



# RICHTER GEDEON

## Report on Corporate Governance<sup>1</sup>

In order to comply with international and domestic legal and regulatory requirements and the highest ethical standards in all of its operations Gedeon Richter Plc. is committed to developing and maintaining a corporate governance system. This commitment is highlighted by the practice of transparent and efficient differentiation of the rights and responsibilities of the General Meeting, the Board of Directors (which has operated two subcommittees since 2004, the Corporate Governance and Nomination Subcommittee and the Remuneration Subcommittee), the Supervisory Board, and the Executive Management.

The corporate governance system and practice developed and applied by Richter is in keeping with the Corporate Governance Recommendations of the Budapest Stock Exchange, the stock market regulations currently in force, and with Gedeon Richter Plc's characteristics arising from its line of industry and its structure. The Company reviews its corporate governance principles from time to time to keep abreast with continuously evolving international practice. In this aspect, the Company is also considering ESG requirements, which exercise influence on the judgement of corporate governance systems by capital market participants.

### **General Meeting, rules for the conduct of the General Meeting**

The supreme body of the Company is the General Meeting, which consists of all shareholders. The Company's Annual General Meeting is convened no later than by the last day of the fifth month of every business year. The Annual General Meeting addresses, among other points on the agenda, the following subjects:

- the Board of Directors' report on the Company's consolidated annual report for the previous business year pursuant to the International Financial Reporting Standards;
- the Supervisory Board's report on the Company's consolidated annual report for the previous business year pursuant to the International Financial Reporting Standards;
- the Auditor's report on the Company's consolidated annual report for the previous business year pursuant to the International Financial Reporting Standards;
- Approval of the Company's consolidated annual report for the previous business year pursuant to the International Financial Reporting Standards;
- the Board of Directors' report on the Company's individual annual report for the previous business year; on the management, the financial situation and the business policy of the Company;

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<sup>1</sup> The report concerns the 2020 business year.

- the Supervisory Board's report on the Company's individual annual report for the previous business year, including also the recommendation regarding the appropriation of after-tax profits;
- the Auditor's report on the Company's individual annual report prepared for the previous business year;
- Approval of the Company's individual annual report for the previous business year, including the resolution on the appropriation of the after-tax profits;
- Board of Directors' report on the practice of corporate governance and on the departures made by the Company in applying the Corporate Governance Recommendations of the Budapest Stock Exchange;
- Resolution on the remuneration of elected officers.

The Annual General Meeting shall be convened by the Board of Directors unless otherwise provided by the Civil Code<sup>2</sup>. The person or organ convoking the General Meeting shall determine its time, venue, and agenda.

The convening of the General Meeting shall be published on the Company's homepage at least 30 days prior to the commencement date thereof pursuant to the provisions applicable to the Company's announcements. The Company may notify shareholders regarding the convocation of the General Meeting in an electronic format, if shareholders have so requested.

The Board of Directors shall have the right to call an extraordinary General Meeting at its discretion. The Board of Directors shall also call an extraordinary General Meeting if persons authorized by the Civil Code or these Statutes request from the Board of Directors that a General Meeting be held. If shareholders holding at least one percent of the votes request for the convening of a General Meeting, stipulating its reason and purpose, such a General Meeting shall be convened.

The announcement (invitation) convening the General Meeting shall indicate the name and seat of the Company, the venue, date, time, agenda and method of holding of the General Meeting, the conditions placed on the exercise of voting rights as specified in these Statutes as well as the time and venue of the reconvened General Meeting. No more than twenty-one days, but at least ten days shall pass between the General Meeting of an insufficient quorum and the reconvened General Meeting. The announcement convening the General Meeting shall contain the information that a shareholder or nominee may participate on the General Meeting if registered in the Share Register at least two working days prior to the beginning date of the General Meeting; and the requirements laid down in these Statutes of exercising the right to supplement the agenda of the General Meeting, as well as the date, place and way of accessing the full and original text of the proposals on the agenda and of the proposed resolutions (including the website of the Company).

The Company shall publish the key data of the Company's draft consolidated annual report for the previous business year pursuant to International Financial Reporting Standards and its draft individual annual report and of the report of the Board of Directors and the Supervisory Board, the total number (proportion) of shares and voting rights at the date of convening the General Meeting, including separate summaries of the individual share classes, together with a summary of the proposals relating to the items on the agenda, the supervisory board report on these, and draft resolutions, as well as forms for voting by proxy, on the Company's website

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<sup>2</sup> Act V of 2013 on the Civil Code

at least twenty-one days prior to the annual General Meeting. The Company shall publish the names of the members of the Board of Directors and the Supervisory Board and all monetary and non-monetary benefits granted to these members in this role, detailed by members and legal title to said benefit simultaneously with the notice convening the General Meeting.

The General Meeting is chaired by the Chairman of the Board of Directors or another person previously invited by the Board of Directors to take the chair. The General Meeting shall approve the identity of the chairman of the General Meeting prior to substantive discussion of further items on the agenda and until this has happened the General Meeting cannot make a further substantive decision in respect of the items on the agenda.

Items not listed in the published agenda may only be discussed and valid resolutions concerning these items shall only be passed if all of the shareholders are present at the General Meeting and they give their unanimous consent to the addition of such items to the agenda.

With the exception of cases where the presence of a larger number of shareholders is required in order to constitute a quorum, a quorum exists if shareholders, personally or through their representatives, representing over half of the votes embodied by the voting shares are present at the General Meeting and have duly evidenced their shareholder or representative status. The General Meeting may be suspended once. If the General Meeting is suspended, it shall be continued within thirty days. Existence of the quorum shall be examined at each decision. With respect to the quorum, shareholders or representatives of a shareholders who submit a “yes”, “no”, or “abstention” vote shall be deemed as the ones being present.

If the General Meeting has no quorum, the General Meeting shall be reconvened. With the exception of cases where under the given circumstances the presence of a larger number of shareholders is required in order to constitute a quorum, the reconvened General Meeting shall have a quorum for the purpose of considering items on the agenda of the original General Meeting if the shareholders representing more than 20% of the votes relating to the voting shares issued by the Company are presented personally or via proxy at the reconvened General Meeting and their shareholding or representation right has been duly evidenced.

## **Shareholders' rights and treatment of shareholders**

All shareholders are entitled to participate in the General Meeting, and to request information and to make observations and to submit motions as set out in the Civil Code.

The Board of Directors shall provide every shareholder who makes a written request with information necessary to enable the shareholder to evaluate items on the General Meeting agenda, so that the shareholder making such request at least eight days before the General Meeting shall receive the requested information at least three days prior to the General Meeting.

At the request of a shareholder the Board of Directors shall grant that shareholder access to the relevant documents and data of the Company. The Board of Directors may decide that it will disclose information or grant access to documents on condition that the requesting shareholder makes a written declaration of confidentiality. The Board of Directors may refuse to disclose information or to grant access to documentation or data if its dissemination would compromise the business secrets of the Company, if the shareholder abuses this right or does

not make a declaration of confidentiality after being requested by the Board of Directors. If the shareholder finds that the refusal of his request is unfounded, then he may request the Court of Registration to compel the Company to provide the requested information.

Shareholders may practise their rights after entitlement verification by way of the identification procedure. No certificate of ownership is required for the practice of shareholders' rights. The date of registration in the Share Register shall be the same as the date of the identification of ownership.

At the General Meeting, shareholders' rights can be exercised by means of the voting card. The voting card shall contain the name of the shareholder or the shareholder's representative and the number of votes to which he is entitled to. The Company shall only issue a voting card to a shareholder or shareholder's representative who is registered in the Share Register as the owner of the shares or as the shareholder's representative, or in case of jointly owned shares, as joint representative.

Shareholders may exercise their rights at the General Meeting through an authorized representative. The representative may be also other person than shareholder. Representatives may obtain voting cards if they present authorization contained in an official deed or private deed of full probative value to the Company at the place and time indicated in the announcement regarding the General Meeting.

The name of a shareholder or shareholder's representative who wishes to participate in the General Meeting shall be recorded in the Share Register by the second working day preceding the first day of the General Meeting.

Only those shareholders may exercise their rights at the General Meeting who are the owners of the shares on the reference date for the identification of ownership and whose names are contained in the Share Register on the second business day before the first day of the General Meeting. The keeper of the Share Register shall ensure the possibility of exercising of the right of registration until 6.00 PM (Budapest time) on the second business day before the first day of the General Meeting.

Every share of nominal value HUF 100 shall entitle its holder to one vote. At general meetings a shareholder may not exercise voting rights on his own account or as a representative of another shareholder, alone or in concert with affiliated persons, in excess of twenty-five percent (25%) of the voting rights attached to the shares by shareholders present or represented at the General Meeting. A shareholder shall not be entitled to exercise voting rights prior to having effected full payment of its contribution in cash.

Shareholders are entitled to receive a share of the Company's profits that are distributable and where a dividend is declared by the General Meeting. Such dividend shall be in proportion to the number of nominal shares held by the shareholder (right to a dividend). However, dividends with respect to treasury shares shall be divided to shareholders entitled to dividends, payable in proportion of the nominal value of their shares. Shareholders that have been registered in the Share Register as a result of the identification of ownership prepared on the reference date established and announced by the Board of Directors regarding the payment of dividends are entitled to dividends. The date relevant with respect to the entitlement to dividends established by the Board of Directors may differ from the date of the General Meeting adopting the resolution for the payment of dividends.

