GEDEON RICHTER PLC.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2016

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Gedeon Richter Plc.

Opinion

We have audited the accompanying financial statements of Gedeon Richter Plc. ("the Company") which comprise the balance sheet as of 31 December 2016 (in which the balance sheet total is MHUF 782,005, the profit after tax is MHUF 54,474), the related income statement for the year then ended and the notes to the financial statements including a summary of the significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance for the year then ended in accordance with the provisions of Act C of 2000 on Accounting ("Accounting Act") in force in Hungary.

Basis for opinion

We conducted our audit in accordance with Hungarian National Standards on Auditing ("HNSA") and with applicable laws and regulations in force in Hungary. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Hungary. We have fulfilled our other ethical responsibilities in accordance with those requirements.

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

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Valuation of Long-term shares in subsidiaries The Company has long-term shares in subsidiaries of MHUF 209,520. See Notes II/1.3.3-1.3.4 and I.2/2.4 of the financial statements for management's disclosures of the balances, judgments and estimates on these investments. We focused on this area because of the	We focused on long term shares recognized as a result of the acquisitions of PregLem S.A., GRMed Company Ltd., and GR Mexico S.A.P.I de C.V and GR Rxmidas Joint Venture Co. Ltd. where the Company is performing the impairment assessment based on estimated future cash-flows. Our audit procedures included challenging management on the appropriateness of the impairment models and reasonableness of the assumptions used by performing the following: • Benchmarking the Company's key market-related

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Key audit matter	*How our audit addressed the key audit matter*
significance of the Long-term shares balance and because the impairment assessment of certain investments involves management's judgement about the future results and the discount rates applied to future cash flow forecast. Such judgement was required for the impairment assessment of PregLem S.A., GRMed Company Ltd., GR Mexico S.A.P.I de C.V and GR Rxmidas Joint Venture Co. Ltd. because the recoverable amount of these investments are represented by their future cash generating ability rather than by their current equity level.	assumptions in the models against external data. Key assumptions that we focused on were discount rates, long term growth rates and foreign exchange rates. Where it was considered necessary we involved our valuation experts; • Assessing the reliability of cash flow forecasts by checking of actual past performance and comparing to previous forecasts; • Testing the mathematical accuracy and checking sensitivity analyses of the models; • Understanding the commercial prospects of the assets, and where possible comparing assumptions to external data sources; • In respect of the investment in GR Rxmidas Joint Venture Co. Ltd. (where the most significant portion of the investment arises from current year acquisition) we focused on whether there were any significant adverse changes in the circumstances since the acquisition date. We have recalculated the year end foreign exchange revaluation of the investments and compared our calculation with the balance recorded by the Company. Based on our procedures, we noted no material exceptions and considered management's key assumptions to be within reasonable ranges.
Follow up accounting of business combinations other than valuation of Long term shares in subsidiaries. The Company has acquired several businesses in prior years where the purchase price was contingent on future events. The purchase price of the acquisition of GRMed Company Limited, GR Mexico S.A.P.I de C.V and Mediplus (Economic Zone) N.V as disclosed in Note II/6.2 was not fully settled at the beginning of the current period. We focused especially on the purchase price of the acquisition of GRMed Company Limited due to the significance of the balance and because the acquisition agreement determined a portion of the purchase price to be contingent upon future performance of	The Accounting Act does not contain specific regulation for accounting of contingent purchase prices, therefore we assessed the accounting policy applied by management disclosed in Note I/2.3.3. Since the acquisition agreements were signed in prior periods, we inquired management if there were any amendments made to the agreements. Further audit procedures included assessing the reasonableness of the assumptions used by performing the following procedures in respect of the purchase price of GRMed Company Limited: • Comparing the amount of the liability to the present value of the cash flow forecast of the predetermined products approved by the board of GRMed Company Limited;

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Key audit matter	*How our audit addressed the key audit matter*
predetermined products. The valuation of the liability therefore involved management's judgement about the future results and the discount rates applied to future cash flow forecast. The last instalment of this purchase price was due in the first half of 2017. The maximum exposure of the contingent purchase price originating from other acquisitions (GR Mexico S.A.P.I de C.V and Mediplus (Economic Zone) N.V) is not material as disclosed in Note II/6.2	• Recalculating the change in the liability to change in different components including effect of payment, unwinding of the interest, the change in the foreign rate and the effect of change in cash-flow estimate; • Benchmarking the Company's key market-related assumptions in the models, including discount rates and foreign exchange rates against external data. We involved valuation experts where it was considered necessary; • Comparing the liability presented with the payment made in 2017. We have assessed the classification of the liability in the balance sheet. We have read the disclosures related to contingent consideration presented in Note II/6.2 of the financial statements. Especially, we assessed additional disclosed information not explicitly required by the Accounting Act, but necessary for users to understand the transaction. Based on our procedures, we noted no material exceptions and considered management's key assumptions to be within reasonable ranges.
Accounting for acquisitions The Company has performed two significant acquisitions in the reporting period: acquiring the remaining 50% of GR Rxmidas Joint Venture Co. Ltd. and 100% of Finox Holding AG as disclosed in Note I/3.1 to the financial statements. We focused on this area due to the significance of the transactions and because such agreements often require complex accounting knowledge and significant amount of judgement from the management.	We have read the share purchase agreements, checked the bank statements related to the acquisitions and assessed the appropriateness of the accounting of the acquisition. Relating to the Finox Holding AG acquisition we have assessed management's treatment of identifying a separate asset (a loan of the acquirer) as disclosed in Note I/3.4. Relating to the acquisition of GR Rxmidas Joint Venture Co. Ltd., we have assessed the appropriateness of management's approach of not revaluing any previously held interest in the stand alone financial statement prepared in accordance with the Accounting Act as opposed to the requirements of IFRS in the consolidated financial statements. Based on our procedures, we noted no material exceptions.

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Other information: the business report

The other information comprises the business report of the Company. Management is responsible for the preparation of the business report in accordance with the provisions of the Accounting Act and other relevant regulations. Our opinion on the financial statements does not cover the business report.

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

Based on the Accounting Act, in respect of the business report, our responsibility is to read the business report identified above and, in doing so, consider whether the business report has been prepared in accordance with the provisions of the Accounting Act and other relevant regulations, if any.

Because the Company's transferable securities are admitted to trading on a regulated market of a Member State of the European Economic Area, our opinion on the business report shall cover the information prepared under Paragraphs e) and f) of Subsection (2) of Section 95/B of the Accounting Act, and state whether the information referred to in Paragraphs a)-d) and g) of Subsection (2) of Section 95/B has been provided.

In our opinion, the 2016 business report of the Company, also including the information prepared under Paragraphs e) and f) of Subsection (2) of Section 95/B, is consistent with the 2016 financial statements and the business report has been prepared in accordance with the Accounting Act.

As there is no other regulation prescribing further requirements for the business report, in respect of this, our opinion on the business report does not express the opinion required by Section (5) h) of 156 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the business report, and shall give an indication of the nature of any such misstatements. We have nothing to report in this respect.

Further, we state that the information referred to in Paragraphs a)-d) and g) of Subsection (2) of Section 95/B of the Accounting Act has been provided.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Accounting Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HNSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HNSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Budapest, 22 March 2017

Barsi Éva
Partner
PricewaterhouseCoopers Auditing Ltd.
1055 Budapest, Bajcsy-Zsilinszky út 78.
Licence Number: 001464

Szabados Szilvia
Statutory auditor
Licence number: 005314

Note:
Our report has been prepared in Hungarian and in English. In all matters of interpretation of information, views or opinions, the Hungarian version of our report takes precedence over the English version. The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in jurisdictions other than Hungary.

Gedeon Richter Plc.

Financial statements

31 December 2016

Budapest, 22 March 2017

1	0	4	8	4	8	7	8	2	1	2	0	1	1	4	0	1

Statistical number

0	1

Gedeon Richter Plc.

Balance Sheet (Assets)

"A" Type

31 December 2016

Data in HUF Million

	Description	Previous year	Current year
		31.12.2015 (amendment of the Accounting Act)	31.12.2016 audited
A.	Fixed Assets	457 590	531 266
I.	Intangible Assets	104 990	64 948
1.	Capitalised value of reorganization		
2.	Capitalised value of research and development	254	169
3.	Rights	67 807	64 032
4.	Intellectual property	949	747
5.	Goodwill	35 980	
6.	Advances given for intangibles		
7.	Adjusted value of intangible assets		
II.	Tangible Assets	139 748	150 048
1.	Land and buildings	83 974	90 404
2.	Technical equipment	22 727	25 932
3.	Other equipment	14 068	15 970
4.	Animals		
5.	Investments	18 592	17 336
6.	Advances given for tangible assets	387	406
7.	Adjusted value of tangible assets		
III.	Financial Investments	212 852	316 270
1.	Long-term shares in subsidiaries	140 049	209 520
2.	Long-term loans given to subsidiaries	43 449	69 198
3.	Long-term major participating interest	1 201	2 523
4.	Long-term loans given to major participating companies	1 061	3 207
5.	Other long-term shares	4 165	5 123
6.	Long-term loans given to other affiliates	748	561
7.	Other long-term loans	2 014	711
8.	Long-term bonds	18 048	17 982
9.	Adjusted value of financial investments		
10.	Valuation difference of non-current assets	2 117	7 445

Data in HUF Million

	Description	Previous year 31.12.2015 (amendment of the Accounting Act)	Current year 31.12.2016 audited
B.	Current Assets	276 758	248 212
I.	Inventories	47 042	48 514
1.	Raw materials	9 153	10 052
2.	Work in progress, semi-finished products	23 327	23 945
3.	Live stock		
4.	Finished products	10 536	9 707
5.	Goods	4 022	4 606
6.	Advances given for inventories	4	204
II.	Receivables	114 891	132 661
1.	Trade receivables	43 148	48 501
2.	Receivables due from subsidiaries	58 424	66 798
3.	Receivables from other companies linked by virtue of participating interests	4 344	1 571
4.	Receivables due from other affiliates	5 268	10 380
5.	Bills receivable		
6.	Other receivables	3 703	5 411
7.	Valuation difference of receivables		
8.	Positive fair value difference of derivative instruments	4	
III.	Securities	4 502	1 068
1.	Shares in subsidiaries		
2.	Major participating interests	0	
3.	Other shares	2 426	
4.	Own shares	550	1 068
5.	Short-term bonds	1 526	
6.	Fair value difference of securities	0	
IV.	Cash	110 323	65 969
1.	Cash	43	39
2.	Bank deposits	110 280	65 930
C.	Prepayments	2 719	2 527
1.	Accured income	937	1 165
2.	Prepaid expenses	1 782	1 362
3.	Deferred expenses		
	Total Assets	737 067	782 005

Budapest, 22 March 2017

Managing Director

1	0	4	8	4	8	7	8	2	1	2	0	1	1	4	0	1

Statistical number

0	1

Gedeon Richter Plc.

Balance Sheet (Equity and Liabilities)

"A" Type

31 December 2016

Data in HUF Million

	Description	Previous year	Current year
		31.12.2015 (amendment of the Accounting Act)	31.12.2016 audited
D.	Shareholder's Equity	634 395	680 699
I.	Issued capital	18 637	18 637
	- including own-shares repurchased at face value	*10*	*18*
II.	Issued unpaid capital (-)		
III.	Share premium	19 256	19 256
IV.	Retained earnings	532 101	579 649
V.	Tied-up reserve	804	1 238
VI.	Revaluation reserve	2 117	7 445
1.	Valuation reserve		
2.	Fair value reserve	2 117	7 445
VII.	Profit or Loss for the year	61 480	54 474
E.	Provisions	4 217	4 021
1.	Provision for expected liabilities	4 217	4 021
2.	Provision for expected expenses		
3.	Other provisions		
F.	Liabilities	89 070	85 692
I.	Subordinated liabilities	0	0
1.	Subordinated liabilities due to subsidiaries		
2.	Subordinated liabilities to companies linked by virtue of major participating interests		
3.	Subordinated liabilities due to other affiliates		
4.	Other subordinated liabilities		
II.	Long-term liabilities	42 225	31 073
1.	Long-term loans		
2.	Convertible bonds		
3.	Debts on issue of bonds		
4.	Investment and development loans		
5.	Other long-term loans	36 531	28 510
6.	Long-term liabilities due to subsidiaries		
7.	Long-term liabilities to companies linked by virtue of major participating interest		
8.	Long-term liabilities due to other affiliates		
9.	Other long-term liabilities	5 694	2 563

Data in HUF Million

	Description	Previous year 31.12.2015 (amendment of the Accounting Act)	Current year 31.12.2016 audited
III.	Current liabilities	46 845	54 619
1.	Short-term loans		
	- including: convertible bond		
2.	Other short-term loans	6 523	7 776
3.	Advances received from customers	113	145
4.	Trade payables	16 399	19 553
5.	Bills payable		
6.	Short-term liabilities due to subsidiaries	14 412	15 611
7.	Short-term liabilities to companies linked by virtue of major participating	3	46
8.	Short-term liabilities due to other affiliates		4
9.	Other short-term liabilities	9 395	11 484
10.	Valuation difference of current liabilities		
11.	Negative fair value difference of derivative instruments		
G.	Accruals	9 385	11 593
1.	Accrued income		
2.	Accrued expenses	8 366	10 786
3.	Deferred income	1 019	807
	Total Liabilities and Equity	737 067	782 005

Budapest, 22 March 2017

Managing
Director

1	0	4	8	4	8	7	8	2	1	2	0	1	1	4	0	1

Statistical number

0	2

Gedeon Richter Plc.

Income Statement

31 December 2016

Data in HUF Million

	Descriptions	Previous year	Current year
		12 months (amendment of the Accounting Act)	12 months audited
01.	Domestic sales	33 939	34 840
02.	Export sales	248 157	248 402
I.	Total Sales (01+02)	282 096	283 242
03.	Direct cost of production	48 552	50 871
04.	Cost of goods sold	10 200	11 712
05.	Value of services sold	827	1 575
II.	Direct costs of sales (03+04+05)	59 579	64 158
III.	Gross profit (I-II)	222 517	219 084
06.	Sales and marketing expenses	95 121	99 838
07.	Administration and general expenses	26 483	27 642
08.	Other general expenses	42 082	42 802
IV.	Indirect costs of sales (06+07+08)	163 686	170 282
V.	Other income	23 291	9 434
	including revesal of impairment	*957*	*343*
VI.	Other expenditures	22 544	23 106
	including impairment	*1 830*	*4 405*
A.	Operating results (III-IV+V-VI)	59 578	35 130

Data in HUF Million

	Descriptions	Previous year	Current year
		12 months (amendment of the Accounting Act)	12 months audited
13.	Dividends and profit-sharing (received or due)	1 002	7 820
	including from affiliated undertakings	*849*	*4 819*
14.	Capital gains on the sale of investments	7	
	including from affiliated undertakings		
15.	Interest income and capital gains on financial investments	2 601	3 526
	including from affiliated undertakings	*1 823*	*2 789*
16.	Other interest and similar income	1 863	826
	including from affiliated undertakings	*0*	*0*
17.	Other financial income	15 624	20 096
	including from valuation difference	*117*	
VIII.	Income from financial transactions (13+14+15+16+17)	21 097	32 268
18.	Expenses and losses on participating interests	2	
	including to affiliated undertakings		
19.	Losses on financial investments		
	including to affiliated undertakings		
20.	Interests payable and similar expenses	1 135	811
	including to affiliated undertakings	8	18
21.	Losses on shares, securities and bank deposits	-153	2 815
22.	Other financial expenses	17 444	8 962
	including from valuation difference	*107*	*4*
IX.	Expenses on financial transactions (18+1+20+21+22)	18 428	12 588
B.	Profit or loss from financial transactions (VIII-IX)	2 669	19 680
	Profit or loss of ordinary activities (±A±B)		
	Extraordinary income		
	Extraordinary expenses		
	Extraordinary result		
C.	Income before taxes (±A±B)	62 247	54 810
X.	Taxes payable	767	336
D.	Profit after taxes (±C-X)	61 480	54 474
	Profit reserves used for dividends and profit-sharing		
	Dividends and profit-sharing paid (payable)		
	Profit or loss for the year	*61 480*	*54 474*

Budapest, 22 March 2017

Managing Director

GEDEON RICHTER PLC.

Notes to the Financial Statement
31 December 2016

Erik Bogsch
Managing Director

Budapest, 22 March 2017

CONTENTS

I. General Section

I/1 Company data

Company name:	**Chemical Works of Gedeon Richter Plc.**
Short name of the Company:	**Gedeon Richter Plc.**
Date of foundation of legal predecessor:	**2 October 1923**
Address of the Company:	**1103 Budapest, Gyömrői út 19-21.**
Sites:	**2510 Dorog, Esztergomi út 27.** **4031 Debrecen, Medvefű utca 20.**
Company website:	**www.richter.hu**
Date of the first Articles of Association:	**24 July 1923**
Date of the effective Articles of Association:	**26 April 2016**
Reference and place of last Company Court registration:	**Cg. 01-10-040944 Budapest**
Current registered capital:	**HUF 18,637,486,000**
Principal activity:	**Manufacture of pharmaceutical products**
TEÁOR No.:	**2120**
Duration of the Company:	**indefinite**
Business year:	**corresponding to the calendar year**
Name and address of the auditor company:	**PricewaterhouseCoopers** **Auditing Ltd.** **1055 Budapest, Bajcsy-Zsilinszky út 78.**
The person responsible for the audit is:	**Szilvia Szabados**
Registration number at the Chamber of Hungarian Auditors:	**005314**
Company announcements are published in:	**Company Gazette** **www.richter.hu** **www.bet.hu**
Name of the person authorised to sign on behalf of the Company:	**Erik Bogsch**
Address:	**Budapest**
The person responsible for the management and supervision of the tasks relating to book-keeping is:	**Judit Kozma**
Address:	**Budapest**
Registration number:	**184862**

I/2 Summary description of the accounting policy, general information

2.1 Preparation of the financial statements

The financial statements are prepared on the basis of "Act C of 2000 on Accounting".

Balance sheet date: **31 December 2016**

Balance sheet preparation date: **30 January 2017**

All figures of the financial statements are presented in HUF million unless stated otherwise.

2.2 Selected form of the balance sheet and the income statement

The balance sheet is prepared according to version „A". The income statement is prepared pursuant to the function of expense method.

2.3 Valuation procedures

Upon initial recognition of assets and liabilities denominated in foreign currencies, the Company applies the foreign exchange rate announced by Magyar Nemzeti Bank / the National Bank of Hungary (hereinafter „MNB") on the day of performance.

At year-end all the assets and liabilities denominated in foreign currencies are to be disclosed in a HUF value calculated at MNB exchange rate effective on the balance sheet date.

Conversion into forints of any assets or liabilities denominated in a currency not listed by the National Bank of Hungary is made at the cross rate calculated from Bloomberg's published rate of the given currency to the dollar and MNB's rate of the forint to the dollar.

Available for sale and held for trading financial instruments are stated at fair value by the Company.

The Company's transactions with affiliated undertakings are conducted in accordance with the usual market conditions.

2.3.1 Fixed assets

Since the Hungarian Accounting Act does not include specific guidance, for accounting of deferred purchase price of acquisitions the Company applies the analogy of regulations of IFRS 3 Standard.

2.3.2 Current assets

Inventories

Purchased inventories are valued by article units based on the volume of the closing inventories (applying the FIFO method) taking into account the related impairment as well.

The Company measures self-manufactured inventories at production costs less the impairment accounted for in accordance with the Accounting Act.

Content of direct manufacturing costs:

- direct material costs,
- direct wages and contribution costs,
- other direct costs, costs of contract work,
- depreciation of production equipment,
- operational expenses.

2.3.3 Measurement of equity and liabilities

Richter Gedeon Plc measures issued capital at a book value, which corresponds to the amount of capital registered at the Registry Court. Capital reserve, retained earnings, provision and liabilities are measured at book value in the balance sheet. The liability of the deferred purchase prices of the acquisitions are presented at probability weighted discounted value.

2.4 Accounting for impairment

Market rating of investments involving ownership shares can be derived from the stock market price or the company's shareholders' equity. Impairment should be accounted for if the item-by-item valuation of investments finds that the book value is significantly higher than the portion of shareholders' equity held by the parent company or the market value and the difference appears permanent or prolonged based on the available information. In case the shareholders' equity does not represent accurately the market value, we analyze the necessity of the impairment based on future cash-flow.

If the purchase price of goods is higher than the actual market value at the reporting date, then such inventories shall be shown in the balance sheet at the actual market value, and if the production costs of self-manufactured inventories are higher than the selling price known and expected at the reporting date, then they shall be shown in the balance sheet at the selling price less costs expected to be incurred.

Impairment is also required on the purchase price of purchased inventories and the production costs of self-manufactured inventories - in addition to the described above - if such inventories are not compliant with the relating requirements or not suitable for the original purpose, if damaged, redundant or their use or sale is doubtful.

In such case the value of inventories shall be decreased to the extent that they are shown in the balance sheet at a market value effective at the reporting date, reflecting the usability of the inventories.

Accounts receivable are assessed on individual basis, in accordance with the Accounting Act.

Review of domestic receivables

Based on the aging list of trade receivable accounts the Accounting and Finance Department puts forward a proposal on receivables for impairment, with the customers rated. The proposal is reviewed by the CFO

and the Chief Accountant, who then make a written recommendation regarding the rate of allowance with detailed analyses of the individual customers attached. The recommendation shall be approved by the company's CEO.

Review of export receivables

Based on the aging list of the trade receivable accounts the Accounting, Finance and Foreign Trade Department put forward a proposal on receivables for impairment broken down by relations (CIS, EU, USA, Other markets), with the customers rated. The proposal is reviewed by the CFO, the Chief Accountant, and the Director of Foreign Trade who then make a recommendation regarding the rate of allowance on a customer level. The Deputy Chief Executive Officer forwards the recommendation to the CEO for approval.

2.5 Depreciation method

Ordinary depreciation is recognised by the Company on a monthly basis, by daily depreciation calculation. The yearly amount of depreciation is based on the expected useful life of assets, physical wear and tear, obsolescence, other typical circumstances, and the residual value.

Based on the assessment of the Company, the realisable value of assets at the end of their useful life - except for cars - is insignificant, the residual value is 0. Residual value is 20% of the gross value in case of cars.

Based on the expected useful life - with the necessity of technological and environmental developments and technical obsolescence taken into account - the Company determined the applicable depreciation rates.

Depreciation and amortization is applied for tangible and intangible assets. Depreciation is recognised by the straight-line method. The amount of depreciation and amortization is planned in advance by the Company and is recognised as of the date of capitalization.

Description	Typical rates %
Intangible assets	4-20
Land	0
Buildings	1-8
Machineries	14-33,33
Office furniture and equipments	33,33
Vehicles	20

Tangible assets below an individual historical cost of HUF 100,000 are immediately recognised as depreciation on capitalisation.

The IT system recording tangible assets enables a two dimensional parallel treatment of depreciation and amortisation (in accordance with the tax laws and the Accounting Act).

2.6 Margins of material and minor errors

Material errors

Errors referring to the reported year identified in the course of audits or self-audits and which necessitate the preparation of a three-column balance sheet shall be considered material if the aggregate impact of such errors in the year in which the errors were disclosed result in any changes (increases or decreases) in earnings or shareholders' equity in excess of 2% of the audited business year's balance sheet total.

Minor errors

Errors shall be considered minor if their aggregate impact in the year in which the errors were disclosed result in any changes (increases or decreases) in earnings or shareholders' equity not exceeding the margin of material errors.

Income, costs and expenditure of exceptional or significant amount or occurrence

The Company determines the significant items of the costs of services and exceptional income, costs and expenditure on a case-by-case basis.

Exceptionally occurring income and expenditure are not part of the Company's ordinary business activity and are not directly related to it.

Income, costs and expenditure of exceptional or significant amount or occurrence are disclosed in the relevant section of the notes to the finacial statements.

2.7 Accounting policy

In 2016 the Company modified its accounting policy solely because of the amendment of the provisions of the Accounting Act effective from 1 January 2016.

2.8 Tax audit

In 2014 a full-fledged tax audit of the business years 2011 and 2012 was conducted at the Company. Books and ledgers of the company may be audited by the tax office in a period of up to six years following the current year.

The Management of the Company is unaware of any circumstances which could result in material liabilities for the Company in this respect.

2.9 Audit fees

The Company signed a contract with PricewaterhouseCoopers Auditing Ltd to perform the financial audit in respect of 2016. The annual fee due to this activity amounts to HUF 19 million + VAT.

I/3 Evaluation of the 2016 activities

All amounts are expressed in HUF million (unless otherwise stated), the reference figures used for evaluating the 2016 business of Gedeon Richter Plc. are taken from the 2015 audited annual report as approved by the General Meeting adjusted by the change in requirements of Act on Accounting.

3.1 Main objectives for 2016

In 2016 significant advancement was achieved in the following areas:

- Income from sales increased in the U.S. and Chinese markets as well as in the EU, particularly in the EU 15 member states.

- On 17 September 2015 Richter and Allergan were pleased to announce that FDA granted Allergan marketing authorization of cariprazine for the treatment of manic or mixed episodes of bipolar I disorder and schizophrenia in adults. From the first quarter of 2016 the product will be sold in pharmacies of the Unitede States under the trade name of Vraylar™. Besides its long term positive financial impact this event has an obvious significance in terms of industrial history. The two companies released a clinical and regulatory update on the cariprazine programme in August 2016. Topline results from the MD-72 trial indicate that flexible doses of cariprazine did not separate significantly from placebo as an add-on treatment in adults with major depressive disorder (MDD) in this trial, therefore the companies will continue to work on a subsequent Phase III trial to prove efficacy.

