# GEDEON RICHTER PLC.

# AUDITOR'S REPORT
# AND FINANCIAL STATEMENTS

# 31 DECEMBER 2015

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# INDEPENDENT AUDITOR'S REPORT

## To the shareholders of Gedeon Richter Plc.

## Report on the financial statements

We have audited the accompanying financial statements of Gedeon Richter Plc. ("the Company") which comprise the balance sheet as of 31 December 2015 (in which the balance sheet total is MHUF 737,067, the profit per balance sheet is MHUF 48,061), the related profit and loss account for the year then ended, and the notes to the financial statements including a summary of the significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the provisions of 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.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Hungarian Standards on Auditing and with applicable laws and regulations in force in Hungary. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Gedeon Richter Plc. as of 31 December 2015, and of the results of its operations for the year then ended in accordance with the provisions of the Accounting Act.

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**Other reporting requirements regarding the business report**

We have examined the accompanying business report of Gedeon Richter Plc. ("the Company") for the financial year of 2015.

Management is responsible for the preparation and fair presentation of the business report in accordance with the provision of the Accounting Act. Our responsibility is to assess whether or not the accounting information disclosed in the business report is consistent with that contained in the financial statements. Our work in respect of the business report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. In our opinion the 2015 business report is consistent with the disclosures in the financial statements as of 31 December 2015.

Budapest, 26 April 2016

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 2015

Budapest, 26 April 2016

| 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 2015

Data in HUF Million

| | Description | Previous year 31.12.2014 audited | Current year 31.12.2015 audited |
|---|---|---|---|
| A. | Fixed Assets | 442 436 | 457 590 |
| I. | Intangible Assets | 110 869 | 104 990 |
| 1. | Capitalised value of reorganization | | |
| 2. | Capitalised value of research and development | 338 | 254 |
| 3. | Rights | 72 791 | 67 807 |
| 4. | Intellectual property | 1 233 | 949 |
| 5. | Goodwill | 36 507 | 35 980 |
| 6. | Advances given for intangibles | | |
| 7. | Adjusted value of intangible assets | | |
| II. | Tangible Assets | 131 989 | 139 748 |
| 1. | Land and buildings | 83 101 | 83 974 |
| 2. | Technical equipment | 22 649 | 22 727 |
| 3. | Other equipment | 14 068 | 14 068 |
| 4. | Animals | | |
| 5. | Investments | 12 070 | 18 592 |
| 6. | Advances given for tangible assets | 101 | 387 |
| 7. | Adjusted value of tangible assets | | |
| III. | Financial Investments | 199 578 | 212 852 |
| 1. | Long-term shares in subsidiaries | 129 058 | 141 250 |
| 2. | Other long-term shares | 4 621 | 4 165 |
| 3. | Long-term loans given to subsidiaries | 46 596 | 44 510 |
| 4. | Long-term loans given to other affiliates | 832 | 748 |
| 5. | Other long-term loans | 563 | 2 014 |
| 6. | Long-term bonds | 17 908 | 18 048 |
| 7. | Adjusted value of financial investments | | |
| 8. | Valuation difference of non-current assets | | 2 117 |

Data in HUF Million

| | Description | Previous year 31.12.2014 audited | Current year 31.12.2015 audited |
|---|---|---|---|
| B. | Current Assets | 261 444 | 276 758 |
| I. | Inventories | 44 889 | 47 042 |
| 1. | Raw materials | 9 708 | 9 153 |
| 2. | Work in progress, semi-finished products | 22 999 | 23 327 |
| 3. | Live stock | | |
| 4. | Finished products | 8 834 | 10 536 |
| 5. | Goods | 3 343 | 4 022 |
| 6. | Advances given for inventories | 5 | 4 |
| II. | Receivables | 116 908 | 114 891 |
| 1. | Trade receivables | 39 049 | 43 148 |
| 2. | Receivables due from subsidiaries | 64 576 | 62 768 |
| 3. | Receivables due from other affiliates | 8 619 | 5 268 |
| 4. | Bills receivable | | |
| 5. | Other receivables | 4 557 | 3 703 |
| 6. | Valuation difference of receivables | | |
| 7. | Positive fair value difference of derivative instruments | 107 | 4 |
| III. | Securities | 20 858 | 4 502 |
| 1. | Shares in subsidiaries | | |
| 2. | Other shares | 2 396 | 2 426 |
| 3. | Own shares | 13 | 550 |
| 4. | Short-term bonds | 18 449 | 1 526 |
| 5. | Fair value difference of securities | | |
| IV. | Cash | 78 789 | 110 323 |
| 1. | Cash | 40 | 43 |
| 2. | Bank deposits | 78 749 | 110 280 |
| C. | Prepayments | 2 471 | 2 719 |
| 1. | Accured income | 957 | 937 |
| 2. | Prepaid expenses | 1 514 | 1 782 |
| 3. | Deferred expenses | | |
| | Total Assets | 706 351 | 737 067 |

Budapest, 26 April 2016

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 2015

Data in HUF Million

| | Description | Previous year 31.12.2014 audited | Current year 31.12.2015 audited |
|---|---|---|---|
| D. | Shareholder's Equity | 570 908 | 620 976 |
| I. | Issued capital | 18 637 | 18 637 |
| | *- including own-shares repurchased at face value* | *0* | *10* |
| II. | Issued unpaid capital (-) | | |
| III. | Share premium | 19 256 | 19 256 |
| IV. | Retained earnings | 519 707 | 532 101 |
| V. | Tied-up reserve | 351 | 804 |
| VI. | Revaluation reserve | 0 | 2 117 |
| 1. | Valuation reserve | | |
| 2. | Fair value reserve | | 2 117 |
| VII. | Profit or Loss for the year | 12 957 | 48 061 |
| E. | Provisions | 3 339 | 4 217 |
| 1. | Provision for expected liabilities | 3 339 | 4 217 |
| 2. | Provision for expected expenses | | |
| 3. | Other provisions | | |
| F. | Liabilities | 122 743 | 102 489 |
| I. | Subordinated liabilities | 0 | 0 |
| 1. | Subordinated liabilities due to subsidiaries | | |
| 2. | Subordinated liabilities due to other affiliates | | |
| 3. | Other subordinated liabilities | | |
| II. | Long-term liabilities | 52 000 | 42 225 |
| 1. | Long-term loans | | |
| 2. | Convertible bonds | | |
| 3. | Debts on issue of bonds | | |
| 4. | Investment and development loans | | |
| 5. | Other long-term loans | 43 297 | 36 531 |
| 6. | Long-term liabilities due to subsidiaries | | |
| 7. | Long-term liabilities due to other affiliates | | |
| 8. | Other long-term liabilities | 8 703 | 5 694 |

Data in HUF Million

| | Description | Previous year 31.12.2014 audited | Current year 31.12.2015 audited |
|---|---|---|---|
| III. | Current liabilities | 70 743 | 60 264 |
| 1. | Short-term loans | | |
| | *- including: convertible bond* | | |
| 2. | Other short-term loans | 14 432 | 6 523 |
| 3. | Advances received from customers | 290 | 113 |
| 4. | Trade payables | 16 777 | 16 399 |
| 5. | Bills payable | | |
| 6. | Short-term liabilities due to subsidiaries | 7 963 | 14 415 |
| 7. | Short-term liabilities due to other affiliates | | |
| 8. | Other short-term liabilities | 31 168 | 22 814 |
| 9. | Valuation difference of current liabilities | | |
| 10. | Negative fair value difference of derivative instruments | 113 | |
| G. | Accruals | 9 361 | 9 385 |
| 1. | Accrued income | | |
| 2. | Accrued expenses | 7 379 | 8 366 |
| 3. | Deferred income | 1 982 | 1 019 |
| | Total Liabilities and Equity | 706 351 | 737 067 |

Budapest, 26 April 2016

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

"A" Type

31 December 2015

Data in HUF Million

| | Descriptions | Previous year 12 months audited | Current year 12 months audited |
|---|---|---|---|
| 01. | Domestic sales | 31 855 | 33 939 |
| 02. | Export sales | 251 793 | 248 157 |
| I. | Total Sales (01+02) | 283 648 | 282 096 |
| 03. | Direct cost of production | 49 279 | 48 552 |
| 04. | Cost of goods sold | 11 427 | 10 200 |
| 05. | Value of services sold | 428 | 827 |
| II. | Direct costs of sales (03+04+05) | 61 134 | 59 579 |
| III. | Gross profit (I-II) | 222 514 | 222 517 |
| 06. | Sales and marketing expenses | 97 333 | 95 121 |
| 07. | Administration and general expenses | 24 717 | 26 483 |
| 08. | Other general expenses | 49 526 | 42 082 |
| IV. | Indirect costs of sales (06+07+08) | 171 576 | 163 686 |
| V. | Other income | 7 846 | 22 999 |
| | *including revesal of impairment* | *178* | *957* |
| VI. | Other expenditures | 18 820 | 21 463 |
| | *including impairment* | *4 076* | *1 830* |
| A. | Operating results (III-IV+V-VI) | 39 964 | 60 367 |

Data in HUF Million

| | Descriptions | Previous year 12 months audited | Current year 12 months audited |
|---|---|---|---|
| 13. | Dividends and profit-sharing (received or due) | 1 813 | 1 002 |
| | *including from affiliated undertakings* | *1 505* | *1 002* |
| 14. | Capital gains on the sale of investments | | 7 |
| | *including from affiliated undertakings* | | |
| 15. | Interest income and capital gains on financial investments | 2 481 | 2 601 |
| | *including from affiliated undertakings* | *1 315* | *1 880* |
| 16. | Other interest and similar income | 2 014 | 1 863 |
| | *including from affiliated undertakings* | | *0* |
| 17. | Other financial income | 10 777 | 15 532 |
| | *including from valuation difference* | *395* | *117* |
| VIII. | Income from financial transactions (13+14+15+16+17) | 17 085 | 21 005 |
| 18. | Losses on financial investments | | |
| | *including to affiliated undertakings* | | |
| 19. | Interests payable and similar expenses | 1 373 | 1 135 |
| | *including to affiliated undertakings* | 0 | 8 |
| 20. | Losses on shares, securities and bank deposits | 8 350 | -153 |
| 21. | Other financial expenses | 27 106 | 17 446 |
| | *including from valuation difference* | *113* | *107* |
| IX. | Expenses on financial transactions (18+19±20+21) | 36 829 | 18 428 |
| B. | Profit or loss from financial transactions (VIII-IX) | -19 744 | 2 577 |
| C. | Profit or loss of ordinary activities (±A±B) | 20 220 | 62 944 |
| X. | Extraordinary income | 129 | 384 |
| XI. | Extraordinary expenses | 1 210 | 1 081 |
| D. | Extraordinary result (X-XI) | -1 081 | -697 |
| E. | Income before taxes (±C±D) | 19 139 | 62 247 |
| XII. | Taxes payable | 31 | 767 |
| F. | Profit after taxes (±E-XII) | 19 108 | 61 480 |
| 22. | Profit reserves used for dividends and profit-sharing | | |
| 23. | Dividends and profit-sharing paid (payable) | 6 151 | 13 419 |
| G. | Profit or loss for the year (±F+22-23) | 12 957 | 48 061 |

Budapest, 26 April 2016

Managing
Director

**GEDEON RICHTER PLC.**

# Notes to the Financial Statement 2015

Erik Bogsch
Managing Director

**Budapest, 26 April 2016**

# 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.**<br>**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. 01-10-040944/469 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.**<br>**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**<br>**www.richter.hu**<br>**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 2015** |
| **Balance sheet preparation date:** | **30 January 2016** |

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, according to version „A".

## 2.3 Valuation procedures

Upon initial recognition of assets and liabilities denominated in foreign currencies, the Company applies the foreign exchange rate announced by Hungarian National Bank (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 NBH'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 IFRS3 Standard.

### 2.3.2 Current assets

*Inventories*

Purchased inventories are valued by article units at the weighted average purchase price with the volume of the closing inventories taken into account. Impairment is recognised in accordance with the Accounting Act.

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 wage and contribution costs,
- other direct costs, costs of contract work,
- depreciation of production equipment,
- operation costs.

### 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. Loss in value should be reported 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 if the valuation can be considered definitive based on the available information.

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.

The purchase price of purchased inventories and the production costs of self-manufactured inventories - in addition to the described above - are shown in the balance sheet at a lower value 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, and thus the customers 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 is approved by the Deputy Chief Executive Officer.

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

| **Description** | **Essential rates** |
|---|---|
| Intangible assets | 5-20 % |
| Land | 0 % |
| Buildings | 1-8 % |
| Machineries | 14-33 % |
| Office furniture and equipments | 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 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 statement 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.

## 2.7 Accounting policy

In 2015 the Company didn't modify its accounting policy.

## 2.8 Tax audit

In 2014 a full-fledged tax audit of the business years 2011 and 2012 was conducted at the Company. The minutes were received on 16 December 2014, the decision was delivered before the closure of the annual report. After reviewing the decision the Company resolved to appeal against the fine and late payment penalty. The Company created provisions from the 2014 earnings in the amount specified in the authority's decision to provide coverage for the future liability.

The second instance decision dated 11 May 2015 reduced the tax penalty imposed by the first instance decision. Upon settlement of this liability the Company removed the provision created for the purpose.

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 2015. The annual fee due to this activity amounts to HUF 19 million + VAT.

## I/3 Evaluation of the 2015 activities

Expressed in HUF million, the reference figures used for evaluating the 2015 business of Gedeon Richter Plc. are taken from the 2014 audited annual report as approved by the General Meeting.

## 3.1 Main objectives for 2015

The Company's main objectives for 2015 were as follows: to expand sales despite a difficult market environment; to retain and improve market shares; and to strengthen the strategy of standing on multiple legs in the market; based on the strategic principles, to shift business to enhance the contribution of high value added products; to expand the gynaecological business; to develop a new proprietary CNS (Central Nervous System) product; and to take further steps in the development of biosimilar products.

In 2015 significant advancement was achieved in the following areas:

- Sales revenues ascended significantly in the EU, in particular the EU15 member states, as well as in the U.S. and the Chinese markets.

- 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.

- According to Richter's announcement on 27 February 2012, Esmya, a proprietary product developed by PregLem, a pharma 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 (myomas). 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 marketing authorization for the intermittent use of Esmya in the long term treatment of uterine fibroids applicable in all countries of the European Union Member States.

-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 the EU and some of the Latin-American countries. The product was introduced in a number of European markets in the course of the year. Moreover, Richter purchased exclusive license in Europe for Lenzetto, the estradiol spray for treating menopause symptoms manufactured by the Australian pharma company Acrux. Lenzetto has received multiple marketing approvals in several European countries.

- In December 2015 it was announced that the European Medicines Agency (EMA) had accepted Richter's regulatory submission for its proposed biosimilar to Amgen's Neulasta (pegfilgrastim). Earlier, in August 2015 Richter and Stada Arzneimittel AG signed a license and distribution agreement to commercialize the new biosimilar product. According to the agreement Stada will have non-exclusive rights to distribute the product in geographical Europe (excluding Russia), and Richter retains its right to distribution in any country of the world.

- In September 2014 Richter and Palatin Technologies, Inc. announced that they entered into a collaboration and license agreement to co-develop and commercialize bremelanotide for female sexual dysfunction indications in the European Union, other European countries and additional selected countries. Under the terms of the agreement, Palatin was entitled to a total upfront payment of USD 9.9 million and an additional USD 3.3 million once Phase III clinical trials started. In September 2015 Richter announced termination of the collaboration agreement by the parties' mutual consent. Richter deemed that further clinical trials would have been necessary for the development, which, however, presented an excessively high risk over a successful outcome of the project.

- On 19 February 2015 Richter and Evestra Inc. announced that they signed a collaboration agreement in which Richter is providing a USD 5 million convertible loan to Evestra. Under the terms of the agreement after three years Richter, at its discretion, will either be repaid the loan plus interests or will acquire a stake in Evestra to the extent of the loan. The funds will empower Evestra to accelerate the development of its innovative women's health product pipeline into the clinical stages.

- In 2015 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 to adapt to Russian economic policy 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.

In an attempt to offset the dire consequences of the Russia-Ukraine political crisis going back to 2014, the devaluation of the rouble and other CIS currencies, and to slipping Ukrainian pharmaceutical market the Company introduces cost-cutting measures that will affect all areas of operation.

The Company focuses on strengthening its presence in, and stepping up 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 collaboration with existing and new partners.

The main tool to achieve these goals in the context of Hungary, the CIS and the European countries is to improve the efficiency of Richter's sales networks. In Western Europe the strategy is implemented by means of our own marketing network, and in the United States through long-term agreements concluded with strategic partners. Through a variety of acquisitions Richter is striving to secure direct presence 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's future and for strengthening its market positions. The second pillar of the specialty strategy in the expansion of the gynaecological portfolio. The future added value from the gynaecological portfolio purchased in 2010 from Grünenthal, coupled with Esmya resulting from the Swiss acquisition will boost the Group's niche: gynaecology, which is best supported by the units operating in the traditional markets and the newly established Western European sales network. The Company's ongoing objective is to achieve faster growth in its special niche of oral contraceptives and steroid-based gynaecological products than total sales growth resulting in a greater contribution to annual turnover. As of 2012 the line was completed with Richter's proprietary product Esmya.

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

Besides the above, Richter is striving to exploit the opportunities provided by 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 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 geographical Europe following the patent expiry of the original product.

On 18 January 2016 Richter announced that Dr. Csaba Polacsek resigned from his membership in the Company's Board of Directors due to a conflict of interest consequent to a change in his employment position.

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.

On 10 March 2016 Mr Péter Szijjártó, Minister of Foreign Affairs and Trade announced on a press conference that the Government would provide approximately HUF 5 billion state subsidy in accordance with EKD programme. This government grant relates to capital expenditure program of Richter - worth HUF 15 billion - to expand its capacities of biosimilar development and manufacturing in Debrecen.

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

| | 2014 | 2015 | Variance | |
|---|---|---|---|---|
| | MHUF | MHUF | MHUF | % |
| Hungary | 31,855 | 33,939 | 2,084 | 6.5 |
| Export | | | | |
| CIS | 122,562 | 109,275 | -13,287 | -10.8 |
| EU * | 87,395 | 91,983 | 4,588 | 5.2 |
| USA | 12,238 | 13,472 | 1,234 | 10.1 |
| China | 13,176 | 16,518 | 3,342 | 25.4 |
| Latin America | 4,296 | 3,749 | -547 | -12.7 |
| Other countries | 12,126 | 13,160 | 1,034 | 8.5 |
| Export total | 251,793 | 248,157 | -3,636 | -1.4 |
| **Total** | **283,648** | **282,096** | **-1,552** | **-0.5** |

* Excluding Hungary

Income from the 2015 domestic sales was 6.5 % up compared to the reference year. Export in HUF was 1.4% and in EUR, 1.7% down year-on-year.

Changes in the breakdown of export by regions in the reported year: the largest contributor continues to be the CIS, albeit with a smaller share (38.7%) than in the reference year. The EU States increased 1.8 percentage points and contributed 32.6%. The contribution of China rose by 1.2 percentage points respectively (5.9%). Latin American sales contributed 1.3% to total income from sales. The contribution of the United States and Other countries sales rose by 0.5 and 0.4 percentage points respectively (4.8% and 4.7%). The domestic sales increased by 0.8 percentage points respectively (12.0%).