In the event of termination of the Company without legal successor, the shareholder shall be entitled - based on the payments and in-kind contributions made by the shareholder for the shares - to a proportion of any remaining assets of the Company following the satisfaction of creditors. Such proportion of the remaining assets shall be distributed to the shareholder in proportion to the ratio of the nominal value of its shareholding in the Company's registered capital and the total registered capital of the Company (proportional right to liquidation assets).

## **The Board of Directors**

The Board of Directors of Gedeon Richter Plc. is the ultimate decision making body of the Company in matters other than those that are within the exclusive remit of the General Meeting.

Increasing value for shareholders, profitability, enhancing efficiency and transparency of operation and providing the conditions for environmental protection and safe operation as well as good shareholder relations based on consistent information are priority considerations and goals for the Board of Directors.

## **The structure, remit and operation of the Board of Directors**

Pursuant to the Company's Statutes the Board of Directors is made up of at least three and not more than eleven members. Members of the Board of Directors are elected by the General Meeting for a definite term of not more than five years. Currently the Board of Directors consists of ten members. The present term of mandate of the members of the Board of Directors is stated in the declaration attached to this report as Annex 1.

To members of the Board of Directors as executive officers the Company applies the same criteria of independence as those stated in the Civil Code<sup>3</sup> related to the members of the Supervisory Board. With respect to these criteria the definitive majority of the members of the Board of Directors, 70% of them (seven members out of the ten members of the Board of Directors) are independent.

The Company's Chief Executive Officer is a member of the Board of Directors. Separation of the office of Chairman of the Board of Directors and the Chief Executive Officer is a key aspect of corporate governance. Two different people holding the tasks of the Chief Executive Officer and of the Chairman of the Board of Directors.

The Board of Directors elects its Chairman and - if the members find it necessary - Deputy Chairman from among its members. The Board of Directors may withdraw this mandate at any time. If for any reason, the Chairman or the Deputy Chairman cease to be members of the Board of Directors, their mandate as Chairman or Deputy Chairman shall be terminated.

**Chairman of the Board of Directors:** Erik Bogsch (dependent)

**Members of the Board of Directors:**

Dr. György Bagdy (independent)

Dr. Péter Cserhádi (independent) /from April 28, 2020/

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<sup>3</sup> In case of those public companies limited by shares which do not have one tier system (Board), but where operate a two tier system - there is an independent Supervisory Board beside the Board of Directors - the Civil Code do not state criteria of independence to the members of the Board of Directors.

Dr. Gábor Gulácsi (dependent)  
Dr. Ilona Hardy (independent)  
Csaba Lantos (independent)  
Gábor Orbán (dependent)  
Dr. Anett Pandurics (independent)  
Bálint Szécsényi (independent)  
Prof. Dr. E. Szilveszter Vizi (independent)  
Dr. Kriszta Zolnay (independent) /until April 28, 2020/

The introduction of the members of the Board of Directors is available on the Company's website at [www.richter.hu](http://www.richter.hu).

The business activity of the Company is controlled by the Board of Directors in accordance with the Company's Statutes, the resolutions of the General Meeting and the relevant effective legal regulations. The Board's remit includes review and approval of the Company's future outlook, strategic principles and programmes, and its transactions beyond the boundaries of regular business. It monitors and regularly evaluates the Company's performance and the management's operation. It selects and contracts the Managing Director; it evaluates the Managing Director's performance and determines the Managing Director's remuneration. It ensures compliance with the statutory provisions and the Code of Corporate Ethics.

The Board of Directors acts and passes resolutions as a body. The Board of Directors keeps minutes of its meetings and its resolutions are documented. Besides the recurrent items on its agenda the Board discusses and evaluates the performance of each of the key business segments.

In 2020 the Board of Directors held ten (10) meetings with an average attendance rate of 99 %.

The Board of Directors has the quorum required for decisions on the merit of matters if at least two-thirds but at least three of its current members are present. The current number of members shall mean the number of members in office at the given time. If the Board does not have a quorum when it is first called, the Chairman shall call a repeated meeting for a date within three days from the original date. The reconvened meeting shall have a quorum if the majority of, but not less than three, members of the Board are present. The Board of Directors shall pass its resolutions by simple majority.

The honoraria of the members of the Board of Directors are determined by the Annual General Meeting. Pursuant to the resolution of the Board of Directors - *based on Subsection (1) of Section 5 and Section 9 of the decree no. 102/2020 (IV.10.) of the Government of Hungary on the deviating regulations related to the operation of partnerships and capital concentrating organisations during the state of emergency* - acting in competence of the Annual General Meeting of 28 April, 2020 the remuneration of the Chairman of the Board of Directors was set at HUF 708,975.00 per month and that of the members of the Board of Directors at HUF 589,950.00 per month, for year 2020 effective as of January 1, 2020.

## Subcommittees of the Board of Directors

In order to improve efficiency of decision-making processes the Board of Directors set up two subcommittees in 2004. The subcommittees consist of at least three Board members. The members of the subcommittees are elected by the Board for a term equal to the member's term on the Board. The duties of the subcommittees are determined by the Board of Directors.

The following subcommittees are in operation:

### Corporate Governance and Nomination Subcommittee

The Corporate Governance and Nomination Subcommittee consist of three independent members not employed by the Company.

**Chairman:** Prof. Dr. E. Szilveszter Vizi (independent)

**Members:**  
 Dr. Ilona Hardy (independent)  
 Dr. György Bagdy (independent)

The introduction of each members of the Subcommittee is available on the Company's website in framework of the introduction of the members of the Board of Directors. The term of mandate of Subcommittee members' equals with their term of mandate as members of the Board of Directors.

Within its sphere of competence the Corporate Governance and Nomination Subcommittee

- makes proposals to the Board of Directors on the number and composition of the Board of Directors and the Supervisory Board in accordance with needs as they arise, and makes proposals on the requirements of independence, qualification and professional experience of proposed candidates;
- prepares decisions of the Board of Directors on candidates for the Board of Directors and the Supervisory Board by recommending suitable candidates and by evaluating candidates proposed by the shareholders' representatives;
- monitors the implementation of the approved principles of corporate governance, prepares annual reports to the Board of Directors, and proposes necessary changes and additions to them.

The Corporate Governance and Nomination Subcommittee acts and makes decisions as a body. The Subcommittee keeps minutes of its meetings and its decisions are recorded.

In the 2020 business year the Corporate Governance and Nomination Subcommittee held .two (2) meeting with an average attendance rate of 100%.

In the 2020 business year the Corporate Governance and Nomination Subcommittee discussed the below subjects:

- audition of the candidate to the Board of Directors;
- assessment of the activity of the Board of Directors;

- Corporate Governance Report for year 2019.

Members of the Corporate Governance and Nomination Subcommittee with respect to their position and activity in the Subcommittee did not get separate remuneration over the honoraria they were entitled to as members of the Board of Directors.

## Remuneration Subcommittee

The Remuneration Subcommittee consists of three members. The majority of the members of the Subcommittee are independent, not employed by the Company.

**Chairman:** Csaba Lantos (independent)

**Members:**

Dr. Gábor Gulácsi (dependent)

Dr. Anett Pandurics (independent)

The introduction of the members of the Subcommittee is available on the Company's website in framework of the introduction of the members of the Board of Directors. The term of mandate of Subcommittee members' equals with their term of mandate as members of the Board of Directors.

Within its sphere of competence the Remuneration Subcommittee

- evaluates experiences related to the remuneration system of members of the Board of Directors and the Supervisory Board, and makes proposals as to its amendment taking into consideration the relevant effective legal regulations;
- makes proposals to the Board on the evaluation of the performance of the Managing Director and his remuneration.

The Remuneration Subcommittee acts and makes decisions as a body. The Subcommittee keeps minutes of its meetings and its decisions are documented.

In the 2020 business year the Remuneration Subcommittee held two (2) meetings with an average attendance rate of 100%.

In the 2020 business year the Remuneration Subcommittee discussed the below subjects:

- remuneration of members of the Board of Directors for year 2020;
- remuneration of members of the Supervisory Board for year 2020;
- reviewing the Chief Executive Officer's basic wage and other remuneration.

Members of the Remuneration Subcommittee with respect to their position and activity in the Subcommittee did not get separate remuneration over the honoraria they were entitled to as members of the Board of Directors.



## **Division of responsibilities and duties between the Executive Board and the Board of Directors**

The Executive Board is responsible for management and control of the Company's operative activities. The chairman of the Executive Board is the Chief Executive Officer of the Company. The Board of Directors shall charge one of its members with the duty of controlling the operative activities of the Company in the capacity of Chief Executive Officer for a period determined by the Board of Directors. Except for the rights assigned to the General Meeting, the employer's rights over the Chief Executive Officer shall be exercised by the Board of Directors.

The Executive Board is a forum for the preparation of decisions, where all members have the right and obligation to provide an opinion. Based on the opinions of the members of the Executive Board the final decision shall be made by the Chief Executive Officer or the Board of Directors, depending on their competence.

As set out by the Statutes the Board of Directors shall determine the remit of the Chief Executive Officer and shall approve the Company's Rules of Organization and Procedure. The Board of Directors may assign any of its powers related to day-to-day management to the Chief Executive Officer with terms and conditions as its discretion, and may from time to time revoke or change all or any of the powers so assigned; however, the assignation shall not affect the liability of the Board of Directors.

