, Mochida shall disburse milestone payments in a number of instalments pending on development and regulatory stages completed.

- On 3 December 2020, the Company announced that it has signed an asset purchase agreement with Janssen Pharmaceutica NV, a wholly owned subsidiary of Johnson & Johnson, in respect of Janssen's Outside US Evra transdermal contraceptive patch assets. Janssen will provide post-closing transitional support to facilitate the transfer of the Outside US marketing authorizations. The asset purchase agreement is complemented by a transitional business license agreement and series of other related agreements to run the business without interruption during the period required to transfer marketing authorizations to Richter. The purchased asset transaction was closed on 7 January 2021.

- At the end of December 2020, Richter and Estetra S.A, the wholly owned subsidiary of Mithra announced that they have extended their partnership and signed a license and supply agreement for the commercialization of a novel 15 mg estetrol (E4)/3 mg drospirenone containing combined oral contraceptive, in order to include key markets in Latin America. Under the terms of the agreement Richter will distribute Mithra's product in key markets in Latin America (Mexico, Chile, Colombia, Peru and Ecuador) with an option for other markets except for Brazil and Argentina. Richter and Mithra are currently already partnered for the commercialization of this novel oral contraceptive in Europe and in Russia.

- In 2020, 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.

42. Events after the date of the balance sheet

On 7 January 2021, Richter announced that the asset purchase transaction related to Evra was closed. Please see further details in Note 41.

On 15 January 2021, the Richter announced that the European Commission had adopted the CHMP opinion on restricting the use of Esmya®. Esmya® can now only be used to treat uterine fibroids in premenopausal women for whom surgical procedures (including uterine fibroid embolisation) are not appropriate or have not worked. Esmya® must not be used for controlling symptoms of uterine fibroids while awaiting surgical treatment. Information on the risk of liver failure (requiring liver transplantation in some cases) will be added to the summary of product characteristics and the package leaflets for ulipristal acetate 5 mg medicines as well as in educational material for doctors and cards for patients.

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

43. Approval of financial statements

Current Financial Statements have been approved by the Board of Directors and authorized for release at 10 March 2021.

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.

IFRS FINANCIAL BUSINESS REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

Gábor Orbán
Chief Executive Officer

Budapest, 10 March 2021

Table of contents

1. General data

1.1. Brief history of the Company

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

The Company's predecessor was founded in 1901 by pharmacist Gedeon Richter, who bought a pharmacy, then turned his business into a share company two decades later, in October 1923.

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. The current share structure of the Company is disclosed in chapter 1.3 of the business report.

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. In May of 2020 it was announced that another block of Richter's shares held by the State, 10% of the total shares, would be transferred to Tihany Foundation. The above share transfers were concluded in August and June of 2020 respectively.

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.

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

In Q1 of 2013 Richter took control of selling its traditional products and acquired a majority holding in its Chinese marketing partner. This company will be active in the promotion and marketing of prescription drugs. The buyout was completed in February 2017 when the last portion of its holding was paid.
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. 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.

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.

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 2020

The Company's main objectives for 2020 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. The biggest impact on Richter's operating environment in 2020 was the outbreak of the COVID-19 pandemic. The related detailed disclosure can be found in the III) COVID Annex to the Annual Report by IFRS.

In 2020 major changes took place in the following areas:

- 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. 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

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- 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. In April 2020, the Board of Directors of Richter has accepted the purchase offer.

- On 29 April 2020, Richter announced that it had entered into an asset purchase agreement with Mycenax Biotech Inc. in respect of biosimilar tocilizumab for the treatment of rheumatoid arthritis. According to the agreement Richter receives worldwide rights to develop, manufacture and commercialize the product. Biosimilar tocilizumab assets comprise the cell lines, intellectual property rights, technology know-how and data generated by Mycenax.

- On 30 April 2020, Richter-Helm Biologics, the joint venture of Richter and Helm AG, announced that it had entered into an agreement with US based INOVIO to expand its manufacturing partnership in order to support large-scale manufacturing of INOVIO's investigational DNA vaccine for COVID-19.