Based on the year-end figures for 2015 the Company realized HUF 33,939 million income from sales in the **domestic market**, 6.5% (HUF 2,084 million) more than in 2014. With this performance the Company's market share was 5.3% in 2015, 0.1 percentage points below the reference year's figure. Richter ranked second in the prescription drugs market with a share of 7.4%.

The main drivers of the increase were the mounting sales of Esmya, Kilon, Tanydon, Tanydon HCT, Scippa, Quamatel, Xeter and Kalmopyrin, attenuated by lagging sales return from Aktil, Aflamin and the Oral contraceptives. In 2015 oral contraceptives were the leading item in terms of sales contributing 9.3% to sales income.

In 2014 no significant changes took place in terms of price regulations in the domestic pharmaceutical market. Pharmaceutical representatives' registration fee cost Richter HUF 162 million in 2014 and HUF 219 million in 2015.

Income from **exports** decreased from HUF 251,793 million in 2014 to HUF 248,157 million in 2015. In euro, income from exports was 1.7% down and amounted to EUR 801.3 million.

Russia continues to be the leading market of the **CIS region** and also of the Company, with turnover denominated in EUR 4.3% below the reference year figure, also largely influenced by the massive devaluation of the rouble against the euro. Turnover reported in RUB terms increased by 25.7% to RUB 3.4 million. As regards the best performing products, sales of oral contraceptives as well as of Mydocalm, Diroton, APIs Rosuvastatin and Voriconazole and Stopdiar attenuated by lagging sales return from Esmya, Cavinton and Airtal.

In Ukraine sales decreased by 51.7% in EUR terms (EUR 28.5 million). All sales of the product decreased, of which the most significant were Groprinosin and Verospiron.

As regards Other CIS states sales decreased by 5,3% in EUR terms (EUR 4.2 million). Sales in Uzbekistan and Kyrgyzstan plummeting but were dampened by Kazakhstan and Turkmenistan sales income.

The total turnover achieved in the CIS market was HUF 109.275 million, 44.0% of total export. Year-on-year decrease was 10.8% (HUF 13.287 million). Expressed in Forex, the turnover was EUR 352.9 million (USD 391.4 million) with a 11.1% decrease in EUR (25.9% in USD) y/y (year-on-year).

The turnover achieved in the **European Union** was HUF 91,983 million, 5.2% up year-on-year. The contribution of this region to total export was 37.1 %. Expressed in Forex, the turnover was EUR 297.0 million with a 4.9 % increase.

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 10.9 % increase in the EU15 region.

On the other hand, the CEE Member States decreased their contribution to total sales in the EU region to approximately 48.7% in 2014 with a 0.8% drop in sales income in euro. The drop is mainly attributed to Avonex sales in Baltic States.

Sales in the **United States** increased by 10.1% in HUF terms (HUF 1,234 million), or, decreased by 8.3% expressed in USD (USD 4,4 million) which primarily due to a massive decrease of Prosterid.

Turnover in the **Chinese region** was HUF 16,518 million (EUR 53.3 million) with a y/y increase of HUF 3,342 million (or EUR 10,6 million). Increasing sales income generated by Cavinton should be particularly noted. The price difference compensation due to the strengthening of the yuan against the euro accounted for retrospectively is reported in the Sales income, and the exchange rate compensation is reported in the Other incomes.

Income from sales in **Latin America** achieved a 12.7% (expressed in dollar, a 27,6%) decrease and amounted to HUF 3,749 million (USD 13.4 million). The sales decrease is attributed mainly to oral contraceptives. The contribution of this region to total export was 1.5 %.

In the category of **Other countries**, oral contraceptives were the leading products. In the Other countries region the turnover was HUF 13,160 million (EUR 42.5million). Compared to 2014, turnover was 8.5 % higher (in EUR 8.4 % higher). The contribution of this region to total export was 5.3 %.

*Contribution of key products to sales revenues*

Finished products contributed 92% to the 2015 sales revenues. The contribution of APIs was 4%, sales of purchased materials was 3%, and royalties and services jointly contributed 1%.

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

| 2014 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|
| Rank | | Sales MHUF | Share % | Rank | | Sales MHUF | Share % |
| 1 | Oral contraceptives | 81,981 | 28.9 | 1 | Oral contraceptives | 85,407 | 30.3 |
| 2 | Cavinton/vinpocetine | 24,866 | 8.8 | 2 | Cavinton/vinpocetine | 25,403 | 9.0 |
| 3 | Panangin/asparaginates | 15,300 | 5.4 | 3 | Mydeton/tolperisone | 15,339 | 5.4 |
| 4 | Mydeton/tolperisone | 15,057 | 5.3 | 4 | Esmya /ulipristal acetate | 14,995 | 5.3 |
| 5 | Verospiron/ /spironolactone | 12,710 | 4.5 | 5 | Panangin/asparaginates | 14,263 | 5.1 |
| 6 | ACE inhibitors /enalapril, lisinopril | 12,268 | 4.3 | 6 | Verospiron/ /spironolactone | 11,317 | 4.0 |
| 7 | Esmya /ulipristal acetate | 11,728 | 4.1 | 7 | ACE inhibitors /enalapril, lisinopril | 11,303 | 4.0 |
| 8 | Lisonorm /lisinopril, amlodipine | 9,234 | 3.3 | 8 | Lisonorm /lisinopril, amlodipine | 8,257 | 2.9 |
| 9 | Aflamin/aceclofenac | 7,983 | 2.8 | 9 | Aflamin/aceclofenac | 6,642 | 2.4 |
| 10 | Quamatel/famotidine | 7,454 | 2.6 | 10 | Quamatel/famotidine | 6,629 | 2.3 |
| | Total | **198,581** | **70** | | **Total** | **199,555** | **70.7** |
| | *Net income from sales* | *283,648* | *100* | | *Net income from sales* | *282,096* | *100* |

The contribution of the ten leading product categories to total sales was 70.7%, almost identical with the reference year's figure.

Oral contraceptives are the leading products with a turnover of HUF 85.4 billion, 4.2% over the 2014 figure. The increase was the effect mainly of the rising turnover of emergency contraceptive products and of the Diegonest and Drospirenone. The contribution of this product category to total turnover was 30.3%, rose by 1.4 percentage points compare with the previous year.

The second most important product is our proprietary Cavinton with a turnover of largely higher as in the reference year (rising sales in China and decline in Russia). Third best was Mydeton with a market share of 5.4%. Ranked 7th in the preceding year, Esmya became the fourth best-selling product, having increased its sales income by 27.9% over the reference year as a result of rising Western European sales (Italy, France, Great Britain and Germany). Third in the reference year, Panangin slipped to fifth place due to lagging sales in Russia and Ukraine. Verospiron and ACE inhibitors each lost one place and finished sixth and seventh respectively, also because of dropping sales in Russia and Ukraine. Lisonorm managed to retain its eighth place, Aflamin its ninth place and Quamatel its tenth place despite the declining turnover. The composition of the TOP 10 list remained the same as in the reference period.

*Contribution of key markets to sales revenues*

In 2015 the Company's ten leading markets were as follows:

| Company's ten leading markets | | 2015 | |
|---|---|---|---|
| | | MHUF | MEUR |
| 1. | Russia | 77,685 | 250.9 |
| 2. | Hungary | 33,939 | 109.6 |
| 3. | Germany | 16,688 | 53.9 |
| 4. | China | 16,518 | 53.3 |
| 5. | Poland | 14,664 | 47.4 |
| 6. | United States of America | 13,472 | 43.5 |
| 7. | Ukraine | 8,236 | 26.6 |
| 8. | Czech Republic | 7,425 | 24.0 |
| 9. | Kazakhstan | 7,124 | 23.0 |
| 10. | Great Britain | 6,502 | 21.0 |
| | Total | 202,253 | 653.2 |
| | **Net income from sales** | **282,096** | **910.9** |

The ten leading countries jointly contributed approximately 71.7% to Richter's total sales.

Russia continues to head the league table and Hungary is second followed by Germany. As a result of rising Cavinton sales and the strengthening of the yuan China stepped up to fourth place. Poland retained its fifth place and the United States lost a place despite increasing sales income. Ukraine slipped back from fourth to seventh place in the sales ranking due to a 51.6% slump in turnover. The Czech Republic and Kazakhstan managed to hold on to their respective eighth and ninth place. The Slovak Republic dropped out of the TOP 10 list of most important markets and was replaced by Great Britain.

The three main therapeutic areas contribute 76% to the 2014 sales income. The most important area is that of gynaecological products contributing 40% to turnover. The contribution of cardiovascular products is 23% and of CNS (Central Nervous System) products, 13%.

HUF 111,559 million was realised with associated enterprises including HUF 98,140 million from sales to subsidiaries.

## 3.4 Balance sheet

### Assets

As of 31 December 2015 the Company's assets amounted to HUF 737,067 million, HUF 30,716 million higher than the opening value. The 4.3 % increase of total assets boosted Richter's wealth. The main items on the asset side are as follows:

*Fixed assets*

The closing value of this item was HUF 457,590 million, HUF 15,514 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 2015 the combined value of the Company's holdings amounted to HUF 147,532 million including fair value and rose by HUF 13,853 million year-on-year. The change is mainly attributed to Richter's acquisition of the investment management business of Gedeon Richter Befektetéskezelő Kft.. (a total of HUF +4,102 million), the combined reversed impairment and value adjustment due to the change in Protek's share prices (HUF +2,269 million), and Gedeon Richter Romania S.A.'s capital increase (HUF 697 million).

The reassessment of holdings as of the balance sheet date resulted in an increase of HUF 6,522 million.

Loans given amounted to HUF 47,272 million and included predominantly long-term loans extended to pharmaceutical production companies.

The Company intends to held until maturity (2019) the Richter Treasury shares convertable bond, which is reported under long term bonds with a book value in 2015 of HUF 16,282 million.

There was a HUF 7,759 million increase in the value of tangible assets year-on-year (5.9 %). The increase is the result of a HUF 6,522 million growth in assets in the course of a construction aimed at a new, stare-of-the-art freeze-drying unit and an injectables packaing plant. Impairment was HUF 15,475 million in the reported period. The total value of capitalised capital expenditure is HUF 16,647 million. The total capitalised value includes group assets of minor value at HUF 40 million and completed refurbishment projects at HUF 2,291 million.

The value of intangibles was HUF 104,990 million, HUF 5,879 million lower than the opening value. The decline is attributed mainly to a HUF 4,984 million change in valuable rights resulting from the termination of the license and cooperation agreement relating to bremelanotide.

The total value of the Company's investment including the acquisition of intangibles was HUF 28,251 million in 2015.

*Current assets*

The total value of current assets was HUF 276,758 million as of 31 December 2015, HUF 15,314 million above the opening value.

Inventories increased by HUF 2,153 million by the end of the year. This item includes a HUF 124 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 2,030 million above the opening value recorded on January 1.

Receivables are HUF 2,017 million less than the opening figure. Trade receivables were HUF 8,107 million lower year-on-year. The decline was primarily contributed by shrinking trade receivables to other related parties in the CIS and the domestic regions and attenuated by increasing trade receivables in the EU region. This figure also contains HUF 12,206 million decrease in liabilities to other related parties. The closing balance of loans extended to affiliated undertakings and undertakings linked by participating interest was HUF 6,379 million higher year-on-year predominantly because of the loan items extended to Richter-Helm BioLogics GmbH & Co., Pharmapolisz Kft., Gedeon Richter Romania S.A. and Gedeon Richter Aptyeka sp.O.O.O. due within a year.

As of 31 December 2015 the value of cash rose by HUF 31,534 million. The main contributors were the one-off milestone income from Allergan (Forest Laboratories) related to the marketing authorization of cariprazine, and the redemption of government bond held to maturity. The effect was lessened by the aggregate EUR 46 million repayment of the Club loan and of the European Investment Bank loan, as well as the payment of the last portion of the deferred sales price of the PregLem acquisition (milestone payment).

The value of securities was HUF 16,356 million below the opening value mainly due to the redemption of above mentioned government bonds.

## Total Equity and Liabilities

*Shareholders' equity*

There was a substantial, HUF 50,068 million increase in shareholders' equity, which resulted from a HUF 35,104 million increase in profit for the year, a HUF 12,394 million in retained earnings, a HUF 2,117 million in fair value reserve, and a HUF 453 million in tied up reserve 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 31.12.2014** | **18 637** | **19 256** | **519 707** | **351** | **0** | **12 957** | **570 908** |
| 31.12.2014 Profit for the year | | | 12 957 | | | -12 957 | |
| 31.12.2015 Release and tie-up of repurchase value of treasury shares and experimental development | | | -453 | 453 | | | |
| 31.12.2015 fair valuation reserve | | | | | 2 117 | | 2 117 |
| Supplementary payment * | | | -110 | | | | -110 |
| 31.12.2015 Profit for the year | | | | | | 48 061 | 48 061 |
| **Balance 31.12.2015** | **18 637** | **19 256** | **532 101** | **804** | **2 117** | **48 061** | **620 976** |

*Pharmapolis Gyógyszeripari Tudományos Park Kft. to settle equity.

*Changes in issued capital*

## Shares of the company

| | 31.12.2014 | | | 31.12.2015 | | |
|---|---|---|---|---|---|---|
| | 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

| | 31.12.2014 | 31.12.2015 | Variance |
|---|---|---|---|
| Financial investments | | 2 117 | 2 117 |

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 % | |
|---|---|---|---|---|---|---|
| | 31.12.2014 | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 | 31.12.2015 |
| Domestic shareholders | | | | | | |
| MNV ZRt. | 47 051 668 | 47 051 668 | 25.43 | 25.36 | 25.25 | 25.25 |
| Local government | 1 164 | 149 | 0.00 | 0.00 | 0.00 | 0.00 |
| Institutional investors | 5 035 532 | 5 498 517 | 2.72 | 2.96 | 2.70 | 2.95 |
| Private investors | 8 127 369 | 5 859 126 | 4.39 | 3.16 | 4.36 | 3.14 |
| **Total** | **60 215 733** | **58 409 460** | **32.54** | **31.48** | **32.31** | **31.34** |
| Foreign shareholders | | | | | | |
| Private investors | 1 203 083 | 2 451 470 | 0.65 | 1.32 | 0.65 | 1.32 |
| Institutional investors | 123 573 719 | 124 293 699 | 66.80 | 66.98 | 66.30 | 66.68 |
| *Aberdeen Asset M. PLC.* | *19 119 054* | *18 243 530* | *10.33* | *9.83* | *10.26* | *9.79* |
| **Total** | **124 776 802** | **126 745 169** | **67.45** | **68.30** | **66.95** | **68.00** |
| Non-specified shareholder | 16 638 | 408 576 | 0.01 | 0.22 | 0.01 | 0.22 |
| Treasury shares * | 1 365 687 | 811 655 | 0.00 | 0.00 | 0.73 | 0.44 |
| **Subscribed capital** | **186 374 860** | **186 374 860** | **100.00** | **100.00** | **100.00** | **100.00** |

*It includes the 710,284 ordinary shares held by subsidiaries. Treasury shares carry no voting rights.

The book value of treasury shares held by Richter is HUF 550 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

| | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Dividend paid to MNV Zrt. | 2 682 | 1 564 |

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 01.01.2015** | **3 699** | **13** |
| Share purchase | 1 177 008 | 5 958 |
| Transferred in the context of bonus program | -327 378 | -1 576 |
| Transferred as premium | -422 917 | -2 039 |
| Transferred in the context of PM program | -350 694 | -1 897 |
| Repurchased in the context of PM program | 21 653 | 91 |
| **Closing 31.12.2015** | **101 371** | **550** |

* Richter bought 100,000 ordinary shared from its subsidiary Nedermed B.V., and 550,000 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 2015 327,378 shares were granted to 454 employees of the Company while in 2014 400,776 shares were granted to 454 employees.

Individual bonuses

422,917 ordinary shares were granted to qualified employees as bonuses during the year while 422,760 ordinary shares were granted in 2014.

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 350,694 treasury shares to 4,356 employees in 2015. The shares will be deposited on the employees' security accounts with UniCredit Bank Hungary Ltd. until 2 January 2018. In 2014 478,725 shares were granted to 4,959 employees deposited on their accounts until 2 January 2017.

The AGM held on 28 April 2015 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 150,000 treasury shares at the Budapest Stock Exchange during the year, and a further 375,304 shares on the OTC market.

*Liabilities*

As of 31 December 2015 total liabilities amounted to HUF 102,489 million and included HUF 42,225 million long-term liabilities. Long-term liabilities were HUF 9,775 million below the opening value.

The reduction was due primarily to EUR 21 million borrowings and the deferred purchase price in relation to the Chinese acquisition were reclassified as short term liabilities due within the year. At the end of 2015 the Company's only long-term borrowings was the EIB loan amounting to EUR 117 million.

Accounts payable increased by HUF 6,074 million. This figure also contains changes in liabilities to other related parties and of the cash pool.

The HUF 10,479 setback of short-term liabilities results mainly from deferred payments due in the reported period in conjunction with PregLem and the Chinese acquisition, repayment of the EUR 33 million Club facility and the EUR 13 million EIB loan, and was tempered by the reclassifications mentioned earlier.

## 3.5 Cash Flow Statement

MHUF

| | | | 2014 | 2015 |
|---|---|---|---|---|
| I. | Net cash flow from ordinary business (Operating cash flow, lines 1-13) | | 44 355 | 98 824 |
| 1. | Profit before taxation | ± | 19 139 | 63 105 |
| 1/a. | Dividends received | - | -1 813 | -1 002 |
| 1b. | Other profit items that do not imply cash movements | | 7 238 | 1 332 |
| 2. | Depreciation charge | + | 22 079 | 22 536 |
| 3. | Impairment charge and reversal | ± | 14 373 | 4 143 |
| 4. | Difference in recognition and reversal of provisions | ± | 1 821 | 878 |
| 5. | Gains and losses of selling non-current assets | ± | -27 | -35 |
| 5/a | Change of non-current assets without cash flow generating effect | ± | | -1 537 |
| 6. | Change of trade payables | ± | -657 | 6 074 |
| 7. | Change of other short term liabilities | ± | -646 | -774 |
| 8. | Change of accruals | ± | -713 | 20 |
| 9. | Change of trade receivables | ± | -6 722 | -2 473 |
| 10. | Change in current assets (less receivables and liquid assets) | ± | 1 175 | 14 904 |
| 10/a. | Change of other current assets without cash flow generating effect | ± | -1 713 | -1 181 |
| 11. | Change of prepayments | ± | 1 466 | -248 |
| 12. | Taxes paid or payable (on profits) | - | -31 | -767 |
| 13. | Dividends paid or payable | - | -10 614 | -6 151 |
| II. | Cash flow from investing activities (lines 14-16) | | -47 562 | -57 998 |
| 14. | Purchasing of non-current assets | - | -34 614 | -28 536 |
| 15. | Sales of non-current assets | + | 386 | 206 |
| 16. | Change of financial investments | ± | -15 147 | -30 670 |
| 16/a. | Dividends received | + | 1 813 | 1 002 |
| III. | Cash flow from financing activities (lines 17-27) | | -2 476 | -9 292 |
| 17. | Proceeds from issuing shares | + | | |
| 18. | Proceeds from issuing bonds | + | | |
| 19. | Taking credits or loans | + | | |
| 20. | Repayment of long term loans | + | 9 190 | 9 189 |
| 21. | Liquid assets received without the obligation of repayment | + | | |
| 22. | Withdrawal of shares | - | | |
| 23. | Repayment of bonds | - | | |
| 24. | Repayment of loans and credit | - | -4 949 | -14 432 |
| 25. | Long term loans extended and bank deposits | - | -5 810 | -3 191 |
| 26. | Liquid assets given without the obligation of repayment | - | -907 | -858 |
| 27. | Change of liabilities in connection with founders | ± | | |
| IV. | Net cash flow (lines I+II+III) | ± | -5 683 | 31 534 |

## 3.6 Financial performance indicators

The indicators calculated from the 2015 data refer to the state after establishment of dividend payment.