Under the Rules of Organization and Operation the Chief Executive Officer may assign some of his duties relating to the Company's internal administration to the Company's officers and employees by means of job descriptions, or by general or ad hoc orders. The Chief Executive Officer is competent to make decisions on any issues that are not within the sphere of competence of the General Meeting or the Board of Directors.

The Chief Executive Officer may exercise and delegate employer's rights in respect of employees and persons having other kind of legal relation with the Company within the scope of and in such manner as defined in the Company's Rules of Organization and Procedure.

The Chief Executive Officer makes decisions regarding the evaluation and remuneration of the work of the Executive Board in the context of the annual plan and the bonus system. The Board of Directors makes decisions regarding the evaluation and remuneration of the work of the Chief Executive Officer in the context of the annual plan and the bonus system and on the basis of the proposal of the Remuneration Subcommittee.

Within the frameworks of the organisational division of labour, from November 1, 2017, the Company established the role of the Executive Chairman having a focus on the commercial activities as well as international, public and government relations. His main task is to continue implementing the specialty pharma strategy by strengthening the recently established international sales network in Western Europe and overseas, while continuously broadening the high added value innovative product portfolio.

### **Members of the Executive Board:**

Gábor Orbán

- Chief Executive Officer

Erik Bogsch	- Executive Director responsible for Commercial, for Legal and Global Operations, for PR and Government Relations
Dr. Gábor Gulácsi	- Deputy Managing Director of Finance
Tibor Horváth	- Commercial Director
Dr. István Greiner	- Director of Research
Dr. György Thaler	- Director of Development

The introduction of the members of the Executive Board is available on the Company's website at [www.richter.hu](http://www.richter.hu).

Employees in leadership position directly supporting the activities of the Executive Board:

Katalin Erdei	- Director of Human Resources
Dr. Imre Péter	- Director of Quality Management
Attila Szénási	- Director of Pharmaceutical manufacturing
Tamás Szolyák	- Director, Regulatory and Patient Safety Matters

The introduction of employees in leadership position directly supporting the activities of the Executive Board is available in the Company's annual report.

## **Conflict of interest and independence**

In order to avoid conflict of interest of members of the Board of Directors and of the Executive Board in their relations to third parties the employment contract of members of the Executive Board prohibits employment or other legal relationship of a similar nature with an undertaking of a similar profile. Members of the Board of Directors and of the Supervisory Board shall make a declaration of no conflict of interest between their elected position and their other commitments upon their election.

In case of those public companies limited by shares which do not have one tier system (Board), but where operate a two tier system - there is an independent Supervisory Board beside the Board of Directors - the Civil Code do not state criteria of independence to the members of the Board of Directors. Apart from this the Company applies the criteria of independence concerning Supervisory Board members stated by the Civil Code in respect of both members of the Board of Directors and of the Supervisory Board.

## **Supervisory Board**

Pursuant to the Company's Statutes the Supervisory Board is made up of at least five and not more than nine members. Members of the Supervisory Board are elected by the General Meeting for a definite term of not more than three years. The present term of mandate of the members of the Supervisory Board is stated in the declaration attached to this report as Annex 1.

Based upon the Statutes, as long as the number of the Company's full time employees exceeds a yearly average of two hundred, employees shall participate in the control of the Company's activities through the Supervisory Board. In such case, one third of the members of the Supervisory Board shall be comprised of the employees' representatives. In the event

of a number indivisible by three, such third shall be calculated in such manner as to be more favourable to the employees.

Currently the Supervisory Board consists of five members. The criteria of independence stated in the Civil Code shall be applied to the members of the Company's Supervisory Board. With respect to these criteria the principle of majority of the independent members are fully enforced in respect of the composition of the Supervisory Board. Two of its members represent the employees and the remaining three members are independent (external) persons.

#### Chairman of the

Supervisory Board: Dr. Attila Chikán (independent)

#### Members of the

Supervisory Board: Prof. Dr. Jonathán Róbert Bedros (independent)  
 Dr. Zsolt Harmath (independent)  
 Dr. Éva Kozsda Kovácsné (employees' representative) (dependent)  
 Mrs. Klára Csikós Kovácsné (employees' representative) (dependent)

The introduction of the members of the Supervisory Board is available on the Company's website at [www.richter.hu](http://www.richter.hu).

The Supervisory Board monitors the operations of the Company. The Supervisory Board holds meetings regularly in accordance with the relevant legal regulations and its agenda, passes resolutions on the topics determined in its work plan, and takes action whenever the Company's operative activity so requires. The Supervisory Board keeps minutes of its meetings and its decisions are recorded.

Within its remit the Supervisory Board submits proposals to the Board of Directors, discusses the Company's strategy, financial results, capital expenditure policies, and internal control, risk management and audit systems. At its meetings the Supervisory Board receives regular and suitably detailed information about the Company's management. The Chairman of the Supervisory Board is entitled to participate in the meetings of the Board of Directors with the right to give advice.

In the 2020 business year the Supervisory Board held nine (9) meetings with an average attendance rate of 93.33 %.

The Supervisory Board shall have a quorum if at least each of its members has been duly invited thereto and at least two-thirds, but at least four members are present. The reconvened meeting originally adjourned due to the absence of a quorum shall have a quorum if at least three (3) members of the Supervisory Board - in the ratio defined in Section 16.8 of the Statutes - are present. The Supervisory Board shall pass its resolutions by simple majority of those present.

The honoraria of the members of the Supervisory Board are determined by the Annual General Meeting. Pursuant to the resolution of the Board of Directors - based on Subsection (1) of Section 5 and Section 9 of the decree no. 102/2020 (IV.10.) of the Government of Hungary on the deviating regulations related to the operation of partnerships and capital concentrating organisations during the state of emergency - acting in competence of the

Annual General Meeting of April 28, 2020 the remuneration of the Chairman of the Supervisory Board was set at HUF 589,950.00 per month and that of the members of the Supervisory Board at HUF 424,350.00 per month, for year 2020 effective as of January 1, 2020.

## Audit Board

The Company has an Audit Board consisting of three members. Its members are elected by the General Meeting from among the independent members of the Supervisory Board. The Chairman of the Audit Board is appointed by the Supervisory Board. The audit board members as a whole shall have competence relevant to the sector in which the Company is operating. At least one member of the Audit Board shall have a professional certificate in accounting or auditing.

**Members of the Audit Board:** Dr. Attila Chikán  
Prof. Dr. Jonathán Róbert Bedros  
Dr. Zsolt Harmath

The introduction of the professional background of members of the Audit Board is available on the Company's website at [www.richter.hu](http://www.richter.hu).

The Audit Board is responsible for the supervision of the Company's internal accounting rules. Accordingly, the scope of competences and tasks of the Audit Board includes the following:

- opinion on the consolidated annual report for the previous year pursuant to the IFRS;
- opinion on the individual annual report for the previous business year;
- monitoring the statutory audit of the consolidated and the individual annual report; taking into account any findings and conclusions by the authority in charge of the public oversight of auditors as provided for in Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors (hereinafter referred to as "Auditors Act") made during the quality assurance review provided for in the Auditors Act;
- recommendation regarding the person and remuneration of the auditor;
- preparation of the agreement to be concluded with the auditor;
- observing the enforcement of the professional, conflict of interest and independency requirements applicable to auditors - with special regard to compliance with the requirements in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, undertaking the duties in connection with the co-operation with the auditor, monitoring other services provided by the auditor - or if the auditor is belongs to a network, members of such network - to the Company or the companies controlled by the Company besides the auditing of the consolidated and individual annual reports, and in case of need, recommendations to the Supervisory Board regarding the arrangements to be carried out;
- monitoring of the operation of the financial accounting system and submitting recommendations regarding the necessary arrangements where deemed necessary;
- assistance with the work of the Supervisory Board in the interest of the appropriate supervision of the financial accounting system as well as

- monitoring the effectiveness of the company's internal control and risk management systems and submitting recommendations where deemed necessary.

The Audit Board acts and makes decisions as a body. The Board keeps minutes of its meetings and its decisions are recorded.

In the 2020 business year the Audit Board held six (6) meetings with an average attendance rate of 83.33%.

In the 2020 business year the Audit Board discussed the below subjects:

- proposal to the election of the statutory auditor;
- discussion of the contract of the statutory auditor;
- examining of individual annual report and consolidated annual report and the business reports;
- reviewing the auditor's reports;
- examining of the Corporate Governance Report for year 2019;
- determination of the annual report of the Audit Board;
- the Company's interim financial statement regarding the accounting date of August 31, 2020;
- services not related to auditing (falling out of the scope of auditing the consolidated and individual report) rendered by the business entity acting as statutory auditor and/or entities connecting to the statutory auditor's net.

In 2020 the Board of Directors did not passed such resolution which was against the proposal of Audit Board.

Members of the Audit Board with respect to their position and activity in the Audit Board did not get separate remuneration over the honoraria they were entitled to as members of the Supervisory Board.

## **Introduction to the diversity policy applied to the members of governing bodies**

In its operation Richter lays great store by personal values and individual characteristics. According to the Company's creed the exploitation of varying characteristics is the corner stone of innovation and success, and believes that the Company's success is partly based on the diversity of its people. It considers the recognition and appreciation of the individual's personal traits important. It is task for all executives to set an example in the area of handling diversity, tolerance, inclusion and diversity management, furthermore to encourage and within its possibilities to promote the practical expression of the Company's commitment to diversity.