- On 29 March 2016 the European Medicines Agency (EMA) started assessment of the marketing authorisation of cariprazine for the indication of schizophrenia. In August of the same year Richter and Recordati signed a licence agreement granting Recordati exclusive sales license to commercialise the product in Western Europe as well as Algeria, Tunisia and Turkey.

- In the context of a HUF 15 billion investment programme Richter is expanding the Debrecen biotechnology plant constructed in 2012 for the development and manufacturing of biosimilar products. A government grant has been received amount of HUF 5 billion. By creating new jobs the project will almost double the biotech manufacturing capacity.

- On 4 January 2016 Richter announced that the European Medicines Agency (EMA) has accepted Richter's regulatory submission for the proposed biosimilar to Eli Lilly's Forteo (teriparatide). The biosimilar teriparatide has been developed by the Company's subsidiary Richter-Helm BioTec GmbH & Co. KG. According to the relevant license agreements, biosimilar teriparatide is expected to be launched under both Richter-Helm BioTec GmbH & Co. and Stada labels in Europe following the patent expiry of the original product. On 14 November 2016 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion on the product and accordingly proposes the granting of marketing authorisation for the biosimilar teriparatide Terrosa. Following on the positive opinion on 4 January 2017 the European Commission granted marketing authorisation for Terrosa.

- In December 2015 it was announced that the EMA had accepted Richter's regulatory submission for its proposed biosimilar to Amgen's Neulasta (pegfilgrastim). In December 2016, the Company withdrew the application after the CHMP's notification in November that the data submitted were not sufficient for a positive evaluation of the risk/benefit analysis related to the product. Richter is committed to continue with the clinical development programme and registration of pegfilgrastim.

- With a view to expanding its Women's Healthcare portfolio, at the end of June 2016 Richter acquired Finox Holding, a Swiss based biotech company engaged in the development and commercialisation of innovative and cost effective products addressing female fertility. Finox Holding's product Bemfola® is a recombinat human follicle stimulating hormone (r-hFSH), the first biosimilar r-hFSH product to be granted marketing authorisation in Europe. Richter has obtained global rights for the commercialisation of Bemfola® (with the exception of the United States) thereby intending to emphasize its commitment to biosimilar products.

- In a joint press release in May 2016 Richter and Allergan plc announced positive results from the Venus I pivotal Phase III clinical trials that evaluated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids.

- Following the lines of the "specialty pharma" strategy developed in 2007, in 2015 Richter signed a license and distribution agreement with Bayer HealthCare to commercialize Bayer's transdermal contraceptive patch under the trade name Lisvy. In October 2016 Richter initiated immediate withdraw after receiving Bayer's notification that the results of certain stability tests conducted with the product had not met the product specifications. The two companies are working together to identify the causes leading to the test results.

- As another step towards the implementation of its biosimilar strategy, in October 2016 Richter signed an agreement on the technology transfer to manufacture trastuzumab, a monoclonal antibody developed by DM Bio of Korea, and to take over the licence of development and commercialisation. Richter will secure exclusive distribution rights for the territory of Europe, the CIS region, and Latin America.

- To bring development and manufacture of biosimilar products to new heights the Company set up an independent organisational unit named Biotechnology Business, which has been in operation since 1 July 2016.

- In December 2010 Richter announced the foundation of GR Rxmidas Joint Venture Co. Ltd. with an initial equity share of 50%. On 22 January 2016 it was announced that Richter acquired from its partner, Rxmidas Pharmaceuticals Holdings Ltd. its outstanding 50% stake in the joint venture company. Consequently, with its 100% holding Richter will be in full charge of its contraceptive and OTC business in China.

- In 2016 Richter took further steps to expand its international business through a capital increase in its manufacturing companies and continuing its investments. Driven by the goal of adapting to the Russian economic policy of favouring local production, Richter made supporting investments into the Russian subsidiary a special priority.

Retaining and strengthening the Company's position in the Hungarian and the traditional markets (CIS, Central and Eastern Europe) despite increasingly difficult environment whose problems fall hard on the entire pharmaceutical industry (price erosion, tightening subsidies and price control) continue to feature among Richter's strategic goals.

The Company focuses on strengthening its presence in, and increasing exports to, European Union, (primarily in the EU15) and China, retaining and strengthening positions acquired in the United States, and developing new long-term research and development cooperation with existing and new partners.

The main tool to achieve these goals in the context of Hungary, the CIS and the European countries is to improve the efficiency of Richter's sales networks. In Western Europe and the United States the strategy is implemented through long-term agreements concluded with strategic partners. Through a variety of acquisitions Richter is directly present in the world's fastest growing pharmaceutical markets (China and the Latin American region).

The success of proprietary research and development aimed at CNS products is crucial for Richter Group's future and for strengthening its market positions. The second pillar of the specialty strategy is the expansion of the women's healthcare portfolio. The future added value from the women's healthcare portfolio acquired in 2010 from Grünenthal, coupled with Esmya resulting from the Swiss acquisition and Bemfola acquired in 2016 to treat infertility will boost the Group's niche: gynaecology, which is best supported by the units operating in the traditional markets and through the newly established Western European marketing network. The Group's ongoing objective is to achieve faster growth and to present higher rate of annual sales in its special niche of oral contraceptives and steroid-based women's healthcare products - in 2012 this line was completed with Richter's original product Esmya and in 2016 with Bemfola.

The third pillar of the Group's specialty strategy is the development of biosimilar products and the high-value investment to create conditions for their manufacture.

Besides the above, Richter is striving to exploit the opportunities provided by marketing the portfolio of traditional products to a maximum extent.

In order to ensure and increase sales and profitability, another priority task for the future is the improvement of research and development and the Company's organizational functioning in all areas of operation on an ongoing basis.

3.2. Post balance sheet date events

On 17 January 2017 Richter and Allergan plc announced positive results from Venus II, the second pivotal Phase III clinical trials. The trial investigated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids causing irregular uterine bleeding and confirmed the result of the Venus I study published in May 2016. Application for registration of ulipristal acetate is expected to be submitted to the United States Food and Drug Administration (FDA) during the second half of 2017.

On 19 January 2017 Richter annuonced that it had signed an agreement with Allergan plc. for the distribution of Allergan's levonorgestrel releasing Intrauterine System. Richter will distribute the product under the brand name Levosert® in Western Europe and other European countries. The product has already been granted national marketing authorisations in Western and Northern European countries, and has been launched in most countries by Allergan. Richter is currently selling Levosert® in most CEE markets in accordance with the relevant agreement signed with Uteron Pharma in 2011. According to the agreement Richter makes a milestone payment upon signature. After the product is launched, Allergan will also be entitled to sales related royalty and milestone payments.

After acquiring the remaining 9% share in February 2017 Richter became 100% shareholder of GRMed Company Limited. With this payment the Company has fully paid the deferred purchase price kept on the books among liabilities.

The Accounting Act provided for the mandatory application, as of 1 January 2017, of the International Financial Reporting Standards for the purpose of stand alone financial statements for companies whose securities are traded in the regulated market of any of the EEA member states. Pursuant to this provision, from 1 January 2017 Richter must apply the IFRS for the purpose of financial reporting. From 1 January 2017 Richter prepares its reports and statements in accordance with its stand alone IFRS.

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

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

3.3 Revenue by geographical segment

	2015	2016	Variance	
	MHUF	MHUF	MHUF	%
Hungary	33,939	34,840	901	2.7
Export				
CIS	109,275	102,235	-7,040	-6.4
EU *	91,983	92,503	520	0.6
USA	13,472	16,376	2,904	21.6
China	16,518	19,145	2,627	15.9
Latin America	3,749	3,703	-46	-1.2
Other countries	13,160	14,440	1,280	9.7
Export total	248,157	248,402	245	0.1
Total	**282,096**	**283,242**	**1146**	**0.4**

* Excluding Hungary

Income from the 2016 domestic sales was 2.7% up compared to the reference year. Sales in international markets were approximately the same as in 2015.

There were some changes in the breakdown of export by regions compared to the reference year: With some decrease, the CIS markets continue to retain the biggest share (36.1 %). The EU states' share increased by 0.1 percentage points and contributed 32.7%. China's share was 0.8 percentage points higher (6.7%) than prior year. The USA increased its share by 1.0 percentage point over 2015 and achieved to 5.8%. The share of Other countries was 0.4 percentage points higher (5.1%) than prior year. The contribution of Latin America to sales income was 1.3%, the same as the reference period figure. Income from domestic sales grew by 0.3 percentage points achieving 12.3 %.

Based on the year-end figures for 2016 the Company realized HUF 34,840 million income from sales in the domestic market, 2.7 % (HUF 901 million) more than in 2015. With this performance the Company's market share was 5.4% in 2016, 0.1% above the reference year's figure. Richter ranked second in the prescription drugs market with a share of 7.4%.

The main factor was increasing Suprax, Esmya, Vidotin, Xilomare, Duamild and Flamborin sales, reduced by dropping Kalmopyrin, Lisonorm, Klion and oral contraceptives. In 2016 oral contraceptives were the leading item in terms of sales contributing 8.8% to sales income.

In 2016 no significant changes took place in terms of price regulations in the domestic pharmaceutical market. Pharmaceutical representatives' registration fee was HUF 219 million in 2015 and HUF 253 million in 2016.

The company's income from sales in international markets is HUF 248,402 million, approximately the same as the 2015 figure of HUF 248,157 million. In euro, income from exports was 0.5 % down and amounted to EUR 797.6 million.

Russia continues to be the leading market of the CIS region and also of the Company, with turnover denominated in EUR 9.5% below the reference year figure, also largely influenced by the massive (12.8%) devaluation of the rouble against the euro. Sales in rouble were 2.1% of RUB 354.7 million up. The increase in rouble denominated sales was contributed by oral contraceptives, Airtal, Panangin, Verospiron and Esmya and dampened by lagging Diroton, Mydocalm and Stopdiar sales.

Euro denominated sales in Ukraine were 11.3%, or EUR 3.0 million, up year-on-year, with increasing Groprinosin and Verospiron sales and dropping Ekvator sales.

EUR sales income from other CIS countries dropped by 5.2% of EUR 3.9 million. Declining sales in Belarus and Turkmenistan were partially offset by rising sales in Moldova and Kyrgyzstan.

The total turnover achieved in the CIS market was HUF 102,235 million, 41.2% of total export. Year-on-year decrease was 6.4% (HUF 7,040 million). Expressed in Forex, the turnover was EUR 328.2 million (USD 363.5 million) with a 7.0 % decrease in EUR (7.1 % in USD) year-on-year.

The turnover achieved in the European Union was HUF 92,503 million, 0.6% up year-on-year. The EU region's share from the total income achieved in international markets is 37.2%. Expressed in Forex, the income amounted to EUR 297.0 million.

Owing to the efficient promotion efforts of the Western European network of pharmaceutical representatives the Company's strategic product Esmya realised a significant sales increase, which greatly contributed to the overall 2.5% increase in EUR term in the EU15 region. Bemfola® sales contributed to the 2016 income.

The CEE member states decreased their contribution to total sales in the EU region from 48.6% in 2015 to 47.3% in 2016. The decrease (2.6% in euro) is attributed primarily to the performance of oral contraceptives and Avonex.

Sales in the United States were 21.6% (or HUF 2,904 million) up; denominated in dollar, the increase was 20.5% (or USD 9.9 million) and was contributed mainly by Vraylar™ royalty income.

Turnover in the Chinese region was HUF 19,145 million (EUR 61.5 million) and was HUF 2,627 million (or EUR 8.2 million) higher year-on-year. Increase in Cavinton sales was especially outstanding.

Turnover in Latin America was approximately the same as in the reference year. The 2016 sales income amounted to HUF 3,703 million (USD 13.2 million). The region's share from the total income achieved in international markets is 1.5%.

In the region of Other countries oral contraceptives were the leading products. Other countries achieved a turnover of HUF 14,440 million (EUR 46.4 million). Compared to 2015, sales income was 9.7% higher (in euro, 9.2% higher). The contribution of the region to international sales was 5.8%.

Contribution of key products to sales revenues

Finished products contributed approximately 92% to the 2016 sales revenues.The contribution of APIs was 3%, that of sales of purchased materials and royalties was 2% each, and servicesy contributed 1%.

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

2015				2016			
Rank	Product/ API	Sales MHUF	Share %	Rank	Product/ API	Sales MHUF	Share %
1	Oral contraceptives	85,407	30.3	1	Oral contraceptives	80,384	28.4
2	Cavinton/vinpocetine	25,403	9.0	2	Cavinton/vinpocetine	27,643	9.8
3	Mydeton/tolperisone	15,339	5.4	3	Esmya/ ulipristal acetate	20,890	7.4
4	Esmya /ulipristal acetate	14,995	5.3	4	Panangin/ / asparaginates	14,037	5.0
5	Panangin/ asparaginates	14,263	5.1	5	Mydeton/ tolperisone	12,312	4.3
6	Verospiron/ /spironolactone	11,317	4.0	6	Verospiron/ /spironolactone	11,280	4.0
7	ACE inhibitors /enalapril, lisinopril	11,303	4.0	7	ACE inhibitors /enalapril, lisinopril	8,580	3.0
8	Lisonorm /lisinopril, amlodipine	8,240	2.9	8	Aflamin/ aceclofenac	7,494	2.6
9	Aflamin/aceclofenac	6,642	2.4	9	Lisonorm/ lisinopril, amlodipine	7,487	2.6
10	Quamatel/famotidine	6,629	2.3	10	Quamatel/famotidine	6,673	2.4
	Total	**199,538**	**70.7**		**Total**	**196,780**	**69.5**
	Net income from sales	**282,096**	**100**		**Net income from sales**	**283,242**	**100**

The contribution of the ten leading product categories to total sales was 69.5%, slightly below the reference year's figure.

Oral contraceptives are the leading products with a turnover of HUF 80.4 billion, 5.9% below the 2015 figure. Decreasing income from the sales of oral contraceptives and Drospirenone. The contribution of this product category to the 2016 total turnover was 28.4%, 1.9 percentage points below the reference year.

Richter's most important original drug Cavinton is the second most important product achieved an increase in turnover (rising sales in China). Esmya advanced from 4th to 3rd place as a result of a 39.3% y/y increase in turnover contributed by expanding sales in Western Europe. Fifth in the reference year, Panangin managed to advance one place despite a slight drop in sales. Mydeton is ranked third with a 4.3% market share. Verospiron and ACE inhibitors were ranked 6th and 7th, same as in the reference year, with respective market shares of 4.0% and 3.0 %. Lisonorm and Aflamin, 8th and 9th in the reference year, swapped places in the 2016 league table. Quamatel finished 10th with approximately the same as in 2015. The composition of the list of TOP 10 products did not changed compared to the reference year.

Contribution of key markets to sales revenues

The Company's ten leading markets were as follows:

Company's ten leading markets		2015		Company's ten leading markets		2016	
		MHUF	MEUR			MHUF	MEUR
1.	Russia	77 685	250.9	1.	Russia	70 742	227.1
2.	Hungary	33 939	109.6	2.	Hungary	34 840	111.8
3.	Germany	16 688	53.9	3.	China	19 145	61.5
4.	China	16 518	53.3	4.	United States of America	16 376	52.6
5.	Poland	14 664	47.4	5.	Germany	15 344	49.3
6.	United States of America	13 472	43.5	6.	Poland	13 887	44.6
7.	Ukraine	8 236	26.6	7.	Ukraine	9 216	29.6
8.	Czech Republic	7 425	24.0	8.	Kazakhstan	7 155	23.0
9.	Kazakhstan	7 124	23.0	9.	Czech Republic	7 052	22.6
10.	Great Britain	6 502	21.0	10.	France	6 912	22.2
	Total	202 253	653.2		Total	200 669	644.3
	Net income from sales	**282 096**	**910.9**		**Net income from sales**	**283 242**	**909.4**

The ten leading countries jointly contributed approximately 70.8% to Richter's total sales.

Russian continues to head the list. Hungary kept its second place. China advanced to 3rd place as a result of rising Cavinton sales. Owing to increasing VraylarTM turnover, the United States advanced from 6th to 4th place. Germany slipped two places and Poland one place due to lagging sales of oral contraceptives. With a 11.3% increase in sales (in euro) Ukraine retained its 7th place. On the other hand, the Czech Republic and Kazakhstan swapped their respective 8th and 9th place. Great Britain did not make it to the TOP 10 and yielded its place to France among the leading markets.

The three main therapeutic areas contribute 77% to the 2016 sales income. The most important area is that of gynaecological products contributing 40% to turnover. The contribution of cardiovascular products is 21% and of CNS (Central Nervous System) products, 16%.

HUF 106,093 million was realised with associated enterprises including HUF 91,985 million from sales to subsidiaries.

3.4 Balance sheet

Assets

As of 31 December 2016 the Company's assets amounted to HUF 782,005 million, HUF 44,938 million (6.1 %) higher than the opening value. The main items on the asset side are as follows:

Fixed assets

The closing value of this item was HUF 531,266 million, HUF 73,676 million higher than the opening value. The growth in the value of fixed assets resulted the increasing of financial investments and the value of the tangible assets which was partially offset by the falling value of intangibles.

As of 31 December 2016 the combined value of the Company's equity investments amounted to HUF 224,611 million including fair value and rose by HUF 77,079 million year-on-year. The differences resulted from the reclassification of goodwill due to the amendment of the Hungarian Accounting Act, specifically: PregLem HUF +12,760 million, GRMed HUF +18,944 million (see the chapter on Equity investments for full details), acquisition of Finox Holding (HUF +25,855 million), Gedeon Richter Romania S.A.'s capital increase converted from a loan (HUF +5,405 million), revaluation of investment in Protek due to the change in share prices (HUF +5,328 million), acquisition of the second 50% ownership in GR Rxmidas Joint Venture Co. Ltd. (HUF +4,870 million).

The reassessment of equity investments as of the balance sheet date resulted in an increase of HUF 751 million.

Loans given amounted to HUF 73,677 million and included predominantly long-term loans extended to Finox Holding (provided at the aquisition), Preglem and pharmaceutical production companies.

The Company intends to hold until maturity (2019) the exchangable bond, which is exchangable to Richter's shares and reported under long-term bonds with a book value in 2016 of HUF 16,173 million.

There was a HUF 10,300 million increase in the value of tangible assets year-on-year (7.4 %). The increase is contributed by Rights and Technical equipment, machines and vehicles primarily in conjunction with the development of the new the injectables packaging plant and a project aimed at creating state-of-the-art freeze-drying capacities. The depreciation expense was HUF 15,970 million

in the reported period. The total value of capitalised capital expenditure is HUF 27,839 million. The total capitalised value includes group assets of minor value at HUF 67 million and completed refurbishment projects at HUF 2,293 million.

The value of intangibles was HUF 64,948 million, HUF 40,042 million lower than the opening value. The decrease was due primarily to the reclassification of goodwill (HUF 35,980) to be reported in equity investments following the change in the Hungarian Accounting Act, as well as to the write-off consequent to the withdraw of the contraceptive patch Lisvy (Valuable rights HUF -2,405 million).

The total value of the Company's capital expenditures including the acquisition of intangibles was HUF 32,250 million in 2016.

Current assets

The total value of current assets was HUF 248,212 million as of 31 December 2016, HUF 28,546 million below the opening value.

Inventories increased by HUF 1,472 million by the end of the year. This item includes a HUF 1,483 million increase in the combined value of purchased materials and goods. The combined value of work in progress, finished products and semi-finished goods was HUF 211 million below the opening value recorded on January 1. The advances given for inventories increased by HUF 200 million.

Receivables are HUF 17,770 million less than the opening figure. Trade receivables were HUF 19,327 million higher year-on-year. The growth was resulting mainly from increasing participatory receivables from the CIS and trade receivable from the European Union. The figure also contains a HUF 13,973 million increase in receivables from affiliated undertakings and undertakings linked by significant or other participating interest. Receivables from affiliated undertakings and undertakings linked by a significant share or other participating interest, and cash pool is HUF 3,261 million below the reference year's closing figure due mainly to the loan to Gedeon Richter Romania S.A. converted to capital increase and to the loans to Pharmapolisz Kft. and Richter-Helm BioLogics GmbH & Co. classified as long-term, reduced by the loan item extended to GR RUS becoming due within a year.

As of 31 December 2016 the value of cash drop by HUF 44,354 million. The main items contributing to the decrease are the acquisition of Finox Holding, the EUR 21 million repayment of the European Investment Bank credit and the HUF 13,419 million dividend in connection of the result of 2015 and approved by the Annual General Meeting.

The value of securities decreased by HUF 3,434 million compare to the opening value.

Total Equity and Liabilities

Shareholders' equity

There was a substantial, HUF 46,304 million increase in shareholders' equity, which resulted from a HUF 47,548 million in retained earnings, a HUF 5,328 million in fair value reserve, and a HUF 434 million in tied up reserve and a HUF 7,006 million decrease in profit for the year, while the value of registered capital and capital reserves remained unchanged.

MHUF

	Issued capital	Share premium	Retained earnings	Tied-up reserve	Fair value reserve	Profit or Loss fo the year	Shareholders' equity
Balance 31.12.2015	**18 637**	**19 256**	**532 101**	**804**	**2 117**	**61 480**	**634 395**
31.12.2015 Profit for the year			61 480			-61 480	0
Dividend payment in 2015			-13 419				-13 419
31.12.2016 Release and tie-up of repurchase value of treasury shares and experimental development			-434	434			0
31.12.2016 fair valuation reserve					5 328		5 328
Supplementary payment *			-79				-79
31.12.2016 Profit for the year						54 474	54 474
Balance 31.12.2016	**18 637**	**19 256**	**579 649**	**1 238**	**7 445**	**54 474**	**680 699**

*Pharmapolis Gyógyszeripari Tudományos Park Kft. to settle equity.

Changes in issued capital

Shares of the company

	31.12.2015			31.12.2016		
	Number	Nominal value HUF'000	Ratio %	Number	Nominal value HUF'000	Ratio %
Ordinary shares	186 374 860	18 637 486	100.00	186 374 860	18 637 486	100.00
Total shares	**186 374 860**	**18 637 486**	**100.00**	**186 374 860**	**18 637 486**	**100.00**

Fair valuation reserve

MHUF

	31.12.2015	31.12.2016	Variance
Financial investments	2 117	7 445	5 328

The fair valuation of the share in Protek Holding was based on the basis of the share price on the stock exchange.

Ownership structure as known by the Company

	Ordinary shares *		Voting capital ** %		Subscribed capital %	
	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016
Domestic shareholders						
MNV ZRt.	47 051 668	47 051 668	25.36	25.28	25.25	25.25
Local government	149	149	0.00	0.00	0.00	0.00
Institutional investors	5 498 517	6 070 053	2.96	3.26	2.95	3.26
Private investors	5 859 126	6 710 868	3.16	3.61	3.14	3.60
Total	**58 409 460**	**59 832 738**	**31.48**	**32.15**	**31.34**	**32.11**
Foreign shareholders						
Private investors	2 451 470	1 697 648	1.32	0.91	1.32	0.91
Institutional investors	124 293 699	124 591 828	66.98	66.93	66.68	66.84
Aberdeen Asset M. PLC.	*18 243 530*	*18 243 530*	*9.83*	*9.80*	*9.79*	*9.79*
*Harding Loevner LP.****		*9 367 925*		*5.03*		*5.03*
Total	**126 745 169**	**126 289 476**	**68.30**	**67.84**	**68.00**	**67.75**
Non-specified shareholder	408 576	11 012	0.22	0.01	0.22	0.01
Treasury shares *	811 655	241 634	0.00	0.00	0.44	0.13
Subscribed capital	**186 374 860**	**186 374 860**	**100.00**	**100.00**	**100.00**	**100.00**

*It includes the 60,284 ordinary shares held by subsidiaries. Treasury shares carry no voting rights.
** Article 13.8 of the Statutes restricts the voting rights of shareholders, alone or together with other related persons to no more than 25%.
*** On 21 October 2016 Harding Loevner LP's influence increased to 5.03%.

The book value of treasury shares held by Richter is HUF 1.068 million.

The table is based on data from the Shareholders' Register modified after establishment of eligibility as provided by KELER Zrt. and the fund managers.

The State Holding Company (MNV Zrt.), as a business organisation is having a significant interest over Richter nevertheless the Parent Company has no other transactions with the State Holding Company, than the regular dividend payments.

MHUF

	31.12.2015	31.12.2016
Dividend paid to MNV Zrt.	1 564	3 403

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

Changes in treasury shares

	Number of shares	MHUF
Opening 01.01.2016	**101 371**	**550**
Share purchase*	952 831	5 673
Transferred in the context of bonus program	-217 189	-1 221
Transferred as premium	-387 600	-2 294
Transferred in the context of PM program	-285 459	-1 737
Repurchased in the context of PM program	17 396	97
Closing 31.12.2016	**181 350**	**1 068**

* Richter bought 650,000 ordinary shares from its affiliated undertaking Gedeon Richter Befektetéskezelő Kft.

It is the intention of the Company to grant Treasury shares to management and employees as part of its remuneration policy.