### Profitability indicators

| Indicators | Formula | 2014 | 2015 | Variance |
|---|---|---|---|---|
| EBITDA | Operating profit + Depreciation / Net sales income | 39 964 + 22 079 / 283 648 = 21.87% | 60 367 + 22 536 / 282 096 = 29.39% | 7.52 |
| ROE | After-tax profit / Shareholders' equity | 19 108 / 570 908 = 3.35% | 61 480 / 620 976 = 9.90% | 6.55 |
| ROA | After-tax profit / Total assets | 19 108 / 706 351 = 2.71% | 61 480 / 737 067 = 8.34% | 5.63 |

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

EBITDA was 29.39% in the reported period, 7.52 percentage points abowe the 2014 figure. With a sales income approximately the same as in the reference year operating profit increased significantly (+51.1%).

At the end of 2015 return on equity was 9.90%, with return on assets being 8.34%. Both ROE and ROA improved year-on-year due to a 221.8% extremly increased in after-tax profit.

### The Company's assets

| Indicators | Formula | 2014 | 2015 | Variance |
|---|---|---|---|---|
| Debt ratio | Total liabilities / Total equity and liabilities | 122 743 / 706 351 = 17.38% | 102 489 / 737 067 = 13.90% | -3.48 |
| Equity to debt ratio | Shareholders' equity / Total equity and liabilities | 570 908 / 706 351 = 80.82% | 620 976 / 737 067 = 84.25% | 3.43 |
| Fixed assets coverage ratio | Shareholders' equity + Long-term liabilities / Fixed assets | 570 908 + 52 000 / 442 436 = 140.79% | 620 976 + 42 225 / 457 590 = 144.93% | 4.14 |
| Working capital ratio | Current assets - Short-term liabilities / Total assets | 261 444 - 70 743 / 706 351 = 27.00% | 276 758 - 60 264 / 737 067 = 29.37% | 2.37 |

Debt ratio was 13.90% in 2015, 3.48 percentage points less than in the reference year because of a 16.50% drop in liabilities.

With the reduction of debt ratio equity to debt ratio slightly increased and achieved 84.25% in 2015.

While fixed assets coverage ratio and working capital ratio decreased year-on-year, their respective values at 144.93% and 29.37% continue to reflect an extremely stable assets position.

## The Company's liquidity

| Indicators | Formula | 2014 | 2015 | Variance |
|---|---|---|---|---|
| Liquidity ratio | $\frac{\text{Current assets}}{\text{Short-term liabilities}}$ | $\frac{261\,444}{70\,743} = 3.70$ | $\frac{276\,758}{60\,264} = 4.59$ | 0.89 |
| Cash ratio | $\frac{\text{Cash}}{\text{Short-term liabilities}}$ | $\frac{78\,789}{70\,743} = 1.11$ | $\frac{110\,323}{60\,264} = 1.83$ | 0.72 |
| Quick ratio | $\frac{\text{Cash + Accounts receivable + Short-term marketable securities}}{\text{Short-term liabilities}}$ | $\frac{78\,789 + 116\,908 + 20\,858}{70\,743} = 3.06$ | $\frac{110\,323 + 114\,891 + 4\,502}{60\,264} = 3.81$ | 0.75 |

While all liquidity ratios increased by the end of 2015.

Short-term liabilities decreased in proportion to the aggregate increase of cash, receivables and marketable securities.

The decrease in the Company's short-term liabilities was caused mainly by equalization of the deferred payment liability due in the 2015 business year.

## Stock market indicators

| Indicators | Formula | 2014 | 2015 | Variance |
|---|---|---|---|---|
| Earnings per share ratio (EPS) | $\frac{\text{Profit after taxes}}{\text{Number of common shares (Mn)}}$ | $\frac{19\,108}{186.375} = 102.52$ | $\frac{61\,480}{186.375} = 329.87$ | 227.35 |
| Price - earnings (P/E) | $\frac{\text{Average market value per share (HUF)} \times \text{Average outstanding common shares (Mn)}}{\text{Profit after taxes}}$ | $\frac{3\,554 \times 186.375}{19\,108} = 34.66$ | $\frac{5\,573 \times 186.375}{61\,480} = 16.89$ | -17.77 |

*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 2014 P/E was 34.66 compared to 16.89 in 2015.

Due to the increase in the 2015 after-tax profit earnings per share was HUF 329.87, HUF which was more than tripled compare to the previous year.

# II. Specific section

## II/1 Fixed assets

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

### 1.1 Intangible assets

MHUF

| Intangible assets | Account groups | | | | |
|---|---|---|---|---|---|
| | Rights | Intellectual property | Goodwill | Capitalised R&D | **Total** |
| **Gross value** | | | | | |
| **Opening balance, 01.01.2015** | **107 408** | **2 196** | **36 853** | **804** | **147 261** |
| Capitalization | 5 079 | | | | **5 079** |
| Sale | -2 | | | | **-2** |
| Scrapping | -3 278 | -115 | | | **-3 393** |
| Reclassification, other | 8 | | -527 | | **-519** |
| **Closing balance, 31.12.2015** | **109 215** | **2 081** | **36 326** | **804** | **148 426** |
| **Accumulated amortization** | | | | | |
| **Opening balance, 01.01.2015.** | **-34 617** | **-963** | **-346** | **-466** | **-36 392** |
| Amortization accounted in respect of the current year | -6 808 | -169 | | -84 | **-7 061** |
| Sale | 2 | | | | **2** |
| Scrapping | 17 | | | | **17** |
| Reclassification, other | -2 | | | | **-2** |
| **Closing balance, 31.12.2015** | **-41 408** | **-1 132** | **-346** | **-550** | **-43 436** |
| **Net book value** | | | | | |
| 01.01.2015 | 72 791 | 1 233 | 36 507 | 338 | 110 869 |
| **31.12.2015** | **67 807** | **949** | **35 980** | **254** | **104 990** |

Intangible assets amounted to HUF 5,879 million in the reported period, 5,3% lower than the reference figure.

The product rights acquired from Grünenthal in 2010 containing market authorisation and manufacturing rights, which are presented as Rights, with net book value of HUF 47,942 million as of 31 December 2014 and HUF 43,516 million as of 31 December 2015.

The collaboration agreement made with Palatin Technologies were terminated in the third quarter 2015 following which we accounted for an impairment of HUF 3,134 million in respect of the intangible assets (licenses) of the project.

### 1.1.1 Goodwill

MHUF

| Goodwill | Investments | | | | | | |
|---|---|---|---|---|---|---|---|
| | GR Ukrfarm T.O.V. | GR Polska Sp.z.o.o. | PregLem SA | GRmed Company Ltd. | GR Mexico S.A.P.I. | Mediplus (E.Z.) N.V. | Total |
| **Gross value** | | | | | | | |
| **Opening balance, 01.01.2015** | **345** | **910** | **12 760** | **18 944** | **2 588** | **1 305** | **36 852** |
| Changes for the year | | | | | -527 | | -527 |
| **Closing balance, 31.12.2015** | **345** | **910** | **12 760** | **18 944** | **2 061** | **1 305** | **36 325** |
| **Impairment** | | | | | | | |
| **Opening balance, 01.01.2015** | **-345** | | | | | | **-345** |
| Impairment charged for the year | | | | | | | |
| **Closing balance, 31.12.2015** | **-345** | | | | | | **-345** |
| **Net book value** | | | | | | | |
| 01.01.2015 | 0 | 910 | 12 760 | 18 944 | 2 588 | 1 305 | 36 507 |
| **31.12.2015** | **0** | **910** | **12 760** | **18 944** | **2 061** | **1 305** | **35 980** |

In 2015 goodwill of the Mexican company was down by HUF 527 million because in the evaluation period preceding the transaction the Company acquired additional assets (long-term receivables) that were valued as part of the acquisition.

The Company tests annually whether the presented goodwill has suffered any impairment.

*PregLem S.A.*

PregLem was acquired on 6 October 2010. This acquisition supports and provides a gynaecological portfolio and development of the Group's presence in Western Europe. On the acquisition the intangible asset ESMYA and goodwill has also been recognized.

At the date of the acquisition ESMYA, the most important product in this portfolio, a novel treatment for uterine fibroids, was close to the registration. In February 2012 the European Commission (EC) has granted marketing authorization to ESMYA as pre-operative treatment of uterine fibroids what was followed by the authorizations for the extended (use up to two courses - 2014) and intermittent use (2015).

Similarly to the previous years, Richter conducted an impairment test of PregLem for the 2015 balance sheet date and found that again there is no need to account for impairment. Considering that the future cash flows from continued use of the acquired assets are considerable, the return been determined for a cash generating unit including the ESMYA intangibles, PregLem goodwill and other tangible assets used to generate cash inflows (ESMYA CGU).

The return on the ESMYA CGU is determined by means of the income-based method with a fair value less cost to sell approach. The calculations are based on the approved budgets and management projections, the underlying cash flows of which are expected to reflect market participant assumptions as well.

Cash flows have been projected over the estimated useful life of the asset. Future cash flows are basically affected by changes in turnover, which has three main phases: ramp-up, staying at level, and decline once generic competition starts.

Key facts and assumptions around the management estimation on the future performance of ESMYA (CGU) are as follows:

European ESMYA sales: Generic competition is not expected before 2025 in the European Union due to the data and marketing exclusivity granted by authorities effective till 2022 and also the company's patent portfolio (both granted patent and pending patent applications) protecting Esmya.

> The product has been authorized for the long term management of uterine fibroids, which increases the overall sales potential and extends the time horizon for the product to reach this potential.
> The majority (80%) of the recoverable amount is generated by the EU cash flows: sales revenue is expected to peak in 2019 and maintain that level until 2024. The Compound Annual Growth Rate (for the period 2016-2019 is 28% (in 2014 for the period 2015-2019 was 46%). Cash flow peaks in 2024 as a result of declining cost of sales (expiration of licence fee obligation). Sales are expected to decline over 5 years starting with 2025 (the first year of generic competition) (CAGR: -15%) and to remain stable after that till the end of the forecast period.

US ESMYA sales: In the United States, the combined effects of the delayed launch (2018) compared to EU markets and the company's patent portfolio will not make it likely that effective generic competition could start before 2030.

The discount rate (post tax: 9.2%, equivalent to a pre-tax rate of 10,5%; in 2014 9.55%) applied reflects current market assessments of the time value of money and the risks specific to the CGU for which future cash flow estimates have not been adjusted.

The present values of cash flows up to and after 2023 are approximately the same.

The recoverable amount of ESMYA CGU exceeded carrying value of the sum of ESMYA intangible asset, other tangible assets used to generate cash inflows and the related goodwill. A rise in post tax discount rate to 10.8 % (in 2014: 10.8%) would remove the remaining headroom.

*GRMed Company Ltd.:*

GRMed Company Ltd. was acquired in 2013. The transaction supported the Group's stronger presence in China through acquiring an indirect holding in the Chinese trading company RxMidas.
The goodwill impairment was tested as of the balance sheet date of 31 December 2015 and it was found that again there is no need to account for impairment.

Considering that the future cash flows from continued use of the assets are considerable, the return has been determined for a cash generating unit (CGU) by means of the income-based method with a fair value less cost to sell approach. The calculations were based on the long term turnover projection and costing plan adopted by the management, the underlying cash flows of which are expected to reflect market participant assumptions as well. The present value of cash flows beyond this was determined by means of the terminal value formula.

A steady increase in cash flows is envisioned for the projection period (2016-2026) due to the average annual 10.8% growth in turnover.

The present value of the 2016-2026 cash flows alone is substantially (1.5 times) higher than the CGU's book value. By a conservative estimate of residual value (reckoning with 0% growth), return is 2.9 times the tested amount.
The discount rate (post tax: 11.0%, equivalent to a pre-tax rate of 12,4%) applied reflects current market assessments of the time value of money and the risks specific to the CGU for which future cash flow estimates have not been adjusted.
Any reasonable change in the key assumptions is still not expected to result in an impairment of Goodwill.

*Mediplus Group:*

Registered in Curacao, Mediplus Group in various Latin American countries was acquired and involved in the consolidation in 2014. The transaction was part of the series of recent acquisitions aimed at expanding the Group's activity in the LatAm region and serving as a springboard for future growth.

The goodwill impairment was tested as of the balance sheet date of 31 December 2015 and it was found that again there is no need to account for impairment.

The recoverable amount of this group of cash generating units (CGUs) is determined by an income based fair value less cost to sell calculation. The calculations were based on the long term (2016-2025) turnover projection based on the data of Mediplus Group (Mediplus (Economic Zone) N.V., Comercial Gedeon Richter (Chile) Ltda., Gedeon Richter Peru S.A.C., Farmage Ecuatoriana, Farmage SRL) adopted by the management, the underlying cash flows of which are expected to reflect market participant assumptions on the respective markets as well. The present value of cash flows beyond this was determined by means of the terminal value formula.

Within the above period a significant upswing in the present value of cash flows is projected for 2016-2018 in conjunction with 25.0% annual average increase in sales revenues. After 2018 the cash flows remain near the same level because the projection envisions a continuous but minor (1.4%) growth in turnover for the remainder of the period. Neither growing nor declining trend has been taken into consideration when calculating the residual value.

The discount rate (post tax: 12.9%, equivalent to a pre-tax rate of 16,5%) applied reflects current market assessments of the time value of money and the risks specific to the CGU for which future cash flow estimates have not been adjusted.

The present value of the 2016-2025 cash flows 1.53 times higher than the terminal value.

The calculated return is 24,9% in excess of the CGU's book value. A rise in post tax discount rate to 15.5 % would remove the remaining headroom.

*Gedeon Richter Mexico, S.A.P.I. de C.V.:*

The goodwill impairment in the wake of the acquisition of DNA Pharmaceuticals S.A. of Mexico was conducted as well.

Similarly to other goodwill impairment tests, in this case too return has been determined for a cash generating unit (CGU) by means of the income-based method with a fair value less cost to sell approach. The calculations were based on the long term turnover projection adopted by the management (2016-2025), the underlying cash flows of which are expected to reflect market participant assumptions on the respective markets as well. The present value of cash flows beyond this was determined by means of the terminal value formula.

Cash flows vary over the period 2016-2021, but only to limited extent (relative standard deviation is 7,5%). After 2021 cash flows remain near the same level. Residual value was calculated under similar expectations (0% growth or decline).

The discount rate (post tax: 9.6%, equivalent to a pre-tax rate of 11,8%) applied reflects current market assessments of the time value of money and the risks specific to the CGU for which future cash flow estimates have not been adjusted.

The present value of the 2016-2025 cash flows exceeds the terminal value by 36%.

The calculated return is about 76.0% above the CGU's book value. A rise in post tax discount rate to 17.1% would remove the remaining headroom.

## 1.2 Tangible assets

MHUF

MHUF

| Tangible assets | Account groups | | | | | |
|---|---|---|---|---|---|---|
| | Land and buildings | Technical equipment | Other equipment | Recorded in groups | Consrruction in progress | Total* |
| **Gross value** | | | | | | |
| **Opening balance, 01.01.2015** | **110 660** | **128 746** | **60 187** | **518** | **12 070** | **312 181** |
| CAPEX | | | | | 23 172 | **23 172** |
| Capitalization | 3 581 | 6 341 | 4 393 | 40 | -14 355 | **0** |
| Renovations | 781 | 1 300 | 210 | | -2 291 | **0** |
| Sale | -25 | -457 | -647 | | -4 | **-1 133** |
| Scrapping | -43 | -1 021 | -809 | -35 | | **-1 908** |
| Loss event | -9 | | -32 | | | **-41** |
| Shortage | | -2 | -7 | -21 | | **-30** |
| Transferred without payment | | -9 | -11 | | | **-20** |
| Reclassification, other | 81 | 28 | -116 | | | **-7** |
| **Closing balance, 31.12.2015** | **115 026** | **134 926** | **63 168** | **502** | **18 592** | **332 214** |
| **Accumulated depreciation** | | | | | | |
| **Opening balance, 01.01.2015** | **-27 559** | **-106 097** | **-46 119** | **-518** | **0** | **-180 293** |
| Depreciation charged to date | -3 396 | -7 580 | -4 459 | -40 | | **-15 475** |
| Sale | 5 | 457 | 496 | | | **958** |
| Scrapping | 17 | 1 018 | 807 | 35 | | **1 877** |
| Loss event | 3 | | 25 | | | **28** |
| Shortage | | 2 | 6 | 21 | | **29** |
| Transferred without payment | | 9 | 11 | | | **20** |
| Reclassification, other | -122 | -8 | 133 | | | **3** |
| **Closing balance, 31.12.2015** | **-31 052** | **-112 199** | **-49 100** | **-502** | **0** | **-192 853** |
| **Net book value** | | | | | | |
| 01.01.2015 | 83 101 | 22 649 | 14 068 | 0 | 12 070 | **131 888** |
| **31.12.2015** | **83 974** | **22 727** | **14 068** | **0** | **18 592** | **139 361** |

* It does not include the value of advances given for tangible assets (HUF 387 million).

The value of tangible assets was HUF 7,473 million above the reference year figure (+5.7%). Assets in the course of construction (investments and renovation) are HUF 6,522 million above the opening figure. The growth results from the investment aimed at the new state-of-the-art freeze-drying unit and the injectables packaging plant.