Diversity is a tenet at all levels of Richter's operation. Thus when drafting internal regulations the Company strives to shape the corporate environment to meet this principle.

To implement the Company's views in practice, on 28 May 2018 the Board of Directors adopted the Diversity Policy regarding the Company's governing bodies (Board of Directors, Supervisory Board and Executive Board), which was announced on 21 June 2018. The Diversity Policy accepted for a five-year period, whose implementation is closely tracked by the Board, determines the diversity aspects and objectives applicable for the Company's business management, executive and supervisory bodies.

In the spirit of diversity, when composing the Company's governing bodies priority will be given to knowledge related to Richter's main business, expertise in the economic, social and environmental contexts of the Company's operation, as well as professional and personal reputation. Richter's position is that these diversity considerations are best promoted if the governing bodies have members with qualification and experience in the pharmaceutical industry as well as finance and economics; Richter, therefore, makes an effort to have members with appropriately diverse professional backgrounds serving on its governing boards. The goals formulated in the Policy in conjunction with the governing bodies envision that both sexes should be represented among the members to the extent that the aggregate rate of women should be at least 30%, the age distribution of members should be balanced, and members should also include gifted under 50 year aged persons with appropriate competences.

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

As a result of the resolutions regarding the composition of the boards approved by the Board of Directors acting in competence of the AGM in 2020 the age distribution of the Board of Directors definitively did not changed. The participation rate of woman, due to the expiration of Dr. Kriszta Zolnay's membership in the Board of Directors, has changed to 20% among the members of the Board of Directors.

In the Supervisory Board the 30% as a rate of women was provided also without any change in 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.

## **Internal controls and risk management system of the Company**

Richter considers risk management a tool of effective corporate governance. Our goal is to identify, understand and assess risks in a timely fashion and to take steps to manage them. Evaluation of internal controls is part of risk assessment; hence the risk assessment function supports the Company in maintaining more efficient internal control mechanisms.

Richter's position is that it is impossible to devise a uniform system for all aspects of risk management; consequently, we rely on the meetings of the Company's various bodies in risk related decision-making and trust the skills, experience and judgment of our decision-makers in the implementation of internal requirements and rules.

Accountability and controls related to risk management:

- ▶ The Board of Directors shall be responsible for the overall control and supervision of Richter's risk management. In this context, the Board of Directors holds the Executive Management accountable for the identification of major areas of exposure, develops the key risk management requirements together with the Executive Management, and requires regular information about the efficiency of related risk management and internal control procedures.

- ▶ The Executive Management shall report to the Board of Directors regarding the implementation of risk management procedures and is ultimately responsible for risk management. The duties and responsibilities of the Executive Management shall also cover the development and maintenance of internal controls that ensure the management of exposures arising from the Company's operation and help achieve the Company's goals.
- ▶ Health related risks of the Company's employees as well as the mitigation of negative impacts on the business in general and on the supply chain in particular of the COVID-19 pandemic are managed by a Pandemic Response Team specifically set up for this purpose;
- ▶ Management of strategic risks is the duty of directors responsible for execution of the certain strategic points.
- ▶ Total Quality Management and Regulatory direction handling the Company's GxP compliance risks extensively. Compliance risks in connection with sales also handled through a centralized organizational unit responsible for legal direction.
- ▶ The various functional areas are responsible for operating risk management in their particular areas. The heads of the functional areas report to the Executive Management about risks in their particular areas in the context of the Company's internal reporting function.
- ▶ Financial risks are managed by the financial control function in a centralized fashion.
- ▶ The main elements of the Company's audit system are the audit by department leaders, appliance of process integrated controls, the activity of internal audit made to be independent and of external auditors.
- ▶ The Audit Department executing the internal audit made to be independent conducts independent and objective assessment of the suitability of the internal controls system for efficient risk management. The assessment is performed on the basis of approved annual examining plans. When drawing up the annual plan the Audit Department shall take into consideration the Company's exposures (based on importance and rotation) as well as the proposals of the Executive Management.
- ▶ Risk management, internal controls and corporate governance functions shall be evaluated annually in the context of the Annual Report.

In 2020 a new risk has arisen:

- Employments' health risk and adverse effects of the COVID-19 epidemic on Company operations and the supply chain

In 2020 from our risks the following risks have emerged:

- Outstanding contribution of Cariprazine to the turnover and profits of the Company;
- Licencing and developing WHC specialty products together with partners.

While the risks below have decreased:

- Difficulties in accessing qualified staff in the Central and East European companies of the Group;
- Lower output and higher costs associated with the implementation of EU serialization and the introduction of Russian serialization.

## Statutory Auditor

On 28 April, 2020 the Board of Directors - based on Subsection (1) of Section 5 and Section 9 of the decree no. 102/2020 (IV.10.) of the Government of Hungary on the 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 has elected **Deloitte Auditing and Consulting Ltd.** as the Company's statutory auditor for a period of three years expiring on April 30, 2023, but not later than the approval of the 2022 consolidated report.

In 2020 Gedeon Richter Plc.'s statutory Auditor was Deloitte Auditing and Consulting Ltd. The individual auditor in charge appointed by the Auditor company, as responsible for fulfilment of tasks of the Auditor was Mr. Tamás Horváth, member of the Hungarian Chamber of the Auditors.

In accordance with its contract, Deloitte Auditing and Consulting Ltd. audits the Company's individual Annual Report prepared in accordance with the International Financial Reporting Standards, and the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS, earlier IAS).

The audit of the financial statements mentioned above was conducted in accordance with the Hungarian Auditing Standards, the International Standards of Auditing (ISA) and the Accounting Act and other statutory provisions relevant to auditing.

The Statutory Auditor ensures continuity of auditing through regular on-site work and participation in meetings of the Board of Directors and the Supervisory Board, and through other forms of consultation. In addition, the Auditor reviews the Company's quarterly reports to BSE.

Pursuant to the resolution of the Annual General Meeting of 28 April, 2020 the remuneration of the Statutory Auditor for the 2020 year is HUF 27,000,000.00 + VAT, which includes the fee for the auditing of the 2020 consolidated annual report under IFRS, the fee for examining the consonance between the consolidated annual report and consolidated business report for 2020, the fee for the auditing of the 2020 non-consolidated annual report, the fee for examining the consonance between the non-consolidated annual report and business report for 2020, the fee for reviewing the quarterly reports serving the purpose to inform the investors and sent to the BSE (Budapest Stock Exchange) and the MNB (Central Bank of Hungary), and the fee for auditing the Company's non-consolidated interim financial statement, which shall be completed on the accounting date of August 31, 2020.

With the approval of the General Meeting, the business organization appointed as Auditor has audited the Company's individual financial statements and also audited the Company's consolidated financial statements prepared according to the International Financial Reporting Standards.

The statutory auditor did not perform any activity that might have compromised its independence.

The Audit Board decides on all non-auditing services provided to the statutory auditor and/or to members belonging to the statutory auditor's net and the related contract may only be



concluded with the approval of the Audit Board, after the resolution in subject has been passed.

## **Shareholder relations**

The formal contacts with shareholders include the annual reports and financial statements, the quarterly reports published through the Budapest Stock Exchange and other announcements. Shareholders receive additional information on the Company's business, its results and strategy at the Annual General Meeting. The Company organizes roadshows to inform the investor community in the United States, the United Kingdom and in Europe. Consequent to the restrictive measures implemented by the Hungarian Government in response to COVID-19 pandemic such roadshows, investor meetings and conferences were organised using virtual channels following March 2020. During the year investors may contact the Company with their inquiries and may put questions and make proposals at the General Meeting.

The Company's Investor Relations Department is coordinating the above activities. The Share Registration Department focuses primarily on small shareholder relations. As an additional information channel the Company's website ([www.richter.hu](http://www.richter.hu)) includes a specific page which addresses the needs of investor and financial analyst community.

## **The Company's disclosure practices**

In accordance with the statutory provisions in force and the General Terms of Service of the Budapest Stock Exchange, the Company publishes its announcements and disclosures as well as its regular and extraordinary information on the website of the [Budapest Stock Exchange \(www.bet.hu\)](http://www.bet.hu), the website dedicated to capital market disclosures managed by the National Bank of Hungary (<https://kozvetelek.mnb.hu/>), and on the [Company's own website \(www.richter.hu\)](http://www.richter.hu), as well as in the [Hungarian Companies Journal](#). The invitation to the General Meeting is also published in [The Financial Times](#) in addition to the above. Accordingly, the Company publishes quarterly reports and, following conclusion of the business year, an annual report, and provides extraordinary information in cases where it becomes aware of actual or expected changes in its business that may directly or indirectly affect the value or yield of its shares, or that are material for market players for making investment-related decisions. In addition, the Company's Investor Relations Department contacts the shareholder community on a regular basis.

The Company does not determine own publication policy. The Company in connection with its publications follows the rules of the Statutes, the effective legal regulations, and the regarding regulations of the Budapest Stock Exchange and the National Bank of Hungary.

## **The Company' policy regarding insider trading**

The persons deemed to be insider regarding the Company shall be defined based upon the rules of 596/2014/EU Regulation. The Company has developed regulations on the prohibition of insider trading as provided by law.

