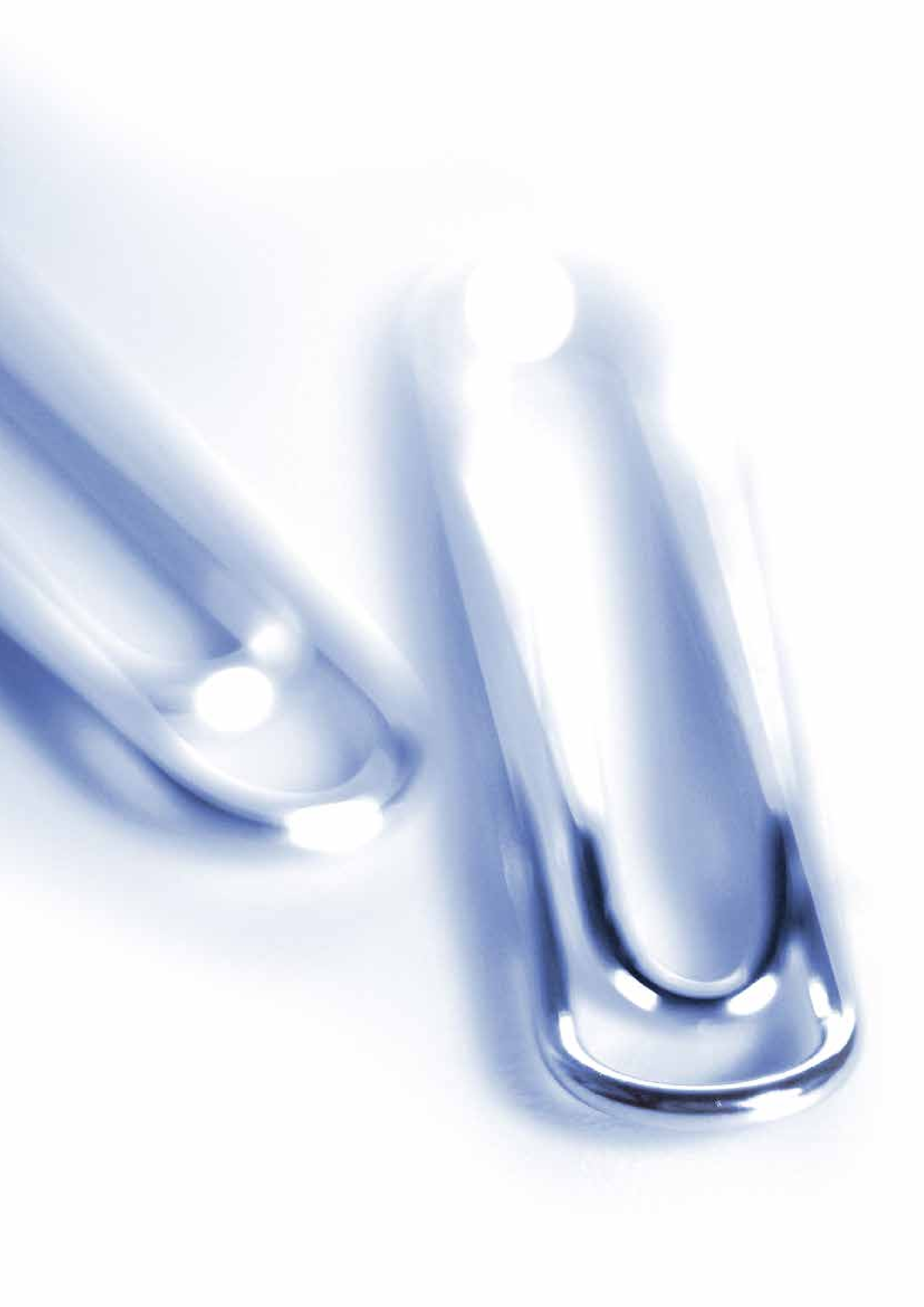
Gedeon Richter Consolidated Financial Statements

2018



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Consolidated Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Gedeon Richter Plc.

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Gedeon Richter Plc. (the "Company") and its subsidiaries (together the "Group") which comprise the consolidated balance sheet as of 31 December 2018 (in which the total assets is MHUF 797,883), the consolidated income statement, the consolidated statement of comprehensive income (in which the total comprehensive income for the year is MHUF 35,200 profit), the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended and the notes to the consolidated financial statements including a summary of the significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and they have been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Accounting Act") relevant for the consolidated annual financial statements prepared in accordance with IFRS as adopted by the EU.

Our opinion is consistent with our additional report to the audit committee.

Basis for opinion

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

We are independent of the Group in accordance with the applicable laws of Hungary, with the Hungarian Chamber of Auditors' Rules on ethics and professional conduct of auditors and on disciplinary process and, for matters not regulated in the Rules, with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board (IESBA Code of Ethics) and we also comply with further ethical requirements set out in these.

The non-audit services that we have provided to the Group, in the period from 1 January 2018 to 31 December 2018, are disclosed in note 5 to the financial statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable laws and regulations in Hungary and that we have not provided non-audit services that are prohibited under Article 5 of Regulation of the European Parliament and Committee No 537/2014 and Subsection (1) and (2) of Section 67/A of Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors.