Depreciation on tangibles and intangibles was HUF 22,536 million in 2015, HUF 457 million in excess of the 2014 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, 01.01.2015** | **2 150** | **875** | **577** | **3 602** |
| Capitalization | 103 | 19 | 68 | **190** |
| Renovations | 5 | 1 | 3 | **9** |
| Scrapping | | -10 | -1 | **-11** |
| Reclassification, other | | | 1 | **1** |
| **Closing balance, 31.12.2015** | **2 258** | **885** | **648** | **3 791** |
| **Depreciation change** | | | | |
| **Opening balance, 01.01.2015** | **-446** | **-820** | **-547** | **-1 813** |
| Depreciation charged to date | -57 | -23 | -17 | **-97** |
| Scrapping | 0 | 10 | 1 | **11** |
| Reclassification, other | | | | **0** |
| **Closing balance, 31.12.2015** | **-503** | **-833** | **-563** | **-1 899** |
| **Net book value** | | | | |
| 01.01.2015 | 1 704 | 55 | 30 | **1 789** |
| **31.12.2015** | **1 755** | **52** | **85** | **1 892** |

### 1.2.2 Construction in progress

MHUF

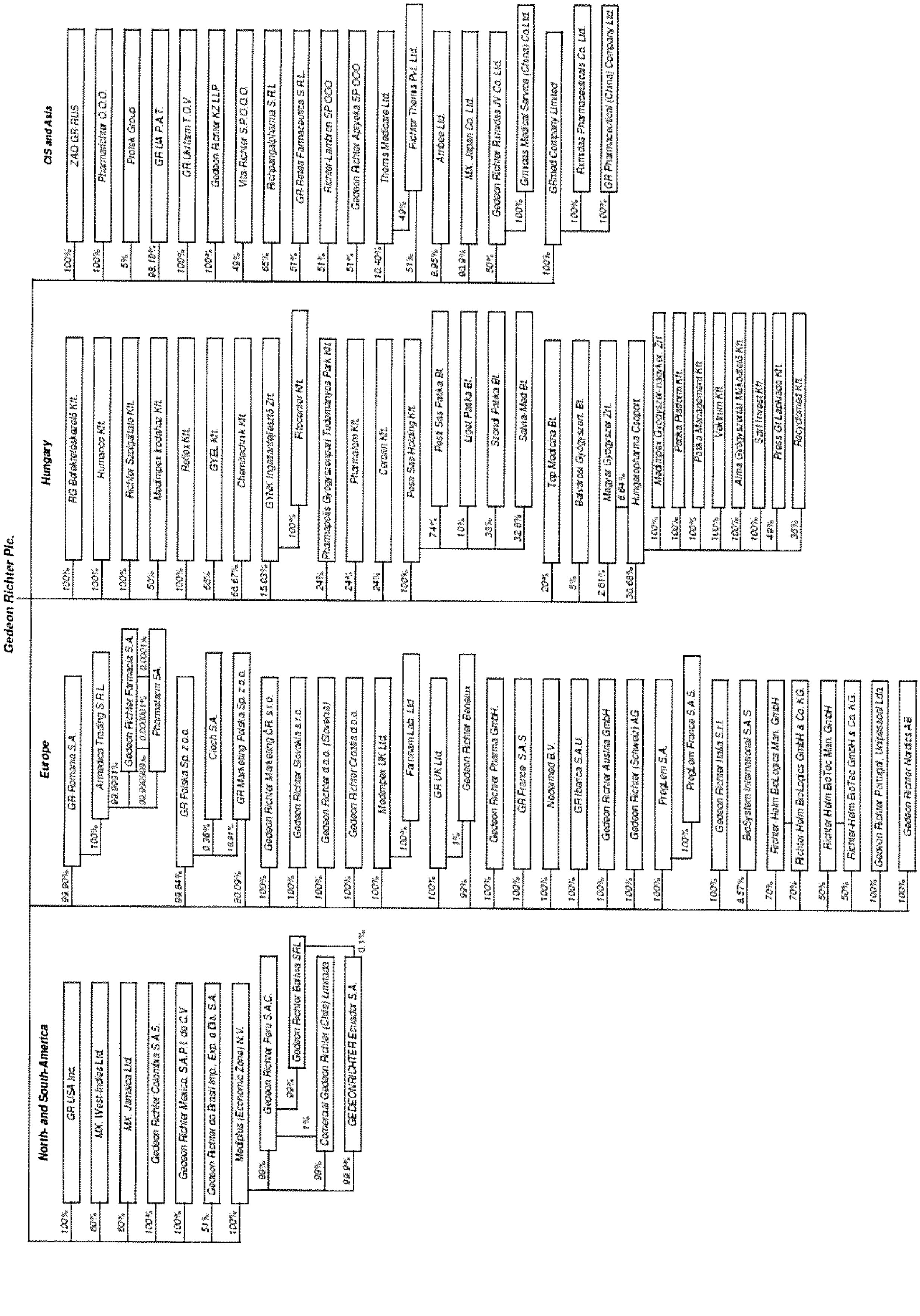
| Description | Variance | | | | |
|---|---|---|---|---|---|
| | **Opening balance 01.01.2015** | CAPEX | Capitalisation | Sales | **Closing balance 31.12.2015** |
| CAPEX | **11 201** | 20 759 | -14 316 | -3 | **17 641** |
| Renewal | **763** | 2 363 | -2 291 | | **835** |
| Grouped | **106** | 50 | -40 | | **116** |
| **Total** | **12 070** | **23 172** | **-16 647** | **-3** | **18 592** |

The value of construction in progress as at 31 December was HUF 18,592 million.

The amount of intangible assets capitalised during 2015 is HUF 3,508 million.

## 1.3. Financial Investments

### 1.3.1 Investments of GR Plc. based on rate of ownership as 31.12.2015



## 1.3.2 Related parties in a breakdown by degree of participation 31.12.2015.*

| Description | Head office | RG direct and indirect participation ownership (%) | RG direct and indirect participation 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 Románia S.A. | Tirgu Mures, Cuza Voda 99-105., Romania | 99.90 | 99.90 |
| 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 BioLogics 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 |
| 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 | 56.10 | 56.10 |
| 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 | 81.00 |
| 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 |
| Mediplus (Economic Zone) N.V. | Economische Zone Hato unit F.II.1., Curacao | 100.00 | 100.00 |

| Description | Head office | RG direct and indirect participation | |
|---|---|---|---|
| | | ownership (%) | votes (%) |
| **Subsidiary companies** | | | |
| 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 |
| ***Indirect participation*** | | | |
| Armedica Trading S.A | Tirgu Mures, Cuza Voda 99-105., Romania | 99.90 | 99.90 |
| Pharmafarm S.A | Str. Majakovski Nr.2. Jud. Cluj, Romania | 99.90 | 99.90 |
| GR Farmacia S.A | TG MURES, STR. CUZA VODA Nr.99-105, Romania | 99.90 | 99.90 |
| 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 | 66.00 |
| GR Pharmaceutical (China) Company Ltd. | 650 Dingxi Road, Changning dist., Shanghai, China | 100.00 | 66.00 |
| Pesti Sas Patika Bt. | 1091 Bp., Üllői út 105.Hungary | 74.00 | 74.00 |
| Gedeon Richter Peru S.A.C. | Av. Javier Prado Oeste 1586 Of. 201, San Isidro, Lima 27, Peru | 100.00 | 100.00 |
| Farmage SRL | Av. 6 de Agosto, No. 2455, Edificio: Hilda, Piso: 11, Oficina: 1102, Zona: Sopocachi, La Paz, Bolivia | 100.00 | 100.00 |
| Comercial Gedeon Richter (Chile) Limitada | Dr. Manuel Barros Borgoño # 187, Comuna de Providencia, Ciudad de Santiago, Región Metropolitana, Chile | 100.00 | 100.00 |
| Farmage Ecuatoriana S.A. | Provincia: Pichincha, Cantón: Quito, Parroquia: Santa Prisca, Av. Cristobal Colon, No. E8-85, Ecuador | 100.00 | 100.00 |
| **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 |
| GR Rxmidas JVCo.Ltd | Des Voeux Road Central, Hong Kong | 50.00 | 50.00 |
| ***Indirect participation*** | | | |
| Grmidas Medical Service Co. Ltd. | Shanghai Waigaoqiao Free Trade Zone in 116 South Building, 1 South A2 site China | 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 |

| Description | Head office | RG direct and indirect participation | |
|---|---|---|---|
| | | ownership (%) | votes (%) |
| **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 |
| 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 31.12.2015

all amounts in MHUF

| | 01.01.2015 | | Changes in 2015 | | | 31.12.2015 | | Dividends received (MHUF) | |
|---|---|---|---|---|---|---|---|---|---|
| | Book value (MHUF) | Ownership ratio (%) | MHUF | Description | Revaluation as of 31.12.2014 | Book value (MHUF) | Ownership ratio (%) | 2014 | 2015 |
| **Subsidiaries:** | | | | | | | | | |
| Humanco Szolgáltató Kft | 3 | 100.00 | | | | 3 | 100.00 | 1 | 1 |
| Pesti Sas Holding Vagyonkezelő Kft. | 161 | 100.00 | | | | 161 | 100.00 | 11 | 17 |
| Reflex Kft. | 220 | 100.00 | | | | 220 | 100.00 | 60 | 30 |
| Richter Befektetéskezelő Kft. | 328 | 100.00 | | | | 328 | 100.00 | 225 | |
| Richter Szolgáltató Kft. | 3 | 100.00 | | | | 3 | 100.00 | 1 | 0 |
| Chemitechnik Pharma Mérnöki Kft. | 8 | 66.67 | | | | 8 | 66.67 | 9 | 5 |
| Gyógyszeripari Ellenőrző és Fejl. Labor Kft. | 78 | 66.00 | | | | 78 | 66.00 | | |
| Medimpex Uk Rt. | 775 | 100.00 | | | 40 | 815 | 100.00 | | |
| Pharmarichter Kft. | 1 | 100.00 | | | | 1 | 100.00 | | |
| RG Italia | 35 | 100.00 | | | | 35 | 100.00 | | |
| RG Marketing CR Kft. | 319 | 100.00 | | | 6 | 325 | 100.00 | | |
| RG Szlovákia Kft. | 222 | 100.00 | | | -1 | 221 | 100.00 | | |
| RG Ausztria Kft. | 35 | 100.00 | | | -1 | 34 | 100.00 | | 19 |
| RG Svájc Rt. | 26 | 100.00 | | | 3 | 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. | 81 521 | 100.00 | | | 8 571 | 90 092 | 100.00 | | |
| RG-RUS Rt. | 12 563 | 100.00 | | | -1 609 | 10 954 | 100.00 | | |
| RG-Ukrfarm Kft. | 0 | 100.00 | | | | 0 | 100.00 | | |
| RG-Románia Rt. | 9 752 | 99,90 | 697 | capital increase | -145 | 10 304 | 99,90 | | |
| RG Polska Kft. | 10 955 | 99.84 | | | -63 | 10 892 | 99.84 | 1 123 | 377 |
| RG Marketing Polska Kft. * | 1 361 | 99.97 | | | -8 | 1 353 | 99.97 | | |
| RG-UA Rt. | 277 | 98.16 | | | -75 | 202 | 98.16 | | |
| Richter Helm Biologics Management Kft. | 10 | 70.00 | | | | 10 | 70.00 | | |
| Richter Helm Biologics Bt. | 3 326 | 70.00 | | | -18 | 3 308 | 70.00 | | |
| Richpangalpharma Kft. | 27 | 65.00 | 171 | capital increase | -6 | 192 | 65.00 | | |
| Richter Themis Rt. * | 293 | 56.10 | | | 16 | 309 | 56.10 | 29 | 70 |
| RG-Retea Kft. | 0 | 51.00 | | | | 0 | 51.00 | | |
| RG-Aptyeka Kft. | 0 | 51.00 | | | | 0 | 51.00 | | |
| Richter Lambron Kft. | 74 | 51.00 | | | 6 | 80 | 51.00 | | |

* direct + indirect ownership

all amounts in MHUF

| | 01.01.2015 | | Changes in 2015 | | | 31.12.2015 | | Dividends received (MHUF) | |
|---|---|---|---|---|---|---|---|---|---|
| | Book value (MHUF) | Ownership ratio (%) | MHUF | Description | Revaluation as of 31.12.2014 | Book value (MHUF) | Ownership ratio (%) | 2014 | 2015 |
| Grmed Company Limited | 3 528 | 100.00 | | | 202 | 3 730 | 100.00 | | |
| Gedeon Richter KZ LLP | 163 | 100.00 | | | -66 | 97 | 100.00 | | |
| GR D.O.O. (Croatia) | 9 | 100.00 | | | | 9 | 100.00 | | |
| GR Colombia S.A.S. | 14 | 100.00 | | | -1 | 13 | 100.00 | | |
| GR Mexico, S.A.P.I. de C.V. | 595 | 100.00 | | | -38 | 557 | 100.00 | | |
| Gedeon Richter do Brasil Imp., Exp. e Dis.S.A. | 79 | 51.00 | 93 | capital increase | -37 | 135 | 51,00 | | |
| Mediplus (Economic Zone) N.V. | 68 | 100.00 | | | 7 | 75 | 100.00 | | |
| GR USA Inc. | | | 289 | share purchase | 49 | 338 | 100,00 | | 34 |
| GR Pharma GmbH | | | 484 | share purchase | 4 | 488 | 100,00 | | 124 |
| GR France SAS | | | 481 | share purchase | 4 | 485 | 100,00 | | |
| GR UK Ltd. | | | 232 | share purchase | 16 | 248 | 100,00 | | 84 |
| GR Iberica S.A.S. | | | 777 | share purchase | 7 | 784 | 100,00 | | 48 |
| Nedermed B-V. | | | 362 | share purchase | 5 | 367 | 100,00 | | |
| Medimpex Jamaica Ltd. | | | 111 | share purchase | 12 | 123 | 60,00 | | |
| Medimpex WestIndies Ltd. | | | 1 366 | share purchase | 217 | 1 583 | 60,00 | | 10 |
| *Medimpex Japan Rt.* | *0* | *90.90* | | | | *0* | *90.90* | | |
| Richter Nyrt. Direct | 0 | 86.90 | | | | 0 | 86.90 | | |
| Subsidiaries total | 126 871 | | 5 063 | | 7 097 | 139 031 | | 1 459 | 849 |
| **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. | 315 | 50,00 | | | -2 | 313 | 50,00 | | |
| RG Rxmidas Kft. | 359 | 50,00 | | | 39 | 398 | 50,00 | | |
| Joint ventures total | 981 | | 0 | | 37 | 1 018 | | 0 | 0 |
| **Associated companies** | | | | | | | | | |
| Hungaropharma Zrt. | 1 191 | 30.85 | | | | 1 191 | 30.85 | 46 | 153 |
| Cerorin Kft. | 0 | 24.00 | 0 | impairment | | 0 | 24.00 | | |
| Pharmapolis Gyógyszeripari Tud. Park Kft. | 1 | 24.00 | 0 | capital increase | | 1 | 24.00 | | |
| Pharmatom Kft. | 1 | 24.00 | | | | 1 | 24.00 | | |
| Top Medicina Bt. | 1 | 20.00 | | | | 1 | 20.00 | | |
| VITA - Richter Kft. | 12 | 49.00 | | | -5 | 7 | 49.00 | | |
| Associated companies total | 1 206 | | 0 | | -5 | 1 201 | | 46 | 153 |
| **Total** | **129 058** | | **5 063** | | **7 129** | **141 250** | | **1 505** | **1 002** |

* direct + indirect ownership

### 1.3.4 Impairment of equity investments

MHUF

| Investments | 31.12.2014 | Impairment / *reversal* (book value) | 31.12.2015 |
|---|---|---|---|
| ZAO GR-RUS | 1 409 | | 1 409 |
| VITA-Richter S.P.O.O.O | 14 | | 14 |
| Richter Szolgáltató Kft. | 3 | | 3 |
| 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-Románia S.A. | 25 633 | | 25 633 |
| Richter Helm Biologics GmbH & Co.KG | 1 358 | | 1 358 |
| Protek Group | 225 | *-153* | 72 |
| BioSystem International SAS | 416 | | 416 |
| Cerorin Kft. | | 0 | 0 |
| Hungaropharma Rt. | 1 330 | | 1 330 |
| **Total** | **30 577** | **-153** | **30 424** |

## 1.4 Other financial investments

MHUF

| Description | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Long term loans given to related companies | 46 596 | 44 510 |
| Long term loans given to other affiliates | 832 | 748 |
| Other long term loans | 563 | 2 014 |
| Other long-term shares | 4 621 | 4 165 |
| Long term bonds | 17 908 | 18 048 |
| Valuation difference of non-current assets * | | 2 117 |
| **Total** | **70 520** | **71 602** |

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

The value of loans given amounted to HUF 47,272 million and included predominantly loans extended to ZAO Gedeon Richter-RUS and to PregLem S.A., to our production companies, mainly, Gedeon Richter Romania S.A., Richter-Helm BioTec GmbH & Co. KG, and the Indian subsidiary.

The Company intends to held until maturity the in 2019 to Richter Treasury shares covertable bond, which is reported under long term bonds with a book value in 2015 of HUF 16,282 million.

Long term bonds include Hungarian goverment bonds held to maturity aswell.

# II/2 Inventories

## 2.1 Purchased materials, stock

MHUF

| Description | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Chemicals | 5 318 | 4 573 |
| Fine chemicals | 46 | 63 |
| Herbs | 39 | 37 |
| Finishing materials | 1 264 | 1 338 |
| Recycled raw material waste | 440 | 614 |
| Invoiced raw materials not received | 169 | 76 |
| Auxiliary substances | 1 282 | 1 250 |
| Technical materials | 633 | 637 |
| Spare parts | 307 | 324 |
| Gifts | 30 | 36 |
| Brochures | 29 | 31 |
| Fuels | 1 | 1 |
| Other assets | 138 | 161 |
| Invoiced materials not received | 12 | 12 |
| Total materials | 9 708 | 9 153 |
| Purchased medicines | 3 343 | 4 022 |
| **Purchased inventories total** | **13 051** | **13 175** |

## 2.2 Self-manufactured inventories

MHUF

| Description | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Work in progress | 350 | 298 |
| Materials self manufactured | 29 | 34 |
| *Total WIP and materials self manufactured* | *379* | *332* |
| Semi-finished raw materials | 19 082 | 19 593 |
| Semi-finished lose products | 3 490 | 3 301 |
| *Total semi-finished products* | *22 572* | *22 894* |
| Total WIP and semi-finished products | 22 951 | 23 226 |
| Domestic finished | 1 584 | 1 871 |
| Export finished | 7 250 | 8 665 |
| Total finished goods | 8 834 | 10 536 |
| Services in progress | 26 | 70 |
| Mediated services | 22 | 31 |
| Services in progress total | 48 | 101 |
| **Total self produced inventories** | **31 833** | **33 863** |

## 2.3 Hazardous waste

| 31.12.2014 | | Change of inventories | | | | 31.12.2015 | |
|---|---|---|---|---|---|---|---|
| | | Increase | | Decrease | | | |
| Tons | MHUF | Tons | MHUF | Tons | MHUF | Tons | MHUF |
| 0 | 0 | 20 871 | 2 | 20 871 | 2 | 0 | 0 |

The costs of waste neutralisation amounted to HUF 886 million in the current year.

## 2.4 Impairment of inventories

### 2.4.1 Impairment of materials purchased

MHUF

| Changes in inventories | | |
|---|---|---|
| Description | 2014 | 2015 |
| Scrapping | 309 | 271 |
| Devaluation | 178 | 49 |
| Loss event | 10 | 42 |
| Shortage, drainage loss | 5 | 13 |
| **Total** | **502** | **375** |

### 2.4.2 Impairment of self-manufactured inventories

MHUF

| Changes in inventories | | |
|---|---|---|
| Description | 2014 | 2015 |
| Scrapping | 567 | 742 |
| Devaluation | 523 | 377 |
| Loss event | 4 | 12 |
| Shortage, drainage loss | 33 | 53 |
| **Total** | **1 127** | **1 184** |

Reversal of impairment loss related to self manufactured stocks amounted to HUF 118 million in 2015.