The Company does not determine own policy regarding insider trading. The 596/2014/EU Regulation and other regarding legal rules are applicable to the trading of persons deemed to be insider at the Company. The Company's internal regulations - which covering also regulations related to prohibiting of insider trading - states prohibitions related to trading of insider person in compliance with the legal regulations.

The persons deemed to be insider regarding the Company have individual responsibility to comply with the rules related and connected to prohibition of insider trading and with the Company's internal regulations covering previous subjects.

## **Code of Ethics, Compliance**

In the course of 2016, the Company reviewed and amended the Code of Ethics of Gedeon Richter Plc. and its affiliates ("RICHTER") as an elemental part of its Global Compliance Program. The Code of Ethics provides requirements for the conduct expected of the Company's employees in subordinate positions and for the higher levels of conduct demands on executive staff. It also sets guidelines on communications within the Company and on relations between the Company and its business partners. In the course of 2017, the renewed Code of Ethics and the Manuals of the Global Compliance Program were localized and implemented in the European affiliates of the Company, where the employees received comprehensive education of their contents.

In 2018, the Global Compliance Program was started to be extended to affiliates and representative offices in Latin American countries and in the CIS member states. In 2019, the Spanish and Russian versions of the compliance materials were completed, with the help of which the local operating procedures were updated, and the employees of the affiliates could be trained.

In 2019, the Company continued to hold Global Compliance Program-related training, and as a result, compliance awareness has gathered ground. This is also shown in the increase of incidents reported through the Compliance Hotline on many different topics, including reports related to conflicts of interest, which resulted in the decision to create an individual Conflict of Interest Policy, which entered into force in HY1 2020. The aim of the policy was to draw the attention of employees to potential conflicts of interests, to share guidance on how to avoid them and to handle already existing ones.

The continuous education of employees in compliance related topics is critical for the Company, therefore several trainings have also been held in 2020. Together with the Conflict of Interest Policy, the employees received training on the topics of Code of Ethics and the Compliance Hotline as well as training on the new Trade Secret Policy, which also entered into force in 2020.

The increase and strengthening of compliance awareness are not only important regarding our own employees, but also throughout our entire supply chain. Therefore, all our contracts signed with Third Parties contain anti-corruption clauses, which cover the content of the Anti-Corruption Manual, and which constitute the prerequisite of any contract.

## Corporate Social Responsibility

The Company has a diverse commitment to its immediate environment and to society at large, and so feels it has a duty to support community goals as much as possible, both independently and together with other organizations. Richter is convinced that it must play a role in the areas in which it is active. The Company is a committed sponsor of health care and education, which includes the training of chemists, pharmacists and doctors. Numerous cooperation agreements provide assistance to the research and educational activities of universities that offer training in the natural sciences. Gedeon Richter Plc. has established various foundations to provide support for Hungarian health care. The Company takes part in programmes in Hungary that help people achieve a greater understanding and awareness of particular health problems. This purpose is also served by the Richter Health City programme begun in 2009, whose “health profit” till the end of 2020 was HUF 403 million donated to 79 Hungarian hospitals, which was allocated for improving their equipment.

As a major company in gynaecology, Richter embraces the psychological and social well-being of women as part of its social responsibility, as a result of which it devotes particular attention to supporting programmes that are of value to women. The Company launched its “Richter for Women Programme”, now comprising several initiatives, in 2010.

Every two years – the last time concerning the period of 2018-2019 – the Company issues a Sustainability Report, which describes the environmental and safety activity of Richter’s manufacturing subsidiaries as well as their social responsibility.

The Company is committed to making future generations healthier through its activity.

## Environmental awareness

Compliance with health, safety and environmental regulations is a priority for Richter, therefore the Company strictly observes the statutory provisions relevant to these areas in all of its operations. Gedeon Richter Plc. is convinced that efficient and successful production is the basis of preserving its employees' health, creating a safe working environment, and protecting the environment.

The Company finds it important to focus on environmental protection as a whole and on its particular areas. In order to protect environmental elements the Company takes care to identifying, assessing and reducing the environmental impact, and potential risks associated with its business, and also to the disposal and recovery of waste generated in accordance with the applicable requirements. In interest of reducing environmental impacts the Company

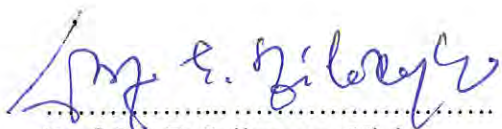
- constantly upgrades its production technologies and seeks to use the best available technology;
- modernizes the infrastructure for storage and supply of chemicals in order to reduce the risk of soil and groundwater contamination;
- continuously monitoring the condition of the neighboring groundwater and air, the quality of waste water emitted and the noise impact of the site.

Economic development and operations which take into consideration the state of our environment and social expectations and are pursued in possession of government permits and in compliance with their provisions – in brief, this is Richter's environmental protection strategy. The Company complies with Hungarian and international environmental laws and regulations and has held an [Integrated Pollution Prevention Control \(IPPC\) licence](#) since

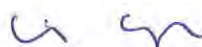
2004. With a view to continuously improving its environmental performance, the Company operates an Environmental Management System according to ISO 14001; its system has been awarded an internationally valid environmental certificate since 2001.

Gedeon Richter Plc. believes it is important to make its environmental efforts and achievements known to everybody interested. From 2001 to 2004 Gedeon Richter Plc. provided information in annual environmental reports. Since 2005 the Company has provided information on environmental protection to stakeholders in its regular Sustainability reports.

Budapest, April 15, 2021



.....  
Prof. Dr. E. Szilveszter Vizi  
Member of the Board of Directors,  
Chairman of the Corporate Governance  
and Nomination Subcommittee



.....  
Erik Bogsch  
Chairman of the Board of Directors

**Annex 1****Declaration from remuneration of members of the governing bodies****I./ Remuneration of the members of the Board of Directors and members of the Supervisory Board**

Gedeon Richter Plc. provide information from the remuneration per member and described by virtue of the remuneration, all in cash and other (non cash) allowances given to the Members of the Board of Directors and of the Supervisory Board with reference to their such position in 2020 according to the followings:

**Members of the Board of Directors**

Name	Position	Term of the present mandate	Title of remuneration	Sum of remuneration	Total remuneration in 2020 /HUF/
Erik Bogsch	Board member, and Chairman of the Board of Directors	from April 28, 2020 for a period of 3 (three) years expiring on the AGM in 2023	honoraria	708,975 HUF/month	8,507,700
Dr. György Bagdy	Board member	from April 24, 2019 for a period of 3 (three) years expiring on the AGM in 2022	honoraria	589,950 HUF/month	7,079,400
Dr. Péter Cserháti	Board member	from April 28, 2020 for a period of 3 (three) years expiring on the AGM in 2023	honoraria	589,950 HUF/month	4,719,600
Dr. Gábor Gulácsi	Board member	From April 24, 2019 for a period of 3 (three) years expiring on the AGM in 2022	honoraria	589,950 HUF/month	7,079,400
Dr. Ilona Hardy	Board member	From April 28, 2020 for a period of 3 (three) years expiring on the AGM in 2023	honoraria	589,950 HUF/month	7,079,400
Csaba Lantos	Board member	From April 24, 2019 for a period of 3 (three) years expiring on the AGM in 2022	honoraria	589,950 HUF/month	7,079,400
Gábor Orbán	Board member	From April 28, 2020 for a period of 3 (three) years expiring on the AGM in 2023	honoraria	589,950 HUF/month	7,079,400
Dr. Anett Pandurics	Board member	From April 25, 2018 for a period of 3 (three) years expiring on the AGM in 2021	honoraria	589,950 HUF/month	7,079,400
Bálint Szécsényi	Board member	From April 25, 2018 for a period of 3 (three) years expiring on the AGM in 2021	honoraria	589,950 HUF/month	7,079,400
Prof. Dr. E. Szilveszter Vizi	Board member	From April 28, 2020 for a period of 3 (three) years expiring on the AGM in 2023	honoraria	589,950 HUF/month	7,079,400
Dr. Kriszta Zolnay	Board member	From April 26, 2017 for a period of 3 (three) years expiring on the AGM in 2020	honoraria	589,950 HUF/month	2,359,800

**Members of the Supervisory Board**

Name	Position	Term of the present mandate	Title of remuneration	Sum of remuneration	Total remuneration in 2020 /HUF/
Dr. Attila Chikán	Chairman of the Supervisory Board	from April 25, 2018 for a period of 3 (three) years expiring on the AGM in 2021	honoraria	589,950 HUF/month	7,079,400
Prof. Dr. Jonathán Róbert Bedros	Board member	from April 25, 2018 for a period of 3 (three) years expiring on the AGM in 2021	honoraria	424,350 HUF/month	5,092,200
Dr. Zsolt Harmath	Board member	from April 25, 2018 for a period of 3 (three) years expiring on the AGM in 2021	honoraria	424,350 HUF/month	5,092,200
Mrs. Klára Csikós Kovácsné	Board member	from April 25, 2018 for a period of 3 (three) years expiring on the AGM in 2021	honoraria	424,350 HUF/month	5,092,200
dr. Éva Kozsda Kovácsné	Board member	from April 25, 2018 for a period of 3 (three) years expiring on the AGM in 2021	honoraria	424,350 HUF/month	5,092,200

Honoraria of the members of the Board of Directors for year 2020, effective as of January 1, 2020 was determined and approved in 2020 by the Company's Board of Directors - *based on Subsection (1) of Section 5 and Section 9 of the decree no. 102/2020 (IV.10.) of the Government of Hungary on the 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 in resolution No. 21/2020.04.28. Honoraria of the members of the Supervisory Board for year 2020, effective as of January 1, 2020 was determined and approved in 2020 by the Company's Board of Directors - *based on Subsection (1) of Section 5 and Section 9 of the decree no. 102/2020 (IV.10.) of the Government of Hungary on the 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 in resolution No. 22/2020.04.28.