- On 18 June 2020, the Company announced its shareholders that the transaction of transferring the 18,637,486 Richter common shares - owned by the Hungarian State and held by the Hungarian National Asset Management Inc. (HNMA Inc.) - to the property of Tihanyi Foundation was closed. As a result of the transaction, the ownership ratio of the Hungarian State in Richter decreased to 15.25%, simultaneously, the influance of Tihanyi Foundation increased to 10%.

- In August 2020, Richter and its partner Palette Life Sciences AB announced that they had received National Marketing Authorization in the United Kingdom for LIDBREE. The product is a novel, proprietary thermo gelling intrauterine formulation that can provide significant pain relief during common gynaecological procedures.

- On 19 August 2020, the Company announced its shareholders that the transaction of transferring the 18,637,486 Richter common shares - owned by the Hungarian State and held in trust by Maecenas Universitatis Corvini Foundation (MUC Foundation) - to the property of MUC Foundation was closed. As a result of the transaction, the ownership ratio of the Hungarian State in Richter decreased to 5.25%, simultaneously, the influance of MUC Foundation increased to 10%.

- In October 2020, Richter announced the signing of a license agreement with Mochida Pharmaceutical Co. Ltd. in respect of Richter's biosimilar tocilizumab for the treatment of rheumatoid arthritis. According to the agreement, Mochida receives rights to develop, manufacture and commercialize the product in Japan. Under the terms of the agreement, Mochida shall disburse milestone payments in a number of instalments pending on development and regulatory stages completed.

- On 3 December 2020, the Company announced that it has signed an asset purchase agreement with Janssen Pharmaceutica NV, a wholly owned subsidiary of Johnson & Johnson, in respect of Janssen's Outside US Evra transdermal contraceptive patch assets. Janssen will provide post-closing transitional support to facilitate the transfer of the Outside US marketing authorizations. The asset purchase agreement is complemented by a transitional business license agreement and series of other related agreements to run the business without interruption during the period required to transfer marketing authorizations to Richter. The purchased asset transaction was closed on 7 Január 2021.

- At the end of December 2020, Richter and Estetra S.A, the wholly owned subsidiary of Mithra announced that they have extended their partnership and signed a license and supply agreement for the commercialization of a novel 15 mg estetrol (E4) / 3 mg drospirenone containing combined oral contraceptive, in order to include key markets in Latin America. Under the terms of the agreement Richter will distribute Mithra's product in key markets in Latin America (Mexico, Chile, Colombia, Peru and Ecuador) with an option for other markets except for Brazil and Argentina. Richter and Mithra are currently already partnered for the commercialization of this novel oral contraceptive in Europe and in Russia.

1.3. Share structure of the Company

The share structure of the Company is presented in Note 25 to the IFRS Annual Report.
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 2020 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 2020.

The closing price of shares as of 30 December 2019 was HUF 6,415 compared to HUF 7,440 as of 30 December 2020. Average monthly share prices in 2020 varied between the minimum of HUF 6,108 per share (in March) and the maximum of HUF 7,395 per share (in December).

1.4. Treasury shares

Detailed information and events related to the Company's treasury shares are presented in Note 26 to the IFRS Annual Report.

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.
- The Company’s special operational body is in charge of managing employees’ COVID-19 related health risk, as well as the negative effects of the pandemic on the Company’s operation and on the supplier chain.
- 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.

In 2020, pursuant to Section 5 (1) and Section 9 of Government Decree 102 of 2020 (10 April) on the special rules to be applied by personal and property joint ventures during the emergency period, the Board

of Directors, acting within the powers of the General Meeting, took decisions regarding the composition of the Board of Directors. There was no significant change in the breakdown by age of the Board as a result of the decisions.
Women's 30% participation in the Supervisory Board stayed unchanged throughout 2020.
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. 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 2019, at the end of June of 2020.

Compliance with Richter's Anti-corruption Handbook is crucial not only with respect to our employees but also to every member of the Company's entire supply chain. All of our third-party contracts contain an anti-corruption clause which reflects the provisions of the Anti-corruption Handbook and whose acceptance is an integral condition of contracting.

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 recent years the Compliance Hotline received several reports of conflicts of interest, therefore the Company drafted its Conflict of Interest Regulations, which entered into effect in H1 of 2020. The purpose of the Regulations is to draw employees' attention to potential conflicts of interest, to prevent conflicts of interest or manage them once they arise.