The Company is operating three share based payment programs, described below in more details.

From these programs, the individual bonuses and the bonus program vest immediately, while the shares granted under the Finance Ministry program have a vesting condition of employment at the end of the deposit period also described below.

Bonus program

Richter operates a bonus share programme since 1996 to further incentive managers and key employees of the Company. In 2016 217,189 shares were granted to 440 employees of the Company while in 2015 323,378 shares were granted to 454 employees.

Individual bonuses

387,600 ordinary shares were granted to qualified employees as bonuses during the year while 422,917 ordinary shares were granted in 2015.

Staff Stock Bonus Plan

Pursuant to a programme approved by the National Tax and Customs Administration related to employee share bonuses (Staff Stock Bonus Plan), the Company granted 285,459 treasury shares to 4,342 employees in 2016. The shares will be deposited on the employees' security accounts with UniCredit Bank Hungary Ltd. until 2 January 2019. In 2015 350,694 shares were granted to 4,356 employees deposited on their accounts until 2 January 2018.

The AGM held on 26 April 2016 approved that the Company may purchase its own shares for the treasury, the aggregated nominal value of which shall not exceed 10 percent of the registered capital of the Company. Based on this approval, the Company purchased 302,831 treasury shares on the OTC market.

Liabilities

As of 31 December 2016 total liabilities amounted to HUF 85,692 million and included HUF 31,073 million long-term liabilities. Long-term liabilities were HUF 11,152 million below the opening value.

The reduction was due primarily to EUR 25 million borrowings and the deferred purchase price in relation to the Chinese and Mexican acquisition were reclassified as short term liabilities due within the year. The Company received advance support amounting to HUF 2,563 million extended by the Ministry of National Economy to fund innovative pharmaceutical research and development.

At the end of 2016 the Company's only long-term borrowings was the EIB loan amounting to EUR 92 million.

Accounts payable increased by HUF 4,400 million. This figure also contains changes in liabilities to other related parties and of the cash pool.

The HUF 7,774 million increase in short-term borrowed capital, is the impact of the above-mentioned conversions reduced by the deferred payment in conjunction with the acquisitions in China and the EUR 21 million EIB repayment.

3.5 Cash Flow Statement

MHUF

			2015	2016
I.	Net cash flow from ordinary business (Operating cash flow, lines 1-13)		98 824	49 822
1.	Profit before taxation	±	63 105	55 886
1/a.	Dividends received	-	-1 002	-7 820
1b.	Other profit items that do not imply cash movements		1 332	-1 750
2.	Depreciation charge	+	22 536	23 396
3.	Impairment charge and reversal	±	4 143	7 837
4.	Difference in recognition and reversal of provisions	±	878	-196
5.	Gains and losses of selling non-current assets	±	-35	-29
5/a	Change of non-current assets without cash flow generating effect	±	-1 537	866
6.	Change of trade payables	±	6 074	4 400
7.	Change of other short term liabilities	±	-774	45
8.	Change of accruals	±	20	2 205
9.	Change of trade receivables	±	-2 473	-20 681
10.	Change in current assets (less receivables and liquid assets)	±	14 904	1 536
10/a.	Change of other current assets without cash flow generating effect	±	-1 181	-2 310
11.	Change of prepayments	±	-248	192
12.	Taxes paid or payable (on profits)	-	-767	-336
13.	Dividends paid or payable	-	-6 151	-13 419
II.	Cash flow from investing activities (lines 14-16)		-57 998	-92 804
14.	Purchasing of non-current assets	-	-28 536	-32 061
15.	Sales of non-current assets	+	206	112
16.	Change of financial investments	±	-30 670	-68 675
16/a.	Dividends received	+	1 002	7 820
III.	Cash flow from financing activities (lines 17-27)		-9 292	-1 372
17.	Proceeds from issuing shares	+		
18.	Proceeds from issuing bonds	+		
19.	Taking credits or loans	+		
20.	Repayment of long term loans	+	9 189	4 882
21.	Liquid assets received without the obligation of repayment	+		2 563
22.	Withdrawal of shares	-		
23.	Repayment of bonds	-		
24.	Repayment of loans and credit	-	-14 432	-6 523
25.	Long term loans extended and bank deposits	-	-3 191	-1 218
26.	Liquid assets given without the obligation of repayment	-	-858	-1 076
27.	Change of liabilities in connection with founders	±		
IV.	Net cash flow (lines I+II+III)	±	31 534	-44 354

3.6 Financial performance indicators

Dividend paid on the 2015 earnings has been removed from the reference year's data so that the following indicators are calculated with the same contents as a result of the amendment to the Accounting Act.

Profitability indicators

Indicators	Formula	2015		2016		Variance
EBITDA	Operating profit + Depreciation / Net sales income	59 578+22 536 / 282 096	= 29.11%	35 130+23 182 / 283 242	= 20.59%	-8.52
ROE	After-tax profit / Shareholders' equity	61 480 / 634 395	= 9.69%	54 474 / 680 699	= 8,00%	-1.69
ROA	After-tax profit / Total assets	61 480 / 737 067	= 8.34%	54 474 / 782 005	= 6,97%	-1.37

Due to the increase in the Company's operation and after-tax profit the profitability indicators were more unfavourable than in the reference year.

EBITDA was 20.59% in the reported period, 8.52 percentage points under the 2015 figure. With a sales income approximately the same as in the reference year operating profit decreased significantly (+41.0%).

At the end of 2016 return on equity was 8.00%, with return on assets being 6.97%. Both ROE and ROA worsened year-on-year due to a 11.4% decreased in after-tax profit.

The Company's gearing

Indicators	Formula	2015		2016		Variance
Debt ratio	Total liabilities / Total equity and liabilities	89 070 / 737 067	= 12.08%	85 692 / 782 005	= 10.96%	-1.12
Equity to debt ratio	Shareholders' equity / Total equity and liabilities	634 395 / 737 067	= 86.07%	680 699 / 782 005	= 87.05%	0.98
Fixed assets coverage ratio	Shareholders' equity + Long-term liabilities / Fixed assets	634 395 + 42 225 / 457 590	= 147.87%	680 699 + 31 073 / 531 266	= 133.98%	-13.89
Working capital ratio	Current assets - Short-term liabilities / Total assets	176 758-46 845 / 737 065	= 31.19%	248 212 - 54 619 / 782 005	= 24.76%	-6.43

Debt ratio was 10.96% in 2016, 1.12 percentage points less than in the reference year because of a 3.8% drop in liabilities and a 6.1% increasing in total equity and liabilities.

Equity ratio has been increased to 87.05% parallel with the reduction of debt ratio. Fixed assets coverage ratio and net current assets rate decreased year-on-year, their respective values at 133.98% and 24.76% reflecting an extremely stable assets position.

The Company's liquidity

Indicators	Formula	2015		2016		Variance
Liquidity ratio	Current assets / Short-term liabilities	276 758 / 46 845	= 5.91	248 212 / 54 619	= 4.54	-1.37
Cash ratio	Cash / Short-term liabilities	110 323 / 46 845	= 2.36	65 969 / 54 619	= 1.21	-1.15
Quick ratio	Cash + Accounts receivable + Short-term marketable securities / Short-term liabilities	110 323+114 891+4 502 / 46 845	= 4.90	65 969+132 661+1 068 / 54 619	= 3.66	-1.24

The liquidity position is characterised by a slight drop in all indicators by the end of 2016.

A major factor in the drop in cash funds was the Finox Holding acquisition, the EUR 21 million repayment to the EIB and the dividend in connection of the result of 2015.

Stock market indicators

Indicators	Formula	2015		2016		Variance
Earnings per share ratio (EPS)	Profit after taxes / Number of common shares (Mn)	61 480 / 186.375	= 329.87	54 474 / 186.375	= 292.28	-37.59
Price - earnings (P/E)	Average market value per share (HUF) x Number of common shares (Mn) / Profit after taxes	35 573 x 186.375 / 61 480	= 16.89	6 309 x 186.375 / 54 474	= 21.59	4.70

*Average share price is the average price of shares in the period 1 to 30 January.

As a listed company, Richter considers it important to present the EPS and P/E indicators.

As of 31 December 2015 P/E was 16.89 compared to 21.59 in 2016.

Due to the decrease in the 2016 after-tax profit the earnings per share was HUF 292.28, which was HUF 37.59 less compare to the previous year.

3.7 Proposal for the appropriation of after-tax profit

The Company is planning to pay shareholders HUF 19,756 million dividend from the after-tax profit (HUF 54,474) for 2016.

II. Specific section

Changes that can not be expressed in MHUF are shown at a 0 value in the table.

II/1 Fixed assets

1.1 Intangible assets

MHUF

Intangible assets	Account groups				
	Rights	Intellectual property	Goodwill	Capitalised R&D	**Total**
Gross value					
Opening balance, 01.01.2016.	**109 215**	**2 081**	**36 326**	**804**	**148 426**
Capitalization	5 678				**5 678**
Sale					**0**
Scrapping	-2 520	-42			**-2 562**
Transferred without payment	-14				**-14**
Reclassification, other	12		-36 325		**-36 313**
Closing balance, 31.12.2016	**112 371**	**2 039**	**1**	**804**	**115 215**
Accumulated amortization					
Opening balance, 01.01.2016.	**-41 408**	**-1 132**	**-346**	**-550**	**-43 436**
Amortization accounted in respect of the current year	-6 967	-160		-85	**-7 212**
Extraordinary depreciation	-214				**-214**
Sale					**0**
Scrapping	245				**245**
Transferred without payment	5				**5**
Asset contribution					**0**
Reclassification, other			345		**345**
Closing balance, 31.12.2016	**-48 339**	**-1 292**	**-1**	**-635**	**-50 267**
Net book value					
01.01.2016	67 807	949	35 980	254	104 990
31.12.2016	**64 032**	**747**		**169**	**64 948**

The value of intangibles was HUF 64,948 million, HUF 40,042 million lower than the opening value. The decrease was due primarily to the reclassification of goodwill (HUF 35,980) to be reported in Investments following the change in the Hungarian Accounting Act, as well as to the scrapping consequent to the withdraw of the contraceptive patch Lisvy (Valuable rights HUF -2,405 million).

The product rights acquired from Grünenthal containing market authorisation and manufacturing rights, which are presented as Rights, with net book value of HUF 39,089 million as of 31 December 2016 and HUF 43,516 million as of 31 December 2015. It contains the rights in connection with Esmya (HUF 10,208 million), other commercial rights and marketing authorization (HUF 10,531 million) and softwares (HUF 4,208 million) as well.

1.1.1 Goodwill

In accordance with the Accounting Act effective from 1 January 2016 the items carried forward on the first day of the new business year reflect the original value of affiliated participation has been adjusted with the amount of goodwill. The figures in the Investments chapter reflect the effect of the statutory changes.

1.2 Tangible assets

MHUF

Tangible assets	Account groups					
	Land and buildings	Technical equipment	Other equipment	Recorded in groups	Construction in progress	Total*
Gross value						
Opening balance, 01.01.2016	**115 026**	**134 926**	**63 168**	**502**	**18 592**	**332 214**
CAPEX					26 572	**26 572**
Capitalization	9 057	9 767	6 655	67	-25 546	**0**
Renovation	886	1 211	196		-2 293	**0**
Received without payment					11	**11**
Sale	-3	-1 074	-470			**-1 547**
Scrapping	-17	-1 082	-1 058	-23		**-2 180**
Loss event			-17	-1		**-18**
Shortage		-6	-9	-16		**-31**
Transferred without payment		-7	-241			**-248**
Asset contribution			-351			**-351**
Reclassification, other	-22	12	-3			**-13**
Closing balance, 31.12.2016	**124 927**	**143 747**	**67 870**	**529**	**17 336**	**354 409**
Accumulated depreciation						
Opening balance, 01.01.2016	**-31 052**	**-112 199**	**-49 100**	**-502**	**0**	**-192 853**
Depreciation charged to date	-3 490	-7 782	-4 632	-66		**-15 970**
Extraordinary depreciation	-2					**-2**
Sale	3	1 074	387			**1 464**
Scrapping	17	1 081	1 056	23		**2 177**
Loss event			12			**12**
Shortage		6	9	16		**31**
Transferred without payment		7	233			**240**
Asset contribution			133			**133**
Reclassification, other	1	-2	2			**1**
Closing balance, 31.12.2016	**-34 523**	**-117 815**	**-51 900**	**-529**	**0**	**-204 767**
Net book value						
01.01.2016	83 974	22 727	14 068	0	18 592	**139 361**
31.12.2016	**90 404**	**25 932**	**15 970**	**0**	**17 336**	**149 642**

* It does not include the value of advances given for tangible assets (HUF 406 million, HUF 387 million as of 31 December 2015).

The value of tangible assets was HUF 10,300 million above the reference year figure (+7.4%). The increase is contributed by Valuable rights and Technical equipment, machines and vehicles primarily in conjunction with

the development of the new the injectables packaging plant and a project aimed at creating state-of-the-art freeze-drying capacities.

Depreciation and amortization on tangibles and intangibles was HUF 23,182 million in 2016, HUF 646 million in excess of the 2015 figure.

1.2.1 Tangible assets directly used for environment protection

MHUF

Tangible assets	Account groups			
	Land and buildings	Technical equipment	Other equipment	**Total**
Gross value				
Opening balance, 01.01.2016	**2 258**	**885**	**648**	**3 791**
Capitalization	154	19	44	**217**
Renovations	2	6	2	**10**
Scrapping		-5		**-5**
Reclassification, other				**0**
Closing balance, 31.12.2016	**2 414**	**905**	**694**	**4 013**
Depreciation change				
Opening balance, 01.01.2016	**-503**	**-833**	**-563**	**-1 899**
Depreciation charged to date	-60	-24	-22	**-106**
Scrapping	0	5		**5**
Reclassification, other			1	**1**
Closing balance, 31.12.2016	**-563**	**-852**	**-584**	**-1 999**
Net book value				
01.01.2016	1 755	52	85	**1 892**
31.12.2016	**1 851**	**53**	**110**	**2 014**

1.2.2 Construction in progress

MHUF

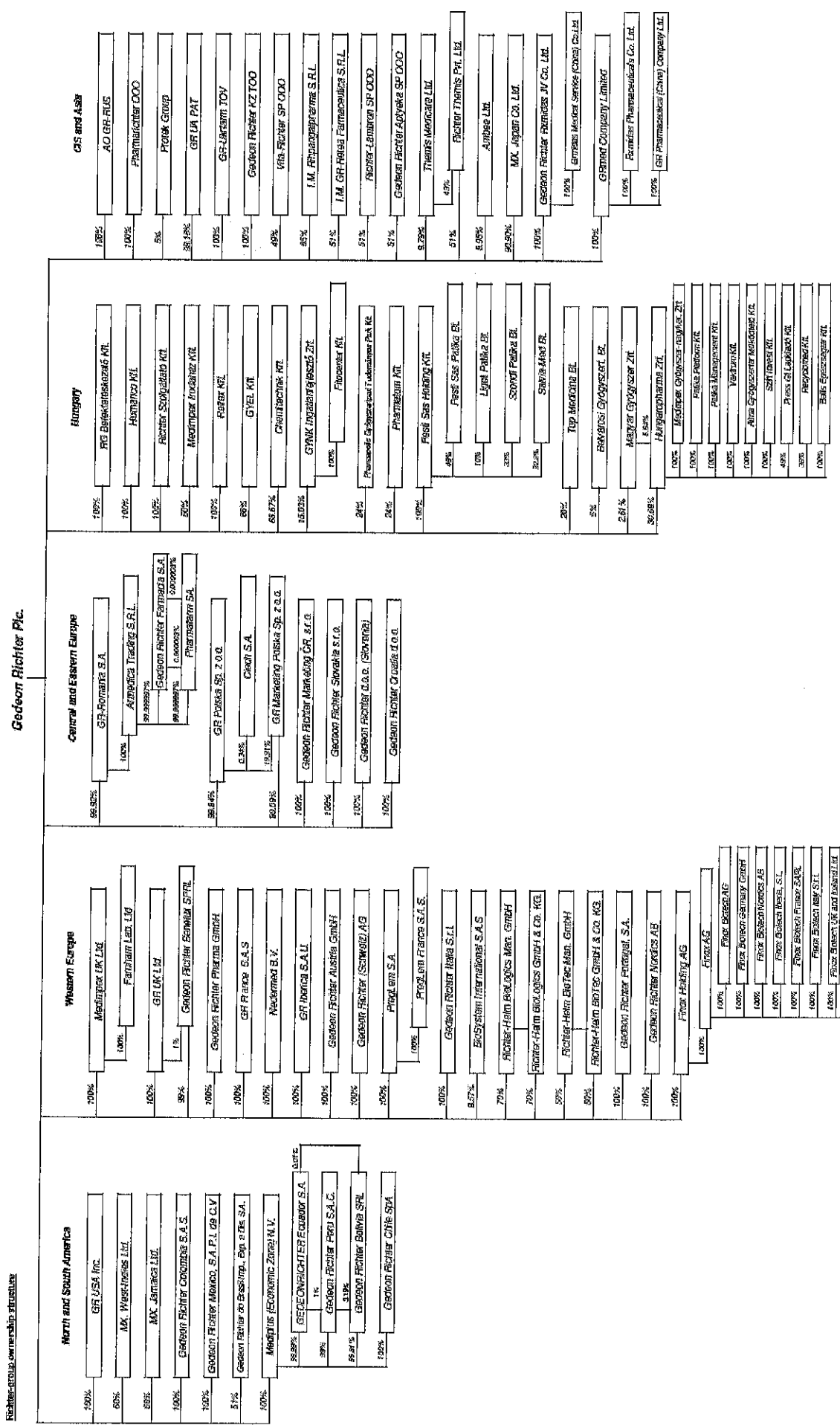
Description	Variance				
	Opening balance 01.01.2016	CAPEX	Capitalisation	Transferred without payment	**Closing balance 31.12.2016**
CAPEX	**17 641**	24 142	-25 479		**16 304**
Renewal	**835**	2 359	-2 293		**901**
Grouped	**116**	71	-67	11	**131**
Total	**18 592**	**26 572**	**-27 839**	**11**	**17 336**

The value of construction in progress as at 31 December was HUF 17,336 million. A significant part of the balance relates to the new injectables packaging plant and a project aimed at creating state-of-the-art freeze-drying capacities that are not yet put into use.

The amount of intangible assets capitalised during 2016 is HUF 7,433 million.

1.3. Investments relationship

1.3.1 Investments of GR Plc. according to ownership rates as on 31st December, 2016



1.3.2 Related parties in a breakdown by degree of participation 31.12.2016.*

Description	Head office	RG direct and indirect participation	
		ownership (%)	votes (%)
Subsidiary companies			
Direct participation			
Humanco Szolgáltató Kft.	1103 Bp., Gyömrői út 19-21. Hungary	100.00	100.00
Pesti Sas Holding Vagyonkezelő Kft.	1103 Bp., Gyömrői út 19-21Hungary.	100.00	100.00
Reflex Kft.	1107 Bp., Száva u. 9. Hungary	100.00	100.00
Richter Befektetéskezelő Kft.	1103 Bp., Gyömrői út 19-21. Hungary	100.00	100.00
Richter Szolgáltató Kft.	1103 Bp., Gyömrői út 19-21. Hungary	100.00	100.00
Chemitechnik Pharma Mér. Szolg.	1103 Bp., Gyömrői út 19-21. Hungary	66.67	66.67
Gyógyszerip. Ell. és Fejl. Labor Kft.	1149 Bp., Mexikói út Hungary 9.	66.00	66.00
Pharmarichter O.O.O	115201 Moszkva, Kasirszkoje 22. Russia	100.00	100.00
PregLem SA	1228 Plan-les Ouates, 3 chemin de Pré-Fleuri Schweiz	100.00	100.00
GR Marketing CR s.r.o.	Prága 4, Nusle, Na Strzi 1702/65 Czech R.	100.00	100.00
GR Slovakia, s.r.o.	Bratislava 81108, Soltésovej 14 Slocakia	100.00	100.00
GR Ausztria GmbH	1030 Wien, Hainburgerstraße 20, Top 17 Austria	100.00	100.00
GR Schweiz AG	6330 Cham, Gewerbestrasse 5 Schweiz	100.00	100.00
GR Portugal Lda	1000-012 Lisboa, Rua Almirante Barroso 7-A Portugal	100.00	100.00
Gedeon Richter d.o.o. (Slovenia)	Verovškova ulica 55, 1000 Ljubljana Slovenia	100.00	100.00
Gedeon Richter Croatia d.o.o.	Radnicka cesta 80, 10 000 Zagreb Croatia	100.00	100.00
GR RUS ZAO	Jegorjevszk Suvoje, Lesnaja u. 40. Russia	100.00	100.00
GR Ukrfarm T.O.V.	Kijev, Turgenyevszkaja u. 17/b. Ukraine	100.00	100.00
Medimpex UK Ltd	127 Shirland Road, London W9 2EP, Great-Britain	100.00	100.00
GR Italia S.r.l	Milano, Viale Cassala 16 Italy	100.00	100.00
GR Benelux S.p.r.i.	Mommaertslaan 18B á 1831 Diegem, Brussels, Belgium	100.00	100.00
GR Nordics	c/o Advokatfirman Lindahl KB 10139 Stockholm Sweden	100.00	100.00
GR Marketing Polska Sp.z.o.o.**	Warszawa, ul. Królowej Marysienki 70, 02-954 Poland	99.97	99.97
GR Polska Sp.z.o.o.	Grodzisk Mazowiecki 05-825 Poniatowskiego u. 5.Poland	99.84	99.84
GR România S.A.	Tirgu Mures, Cuza Voda 99-105., Romania	99.92	99.92
GR UA P.A.T.	Chernovola 2/A, 08133 Vyshneve, Ukraine	98.16	98.16
Medimpex Japan Co.Ltd.**	Noyori Bldg. 2-17., Tokyo 105, Japan	90.90	90.90
Richter Helm BioLogies Man GmbH.	Bovenau Gut Dengelsberg Germany	70.00	70.00
Richter Helm BioLogics GmbH&.Co.KG	Bovenau Gut Dengelsberg Germany	70.00	70.00
Richpangalpharma S.R.L.	N. Mmilescu-Spataru str, 36 Chisinau 2075 Moldova	65.00	65.00
Richter-Lambron S.P.O.O.O.	375002 Jereván Kazara Parpeci 22. Armenia	51.00	51.00
GR APTYEKA S.P.O.O.O.	22, K. Parpetsi Str., 0002, Jerevan, Armenia	51.00	51.00
I.M. GR Retea S.R.L	N. Mmilescu-Spataru str, 36 Chisinau 2075 Moldova	51.00	51.00
Richter Themis Pvt.Ltd. *	69, GIDC Industrial Estate Vapi, Gujarat, India	55.80	55.80
Gedeon Richter Colombia S.A.S	CL 67 No. 7 35 OF 1204, Bogota D.C., Colombia	100.00	100.00
Gedeon Richter KZ LLP	R. of Kazakhstan, 040706 Almaty Reg. Pervomaiskii ,Industrial Zone	100.00	100.00
GRmed Company Ltd.	Des Voeux Road Central, Hong Kong	100.00	91.00
Gedeon Richter Mexico, S.A.P.I. de C.V.	Cerrada de Galeane No.4, Colonia La Loma, Tlalnepantla, Esta Mexico	100.00	80.00
Gedeon Richter do Brasil Imp.,Exp.e Dis.S.A.	Rua Redencáo, No.97'Chácara Tatuapé, Sáo Paulo, Zip Code Brasil	51.00	51.00