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

Our audit approach

Overview

Overall group materiality	Overall group materiality applied was MHUF 2,700
Group Scoping	We have identified seven companies in five countries which, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics. These companies amount up to 85% of the consolidated total assets, 75% of the consolidated revenue.
Key Audit Matters	• Valuation of the Esmya intangible asset and the goodwill related to PregLem S.A. • Valuation of other goodwill balances

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Materiality	MHUF 2,700 (2017: MHUF 2,800)
Determination	Approximately 4.5% of the consolidated profit before tax adjusted with the impairment of the Esmya intangible asset and the impairment of the goodwill related to PregLem S.A.
Rationale for the materiality benchmark applied	The impairment of the Esmya intangible asset and the impairment of the goodwill related to PregLem S.A. is a one-off event disclosed in Notes 3.1 of the consolidated financial statements. We chose the adjusted consolidated profit before tax as the benchmark because, in our view, the users commonly measures the performance of the Group against the profit before tax adjusted by one-off transactions. We chose 4.5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

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Group audit scope

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

We have identified seven companies, which, in our view, required an audit of their complete financial information, due to their financial significance to the group or based on their risk characteristics. Those reporting components are the major manufacturing entities in Hungary, Russia, Poland and Romania and included other entities from Switzerland and Romania. These companies represent 85% of the total assets and 75% of the consolidated revenue.

In addition, we performed the audit of specific balances and transactions of one subsidiary in Germany.

For the remaining components we performed analytical review on Group level.

These together with additional procedures performed at the Group level, including testing of consolidation journals and intercompany eliminations, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Valuation of the Esmya intangible asset and the goodwill related to PregLem S.A. The Group has goodwill related to PregLem S.A. of MHUF 2,268 and Esmya intangible asset of MHUF 30,823 MHUF as of 31 December 2018. See Notes in the accounting policy section VI)-VIII), Note 3.1 (Key sources of estimation uncertainty), Note 12 and 18 of the financial statements for management's disclosures of the balances, judgments and estimates on these assets. Uncertainties related to the Esmya intangible asset and the goodwill related to PregLem S.A. are disclosed in Note 3.1 of the financial statements. Management has identified the events presented in Note 3.1 as impairment indicators related to the Esmya intangible asset, therefore the Group has performed an impairment	Our audit procedures included challenging management on the appropriateness of the impairment models and reasonableness of the assumptions used by performing the followings: • Benchmarking the Group's key market-related assumptions in the models against external data and budgets approved by management. Key assumptions that we focused on were discount rates, long term growth rates and foreign exchange rates; • Involving our valuation experts where it was considered necessary relating to the valuation method applied; • Assessing the reliability of cash flow forecasts by checking of past performance and comparing to previous forecasts; • Testing the mathematical accuracy and the sensitivity of the models; • Checking the comparison of the carrying amount to the recoverable amount and recalculating the impairment accounted for.

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Key audit matter	*How our audit addressed the key audit matter*
review.	
Goodwill should be tested for impairment at least on an annual basis. The determination of recoverable amount, being the higher of value in-use and fair value less costs to dispose, requires judgement from management when identifying and valuing the relevant cash-generating units (CGU). Recoverable amounts of the intangible asset and CGU are based on management's view of variables and market conditions such as future price and volume growth rates, the timing of future operating expenditure, and the discount and long-term growth rates. We focused on this area because of the significance of the Esmya intangible asset and the goodwill related to PregLem S.A. balance, the impairment indicators presented in Note 3.1 and because the impairment assessment involves management's judgements about the future results and the discount rates applied to future cash flow forecast.	We have recalculated the year-end foreign exchange translation of the goodwill balance and compared our calculation to the balance recorded by the Group. We have reconciled the disclosures presented in Notes 3.1 and 18 to the accounting records of the Group. We have assessed the disclosures presented in Notes 3.1 and 18 of the consolidated financial statements to the requirements of *IAS 1 Presentation of Financial Statements* and *IAS 36 Impairment of Assets*. Management's key assumptions were considered to be within reasonable ranges.
Valuation of other goodwill balances The Group has other goodwill balance of MHUF 33,118 as of 31 December 2018. See Notes in the accounting policy section VI, Note 3.1 (Key sources of estimation uncertainty) and 18 of the financial statements for management's disclosures of the balances, judgments and estimates on these assets. Goodwill shall be tested for impairment at least on an annual basis. The determination of recoverable amount, being the higher of value in-use and fair value less costs to dispose, requires judgement from management when identifying and valuing the relevant cash-generating units (CGU). Recoverable amounts are based on management's view of variables and market conditions such as future price and volume growth rates, the timing of future operating expenditure, and the appropriate discount and long-term growth rates.	We focused on goodwill related to GRMed Company Ltd. which represents more than 87% of the entire balance (other than goodwill related to PregLem S.A.). Our audit procedures included challenging management on the appropriateness of the impairment models and reasonableness of the assumptions used by performing the followings: • Benchmarking the Group's key market-related assumptions in the models against external data and budgets approved by management. Key assumptions that we focused on were discount rates, long-term growth rates and foreign exchange rates; • Involving our valuation experts where it was considered necessary relating to the valuation method applied; • Assessing the reliability of cash flow forecasts by checking of past performance and comparing to previous forecasts; • Testing the mathematical accuracy and the sensitivity of the models; • Checking the comparison of the carrying amount to the recoverable amount based on which no impairment was accounted for.