In 2020 Richter's education strategy was focused on identifying compliance and data protection training necessary for every employee across the board, and training needed in certain jobs. By the end of 2020 staff training was completed in regard of the Code of Ethics, the Compliance Hotline, the Confidentiality Regulations which entered into force this year, and the Conflict of Interest Policy.

Regular semi-annual Compliance & Data Privacy Dotted Line Reporting was introduced in 2020. The goal is to forge closer connections between the Company and the subsidiaries, and to improve the transparency of subsidiaries' compliance and data protection activities.

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.

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

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 (3.2) and the data on employee diversity and the number of graduates (4.).

Separate and consolidated IFRS financial statements

As its securities are traded on regulated markets of EEA countries, the Company has prepared both its separate and consolidated financial statements according to the International Financial Reporting Standards.

2. 2020 operating review

2.1. The balance sheet as of 31 December 2020

The Company discloses the composition of the main balance sheet items and the reason for any change associated with them in Notes 13-31 to the IFRS Annual Report.
Within these, 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, XVII) Derivative financial instruments, and 10. Financial instruments, 11. Fair value of financial instruments and 12. Financial derivative instruments.

2.2. The 2020 income statement

The Company presents the items of the profit and loss statement in Notes 4-9 to the IFRS Annual Report.

Revenue

	2019	2020	Variance	
	HUF million	HUF million	HUF million	%
Hungary	39,682	40,971	1,289	3.2
International markets				
CIS	109,672	110,590	918	0.8
EU *	107,835	118,231	10,396	9.6
USA	67,917	101,450	33,533	49.4
China	18,984	10,764	-8,220	-43.3
Latin America	3,974	5,381	1,407	35.4
Other countries	18,460	25,587	7,127	38.6.
International markets TOTAL	326,842	372,003	45,161	13.8
Total	**366,524**	**412,974**	**46,450**	**12.7**

* Excluding Hungary

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 12.8% of sales income in 2020 and amounted HUF 53,023 million.

Original research of Central Nervous System

In 2020 preclinical research activities were reconsidered and transformed. This was done by cutting down on the number of projects and speeding up their progress, thereby concentrating resources. Taking into account the modality-based (principle of biological operation-based) classification of biological targets, the Company discontinued several preclinical research projects. The plans of the remaining projects were reviewed after reallocation of freed-up resources, and milestones were brought forward. As a result of all this, two projects entered in the clinical phase besides 7 projects at the preclinical stage.

Several factors hindered the progress of our preclinical projects throughout the year. As a direct impact of the pandemic, patient enrolments slowed down, and mandatory additional tests caused a slight increase in costs. Another negative effect was that some of the projects in the clinical portfolio had to be discontinued predominantly for professional reasons or new strategies had to be devised.

Expansion of the market related to Cariprazine continued in the course of the year. As a result, several new market authorisations were secured, and a new partner agreement was concluded. Ongoing clinical trials also continued in 2020 but here again, the COVID-19 pandemic caused patient enrolments to slow down. Consequently, it is impossible to estimate the conclusion of clinical trials just yet.

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.
Among the 2020 tasks, further development of oral contraceptive API synthesis leading to cost reduction should be highlighted.

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

The Company's contribution to combat the 2020 upsurge of the COVID-19 pandemic was the uniquely quick development of the antiviral drug remdesivir. Clinical trials have started with the involvement of large numbers of patients.

At the closing of 2020, Richter had 25 generic development and 15 licence topics in progress.
Exploring opportunities to increase profit and project management of the complex activities selected should be highlighted among the topics of the year. Vaginal ring developments, a joint project with Evestra, were dropped from the Company's development portfolio. 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 2020, all of which are new in the markets where they were launched. It is also to be mentioned that several products already commercialised have been launched in important new markets.

A The main elements of the Company's pharmacovigilance strategy and goals include ensuring compliance and promoting efficiency, hence cost effectiveness. Another key component is operating a Group level system. To this end, process and systems developments started in previous years to optimise pharmacovigilance were continued in 2020.
The global pharmacovigilance system works for all of Richter Group's commercialised products as well as those with marketing authorisation issued and registration pending. In addition, the system lays the basis of pharmacovigilance for future products that currently being developed. The driving engine of the pharmacovigilance system is the Company.