Description	Head office	RG direct and indirect participation	
		ownership (%)	votes (%)
Subsidiary companies			
Mediplus (Economic Zone) N.V.	Economische Zone Hato unit F.II.1., Curacao	100.00	100.00
GR Ibérica S.A.	c/dr. Ferran 6-8.,Barcelona 08034, Spain	100.00	100.00
Nedermed B.V	Amstelveen, Straat van Magelhaens 13, 1183 Netherlands	100.00	100.00
GR Pharma GmbH	Frankfurter Str. 13-15., Eschborn, 65760, Germany	100.00	100.00
GR UK Ltd.	127 Shirland Road, London W9 2EP, Great-Britain	100.00	100.00
GR USA Inc.	1200 E.Ridgewood Avenue, New Jersey 07450.USA	100.00	100.00
GR France S.A.S.	1/3 Rue Caumartin, Paris 75009, France	100.00	100.00
Medimpex Jamaica Ltd.	Kingston 5, Ripon Road 10, Jamaica	60.00	60.00
Medimpex West Indies Ltd.	Kingston 5, Ripon Road 10, Jamaica	60.00	60.00
GR Rxmidas JVCo.Ltd	2/F., Dah Sing Life Building. 99-105 Des Voeux Road Central, Hong Kong	100.00	100.00
Finox Holding AG	Industrie Neuhof 23, 3422 Kirchberg Switzerland	100.00	100.00
Indirect participation			
Armedica Trading S.A	Tirgu Mures, Cuza Voda 99-105., Romania	99.92	99.92
Pharmafarm S.A	Str. Majakovski Nr.2. Jud. Cluj, Romania	99.92	99.92
GR Farmacia S.A	TG MURES, STR. CUZA VODA Nr.99-105, Romania	99.92	99.92
Farnham Lab. Ltd.**	127 Shirland Road, London W9 2EP, Great-Britain	100.00	100.00
Preglem France	1/3 Caumartin Paris 75009 Paris France	100.00	100.00
Rxmidas Pharmaceutical Co. Ltd.	650 Dingxi Road, Changning dist., Shanghai, China	100.00	91.00
GR Pharmaceutical (China) Company Ltd.	650 Dingxi Road, Changning dist., Shanghai, China	100.00	91.00
Grmidas Medical Service (China) Co. Ltd.	Shanghai Waigaoqiao Free Trade Zone in 116 South Building, 1 South A2 site	100.00	100.00
Gedeon Richter Peru S.A.C.	Av. Javier Prado Oeste 1586 Of. 201, San Isidro, Lima 27, Peru	100.00	100.00
Gedeon Richter Bolivia S.R.L.	Av. 6 de Agosto, No. 2455, Edificio: Hilda, Piso: 11, Oficina: 1102, Zona: Sopocachi, La Paz, Bolivia	100.00	100.00
Gedeon Richter Chile SpA	Dr. Manuel Barros Borgoño # 187, Comuna de Providencia, Ciudad de Santiago, Región Metropolitana, Chile	100.00	100.00
Gedeon Richter Ecuador S.A.	Provincia: Pichincha, Cantón: Quito, Parroquia: Santa Prisca, Av. Cristobal Colon, No. E8-85, Ecuador	100.00	100.00
Finox AG	Industrie Neuhof 23, 3422 Kirchberg Switzerland	100.00	100.00
Finox Biotech AG	Gewerbestrasse 7, 9496 Balzers Fürstentum Liechtenstein	100.00	100.00
Finox Biotech Germany GmbH	Hoechster Strasse 70, 65835 Liederbach Germany	100.00	100.00
Finox Biotech Nordics AB	Adolfsbergvagen 31, 168 67 Bromma Sweden	100.00	100.00
Finox Biotech Iberia, S.L.	C\Francisco Silvela 42, 1° 28028 Madrid Spain	100.00	100.00
Finox Biotech France SARL	31, Rue Elsa Triolet 21000 Dijon France	100.00	100.00
Finox Biotech Italy S.r.l.	Via Cassia, 1081 00189 Roma Italy	100.00	100.00
Finox Biotech UK and Ireland Ltd.	Convention House St. Mary's St. Leeds LS9 7DP United Kingdom	100.00	100.00
Finox Biotech Benelux BV	Perkinsbaan 14, 3439 ND Nieuwegein The Netherlands	100.00	100.00
Finox Biotech Eastern Europe	Ul. Rzymowskiego 53, 02-697 Warszawa Poland	100.00	100.00
Finox Biotech Australia PTY Ltd.	Garigal Road Belrose NSW 2085 Australia	100.00	100.00

Description	Head office	RG direct and indirect participation	
		ownership (%)	votes (%)
Joint venture companies			
Direct participation			
Medimpex Irodaház Ingatlankezelő Kft.	1051 Bp., Vörösmarty tér 4. Hungary	50.00	50.00
Richter Helm BioTec Management GmbH	Hamburg, Nordkanal str. Germany	50.00	50.00
Richter Helm BioTec GmbH&Co.KG.	Hamburg, Nordkanal str. Germany	50.00	50.00
Associated companies			
Direct participation			
Hungaropharma Zrt. **	1061 Bp., Király u. 12 Hungary	30.85	30.85
Cerorin Kft.	4025 Debrecen, Bartók Béla út 226 Hungary	24.00	24.00
Pharmapolis Gyógyszeripari Tud. Park Kft.	4025 Debrecen, Petőfi tér 10. Hungary	24.00	24.00
Pharmatom Kft.	4025 Debrecen, Bem tér 18/c Hungary	24.00	24.00
Top Medicina Bt.	3200 Gyöngyös, Hanisz tér 1. Hungary	20.00	20.00
VITA - Richter S.P.O.O.O.	Baku, 7-aya Chernogorodskaya 5. Azerbaian	49.00	49.00
Other related companies			
Direct participation			
Gyógynövénykutató Ingatlanfejlesztő Zrt.	2011 Budakalász,József A. u 68 Hungary	15.03	15.03
Belvárosi Gyógyszertár Bt.	1052 Bp., Szervita tér 5. Hungary	5.00	14.28
Magyar Gyógyszer Zrt.	8200 Veszprém Bajcsy Zsilinszky u. 8. Hungary	2.61	2.61
Themis Medicare Ltd.		9.79	9.79
Ambee Pharmaceuticals Ltd.	Dhaka G.P.O.B. 957. Bangladesh	8.95	8.95
BioSystem International SAS	4, rue Pierre Fontaine, 91000 Evry, France	8.57	8.57
Protek Group	Moszkva, Kasirszkoje 22. Russia	5.00	5.00

* In case of the subsidiaries and the joint venture companies the table contains also the indirect participation companies.
** Direct + indirect ownership

1.3.3. Changes in Direct Investments 31.12.2016

	01.01.2016		Changes in 2016			31.12.2016		Dividends received (MHUF)	
	Book value (MHUF)	Ownership ratio (%)	MHUF	Description	Revaluation as of 31.12.2016.	Book value (MHUF)	Ownership ratio (%)	2015	2016
Subsidiaries:									
Humanco Szolgáltató Kft	3	100.00				3	100.00	1	1
Pesti Sas Holding Vagyonkezelő Kft.	161	100.00				161	100.00	17	20
Reflex Kft.	220	100.00				220	100.00	30	50
Richter Befektetéskezelő Kft.	328	100.00				328	100.00		2 800
Richter Szolgáltató Kft.	3	100.00	3	impairment reversal		6	100.00	0	0
Chemitechnik Pharma Mérnöki Kft.	8	66.67				8	66.67	5	11
Gyógyszeripari Ellenőrző és Fejl. Labor Kft.	78	66.00				78	66.00		
Medimpex Uk Rt.	815	100.00			-121	694	100.00		
Pharmarichter Kft.	1	100.00				1	100.00		
RG Italia	35	100.00			-1	34	100.00		73
RG Marketing CR Kft.	325	100.00			-2	323	100.00		
RG Szlovákia Kft.	221	100.00			-2	219	100.00		
RG Ausztria Kft.	34	100.00				34	100.00	19	
RG Svájc Rt.	29	100.00				29	100.00	30	
RG Portugália Kft.	28	100.00				28	100.00		
RG Szlovénia Kft.	10	100.00				10	100.00		
RG Benelux *	2	100.00				2	100.00		
RG Nordics	2	100.00				2	100.00		
PregLem Holding Rt.	90 092	100.00	12 760	goodwill reclassification	11	102 863	100.00		
RG-RUS Rt.	10 954	100.00	-1 331	impairment	2 232	11 855	100.00		
RG-Ukrfarm Kft.	0	100.00				0	100.00		
RG-Románia Rt.	10 304	99,90	5 405	capital increase	-218	15 491	99,90		
RG Polska Kft.	10 892	99.84	910	goodwill reclassification	-509	11 293	99.84	377	1 084
RG Marketing Polska Kft. *	1 353	99.97			-58	1 295	99.97		
RG-UA Rt.	202	98.16			-19	183	98.16		
Richter Helm Biologics Management Kft.	10	70.00				10	70.00		
Richter Helm Biologics Bt.	3 308	70.00			-23	3 285	70.00		
Richpangalpharma Kft.	192	65.00			3	195	65.00		
Richter Themis Rt. *	309	56.10				309	55.8	70	77
RG-Retea Kft.	0	51.00				0	51.00		
RG-Aptyeka Kft.	0	51.00				0	51.00		
Richter Lambron Kft.	80	51.00			2	82	51.00		

1.3.3. Changes in Direct Investments 31.12.2016

	01.01.2016		Changes in 2016			31.12.2016		Dividends received (MHUF)	
	Book value (MHUF)	Ownership ratio (%)	MHUF	Description	Revaluation as of 31.12.2016.	Book value (MHUF)	Ownership ratio (%)	2015	2016
Grmed Company Limited	3 730	100.00	18 944	goodwill reclassification	-956	21 718	100.00		
GR Rxmidas JVCo.Ltd.			5 268	share purchase + reclassification	-298	4 970	100,00		
Gedeon Richter KZ TOO	97	100,00	221	capital increase	24	342	100,00		
GR D.O.O. (Croatia)	9	100.00				9	100.00		
GR Colombia S.A.S.	13	100.00	35	capital increase	3	51	100.00		
GR Mexico, S.A.P.I. de C.V.	557	100.00	2 061	goodwill reclassification	-367	2 251	100.00		
Gedeon Richter do Brasil Imp., Exp. e Dis.S.A.	135	51,00	20	capital increase	34	189	51,00		
Mediplus (Economic Zone) N.V.	75	100.00	-75	goodwill reclassification + capital increase + impairment		0	100.00		
GR USA Inc.	338	100,00			8	346	100,00	34	35
GR Pharma GmbH	488	100,00			-3	485	100,00	124	377
GR France SAS	485	100,00			-3	482	100,00		95
GR UK Ltd.	248	100,00			-37	211	100,00	84	
GR Iberica S.A.S.	784	100,00			-5	779	100,00	48	112
Nedermed B-V.	367	100,00			-2	365	100,00		
Medimpex Jamaica Ltd.	123	60,00			-6	117	60,00		
Medimpex WestIndies Ltd.	1 583	60,00			40	1 623	60,00	10	84
Medimpex Japan Rt. *	0	90,90				0	90,90		
Finox Holding AG	0		25 855	share purchase	68	25 923	100,00		
Subsidiaries total	139 031		70 076		-205	208 902		849	4 819
Joint ventures									
Medimpex Irodaház Ingatlankezelő Kft.	303	50,00				303	50,00		
Richter Helm BioTec Managment Kft	4	50,00				4	50,00		
Richter Helm BioTec Bt.	313	50,00			-2	311	50,00		
RG Rxmidas Kft.	398	50,00	-398	reclassification					
Joint ventures total	1 018		-398		-2	618		0	0
Total	**140 049**		**69 678**		**-207**	**209 520**		**849**	**4 819**

* direct + indirect ownership

1.3.4 Impairment of equity investments

MHUF

Investments	31.12.2015	Impairment / *reversal* (book value)	31.12.2016
ZAO GR-RUS	1 409	1 331	2 740
VITA-Richter S.P.O.O.O	14	6	20
Richter Szolgáltató Kft.	3	-3	0
Pesti Sas Holding Vagyonkezelő Kft.	42		42
Medimpex Japán Co. Ltd.	17		17
GR-Aptyeka S.P.O.O.O	16		16
GR-Retea Kft.	10		10
GR-Ukrfarm T.O.V	104		104
GR-România S.A.	25 633		25 633
Richter Helm Biologics GmbH & Co.KG	1 358		1 358
Mediplus (Economic Zone) N.V.		1 657	1 657
Protek Group	72		72
BioSystem International SAS	416		416
Pharmatom Kft.		1	1
Hungaropharma Rt.	1 330	-1 330	0
Total	**30 424**	**1 662**	**32 086**

1.4 Other financial investments

MHUF

Description	31.12.2015	31.12.2016
Long term loans given to affiliated companies	43 449	69 198
Long term loans given to major participating companies	1 061	3 207
Long term loans given to other affiliates	748	561
Other long term loans	2 014	711
Long term major participating interest	1 201	2 523
Other long-term interests	4 165	5 123
Long term bonds	18 048	17 982
Valuation difference of non-current assets *	2 117	7 445
Total	**72 803**	**106 750**

* Valuation difference of non-current assets contains the fair value differences in connection with Protek Group.

The value of loans given amounted to HUF 73,677 million and included predominantly loans extended to Finox Holding Ag, ZAO Gedeon Richter-RUS and to PregLem S.A., to our production companies, mainly, Richter-Helm BioTec GmbH & Co. KG, Pharmapolis Gyógyszeripari Tudományos Park Kft and the Indian subsidiary.

The Company intends to hold until maturity (2019) the MNV bonds (exchangable to Richter shares), which is reported under long term bonds with a book value in 2016 of HUF 16,173 million.

The most significant amount from long term major participating interest is Hungaropharma Zrt, from the other long-term investments is Protek Group.

Long term bonds include Hungarian goverment bonds classified as held to maturity as well.

II/2 Inventories

2.1 Purchased materials, stock

MHUF

Description	31.12.2015	31.12.2016
Chemicals	4 573	4 754
Fine chemicals	63	59
Herbs	37	63
Finishing materials	1 338	1 623
Recycled raw material waste	614	455
Invoiced raw materials not received	76	634
Auxiliary substances	1 250	1 231
Technical materials	637	629
Spare parts	324	367
Gifts	36	29
Brochures	31	34
Fuels	1	1
Other assets	161	143
Invoiced materials not received	12	30
Total materials	9 153	10 052
Mediated services		20
Purchased medicines	4 022	4 586
Purchased inventories total	**13 175**	**14 658**

2.2 Self-manufactured inventories

MHUF

Description	31.12.2015	31.12.2016
Work in progress	298	401
Services in progress	70	50
Materials self manufactured	34	28
Total WIP and materials self manufactured	*402*	*479*
Semi-finished raw materials	19 593	20 429
Semi-finished lose products	3 301	3 037
Total semi-finished products	*22 894*	*23 466*
Services	*31*	
Total WIP and semi-finished products and services	23 327	23 945
Domestic finished	1 871	1 881
Export finished	8 665	7 826
Total finished goods	10 536	9 707
Total self produced inventories	**33 863**	**33 652**

2.3 Hazardous waste

31.12.2015		Change of inventories				31.12.2016	
		Increase		Decrease			
Tons	MHUF	Tons	MHUF	Tons	MHUF	Tons	MHUF
0	0	19 959	2	19 959	2	0	0

The costs of waste neutralisation amounted to HUF 878 million in the current year.

2.4 Impairment of inventories

2.4.1 Impairment of materials purchased

MHUF

Changes in inventories		
Description	2015	2016
Scrapping	271	212
Devaluation	49	910
Loss event	42	25
Shortage, drainage loss	13	8
Total	**375**	**1 155**

2.4.2 Impairment of self-manufactured inventories

MHUF

Changes in inventories		
Description	2015	2016
Scrapping	742	681
Devaluation	377	703
Loss event	12	2
Shortage, drainage loss	53	48
Total	**1 184**	**1 434**

Reversal of impairment loss related to self manufactured stocks amounted to HUF 70 million in 2016. HUF 849 million impairment of Inventories was reported in connection with Lisvy's withdrawal in 2016 and included HUF 599 million reported in produced inventories and HUF 250 million reported among purchased inventories.

II/3 Receivables

3.1 Accounts receivable

MHUF

Segment		31.12.2015	31.12.2016	Variance
Domestic trade receivables	*	1 625	2 314	689
- incuding overdue:		*3*	*55*	*52*
- impairment		-8	-8	0
Domestic trade receivables balance		**1 617**	**2 306**	*689*
Foreign trade receivables	**	43 935	48 991	5 056
- incuding overdue:		*6 918*	*10 433*	*3 515*
- impairment		-2 404	-2 796	-392
Foreign trade receivables balance		**41 531**	**46 195**	*4 664*
Total trade receivables		**43 148**	**48 501**	**5 353**

* of which HUF 1,332 million was collected by 30 January 2017
** of which HUF 8,368 million was collected by 30 January 2017

3.2 Receivables from other related parties

MHUF

Segment		31.12.2015	31.12.2016	Variance
Domestic trade receivables	*	1 950	1 587	-363
- incuding overdue:				*0*
- impairment				
Domestic trade receivables balance		**1 950**	**1 587**	*-363*
Loans given for controlled domestic account		2 400	239	-2 161
Foreign trade receivables	**	45 686	60 201	14 515
- incuding overdue:		*3 477*	*7 697*	*4 220*
- impairment		-167	-345	-178
Total receivables from related parties		**45 519**	**59 856**	*14 337*
Loans given and unregistered capital increase, share purchase in controlled foreing account		18 167	17 067	-1 100
Total trade receivables from related parties		**68 036**	**78 749**	**10 713**

* of which HUF 977 million was collected by 30 January 2017
** of which HUF 8,255 million was collected by 30 January 2017

3.3 Receivables due from associated parties*

MHUF

	31.12.2015**	31.12.2016	Variance
Domestic trade receivables	6	16	10
Foreign trade receivables	41 258	50 694	9 436
Loans given for related companies	18 071	17 877	-194
Related companies' non registered capital increase			
Total	**59 335**	**68 587**	**9 252**

* The table includes the figures without the values of impairment.

** The change in the 31.12.2015 reference figure is the result of the change in the definition of affiliated undertakings under the amended Accounting Act.

3.4 Changes in impairment of receivables

MHUF

	31.12.2015	Reversal	Recognition	31.12.2016
Domestic trade receivables	8			8
Foreign trade receivables	2 404	-187	580	2 797
Related parties	167	-29	208	346
Total	**2 579**	**-216**	**788**	**3 151**

3.5 Changes in impairment of loan receivables

MHUF

	31.12.2015	Reversal	Recognition	Reassessment	31.12.2016
RG Ukrfarm Kft.	717			17	734
RG Retea Kft	744	-31	712	-10	1 415
Pharmapolis Debrecen Kft.	300				300
GR Aptyeka S.P.O.O.O.			1 003	25	1 028
Pharmatom Kft			150		150
RG UA P.A.T.			29		29
Total	**1 761**	**-31**	**1 894**	**32**	**3 656**

II/4 Securities and cash

MHUF

Description	31.12.2015	31.12.2016
Open-ended investment funds	2 426	
Government securities	1 526	
Treasury shares	550	1 068
Securities total	**4 502**	**1 068**
Bank deposits	110 280	65 930
Cash on hand	43	39
Cash total	**110 323**	**65 969**
Securities and cash total	**114 825**	**67 037**

The value of cash and securities decreased by HUF 47.788 million compared to 31 December 2015.

The decrease is atributed primarily to the payment of the acquisitions price of Finox and the EUR 21 million EIB repayment.

The significant decrease of the Securities was caused by the maturity of government paper and the sale of the open-end investment funds.

II/5 Tied-up reserve, provisions

5.1 Tied-up reserve

MHUF

	31.12.2015	31.12.2016
Repurchase value of treasury shares	550	1 069
Capitalized value of R&D	254	169
Total tied up reserve	**804**	**1 238**

5.2 Provision for expected liabilities

MHUF

	31.12.2015	Reversal	Recognition	31.12.2016
Liabilities in connection with retirement	1 394	-144	275	1 525
Liabilities of jubilee service period	579	-52	16	543
Expected liabilities *	2 215	-1 890	1 599	1 924
CO_2 quota	29			29
Total	**4 217**	**-2 086**	**1 890**	**4 021**

*The line item Expected liabilities includes provisions created to cover customer bonuses (HUF 1,208 million) and to other expected liabilities (HUF 717 million).

Retirement benefit program

According to the Union Agreement of Gedeon Richter Plc. the retiring employees are entitled to the following additional benefit in case the employment contract ends with mutual agreement or regular dismissal:

- 1 month absentee fee in case of min. 15 years consecutive employment
- 2 month absentee fee in case of min. 30 years consecutive employment
- 3 month absentee fee in case of min. 40 years consecutive employment
- 4 month absentee fee in case of min. 45 years consecutive employment

If the employee meets the conditions mentioned above, and has for at least 20 years of continuous employment at Richter is entitled to additional benefit - 45 days of absentee fee.

The Company created provisions in connection with retirement based on actuary calculation to cover expected liabilities, which is HUF 1,525 million on the 31.12.2016.
The calculation is applied for all employees employed at 31 December 2016.

II/6 Liabilities

6.1 Long-term liabilities

MHUF

	31.12.2015	31.12.2016
Credit	36 531	28 510
Other liabilities	5 694	2 563
Total long-term liabilities	**42 225**	**31 073**

6.2 Short-term liabilities

MHUF

	31.12.2015*	31.12.2016
Short term loans	6 523	7 776
Advances received	113	145
Trade payables	16 399	19 553
Payables to related companies	14 415	15 661
Other	9 395	11 484
Total current liabilities	**46 845**	**54 619**

* The change in the 31.12.2015 reference figure is the result of the amendment of the Accounting Act pertaining to the time of accounting for dividend.

Of the European Investment Bank R&D support loans EUR 91.7 million is reported in long term liabilities and EUR 25 million in short term liabilities. In 2015 the Company repaid EUR 20.83 million of the EIB loan.

The contingent and deferred purchase price payment obligations in conjunction with the acquisition agreements concluded in recent years are reported in the Other liabilities item. The liabilities that are reported as either long term or short term depending on their due date are presented below.

GRMed contingent and deferred purchase price payments

In 2013 Richter Gedeon Plc. announced that it signed a series of agreements with the owners of its marketing partner, Rxmidas Pharmaceuticals Co. Ltd. ('Rxmidas'), targeting a reshaped and stronger direct presence on the Chinese pharmaceutical market. Richter acquired majority interest in the company (GRMed Company Ltd., hereinafter "GRMed") and the agreement terms included an upfront payment together with milestone payments in the forthcoming years. Contingent and deferred purchased price is presented as long term and current liability, and it is accounted for at probability-weighted discounted present value. The next portion of the purchase price was paid in February 2016 (CNY 138 million). As of the balance sheet date the maximum value of the outstanding liability in respect of this transaction is approximately CNY 179 million (HUF 7,569 million).

GRMexico contingent and deferred purchase price payments

As part of its expansion in Central and South America the Company has signed an agreement with the owner of DNA Pharmaceuticals, S.A. de C.V. („DNA"), to establish its direct presence on the pharmaceutical market in Mexico. Under the terms of the agreement Richter acquired 100% stake and 70% voting rights, in the company that changed its name Gedeon Richter México S.A.P.I. de C.V following the acquisition, and assumed an obligation for payment of the remaining and unpaid 30% portion in three years.

The targeted activities are sales, promotion and registration of Female Healthcare products. This partnership agreement between GR Mexico and Richter creates a perfect synergy for launching Esmya on the Mexican market. In case of this liability the contingent and deferred purchase price is also presented as long term and current liability, and it is disclosed at probability-weighted discounted present value. In December 2015 the portion of the purchase price due (USD 1.5 million) was paid. The maximum value of the outstanding payment is USD 3.0 million (HUF 881 million).

Mediplus Group contingent and deferred purchase price payments

In May 2014 Gedeon Richter Plc. signed an agreement with Andelam B.V. a Netherland based private limited liability company ("Andelam") to buy 100% stake and 51% voting rights in Mediplus N.V. a marketing company based in Curaçao ("Mediplus"). According to the agreement Richter is going to fulfill the liability originated from the contingent and deferred purchase price construction in connection with the unpaid 49% in the next three years. Further payments are connected to certain performance related targets to be reached by previous owner. In the view of Richter's management the preconditions for the milestone payment will not be met, therefore the Company does not report liability in respect of this transaction. Based on the agreement concluded with the original shareholder in 2015, Richter's voting rate increased to 100%. The maximum amount of exposure relating to the acquisition of the Mediplus Group was USD 5,880 thousand (HUF 1,727 million) as of 31 December 2016 and USD 5,880 thousand (HUF 1,685 million) as of 31 December 2015.

From the current liabilities HUF 8,446 million is in connection with the current payment of the deferred purchase price of the chinese and mexican aquisitions.

In keeping with its accounting policy, the Company reports contingent and deferred purchase prices of acquisitions at probability-weighted discounted present value. Subject to the occurrence of future events payments may be higher than the liabilities on the books.

6.3 Off balance items

MHUF

	31.12.2016
Guarantees provided by the Company	5 287

As the probability of calling in the guarantees is minimal, recognizing any provision is not deemed necessary.

II/7 Prepayments and accruals

7.1 Prepayments

MHUF

	31.12.2015	31.12.2016
Interest on securities	92	57
Bank interest	121	56
Interest on loans	706	876
Government grants	18	0
Other	0	176
Accrued income	**937**	**1 165**
Journals, reference books, CD	401	372
Foreign offices	412	285
Public transport		148
Insurance	144	135
Software renting and maintenance	121	130
Authority fee and authorisation costs	147	144
R&D costs	390	0
Other trade costs in connection	52	3
Other	115	146
Prepaid costs and expenses	**1 782**	**1 363**
Prepayments	**2 719**	**2 528**

7.2 Accruals

MHUF

	31.12.2015	31.12.2016
Rewards and bonuses	2 183	1 740
Licence	139	381
Research contract	278	1 015
Fee for inventions	373	395
Insurance	96	105
Endowment insurance	537	662
Payment of foreign medicine price subsidies	2 723	4 548
Foreign sales costs	593	304
Costs of foreign offices	703	784
Advertising and marketing expenses	492	312
Interests payable on bank loans	102	79
Other	147	461
Accrual of costs and expenses	**8 366**	**10 786**
Deferred income	1 019	807
Accruals	**9 385**	**11 593**

II/8 Costs, expenses, revenues

8.1 Costs and expenses

8.1.1 Function of expense method

MHUF

Description	2015	2016	Index %	Accounting Act Schedule 3
Direct cost of sales accounted	48 552	50 871	104.5	(03)
Original cost of goods sold	10 200	11 712	114.8	(04)
Value of services sold (mediated)	827	1 575	190.4	(05)
Direct cost of sales	**59 579**	**64 158**	**107.7**	**II.(03+04+05)**
Sales and marketing costs	95 121	99 838	105.0	(06)
Administration costs	26 483	27 642	104.4	(07)
Other general overhead	42 082	42 802	101.7	(08)
Indirect cost of sales	**163 686**	**170 282**	**104.0**	**III.(06+07+08)**

The aggregate year-on-year increased in direct and indirect costs of sales was HUF 11,175 million.