# II/3 Receivables

## 3.1 Accounts receivable open

MHUF

| Segment | | 31.12.2014 | 31.12.2015 | Variance |
|---|---|---|---|---|
| Domestic trade receivables | * | 1 048 | 1 625 | 577 |
| *- incuding overdue:* | *10* | | *3* | *-7* |
| - impairment | | -8 | -8 | 0 |
| **Domestic trade receivables balance** | | **1 040** | **1 617** | *577* |
| Foreign trade receivables | ** | 41 176 | 43 935 | 2 759 |
| *- incuding overdue:* | *7 094* | | *6 918* | *-176* |
| - impairment | | -3 167 | -2 404 | 763 |
| **Foreign trade receivables balance** | | **38 009** | **41 531** | *3 522* |
| **Total trade receivables** | | **39 049** | **43 148** | **4 099** |

* of which HUF 999 million was collected by 30 January 2016
** of which HUF 11,481 million was collected by 30 January 2016

## 3.2 Receivables from other related parties open

MHUF

| Segment | | 31.12.2014 | 31.12.2015 | Variance |
|---|---|---|---|---|
| Domestic trade receivables | * | 5 884 | 1 950 | -3 934 |
| *- incuding overdue:* | | | | *0* |
| - impairment | | | | – |
| **Domestic trade receivables balance** | | **5 884** | **1 950** | *-3 934* |
| Loans given for controlled domestic account | | 1 159 | 2 400 | 1 241 |
| Foreign trade receivables | ** | 53 958 | 45 686 | -8 272 |
| *- incuding overdue:* | *12 472* | | *3 477* | *-8 995* |
| - impairment | | -167 | -167 | |
| **Total receivables from related parties** | | **53 791** | **45 519** | *-8 272* |
| Loans given and unregistered capital increase, share purchase in controlled foreing account | | 12 361 | 18 167 | 5 806 |
| **Total trade receivables from related parties** | | **73 195** | **68 036** | **-5 159** |

* of which HUF 1,389 million was collected by 30 January 2016
** of which HUF 9,812 million was collected by 30 January 2016

## 3.3 Receivables due from associated parties*

MHUF

| | 31.12.2014 | 31.12.2014 | Variance |
|---|---|---|---|
| Domestic trade receivables | 5 884 | 1 950 | -3 934 |
| Foreign trade receivables | 45 417 | 41 258 | -4 159 |
| Loans given for related companies | 13 442 | 20 471 | 7 029 |
| Related companies' non registered capital increase | | | |
| **Total** | **64 743** | **63 679** | **-1 064** |

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

## 3.4 Changes in impairment of receivables

MHUF

| | 31.12.2014 | Reversal | Recognition | 31.12.2015 |
|---|---|---|---|---|
| Domestic trade receivables | 8 | | | 8 |
| Foreign trade receivables | 3 167 | -1 034 | 271 | 2 404 |
| Related parties | 167 | | | 167 |
| **Total** | **3 342** | **-1 034** | **271** | **2 579** |

## 3.5 Changes in impairment of loan receivables

MHUF

| | 31.12.2014 | Reversal | Recognition | Reassessment | 31.12.2015 |
|---|---|---|---|---|---|
| RG Ukrfarm Kft. | 648 | | | 69 | 717 |
| RG Retea Kft | 850 | -102 | | -4 | 744 |
| Pharmapolis Debrecen Kft. | 300 | | | | 300 |
| **Total** | **1 798** | **-102** | **0** | **65** | **1 761** |

## II/4 Securities and cash

MHUF

| Description | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Open-ended investment funds | 2 396 | 2 426 |
| Government securities | 18 449 | 1 526 |
| Treasury shares | 13 | 550 |
| **Securities total** | **20 858** | **4 502** |
| Bank deposits | 78 749 | 110 280 |
| Cash on hand | 40 | 43 |
| **Cash total** | **78 789** | **110 323** |
| **Securities and cash total** | **99 647** | **114 825** |

The value of cash and securities increased by HUF 15.178 million. Securities were down because of the redemption of goverment bonds held to maturity.

# II/5 Tied-up reserve, provisions

## 5.1 Tied-up reserve

MHUF

| | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Repurchase value of treasury shares | 13 | 550 |
| Capitalized value of R&D | 338 | 254 |
| **Total tied up reserve** | **351** | **804** |

## 5.2 Provision for expected liabilities

MHUF

| | 31.12.2014 | Reversal | Recognition | 31.12.2015 |
|---|---|---|---|---|
| Liabilities in connection with retirement | 1 285 | | 109 | 1 394 |
| Liabilities of jubilee service period | 514 | | 65 | 579 |
| Expected liabilities * | 1 511 | -1 491 | 2 195 | 2 215 |
| $CO_2$ quota | 29 | | | 29 |
| **Total** | **3 339** | **-1 491** | **2 369** | **4 217** |

*The line item Expected liabilities includes provisions created to cover customer bonuses (HUF 1,682million) and to other expected liabilities (HUF 533 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 1,394 million on the 31.12.2015.

The calculation is applied for all employees employed at 31 December 2015.

## II/6 Liabilities

### 6.1 Long-term liabilities

MHUF

| | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Credit | 43 297 | 36 531 |
| Other liabilities | 8 703 | 5 694 |
| **Total long-term liabilities** | **52 000** | **42 225** |

### 6.2 Short-term liabilities

MHUF

| | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Short term loans | 14 432 | 6 523 |
| Advances received | 290 | 113 |
| Trade payables | 16 777 | 16 399 |
| Payables to related companies | 7 963 | 14 415 |
| Dividends | 6 151 | 13 419 |
| Other | 25 130 | 9 395 |
| **Total current liabilities** | **70 743** | **60 264** |

Of the European Investment Bank R&D support loans EUR 116.7 million is reported in long term liabilities and EUR 20.8 million in short term liabilities. In 2015 the Company repaid EUR 12.5 million of the EIB loan. The EUR 33.3 million remainder outstanding of the EUR 150 million Club loan taken out by the Company in 2010 was repaid in 2015.

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.

*PregLem contingent and deferred purchase price payments*

As announced at 6 October 2010, Gedeon Richter acquired a 100% ownership in PregLem. A purchase price up to CHF 445 million was payable, provided that certain milestone are achieved. The Company reported the contingent and deferred acquisition price payment liabilities to former owners at probability weighted discounted values which were reviewed in each period. The last payment subject to milestone (CHF 60 million) was made in June 2015 as Preglem had been granted approval for the intermittent use of Esmya in the long term management of uterine fibroids in the European Union.

*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 2015 (CNY 156 million). As of the balance sheet date the maximum value of the outstanding liability in respect of this transaction is approximately CNY 275 million (HUF 12,139 million).

*GRMexico contingent and deferred purchase price payments*

In December 2013 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, 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 860 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%.

Mediplus is a well established marketing company, which covers through its subsidiaries a number of countries in the Latin American region, namely: Ecuador, Peru, Chile and Bolivia. It also sells pharmaceutical products to Central American and Caribbean countries. The main profile is to market those female healthcare products of Richter, which are already on the market in the above mentioned countries and also to register other gynaecological products, including Esmya.

As a consequence mentioned above the long therm liabilities contain HUF 5,694 million as deferred purchase price of the chinese and mexican companies. From the current liabilities HUF 6,370 million is in connection with the current payment of the deferred purchase price of the chinese and mexican aquisitions. The closing value of this item is 70.4% lower than the opening value, mainly because of the last payment in connection with PregLem.

## 6.3 Off balance items

MHUF

| | 31.12.2015 |
|---|---|
| Guarantees provided by the Company | 7 153 |

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

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.

# II/7 Prepayments and accruals

## 7.1 Prepayments

MHUF

| | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Interest on securities | 93 | 92 |
| Bank interest | 149 | 121 |
| Interest on loans | 399 | 706 |
| Government grants | 173 | 18 |
| Other | 143 | 0 |
| **Prepaid income** | **957** | **937** |
| Journals, reference books, CD | 355 | 401 |
| Foreign offices | 720 | 412 |
| Insurance | 136 | 144 |
| Software renting and maintenance | 107 | 121 |
| Authority fee and authorisation costs | 115 | 147 |
| R&D costs | 0 | 390 |
| Other trade costs in connection | 0 | 52 |
| Other | 81 | 115 |
| **Prepaid costs and expenses** | **1 514** | **1 782** |
| **Prepayments** | **2 471** | **2 719** |

## 7.2 Accruals

MHUF

| | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Rewards and bonuses | 2 472 | 2 183 |
| Licence | 242 | 139 |
| Research contract | 787 | 278 |
| Fee for inventions | 398 | 373 |
| Insurance | 68 | 96 |
| Endowment insurance | 772 | 537 |
| Payment of medicine price subsidy to NHF | 243 | 0 |
| Payment of foreign medicine price subsidies | 1 719 | 2 723 |
| Foreign sales costs | 502 | 593 |
| Costs of foreign offices | 4 | 703 |
| Advertising and marketing expenses | 0 | 492 |
| Interests payable on bank loans | 134 | 102 |
| Other | 38 | 147 |
| **Accrual of costs and expenses** | **7 379** | **8 366** |
| Accrued income | 1 982 | 1 019 |
| **Accruals** | **9 361** | **9 385** |

# II/8 Costs, expenses, revenues

## 8.1 Costs and expenses

### 8.1.1 Function of expense method

MHUF

| Description | 2014 | 2015 | Index % | Accounting Act Schedule 3, Version "A" |
|---|---|---|---|---|
| Direct cost of sales accounted | 49 279 | 48 552 | 98.5 | (03) |
| Original cost of goods sold | 11 427 | 10 200 | 89.3 | (04) |
| Value of services solf (mediated) | 428 | 827 | 193.2 | (05) |
| **Direct cost of sales** | **61 134** | **59 579** | **97.5** | **II.(03+04+05)** |
| Sales and marketing costs | 97 333 | 95 121 | 97.7 | (06) |
| Administration costs | 24 717 | 26 483 | 107.1 | (07) |
| Other general overhead | 49 526 | 42 082 | 85.0 | (08) |
| **Indirect cost of sales** | **171 576** | **163 686** | **95.4** | **III.(06+07+08)** |

The aggregate year-on-year decrease in direct and indirect costs of sales was HUF 9,445 million.

**Direct costs** of sales totalled HUF 59,579 million and were HUF 1,555 million under the 2014 figure due to the effect of sales decrease and the change in the portfolio of products.

**Indirect costs** amounted to HUF 163,686 million in 2015, lagging behind the 2014 figure by HUF 7,890 million.

- Payroll costs (wages and contributions) decreased by a total of HUF 3,137 million.
- Commission paid to agents dropped by HUF 1,284 million, mainly due to plummeting sales in the CIS.
- Promotion costs were HUF 1,017 million up. Increasing costs resulting from the expansion of sales and marketing activities in the Chinese market and rising marketing costs in Western Europe were not offset by falling costs in the CIS region, Poland and the EU10 countries.
- In 2015 there was a HUF 7,069 million downturn in income from research commissions due to a significant drop in expenditures on PregLem's projects, and a shift of the clinical studies of cariprazine to 2016. The bulk of these costs includes items related to R&D collaborations.

### 8.1.2 Nature of expense method

MHUF

| Item | 2014 | 2015 | Index % | Accounting Act Schedule 2, Version "A" |
|---|---|---|---|---|
| Raw materials and consumables | 38 176 | 40 496 | 106.1 | (05) |
| Contracted services | 99 321 | 93 661 | 94.3 | (06) |
| Other service activites | 2 052 | 1 896 | 92.4 | (07) |
| Original cost of goods sold | 11 427 | 10 200 | 89.3 | (08) |
| Value of services sold (mediated) | 428 | 827 | 193.2 | (09) |
| **Material costs** | **151 404** | **147 080** | **97.1** | **IV.(05+06+07+08+09)** |
| Wages and salaries | 34 596 | 33 051 | 95.5 | (10) |
| Other employee benefits | 13 817 | 13 130 | 95.0 | (11) |
| Contributions on wages and salaries | 11 401 | 11 286 | 99.0 | (12) |
| **Staff costs** | **59 814** | **57 467** | **96.1** | **V.(10+11+12)** |
| **Depreciation** | **22 079** | **22 536** | **102.1** | **VI.** |
| **Total cost and expenditure** | **233 297** | **227 083** | **97.3** | |

- The Company's costs and expenses were HUF 6,214 million less than in the reference year.
- HUF 2,320 million of the decrease was contributed by dropping material costs, and HUF 5,660 million by contracted services, the latter predominantly due to cuts in promotion.
- The original cost of goods sold was HUF 1,227 million bellow the 2014 figure due primarily to the decrease in CIS sales and to the changing structure of EU sales. In the latter case the proportion of the purchased materials and drugs are lowered in the turnover.
- Staff costs dropped by HUF 2,347 million typically due to declining year-on-year payments at the Russian and Ukrainian agencies.
- The HUF 457 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 | 31.12.2014 | 31.12.2015 | Index % | Type "A" in Annex 2 to Accounting Act |
|---|---|---|---|---|
| Change of self manufactured inventories | -1 328 | 2 030 | n.a. | (03) |
| Capitalised value of self manufactured assets | 1 915 | 1 788 | 93.4 | (04) |
| **Value of capitalised own performance** | **587** | **3 818** | **650.4** | **II.(±03+04)** |

### 8.3 R&D expenditures

In 2015 the Company spent 12.3% of the revenue on R&D activities.

MHUF

| Cost category | 2014 | 2015 |
|---|---|---|
| R&D expenses | 42 226 | 34 608 |

### 8.4 Other income and expenditures

MHUF

| | 2014 | 2015 |
|---|---|---|
| **Total other income** | **7 846** | **22 999** |
| **Other expenditure** | | |
| Provisioning | 1 821 | 2 369 |
| Write-off unrecoverable receivables | 6 | 1 |
| Impairment of receivables | 2 447 | 271 |
| Impairment of inventories | 1 629 | 1 559 |
| Book value of tangible assets sold | 345 | 171 |
| Local business tax | 3 006 | 3 270 |
| Buildings tax | 325 | 377 |
| Innovation fee | 451 | 493 |
| Flat tax on reimbursed drugs payable to NHF ** | 168 | 192 |
| Registration fee of medical representatives ** | 162 | 219 |
| Flat tax on reimbursed drugs payable, Germany | 2 906 | 2 112 |
| Flat tax on reimbursed drugs payable, other countries | 944 | 2 086 |
| Other expenditure from changes of deferred purchase price | 675 | 3 207 |
| Other | 3 935 | 5 136 |
| **Total other expenditure** | **18 820** | **21 463** |
| **Balance of other income and expenditure** | **-10 974** | **1 536** |

In 2015, the line of Other income included HUF 11 million from associated companies.

The balance of Other income and expenditure improved and was HUF 1,536 million after the negative balance of HUF 10,974 million in 2014.

Significant contributors to the increase include milestone incomes (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 retrospectively. The above impacts were reinforced by lower allowances for customers and lower net expense balance of the provisions created and reversed for rebates compared to the reference year. Conversely, amortization of intangible assets in excess of the reference figure had an opposite effect and was due mainly to the termination of the collaboration and license agreement relating to bremelanotide.

Claw-back in 2015 comprised payments related to the Hungarian, German, French, Spanish, Portuguese, Belgian, Italian, Bulgarian and Latvian markets totalling HUF 4,390 million.

In 2015, the change in the likelihood of payment of the deferred portion of the purchase price of PregLem and the deferred payment liability to our Chinese partner increased the Other expenditures.

## 8.5 Profit on financial transactions

MHUF

| | 2014 | 2015 |
|---|---|---|
| **Income from financial operations** | | |
| Dividends and share of profits received | 1 813 | 1 002 |
| Interest and related income received | 2 014 | 1 863 |
| *including income from securities* | *353* | *546* |
| Interest income on financial investments | 2 481 | 2 601 |
| Exchange gains on selling participations | | 7 |
| Other income | 10 777 | 15 532 |
| *gains on converting receivables, payables and foreign currency* | *10 342* | *14 742* |
| *gains on futures transactions, closed* | | *712* |
| *fair value of futures transactions* | *395* | *117* |
| *gains on securities sold* | *40* | *-39* |
| **Total income from financial operations** | **17 085** | **21 005** |
| **Expenses from financial operations** | | |
| Interes and related expense due | 1 373 | 1 135 |
| Impairment of participations and reversal | 8 350 | -153 |
| Other expenditure | 27 106 | 17 446 |
| *loss on conversion at year end date* | *14 572* | *359* |
| *loss on coverting receivables, payables and foreign currency* | *10 126* | *16 313* |
| *loss on futures transactions, closed* | *225* | *91* |
| *release of fair value of futures trasnactions* | *113* | *107* |
| *loss on securities sold* | *16* | *2* |
| *loss on treasury shares sold* | *106* | |
| *selling participations* | | *2* |
| *Unwinding of discounted value related to liability in respect of def.purch.prices* | *1 948* | *572* |
| **Total expenses from financial operations** | **36 829** | **18 428** |
| **Result of financial operations** | **-19 744** | **2 577** |

Net financial income in 2015 was HUF 2,577 million profit as opposed to HUF 19,744 million loss in 2014.

In light of the changes during the reported year, Richter's financial income was greatly affected by the strengthening of the forint against the rouble and the euro, and the weakening of the forint against the dollar. As of the 2015 balance sheet date, the exchange rate (NBH rate) was 3.88 forints to the rouble (-12.8%), 313.12 forints to the euro (-0.6%), and 286.63 forints to the dollar (+10.6%).

Revaluation as of the balance sheet date closed with a loss in both 2014 (HUF 14,572 million) and 2015 (HUF 359 million), and contributed HUF 14,216 million to the increase of net financial income over 2014. 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.

The Company made a profit on forward transactions amounting to HUF 57 million in 2014 and HUF 631 million in 2015.

In 2014 impairment of GR-Romania S.A., Protek, RG-Retea SR.L. and Pesti Sas Holding Kft. was accounted for (in the total value of HUF 8,350 million), and in 2015 the impairment reported on Protek was reversed (HUF 153 million).

Exchange rate losses realized from trade on receivables, payables and other items were HUF 2,935 million as opposed to a HUF 1,993 million loss in the preceding year. The aggregate gain contributed HUF 0.9 billion to a year-on-year decrease in earnings.

In 2015 the time value and exchange rate effects of the liability related to PregLem reduced the net financial income to a lesser extent (by HUF 572 million as opposed to HUF 1,948 million in the reference year).

Dividends received contributed HUF 1,002 million to the 2015 financial income, HUF 811 million less than the HUF 1,813 million achieved in 2014.

### 8.5.1 Evaluation of derivative contracts not closed at the balance sheet date

The derivative contracts not classified as hedges are all over-the-counter FX forward transactions, except one interest swap contract, which was terminated in 2015."