In the course of the year Richter secured 115 new regulatory approvals; 271 marketing authorisations were renewed, and 484 MA requests are pending with the regulatory authorities. In 2020, 226 applications for withdrawal were submitted and on a global level, 194 withdrawal proceduress were concluded.

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.

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. Despite COVID, 2020 sales increased.

Additional candidates of the biosimilar portfolio are tocilizumab (rheumatology) and denosumab (osteoporosis). These products belong to the fastest-evolving therapeutic groups.
In April 2020 Richter purchased tocilizumab developed by Mycenax (reference product: Roche's branded product Actemra). After the chemistry, manufacturing and controls (CMC) stage to be concluded in 2021, clinical trials will be conducted jointly with the Japanese company Mochida.
In the course of 2021 denosumab (reference product: Amgen's branded products Prolia and Xgave) for the European and U.S. markets will enter clinical phase.

With regard to the large number of market players, in early 2020 the Company decided to discontinue research related to pegfilgrastim (reference product: Amgen's branded product Neulasta).

After commissioning the second production line in 2020, the Debrecen site offers multifaceted simultaneous manufacturing capacities. This allows to meet the needs related not only to the Company's portfolio of biosimilar products but also those of external partners.

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

3.2. Production

Production in the manufacturing plants: the output of plants manufacturing semi-finished products increased by a total of 3 %, which is explained by 3% rise in solid drugs production and a 15% rise in injectables.
In 2020 the production value of own-produced non-steroid APIs was up by 14.4% at transfer price (owing to increasing export and production demands), while steroids dropped by 7%.
The mandatory introduction of serialisation of European products had a negative effect on finished products packaging capacities and efficiency in 2019. Russian serialisation was also started but due to adequate preparation and previous experience, it caused no production problems.
Richter works in close cooperation with its subsidiaries in the fields of product and technology transfer, outsourcing and development.

3.3. 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 2020 KIR was successfully audited for 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.

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 2020 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 Company has kept its MEBIR processes running amidst the COVID pandemic. The Security Technology Lab has retained its accredited status at both sites. Analysis and data supply required for revamping the outdated MEBIR SW (Standard Work) environment was completed in 2020. Implementation will be a multiple-year process starting in 2021.

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 2020, 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. At the Dorog plant a decanter centrifuge was installed, allowing automatic sludge dewatering, which resulted in diminished disposal costs. In Debrecen the new averaging pool of the pre-treatment system was commissioned, compensating for the qualitative and quantitative fluctuations of the wastewater discharged.

Waste management

In 2020 hazardous wastes were incinerated, deposited or composted. Waste has been collected selectively since 2012. After lengthy preparations, the Budapest site started a selective office waste disposal pilot project in 2020. This also signalled the beginning of the centralisation of the Company's waste management system. After 29.8% increase, the costs of waste management amounted to HUF 1,300 million in 2020.

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 49 % of Richter's staff is female, and their respective rate in managerial positions (from deputy head of department

to the top management) is 40%. 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 2020 the Performance Evaluation System was supplemented by performance calibration allowing individual performance to be determined not only compared to itself but also to others' performance. The purpose of calibration is to have performance evaluated objectively, reflecting reality, on a uniformly interpreted scale. Launched in late 2018, the self-service employee and management HR system is expanded by new developments and modules on an ongoing basis.

In 2020 Richter introduced the Richter Grade System, which encompasses all of the jobs. It classifies the jobs as well as the duties and information attached to them according to uniform principles and criteria. In the course of the year all of the staff were acquainted with the new system and the RG grade of their own jobs.

As of 31 December 2020 headcount was 6,475 including 5,828 persons employed in Hungary. Of the Hungarian headcount 3,042 work in white-collar positions including 2,413 university or college graduates. Graduate educated personnel in Hungary represented 79% of white collar staff.

5. Capital expenditure on tangibles and intangible assets

The Company presents the main asset acquisitions in Notes 13 and 33 to the IFRS Annual Report.

6. Foreign investment

The Company presents its investments in detail in Notes 14-15 to the IFRS Annual Report.