Direct costs of sales totalled HUF 64,158 million and were HUF 4,579 million above the 2015 figure due to the effect of sales decrease and the change in the portfolio of products.

Indirect costs amounted to HUF 170,282 million in 2016, exceeded the 2015 figure by HUF 6,596 million.

- Advertising and promotion costs increased by HUF 3,988 million year-on-year. The increase in marketing costs in Western Europe and China was not offset by dropping costs in Poland and in Other CIS countries.
- Increase in employees' wages and contributions amounted to HUF 1,701 million compared to the previous year. Besides the general increase of basic salaries, differentiated increase was also implemented taking into consideration individual performance, labour market conditions and the importance of the job. The differentiated increase was partially included in the basic salary.
- Licence fees are HUF 1,190 million above the 2015 figure, mainly because of the increasing licence costs related to Esmya (predominantly in the EU15 region).
- The 2016 material costs were HUF 519 million higher year-on-year due to the price difference in inventories valuation and higher costs of R&D and promotional materials.
- Attorneys' fees increased by HUF 460 million over 2015; the increase is partly attributed to the Finox Holding acquisition.
- In 2016 there was a HUF 577 million reduction in income from research commissions, explained only by significant development costs related to ulipristal acetate (Esmya) in the reference period coupled with a

sharp drop in the development costs of pegfilgrastim, partially countered by costs of proprietary and generic development topics related to EVE vaginal rings.

- The costs of vehicle leases was down by HUF 543 million y/y due to a significant reduction in the number of leased vehicles because of changes in the structure of financing and operating the vehicle stock in Russia.

8.1.2 Nature of expense method

MHUF

Item	2015	2016	Index %	Accounting Act Schedule 2
Raw materials and consumables	40 496	39 965	98.7	(05)
Contracted services	93 661	99 202	105.9	(06)
Other service activites	1 896	2 060	108.6	(07)
Original cost of goods sold	10 200	11 712	114.8	(08)
Value of services sold (mediated)	827	1 575	190.4	(09)
Material costs	**147 080**	**154 514**	**105.1**	**IV.(05+06+07+08+09)**
Wages and salaries	33 051	34 834	105.4	(10)
Other employee benefits	13 130	12 514	95.3	(11)
Contributions on wages and salaries	11 286	11 512	102.0	(12)
Staff costs	**57 467**	**58 860**	**102.4**	**V.(10+11+12)**
Depreciation and amortization	**22 536**	**23 182**	**102.9**	**VI.**
Total cost and expenditure	**227 083**	**236 556**	**104.2**	

- The Company's costs and expenses were HUF 9,473 million higher than in the reference year.
- Material type expenditures were up by HUF 7,434 million from the previous year's figure; contracted services were HUF 5,541 million higher than in 2015 due to increasing advertising, promotion costs and licence costs.
- The cost of goods sold was HUF 1,512 million above the 2015 figure due primarily to the increasing proportion of finished products among goods sold mainly in the EU and the CIS regions.
- Staff costs increased as a result of inflationary wage raise and increasing head count.
- The HUF 646 million increase in depreciation is mainly attributed to capex activities over the past period, and is specifically related to production and production control.

8.2 Value of own performance capitalized

MHUF

Description	31.12.2015	31.12.2016	Index %	Inn Annex 2 to Accounting Act
Change of self manufactured inventories	2 030	-211	-	(03)
Capitalised value of self manufactured assets	1 788	2 327	130.1	(04)
Value of capitalised own performance	**3 818**	**2 116**	**55.4**	**II.(±03+04)**

8.3 R&D expenditures

In 2016 the Company spent 12.2% of the revenue on R&D activities.

MHUF

Cost category	2015	2016
R&D expenses	34 608	34 514

8.4 Other income and expenditures

MHUF

	2015	2016
Total other income	**23 291**	**9 434**
Other expenditure		
Provisioning	2 369	1 695
Write-off unrecoverable receivables	1	0
Impairment of receivables	271	1 602
Impairment of inventories	1 559	2 589
Book value of tangible assets sold	171	83
Lisvy scrapping and impairment		2 405
Local business tax	3 270	3 161
Buildings tax	377	417
Innovation fee	493	475
Claw-back on reimbursed drugs payable to NHF	192	379
Registration fee of medical representatives	219	253
Claw-back on reimbursed drugs payable, Germany	2 112	1 751
Claw-back on reimbursed drugs payable, other countries	2 086	3 371
Other expenditure from changes of deferred purchase price	3 207	1 850
Other	5 136	1 708
Expenditure of exceptional incidence *		
Transferred inventories without consideration	79	115
Grant	780	1 010
Other	222	242
Total other expenditure	**22 544**	**23 106**
Balance of other income and expenditure	**747**	**-13 672**

* Transferred from Extraordinary items as a result of the amendment of the Accounting Act.

In 2016, the line of Other income included HUF 5 million from associated companies.

The balance of Other income and expenditure declined and was HUF 13,672 million after the positive balance of HUF 747 million in 2015.

Significant contributors to the decrease include milestone incomes of the previous period (from Allergan in conjunction with securing marketing authorization for Vraylar™ in the United States, and from Stada in connection with the development of biosimilar products), as well as the exchange rate compensation related to Chinese sales accounted for as expenditure in the reported period.

In conjunction with the withdraw of Lisvy HUF 2,405 million was reported in Intangibles and in Q3 of 2016 an additional HUF 849 million impairment was reported in Inventories. Indemnification is currently negotiated by the parties. The above negative effect was exacerbated by the impairment of inventories associated with the withdrawal of PEG-GCSF's application for registration.

On the other hand, the milestone income related to the European distribution of cariprazine (Recordati agreement) had a positive effect in the reported period, as did the release of provision created for additional reductions.

Claw-back in 2016 comprised payments related to the Hungarian, German, French, Spanish, Portuguese, Belgian, Italian, Bulgarian and Latvian markets totalling HUF 5,501 million.

In reported year the Company has incurred lower other expenditure related to the remeasurement of the contingent and deferred purchase price.

8.5 Profit on financial transactions

MHUF

	2015	2016
Income from financial operations		
Dividends and share of profits received	1 002	7 820
Interest and related income received	1 863	826
including income from securities	*546*	*29*
Interest income on financial investments	2 601	3 526
Exchange gains on selling participations	7	
Other income	15 624	20 096
gains on conversion at year end date		*9 276*
gains on converting receivables, payables and foreign currency	*14 742*	*10 683*
*gains on derivative transactions, closed **	*712*	
fair value of derivative transactions	*117*	
gains on securities sold	*-39*	*40*
*Repurchase of shares in program approved by Ministry of Finance***	*92*	*97*
Total income from financial operations	**21 097**	**32 268**
Expenses from financial operations		
Selling participations***	2	
Interest and related expense due	1 135	811
Impairment of participations	-153	2 815
Other expenditure	17 444	8 962
loss on conversion at year end date	*359*	
loss on coverting receivables, payables and foreign currency	*16 313*	*8 016*
*loss on derivative transactions, closed **	*91*	
release of fair value of derivative transactions	*107*	*4*
loss on securities sold	*2*	*-6*
Unwinding of discounted value related to liability in respect of def.purch.prices	*572*	*948*
Total expenses from financial operations	**18 428**	**12 588**
Result of financial operations	**2 669**	**19 680**

* Contains only the result of the net settled (settling through mark to market procedures) forward exchange contracts. Gain and loss of delivery fx deal is presented as "Foreign exchange difference on conversion of cash".

** The change in the 31.12.2015 reference figure is the result of the amendment of the Accounting Act. Transferred from Extraordinary income.

*** The change in the 31.12.2015 reference figure is the result of the amendment of the Accounting Act. Transferred from Other expenditures of financial transactions.

Net financial income was a profit in both 2016 and 2015 (HUF 19,680 million and HUF 2,669 million respectively).

In light of the changes during the reported year, Richter's financial income was greatly affected by the weakening of the forint against the rouble and the dollar, and the strengthening of the forint against the euro. As of the 2016 balance sheet date, the exchange rate (NBH rate) was 4.78 forints to the rouble (+23.2%), 293.69 forints to the dollar (+2.5 %), and 311.02 forints to the euro (-0.7 %).

Revaluation as of the balance sheet date closed with a loss in 2015 (HUF 359 million) and a profit in 2016 (HUF 9,276 million, which is an increase of HUF 9,635 y/y). The item includes revaluation of investments, loans receivable, advances, cash, loans payable, trade receivables and payables, as well as as well as accrued and deferred items.

Dividends received contributed HUF 7,820 million to the 2016 financial income, HUF 6,818 million higher than the HUF 1,002 million realized in 2015 (mainly thanks to Protek and Befektetéskezelő Kft.).

Exchange rate profit realized from trade on receivables, payables and other items were HUF 2,324 million as opposed to a HUF 2,935 million loss in the preceding year. The aggregate gain contributed HUF 5.3 billion to a year-on-year decrease in earnings.

In 2015 there was a reversal of impairment of investments related to Protek (HUF 153 million) followed by reversal of impairment related to Hungaropharma and Richter Szolgáltató, impairment on GR-RUS, Mediplus N.V., Pharmatom and Vita-Richter, and impairment on the loan agreements with Gedeon Richter Aptyeka and Pharmatom in 2016 (totalling HUF 2,815 million loss from financial transactions).

Exchange rate gains amounted to HUF 1,364 million in 2015 followed by HUF 280 million in 2016, which is a HUF 1.1 billion decrease year-on-year.

The Company made a profit on forward transactions amounting to HUF 631 million in 2015 and incurred a loss of HUF 4 million in 2016.

Extraordinary items

As a result of the 2016 amendment to the Accounting Act Extraordinary items ceased from 2016. These items were reported in Other income and expenditure and Financial income and expenditure.

8.6 Exceptional income and expenditure

MHUF

	2015	2016
Exceptional income		
Asset as in-kind contribution		3
Materials and goods received without consideration	49	105
Other	243	5
Exceptional income total	**292**	**113**
Exceptional expenditure		
Inventories transferred without consideration	79	115
Reducing of capital, termination of participation		
Subsidies	780	1 010
Other	222	242
Exceptional expenditure total	**1 081**	**1 367**
Total	**-789**	**-1 254**

8.7 Wage costs, headcount, remuneration

8.7.1 Wage costs

MHUF

Employment type	Employee groups					
	Blue collar		White collar		Total	
	2015	2016	2015	2016	2015	2016
Full time wage mass	8 882	9 308	22 958	24 192	31 840	33 500
Part time wage mass	4	5	230	268	234	273
Pensioner wage mass	7	6	89	50	96	56
Wages to non-employees					881	1 005
Wage cost per balance sheet	**8 893**	**9 319**	**23 277**	**24 510**	**33 051**	**34 834**
Annual wage mass per (full time) employee	3.7	3.9	5.4	5.7	4.8	5.0

8.7.2 Social security and pension schemes

The Company has provided in relation to the employees in Hungary social contribution tax amounting to 27 percent and vocational training contribution amounting to 1.5 percent of gross salaries were paid during 2016 to the National Tax and Customs Administration by the Company. The Company has no further obligations beyond the statutory rates in force during the year. In relation to employees employed in abroad, the social insurance contributions have been paid in accordance with the laws of that country.

The Company contributes 6 percent of the monthly gross wages (maximum 50 percent of the current minimum wage) for those employees who decided to participate in the scheme. In addition, a one-off contribution is made in respect of employees who are reaching the age limit of 55;57;59;61;63;65 years. The total cost of the contributions made by the Company was HUF 1,218 million in 2016 (in 2015: HUF 1,106 million).

The Company has contributed to a private health insurance fund for the benefit of its employees since 1 September 2003. Amounts paid increased to HUF 5,500/person/month in 2016 since 1 March 2016. The total amount paid for employees was HUF 313 million during 2016 (in 2015 it was HUF 242 million).

MHUF

Contributions on wages and salaries	2015	2016
Social contribution tax	7 394	7 695
Healthcare contribution	959	987
Vocational training contribution	397	413
Rehabilitation contribution	305	306
Contributions paid abroad	2 231	2 111
Total	**11 286**	**11 512**

8.7.3 Average statistical headcount

person

Employment type	Employee groups					
	Blue collar		White collar		Total	
	2015	2016	2015	2016	2015	2016
Full time employees	2 389	2 395	4 214	4 252	6 603	6 647
Part time employees	2	2	51	56	53	58
Pensioners	3	3	14	9	17	12
Total:	**2 394**	**2 400**	**4 279**	**4 317**	**6 673**	**6 717**

8.7.4 Remuneration of the members of the Board of Directors and the Supervisory Board

MHUF

	Remuneration	
	2015	2016
Board of Directors	70	68
Supervisory Board	24	24
Total:	**94**	**92**

II/9 Calculation of the income tax

MHUF

	Corporate income tax	2015	2016
1.	**Profit before taxation**	**62 247**	**54 810**
	- total of items reducing tax base	73 033	72 651
	- total of items added tax base	30 616	32 101
2.	Income from abroad		
3.	**Tax base**	**19 830**	**14 260**
4.	Calculated tax	3 723	2 664
5.	Investment tax relief	2 978	2 131
6.	Olimpia grant		90
7.	Tax paid abroad deductible in Hungary	8	26
8.	**Calculated tax after tax relief**	**753**	**417**
9.	Tax paid abroad		315
10.	Tax in connection with the previous year	14	-396
11.	**Total tax charge**	**767**	**336**
12.	**Profit after taxation**	**61 480**	**54 474**

1.	Amount of used tax loss	9373	
2.	Amounts of provision against future liabilities and costs reversed and stated as income	1 491	1 890
3.a.	Depreciation charged under Tax Act	26 071	25 771
3.b.	Calculated book value of the sale and scrapping of intangible propery and tangible assets, etc.		
4.	Dividends, share of profits received	1 002	7 820
5.	Relief due to apprentices	13	13
6.	Reversed impairment of receivables, collected bad debt	835	248
7.	Cancellation of penalties	2	2
8.	50% of royalties received	86	4 067
9.	Direct cost of R&D	27 376	28 178
10.	Amount identified by tax audit, self-review and stated as income	1 113	366
11.	Amount of donation	244	255
12.	Unrealised exchange differences	5 427	4 041
	Total of items reducting tax base	**73 033**	**72 651**

1.	Amounts of provision against future liabilities and costs reversed and stated as expenditure	2 370	1 695
2.a.	Depreciation charged under Accounting Act	26 128	25 807
2.b.	Book value of intangible propery and tangible assets, sold, scrapped etc.		
3.	Costs not recognised for the purposes of doing business	730	1 067
4.	Penalties and fines	77	15
5.	Impairment of receivables	271	2 755
6.	Cancellation of receivables	29	17
7.	Amount identified by self-review and stated as expenditure	1 011	261
8.	Unrealised loss type exchange rate difference		462
9.	Difference between the normal market price used among affiliated		22
	Total of items added to tax base	**30 616**	**32 101**

9.1 Eligibility to investment tax incentive

In 2007 Richter notified the Ministry of Finance of its intent to take advantage of the tax relief in connection with the capital expenditure project to construct a new plant in Debrecen to develop and manufacture biotechnology products.

The project was concluded in 2011 and all the equipment that formed part of the project was commissioned. The Company has so far taken advantage of the investment tax relief for the 2012, 2013 and 2015 fiscal years in the combined current amount of HUF 5,805,980 thousand. The Company was not liable to pay corporate tax for the 2014 business year, so it did not utilize investment tax relief in that period. The tax relief to be applied for the 2016 fiscal year amounts to HUF 2,131,448 thousand.

The terms and conditions of having recourse to the present investment tax relief are regulated by the provisions of Sections 22/B and 23 of Act on Corporate Tax and Dividend Tax, Government Decree No. 206 of 2006 (16 October) /165/2014. (17 July) Gov.Decree/ on the investment tax incentive, Government Decree No. 85 of 2004 (19 April) /37/2011 (22 March) Gov.Decree/ on the procedure related to State aids pursuant to Article 87 (1) of the Treaty establishing the European Community and on the regional support map /entered into effect by virtue of Government Decree No. 37 of 2011 (22 March/, and Decree No. 8 of 2007 (24 January) of the Minister of Economy and Transport on the provisions for granting state aid based on individual government decisions /entered into effect by virtue of Decree No. 210/2014 (27 August) of the Minister of National Development.

Richter's Debrecen capex project satisfies condition set out in Section 22/B (1) b) of the Act on Corporate Tax and Dividend Tax ("the Act"), whereby for projects started and operated within the administrative jurisdiction of a preferential local self-government that satisfies the criteria specified in the Government Decree adopted under authorization conferred by the Act, valued at 1 billion forints or more at current prices, specifically:

1. Pursuant to Section 3 (1) of Government Decree No. 206 of 2006 (16 October) the taxpayer shall commission and take use of all tangible and intangible assets forming part of the investment, and (the large enterprise) shall continue to operate and use the same in the region concerned for at least five years after commissioning. Pursuant to Section 8 (2) in case the taxpayer derecognizes the assets within the mandatory period of operation without supplementing them or discontinues operating the assets, the taxpayer shall reduce the eligible costs constituting the basis of the tax relief with the historical costs of such assets.
2. Pursuant to the optional condition set out in Section 22/B (9) of the Act, in the four fiscal years following the first year of the tax relief the average work force employed should exceed the average number of persons employed by the taxpayer during the fiscal year prior to the commencement of the project (or the mathematical average headcount of the three years preceding the commencement of the project) by at least

75 workers if the project is started and operated within the administrative jurisdiction of a preferential local government specified in the relevant Government Decree.

Pursuant to Section 5 (1) of Government Decree No. 206 of 2006 (16 October) the tax relief and the present value of State support to be considered in cumulative subsidy cannot exceed the value of notified but no more than the actually incurred eligible costs adjusted with a pre-determined support intensity.

When it comes to calculating the amount of tax relief in conjunction with the Debrecen project, the starting point can be the present value of notified costs as these costs were exceeded by the present value of the actually incurred costs even taking the adjustment condition set out in Section 8 (2) of Government Decree No. 206 of 2006 (16 October). In the case of major projects the support intensity under Section 30 (1) of Government Decree No. 85 of 2004 (19 April) established for the North Great Plains region is 100% of 50% for the portion between the HUF equivalent of EUR 50 to 100 million up to the HUF amount equivalent of a maximum of EUR 50 million at present value. In consideration of the above, the present value of the project's eligible costs for 2007 adjusted with support intensity is HUF 6,966,858 thousand.

Under the support contract mentioned above between 2008 and 2016 the Company received a total of HUF 1,383,799 thousand non-refundable State support, at a present value for 2008 of HUF 1,149,384 thousand.

According to the above formula the present value of the investment related tax relief is the difference of the two figures above (the allowed costs and the present value of the support) HUF 5,817,474 thousand of which the Company uses HUF 5,029,346 thousand at present value in the 2012, 2013, 2015 and 2016 business years. Thus the remaining tax relief open for subsequent years amounts to HUF 788,128 thousand at present value.

The Company can take advantage of tax relief in the tax year following the year when the project was completed and in the following nine years (at the latest during the fourteenth tax year following the tax year in which the notification or the application was submitted). Therefore Richter can take advantage of the tax relief in connection with the Debrecen capex project in 2021 at the latest.

GEDEON RICHER PLC.

CONFIDENTIAL

Business Report
2016

Erik Bogsch
Managing Director

Budapest, 22 March 2017

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1. General data

1.1 Brief history of the Company

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

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

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

Privatization

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

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

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

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

new bonds with maturity of 2 April 2019 were launched on the Frankfurt Stock Exchanges Open Market (Freiverkehr). By retaining its shares in Richter the Hungarian State ensures the continuation of Richter's strategy, which relies on the Company's continued independence.

Major acquisitions to promote the expansion of the Company

Through the establishment of greenfield investments from the mid-1990s the parent company has expanded its network of manufacturing bases in Russia (1996) and India (2004) and through acquisitions in Romania (1998), Poland (2002). Acquisitions were aimed at a biotechnology company in Germany (2007), and Swiss women's healthcare product development firms (2010 and 2016).

Richter's recent acquisitions, the purchase of 100% of the shares of the Swiss PregLem Group (October 2010) and the buyout of Grünenthal, a German generic pharma company's women's healthcare portfolio (November 2010) enables the Company to carve out a share of the market of innovative women's healthcare products while geographically expanding the market of Richter's traditional women's healthcare products. The two transactions gave an impetus to develop a Western European marketing network and capture a greater share of the market of women's healthcare products, relying on Richter's trading companies that have been active in the field for a long time as well as on the newly established marketing companies. The change has strategic importance for the Company.

With its seat located in Geneva, PregLem was established in 2006 for the purpose of research, development and clinical trials of proprietary products for special gynaecological indications (uterine myoma, endometriosis, infertility) that have reached the clinical stage. Of its active product lines, the leading product is Esmya with ulipristal acetate as active ingredient. According to Richter's announcement on 27 February 2012, Esmya had been granted marketing authorisation valid for all EU member states for its first indication (pre-operative treatment of uterine myoma) and was launched in most markets in the course of the year.

In 2014 in an extraordinary communication Richter announced that the European Commission had granted marketing authorization for the use of Esmya for up to two courses of preoperative treatment of uterine fibroid (extension of the first indication). In

keeping with its strategy, in June 2014 Richter signed a license and distribution agreement to commercialize ulipristal acetate in Latin America.
In April 2015 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion on Richter's request for an extension of indication, and following on this decision, the European Commission granted approval for the intermittent use of Esmya in the long term management of uterine fibroids in May 2015. The marketing authorization is applicable in all countries of the European Union.
In a joint press release in May 2016 Richter and Allergan plc announced positive results from Venus I clinical trials, then in January 2017 they announced that Venus II had confirmed the results of Venus I. Both pivotal Phase III clinical trials evaluated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids. The two successful trials enable our licence partner Allergan plc to put together the regulatory dossier for securing marketing authorisation for the United States.

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

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

Shares of the Company in Q1 of 2013 Richter took control of selling its traditional products and acquired a majority holding in its Chinese marketing partner. The company will be active in the promotion and marketing of prescription drugs. With this move Richter has fundamentally transformed and strengthened its presence in the Chinese market. To expand its scope of business, in January 2016, Richter bought out its partner's

50% share in the joint venture, which was founded in 2010, as a result of which the Company now has full control of distribution of oral contraceptives and the OTC line in China.

In the second half of 2013 Richter started to expand in the Central and South American region by founding a company in Colombia as a first step, followed by acquisitions in Brazil and Mexico. In May 2014 an agreement was signed for the acquisition of a majority stake in Mediplus N.V. registered in Curaçao, Mediplus is a marketing company covering Ecuador, Peru, Chile and Bolivia through its subsidiaries and also sells products to Central American and Caribbean countries. The acquisition process was concluded in October 2015 and resulted in Richter's holding 100% of the shares of Mediplus Group.

As a result of these transactions the Company has appeared directly in the world's fastest growing pharmaceutical markets (China and the Latin American region), and has taken strategic steps to increase its geographical penetration. Richter's women's healthcare portfolio is given a prominent role in every market.

Impact of the market environment; the Company's global strategy and activity

With its global business comprising five continents, Gedeon Richter is unique among the Central Eastern European pharma companies as its primary activities of the research and development, manufacturing and marketing of pharmaceutical products are supported by a number of subsidiaries, joint ventures and associated companies. Our manufacturing subsidiaries, which operate in our traditional markets, together with our specialized marketing network have created the foundation for a strong regional multinational Group. As a result of developments that started in the early 1990s today a number of marketing and service companies support the presence and activity of the Richter Group and strengthen its market positions in a number of countries around the world.

In response to the economic crisis in Russia, in the late 1990s the Company has re-tailored its long-term strategic goals and has been aiming at strengthening its regional-multinational activities whilst maintaining stable positions in its traditional markets on the one hand, and strengthening its presence in the EU and the United States on the other

hand with proprietary and generic products, and has sought to build long-term co-operation in supplying active pharmaceutical ingredients. The primary focus of the Company is on the expansion of the women's healthcare business and an increase in generic sales, the latter in preparation for upcoming patent expiries. In the United States we concluded long-term supply contracts with manufacturers specialized in women's healthcare products.

Revamped in 2007, Richter's strategy has raised the support of the so-called specialty pharma products, i.e. development, manufacture and sales of pharmaceutical products with high value added a priority strategic goal. This goal is served by R&D projects conducted in connection with the central nervous system and in the field of biotechnology, and also by the ongoing development and expansion through acquisitions of the women's healthcare portfolio.

Implementation of the above strategy resulted in a significant increase of sales income in the EU markets. Income from sales increased likewise in the countries that have been Richter's traditional markets and who joined the EU after 2004. The latter trend is particularly significant as drug subsidies in the new accession countries are generally underfinanced, which led the Company to reduce the price of some of its products. The 2014 Ukraine crisis and the massive devaluation of the rouble curbed the dynamic growth of the pharmaceutical market that had characterised the CIS region in recent years and resulted in plummeting sales revenues mainly in Russia and Ukraine. As a result of the new sales scheme Richter strengthened its position in the Western European and Chinese markets and due to acquisitions, also in the Central and South American region. As a result, the contribution of international markets to total sales was approximately 90% in 2016.