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Key audit matter	*How our audit addressed the key audit matter*
We focused on this area because of the significance of the goodwill balance and because the impairment assessment involves management's judgements about the future results and the discount rates applied to future cash flow forecast.	We have recalculated the year-end foreign exchange translation of the goodwill balance and compared our calculation to the balance recorded by the Group. We have reconciled the disclosures presented in Note 18 to the accounting records of the Group. We have assessed the disclosures presented in Note 18 of the consolidated financial statements to the requirements of *IAS 1 Presentation of Financial Statements* and *IAS 36 Impairment of Assets.* Management's key assumptions were considered to be within reasonable ranges.

Other information: the consolidated business report and the annual report

Other information comprises the 2018 consolidated business report and the annual report of the Group. Management is responsible for the preparation of the consolidated business report in accordance with the provisions of the Accounting Act and other relevant regulations, and for the preparation of the annual report in accordance with Act CXX. of 2001 on Capital Market. Our opinion on the consolidated financial statements expressed in the "Opinion" section of our independent auditor's report does not cover the consolidated business report or the annual report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the consolidated business report and the annual report and, in doing so, consider whether the consolidated business report and the annual report is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that the consolidated business report and the annual report is materially misstated we are required to report this fact and the nature of the misstatement.

Based on the Accounting Act, it is also our responsibility when reading the consolidated business report to consider whether the consolidated business report has been prepared in accordance with the provisions of the Accounting Act and other relevant regulations, if any, and to express an opinion on this and on whether the consolidated business report is consistent with the consolidated financial statements.

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

As the Company is a public interest entity preparing consolidated financial statements and the conditions in Paragraph a) and b) of Subsection (5) of Section 134 of the Accounting Act are met at the balance sheet date, the Company shall publish a non-financial statement required by Section 95/C in it's consolidated business report relating to the companies included in the consolidation. In this respect, we shall state whether the consolidated business report includes the non-financial statement required by Section 95/C, and Subsection (5) of Section 134 of the Accounting Act.

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In our opinion, the 2018 consolidated business report and the annual report of the Group, also including the information prepared under Paragraphs e) and f) of Subsection (2) of Section 95/B, is consistent with the 2018 consolidated financial statements in all material respects, and the consolidated business report has been prepared in accordance with the provisions of the Accounting Act. As there is no other regulation prescribing further requirements for the consolidated business report, we do not express an opinion in this respect.

We are not aware of any other material inconsistency or material misstatement in the consolidated business report and the annual report and therefore we have nothing to report in this respect.

We state that the information referred to in Paragraphs a)-d), g) and h) of Subsection (2) of Section 95/B of the Accounting Act has been provided. The consolidated business report includes the non-financial statement required by Section 95/C, and Subsection (5) of Section 134 of the Accounting Act.

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

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and to prepare the consolidated financial statements in accordance with the supplementary requirements of the Accounting Act relevant for the consolidated annual financial statements prepared in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in the consolidated financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

We were first appointed as auditors of the Group on 28 April 2010. Our appointment has been renewed annually by shareholder resolutions representing a total period of uninterrupted engagement appointment of 9 years.

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

Budapest, 20 March 2019

Árpád Balázs
Partner
Statutory auditor
Licence number: 006931
PricewaterhouseCoopers Auditing Ltd.
1055 Budapest, Bajcsy-Zsilinszky út 78.
Licence Number: 001464

Note:

Our report has been prepared in Hungarian and in English. In all matters of interpretation of information, views or opinions, the Hungarian version of our report takes precedence over the English version.