In 2020 Members of the Board of Directors and of the Supervisory Board with reference to their such position have received remuneration only in cash.

## **II./ Remuneration of the Executive Board of the Company**

Decision on compensation of the Chief Executive Officer is within the competence of the Board of Directors. The Board of Directors decides in subject of the compensation of the Chief Executive Officer based upon the proposal of the Remuneration Subcommittee.

Compensation of the other members of the Executive Board falls into the competence of the Chief Executive Officer.

## **III./ Remuneration Policy**

The Board of Directors - *based on Subsection (1) of Section 5 and Section 9 of the decree no. 102/2020 (IV.10.) of the Government of Hungary on the 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 has – in its advisory competence - approved the Remuneration Policy applicable from year 2021, elaborated and proposed by the Board of Directors of the Company with respect to Act LXVII of 2019 on the Encouragement of Long-term Shareholder Engagement and Modification of Certain Acts with the Purpose of Legal Harmonization.

Members of the Board of Directors, the Supervisory Board, as well as the chief executive officer and the deputy chief executive officer(s) (hereinafter: Directors) fall within the personal scope of the Remuneration Policy. The Company's Remuneration Policy distinguishes persons who are employed by the Company as Executives to perform the tasks associated with their job, and in consideration of their status as employees they receive separate remuneration (salary and other benefits) in addition to, or in the absence of, their remuneration as members of the Board of Directors or Supervisory Board.

The Remuneration Policy introduces the general remuneration concept. It discusses in separate chapters the remuneration of the members of the Board of Directors and of the Supervisory Board, moreover the elements of the remuneration of Directors employed by the Company. Furthermore it describes questions should be regulated in the framework of the remuneration policy according to the relating law. The Remuneration Policy is available on the website of the Company ([www.richter.hu](http://www.richter.hu)).

With respect to the regulations of Act LXVII of 2019 on the Encouragement of Long-term Shareholder Engagement and Modification of Certain Acts with the Purpose of Legal Harmonization the Company shall be obliged to create and publish remuneration report with the content defined in Act LXVII of 2019 on the Encouragement of Long-term Shareholder Engagement and Modification of Certain Acts with the Purpose of Legal Harmonization, in which the Company will give a comprehensive review of the aggregated remuneration determined in any way to the benefit of single Directors in the last business year or based on its results in compliance with the Remuneration Policy.

**Annex 2*****Corporate Governance Report  
on compliance with the Corporate Governance Recommendations***

*As part of the Corporate Governance Report, the Company makes a statement regarding the extent to which it has implemented in its own corporate governance practice the recommendations and proposals specified in the relevant sections of the Corporate Governance Recommendations issued by the Budapest Stock Exchange Ltd., by completing the following tables.*

*These tables provide an overview for the investors of the extent of the compliance - by the relevant company - with certain requirements set out in the Corporate Governance Recommendations at glance, and enable easy comparison of the practices of the specific companies.*

*The Recommendations contain both recommendations that are binding for all issuers and non-binding proposals. Issuers may derogate both from binding recommendations and non-binding proposals. In the event of derogation from the recommendations, issuers are required to publish and justify the derogation in their corporate governance reports ('comply or explain'). This enables issuers to take industry and company-specific requirements into account. Accordingly, even issuers derogating from the recommendations can comply with corporate governance requirements under specific circumstances. Concerning the proposals, issuers should indicate whether they apply a given guideline or not, and they can also explain any derogation from the proposals.*

*The basic principle and purpose of the corporate governance report is to have companies give a report of their previous business year and to reveal the measure of their compliance with the Recommendations. The Recommendations may, however, include recommendations and proposals relating to events which did not occur at the issuer in the given period. In accordance with the current practice, these 'event type' questions can be answered with 'YES' also when the relevant event did not occur in the business year (for instance, no dividend was paid, or no shareholders' comments were received for the proposals to be submitted prior to the General Meeting) if the Company would have responded to the occurrences of such events as set forth in the Recommendations, in line with the provisions of its Articles of Association or its practices. In a situation like that, the solution that comes closest to the principle of transparent operation is for the issuer to select YES and also to add an explanation that though the event in question did not occur in the previous business year, there are appropriate mechanisms in place to handle it.*

***Level of compliance with the Recommendations***

*The Company indicates whether it follows the relevant recommendation or not, and if not, briefly explains the reasons why it did not follow that specific recommendation.*

**1.1.1.** Does the Company have an organisational unit dealing with investor relationship management, or a designated person to perform these tasks?

**Yes**



Explanation: -

**1.1.2.** Are the Company's Articles of Association available on the Company's website?

**Yes**

Explanation: -

**1.1.4.** If the Company's Articles of Association allow shareholders to exercise their rights in their absence, did the Company publish the methods and conditions of doing so, including all necessary documents?

**Yes**

Explanation: *The announcement (invitation) convening the general meeting contains information regarding the way and conditions to appoint representative (nominee) and the fact that the forms for voting via proxy will be published by the Company on its website 21 days prior to the general meeting.*

**1.2.1.** Did the Company publish on its website a summary document containing the rules applicable to the conduct of its General Meetings and to the exercise of voting rights by shareholders?

**Yes**

Explanation: *The announcement (invitation) convening the general meeting contains the regarding rules.*

**1.2.2.** Did the Company publish the exact date when the range of those eligible to participate in a given company event is set (record date), and also the last day when the shares granting eligibility for participating in a given company event are traded?

**Yes**

Explanation: -

**1.2.3.** Did the Company hold its General Meetings in a manner providing for maximum shareholder participation?

**Yes**

Explanation: -

**1.2.6.** The Company did not restrict the shareholders' right to designate a different representative for each of their securities accounts to represent them at any General Meeting. (Answer Yes, if not)

**Yes**

Explanation: -

**1.2.7.** For proposals for the agenda items, were the Board of Directors' draft resolution and also the Supervisory Board's opinion disclosed to the shareholders?

**Yes**

Explanation: -

**1.3.3.** The Company did not restrict the right of its shareholders attending a General Meeting to request information, add comments and submit proposals, or set any preconditions for these with the exception of some measures taken to conduct the General Meeting in a correct manner and as intended. (Answer Yes, if not)

**Yes**

Explanation: -

**1.3.4.** By answering the questions raised at the General Meeting, did the Company ensure compliance with the information provision and disclosure principles set out in legal and stock exchange requirements?

**Yes**

Explanation: *There were no such questions. (With respect to the extraordinary situation formed in Hungary in connection with coronavirus epidemic (Covid-19), according to the rules of decree no. 102/2020. (IV.10.) of the Government of Hungary from the differing regulations related to the operation of partnership and company organs under the period of the state of emergency (hereinafter Gov. Decree no.: 102/2020.) the Company could not hold its annual general meeting convoked for 28 April 2020 in a way which would require the physical presence of the shareholders. According to Gov. Decree No.: 102/2020 the Board of Directors had the right to decide about any and all issues listed on the published agenda of the general meeting.)*

**1.3.5.** Did the Company publish on its website the answers to the questions that the representatives of the Company's boards or its auditor present at the General Meeting could not satisfactorily answer at the meeting within 3 working days following the General Meeting, or an official statement explaining why it refrained from giving answers?

**No**

Explanation: *There were no such questions. (With respect to the extraordinary situation formed in Hungary in connection with coronavirus epidemic (Covid-19), according to the rules of decree no. 102/2020. (IV.10.) of the Government of Hungary from the differing regulations related to the operation of partnership and company organs under the period of the state of emergency (hereinafter Gov. Decree no.: 102/2020.) the Company could not hold its annual general meeting convoked for 28 April 2020 in a way which would require the physical presence of the shareholders. According to Gov. Decree No.: 102/2020 the Board of Directors had the right to decide about any and all issues listed on the published agenda of the general meeting.)*

**1.3.7.** Did the Chairman of the General Meeting order a recess or suggest that the General Meeting be postponed when a proposal or proposal relating to a particular issue on the agenda

was submitted which the shareholders hadn't had a chance to become familiar with before the General Meeting?

**No**

*Explanation: There were no such suggestions, proposals which would justify ordering a recess or postponing the general meeting. (With respect to the extraordinary situation formed in Hungary in connection with coronavirus epidemic (Covid-19), according to the rules of decree no. 102/2020. (IV.10.) of the Government of Hungary from the differing regulations related to the operation of partnership and company organs under the period of the state of emergency (hereinafter Gov. Decree no.: 102/2020.) the Company could not hold its annual general meeting convoked for 28 April 2020 in a way which would require the physical presence of the shareholders. According to Gov. Decree No.: 102/2020 the Board of Directors had the right to decide about any and all issues listed on the published agenda of the general meeting.)*

**1.3.8.1.** The Chairman of the General Meeting did not use a combined voting procedure for a decision related to electing and recalling executive officers and Supervisory Board members. (Answer Yes, if not)

**Yes**

*Explanation: -*

**1.3.8.2.** For executive officers or Supervisory Board members, whose nominations were supported by shareholders, did the Company disclose the identity of the supporting shareholder(s)?