Richter developed a long-term collaboration with several large international companies in research and development, sales and production in various markets (the EU, the U.S., Japan and Russia).

After years of perpetual uncertainties and repeated cuts since 2006, the Hungarian pharmaceutical market was characterised by relative stability in 2016. The surtaxes affecting the pharmaceutical industry were offset up to 90% by the tax benefits the Company was granted on account of its R&D activities. While the semi-annual blind

bidding process introduced in 2011 designed to force the pharma companies to cut their prices resulted in a loss of HUF 35 million in 2016, the Company was able to compensate for it by introducing new products.

1.2 Main objectives for 2016

The Company's main objectives for 2016 were as follows: to expand sales despite a difficult market environment; to retain and improve market shares; and to strengthen the strategy of standing on multiple legs in the market; based on the strategic principles, to shift business to enhance the contribution of high value added products; to expand the women's healthcare business; to develop a new original CNS product; and to take further steps in the development of biosimilar products.

In 2016 significant advancement was achieved in the following areas:

- Income from sales increased in the U.S. and Chinese markets as well as in the EU, particularly in the EU 15 member states.

- On 17 September 2015 Richter and Allergan were pleased to announce that FDA granted Allergan marketing authorization of cariprazine for the treatment of manic or mixed episodes of bipolar I disorder and schizophrenia in adults. From the first quarter of 2016 the product will be sold in pharmacies of the United States under the trade name of Vraylar™. Besides its long term positive financial impact this event has an obvious significance in terms of industrial history. The two companies released a clinical and regulatory update on the cariprazine programme in August 2016. Topline results from the MD-72 trial indicate that flexible doses of cariprazine did not separate significantly from placebo as an add-on treatment in adults with major depressive disorder (MDD) in this trial, therefore the companies will continue to work on a subsequent Phase III trial to prove efficacy.

- On 29 March 2016 the European Medicines Agency (EMA) started assessment of the marketing authorisation of cariprazine for the indication of schizophrenia. In August of the same year Richter and Recordati signed a licence agreement granting Recordati

exclusive sales license to commercialise the product in Western Europe as well as Algeria, Tunisia and Turkey.

- In the context of a HUF 15 billion investment programme Richter is expanding the Debrecen biotechnology plant constructed in 2012 for the development and manufacturing of biosimilar products. A Government grant has been received in amount of HUF 5 billion. By creating new jobs the project will almost double the biotech manufacturing capacity.

- On 4 January 2016 Richter announced that the European Medicines Agency (EMA) has accepted Richter's regulatory submission for the proposed biosimilar to Eli Lilly's Forteo (teriparatide). The biosimilar teriparatide has been developed by the Company's subsidiary Richter-Helm BioTec GmbH & Co. KG. According to the relevant license agreements, biosimilar teriparatide is expected to be launched under both Richter-Helm BioTec GmbH & Co. and Stada labels in Europe following the patent expiry of the original product. On 14 November 2016 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion on the product and accordingly proposes the granting of marketing authorisation for the biosimilar teriparatide Terrosa. Following on the positive opinion on 4 January 2017 the European Commission granted marketing authorisation for Terrosa.

- In December 2015 it was announced that the EMA had accepted Richter's regulatory submission for its proposed biosimilar to Amgen's Neulasta (pegfilgrastim). In December, 2016 the Company withdrew the application after the CHMP's notification in November that the data submitted were not sufficient for a positive evaluation of the risk/benefit analysis related to the product. Richter is committed to continue with the clinical development programme and registration of pegfilgrastim.

- With a view to expanding its Women's Healthcare portfolio, at the end of June 2016 Richter acquired Finox Holding, a Swiss based biotech company engaged in the development and commercialisation of innovative and cost effective products addressing female fertility. Finox Holding's product Bemfola® is a recombinat human follicle stimulating hormone (r-hFSH), the first biosimilar r-hFSH product to be granted marketing authorisation in Europe. Richter has obtained global rights for the

commercialisation of Bemfola® (with the exception of the United States) thereby intending to emphasize its commitment to biosimilar products.

- In a joint press release in May 2016 Richter and Allergan plc announced positive results from the Venus I pivotal Phase III clinical trials that evaluated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids.

- Following the lines of the "specialty pharma" strategy developed in 2007, in 2015 Richter signed a license and distribution agreement with Bayer HealthCare to commercialize Bayer's transdermal contraceptive patch under the trade name Lisvy. In October 2016 Richter initiated immediate withdraw after receiving Bayer's notification that the results of certain stability tests conducted with the product had not met the product specifications. The two companies are working together to identify the causes leading to the test results.

- As another step towards the implementation of its biosimilar strategy, in October 2016 Richter signed an agreement on the technology transfer to manufacture trastuzumab, a monoclonal antibody developed by DM Bio of Korea, and to take over the licence of development and commercialisation. Richter will secure exclusive distribution rights for the territory of Europe, the CIS region, and Latin America.

- To bring development and manufacture of biosimilar products to new heights the Company set up an independent organisational unit named Biotechnology Business, which has been in operation since 1 July 2016.

- In December 2010 Richter announced the foundation of Gedeon Richter Rxmidas Joint Venture Co. Ltd. with an initial equity share of 50%. On 22 January 2016 it was announced that Richter acquired from its partner, Rxmidas Pharmaceuticals Holdings Ltd. its outstanding 50% stake in the joint venture company. Consequently, with its 100% holding Richter will be in full charge of its contraceptive and OTC business in China.

- The Accounting Act provided for the mandatory application, as of 1 January 2017, of the International Financial Reporting Standards for the purpose of stand alone financial statements for companies whose securities are traded in the regulated market of any of

the EEA member states. Pursuant to this provision, from 1 January 2017 Richter must apply the IFRS for the purpose of financial reporting. From 1 January 2017 Richter prepares its reports and statements in accordance with its stand alone IFRS.

- In 2016 Richter took further steps to expand its international business through a capital increase in its manufacturing companies and continuing its investments. Driven by the goal of adapting to the Russian economic policy of favouring local production, Richter made supporting investments into the Russian subsidiary a special priority. Details are described in Chapter 6: Foreign investment.

1.3 Share structure of the Company

	Ordinary shares Number	Voting rights * %	Share capital %
Domestic ownership	59,832,738	32.15	32.11
State ownership total	47,051,817	25.28	25.25
including MNV Zrt.	*47,051,668*	*25.28*	*25.25*
including Municipality	*149*	*0.00*	*0.00*
Institutional investors	6,070,053	3.26	3.26
Retail investors	6,710,868	3.61	3.60
International ownership	126,289,476	67.84	67.75
Institutional investors	124,591,828	66.93	66.84
including Aberdeen Asset Management Plc.	*18,243,530*	*9.80*	*9.79*
including Harding Loevner LP ***	*9,367925*	*5.03*	*5.03*
Retail investors	1,697,648	0.91	0.91
Treasury shares**	241,634	0.00	0.13
Undisclosed ownership	11,012	0.01	0.01
Share capital	**186,374,860**	**100.00**	**100.00**

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

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

***On 21 October 2016 Harding Loevner LP's influence increased to 5.03%.

The data in the table above were compiled based on the share registry adjusted by information provided by KELER Zrt. as clearing company, global custodians and nominees. Given the confidentiality of investors' interests, the records of some investment funds may contain ownership and/or voting rights data that differ from those above.

There are no shares in issue that involve special control rights.
Gedeon Richter Plc. has no shares whose market trading is not permitted.
There is no restriction regarding the transfer of shares in issue representing the share capital.
The Company is not aware of any agreement between shareholders that would result in restricting shares issued or the transfer of voting rights.
Each share with a face value of HUF 100 entitles the holder to one vote; however, the Statutes restrict the exercise of shareholders' rights by stipulating that at the AGM no shareholder shall exercise voting rights, in their own right or as a proxy of another shareholder, alone or together with other related person(s) in excess of 25% of the voting rights represented by the shareholders attending in person or by proxy.

As of 1 January 2016 the number of ordinary shares comprising the Company's subscribed capital was 186,374,860. The number of shares did not change in the course of 2016.

The closing price of shares as of 30 December 2015 was HUF 5,498 compared to HUF 6,210 as of 30 December 2016. Average monthly share prices in 2016 varied between the minimum of HUF 5,110 per share (in February) and the maximum of HUF 6,062 per share (in December).

1.4 Treasury shares

	Ordinary shares	
	31.12.2015	31.12.2016
Shares	101,371	181,350
Nominal value HUF`000	10,137	18,135
Book value HUF`000	549,820	1,068,477

Following the decision of the Board of Directors 604,789 ordinary shares were granted as a bonus to employees whose outstanding performance contributed to Richter's earnings for the year.

In keeping with the programme approved by the National Tax and Customs Administration of Hungary (NAV) related to employee share bonuses the Company granted 285,459 Treasury shares to 4,342 employees on 16 December 2016.

1.5 Corporate governance

Statement on corporate governance

Corporate Governance principles and practice implemented by the Company are in accordance both with the guidelines set by the Budapest Stock Exchange, the directives of the capital market, the provisions of the Civil Code and the Statutes. In addition, the Company reviews from time to time the principles applied to ensure, on an ongoing basis, in order to appropriately control the Group's operation in compliance with continuously developing international practices. In matters where the Company does not apply the guidelines of the Budapest Stock Exchange or the directives of the capital market, or does not apply them in their entirety, the Annual Report on Corporate Governance is applicable. The Report on Corporate Governance is part of the Annual Report; it is deliberated and approved by the AGM as a separate agenda item, and it is published on the website of the Budapest Stock Exchange as well as on the Company websites.

In 2016 the Company did not depart from the regulatory methods described above.

Gedeon Richter's key principles of Corporate Governance are to create and maintain satisfactory dialogue with shareholders so as to enhance shareholder value, to differentiate the roles and responsibilities of the Board of Directors, the Executive Board

and the Supervisory Board, and to operate the Group's business in compliance with legal and regulatory requirements and to maintain the highest ethical standards.

Corporate bodies

The Annual General Meeting is the supreme decision making body of the Company, and comprises all shareholders. The Annual General Meeting decides, inter alia, on the adoption of the annual financial statements and the appropriation of profit, the election or removal of members of the Board of Directors, Supervisory Board and Audit Committee, the appointment of the statutory auditor, amendments to the Statutes, changes that have a significant impact on the Company's share capital and other issues within its competence under the Statutes.

Rules of amendment to the Statutes:

- As a general rule, unless otherwise provided for by the Statutes, modification of the Statutes require a three-quarter majority of the votes present at the General Meeting, but at least 20% + 1 vote;
- The following decisions require a greater majority pursuant to the Statues (90% majority of the votes present at the General Meeting, but at least 45% + 1 vote of all the voting shares):
  - Changing the form of the Company,
  - Transformation and termination of the Company without succession,
  - Possible major cutback or discontinuation of the Company's R&D or manufacturing activities in Hungary,
  - Any change in the name, the registered company name and/or trade name of the Company,
  - Changing the seat of the Company,
  - Discontinuation or deletion from the Companies Register of the Company's core business.
- Articles 12.1 d) and y) of the Statutes specifically provide for the election, removal and remuneration of the members of the Board of Directors, the Supervisory Board, the Audit Committee and of the Auditor,
- In matters falling within the exclusive competence of the General Meeting as defined by Article 12.1 of the Statutes (except for the matters listed above) the following rules are applicable:

- a three-quarter majority of the votes present at the General Meeting, but at least 35% + 1 vote;
- a three-quarter majority of the votes present at the General Meeting, but at least 20% + 1 vote;
- a simply majority of the votes present at the General Meeting, but at least 20% + 1 vote;

The **Board of Directors** is the supreme decision-making body of the Company except with respect to those matters reserved for shareholders. A majority of Directors of the Board are Non-Executive Directors. All the non-executive directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The offices of Managing Director and Chairman are held separately until at the end of 2016. The latter is elected from among the non-executive directors. Directors of the Board are not entitled to issue or redeem shares. The Board works based on an agreed agenda in reviewing the key activities of the Company's business. The Company Secretary is responsible to the Board and is available to individual Directors in respect of Board procedures. Board members are elected by the AGM for a maximum term of five years. In 2004 the Board decided to set up two subcommittees which prepare and submit proposals contributing to the Board's decision making process. The subcommittees each consist of at least three non-executive independent Board directors.

The **Corporate Governance** and **Nomination Subcommittee** is responsible for considering and making recommendations to the Board concerning the appropriate size, functions and needs of the Board. This responsibility includes establishing the criteria for Board membership; conducting appropriate inquiries into the background and qualifications of possible candidates; considering matters of corporate governance and reviewing periodically our Corporate Governance Principles. The Board of Directors discusses the recommendations of the Corporate Governance and Nomination Subcommittee and drafts a proposal for the election on officers for the consideration of the General Meeting.

The **Remuneration Subcommittee** is responsible for establishing annual and long-term performance goals and objectives for elected officers. This responsibility includes preparing proposals for the compensation of the Managing Director.

The **Executive Board** is responsible for the executive management of the Company's business. The Executive Board is chaired by the Managing Director. In order to maintain a sharp focus on strategic management the board comprises only the Executive Directors.

Overseeing the management of the Company is performed by the **Supervisory Board**. It meets on a regular basis in accordance with statutory provisions and at other times when necessary to consider details of the Company's operating activities. It submits proposals to the Board of Directors and discusses the Company's strategy, financial results, investment policy and systems of internal audit and control. The Supervisory Board is provided with regular and detailed information about the management of the Company, and the chairman is entitled to attend the meetings of the Board of Directors with the right to consultation. The members of the Supervisory Board are elected or re-elected by the AGM for a maximum term of three years.

The Company has an **Audit Committee** comprising three members elected by the General Meeting from among the independent members of the Supervisory Board. The Audit Committee is responsible for the oversight of the Company's internal accounting standards.

The company has no agreement with its officers or employees that provide for indemnification in the event the officer resigns or the employee terminates their employment, or the officer or employee terminate their legal relationship illegally or the legal relationship ceases as a result of a public bid.

Risk management and internal control

Richter undertakes risk management in the context of running its business efficiently. We aim at the timely recognition, the precise understanding and the assessment of the risks, and to implement effective countermeasures. Our risk management activity includes the

evaluation of internal controls so that our risk assessment supports the Company in maintaining efficient internal control.

Richter's view is that not all risk management aspects can be formalised, and in our risk-related decisions and in the implementation of internal requirements and rules we rely on the Company's relevant bodies and trust the skills, experience and judgement of our decision-makers.

Accountability and control related to risk management

- The Board of Directors is responsible for the overseeing and control of the Company's risk management and calls on the Executive Board to report in order to identify the main risk areas; in collaboration with the management it develops the basic risk management requirements, and regularly acquires information on the effectiveness of related risk management procedures and internal control processes.
- The Executive Board is answerable to the Board of Directors in respect of the implementation of risk management procedures and is ultimately accountable for risk management. Moreover, it is the duty of the Executive Board to to develop and maintain an internal control system to manage risks associated with the Company's business and to promote Company's goals.
- Strategic risk management is directly a duty of the Executive Board.
- The operational areas are responsible for managing their own operational and compliance risks. In meeting this duty the heads of the areas of operation are supported by the meetings of the corporate bodies. In the context of the company's internal reporting procedure heads of the operational areas report to the Executive Board on risks arising in their particular area.
- Financial risks are managed in a centralised fashion by the Company's financial management.
- The key components of control are management control, integrated process control, independent internal audits, and external auditors.
- Internal audits are conducted by the Audit Department based on a preliminarily approved annual schedule and aim to ascertain by an independent and objective assessment whether the internal control system is suitable for efficient risk management. When drawing up the annual audit plan the Company's risks are taken

into consideration (on the basis of importance and by rota), as are the Executive Board's recommendations.

- Risk management, internal controls and corporate governance are evaluated annually in the context of the Annual Report.
- The Supervisory Board and the Audit Committee reviews the defined risks and risk management mechanisms once a year.

Other information

Over the past years Richter has grown from a regional player to a global company despite a keen competition in the pharmaceutical market. Besides the advantages of expansion the Company faces day by day the challenges of compliance with a complex regulatory environment brought by global operation. In keeping with international industrial practice a Global Compliance Program was introduced in November 2016 with the main goal of following, compliance and enforcing compliance with European and national regulations, industrial standards, and internatioal business standards and ethics. As a first step the Global Compliance Program was introduced in Hungary and in the European Economic Area states, to be followed in the near future by China and Latin America, where strict anti-corruption legislation and other local regulations also require guidance by the parent company.

The Board of Directors announced that Mr. Gábor Orbán, member of the Executive Board was appointed Director of Corporate Strategy (6 September 2016), and Chief Operating Officer from 1 January 2017 (appointed on 6 December 2016).

On 5 December 2016 the Board of Directors informed the shareholders that Mr. William de Gelsey resigned of his position as Chairman from 1 January 2017 whilst continuing to serve on the Board. At its meeting held on the same day the Board of Directors elected Mr. Erik Bogsch, CEO of the Company to serve as Chairman with effect from 1 January 2017.

1.6 Branches

The sites of Richter Gedeon Vegyészeti Gyár Rt. (Gedeon Richter Chemical Plant Ltd.) are as follows:

27 Esztergomi út, H-2510 Dorog

20 Medvefű utca, H-4031 Debrecen

1.7 Other information

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

The Accounting Act provided for the mandatory application, as of 1 January 2017, of the International Financial Reporting Standards for the purpose of stand alone financial statements for companies whose securities are traded in the regulated market of any of the EEA member states. Pursuant to this provision, from 1 January 2017 Richter must apply the IFRS for the purpose of financial reporting. From 1 January 2017 Richter prepares its reports and statements in accordance with its stand alone IFRS.

About previous years:

The Company prepared consolidated audited financial statements according to the IFRS for the first time for the 2002 fiscal year. Since 2003 the quarterly flash reports to the Stock Exchange have included consolidated non-audited balance sheet, income statement and cash flow statement data according to IFRS. Availing itself with the option provided

by the Hungarian Accounting Act, since 2005 the Company has only prepared financial statements in accordance with IFRS, consolidating all of its subsidiaries, joint ventures and associated companies with the parent company.

2. 2016 operating review

2.1 The balance sheet as of 31 December 2016

ASSETS

The Company's assets amounted to HUF 782,005 million, HUF 44,938 million (6.1%) higher than the opening value. Fixed assets were up by HUF 73,676 million, and current assets decreased by HUF 28,546 million.

Fixed assets

Intangible assets amounted to HUF 64,948 million in the reported period, 38.1% down from the reference figure.

The decrease was due primarily to the reclassification of goodwill (HUF 35,980) to be reported in Equity investments following a change in the Hungarian Accounting Act, as well as to the write-off consequent to the withdrawal of the contraceptive patch Lisvy (Valuable rights HUF -2,405 million).

The value of tangible assets was HUF 10,300 million above the reference year figure (+7.4 %). The increase is contributed by Rights and Technical equipment, machines and vehicles primarily in conjunction with the development of the new the injectables packaging plant and a project aimed at creating state-of-the-art freeze-drying capacities.

Depreciation on tangibles and intangibles was HUF 23,182 million in 2016, HUF 646 million in excess of the 2015 figure.

As of 31 December 2016 the combined value of the Company's Equity investments amounted to HUF 224,611 million including fair value, and rose by HUF 77,079 million year-on-year. The difference is attributed to reclassification of goodwill as a result of the amendment of the Hungarian Accounting Act, specifically: PregLem HUF +12,760

million, GRMed HUF +18,944 million, acquisition of Finox Holding (HUF +25,855 million), Gedeon Richter Romania S.A.'s capital increase converted from a loan (HUF +5,405 million), revaluation of investment in Protek due to the change in share prices (HUF +5,328 million), acquisition of the second 50% share in GR Rxmidas (HUF +4,870 million). The reassessment of Equity investments as of the balance sheet date resulted in an increase of HUF 751 million.

The Company intends to hold the bond bought by the Company until maturity in 2019, when it can be exchanged to Richter Treasury shares. The bond is reported under Investments with a book value of HUF 16,173 million in 2016.

Loans receivable amounted to HUF 73,677 million and comprise mainly long-term loans extended to Finox Holding, PregLem and production companies.

Current assets

Inventories amounted to HUF 48,514 million, 3.1% above the opening figure.

Receivables amounted to HUF 132,661 million, HUF 17,770 million above the opening figure. Trade receivables were HUF 19,327 million up year-on-year, resulting mainly from increasing participatory receivables from the CIS and trade receivable from the European Union. The figure also contains a HUF 13,973 million increase in receivables from affiliated undertakings and undertakings linked by significant or other participating interest. Receivables from affiliated undertakings and undertakings linked by a significant share or other participating interest and cash pool is HUF 3,261 million below the reference year's closing figure due mainly to the loan to Gedeon Richter Romania S.A. converted to capital increase and to the loans to Pharmapolisz Kft. and Richter-Helm BioLogics GmbH & Co. classified as long-term, reduced by the loan item extended to GR RUS becoming due within a year.

The value of **cash and securities is** HUF 47,788 million below the opening value. The main items contributing to the decease are the acquisition of Finox Holding, the EUR 21 million repayment of the European Investment Bank credit, and the dividend in connection of the result of 2015 and approved by the Annual General Meeting was HUF 13,419 million.

As of 31 December 2016 the Company does not hold Securities held for trading or other equity investments.

LIABILITIES

Shareholders' equity

In 2016 **shareholders' equity** increased by 7.3 % to reach HUF 680,699 million, as a result of retained earnings.

Liabilities

The Company's total liabilities amount to HUF 85,692 million and include the **long-term liabilities** items of HUF 28,510 million, EUR 91.7 million drawdown to finance R&D, and the advance support amounting to HUF 2,563 million extended by the Ministry of National Economy to fund innovative pharmaceutical research and development. Current liabilities were HUF 7,774 million up and comprised HUF 35,214 million liabilities to suppliers and affiliated undertakings as the main item (HUF +4,400 million) including cash pool. Increase off the short-term borrowings, the impact of the above-mentioned reclassifications is reduced by the deferred payment in conjunction with the acquisitions in China and the EUR 21 million EIB repayments.

2.2 The 2016 income statement

The Group's profit after taxes for 2016 was HUF 54,474 million, 11.4%, or HUF 7,006 million, lower year-on-year. With approximately the same turnover the increase in Costs of sales and marketing and the different breakdown of the one-off items under Other income and expenditure are worth mentioning, attenuated by an increase in the Profit on financial transaction, mainly because of favourable exchange rates.

2.2.1 Income from sales

	2015 HUF million	2016 HUF million	Variance HUF million	Variance %
Hungary	33,939	34,840	901	2.7
International markets				
CIS	109,275	102,235	-7,040	-6.4
EU *	91,983	92,503	520	0.6
USA	13,472	16,376	2,904	21.6
China	16,518	19,145	2,627	15.9
Latin America	3,749	3,703	-46	-1.2
Other countries	13,160	14,440	1,280	9.7
International markets TOTAL	248,157	248,402	245	0.1
Total	**282,096**	**283,242**	**1,146**	**0.4**

* Excluding Hungary

Income from the 2016 domestic sales was 2.7% up compared to the reference year. Sales in international markets were approximately the same as in 2015.

There were some changes in the breakdown of export by regions compared to the reference year: With some decrease, the CIS markets continue to retain the biggest share (36.1 %). The EU states' share increased by 0.1 percentage points and contributed 32.7%. China's share was 0.8 percentage points higher (6.7%) than prior year. The USA increased its share by 1.0 percentage point over 2015 and achieved to 5.8%. The share of Other countries was 0.4 percentage points higher (5.1%) than prior year. The contribution of Latin America to sales income was 1.3%, the same as the reference period figure. Income from domestic sales grew by 0.3 percentage points achieving 12.3 %.

Based on the year-end figures for 2016 the Company realized HUF 34,840 million income from sales **in the domestic market**, 2.7 % (HUF 901 million) more than in 2015. With this performance the Company's market share was 5.4% in 2016, 0.1%p above the reference year's figure. Richter ranked second in the prescription drugs market with a share of 7.4%.

The main factor was increasing Suprax, Esmya, Vidotin, Xilomare, Duamild and Flamborin sales, reduced by dropping Kalmopyrin, Lisonorm, Klion and oral contraceptives. In 2016 oral contraceptives were the leading item in terms of sales contributing 8.8% to sales income.

In 2016 no significant changes took place in terms of price regulations in the domestic pharmaceutical market. Pharmaceutical representatives' registration fee was HUF 219 million in 2015 and HUF 253 million in 2016.

The company's income from sales in **international markets** is HUF 248,402 million, approximately the same as the 2015 figure of HUF 248,157 million. In euro, income from exports was 0.5 % down and amounted to EUR 797.6 million.

Russia continues to be the leading market of the **CIS region** and also of the Company, with turnover denominated in EUR 9.5% below the reference year figure, also largely influenced by the massive (12.8%) devaluation of the rouble against the euro. Sales in rouble were 2.1% of RUB 354.7 million up. The increase in rouble denominated sales was contributed by oral contraceptives, Airtal, Panangin, Verospiron and Esmya and dampened by lagging Diroton, Mydocalm and Stopdiar sales.

Euro denominated sales in Ukraine were 11.3%, or EUR 3.0 million, up year-on-year, with increasing Groprinosin and Verospiron sales and dropping Ekvator sales.

EUR sales income from other CIS countries dropped by 5.2% of EUR 3.9 million. Declining sales in Belarus and Turkmenistan were partially offset by rising sales in Moldova and Kyrgyzstan.