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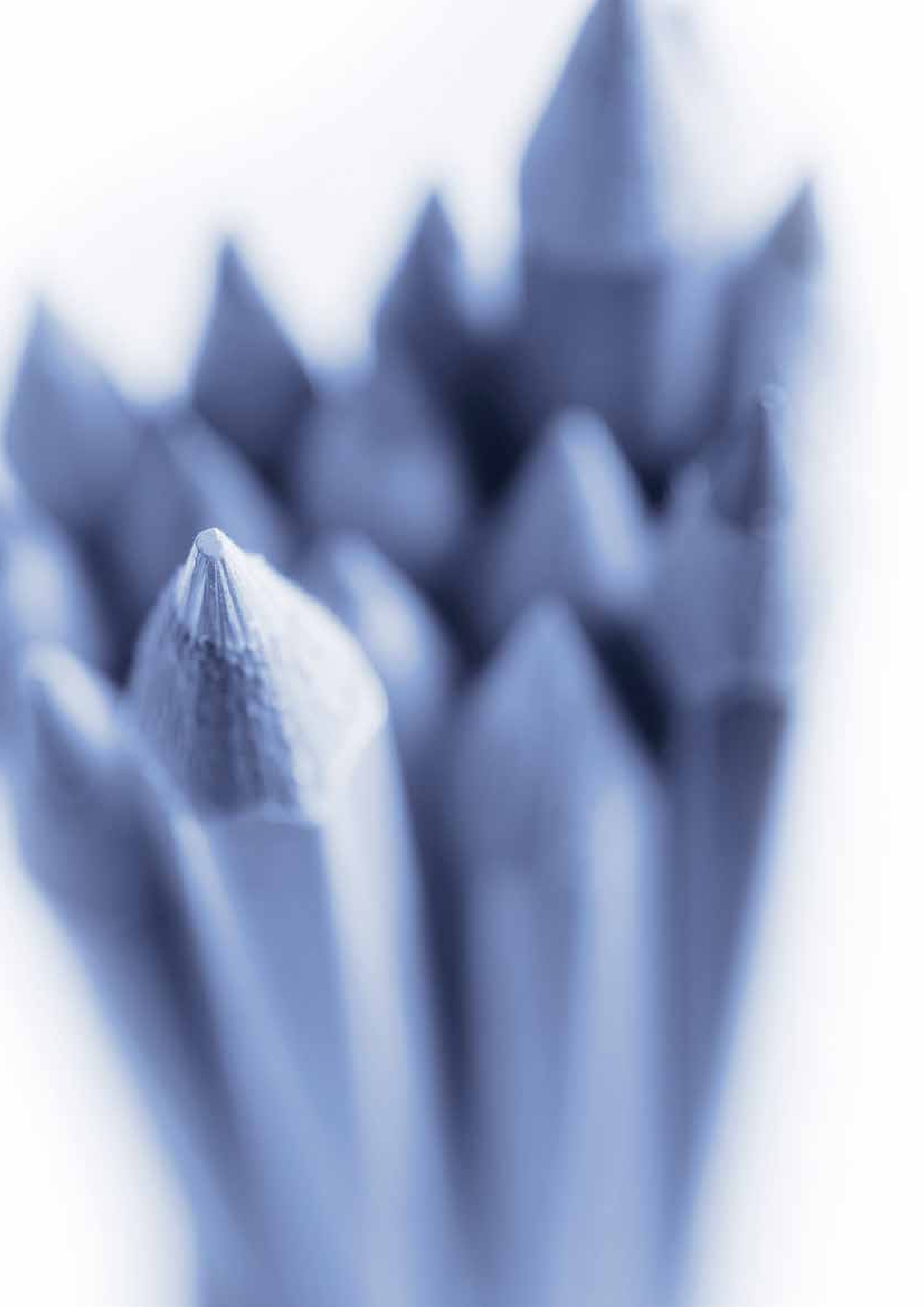

Consolidated Income Statement

for the year ended 31 December	Notes	2018 HUFm	2017 HUFm
Revenues	5	**445,484**	**444,356**
Cost of sales		(191,648)	(191,278)
Gross profit		**253,836**	**253,078**
Sales and marketing expenses		(115,584)	(114,882)
Administration and general expenses		(24,070)	(23,374)
Research and development expenses		(40,545)	(39,903)
Other income and other expenses (net)	5	(29,004)	(54,208)
Net impairment losses on financial and contract assets		407	-
Profit from operations	**5**	**45,040**	**20,711**
Finance income	7	19,285	14,957
Finance costs	7	(21,427)	(23,295)
Net financial (loss)/income	**7**	**(2,142)**	**(8,338)**
Share of profit of associates and joint ventures	14	1,055	1,528
Profit before income tax		**43,953**	**13,901**
Income tax	8	(7,760)	(3,831)
Profit for the year		**36,193**	**10,070**
Profit attributable to			
Owners of the parent		35,348	8,885
Non-controlling interest		845	1,185
Earnings per share (HUF)	**9**		
Basic and diluted		190	48

Consolidated Statement of Comprehensive Income

for the year ended 31 December	Notes	2018 HUFm	2017 HUFm
Profit for the year		**36,193**	**10,070**
Items that will not be reclassified to profit or loss (net of tax)			
Actuarial loss on retirement defined benefit plans	28	(353)	(82)
Changes in the fair value of equity investments at fair value through other comprehensive income	24	(5,154)	-
		(5,507)	**(82)**
Items that may be subsequently reclassified to profit or loss (net of tax)			
Exchange differences arising on translation of foreign operations		4,609	(8,890)
Exchange differences arising on translation of associates and joint ventures	14	(95)	17
Revaluation of available for sale investments	24	-	1,139
		4,514	**(7,734)**
Other comprehensive income for the year		**(993)**	**(7,816)**
Total comprehensive income for the year		**35,200**	**2,254**
Attributable to:			
Owners of the parent		34,168	1,299
Non-controlling interest		1,032	955

The notes on pages 20-100 form an integral part of the Consolidated Financial Statements.

Consolidated Balance Sheet

	Notes	31 December 2018 HUFm	31 December 2017 HUFm
ASSETS			
Non-current assets			
Property, plant and equipment	12	214,880	196,990
Investment property		135	-
Goodwill	18	35,386	44,377
Other intangible assets	12	151,648	154,958
Investments in associates and joint ventures	14	11,755	11,847
Other financial assets	15	9,452	35,482
Deferred tax assets	16	7,895	10,548
Loans receivable	17	2,626	2,132
Long term receivables	15	6,035	-
		439,812	**456,334**
Current assets			
Inventories	19	92,687	84,474
Trade receivables	20	129,006	123,023
Contract assets	21	1,425	-
Other current assets	21	16,187	20,180
Investments in securities	22	4,728	18
Current tax asset	16	1,017	795
Cash and cash equivalents	23	113,021	76,041
		358,071	**304,531**
Total assets		**797,883**	**760,865**
EQUITY AND LIABILITIES			
Capital and reserves			
Equity attributable to owners of the parent			
Share capital	24	18,638	18,638
Treasury shares	25	(2,186)	(415)
Share premium		15,214	15,214
Capital reserves		3,475	3,475
Foreign currency translation reserves	24	14,182	9,855
Revaluation reserve for available for sale investments	24	-	9,964
Revaluation reserve for securities at FVOCI	24	4,810	-
Retained earnings		626,052	602,596
		680,185	**659,327**
Non-controlling interest	13	5,560	4,692
		685,745	**664,019**
Non-current liabilities			
Borrowings	29	2	3
Deferred tax liability	16	7,176	8,005
Other non-current liabilities and accruals	30	9,255	4,347
Provisions	28	3,554	3,305
		19,987	**15,660**
Current liabilities			
Borrowings	29	-	-
Trade payables	26	54,549	47,495
Contract liabilities	27	85	-
Current tax liabilities	16	438	703
Other payables and accruals	27	33,664	30,515
Provisions	28	3,415	2,473
		92,151	**81,186**
Total equity and liabilities		**797,883**	**760,865**