MHUF

| | 31.12.2014 | 31.12.2015 |
|---|---|---|
| Unrealised loss on the OTC interest swap agreements, that has not been closed by the balance sheet preparation date | 113 | |

## 8.6 Extraordinary profit

MHUF

| | 2014 | 2015 |
|---|---|---|
| **Extraordinary income** | | |
| Repurchase of shares in program approved by Ministry of Finance | 76 | 92 |
| Materials and goods received without consideration | 53 | 49 |
| Other | | 243 |
| **Total extraordinary income** | **129** | **384** |
| **Extraordinary expenditure** | | |
| Inventories transferred without consideration | 126 | 79 |
| Reducing of capital | 2 | |
| Subsidies | 789 | 780 |
| Other | 293 | 222 |
| **Total extraordinary expenditure** | **1 210** | **1 081** |
| **Extraordinary loss** | **-1 081** | **-697** |

## 8.7 Wage costs, headcount, remuneration

### 8.7.1 Wage costs

MHUF

| Employment type | Employee groups | | | | | |
|---|---|---|---|---|---|---|
| | Blue collar | | White collar | | Total | |
| | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 |
| Full time wage mass | 8 859 | 8 882 | 24 192 | 22 958 | 33 051 | 31 840 |
| Part time wage mass | 2 | 4 | 204 | 230 | 206 | 234 |
| Pensioner wage mass | 14 | 7 | 163 | 89 | 177 | 96 |
| Wages to non-employees | | | | | 1 162 | 881 |
| **Wage cost per balance sheet** | **8 875** | **8 893** | **24 559** | **23 277** | **34 596** | **33 051** |
| Annual wage mass per (full time) employee | 3.6 | 3.7 | 5.5 | 5.4 | 4.8 | 4.8 |

### 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 2015 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, an 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 1,106 million in 2015 (in 2014: HUF 1,074 million).

The Company has contributed to a private health insurance fund for the benefit of its employees since 1 September 2003. Amounts paid were HUF 4,000/person/month in 2015 and in 2014. The total amount paid for employees was HUF 242 million during 2015 (in 2014 it was HUF 246 million).

### 8.7.3 Average statistical headcount

person

| Employment type | Employee groups | | | | | |
|---|---|---|---|---|---|---|
| | Blue collar | | White collar | | Total | |
| | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 |
| Full time employees | 2 456 | 2 389 | 4 419 | 4 214 | 6 875 | 6 603 |
| Part time employees | 1 | 2 | 48 | 51 | 49 | 53 |
| Pensioners | 6 | 3 | 23 | 14 | 29 | 17 |
| **Total:** | **2 463** | **2 394** | **4 490** | **4 279** | **6 953** | **6 673** |

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

MHUF

| | Remuneration | |
|---|---|---|
| | 2014 | 2015 |
| Board of Directors | 70 | 70 |
| Supervisory Board | 24 | 24 |
| **Total:** | **94** | **94** |

## II/9 Calculation of the income tax

MHUF

| 1. | Corporate income tax | 2014 | 2015 |
|---|---|---|---|
| | **Profit before taxation** | **19 139** | **62 247** |
| | - total of items reducing tax base | 62 284 | 73 033 |
| | - total of items added tax base | 33 342 | 30 616 |
| 2. | Income from abroad | | |
| 3. | **Tax base** | **-9 803** | **19 830** |
| 4. | Calculated tax | | 3 723 |
| 5. | Investment tax relief | | 2 978 |
| 6. | Tax paid abroad | 31 | 8 |
| 7. | Tax liability | 31 | 753 |
| 8. | Tax in connection with the previous year | | 14 |
| 9. | **Profit after taxation** | **19 108** | **61 480** |

| | | | |
|---|---|---|---|
| 1. | Amount of used tax loss | | 9 373 |
| 2. | Amounts of provision against future liabilities and costs reversed and stated as income | | 1 491 |
| 3.a. | Depreciation charged under Tax Act | 22 122 | 26 071 |
| 3.b. | Calculated book value of the sale and scrapping of intangible propery and tangible assets, etc. | 2 347 | |
| 4. | Dividends, share of profits received | 1 813 | 1 002 |
| 5. | Relief due to apprentices | 15 | 13 |
| 6. | Reversed impairment of receivables, collected bad debt | 110 | 835 |
| 7. | Cancellation of penalties | 2 | 2 |
| 8. | 50% of royalties received | 121 | 86 |
| 9. | Direct cost of R&D | 35 257 | 27 376 |
| 10. | Amount identified by tax audit, self-review and stated as income | 237 | 1 113 |
| 11. | Amount of donation | 260 | 244 |
| 12. | Unrealised exchange differences | | 5 427 |
| | **Total of items reducting tax base** | **62 284** | **73 033** |
| 1. | Amounts of provision against future liabilities and costs reversed and stated as expenditure | 1 821 | 2 370 |
| 2.a. | Depreciation charged under Accounting Act | 22 079 | 26 128 |
| 2.b. | Book value of intangible propery and tangible assets, sold, scrapped etc. | 2 477 | |
| 3. | Costs not recognised for the purposes of doing business | 4 478 | 730 |
| 4. | Penalties and fines | 7 | 77 |
| 5. | Impairment of receivables | 2 447 | 271 |
| 6. | Cancellation of receivables | 0 | 29 |
| 7. | Amount identified by self-review and stated as expenditure | 33 | 1 011 |
| | **Total of items added to tax base** | **33 342** | **30 616** |

## 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 and 2013 fiscal years in the combined current amount of HUF 4,414,755 thousand. The Company was not liable to pay corporate tax for the 2014 business year, so it does not utilize the investment tax relief. The tax relief to be applied for the 2015 fiscal year amounts to HUF 2,978,132 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 2015 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 4,734,953 thousand at present value in the 2012, 2013 and 2015 business years. Thus the remaining tax relief open for subsequent years amounts to HUF 1,082,521 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 2015

Erik Bogsch
Managing Director

Budapest, 26 April 2016

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# 1. General data

## 1.1 Brief history of the Company

Chemical Works of Gedeon Richter Plc. (hereinafter Richter or Gedeon Richter Plc. or the Company) 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: 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*

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 capital increase resulted in the expansion of sources of financing.

Commencing 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 launched 4,659,373 bonds convertible to 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 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 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 Exchange's 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) and Poland (2002). The Company acquired a biotechnology firm in Germany (2007), then a gynaecological development company in Switzerland (2010).

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 gynaecological portfolio (November 2010) enables the Company to carve out a share of the market of innovative gynaecological products while geographically expanding the market of Richter's traditional gynaecological products. The two transactions gave an impetus to develop a Western European marketing network and capture a greater share of the market of gynaecological 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 is of strategic importance for the Company.

With its place of business in Geneva, PregLem is a company 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 announcement 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 treatment of uterine fibroids in May 2015. The marketing authorization is applicable in all countries of the European Union.

The gynaecological 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 the Middle East. Introduction of the brands in the Russian market started in Q4 of 2012.

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 strengthened its presence in the Chinese market. To expand its scope of business, in January 2016 Richter bought out its partner's 50% holding in the joint venture established in 2010 as a result of which the Company now has full control of distribution of oral contraceptives on 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 voting right 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 gynaecological 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 with proprietary and generic products, and has sought to build long-term co-operations in supplying active pharmaceutical ingredients. The primary focus of the Company is on the expansion of the gynaecological 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 gynaecological products.

Following the lines of the "speciality pharma" strategy developed in 2007, development, manufacture and sale of pharmaceutical products with high value added has become Richter's 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 gynaecological portfolio.

Implementation of the above strategy resulted in a significant increase of sales income also in the EU markets. Income from sales increased likewise in the countries that have been Richter's traditional markets and 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. The combined impact was the rising contribution of exports to total sales, approaching 90% in 2015 too.

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 2015. 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 35-40 million in 2015, the Company was able to compensate for it by introducing new products and efficient marketing.

## 1.2 Main objectives for 2015

The Company's main objectives for 2015 were as follows: to expand sales despite a difficult market environment; to retain and improve market shares; and to strengthen the strategy of standing on multiple legs in the market; based on the strategic principles, to shift business to enhance the contribution of high value added products; to expand the gynaecological business; to develop a new proprietary CNS (Central Nervous System) product; and to take further steps in the development of biosimilar products.

In 2015 significant advancement was achieved in the following areas:

- Sales revenues ascended significantly in the EU, in particular the EU15 member states, as well as in the U.S. and the Chinese markets.

- 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.

- According to Richter's announcement on 27 February 2012, Esmya, a proprietary product developed by PregLem, a pharma 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 (myomas). 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 marketing authorization for the intermittent use of Esmya in the long term treatment of uterine fibroids applicable in all countries of the European Union Member States.

- 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 the EU and some of the Latin-American countries. The product was introduced in a number of European markets in the course of the year. Moreover, Richter purchased exclusive license in Europe for Lenzetto, the estradiol spray for treating menopause symptoms manufactured by the Australian pharma company Acrux. Lenzetto has received multiple marketing approvals in several European countries.

- In December 2015 it was announced that the European Medicines Agency (EMA) had accepted Richter's regulatory submission for its proposed biosimilar to Amgen's Neulasta (pegfilgrastim). Earlier, in August 2015 Richter and Stada Arzneimittel AG signed a license and distribution agreement to commercialize the new biosimilar product. According to the agreement Stada will have non-exclusive rights to distribute the product in geographical Europe (excluding Russia), and Richter retains its right to distribution in any country of the world.

- In September 2014 Richter and Palatin Technologies, Inc. announced that they entered into a collaboration and license agreement to co-develop and commercialize bremelanotide for female sexual dysfunction indications in the European Union, other European countries and additional selected countries. Under the terms of the agreement, Palatin was entitled to a total upfront payment of USD 9.9 million and an additional USD 3.3 million once Phase III clinical trials started. In September 2015 Richter announced termination of the collaboration agreement by the parties' mutual consent. Richter deemed that further clinical trials would have been necessary for the development, which, however, presented an excessively high risk over a successful outcome of the project.

- On 19 February 2015 Richter and Evestra Inc. announced that they signed a collaboration agreement in which Richter is providing a USD 5 million convertible loan to Evestra. Under the terms of the agreement after three years Richter, at its discretion, will either be repaid the loan plus interests or will acquire a stake in Evestra to the extent of the loan. The funds will empower Evestra to accelerate the development of its innovative women's health product pipeline into the clinical stages.

- In 2015 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 to adapt to Russian economic policy 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

At the Annual General Meeting held on 25 April 2013 the shareholders resolved to transform the Company's registered ordinary shares by splitting the nominal value in a ten-to-one ratio. Accordingly, the the Company's 18,637,486 shares each with a nominal value of HUF 1,000 were replaced by 186,374,860 shares, each with a nominal value of HUF 100 in the course of 2013.
As of 1 January 2015 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 2015.

As regards ownership structure, as of 31 December 2015, 68.00% of shares were held by foreign institutional and private investors, the Hungarian State held 25.25%, and Hungarian institutional and private investors held a total of 6.09%. Treasury shares together with 811,655 shares owned by subsidiaries amounted to 0.44%; the rate of other ownership was 0.22%.

The closing price of shares as of 30 December 2015 was HUF 5,498 compared to HUF 3,535 as of 30 December 2014. Average monthly share prices in 2015 moved between the minimum of HUF 3,563 per share (in January) and the maximum of HUF 5,410 per share (in December).

## 1.4 Treasury shares

| | Ordinary shares | |
|---|---|---|
| | 31.12. 2014 | 31.12.2015 |
| Shares | 3,699 | 101,371 |
| Nominal value HUF`000 | 370 | 10,137 |
| Book value HUF`000 | 12,743 | 549.820 |

Following the decision of the Board of Directors 750,295 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 350,694 Treasury shares to 4,356 employees on 16 December 2015.

## 1.5 Corporate governance

In an effort to fully comply with international and Hungarian requirements, the legal environment and the highest standards of business ethics, Gedeon Richter Plc. lays particular emphasis on developing its corporate governance system.

The system and practice of corporate governance is in keeping with the guidelines of the Budapest Stock Exchange and the provisions of the relevant capital market regulations. In addition, the Company reviews from time to time the principles applied to ensure, on an ongoing basis, their compliance with continuously developing international practices.

The Corporate Governance Report is an integral part of the Annual Report; it features as a separate item on the agenda of the annual general meeting and has to be approved by the AGM, and it is published on the official website of the Budapest Stock Exchange and of Gedeon Richter Plc.

On 20 May 2015 the Management announced that Sándor Kováts had passed away. Endre Pokomándi was appointed to the position. His employment was terminated on 19 October 2015. CEO Erik Bogsch supervises the Company's commercial activities until the appointment of a new director.

At the Annual General Meeting on 26 April 2016, the following directors were elected to serve on the Board of Directors for a period of three years until the 2019 Annual General Meeting:

dr Gábor Gulácsi (re-elected),
Csaba Lantos (re-elected),
Christopher William Long (re-elected),
dr. Norbert Szivek.

1.6 Branch

The sites of Gedeon Richter Plc. 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 credit 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 credit. Portion of the outstanding tax credit facility was again used in 2015.

The Company prepared consolidated audited financial statements according to IFRS for the first time for the 2002 fiscal year. Since 2003 the quarterly reports to the Stock Exchange have included consolidated non-audited balance sheet, income statement and cash flow statement data according to IFRS. Availing itself with the option provided by the Hungarian Accounting Act, since 2005 Richter has only prepared consolidated financial statements in accordance with IFRS, involving its subsidiaries, joint ventures and associated companies with the parent company.

## 2. 2015 operating review

### 2.1 The balance sheet as of 31 December 2015

ASSETS

The Company's assets amounted to HUF 737,067 million, HUF 30,716 million (4.3%) higher than the opening value. Fixed assets were up by HUF 15,154 million, current assets decreased by HUF 15,314 million.

*Fixed assets*

**Intangible assets** amounted to HUF 104,990 million in the reported period, 5.3% down from the reference figure. The HUF 4,984 million drop in valuable rights resulted from the termination of the license and cooperation agreement relating to bremelanotide.

The value of **tangible assets** was HUF 7,759 million above the reference year figure (+5.9 %). Assets in the course of construction (investments and renovation) are HUF 6,522 million above the opening figure. The growth results from the investment into the development of the new state-of-the-art freeze-drying unit and the injectables packaging plant.

Depreciation on tangibles and intangibles was HUF 22,536 million in 2015, HUF 457 million in excess of the 2014 figure.

As of 31 December 2015 the combined value of the Company's **financial investments** amounted to HUF 147,532 million including fair value, and rose by HUF 13,853 million year-on-year. The change is mainly attributed to Richter's acquisition of the investment management business of its affiliated undertaking Gedeon Richter Investment Management Ltd. (a total of HUF +4,102 million), the combined reversed impairment and value adjustment due to the change in Protek's share prices (HUF +2,269 million), and Gedeon Richter Romania S.A.'s capital increase (HUF 697 million).
The reassessment of holdings as of the balance sheet date resulted in an increase of HUF 6,522 million.
The Company intends to held until maturity the in 2019 to Richter Treasury shares convertable bond, which is reported under long term bonds with a book value in 2015 of HUF 16,282 million.
The value of loans amounted to HUF 47,272 million and included predominantly loans extended to PregLem S.A., to our production companies, mainly to ZAO Gedeon Richter-RUS, Gedeon Richter Romania S.A., Richter-Helm BioTec GmbH & Co. KG, and the Indian subsidiary, as well as Pharmapolisz Kft.

*Current assets*

**Inventories** amounted to HUF 47,042 million, 4.8 % below the opening figure.

**Receivables** amounted to HUF 114,891 million, HUF 2,017 million less than the opening figure. Trade receivables were HUF 8,107 million down year-on-year. The closing balance of loans extended to affiliated undertakings and undertakings linked by participating interest is HUF 6,379 million higher year-on-year predominantly because of the loan items extended to Richter-Helm BioLogics, Pharmapolisz Kft., Gedeon Richter Romania S.A., and Gedeon Richter Aptyeka O.O.O. due within a year.

The value of **cash and securities** increased by HUF 15,178 million. The increase was linked to the one-off milestone income from Allergan (Forest Laboratories) related to the marketing authorization of cariprazine, reduced by EUR 46 million repayment of the Club loan and of the European Investment Bank credit, as well as the payment of the last portion of the deferred sales price of the PregLem acquisition (milestone payment).

As of 31 December 2015 the portfolio of securities held for trading contained government securities, and Other long-term investments contained units/shares in open-end investment funds.

## SHAREHOLDERS' EQUITY AND LIABILITIES

*Shareholders' equity*

In 2015 **shareholders' equity** was 8.8% higher compared to the reference year and amounted to HUF 620,976 million; this is the impact of the balance sheet profit.

*Liabilities*

The Company's total liabilities amounted to HUF 102,489 million and include the **long-term liabilities** items of HUF 36,531 million, or EUR 116.7 million, drawdown to finance R&D, the effect of the settlement of liabilities in conjunction with the Chinese acquisition (HUF +5,308 million), and the price paid for the acquisition in South and Central America (Gedeon Richter Mexico S.A.P.I. de C.V.) reported at fair value (HUF 386 million). **Current liabilities** were HUF 10,479 million down and comprised HUF 30,814 million liabilities to suppliers and affiliated undertakings as the main item (HUF +6,074 million) including cash pool. Of the short-term borrowed capital, repayment liabilities due in the reported year in conjunction with the acquisitions in China and Mexico amounted to HUF 6,370 million. The dividend in connection of the result of 2015 and approved by the Annual General Meeting was HUF 13,419 million.

## 2.2 The 2015 income statement

The Company's profit after taxes for 2015 was HUF 61,480 million, 221.8 %, or HUF 42,372 million, higher year-on-year. Besides a slight drop in sales, a more significant downturn in expenditure of research commissions should be noted, the latter due mainly to a shift of the clinical studies of cariprazine to 2016.

*2.2.1 Income from sales*

| | 2014 HUF million | 2015 HUF million | Variance HUF million | Variance % |
|---|---|---|---|---|
| Hungary | 31,855 | 33,939 | 2,084 | 6.5 |
| Export | | | | |
| CIS | 122,562 | 109,275 | -13,287 | -10.8 |
| EU * | 87,395 | 91,983 | 4,588 | 5.2 |
| USA | 12,238 | 13,472 | 1,234 | 10.1 |
| China | 13,176 | 16,518 | 3,342 | 25.4 |
| Latin America | 4,296 | 3,749 | -547 | -12.7 |
| Other countries | 12,126 | 13,160 | 1,034 | 8.5 |
| Export total | 251,793 | 248,157 | -3,636 | -1.4 |
| Total | 283,648 | 282,096 | -1,552 | **-0.5** |

* Excluding Hungary

Income from the 2015 domestic sales was 6.5% up compared to the reference year. Export in HUF was 1.4% down; and in EUR 1.7% down year-on-year.

Changes in the breakdown of export by regions in the reported year: the largest contributor continues to be the CIS, albeit with a smaller share (38.7 %) than in the reference year. The EU States increased 1.8 percentage points and contributed 32.6%; the contribution of China rose by 1.2 percentage points (5.9%). Latin American sales contributed 1.3% to total income from sales. the contribution of the United States and the cumulative category of Other countries was up by 0.5 and 0.4 percentage points respectively (4.8% and 4.7%). Income from domestic sales grew by 0.8 percentage points achieving 12.0%.