The total turnover achieved in the CIS market was HUF 102,235 million, 41.2% of total export. Year-on-year decrease was 6.4% (HUF 7,040 million). Expressed in Forex, the turnover was EUR 328.2 million (USD 363.5 million) with a 7.0 % decrease in EUR (7.1 % in USD) year-on-year.

The turnover achieved in the **European Union** was HUF 92,503 million, 0.6% up year-on-year. The EU region's share from the total income achieved in international markets is 37.2%. Expressed in Forex, the income amounted to EUR 297.0 million.

Owing to the efficient promotion efforts of the Western European network of pharmaceutical representatives the Company's strategic product Esmya realised a significant sales increase,

which greatly contributed to the overall 2.5% increase in EUR term in the EU15 region. Bemfola® sales contributed to the 2016 income.

The CEE member states decreased their contribution to total sales in the EU region from 48.6% in 2015 to 47.3% in 2016. The decrease (2.6% in euro) is attributed primarily to the performance of oral contraceptives and Avonex.

Sales in the **United States** were 21.6% (or HUF 2,904 million) up; denominated in dollar, the increase was 20.5% (or USD 9.9 million) and was contributed mainly by Vraylar™ royalty income.

Turnover in the **Chinese region** was HUF 19,145 million (EUR 61.5 million) and was HUF 2,627 million (or EUR 8.2 million) higher year-on-year. Increase in Cavinton sales was especially outstanding.

Turnover in **Latin America** was approximately the same as in the reference year. The 2016 sales income amounted to HUF 3,703 million (USD 13.2 million). The region's share from the total income achieved in international markets is 1.5%.

In the region of **Other countries** oral contraceptives were the leading products. Other countries achieved a turnover of HUF 14,440 million (EUR 46.4 million). Compared to 2015, sales income was 9.7% higher (in euro, 9.2% higher). The contribution of the region to international sales was 5.8%.

Net income from sales **totalled** HUF 283,242 million in 2016, a HUF 1,146 million increase over the 2015 figure.

2.2.2 Direct and indirect costs of sales; operating profit

Aggregate direct and indirect costs of sales were HUF 11,175 million higher year-on-year.

Direct costs of sales totalled HUF 64,158 million and were HUF 4,579 million over the 2015 figure due to an increase in volume and a change in the portfolio of products. Gross

profit from sales was HUF 219,084 million, HUF 3,433 million short of the reference year figure with the gross margin down from 78.9% to 77.3%.

Indirect costs amounted to HUF 170,282 million in 2016, HUF 6,596 million above the 2015 figure.

- Advertising and promotion costs increased by HUF 3,988 million year-on-year. The increase in marketing costs in Western Europe and China was not offset by dropping costs in Poland and in Other CIS countries.

- Increase in employees' wages and contributions amounted to HUF 1,701 million compared to the previous year. Besides the general increase of basic salaries, differentiated increase was also implemented taking into consideration individual performance, labour market conditions and the importance of the job. The differentiated increase was partially included in the basic salary.

- Licence fees are HUF 1,190 million above the 2015 figure, mainly because of the increasing licence costs related to Esmya (predominantly in the EU15 region).

- The 2016 material costs were HUF 519 million higher year-on-year due to the price difference in inventories valuation and higher costs of R&D and promotional materials.

- Attorneys' fees increased by HUF 460 million over 2015; the increase is partly attributed to the Finox Holding acquisition.
- In 2016 there was a HUF 577 million reduction in income from research commissions, explained only by significant development costs related to ulipristal acetate (Esmya) in the reference period coupled with a sharp drop in the development costs of pegfilgrastim, partially countered by costs of proprietary and generic development topics related to EVE vaginal rings.

- The costs of vehicle leases was down by HUF 543 million y/y due to a significant reduction in the number of leased vehicles because of changes in the structure of financing and operating the vehicle stock in Russia.

Other income and expenditure had a negative balance of HUF 13,672 million in 2016 compared to HUF 747 million income in the reference year.

The drop is attributed to a large extent to milestone incomes in the reference period (from Allergan in conjunction with the marketing authorisation of Vraylar™ for the USA, and from Stada in connection with biosimilar product development), as well as to exchange rate compensation related to Chinese sales.

In conjunction with the withdraw of Lisvy HUF 2,405 million was reported in Intangibles and in Q3 of 2016 an additional HUF 849 million impairment was reported in Inventories. Indemnification is currently negotiated by the parties.

The above negative effect was enhanced by the write-off of inventories associated with the withdrawal of PEG-GCSF's application for registration.

On the other hand, the milestone income related to the European distribution of cariprazine (Recordati agreement) had a positive effect in the reported period, as did the release of provision created for additional reductions.

Claw-back in 2016 comprised payments related to the Hungarian, German, French, Spanish, Portuguese, Belgian, Italian, Bulgarian and Latvian markets totalling HUF 5,501 million.

The Company's *operating profit* was HUF 35,130 million, 41.0% down compared to 2015. After a 8.7 percentage point decrease, the operating margin was 12.4%.

2.2.3 Other income statement items

Net financial income

Net financial income was a profit in both 2016 and 2015 (HUF 19,680 million and HUF 2,669 million respectively).

In light of the changes during the reported year, Richter's financial income was greatly affected by the weakening of the forint against the rouble and the dollar, and the strengthening of the forint against the euro. As of the 2016 balance sheet date, the exchange rate (NBH rate) was 4.78 forints to the rouble (+23.2%), 293.69 forints to the dollar (+2.5 %), and 311.02 forints to the euro (-0.7 %).

Revaluation as of the balance sheet date closed with a loss in 2015 (HUF 359 million) and a profit in 2016 (HUF 9,276 million, which is an increase of HUF 9,635 y/y). The item includes revaluation of investments, loans receivable, advances, cash, loans payable, trade receivables and payables, as well as as well as accrued and deferred items.

Dividends received contributed HUF 7,820 million to the 2016 financial income, HUF 6,818 million higher than the HUF 1,002 million realized in 2015 (mainly thanks to Protek and Befektetéskezelő Kft.).

Exchange rate profit realized from trade on receivables, payables and other items were HUF 2,324 million as opposed to a HUF 2,935 million loss in the preceding year. The aggregate gain contributed HUF 5.3 billion to a year-on-year decrease in earnings.

In 2015 there was a reversal of impairment of investments related to Protek (HUF 153 million) followed by reversal of impairment related to Hungaropharma and Richter Szolgáltató, impairment on GR-RUS, Mediplus N.V., Pharmatom and Vita-Richter, and impairment on the loan agreements with Gedeon Richter Aptyeka and Pharmatom in 2016 (totalling HUF 2,815 million loss from financial transactions).

Exchange rate gains amounted to HUF 1,364 million in 2015 followed by HUF 280 million in 2016, which is a HUF 1.1 billion decrease year-on-year.

Extraordinary items

As a result of the 2016 amendment to the Accounting Act Extraordinary items ceased from 2016. These items were reported in Other income and expenditure and Financial income and expenditure.

Profit before taxes

The 2016 earnings before taxes amounted to HUF 54,810 million, HUF 7,437 million less than in 2015.

Taxes

In 2007 Richter announced its intent to take advantage of the tax relief in connection with the capital expenditure project to construct a new plant in Debrecen to develop and

manufacture biotechnology products. The Company had resort to the investment related tax relief in 2012 and 2013. As the Company had no corporate tax payment liability in 2014 it could not use the tax relief either.

Taking the investment related tax relief, the 2016 taxes payable amounted to HUF 336 million compared to HUF 767 million in 2015.

Profit after taxes

The Company's profit after taxes for 2015 was HUF 61,480 million and HUF 54,474 million in 2016.

2.2.4 Contribution of key products to sales revenues

Finished products contributed approximately 92% to the 2016 sales revenues. The contribution of APIs was 3%, that of sales of purchased materials and royalties was 2% each, and services contributed 1%.

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

2015				2016			
Rank		Sales HUF million	Share %	Rank		Sales HUF million	Share %
1	Oral contraceptives	85,407	30.3	1	Oral contraceptives	80,384	28.4
2	Cavinton/vinpocetine	25,403	9.0	2	Cavinton/vinpocetine	27,643	9.8
3	Mydeton/tolperisone	15,339	5.4	3	Esmya /ulipristal acetate	20,890	7.4
4	Esmya /ulipristal acetate	14,995	5.3	4	Panangin/asparaginates	14,037	5.0
5	Panangin/asparaginates	14,263	5.1	5	Mydeton/tolperisone	12,312	4.3
6	Verospiron/ /spironolactone	11,317	4.0	6	Verospiron /spironolactone	11,280	4.0
7	Ace inhibitors/ /enalapril, lisinopril	11,303	4.0	7	Ace inhibitors/ /enalapril, lisinopril	8,580	3.0
8	Lisonorm /lisinopril, amlodipine	8,240	2.9	8	Aflamin/aceclofenac	7,494	2.6
9	Aflamin/aceclofenac	6,642	2.4	9	Lisonorm/ lisinopril, amlodipine	7,487	2.6
10	Quamatel/famotidine	6,629	2.3	10	Quamatel/famotidine	6,673	2.4
	Total	**199,538**	**70.7**		**Total**	**196,780**	**69.5**
	Net income from sales	*282,096*	*100.0*		*Net income from sales*	*283,242*	*100.0*

The contribution of the ten leading product categories to total sales was 69.5%, slightly below the reference year's figure.

Oral contraceptives are the leading products with a turnover of HUF 80.4 billion, 5.9% below the 2015 figure. Decreasing income from the sales of oral contraceptives and Drospirenone were not offset by rising Diegonest sales. The contribution of this product category to the 2016 total turnover was 28.4%, 1.9 percentage points below the reference year.

Richter's most important original drug Cavinton is the second most important product achieved an increase in turnover (rising sales in China). Esmya advanced from 4th to 3rd place as a result of a 39.3% y/y increase in turnover contributed by expanding sales in Western Europe. Fifth in the reference year, Panangin managed to advance one place despite a slight drop in sales. Mydeton is ranked third with a 4.3% market share. Verospiron and ACE inhibitors were ranked 6th and 7th, same as in the reference year, with respective market shares of 4.0% and 3.0 %. Lisonorm and Aflamin, 8th and 9th in the reference year, swapped places in the 2016 league

table. Quamatel finished 10th with approximately the same as in 2015. The composition of the list of TOP 10 products did not changed compared to the reference year.

2.2.5 Contribution of key markets to sales revenues

The Company's ten leading markets were as follows:

Country	2015		Country	2016	
	HUF million	EUR million		HUF million	EUR million
1. Russia	77,685	250.9	1. Russia	70,742	227.1
2. Hungary	33,939	109.6	2. Hungary	34,840	111.8
3. Germany	16,688	53.9	3. China	19,145	61.5
4. China	16,518	53.3	4. United States of America	16,376	52.6
5. Poland	14,664	47.4	5. Germany	15,344	49.3
6. United States of America	13,472	43.5	6. Poland	13,887	44.6
7. Ukraine	8,236	26.6	7. Ukraine	9,216	29.6
8. Czech Republic	7,425	24.0	8. Kazakhstan	7,155	23.0
9. Kazakhstan	7,124	23.0	9. Czech Republic	7,052	22.6
10. Great Britain	6,502	21.0	10. France	6,912	22.2
Total	202,253	653.2	Total	200,669	644.3
Net income from sales	**282,096**	**910.9**	**Net income from sales**	**283,242**	**909.4**

The ten leading countries jointly contributed approximately 70.8% to Richter's total sales. Russian continues to head the list. Hungary kept its second place. China advanced to 3rd place as a result of rising Cavinton sales. Owing to increasing VraylarTM turnover, the United States advanced from 6th to 4th place. Germany slipped two places and Poland one place due to lagging sales of oral contraceptives. With a 11.3% increase in sales (in euro) Ukraine retained its 7th place. On the other hand, the Czech Republic and Kazakhstan swapped their respective 8th and 9th place. Great Britain did not make it to the TOP 10 and yielded its place to France among the leading markets.

3. Functional activities of the Company

3.1 Research and development

Innovation and the research of proprietary drug molecules have been key elements in the parent company's strategy since its foundation in 1901. Gedeon Richter Plc is the only Hungarian-based pharma company today with R&D staff exceeding 1000 and is the most significant pharmaceutical R&D base in the Central and Eastern European region. R&D is focused on three strategic areas: research and development of new small molecules, biotechnology and generic research and development.

Small molecular R&D is focused on women's healthcare products on the one hand, and molecules effective in treating CNS diseases on the other hand. In the latter category, in addition to cariprazine, Richter currently has two products in the clinical phase.

The Company continued to handle cariprazine related activities as a priority in 2016. On 17 September 2015 FDA granted approval of cariprazine for the treatment of manic or mixed episodes of bipolar I disorder and schizophrenia in adults. From the first quarter of 2016 the product will be sold in pharmacies of the United States under the trade name of Vraylar™. The clinical trials continued with Richter's American partner Allergan (formerly Forest Laboratories, Inc.) as a result of which the product will hopefully be granted marketing authorization for the treatment of other diseases such as major and bipolar depression. As a result, in March 2016 the European Medicines Agency (EMA) started assessment of the marketing authorisation of cariprazine for the indication of schizophrenia. In August of the same year Richter and Recordati signed an agreement granting Recordati exclusive sales license for the product in Western Europe as well as Algeria, Tunisia and Turkey.
Our Japanese partner Mitsubishi-Tanabe Pharma Co. continued regulatory consultations and clinical development in the interest of launching its cariprazine product in its geographical area as soon as possible.

One of the world's leading manufacturers of steroid products, Richter has been traditionally strong in the women's healthcare market. As a result of the acquisition of the Swiss company PregLem S.A. in 2010 the Group has also been active in women's

healthcare development primarily in the field of uterine myoma indications. According to Richter's announcement on 27 February 2012, Esmya, a proprietary product developed by PregLem S.A., a company solely owned by Richter had been granted marketing authorisation for the EU member states for its indication of pre-operative treatment of uterine fibroids. At the end of 2013 the EMA adopted a positive opinion regarding the use of Esmya to up to two courses of treatment. As a result, marketing authorization of the product extended for this indication was granted in January 2014. In May 2015 EMA extended marketing authorisation for its indication of in the long term management of uterine fibroids. The extension is an opportunity for long term medication in the management of uterine fibroids and possibly helps to avoid surgical intervention. In a joint press release in May 2016 Richter and Allergan plc announced positive results from the Venus I pivotal Phase III clinical trials that confirmed the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids. Application for registration of ulipristal acetate is expected to be submitted to the United States Food and Drug Administration (FDA) in the second half of 2017.
The product has already been commercialised in Canada for three years under the name Fibristal and the Canadian drug agency also approved its long-term application in November 2016.

As has been the case so far, the Company considers it essential to identify R&D partners for cooperation. We join forces with academic and university institutes, as well as the Finnish firm Orion in the early stages of our research activities. Other partners from the pharmaceutical industry are involved primarily in the clinical phases. In an effort to strengthen our women's healthcare portfolio Richter has signed development collaboration agreements with several companies (for example. Evestra). Richter Group intends to expand the scope of collaboration in the coming years.

R&D expenditure was 12.2% of sales income in 2016 and amounted HUF 34,514 million.

At the close of 2016 Richter had over 42 generic development and 17 licence topics in progress. In the course of the year Richter had 36 renewal and maintenance projects, while support of original and transfer projects slightly decreased compared to the reference year's level (10 projects in total). As biotechnology and original development

projects are conducted predominantly at the parent company, development sites of the subsidiaries have been appreciated as regards generic R&D (Gedeon Richter Romania S.A., Gedeon Richter Polska Sp. z o.o.). These companies undertake over a quarter of the generic R&D projects.

The Company launched four proprietary products and ten licensed products in 2016, all of which are new in the markets where they were launched.

As a result of registration activities a total of 53 marketing authorizations were granted to Richter in 2016 in the EU, including Hungary (taking different dosage forms into consideration). The positive assessment of teriparatide and the submission, in March 2016, of the application for the European registration cariprazine, the result of which is expected in 2017 - both in the context of centralised procedures.

In this region 106 renewal applications were submitted, 125 were acquired by the Company, and 63 licenses were returned.

A total of 39 new authorizations and 302 renewal applications were submitted in the twelve CIS countries. Richter secured 30 new authorizations during the year.

In the Other countries region the Company submitted 112 new applications and 30 renewals in 2016. In the course of the year the Company secured 28 new authorizations and 37 renewals, and withdrew 12 applications for authorisation.

Biotechnology

To bring development and manufacture of biosimilar products to new heights the Company set up an independent organisational unit named Biotechnology Business, which has been in operation since 1 July 2016.

In 2004 Richter launched its recombinant biotechnology R&D by creating a biotechnology research laboratory. In Germany Richter and Helm AG jointly acquired the predecessor Richter-Helm BioLogics GmbH & Co. KG in 2007, which develops and manufactures pharmaceuticals based on proteins derived by microbial biotechnology processes. Started in 2007, the construction of the Debrecen plant creating capacities for mammalian cell biotechnology based pharmaceutical manufacturing was concluded, the

related assets were capitalized. Trial runs commenced in 2012, followed by production for clinical trials in 2014; thus, the most complex protein-based pharmaceuticals can be manufactured on a commercial scale. In the course of 2015 the last clinical trials of two biotechnology products, pegfilgrastim and teriparatide were successfully concluded and in the autumn regulatory applications for marketing authorization for both products were submitted to EMA. In November 2016 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion, and accordingly proposes the granting of marketing authorisation for the biosimilar teriparatide Terrosa. Following on the positive opinion on 4 January 2017 the European Commission granted marketing authorisation for Terrosa. In December 2016 Richter withdrew the application following the CHMP's notification in November that the data submitted were not sufficient for a positive evaluation of the risk/benefit analysis related to the product. In October 2016 Richter signed an agreement on the technology transfer to manufacture trastuzumab, a monoclonal antibody developed by DM Bio of Korea, and on taking over the licence of development and commercialisation.

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

3.2 Quality assurance

The Company continued the major investment programme commenced in previous years with a view to safeguarding the products' superior quality. In the course of creation of new facilities as well as refurbishments rigorous quality assurance criteria are observed from planning to commissioning, which ensures that the products manufactured in the new or upgraded facilities fully meet international quality standards in every respect.

In 2016 the main direction of the quality assurance effort was the continued upgrading of production processes in accordance with the current Good Manufacturing Practice cGMP (API and finished products), and quality assurance support to a number of ongoing investment projects (the Debrecen biotechnology project and the Dorog Steroid Plant).

Ensuring compliance with the Good Laboratory Practice (GLP) and IT GXP, as well as supporting quality management of the subsidiaries continues to be a priority task. In 2016 special emphasis was laid on enhancement of the quality assurance system focussed on the

upgrading of production processes and improving their transparency, as well as on further development of the IT system.

Over the past year Richter was inspected on 18 occasions by its partners and five times by the competent supervisory authorities.

3.3 Production

Production in the manufacturing plants was in line with the amounts required by the market: the output of plants manufacturing semi-finished products increased by 3.2% while the 12.2% drop of injectables was offset by a 3.6% increase in the production of solid drugs.

The production value, at settlement price, of own-produced APIs for non-steroid products was down by 2.4% and for steroids by in 1.8% in 2016.

Richter works in close cooperation with its subsidiaries in the fields of product and technology transfer, outsourcing and development.

Inventories

As of the balance sheet date of 31 December 2016 the value of inventories was HUF 48,514 million, exceeding the opening balance by 3.1%; the increase resulted from rising turnover and changes in the portfolio of products.

3.4 Technology

In recent years the Company has developed a new sourcing management system and separated special procurement tasks from the professional activities of the management of the various organizational units. In the new structure all machines, equipment, technological materials and general devices as well as some of the services are sourced centrally. The same applies to utilities such as natural gas, electricity and steam supply, as well as waste disposal. Similarly to the preceding year, optimization of centralized sourcing resulted in substantial savings on funds, capacities and time in 2016. In certain areas of sourcing the parent company and its subsidiaries cooperated successfully.

In 2015 Richter developed a uniform sourcing policy along with unified Company-wide regulation of sourcing processes and the general terms and conditions of contracts with a view to promoting efficiency and enhancing control.

3.4.1 Energy supply

Smooth energy supply ensured uninterrupted production throughout the year and met users' demand in terms of both quality and quantity. Implementation of specific tasks under the long-term energetics concept drawn up for Budapest and Dorog in previous years continued in 2016 with the upgrading of the refrigeration system, revamping the cooling water system and installation of a new deep-freeze plant.

In compliance with the regulation pertaining to the risk and prevention of legionella and legionellosis Richter registered its cooling water towers and started the monitoring tests. The results are within the range required by the regulation.

Richter has passed a decision to prepare the development of an energy management system by expanding and upgrading existing monitoring systems and purchasing new measuring and IT devices.

Compared to the reference year, the volume of energy utilized in 2016 increased across the Company as a whole while energy prices decreased. The 10.0 % drop emerged as the balance of 0.7 % increase in energy use and 10.7 % decrease in energy prices. Energy and water costs amounted to HUF 7.8 billion for the entire Company and included HUF 100.6 million energy and water load taxes.

3.4.2 Environmental protection, occupational health and safety

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

The 2016 audits of the Environmental Management System (KIR-ISO 14001) and the Occupational Safety and Health Management System (MEBIR-MSZ 28001) by the supervisory agencies, as well as the certification of the Safety and Environmental Labs

were successful and proved that internal audits, education and training, regulations, performance evaluation, risk management and occupational hazard measurements are appropriate and in keeping with the rules and regulations. For the first time, in 2016 certification also included the Debrecen Branch.

Environmental and security related expenditure were at the 2015 level in the reported period.

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

A uniquely novel feature in Hungary, Richter has put occupational health risk management on a new basis: risk assessment is conducted in a workplace/job structure, and the aptitude test protocol is determined by individualised risks.

Water pollution, protection of water quality and noise management

The review and necessary repair of the waste water system in Budapest and Dorog was concluded according to plans. Intervention plan eliminate past contamination of groundwater are implemented in accordance with the order of the competent authority. The revamping of the Dorog Waste water management plant is an ongoing process.

The Company checks the quality of its waste waters in the context of the statutory monitoring system.

Waste management

In 2016 hazardous wastes were incinerated, deposited or composted. Waste has been collected selectively since 2012. After a 0.7% drop the costs of waste management amounted to HUF 878 million in 2016.

3.5 IT support

The Company's business processes are captured in the SAP system. SAP tracks every step of the process from sourcing to sales and provides interfaces to other special systems supporting operation. Over the past years, major Group level IT development took place primarily in order to achieve the most important strategic goal of creating a central IT

architecture that controls and supervises Richter Group's IT systems and is suitable for communicating Group level strategy and control and serving operation.
IT infrastructure development has been in keeping with Group-level needs; the emerging IT background is a uniform and transparent system for Group users. A dynamic VPN network created between Group companies overarching the Internet network provides access to distant systems via audio and video connection as necessary.

Similarly to the previous year, major Group level IT development took place in 2016, the most important achievements and events were as follows:

- The biggest SAP project in 2016 was the version update. Conversion to the new version was successful and did not cause any significant disturbance in the Company's operation.

- As of 2017 the company will apply the IFRS. Depiction of the accounting, sales and controlling processes in SAP in compliance with the IFRS was another a priority task for 2016.

- The Serialisation, Track and Trace project was launched; its goal is to install a unique bar code writer and reader in all production lines of Richter Group.

- The IT support to Quality Assurance commenced in 2014 continued with several projects in progress.

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

- IT infrastructure development aiming to serve the Company's growing data storage needs engaged a considerable amount of capacities in the course of the year.

4. Human resource

One of Richter's strategic goals is to develop operability with an organization that is best suited to changing environment, tasks and ever greater challenges. Human resource, the people who are at the basis of Richter's continued success in business and science play a key part in this effort.

Careful recruitment policies are critical for enhancing and sustaining Richter's performance. Supporting the professional development and improving the quality of life of staff and retention of high performers are priority tasks.

Employees' performance is measured by means of a uniform performance assessment system applied across the entire Company, which takes into consideration individualized tasks and goals and evaluates the discharge of duties on an ongoing basis.

In 2014 Richter introduces a Professional Career System for its degree holder employees offering advancement for both current and newly joining staff. After gradual expansion the system will be rolled out from 2016 to include blue-collar staff and white-collar staff with secondary qualifications. In an effort to adapt to the market as well as to promote high standards of performance and corporate goals, in 2016 the Company increased the proportion of the basic salary within emoluments.

As of 31 December 2016 headcount was 6,728 including 5,083 persons employed in Hungary. Of the Hungarian headcount 2,643 work in white-collar positions including 2,039 university or college graduates.

5. Capital expenditure on tangibles and intangibles

In 2016 capital expenditure on tangible and intangible assets amounted to HUF 32,250 million and included HUF 35,271 million capitalization. Tangible assets in the course of construction amounted to HUF 17,336 million as of 31 December 2016.

The Company's main capex areas in 2016 were as follows:

Biotechnology

Richter spent a total of HUF 1,941 million on investments related to the biotechnology business in 2016. A Molecular Biology Lab will be constructed in Debrecen in the context of an application for funds. The conceptual plans and the plans to be submitted with the application for a planning permission have been completed. At the Budapest biotechnology R&D unit significant amounts were spent on the procurement of equipment and the creation of a functional setting in a building made available recently.