**No**

*Explanation: The Board of Directors nominated the new candidate to the Board of Directors with asking the opinion of the major shareholders.*

**1.3.9.** Prior to discussing agenda items concerning the amendment of the Articles of Association, did the General Meeting pass a separate resolution to determine whether to decide on each amendment of the Articles of Association by individual votes, joint votes, or votes combined in a specific way?

**No**

*Explanation: In the announcement (invitation) convening the general meeting it is signed at the agenda item relating to the amendments of the Statutes that the amendments would be proposed in which subjects. (With respect to the extraordinary situation formed in Hungary in connection with coronavirus epidemic (Covid-19), according to the rules of decree no. 102/2020. (IV.10.) of the Government of Hungary from the differing regulations related to the operation of partnership and company organs under the period of the state of emergency (hereinafter Gov. Decree no.: 102/2020.) the Company could not hold its annual general meeting convoked for 28 April 2020 in a way which would require the physical presence of the shareholders. According to Gov. Decree No.: 102/2020 the Board of Directors had the right to decide about any and all issues listed on the published agenda of the general meeting.)*

**1.3.10.** Did the Company publish the minutes of the General Meeting containing the resolutions, the description of the draft resolutions and any important questions and answers related to the draft resolutions within 30 days following the General Meeting?

**No**

*Explanation: The Company fulfill its obligation to deposit the minutes of the general meeting in compliance with the rules of the Civil Code.*

**1.5.1.1. -1.5.6.<sup>4</sup>**

**1.6.1.1.** Do the Company's publication guidelines cover the procedures for electronic, online disclosure?

**No**

*Explanation: The Company did not establish publication guidelines. The Company in connection with its publications follows the rules of the Statutes, the effective legal regulations, and the regarding regulations of the Budapest Stock Exchange and the National Bank of Hungary.*

**1.6.1.2.** Does the Company design its by considering the aspects of disclosure and the information of investors?

**Yes**

*Explanation: -*

**1.6.2.1.** Does the Company have an internal publication policy in place which covers the processing the information listed in Section 1.6.2. of the Recommendations document?

**No**

*Explanation: The Company formed its internal practice relating to disclosures in compliance with the effective legal regulations, rules of the Statutes, and the regarding regulations of the Budapest Stock Exchange and the National Bank of Hungary.*

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<sup>4</sup> As a result of the review of the BSE Corporate Governance Recommendations (hereinafter: "CG Recommendations") in 2020, the Corporate Governance Committee of BSE (hereinafter: "the Committee") repealed Section 1.5 on Remuneration and recommendations under 1.6.7 regarding remuneration and accordingly amended points 1.6.2, 1.6.9 and 2.2.2 as well as Annex 1 of the CG Recommendations, regarding to that from July 2019 the rules of remuneration matters are governed by the provisions of Act LXVII of on the Encouragement of Long-term Shareholder Engagement and Modification of Certain Acts with the Purpose of Legal Harmonization. Nevertheless, in the future, the Committee intends to give interpretations and guidance to complement these legal provisions to the issuers, but for this it is necessary that relevant experience connecting to the new legal regulations is learnt and gathered. The new recommendations and proposals be approved by the Committee later on and stepping instead of the repealed points will summarize these practical experiences.

**1.6.2.2.** Do the internal regulations of the Company cover the methods for the assessment of events judged to be important for publication?

**No**

*Explanation: The Company formed its internal practice relating to disclosures in compliance with the effective legal regulations, rules of the Statutes, and the regarding regulations of the Budapest Stock Exchange and the National Bank of Hungary.*

**1.6.2.3.** Did the Board of Directors/Governing Board assess the efficiency of the publication processes?

**No**

*Explanation: See as written under Section 1.6.2.1. and 1.6.2.2.*

**1.6.2.4.** Did the Company publish the findings of the efficiency assessment of the publication process?

**No**

*Explanation: See as written under Section 1.6.2.1. and 1.6.2.2.*

**1.6.3.** Did the Company publish its annual company event calendar?

**Yes**

*Explanation: -*

**1.6.4.** Did the Company publish its strategy, business ethics and policies regarding other stakeholders?

**Yes**

*Explanation: -*

**1.6.5.** Did the Company publish the career information of Board of Directors / Governing Board, Supervisory Board and management members in its annual report or on the company website?

**Yes**

*Explanation: -*

**1.6.6.** Did the Company publish all relevant information about the internal organisation and the operation of the Board of Directors / Governing Board and the Supervisory Board, about the work of the management, the assessments of these and the changes in the current year?

**No**

*Explanation: The Corporate Governance and Nomination Subcommittee assessed the annual work of the members of the Board of Directors. The Supervisory Board reported from its annual work in its report regarding the Company's annual report. Assessing the work of the Chief Executing Officer falls into the competence of the Board of Directors. Assessing the work of other members of the Executive Board falls into the competence of the Chief Executive Officer.*

**1.6.7.1.-1.6.7.2.<sup>5</sup>**

**1.6.8.** Did the Company publish its risk management guidelines and information about its system of internal controls, the main risks and the principles for their management?

**Yes**

*Explanation: -*

**1.6.9.1.** Did the Company publish its guidelines relating to the trading of its shares by insiders?

**No**

*Explanation: The Company does not publish own guidelines (policy) relating to the trading of its shares by insiders. The 596/2014/EU Regulation and other regarding legal rules are applicable to the trading of persons deemed to be insider at the Company. The Company's internal regulations - which covering also regulations related to prohibiting of insider trading - states prohibitions related to trading of insider person in compliance with the legal regulations.*

**1.6.9.2.** Did the Company disclose the share of the Board of Directors / Governing Board, Supervisory Board and management members in the securities issued by the Company<sup>6</sup> in the annual report or in some other way?

**Yes**

*Explanation: -*

**1.6.10.** Did the Company publish the relationship of Board of Directors / Governing Board, Supervisory Board and management members may have with third parties which could affect the operation of the Company?

**No**

*Explanation: There was no such case.*

**2.1.1.** Does the Company's Articles of Association contain clear provisions regarding the responsibilities and competences of the General Meeting and the Board of Directors / Governing Board?

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<sup>5</sup> See footnote No.4

<sup>6</sup> See footnote No.4

**Yes**

Explanation: -

**2.2.1.** Does the Board of Directors / Governing Board have a rules of procedure in place defining the organisational structure, the actions for arranging for and conducting the meetings, and the tasks regarding the adopted resolutions, as well as other issues related to the operation of the Board of Directors / Governing Board?

**Yes**

Explanation: -

**2.2.2.** Does the Company publish the procedure used for nominating Board of Directors / Governing Board members<sup>7</sup>?

**No**

Explanation: *Draft resolutions regarding the candidates nominated to be the members of the Board of Directors is proposed by the Board of Directors based upon the preliminary motion of the Corporate Governance and Nomination Subcommittee, at the same time providing the curriculum vitae of the candidates.*

**2.3.1.** Does the Supervisory Board provide a detailed description of its operation and duties, as well as the administrative procedures and processes followed by it, in its rules of procedure and work plan?

**Yes**

Explanation: -

**2.4.1.1.** Did the Board of Directors / Governing Board and the Supervisory Board hold meetings periodically at a predefined interval?

**Yes**

Explanation: -

**2.4.1.2.** Did the rules of procedure of the Board of Directors / Governing Board and the Supervisory Board provide rules for the conduct of meetings that cannot be planned in advance, and for decision-making using electronic telecommunications means?

**Yes**

Explanation: *There is a possibility to hold extraordinary meetings and passing resolution without session.*

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<sup>7</sup> See footnote No.4

**2.4.2.1.** Did board members have access to the proposals to be presented at the meeting of the respective board at least five days prior to the meeting?

**Yes**

Explanation: -

**2.4.2.2.** Did the Company arrange the proper conduct of the meetings, the drawing up of the meeting minutes and management of the resolutions made by the Board of Directors / Governing Board and the Supervisory Board?

**Yes**

Explanation: -

**2.4.3.** Do the rules of procedure provide for the regular or ad hoc participation of non-board members at respective board's meetings?

**Yes**

Explanation: -

**2.5.1.** Were the members of the Board of Directors / Governing Board and the Supervisory Board nominated and elected in a transparent process, and was the information about the candidates made public in due time before the General Meeting?

**Yes**

Explanation: -

**2.5.2.** Does the composition and size of the boards comply with the principles set out in Section 2.5.2. of the Recommendations?

**Yes**

Explanation: -

**2.5.3.** Did the Company ensure that the newly elected Board of Directors / Governing Board and Supervisory Board members became familiar with the structure and operation of the Company and their tasks were carried out as members of the respective boards?

**Yes**

Explanation: -

**2.6.1.** Did the Governing Board / Supervisory Board request (in the context of preparing the annual corporate governance report) its members considered to be independent to confirm their independence at regular intervals?

**Yes**



Explanation: -

**2.6.2.** Does the Company provide information about the tools which ensure that the Board of Directors / Governing Board assesses objectively the management's activities?

**No**

Explanation: *Assessing the work of the Chief Executive Officer is falling into the competence of the Board of Directors. Assessing the other members of the Executive Board is the competence of the Chief Executive Officer.*

**2.6.3.** Did the Company publish its guidelines concerning the independence of its Governing Board / Supervisory Board members and the applied independence criteria on its website?