The notes on pages 20-100 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017	Notes	Share capital	Share premium	Capital reserves	Treasury shares	Revaluation reserve for available for sale investments	Foreign currency translation reserves	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
		HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Balance at 1 January 2017		**18,638**	**15,214**	**3,475**	**(1,285)**	**8,825**	**18,478**	**614,657**	**678,002**	**3,871**	**681,873**
Profit for the year		-	-	-	-	-	-	8,885	**8,885**	1,185	**10,070**
Exchange differences arising on translation of foreign operations		-	-	-	-	-	(8,640)	(20)	**(8,660)**	(230)	**(8,890)**
Exchange differences arising on translation of associates and joint ventures	14	-	-	-	-	-	17	-	**17**	-	**17**
Actuarial loss on defined benefit plans	28	-	-	-	-	-	-	(82)	**(82)**	-	**(82)**
Revaluation of available for sale investments	24	-	-	-	-	1,139	-	-	**1,139**	-	**1,139**
Comprehensive income for year ended 31 December 2017		**-**	**-**	**-**	**-**	**1,139**	**(8,623)**	**8,783**	**1,299**	**955**	**2,254**
Net treasury shares transferred and purchased	25	-	-	-	870	-	-	-	**870**	-	**870**
Ordinary share dividend for 2016	31	-	-	-	-	-	-	(19,756)	**(19,756)**	-	**(19,756)**
Dividend paid to non-controlling interest		-	-	-	-	-	-	-	**-**	(164)	**(164)**
Additional paid in capital to subsidiaries		-	-	-	-	-	-	-	**-**	30	**30**
Recognition of share-based payments	24	-	-	-	-	-	-	(1,088)	**(1,088)**	-	**(1,088)**
Transactions with owners in their capacity as owners for year ended 31 December 2017		**-**	**-**	**-**	**870**	**-**	**-**	**(20,844)**	**(19,974)**	**(134)**	**(20,108)**
Balance at 31 December 2017		**18,638**	**15,214**	**3,475**	**(415)**	**9,964**	**9,855**	**602,596**	**659,327**	**4,692**	**664,019**

The notes on pages 20-100 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018	Notes	Share capital	Share premium	Capital reserves	Treasury shares	Revaluation reserve for available for sale investments	Revaluation reserve for securities at FVOCI	Foreign currency translation reserves	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
		HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Balance at 1 January 2018		**18,638**	**15,214**	**3,475**	**(415)**	**9,964**	**0**	**9,855**	**602,596**	**659,327**	**4,692**	**664,019**
Reclassification according to IFRS 9	24,38	-	-	-	-	(9,964)	9,964	-	-	**-**	-	**-**
Impact of initial application of IFRS 9	24,38	-	-	-	-	-	-	-	539	**539**		**539**
Impact of initial application of IFRS 15	38	-	-	-	-	-	-	-	959	**959**	-	**959**
Balance at 1 January 2018 (as restated)		**18,638**	**15,214**	**3,475**	**(415)**	**-**	**9,964**	**9,855**	**604,094**	**660,825**	**4,692**	**665,517**
Profit for the year		-	-	-	-	-	-	-	35,348	**35,348**	845	**36,193**
Exchange differences arising on translation of foreign operations		-	-	-	-	-	-	4,422	-	**4,422**	187	**4,609**
Exchange differences arising on translation of associates and joint ventures	14	-	-	-	-	-	-	(95)	-	**(95)**	-	**(95)**
Actuarial loss on defined benefit plans	28	-	-	-	-	-	-	-	(353)	**(353)**	-	**(353)**
Change in fair value of securities measured at FVOCI	24	-	-	-	-	-	(5,154)	-	-	**(5,154)**	-	**(5,154)**
Comprehensive income for year ended 31 December 2018		**-**	**-**	**-**	**-**	**-**	**(5,154)**	**4,327**	**34,995**	**34,168**	**1,032**	**35,200**
Net treasury shares transferred and purchased	25	-	-	-	(1,771)	-	-	-	-	**(1,771)**	-	**(1,771)**
Ordinary share dividend for 2017	31	-	-	-	-	-	-	-	(12,673)	**(12,673)**	-	**(12,673)**
Dividend paid to non-controlling interest		-	-	-	-	-	-	-	-	**-**	(149)	**(149)**
Acquisition of non-controlling interest		-	-	-	-	-	-	-	(225)	**(225)**	(50)	**(275)**
Additional paid in capital to subsidiaries		-	-	-	-	-	-	-	-	**-**	35	**35**
Recognition of share-based payments	24	-	-	-	-	-	-	-	(139)	**(139)**	-	**(139)**
Transactions with owners in their capacity as owners for year ended 31 December 2018		**-**	**-**	**-**	**(1,771)**	**-**	**-**	**-**	**(13,037)**	**(14,808)**	**(164)**	**(14,972)**
Balance at 31 December 2018		**18,638**	**15,214**	**3,475**	**(2,186)**	**-**	**4,810**	**14,182**	**626,052**	**680,185**	**5,560**	**685,745**

The notes on pages 20-100 form an integral part of the Consolidated Financial Statements.