Production

The 2016 investments related to production plants amounted to HUF 14,955 million.

In the field of finished products manufacturing, project RGK VI was continued: it envisions a greenfield development of a new, state-of-the-art filling and freeze-drying unit, an injectables packaging plant, as well as high rack warehouses ancillary to these new facilities, and land for development purposes. The building has been installed and building installations and technological pipe fitting have been completed. Currently the commissioning of the filling and freeze-drying line is in progress. Decision was made to upgrade ampoule manufacturing next to the new building. The technical blueprint and the plans required for the application for the building permit are in the making. Implementation of the plans to expand the capacities of the hormones unit of the Packaging Plant has started. In the Galenic Formulations Plant conversions required for the manufacturing of estradiol products involved substantial funds.

In the field of API manufacturing, capex projects were basically aimed at maintaining production capacities and in some cases at upgrading the infrastructure serving production. In Dorog a very important, multi-year project is in progress in Steroid Plant II to expand intermediate product and preparative chromatography capacities. After the installation of the technological equipment (18 reactors, 4 filter-dryers, clean room) the plant will have a capacity to manufacture approximately 900 kg finished products.

As regards API production in Budapest, installation of a modern vertical centrifuge in Biological Plant II, continuation of the experimental line to process reactor contents, Stage IV of the works necessitated by more stringent GMP requirements at the finishing line of Chemical Plant I, and upgrading the ventilation system of of Hall 3 should be highlighted.

Production support

Investment projects related to production support amounted to HUF 4,727 million in 2016.

In the context of environmental and safety projects the multi-year renovation of the wastewater system and the replacement of the liquid ring vacuum pumps are in progress at the Dorog facility.

Tasks related to the Environmental and Occupational Safety and Health Management Systems (KIR-MEBIR) involved expenditure commensurate with previous years at the Budapest and Dorog facilities.

Energy supply related projects included the upgrading of the firmer AD engine room at headquarters in order to meet higher energy needs in the wake of the transformation of finished products manufacturing.

At the Dorog site conversion of the recirculating cooling water system was continued and the new deep-freeze centre required by expanding manufacturing capacities was completed.

In the field of warehousing planning is in progress to relocate the functions of the obsolete Warehouse 1 in the building of the Parts and Accessories Warehouse.

In quality management instruments were purchased (in order to improve the conditions of quality control and reduce lead time of tests) with the deployment of more substantial amounts.

R&D

In 2016 Richter deployed a total of HUF 1,930 million investment to maintain the level and quality of research and development. A significant portion of the investment was related to device and instrument purchase. In Budapest some of the pharmacological tests applied currently had to be relocated in a new building that is in conformity with tightening international regulations. Construction has been completed and the occupancy permit has been granted.

Licences and other intangibles

The 2016 expenditure on licenses and other intangibles amounted to HUF 4.150 million and comprised expenditure on the acquisition of licences (trastuzumab, teriparatide), as well as on new registrations and renewals.

Other

In 2016 Richter spent HUF 1,066 million on IT development supporting operation, and HUF 1,130 million on improving the conditions of the representative offices distribution network.

6. Foreign investment

6.1. Pharmaceutical companies

Manufacturing companies

The Group's Romanian manufacturing subsidiary, **Gedeon Richter Romania S. A.** manufactures and distributes finished products for the Romanian market and is also actively involved in Group sourcing of manufacturing, product development and marketing services.

The distribution companies in the Romanian pharmaceutical market still struggles with partners faced with prolonged liquidity problems. The term of payment improved to an average of 210-240 days as the national Insurance House reduced its payment term to 120-150 days while generic manufacturers still offer longer deadlines. Due to the government's regulations to reduce prices, mounting competition and continuously increasing allowances Gedeon Richter Romania S. A. is faced with great challenges; nevertheless, its domestic turnover increased year-on-year. Group level turnover increased, including the Romanian wholesale and retail segment, so the company's tasks within the Group continue to be highly important.

The company's operating profit is positive due increasing sales and also to the fact that the claw-back tax was considerably lower.

In 2016 capex projects deployed by the Romanian subsidiary relied primarily on the company's strategic projects supporting Gedeon Richter Romania S. A.'s role within the Group. Capex projects to be highlighted include the expansion of the tablets plant and the development of the solutions unit besides improvement of the IT system and landscaping and building renovation works on the factory premises.

In 2016 the parent company increased the capital of its Romanian manufacturing subsidiary by RON 77,196 thousand through the conversion of its loans amounting to EUR 8,000 thousand and RON 41,000 thousand.

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

Richter's Polish production subsidiary, **Gedeon Richter Polska Sp. z o. o.** is also responsible for Richter Group's registration, pharmacovigilance and PR activities in Poland. The subsidiary offering outsourced production and development services has

grown to be a strategically highly important site for the Group. With a clear-cut organisational structure and a consolidated staff of 450 the company is increasingly efficient; its Polish marketing subsidiary is also effective in supporting the commercialization of proprietary products.

In the 2016 business year Richter's sales income exceeded expectations and was 8% above the reference year figure despite the keen competition and aggressive price war characterizing the Polish market. Total income from sales was PLN 240 million due primarily to outstandingly high Groprinosin sales.

The economic crisis in Russia continued to affect the 2016 performance of Richter's Russian manufacturing subsidiary **ZAO Gedeon Richter-RUS**. This is reflected primarily in the liquidity problems of the pharma wholesale companies featuring among the Top 10 buyers and deteriorates the company's earnings forecast. Conversely, the noticeable strengthening of the rouble in the second half contributed to the increase of the 2016 turnover denominated not only in rouble but also in euro and the company managed to meet its target sales income.

The company's main function will continue to be production and distribution supported by the parent company's marketing activity. The production portfolio continued to expand and in the next two years full-cycle manufacturing of several leading products will be started, for which preparations were progressing in great strides in 2016.

The company financed its 2016 capex through its own funds, and after conversion of trade receivables to loans at the end of the previous year it has no significant arrears in payment of the parent company's supplier invoices.

Richter Themis Ltd. continued to be active as a manufacturer and distributor of intermediate products and APIs mostly for Group members in 2016. There were only minor changes in the portfolio of products compared to the reference year; the company managed to make up for the products dropped from the portfolio by adding new APIs, thus its production capacities were fully utilized throughout the year. In addition, it also supplied a considerable amount of products to external buyers.

In addition to API production the company is also active in development. Production and development are economical, so the company enhances the cost effectiveness of the Group's API production.

In biotechnology services **Richter-Helm BioLogics** GmbH & Co's turnover in 2016 was above the previous year figure and achieved sales exceeding forecasts. The microbial biotechnology company is engaged partly in sourced development and partly in production. Intra-Group development is a significant aspect of its activity (in 2016 it produced three batches of filgrastrim) but its external relations are also expanding. The company's profitability has improved considerably over the past years and closed its business year with a substantial after-tax profit.

In 2016 **PregLem S.A.** continued to support the European commercialisation of Esmya, the women's healthcare product with ulipristal acetate as its active ingredient. In addition, R&D continues to be a key activity for the company with the development of Esmya's indications being top priority, albeit to a decreasing extent.

On 30 June 2016 Richter acquired **Finox Holding**, a Swiss based biotech company engaged in the development and commercialisation of innovative and cost effective products addressing female fertility. Their product Bemfola® is a recombinat human follicle stimulating hormone (r-hFSH), which stimulates the ovaries in order to treat infertility. Richter has obtained global rights for the commercialisation of Bemfola® (with the exception of the United States). The product was granted marketing authorisation for the EU in May 2014 and is sold in over 20 countries.

As a result of the volatile situation and high exposure in Ukraine decision has been taken to discontinue the project related to **GRUA P.A.T.**'s production facilities so far out of operation.

Other consolidated companies providing sales and marketing services for the pharmaceutical segment:

In 2011 the scope of activities of the subsidiaries **Gedeon Richter Iberica S.A.U.** of Spain, **Gedeon Richter Italia S.R.L.** of Italy and **Gedeon Richter Pharma GmbH** of Germany was expanded by marketing. Besides marketing and PR services these companies are also engaged in so-called pre-distribution activities. In 2016 the companies continued to maintain the efficiency of the network of women's healthcare pharma representatives in Western Europe.

To promote marketing Richter established a subsidiary each in Switzerland (**Gedeon Richter (Schweiz) AG**), Portugal (**Gedeon Richter Portugal, Unipessoal Lda.**) and Austria (**Gedeon Richter Austria GmbH**). In 2012 Richter expanded in Belgium, the Netherlands and Luxemburg (**Gedeon Richter Benelux SPRL**) as well as in the Nordic countries (**Gedeon Richter Nordics AB**), and involved its already existing British and French companies (**Gedeon Richter UK Ltd.** and **Gedeon Richter France S. A R. L.**) in the network. The portfolio of the already developed network continued to expand by other women's healthcare products in 2016.

In 2016 Gedeon **Richter Marketing Polska Sp. z o. o.** efficiently promoted Richter's Polish manufacturing company against a background of increasingly aggressive price competition in the Polish market. With a stable turnover, reduced costs and significantly improved per capita performance and more efficient utilisation of its resources the company conducted successful marketing activities for both of its owners, Gedeon Richter Plc. and Gedeon Richter Polska Sp. z o. o.

After transforming its Polish agency into a subsidiary, the parent company decided to make a similar move in 2010 in the Czech Republic and Slovakia, and transformed its representative offices into **Gedeon Richter Marketing ČR s.r.o.** and **Gedeon Richter Slovakia s.r.o.** respectively. Richter also established **Gedeon Richter Slovenija, trženje, d.o.o.**, its subsidiary in Slovenia at the end of 2011. This was followed by the establishment, at the end of 2013 of a Croatian subsidiary **Gedeon Richter Croatia d.o.o.** The Czech, Slovak, Slovenian and Croatian companies support the sales of Richter products by operating efficient networks of representatives. The companies operate on a basis of invoicing costs plus margin, which ensures cost coverage and stable liquidity on a continuous basis.

In 2016 **Gedeon Richter (China) Pharmaceuticals Co. Ltd.** again delivered the expected results despite the widely varied sales performance of the promoted products. and an increasingly strong need to expand the portfolio of products for the future. Hopefully the approval process for registration can be shortened. OTC products and their marketing was transferred from GRmidas Medical Service (China) Co. Ltd. to Gedeon Richter (China) Pharmaceuticals Co. Ltd. once Richter fully acquires this company too in early 2017.

Active in promotional purchases, storage and distribution, Moscow based **Pharmarichter O.O.O.** proved to be a high-performing company in 2016 in both technical and financial terms.

Devaluation of the national currency has a major effect on the figures of Richter's fully owned exclusive Kazakh importer **Gedeon Richter KZ L.L.P.** After the devaluation impacts of previous periods, the Kazakh company's financial status was stabilised in 2016. Furthermore, since 1 October 2016 the distribution company has undertaken agency activities for Gedeon Richter Plc. in Kazakhstan, therefore the company now generates income from marketing services too. The outstanding investment expenditure resulted from the addition of the new business (transfer of 94 vehicles belonging to the network of pharmaceutical representatives as in-kind contribution).

The core business of **Richter-Helm BioTec GmbH & Co. KG** has been project management and business development in the field of microbial biotechnology over the past years, focusing on Group projects (teriparatide). Similarly to the previous year, the 2016 performance of the company was in keeping with development plans.

The priority task of U.S. based **Gedeon Richter USA Inc.** continues to be the support of business development and strengthen strategic partnerships in the region.

Medimpex UK Ltd. is active in traditional trading in the United Kingdom.

As a first step of expansion in Central and South America started in the second half of 2013, the parent company established a company in Colombia named **Gedeon Richter Colombia S.A.S.**, with the main function to provide marketing and registration related services for the introduction of Richter's products in the region. Securing the necessary registrations and authorizations was started in 2015 and Esmya was launched in 2016.

In Mexico Richter has 80% share as a result of a two-stage transaction in **Gedeon Richter Mexico SAPI de CV.** With its portfolio limited for the time being, the Mexican company met the projected turnover in 2016. Esmya was added to the portfolio of products and generated steadily rising sales. With a view to portfolio expansion, securing the regulatory

authorizations required for registration is in process. Gradual devaluation of the Mexican peso dampens the otherwise successful company's performance.

Richter has a 51% share in the Brazilian company **Gedeon Richter do Brasil Importadora Exportadora e Distribuidora SA** which continued its marketing and registration related activities in 2016 in addition to commercialization of the existing portfolio of products; however, product sales were highly volatile because of the instability of the market. In an effort to offset the negative effect the owners increased the company's capital by BRL 453,675.37 at the end of the year.

In May 2014 Richter signed an acquisition agreement in respect of **Mediplus N.V.**, which resulted in holdings in Curaçao, Bolivia, Chile, Peru and Ecuador and strengthens Richter's penetration in Latin America. In 2015 became the sole shareholder of Mediplus Group. In the course of 2016 Esmya was sold by all companies and the portfolio of Richter's product expanded in the countries of the region.

6.2. Wholesale and retail

Romania

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

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

The Group's wholesale company in Romania is **Pharmafarm S.A.** In 2016 the company continued the trading policy started in 2015, and as a result it closed the year with an increase in sales income as well as a stable margin. The company maintained its cost containment and its strong and balanced customer management, inventories and sourcing policies. Thanks to a strict customer rating system customer-side impairment was kept lower than in previous years and impairment reversals dominated. The company generated

a stable operating profit throughout the year. Collaboration continues to ensure Pharmafarm S.A.'s prominence among the suppliers of Gedeon Richter Farmacia S.A.

Gedeon Richter Farmacia S.A. is the Romanian group's retail company. Steps to streamline GRFA S.A.'s portfolio in order to improve efficiency were completed. In 2016 only one pharmacy licence was sold and the network consisted on 88 pharmacies in December. Turnover per outlet was 5% higher on the average year-on-year. There are still loss generating pharmacies, but impairment reported in previous years is now superseded by reversals related to the licences of the increasingly profitable pharmacies.

Ukraine and the CIS

After the termination of wholesale and retail, the only activity of **Gedeon Richter Ukrfarm O.O.O.**, Richter's fully owned Ukrainian subsidiary is to operate the Kiev headquarters owned by Gedeon Richter Group.

In the Moldovan pharmaceutical market the presence of Richter has become a dominant feature, as the Company has secured outstanding market shares for years. This success is the result of Richter's Moldovan agency and the excellent and successful cooperation of the retail and wholesale companies. Sales of Richter's products are efficiently supported by **Richpangalfarma S.R.L.,** a key player in the pharmaceutical wholesale market since 1996 in which Richter holds a 65% stake.

Moldova introduced regulations to maximise price margins but this did not cause a significant setback in the operation of **GR–Retea Farmaceutica S.R.L.** operating the network of pharmacies. After revamping the sales and inventories policies and redesignin the portfolio of products the 41-strong network's performance was reliable.

The economy of Armenia was hit hard when the annual GDP shrank to 2.6% in Q3. In these circumstances Richter' Armenian wholesale and retail holdings had to reckon with plummeting sales in 2016. On the positive side, the wholesale subsidiary **Richter-Lambron O.O.O.** made a successful appearance in the market of third-party products and continued to expand its network of suppliers and customers.

With its expanded network of 26 pharmacies, the sales of **Gedeon Richter Aptyeka Sp O.O.O.** declined drastically and profits dropped likewise. The outstanding profitability of previous years fell so much by the end of 2016 that the company needed a significant support from the associated wholesale company. The retail company tries to compensate for the situation by quality-driven exchanges of pharmacy units and cost containment.

The performance of the two wholesale companies with Richter's majority share operating in *Jamaica* (**Medimpex Jamaica Ltd.** and **Medimpex West Indies Ltd.**) resulted in a steadily improving turnover. As a result of the wholesalers' activities Richter managed to step up the distribution of its products in the region in 2016. On the negative side, successful operation is hampered by the devaluation of the Jamaican currency against the dollar.

There was no change in the *domestic* wholesale share: the parent company continues to be a shareholder of the biggest pharmaceutical distributor in Hungary.
As a result of steps taken in previous years to enhance efficiency, **Hungaropharma Zrt.** continued to improve its earnings in 2016. Richter directly holds 30.68% of the company's shares.

6.3. Other consolidated companies

There has been no change in the profiles of the other consolidated companies of Richter Group (engineering, real estate management, quality control, forwarding, etc.); they provided continuous support fully in line with expectations and with good performance throughout 2016. Operation of these affiliated undertakings is focused predominantly to Hungary.
Richter's undertakings in this segment with foreign sites continue to be dormant. (Nedermed B.V., Medimpex Japan Co. Ltd. and Ambee Pharmaceuticals Ltd.)

7. Risk management

During the year Richter Gedeon Plc. completed a company-level risk assessment in-line with its risk management policy. As part of the risk assessment the Company has identified its relevant strategic, operational, compliance and financial risks following the risk management approach elaborated with a consultant. The identified risks have been evaluated by the management of the Company.

The following risks proved to be the most typical in each category based on the assessment.

Strategic risks

Risk	Description	Key risk management methods
Macroeconomic Factors	The impact of changes in macroeconomic factors affecting the company's markets with special regard to the deterioration of solvency due to the continued Russia-Ukraine crisis and chronically low oil prices	- Monitoring changes in major macroeconomic factors, incorporating their effects into the planning - Tightening cost containment and customer relations - Flexible utilisation of local production capacities
Competition and Pricing	The impact on the company's market position and results of decreasing prices resulting from mounting generic competition	- Identifying competitive advantages - Focusing on new proprietary and value added products - Launching new generic products - Regularly performed industry and competitor assessment and effectiveness analysis
Healthcare Budget	Potential impact of negative changes in the healthcare budget and regulation (price cuts, increasing industry surtaxes, subsidy cuts and protracted procedure to accept subsidy applications)	- Regular analysis of market environment, monitoring changes in the legal and pharmaceutical subsidy system - Communication with authorities - Cost management adaptation

Operational risks

Risk	Description	Key risk management methods
Development of original and biosimilar R&D and production	Risk attached to the success of proprietary research and of the development and manufacturing of biosimilar products	- Focusing on CNS R&D and gynaecology development - Determining milestones of original research and biosimilar development - Assessment of programs and decision-making according to international standards with the involvement of advisory bodies and international experts - Involvement of collaborating partners to reduce risk and ensure co-financing
The complexity of the Group's activities is increasing, more diversified markets	Risks related to the development of specialized sales and marketing support of women's healthcare products in Western Europe, China and Latin America	- Company-level projects for the acquired women's healthcare portfolio, the integration of Finox Group, and the coordination of the launch of Esmya - Strengthening market positions and the marketing network in Western Europe - Developing the company's own marketing network in Latin America - Increasing stakes in Chinese and Latin American investments
Qualified Workforce	Risk relating to retention of employees in key positions and ensuring qualified workforce	- Periodic revision of HR strategy - Training plans, career and succession programs - Incentive and performance assessment system - Determination of optimal headcount - Staff replacement to improve quality; retention of staff performing high-quality work

Compliance risks

Risk	Description	Key risk management methods
Regulatory oversight High quality standards required by customers	Risk of non-compliance with relevant regulations relating health and quality More frequent inspections due to proprietary product launches	- Implementing Quality systems and Standard Operational Processes (SOPs) - Monitoring compliance with health authority regulations - Special projects to prepare for inspections
Intellectual Property, Patents and Litigations	Risk relating to patents and patent rights	- Continuous assessment and monitoring of intellectual property and patents - Enforcement of intellectual property rights - Conclusion of risk mitigation agreements
Contracts and Liabilities	Risk relating to managing contractual liabilities and enforcing contractual terms	- Centralised contracting processes - Special treatment of unique contracts - Introduction of a global compliance program

Financial risks

Risk	Description	Key risk management methods
Credit and Collections	Risk relating to collection of cash and receivables from customers Region-specific risks related to customers	- Customer rating and establishing payment terms and sales limits - Regular review of receivables - Increasing insurance of CIS customers' credits with MEHIB
Foreign Exchange Rate	Exchange rate risk management in the changing currency structure	Calculating annual open FX positions and monitoring key FX rates
Capital Structure, Cash Management and Financial Investment Taxation risks	Risk related to the management of the Company's cash needs and cash funds Maintaining security of funding besides acquisition expenditure	- Developing and monitoring cash-flow plans - Financial Investment Rules to manage investment risk - Introduction of a Cash Pool system - Preparation for a tax relief related audit by the tax authorities

8. Post-balance sheet date events

On 4 January 2016 Richter announced that the European Medicines Agency (EMA) has accepted Richter's regulatory submission for the proposed biosimilar teriparatide with the reference product of Eli Lilly's Forteo. The biosimilar teriparatide has been developed by the Company's subsidiary Richter-Helm BioTec GmbH & Co. KG. According to the relevant license agreements, biosimilar teriparatide is expected to be launched under both Richter-Helm BioTec GmbH & Co. and Stada labels in geographical Europe following the patent expiry of the original product. On 14 November 2016 the Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion on the product and accordingly proposes the granting of marketing authorisation for the biosimilar teriparatide Terrosa. Following on the positive opinion on 4 January 2017 the European Commission granted marketing authorisation for Terrosa.

On 17 January 2017 Richter and Allergan plc announced positive results from Venus II, the second pivotal Phase III clinical trials. The trial investigated the efficacy and safety of 5 and 10 mg ulipristal acetate in women with uterine fibroids causing irregular uterine bleeding and confirmed the result of the Venus I study published in May 2016. Application for registration of ulipristal acetate is expected to be submitted to the United States Food and Drug Administration (FDA) during the second half of 2017.

On 19 January 2017 Richter annuonced that it had signed an agreement with Allergan plc for the distribution of Allergan's levonorgestrel releasing Intrauterine System. Richter will distribute the product under the brand name Levosert® in Western Europe and other European countries. The product has already been granted national marketing authorisations in Western and Northern European countries, and has been launched in most countries by Allergan. Richter is currently selling Levosert® in most CEE markets in accordance with the relevant agreement signed with Uteron Pharma in 2011. According to the agreement Richter makes a milestone payment upon signature. After the product is launched, Allergan will also be entitled to sales related royalty and milestone payments.

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

The Accounting Act provided for the mandatory application, as of 1 January 2017, of the International Financial Reporting Standards for the purpose of stand alone financial statements for companies whose securities are traded in the regulated market of any of the EEA member states. Pursuant to this provision, from 1 January 2017 Richter must apply the IFRS for the purpose of financial reporting. From 1 January 2017 Richter prepares its reports and statements in accordance with its stand alone IFRS.

After acquiring the remaining 9% share in February 2017 Richter became 100% shareholder of GRMed Company Limited. With this payment the Company has fully paid the deferred purchase price kept on the books among liabilities.

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

9. Future outlook

Retaining and strengthening the Company's position in the Hungarian and the traditional markets (CIS, Central and Eastern Europe) despite increasingly difficult environment whose problems fall hard on the entire pharmaceutical industry (price erosion, tightening subsidies and price control) continue to feature among Richter's strategic goals.

The Company focuses on strengthening its presence in, and increasing exports to, European Union, primarily in the EU15, and China, retaining and strengthening positions acquired in the United States, and developing new long-term research and development cooperation with existing and new partners.
The main tool to achieve these goals in the context of Hungary, the CIS and the European countries is to improve the efficiency of Richter's sales networks. In Western Europe and the United States the strategy is implemented through long-term agreements concluded with strategic partners. Through a variety of acquisitions Richter is directly present in the world's fastest growing pharmaceutical markets (China and the Latin American region).

The success of proprietary research and development aimed at CNS products is crucial for Richter Group's future and for strengthening its market positions. The second pillar of the

specialty strategy is the expansion of the women's healthcare portfolio. The future added value from the women's healthcare portfolio acquired in 2010 from Grünenthal, coupled with Esmya resulting from the Swiss acquisition and Bemfola acquired in 2016 to treat infertility will boost the Group's niche: gynaecology, which is best supported by the units operating in the traditional markets and through the newly established Western European marketing network. The Group's ongoing objective is to achieve faster growth and to present higher rate of annual sales in its special niche of oral contraceptives and steroid-based women's healthcare products - in 2012 this line was completed with Richter's original product Esmya and in 2016 with Bemfola.

The third pillar of the Group's "specialty" strategy is the development of biosimilar products and the high-value investment to create conditions for their manufacture.

Besides the above, Richter is striving to exploit the opportunities provided by marketing the portfolio of traditional products to a maximum extent.

In order to ensure and increase sales and profitability, another priority task for the future is the improvement of research and development and the Company's organizational functioning in all areas of operation on an ongoing basis.

GEDEON RICHTER

Established in 1901

DECLARATION

The undersigned **Erik Bogsch** as the managing director of **Chemical Works of Gedeon Richter Plc.** (registered office: H-1103 Budapest, Gyömrői út 19-21., Reg.No.: Cg.01-10-040944) /hereinafter Company/ representing solely the Company, in accordance with Annex I. Sec. 2.4. of 24/2008. (VIII.15.) Ministry of Finance Decree hereby

declare

that the 2016 annual financial statement, which have been prepared to the best of our knowledge and in accordance with the applicable set of accounting standards and approved by the General Meeting of the Company, gives true and fair view of the assets, liabilities, financial position and profit and loss of the Company, and that the business report prepared by the Board gives a fair review of the position, development and performance of the Company, together with the description of the principal risks and uncertainties.

Date: Budapest, 26th April, 2017

Erik Bogsch
Managing Director