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	Increasing 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 high costs and 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	Unchanged risk
Licensing and development of women’s health specialty products together with partners	Multiple specialty product development projects are conducted simultaneously, with higher costs and risk compared to generic development	Conclusion of complex agreements on development and licensing of women’s health products, close collaboration with partners in development projects, strengthening project management	Increasing risk
Biosimilar product development and commercialisation as well as licensing with own resources and with partners	Product development requires high-tech installations and knowhow; registration requires clinical trials meeting stringent regulatory requirements	Creation of high-tech biotech capacities, promotion of the medical and regulatory areas, close monitoring of clinical trials and CROs (Contract Research Organizations), strengthening project management	Unchanged risk
Maintenance of turnover 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, strengthening project management	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, Life Cycle management	Unchanged risk

Pharmaceutical industry related price reimbursement, operational and compliance risks

Risk	Description	Priority risk management procedures	Changes in risk
Employees' health risks related to the COVID-19 pandemic and their negative impacts on operation and the supply chain	Employees becoming infected and sick, emergence of secondary sources. Additional costs of safety measures in production, impossibility of pharma reps' work, delays in R&D, slowing down of regulatory processes, disruptions in the supply chain	Stockpiling, preventive and localising safety measures, mandating home office work in jobs manageable in distance mode, setting up Corporate COVID Response Group in order to take wide-ranging protective measures urgently	NEW 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	Unchanged risk
Difficulties of hiring qualified workforce at the Group's CEE subsidiaries	In the 2016-2019 period hiring qualified pharmaceutical workforce was increasingly difficult in the Hungarian, Romanian and Polish labour market; in 2020 staffing problems eased (due partly to the COVID crisis)	Application of pay raise and long-term loyalty enhancing schemes; Special wage increase in production facilities; launching own vocational training Relocation of production to Russia University training partnerships	Decreasing risk
Increasing costs and decreasing output due to EU serialisation requirements entering into effect and introduction of serialisation in Russia	Printing of packaging unit level ID marks and transferring them through the IT systems requires substantial investment. In the period of preparation for and introduction of serialisation, this output caused shortages in the market; by 2020, these difficulties have been resolved.	Employment of additional workforce, introduction of weekend shifts, purchasing new packaging lines	Decreasing 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 and chemical safety 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 Compliance risk related to authorisation/restriction introduced by EU chemical safety regulation (REACH)	Equipment ensuring GMP compliance 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; Product liability insurance, general liability insurance, indemnification Ongoing monitoring of the utilisation of substances restricted under REACH	Unchanged risk*
Ensuring high-standard availability of pharmaceutical and supplier system 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; Outages of the supplier system 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; Upgrading the technical level and automated surveillance of systems thereby improving operational security Regulations, development and training improving IT 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*

* Risk management succeeded in offsetting exposure and risk probability.

Financial risks

The price risk, credit risk, interest rate risk, liquidity and cash-flow risk of the Company is presented in detail in Note 10 to the IFRS Annual Report.

Risk	Description	Priority risk management procedures	Changes in risk
Exchange rate risk of cash flows and financial instruments	The Group has substantial surplus income and financial instruments in RUB, USD and other Forex whose HUF and EUR value is affected by exchange rate volatility that may result in losses	Partial natural hedge with costs incurred in the same Forex, reduction of open positions by exchange 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	Unchanged risk*
Risks associated with management and investment of funds (liquidity, partner and interest rate risks)	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: justification 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	Unchanged risk

* Risk management succeeded in offsetting exposure and risk probability.

8. Events after the reporting period

Significant events after the balance sheet date are described in detail in Note 42 to the IFRS Annual Report.

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 Richter'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 Richter'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.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Richter Gedeon Nyrt.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Richter Gedeon Nyrt. (the „Company") for the year 2020 which comprise the statement of financial position as at December 31, 2020 – which shows a total assets of mHUF 869.910 –, and the related statement of recognized income, statement of comprehensive income – which shows a total comprehensive income for the year of mHUF 89.789 –, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements including a summary of 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 December 31, 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the „EU IFRS"), and the financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the „Accounting Act") relevant to the entities preparing financial statements in accordance with EU IFRS.