Consolidated Cash Flow Statement

for the year ended 31 December	Notes	2018 HUFm	2017 HUFm
Operating activities			
Profit before income tax		43,953	13,901
Depreciation and amortisation	5	34,907	34,747
Non-cash items accounted through the Income Statement	14	2,130	(1,347)
Year-end foreign exchange translation difference of borrowings	7	-	(65)
Net interest and dividend income	7	(1,362)	(1,248)
Changes in provision for defined benefit plans	28	249	(220)
Reclass of results on changes of property, plant and equipment and intangible assets		312	1,141
Impairment recognised on intangible assets and goodwill	12, 18	24,680	49,184
Expense recognised in respect of equity-settled share based payments	24	1,743	3,640
Movements in working capital			
Increase in trade and other receivables		(5,899)	(12,519)
Increase in inventories		(8,772)	(3,228)
Increase in payables and other liabilities		15,483	7,631
Interest paid		(2)	(990)
Income tax paid	16	(6,178)	(6,880)
Net cash flow from operating activities		**101,244**	**83,747**
Cash flow from investing activities			
Payments for property, plant and equipment*		(39,073)	(30,328)
Payments for intangible assets*		(18,982)	(9,601)
Proceeds from disposal of property, plant and equipment		736	957
Payments to acquire financial assets		(3,291)	(1,745)
Proceeds on sale or redemption on maturity of financial assets		17,498	733
Disbursement of loans net		(646)	(666)
Interest received	7	1,349	1,563
Dividend received	7	15	675
Net cash outflow on purchase of group of assets		(2,881)	-
Net cash outflow on acquisition of subsidiaries	27, 11	-	(8,045)
Net cash flow to investing activities		**(45,275)**	**(46,457)**
Cash flow from financing activities			
Purchase of treasury shares	25	(3,653)	(3,858)
Dividend paid	31	(12,673)	(19,756)
Repayment of borrowings	29	-	(36,585)
Proceeds from borrowings	29	-	3
Net cash flow to financing activities		**(16,326)**	**(60,196)**
Net increase/(decrease) in cash and cash equivalents		**39,643**	**(22,906)**
Cash and cash equivalents at the beginning of year		**76,041**	**96,053**
Effect of foreign exchange rate changes on the balances held in foreign currencies		(2,663)	2,894
Cash and cash equivalents at the end of year		**113,021**	**76,041**

* The Payments for property plant and equipment and the Payments for intangible assets cannot be directly reconciled to the Note 12 Transfers and capital expenditure row, because the latter one contains non-material, non-cash addition of the assets, including transfers.

The notes on pages 20-100 form an integral part of the Consolidated Financial Statements.

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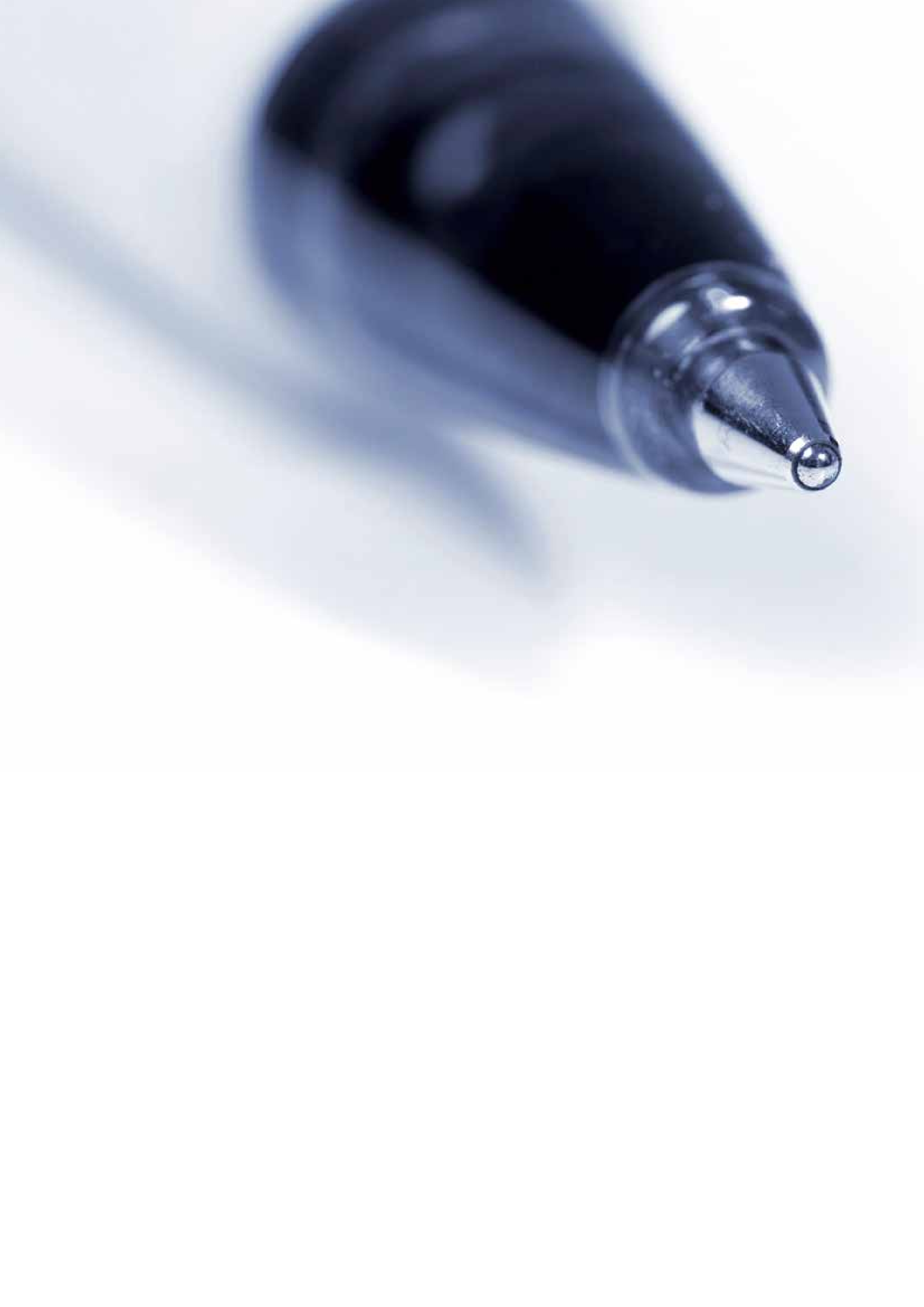
Notes to the Consolidated Financial Statements