Based on the year-end figures for 2015 the Company realized HUF 33,939 million income from sales **in the domestic market**, 6.5% (HUF 2,084 million) more than in 2014. With this performance the Company's market share was 5.3% in 2015, 0.1% below the reference year's figure. Richter ranked second in the prescription drugs market with a share of 7.4%.

Turnover increased primarily as a result of rising sales of Esmya, Klion, Tanydon, Tanydon HCT, Scippa, Quamatel, Xeter and Kalmopyrin, dampened by falling sales income from Aktil, Aflamin and oral contraceptives. In 2015 oral contraceptives were the leading item in terms of sales contributing 9.3% to sales income.

In 2015 no significant changes took place in terms of price regulations in the domestic pharmaceutical market. Pharmaceutical representatives' registration fee was reintroduced as of 15 February 2009 and cost Richter HUF 162 million in 2014 and HUF 219 million in 2015.

Income from **exports** decreased from HUF 251,793 million in 2014to HUF 248,157 million in 2015. In euro, income from exports was 1.7% down and amounted to EUR 801.3 million.

Russia continues to be the leading market of the **CIS region and also of the Company,** with turnover denominated in EUR 4.3 % below the reference year figure, also largely influenced by the massive devaluation of the rouble against the euro. Sales in rouble were 25.7% of RUB 3.4 million up. Denominated in rouble, sales of oral contraceptives, Mydocalm, Diroton, purchased Rosuvastatin and Voriconazole as well as Stopdiar increased; the increase was reduced by dropping Esmya, Cavinton and Airtal sales.

In Ukraine, euro denominated sales slumped by 51.7% or EUR 28.5 million; sales income from all products was down, most drastically that of Groprinosin and Verospiron.

EUR sales income from other CIS countries dropped by 5.3% of EUR 4.2 million. There was a significant slump in sales in Uzbekistan and Kyrgyzstan, offset to some extent by growing sales in Kazakhstan and Turkmenistan.

The total turnover achieved in the CIS market was HUF 109,275 million, 44.0% of total export. Year-on-year decrease was 10.8 % (HUF 13,287 million). Expressed in Forex, the turnover was EUR 352.9 million (USD 391.4 million) with a 11.1% decrease in EUR (25.9% in USD) year-on-year (y/y).

The turnover achieved in the **European Union** was HUF 91,983 million, 5.2% up year-on-year. The contribution of this region to total export was 37.1%. Expressed in Forex, the increase amounted to EUR 297.0 million with a 4.9% increase y/y.

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 10.9% increase in the EU15 region.

On the other hand, the CEE Member States decreased their contribution to total sales in the EU region to approximately 48.7% in 2015 with a 0.8% drop in sales income in euro. The decrease is attributed primarily to the performance of Avonex in the Baltic states.

Sales in the **United States** increased by 10.1% (HUF 1,234 million), or, expressed in USD, by 8.3% (to USD 4.4 million) due primarily to a slump in the sales of oral contraceptives Prosterid.

Turnover in the **Chinese region** was HUF 16,518 million (EUR 53.3 million) and was HUF 3,342 million (or EUR 10.6 million) higher year-on-year. Increase in Cavinton sales was especially outstanding. The price difference compensation due to the strengthening of the yuan against the euro agreed on retrospectively is reported in the Sales income, and the exchange rate compensation is reported in the Other incomes.

Income from sales in **Latin America** experienced a 12.7% (expressed in dollar, a 27.6%) decrease and amounted to HUF 3,749 million (USD 13.4 million). The drop is attributed mainly to oral contraceptives. The contribution of this region to total export was 1.5 %.

In the category of **Other countries** oral contraceptives were the leading products. In the Other countries category the turnover was HUF 13,160 million (EUR 42.5 million). Compared to 2014, turnover was 8.5 % higher (in Forex, 8.4% higher). The contribution of this region to total export was 5.3%.

In 2015, net income from sales totalled HUF 282,096 million, a HUF 1,552 million less compared to the 2014 figure.

*2.2.2 Direct and indirect costs of sales; operating profit*

Aggregate direct and indirect costs of sales were HUF 9,445 million less year-on-year.

**Direct costs** of sales totalled HUF 59,579 million and were HUF 1,555 million below the 2014 figure due to falling sales and the change in the portfolio of products. Gross profit from sales was HUF 222,517 million, HUF 3 million above the reference year figure with the gross margin up from 78.4 % to 78.9 %.

**Indirect costs** amounted to HUF 163,686 million in 2015, HUF 7,890 million below the 2014 figure.

- Payroll costs (wages and contributions) decreased by a total of HUF 3,137 million.

- Commission paid to agents dropped by HUF 1,284 million, due to plummeting sales in the CIS.
- Promotion costs were HUF 1,017 million up. Increasing costs resulting from the expansion of sales and marketing activities in the Chinese market and rising marketing costs in Western Europe were not offset by falling costs in the CIS region, Poland and the EU10 countries.
- Total foreign sales costs dropped by HUF 203 million y/y, which can mainly be attributed to the CIS region and also to the Company's activity in China. Besides these impacts there was a slight increase in Western European distribution costs.

- In 2015 there was a HUF 7,069 million downturn in income from research commissions due to a significant drop in expenditures on PregLem's projects, and a shift of the clinical studies of cariprazine to 2016. The bulk of these costs includes items related to R&D collaborations.

- Depreciation is HUF 731 million below the reference year's figure. The decrease is due to less capitalization compared to the reference year, hence significant items feature among assets in the course of construction. The drop was dampened by the capitalisation of valuable rights related to the contraceptive portfolio acquired from Grünenthal and to Esmya's launch on new markets as well as the first marketing authorizations of Lisvy.

The balance of Other income and expenditure improved and was HUF 1,536 million after the negative balance of HUF 10,974 million in 2014.
Significant contributors to the increase include milestone incomes (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 agreed on retrospectively. The above impacts were reinforced by lower allowances for customers and lower net expense balance of the provisions created and reversed for rebates compared to the reference year.

Conversely, amortization of intangible assets in excess of the reference figure had an opposite effect and was due mainly to the termination of the collaboration and license agreement relating to bremelanotide.
Claw-back in 2015 comprised payments related to the Hungarian, German, French, Spanish, Portuguese, Belgian, Italian, Bulgarian and Latvian markets totalling HUF 4,390 million.
In 2015, the change in the likelihood of payment of the deferred portion of the purchase price of PregLem and the deferred payment liability to our Chinese partner increased the Other expenditures.

The Company's *operating profit* was HUF 60,367 million, 51.1% up compared to 2014. After a 7.3 percentage point increase, the operating margin was 21.4%.

### *2.2.3 Other income statement items*

*Net financial income*

Net financial income in 2015 was HUF 2,577 million profit as opposed to HUF 19,744 million loss in 2014.

In light of the changes during the reported year, Richter's financial income was greatly affected by the strengthening of the forint against the rouble and the euro, and the weakening of the forint against the dollar. As of the 2015 balance sheet date, the exchange rate (NBH rate) was 3.88 forints to the rouble (-12.8%), 313.12 forints to the euro (-0.6%), and 286.63 forints to the dollar (+10.6%).

Revaluation as of the balance sheet date closed with a loss in both 2014 (HUF 14,572 million) and 2015 (HUF 359 million), and contributed HUF 14,212 million to the increase of net financial income over 2014. 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.

The Company made a profit on forward transactions amounting to HUF 57 million in 2014 and HUF 631 million in 2015.

In 2014 impairment of GR-Romania S.A., Protek, RG-Retea SR.L. and Pesti Sas Holding Kft. was accounted for (in the total value of HUF 8,350 million), and in 2015 the impairment reported on Protek was reversed (HUF 153 million).

Exchange rate losses realized from trade on receivables, payables and other items were HUF 2,935 million as opposed to a HUF 1,993 million loss in the preceding year. The aggregate gain contributed HUF 0.9 billion to a year-on-year decrease in earnings.

In 2015 the time value and exchange rate effects of the liability related to PregLem reduced the net financial income to a lesser extent (by HUF 572 million as opposed to HUF 1,948 million in the reference year).

Dividends received contributed HUF 1,002 million to the 2015 financial income, HUF 811 million less than the HUF 1,813 million achieved in 2014.

*Exceptional items*

The balance of exceptional items was HUF -697 million representing a HUF 384 million improvement over 2014.

*Profit before taxes*

The 2015 earnings before taxes amounted to HUF 62,247 million, HUF 43,108 million more than in 2014.

*Taxes*

In 2007 Richter notified its intend to take advantage of the tax credit in connection with the capital expenditure project to construct a new plant in Debrecen to develop and manufacture biotechnology products. The Company has so far taken advantage of the investment tax credit for the 2012 and 2013 year. The Company was not liable to pay corporate tax for the 2014 business year, so it did not utilize the investment tax credit. Taking into consideration the investment tax credit, tax payable was HUF 767 million in 2015.

*Profit after taxes*

The Company's profit after taxes for 2015 was HUF 61,480 million compared to HUF 19,108 million in 2014.

### *2.2.4 Contribution of key products to sales revenues*

Finished products contributed 92% to the 2015 sales revenues. The contribution of APIs (Active pharmaceutical ingredient) was 4%, sales of purchased materials was 3%, and royalties and services jointly contributed 1%.

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

| 2014 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|
| Rank | | Sales MHUF | Share % | Rank | | Sales MHUF | Share % |
| 1 | Oral contraceptives | 81,981 | 28.9 | 1 | Oral contraceptives | 85,407 | 30.3 |
| 2 | Cavinton/vinpocetine | 24,866 | 8.8 | 2 | Cavinton/vinpocetine | 25,403 | 9.0 |
| 3 | Panangin/asparaginates | 15,300 | 5.4 | 3 | Mydeton/tolperisone | 15,339 | 5.4 |
| 4 | Mydeton/tolperisone | 15,057 | 5.3 | 4 | Esmya /ulipristal acetate | 14,995 | 5.3 |
| 5 | Verospiron/ /spironolactone | 12,710 | 4.5 | 5 | Panangin/asparaginates | 14,263 | 5.1 |
| 6 | ACE inhibitors /enalapril, lisinopril | 12,268 | 4.3 | 6 | Verospiron/ /spironolactone | 11,317 | 4.0 |
| 7 | Esmya /ulipristal acetate | 11,728 | 4.1 | 7 | ACE inhibitors /enalapril, lisinopril | 11,303 | 4.0 |
| 8 | Lisonorm /lisinopril, amlodipine | 9,234 | 3.3 | 8 | Lisonorm /lisinopril, amlodipine | 8,257 | 2.9 |
| 9 | Aflamin/aceclofenac | 7,983 | 2.8 | 9 | Aflamin/aceclofenac | 6,642 | 2.4 |
| 10 | Quamatel/famotidine | 7,454 | 2.6 | 10 | Quamatel/famotidine | 6,629 | 2.3 |
| | Total | **198,581** | **70** | | **Total** | **199,555** | **70.7** |
| | *Net income from sales* | *283,648* | *100* | | *Net income from sales* | *282,096* | *100* |

The contribution of the ten leading product categories to total sales was 70.7 %, almost identical with the reference year's figure.

Oral contraceptives are the leading products with a turnover of HUF 85.4 billion, 4.2% over the 2014 figure. The increase was the effect mainly of the rising turnover of Plan B contraceptive products, Dienogest and Drospirenone. The contribution of this product category to the 2015 total turnover was 30.3%, 1.4 percentage points above the reference year.

Richter's proprietary drug Cavinton is the second most important product with a slight y/y increase in turnover (rising sales in China exceeded lagging turnover in the Russian market). Mydeton is ranked third with a 5.4% market share. After finishing 7th in the reference year, Esmya was fourth in terms of turnover: income from Esmya sales was 27.9% up year-on-year as a result of keenly rising sales in Western Europe (Italy, France, Great Britain and Germany). Panangin was third in the reference year and slipped to 5th place in 2015 as a result of lagging sales in Russia and Ukraine. Verospiron and ACE inhibitors each lost a place and finished 6th and 7th respectively, also mainly because of the slump in turnover in Ukraine and Russia. Conversely, Lisonorm, Aflamin and Quamatel managed to retain their respective 8th, 9th and

10th place despite sluggish sales. 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*

In 2015 the Company's ten leading markets were as follows:

| The Company's ten leading markets were as follows: | | 2015 | |
|---|---|---|---|
| | | HUF million | EUR million |
| 1. | Russia | 77,685 | 250.9 |
| 2. | Hungary | 33,939 | 109.6 |
| 3. | Germany | 16,688 | 53.9 |
| 4. | China | 16,518 | 53.3 |
| 5. | Poland | 14,664 | 47.4 |
| 6. | United States of America | 13,472 | 43.5 |
| 7. | Ukraine | 8,236 | 26.6 |
| 8. | Czech Republic | 7,425 | 24.0 |
| 9. | Kazakhstan | 7,124 | 23.0 |
| 10. | Great Britain | 6,502 | 21.0 |
| | Total | 202,253 | 653.2 |
| | *Net income from sales* | *282,096* | *910.9* |

The ten leading countries jointly contributed 71.7 % to Richter's total sales.

Russian continues to head the list. Hungary kept its second place. Germany finished third. China advanced to fourth place thanks to increasing Cavinton sales and the strengthening of the yuan against the euro. Poland kept its fifth place, and the United States lost a place despite increasing sales income. Ukraine slipped from 4th to 7th place in the sales table due to a 51.6% dive in turnover. On the other hand, the Czech Republic and Kazakhstan kept their respective 8th and 9th place. Slovakia did not make it to the TOP 10 and yielded its place to the Great Britain 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., the only Hungarian-based pharma company with R&D staff exceeding 1000, 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 gynaecological products on the one hand, and molecules effective in treating CNS diseases on the other hand. Besides cariprazine one project is at the stage and the rest are in the early stages of research.

On 19 November 2012 Actavis Plc. (previously Forest Laboratories) submitted a new drug application (NDA) to the United States Food and Drug Administration (FDA) for cariprazine for the indications of schizophrenia and bipolar disorder. On 21 November 2013 the two companies announced that the FDA issued a so-called Complete Response Letter regarding registration, in which the Agency recognized the efficacy of cariprazine but required further information and data. In January 2015 Richter and Actavis announced that the FDA acknowledged receipt of the resubmitted New Drug Application (NDA). There were ongoing parallel clinical studies in the course of 2015 to expand the indications and to penetrate the European and Japanese markets. 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 are in process with Richter's American partner Allergan (formerly Forest Laboratories, Inc.) as a result of which the product will hopefullybe grantesd marketing authorization for the treatment of other diseases such as major and bipolar depression.

As on of the world's leading manufacturers of steroid products, Richter has been traditionally strong in the gynaecological market. As a result of the acquisition of the Swiss company PregLem S.A. in 2010 the Group has also been active in gynaecological 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 in the long term treatment of uterine fibroids. The extension is an opportunity for long term medication in the treatment of uterine fibroids and possibly helps to avoid surgical intervention.

In 2004 Richter launched its recombinant biotechnology R&D by creating a biotechnology research laboratory. In Germany Richter and Helm AG, Richter 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. Once authorization is granted, commercialization may start in 2017. Currently other biotechnology projects have reached the clinical trials stage.

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 athe 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 this respect of R&D, partnerships with the Japanese Mitsubishi-Tanabe Pharmaceuticals and with Forest Laboratories (today Allergan) of the United States continue to make a considerable contribution to effective research activity aimed at new molecules. Development and distribution of biotechnology products is supported in Europe by Stada, and in Japan by Mochida in the context of cooperation agreements. In an effort to strengthen our gynaecological portfolio Richter has signed development collaboration agreements with several companies. In September 2015 the Company and Palatin Technologies, Inc. terminated by mutual consent the collaboration agreement executed in 2014 to co-develop and commercialize bremelanotide. Richter intends to expand the scope of collaborations in the coming years.

R&D expenditure was 12.3% of sales income in 2015 and amounted to HUF 34,608 million.

In order to initiate the European registration procedure for cariprazine relapse prevention had to be verified, and special trials were conducted to prove the product's efficacy in patient populations displaying predominantly negative symptoms. In both cases the clinical studies were concluded with a positive result and compilation of the regulatory submission for European registration was started in 2015.

The Company launched twelve proprietary products and six licensed products in 2015, all of which are new in the markets they are intended to be launched. The two most prominent licensed proprietary products are Lisvy, a transdermal contraceptive patch, and Lenzetto, the estradiol spray for treating menopause symptoms, both of which were launched in numerous EU Member States during 2015.

At the close of 2015 Richter had over 49 generic developments and 16 licence topics in progress. In the course of the year Richter had 45 licence renewals and maintenance projects; furthermore, support of original, biotechnology and transfer projects stayed at the reference year's level (20 projects in total). As biotechnology and proprietary 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.

As a result of registration activities a total of 178 marketing authorizations were granted to Richter in 2015 in the EU, including Hungary (taking different dosage forms into consideration) with Lisvy and Lenzetto being of outstanding importance. Following substantial preparations regulatory submission of biosimilar teriparatide and pegfilgrasztim was a major task. In both cases centralized procedures were initiated according to plans. In this region 181 renewal applications were submitted, 152 were acquired by the Company, and 152 licenses were returned.

A total of 66 new authorizations and 305 renewal applications were submitted in the twelve CIS countries. Richter secured 36 new authorizations during the year.

In the Other Countries the Company submitted 72 new applications and 40 renewals in 2015. In the course of the year the Company secured 20 new authorizations and 42 renewals, and returned 17 licenses.

## 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 2015 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 2015 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, which is expected to start running in the first half of 2016.
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 dropped 3.7% and that of solid drugs by dropped 4% year-on-year. On the other hand, the amount of injectables manufactured was 7.4% higher than in the reference year.

The production value, at settlement price, of own-produced APIs for non-steroid products was up by 4% and for steroids, up by in 0.5% in 2015.

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 2015 the value of inventories was HUF 47,042 million, 4.8% above the opening balance.

The main reason for higher inventories is the low Q4 of 2014 levels of finished product stocks caused by customers' and wholesalers' conscious policy of reducing inventories.

## 3.4 Technology

In recent years the Company has developed a new procurement management system and separated special procurement tasks from the professional activities of the management of the various organizational units. In the new structure all machines, equipment, technological materials and general devices as well as some of the services are sourced centrally. The same applies to utilities such as natural gas, electricity and steam supply, as well as waste disposal. Similarly to the preceding year, optimization of centralized sourcing resulted in substantial savings on funds, capacities and time in 2015. In certain areas of sourcing the parent company and its subsidiaries cooperated successfully.

In 2015 Richter developed a uniform procurement policy along with unified Company-wide regulation of sourcing processes and the general terms and conditions of contracts.

### *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 2015 with the upgrading of the refrigeration system, revamping the cooling water system and installation of a new deep-freeze plant.