**No**

Explanation: *In case of those public companies limited by shares which do not have one tier (Board) system, but where operate a two tier system – there is independent Supervisory Board beside the Board of Directors - the Civil Code do not state criteria of independence to the members of the Board of Directors. Apart from this the Company applies the criteria of independence stated to the Supervisory Board members by the Civil Code in respect of both members of the Board of Directors and of the Supervisory Board.*

**2.6.4.** Does the Supervisory Board of the Company have any members who has held any position in the Board of Directors or in the management of the Company in the previous five years, not including cases when they were involved to ensure employee participation?

**Yes**

Explanation: -

**2.7.1.** Did members of the Board of Directors / Governing Board inform the Board of Directors / Governing Board and (if applicable) the Supervisory Board (or the Audit Committee if a uniform governance system is in place) if they, or individuals they have business relations with, or their relatives have interest in any business transactions of the Company (or any subsidiaries thereof) which excludes their independence?

**No**

Explanation: *There was no such transaction.*

**2.7.2.** Were transactions and assignments between members of boards/ members of the management/individuals closely associated with them and the Company/subsidiaries of the Company carried out in accordance with the Company's general business practice but applying more stringent transparency rules compared to general business practice, and were they approved?

**No**

Explanation: *There was no such transaction.*

**2.7.3.** Did board members inform the Supervisory Board / Audit Committee (Nominating Committee) if they had received an appointment for board membership or management position of a company not belonging to the Company Group?

**No**

*Explanation: There was no such case.*

**2.7.4.** Did the Board of Directors / Governing Board develop guidelines for the flow of information and the management of insider information within the Company, and monitor compliance with them?

**Yes**

*Explanation: The Company set up rules related to handling insider information in frameworks of internal regulations.*

**2.8.1.** Did the Company create an independent internal audit function that reports directly to the Audit Committee / Supervisory Board?

**No**

*Explanation: According to the Rules of Organization and Procedure approved by the Board of Directors at the Company there is an internal audit department, operating subordinated to the Chief Executive Officer, which reports regularly to the Board of Directors and also fulfills tasks given by the Supervisory Board.*

**2.8.2.** Does Internal Audit have unrestricted access to all information necessary for carrying out audits?

**Yes**

*Explanation: -*

**2.8.3.** Did shareholders receive information about the operation of the system of internal controls?

**Yes**

*Explanation: -*

**2.8.4.** Does the Company have a function ensuring compliance (compliance function)?

**Yes**

*Explanation: -*

**2.8.5.1.** Is the Board of Directors / Governing Board or a committee operated by it responsible for the supervision and management of the entire risk management of the Company?

**Yes**

*Explanation: The Board of Directors and the Supervisory Board are jointly responsible for the management of the Company's risk management.*

**2.8.5.2.** Did the relevant organisation of the Company and the General Meeting received information about the efficiency of the risk management procedures?

**Yes**

*Explanation: With respect to the extraordinary situation formed in Hungary in connection with coronavirus epidemic (Covid-19), according to the rules of decree no. 102/2020. (IV.10.) of the Government of Hungary from the differing regulations related to the operation of partnership and company organs under the period of the state of emergency (hereinafter Gov. Decree no.: 102/2020.) the Company could not hold its annual general meeting convoked for 28 April 2020 in a way which would require the physical presence of the shareholders. According to Gov. Decree No.: 102/2020 the Board of Directors had the right to decide about any and all issues listed on the published agenda of the general meeting.*

**2.8.6.** With the involvement of the relevant areas, did the Board of Directors / Governing Board develop the basic principles of risk management taking into account the special idiosyncrasies of the industry and the Company?

**Yes**

*Explanation: -*

**2.8.7.** Did the Board of Directors / Governing Board define the principles for the system of internal controls to ensure the management and control of the risks affecting the Company's activities as well as the achievement of its performance and profit objectives?

**Yes**

*Explanation: -*

**2.8.8.** Did internal control systems functions report about the operation of internal control mechanisms and corporate governance functions to the competent board at least once a year?

**Yes**

*Explanation: -*

**2.9.2.** Did the Board of Directors / Governing Board invite the Company's auditor in an advisory capacity to the meetings on financial reports ?

**Yes**

*Explanation: -*

**Level of compliance with the Proposals**

The Company must state whether it follows the relevant proposal included in the Corporate Governance Recommendations, or not (Yes / No). The Company can also explain any derogation from it.

**1.1.3.** Does the Company's Articles of Association provide an opportunity for shareholders to exercise their voting rights also when they are not present in person?

**Yes**

*(Explanation: -)*

**1.2.4.** Did the Company determine the place and time of General Meetings initiated by shareholders by taking the initiating shareholders' proposal into account?

**No**

*(Explanation: There was no such case.)*

**1.2.5.** Does the voting procedure used by the Company ensure a clear, unambiguous and fast determination of voting results, and in the case of electronic voting, also the validity and reliability of the results?

**Yes**

*(Explanation: -)*

**1.3.1.1.** Were the Board of Directors/Governing Board and the Supervisory Board represented at the General Meeting?

**Yes**

*(Explanation: With respect to the extraordinary situation formed in Hungary in connection with coronavirus epidemic (Covid-19), according to the rules of decree no. 102/2020. (IV.10.) of the Government of Hungary from the differing regulations related to the operation of partnership and company organs under the period of the state of emergency (hereinafter Gov. Decree no.: 102/2020.) the Company could not hold its annual general meeting convoked for 28 April 2020 in a way which would require the physical presence of the shareholders. According to Gov. Decree No.: 102/2020 the Board of Directors had the right to decide about any and all issues listed on the published agenda of the general meeting.)*

**1.3.1.2.** In the event the Board of Directors/Governing Board and the Supervisory Board was absent, was it disclosed by the Chairman of the General Meeting before discussion of the agenda began?

**No**

*(Explanation: There was no absence. With respect to the extraordinary situation formed in Hungary in connection with coronavirus epidemic (Covid-19), according to the rules of decree no. 102/2020. (IV.10.) of the Government of Hungary from the differing regulations related to the operation of partnership and company organs under the period of the state of emergency (hereinafter Gov. Decree no.: 102/2020.) the Company could not hold its annual general meeting convoked for 28 April 2020 in a way which would require the physical presence of the shareholders. According to Gov. Decree No.: 102/2020 the Board of Directors had the right to decide about any and all issues listed on the published agenda of the general meeting.)*

**1.3.2.1.** The Articles of Association of the Company did not preclude any individuals from receiving an invitation to the General Meetings of the Company at the initiative of the Chairman of the Board of Directors/Governing Board and being granted the right to express their opinion and to add comments there if that person's presence and expert opinion is presumed to be necessary or help provide information to the shareholders and help the General Meeting make decisions. (Answer Yes, if not)

**No**

*(Explanation: The Statutes does not contain such explicit possibility but it is approved according to the Company's long-years practice.*

*With respect to the extraordinary situation formed in Hungary in connection with coronavirus epidemic (Covid-19), according to the rules of decree no. 102/2020. (IV.10.) of the Government of Hungary from the differing regulations related to the operation of partnership and company organs under the period of the state of emergency (hereinafter Gov. Decree no.: 102/2020.) the Company could not hold its annual general meeting convoked for 28 April 2020 in a way which would require the physical presence of the shareholders. According to Gov. Decree No.: 102/2020 the Board of Directors had the right to decide about any and all issues listed on the published agenda of the general meeting.)*

**1.3.2.2.** The Articles of Association of the Company did not preclude any individual from receiving an invitation to the General Meetings of the Company at the initiative of shareholders requesting to supplement the agenda items of the General Meeting and from being granted the right to express their opinion and to add comments there. (Answer Yes, if not)

**No**

*(Explanation: The Statutes does not contain such explicit possibility but with the consent of the Chairman of the Board of Directors it is approved according to the Company's long-years practice.)*

**1.3.6.** Does the annual report of the Company prepared as specified in the Accounting Act contain a brief, easy-to-understand and illustrative summary for shareholders, including all material information related to the Company's annual operation?

**Yes**

*(Explanation: -)*

**1.4.1.** In line with Section 1.4.1., did the Company pay dividend within 10 working days to those of its shareholders who had submitted all the necessary information and documents?

**Yes**

*(Explanation: -)*

**1.6.11.** Did the Company publish its information in English as well, in line with the provisions of Section 1.6.11?

**Yes**

*(Explanation: -)*

**1.6.12.** Did the Company inform its investors about its operation, financial situation and assets on a regular basis, but at least quarterly?

**Yes**

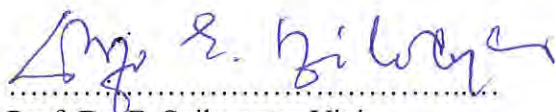
*(Explanation: -)*

**2.9.1.** Does the Company have in place internal procedures regarding the use of external advisors and outsourced activities?

**No**

*(Explanation: The directorates of the Company are entitled to decide on using external advisors and outsourced activities on ad hoc basis to the debit of their budget. In cases of top priority the decision on using external advisor is falling in competence of the Chief Executive Officer.)*

Dated in Budapest, April 15, 2021



Prof. Dr. E. Szilveszter Vizi  
Member of the Board of Directors,  
Chairman of the Corporate Governance  
and Nomination Subcommittee



Erik Bogesch  
Chairman of the Board of Directors