1. General background

I) Legal status and nature of operations

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

II) Basis of preparation

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

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

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated. Please see details of the application of the new accounting policies in Note 38.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements, are disclosed in Note 3.

III) Adoption of new and revised Standards

A) New standards which became effective from 1 January 2018 and the Group has adopted:

IFRS 9 “Financial Instruments: Classification and Measurement” (amended in July 2014 and effective for financial periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost (hereinafter AC), those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVTPL).
- Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVTPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group has elected not to restate comparatives. Details of the initial application of IFRS 9 is presented in Note 38.

IFRS 15, Revenue from Contracts with Customers (issued in May 2014 and effective for the periods beginning on or after 1 January 2018. The EU has endorsed the standard). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group has assessed any potential impact of IFRS 15, and as a result, it was identified that the date of revenue recognition has to be modified for the following case. The revenue related to a so-called customer specific sales where the asset has no alternative use and being held as inventory at year-end, while the Group has enforceable right to payment for performance completed to date. The details of the initial application of IFRS 15 is presented in Note 38.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for financial periods beginning on or after 1 January 2018, the EU has endorsed the amendment). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Group is presenting the details of the initial application of IFRS 15 in Note 38.

B) The following standards and amended standards became effective for the Group from 1 January 2018, but did not have any material impact on the Group:

IFRIC 22 – Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for financial periods beginning on or after 1 January 2018, the EU has endorsed the interpretation).

Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for financial periods beginning on or after 1 January 2018, the EU has endorsed the standard).

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 the EU has endorsed the changes).

Annual Improvements to IFRSs 2014-2016 cycle – amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for financial periods beginning on or after 1 January 2018).

Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for financial periods beginning on or after 1 January 2018, the EU has endorsed the changes).

C) Certain new standards and interpretations have been issued that are not yet effective, and which the Group has not early adopted:

IFRS 16, Leases (issued in January 2016 and effective for financial periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is presenting operating lease commitments according to IAS 17 in Note 33. The Group will apply IFRS 16 retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application (i.e. 1 January 2019). For leases previously classified as operating leases under IAS 17, the Group recognizes a lease liability measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. At the same time, recognizes a right-of-use asset at the amount equal to the lease liability, adjusted for previously recognized prepaid or accrued lease payments. The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics. The Group will not apply IFRS 16 to the accounting for intangible assets, low-value assets and leases with lease term of less than one year. The Group expects that the application of IFRS 16 will have no impact on the equity. The value of the lease liability and a right-of-use asset will not exceed 4% of the total assets.

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

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

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

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

IFRIC 23 Uncertainty over income tax treatments (issued on June 2017 and effective for financial periods beginning on or after 1 January 2019, the EU has endorsed the interpretation on 23 October 2018).

Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for financial periods beginning on or after 1 January 2019, the EU has endorsed the amendments).

Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017, the EU has endorsed the amendment on 11 February 2019).

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017, the EU has not yet endorsed the amendments).

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

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for financial periods beginning on or after 1 January 2020, the EU has not yet endorsed the amendments).

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of financial reporting period that starts on or after 1 January 2020, the EU has not yet endorsed the amendments).

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for financial periods beginning on or after 1 January 2020, the EU has not yet endorsed the amendments).

Other new/amended standards/interpretations are not expected to have a significant effect for the Group.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. The Group has applied IFRS 9 and IFRS 15 from 1 January 2018, therefore the comparatives are presented based on different accounting policies. In this Note both the old and the new accounting policies are presented, if it relates to only one of the periods presented it is indicated.