Basis for Opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the "*The Auditor's Responsibilities for the Audit of the Financial Statements*" section of our report.

We are independent of the Company in compliance with the relevant effective Hungarian regulations and the "Rules of conduct (ethical rules) of the auditor profession and the disciplinary process" of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (the IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
Valuation of intangible assets	
(See note 13.2 to the financial statements for the details) As described in the notes to the financial statements, the Entity reported intangible assets in the amount of mHUF 97.567 as at 31 December 2020. As required by the applicable accounting standards, Management conducts regular impairment test to assess whether there is a need to record impairment with respect to the intangible assets based on the existing indicators. The identification of the triggering events and impairment tests are considered a key audit matter, as it requires application of professional judgement and use of subjective assumptions by management.	The relevant audit procedures performed by us included the following: - evaluating design and implementation of key controls related to identification of triggering events and impairment testing -benchmarking the key market related assumptions in the models against external sources and budgets approved by the Management, - involving our valuation experts where it was considered necessary to assist us in re-performing the calculation of the impairment test and independently assessing the appropriateness of the assumptions used, the methodologies and policies applied, - assessing the comparison of the carrying amount to the recoverable and impairment accounted for, - assessing the adequacy of the disclosures in the financial statements.

Other Matters

The financial statements of Company for the year ended December 31, 2019, were audited by another auditor who expressed an unmodified opinion on those statements on March 23, 2020.

Other Information

Other information comprises the information included in the "Management report" and the business report of the Company for 2020, which we obtained prior to the date of this auditor's report, and the Annual report, which is expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the financial statements provided in the section of our independent auditor's report entitled *"Opinion"* does not apply to the other information.

Our responsibility in connection with our audit of the financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the business report also include reviewing the business report to assess whether the business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the business report complies with the requirements of Section 95/B (2) e) and f) of the Accounting Act, and to express an opinion on the above and on whether the business report is consistent with the financial statements. Furthermore, in accordance with the Accounting Act we shall make a statement

whether the information referred to in Section 95/B. (2) a)-d), g) and h) has been provided in the business report.

In our opinion, the business report of the Company for 2020 corresponds to the financial statements of the Company for 2020 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided.

As the Company is not subject to additional requirements under any other regulation in connection with the business report, we have not formulated an opinion on this matter.

In addition to the above, based on the information obtained about the Company and its environment, we must report on whether we became aware of any material misstatements in the other information and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

The Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives during the audit 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, on the basis of the above, 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 the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they 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 the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the 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 achieves fair presentation.

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 the Company's internal control that we identify during the 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

In compliance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement
We were appointed as the auditors of the Company by the General Meeting of Shareholders on April 28, 2020 and uninterrupted engagement has lasted since our appointment.

Consistence with the Additional Report to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on March 9, 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the financial statements.

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

Budapest, March 10, 2021

Horváth Tamás
on behalf of Deloitte Auditing and Consulting Ltd.
and as a statutory registered auditor

Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
Registration number: 000083

Registration number of statutory registered auditor: 003449

GEDEON RICHTER

Established in 1901

DECLARATION

The undersigned **Gábor Orbán** as the Chief Executive Officer of **Chemical Works of Gedeon Richter Plc.** (registered office: H-1103 Budapest, Gyömrői út 19-21., Reg.No.: Cg.01-10-040944) /hereinafter Company/ representing solely the Company, in accordance with Annex I. Sec. 2.4. of 24/2008. (VIII.15.) Ministry of Finance Decree on detailed rules of disclosure obligation related to publicly offered securities hereby

declares

that the 2020 separate annual financial statements, which have been prepared to the best of our knowledge and in accordance with the applicable set of accounting standards and approved by the Company's Board of Directors - *based on Subsection (1) of Section 5 and Section 9 of the Government decree no. 502/2020 (XI.16.) on the re-introduction of deviating regulations related to the operation of partnerships and capital-concentrating organisations during the state of emergency* - acting in the competence of the General Meeting, gives true and fair view of the assets, liabilities, financial position and profit and loss of the Company, and that the business report prepared by the Board gives a fair review of the position, development and performance of the Company, together with the description of the principal risks and uncertainties.

Date: Budapest, 15th April, 2021

Gábor Orbán
Chief Executive Officer