Compared to the reference year, the volume of energy utilized in 2015 increased across the Company as a whole while energy prices decreased. The 0.4% increase in the costs emerged as the balance of 2.7% increase in energy use and 2.3% decrease in energy prices. Energy and water costs amounted to HUF 8.7 billion for the entire Company and included HUF 101.3 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 2015 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.
In keeping with our commitment in the context of Corporate Social Responsibility, the trial run of the Environmental Management Systems started in Debrecen in 2015.
Environmental and security related expenditure were at the 2014 level in the reported period.
The Sustainability Report (2012-2013) issued in 2015 contains environmental information on foreign subsidiaries for the first time.
On 27 August 2015 a container exploded in the area of the Cooling Plant injuring two external workers, one of them seriously. The financial damage was not significant. In the

wake of the findings of the internal investigation of the incident procedures were modified and measures have been taken to prevent similar events in the future. Besides the above incident there were no technology related fatal, serious or mass accidents in the course of the year of reporting, no notable deficiencies were found by the relevant authorities, and no fine was imposed. Employees apply individual protective devices on an ongoing basis.
The Budapest and the Dorog Safety Laboratories were successfully audited by the supervising authority, the National Accreditation Board.
Due to the changes in regulations relating to the control of major industrial accidents Richter re-classified the Dorog plant as an upper tier establishment. In this context the statutory Safety Report was submitted in 2015 and is expected to be approved in 2016. The Safety Analysis and Internal Control Plan of Budapest, a lower tier establishment, has been approved.

*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. Implementation of the intervention plan to eliminate the contamination of soil and groundwater detected on the premises of the Vecsés warehouse has started in accordance with the order of the competent authority.
The Company checks the quality of its waste waters in the context of the statutory monitoring system.

*Waste management*

In 2015 hazardous wastes were incinerated, deposited or composted. Waste has been collected selectively since 2012.In Debrecen the hazardous waste disposal facility has been completed. It had been designed to meet the demands of the extended operation envisioned.
After a 2.1% drop the costs of waste management amounted to HUF 886 million in 2015.

## 3.5 IT support

The Company's business processes were 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 including via audio and video connection as necessary.

Similarly to the previous year, major Group level IT development took place in 2015, the most important achievements and events were as follows:

- A priority project for 2015 was the introduction of the latest version of SAP BW. In this context the entire authorization system has been revamped.

- The IT support to Quality Assurance which 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 (research, finance).

- IT infrastructure development engaged a considerable amount of capacities in the course of the year; as a result, accessibility, efficiency and cost effectiveness of IT systems were greatly improved.

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.

As of 31 December 2015 closing headcount was 6,628 including 4,940 persons employed in Hungary. Of the Hungarian closing headcount 2,559 work in white-collar positions including 1,969 university or college graduates.

5. Capital expenditure on tangibles and intangibles

In 2015 capital expenditure on tangible and intangible assets amounted to HUF 28,251 million and included HUF 20,155 million capitalization. Tangible assets in the course of construction amounted to HUF 18,592 million as of 31 December 2015.

The Company's main CAPEX areas in 2015 were as follows

*Biotechnology*
Richter spent a total of HUF 734 million on investments related to the biotechnology business in 2015. In addition to the ongoing development of the software controlling and monitoring the manufacturing process in the Debrecen Biotechnology Plant established to produce the APIs of strategic products based on biotechnology procedures some minor supplementary investments.

*Production*
The 2015 investments related to production plants amounted to HUF 16,631 million.
In the field of finished products manufacturing, project RGK VI was continueded; it envisions a greenfield development of a new, state-of-the-art freeze-drying unit, an injectables packaging plant, as well as high rack warehouses ancillary to these new facilities, and land for development purposes. The structure and exterior of the building

have been completed; building installations and technological pipe fitting have reached an advances stage. In the Tablets Plant replacement of the false ceiling in the non-hormones coating unit has been completed. Plans for expanding the capacities of the hormones unit of the Packaging Plant had been drawn up and implementation has commenced.

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 the Steroid Plant II to expand intermediate product and chromatography capacities. In 2015 after full replacement of the plant hall's internal steel structure the next stage was the installation of the reactors followed by technological fitting. The projects aimed at a closed system of measurement of liquid and solid materials and the separation of plant cooling systems were continued.

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

*Production support*

Investment projects related to production support amounted to HUF 3,301 million in 2015.

In the context of environmental and safety projects the multi-year renovation of the wastewater system and the purification basins in Dorog was continued, and in Debrecen the hazardous waste disposal facility was constructed.

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. Due to tightening quality assurance requirements related to API production a new purified water system has to be installed. In 2015 plans of the centre and the network were prepared.

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. The project aimed at expanding the capacities of the Quality Control labs has been completed.

*R&D*

In 2015 Richter deployed a total of HUF 931 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 intangibles*

The 2015 expenditure on licenses and other intangibles amounted to HUF 3,599 million and comprised expenditure on the acquisition of manufacturing and marketing rights (Estradiol, Lisvy/Bayer), as well as on new registrations and renewals.

*Other*

In 2015 Richter spent HUF 857 million on IT development supporting operation, and HUF 721 million on improving the conditions of the non-Hungarian 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 are still faced with prolonged liquidity problems and massive delays in payments by the National Health Insurance Funds. The difficulties of the Romanian pharma market have prevailed for several years; the list of subsidized products was reviewed after six years but most of the products launched at the end of 2014 have not yet been subsidized for administrative reasons. Due to the government's regulations to reduce prices, mounting competition and continuously increasing allowances the company. is faced with great challenges, therefore its domestic turnover declined yet again year-on-year. On the other hand, Group level turnover increased, including the Romanian retail segment.

The company's operating profit is positive due also to the fact that the claw-back tax was considerably lower in Q3 and Q4; however, the claw-back tax payment continues to be a significant burden on the subsidiary and greatly deteriorates the profitability of subsidized products as well.

In 2015 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. Mention should be made of the commissioning of a new production line in the solutions unit of the Galenic Formulations Plant in order to optimize batch sizes and increase capacities.

In the framework of the estradiol MDTS investment and technology transfer project, the first batch to be marketed was manufactured in 2015. The new Microbiology Laboratory was also constructed.

In 2015 the parent company increased the capital of its Romanian production company by RON 10 million cash which was passed on to its wholesale and retail companies through the holding company Armedica Trading S.R.L. The wholesalers and retailers used the funds to finance the loans provided by the parent company.

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 restructuring and efficiency enhancement measures implemented in the framework of the Lichtenberg project concluded in 2015 gave rise to an undertaking with a stable background, a clear-cut organisational structure and a consolidated staff of 452.

The efficiency of the company is continuously improving. The subsidiary offering outsourced production and development services has grown to be a strategically highly important site for the Group. Efficient support by the Polish marketing subsidiary contributed to the substantial increase in the commercialization of proprietary products in 2015.

In the 2015 business year the company's sales income exceeded expectations and was 10% above the reference year figure despite the keen competition characterizing the Polish market. Total income from sales was PLN 222 million due primarily to outstandingly high Groprinosin sales.

The 2015 performance of Richter's Russian manufacturing company, **ZAO Gedeon Richter-RUS** continued to be strongly affected by the negative impacts of the Ukraine-Russia conflict on the Russian economy. It is difficult to make projections as to the company's performance because of the volatile environment. Nevertheless the company managed to increase its euro-denominated sales income despite the considerable weakening of the rouble.

The company's main function will continue to be production and distribution supported by the parent company's marketing activity. It launched an increasing number of proprietary products in the market and, based on the parent company's orders, expanded its portfolio by adding products manufactured to other markets focusing mainly on CIS countries.

The company financed its 2015 capital expenditure from its own resources which were supplemented by converting liabilities to the parent company to long term loans.

In 2015 **Richter Themis Ltd.** continued to be active as a manufacturer and distributor of intermediate products and APIs (Active pharmaceutical ingredient) mostly for Group members. 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 2015 was above the reference year figure and achieved sales exceeding forecasts. The microbial biotechnology company is engaged partly in sourced development and partly in production; intra-Group development is a significant aspect of its activity but its external relations are also expanding. In October 2014 the company was granted an FDA approval, which boosted 2015 sales income from the USA market (EUR 3.6 million). The company's profitability has improved considerably over the past years and closed its business year with substantial earnings.

In 2015 **PregLem S.A.** continued to support the European marketing of Esmya, the gynaecological 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.

As a result of the volatile situation and high exposire in Ukraine decision has been taken to discontinue the project related to **GRUA P.A.T.**'s production facilities so far out of operation. The decision was made after the planning had been concluded and the requisite permits and licenses acquired. The company is in possession of valid implementation documentation approved by the relevant authorities; the initial period of validity is two years and can normally be extended.

*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 2015 the companies continued to develop the network of gynaecological pharma representatives in Western Europe and to maintain its efficiency on a continuous basis. With the addition of the strategic product Esmya sales of the portfolio steadily increased throughout the reported year.

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.AR.l.**) in the network. The portfolio of the network developed in the course of 2015 continued to expand by other gynaecological products and in some countries by the strategic product Esmya.

In the case of **Gedeon Richter Marketing Polska Sp.z o.o.** 2015 was the first full year after the efficiency enhancing restructuring implemented. Restructuring resulted in stable turnover, reduced costs and significantly improved per capita performance. By utilizing its available resources more efficiently the company continued to carry out successful marketing in the territory of Poland for both of its shareholders, 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 agents 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 through marketing and PR and 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 2015 **Gedeon Richter (China) Pharmaceuticals Co. Ltd.** again delivered the expected results despite the widely varied sales performance of the promoted products. Future expansion of the portfolio is highly needed and recent developments in China in respect of expediting the approval process for registration give cause for optimism. In January 2016 the group undertaking selling and marketing the OTC products was fully bought out.

Active in promotional purchases, storage and distribution, Moscow based **Pharmarichter O.O.O.** proved to be a high-performing company in 2015 in both technical and financial terms.

The Kazakh economy was hit hard by the drastic drop of the price of oil, its number one export product. As a result of the continued downward slide of oil prices the exchange rate of the Kazakh national currency, the tenge fell to a historical low in 2015. On 20 August 2015 the National Bank of Kazakhstan decided to float the KZT, which meant the lifting of the margins. Introduced in July, invoicing in tenge was intended to offset currency conversion related exchange rate losses incurred by Richter Group's exclusive Kazakh importer, **Gedeon Richter KZ L.L.P.**

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 as well as external business development. The 2015 performance of the company was in keeping with expectations.

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 started in 2015.

In 2015 in Mexico Richter holds an 80% voting right in **Gedeon Richter Mexico SAPI de CV.**. Sales by the Mexican company were even and balanced in the course of 2015; its income from sales was up to expectations and showed an upward trend month by month compared to the reference year. 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 2015 in addition to commercialization of the existing portfolio of products. In the course of 2015 shareholders of the Brazilian company carried out a capital increase of BRL 1,319,670 in order to tackle financial problems stemming from volatile sales.

In May 2014 Richter signed an acquisition agreement in respect of **Mediplus N.V.**, which resulted in holdings in Curaçao, Bolivia, Chile, Peru and Ecuador and strengthens Richter's penetration in Latin America. In 2015 Richter became the sole shareholder of Mediplus Group. Simultaneously with the acquisition expansion of the portfolio of Richter's products sold in the region continued.

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.

The Group's wholesale company in Romania is **Pharmafarm S.A.** In 2015 the company changed its trading policy, and as a result it closed the year with a substantial increase in sales income as well as margin. The company maintained its cost containment and its strong and balanced customer management, inventories and sourcing policies. All these measures resulted in lower allowance on customers and a positive operating profit. As a result of improving cooperation Pharmafarm S.A. is becoming increasingly important as Gedeon Richter Farmacia S.A.'s supplier.

**Gedeon Richter Farmacia S.A.** is the Romanian group's retail company. In an effort to improve efficiency by streamlining GRFA S.A.'s portfolio some pharmacy licenses were sold. In December 2015 the retail chain consisted of 91 functioning pharmacies. In keeping with the reduced number of retail units the company's 2015 income was below the reference year figure. There are still loss generating pharmacies, therefore in 2015 further impairment was reported on the licences of pharmacies owned by Gedeon Richter Farmacia S.A.

*Ukraine and the CIS*

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 Hungarian pharma companies has become a dominant feature as Richter has secured outstanding market shares for years. Thanks to Richter's Moldovan agency and the excellent and successful cooperation of the retail and wholesale companies customers' needs in Moldova are fully met. 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. As regulations relating to storage and warehousing of pharmaceutical products had been tightened in Moldova the company secured an official license and pursues its activities in accordance with GDP (Good Documentation Practice) rules and statutory provisions and with ongoing quality control. On 18 February 2015 a capital increase was entered in the register of companies.

On 1st October 2015 the amended bill on margins entered into effect in Moldova; accordingly, five price categories were introduced and a ceiling on the margin was imposed on trading companies. Having established a wider group of loyal customers, with its network of 40 outlets **GR–Retea Farmaceutica S.R.L.** closed the year with a reliable and solid performance.

Richter's wholesale and retail holdings in Armenia have scored major progress and achieved a significant performance in 2015. The wholesale subsidiary **Richter-Lambron O.O.O.** made a successful appearance in the market of third-party products. As a result, it expanded its network of suppliers and costumers and its figures achieved considerable growth. This contributed to the company's further reinforcement of its position among the top players in the market.

The subsidiary **Gedeon Richter Aptyeka Sp O.O.O.** expanded its network to include 25 pharmacies by the end of 2015 and continued to increase sales and earnings. It promotes the parent company's market share.

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 2015. On the negative side, successful operation is hampered by the devaluation of the Jamaican dollar against the U.S. 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 2015. 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, transportation, etc.); they provided continuous support fully in line with expectations and with good performance throughout 2015. Operation of these affiliated undertakings is focused predominantly to Hungary.
Richter's undertakings in this segment with foreign sites continue to be dormant.
The management's decision, at the end of 2014, on the transfer of the investment management business of **Richter Gedeon Befektetéskezelő Kft.** to Richter was carried out in 2015.

# 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 Russia-Ukraine crisis and falling oil prices | - Monitoring changes in major macroeconomic factors, incorporating their effects into the planning<br>- Tightening cost management and customer relations<br>- Flexible utilisation of local production capacities |
| Competition and Pricing | The impact on the Company's market position and results of the decreasing prices resulting from mounting generic competition | - Identifying competitive advantages<br>- Focusing on new proprietary and value added products<br>- Launching new generic products<br>- Regularly performed industry and competitor assessment and effectiveness analysis |
| Healthcare Budget | Potential impact of negative changes in the healthcare budget and regulation (price cuts, subsidy cuts and protracted procedure to accept subsidy applications) | - Regular analysis of market environment, monitoring changes in the legal and pharmaceutical subsidy system<br>- Communication with authorities<br>- Cost management adaptation |

*Operational risks*

| Risk | Description | Key risk management methods |
|---|---|---|
| Original and biosimilar R&D | Risk attached to the success of proprietary research and of the development and manufacturing of biosimilar products | - Focusing original research on CNS and gynaecology lines<br>- Determining milestones of original research and biosimilar development<br>- Assessment of programs and decision-making according to international standards with the involvement of advisory bodies and international experts<br>- 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 network of gynaecological products in Western Europe, China and Latin America | - Company-level projects for the acquired gynaecological portfolio and the coordination of the launch of Esmya<br>- Strengthening market positions and the marketing network in Western Europe<br>- Developing the Company's own marketing network in Latin America<br>- Increasing stakes in Chinese and Latin American holdings |
| Qualified workforce | Risk relating to retention of employees in key positions and ensuring qualified workforce | - Periodic revision of HR strategy<br>- Training plans, career and succession programs<br>- Incentive and performance assessment system<br>- Determination of optimal headcount<br>- Staff replacement to improve quality; retention of staff performing high-quality work |

*Compliance risks*

| Risk | Description | Key risk management methods |
|---|---|---|
| Health Authority Regulations, Quality Requirements, Quality Assurance | Risk of non-compliance with relevant regulations relating to health and quality<br>More frequent inspections due to proprietary product launches | - Implementing Quality systems and Standard Operational Processes (SOPs)<br>- Monitoring compliance with health authority regulations<br>- 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<br>- Enforcement of intellectual property rights<br>- Conclusion of risk mitigation agreements |
| Contracts and Liabilities | Risk relating to managing contractual liabilities and enforcing contractual terms | - Centralised contracting processes<br>- Special treatment of unique contracts |

*Financial risks*

| Risk | Description | Key risk management methods |
|---|---|---|
| Credit and Collections | Risk relating to collection of cash and receivables from customers<br>Region-specific risks related to customers | - Customer rating<br>- Establishing payment terms and credit limits<br>- Regular review of receivables<br>- Insurance of CIS customers' credits with MEHIB |
| Foreign Exchange Rate | Exchange rates of priority currencies<br>Exchange rate risk management in the changing currency structure | - Calculating annual open FX positions and monitoring key FX rates<br>- Natural hedging through FX loans<br>- Forward currency transactions only in exceptional cases |
| Capital Structure, Cash Management and Financial Investment | Risk related to the management of the Company's cash needs and cash funds<br>Maintaining security of funding besides acquisition expenditure | - Developing and monitoring cash-flow plans<br>- Financial Investment Rules to manage investment risk<br>- Introduction of a Cash Pool system |

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 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 geographical Europe following the patent expiry of the original product.

On 18 January 2016 Richter announced that Dr. Csaba Polacsek resigned from his membership in the Company's Board of Directors due to a conflict of interest consequent to a change in his employment position.

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.

On 10 March 2016 Mr Péter Szijjártó, Minister of Foreign Affairs and Trade announced on a press conference that the Government would provide approximately HUF 5 billion state subsidy in accordance with EKD programme. This government grant relates to capital expenditure program of Richter - worth HUF 15 billion - to expand its capacities of biosimilar development and manufacturing in Debrecen.

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.

In an attempt to offset the dire consequences of the Russia-Ukraine political crisis going back to 2014, the devaluation of the rouble and other CIS currencies, and to slipping Ukrainian pharmaceutical market the Company introduces cost-cutting measures that will affect all areas of operation.

The Company focuses on strengthening its presence in, and stepping up 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 collaboration with existing and new partners.
The main tool to achieve these goals in the context of Hungary, the CIS and the European countries is to improve the efficiency of Richter's sales networks. In Western Europe the strategy is implemented by means of our own marketing network, and in the United States through long-term agreements concluded with strategic partners. Through a variety of acquisitions Richter is striving to secure direct presence 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's future and for strengthening its market positions. The second pillar of the specialty strategy in the expansion of the gynaecological portfolio. The future added value from the gynaecological portfolio purchased in 2010 from Grünenthal, coupled with Esmya resulting from the Swiss acquisition will boost the Company's niche: gynaecology, which is best supported by the units operating in the traditional markets and the newly established Western European sales network. The Company's ongoing objective is to achieve faster growth in its special niche of oral contraceptives and steroid-based gynaecological products than total sales growth resulting in a greater contribution to annual turnover. As of 2012 the line was completed with Richter's proprietary product Esmya.
The third pillar of the Company's specialty strategy is the development of biosimilar products and the high-value investment to create the conditions for their manufacture.
Besides the above, Richter is striving to exploit the opportunities provided by 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 a 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 2015 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 includes a fair review of the development and performance of the business and position of the Company, together with the description of the principal risks and uncertainties.

Date: Budapest, 26th April, 2016

Erik Bogsch
Managing Director

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