I) Basis of Consolidation

The Consolidated Financial Statements incorporate the financial statements of the Parent Company and entities directly or indirectly controlled by the Parent Company (its subsidiaries), the joint arrangements (joint ventures) and those companies where the Parent Company has significant influence (associated companies). The Group controls an entity when the Group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

II) Investments in joint ventures and associated companies

A joint venture is a contractual arrangement whereby the Group and the parties undertake an economic activity that is subject to joint control.

Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses.
Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method.

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

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

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

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

The Group's share of its associates' or joint ventures' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or the joint venture.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dividends received from associates or joint ventures reduce the carrying value of the investment in the associates and joint ventures.

Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates and joint ventures are recognised in the income statement.

III) Transactions and balances in foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Consolidated Financial Statements, the results and financial position of each Group entity are expressed in Hungarian Forints (HUF), which is the functional currency of the Parent Company and the presentation currency for the Consolidated Financial Statements.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange gains and losses are presented in the income statement within finance income or finance expense.

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

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

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

IV) Revenue recognition

Accounting policy based on IAS 11 and IAS 18 (in financial year 2017)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue on sales transactions is recognised upon fulfilment the terms of sales contracts.

A) Sales of goods

The Group manufactures and sells wide range of pharmaceuticals in the wholesale and retail market.
The Richter Group operates a chain of pharmacies – mainly located in Romania – and several distribution companies to convey products to consumers. Most of their turnover is generated by products other than those manufactured by the Group.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred the significant risks and rewards of ownership of the goods to the buyer;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

If the collectability of an item that has already been accounted for as revenue becomes uncertain, impairment should be recognised in an appropriate amount while revenue should not be reduced.

B) Sales of services

Revenue, on rendering services, such as pharmaceutical and biotech products trading, marketing services, transportation, is recognised at entities operating in Other segment of the Group. For sales of services, revenue is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided.

C) Profit sharing

Sales revenue includes also Profit sharing income, paid by the partners according to agreed terms. These partners are providing information on regular basis to the Group on their turnover and assess the Group's share of the profit for these transactions. Revenue from profit sharing agreements are accounted in the accounting period when the underlying sales is performed. If the actual settlement of the transaction takes place after the reporting period, the Group accrues for the amount of the estimated profit share.

D) Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement. In case the Group is achieving a one off royalty revenue by selling a license to the customer, the revenue is recognised in the period when the risks and rewards are transferred to the other party. In case the Group is obtaining regular revenue based on the sales or other activity of the other party, revenue is recognised in the period when the underlying activity is performed by the customer.

E) Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

F) Dividend income

Dividend income is recognised when the right to receive payment is established.

Accounting policy based on IFRS 15 (in the financial year 2018)

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in the accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the group has adopted the new rules with modified retrospectively application and has not restated comparatives for the 2017 financial year.

A) Sales revenue

Revenue is defined as income arising in the course of an entity's ordinary activities. The Group's revenue primarily comes from:

- sale of pharmaceutical products produced by the Group
- wholesale and retail activity within the pharmaceutical industry
- royalty and license income from products already on the market
- contract manufacturing service
- other services including provision of marketing service, performing transportation activity etc.

B) Sale of pharmaceutical products (including wholesale and retail activity)

The Group manufactures and sells a range of pharmaceutical products. Revenue is accounted for in the amount of consideration to which an entity expects to be entitled in exchange for goods or services transferred. The Group includes in the transaction price some or all of an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Group accounts for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity. Sales are recognised when control of the products has transferred, generally being when the products are delivered to the wholesaler or other third party customer. Generally sale of pharmaceutical products are satisfied at point in time. To determine the point in time at which a customer obtains control the Group consider indicators that include, but are not limited, to the following:

- the Group has a present right to the payment for the good.
- the customer has legal title to the good.
- the Group has transferred physical possession of the good to the customer.
- the customer has the significant risks and rewards of ownership of the good.
- the customer has accepted the good.

In case the Group produces customer specific products, which does not create a good/service with an alternative use to the Group and the Group has an enforceable right to the payment for performance completed to date, the Group accounts for the revenue over time (similarly to contract manufacturing services).

C) Licences and royalties

A license arrangement establishes a customer's rights related to a Group's intellectual property and the obligations of the Group to provide those rights. The Group assesses each arrangement where licenses are sold with other goods or services to conclude whether the license is distinct and therefore a separate performance obligation. For licenses that are not distinct, the Group combines the license with other goods and services in the contract and recognize revenue when (or as) it satisfies the combined, single performance obligation. Licenses that provide access to a Group's IP are performance obligations satisfied over time, and therefore revenue is recognized over time once the license period begins, as the customer is simultaneously receiving and consuming the benefit over the period it has access to the IP.

Licenses that provide a right to use a Group's IP are performance obligations satisfied at the point in time when the customer can first use the IP, because the customer is able to direct the use of and obtain substantially all of the benefits from the license at the time that control of the license is transferred to the licensee.

The revenue standard includes an exception for the recognition of revenue relating to licenses of IP with sales- or usage-based royalties. Consideration from a license of IP that is based on future sales or usages by the customer is included in the transaction price when the subsequent sales or usages occur.

D) Interest income

Interest income from financial assets at FVTPL is included in the net fair value gains/(losses) on these assets, presented as Finance income or Finance expense. Interest income on financial assets at amortised cost and financial assets at FVOCI (2017 – available-for-sale financial assets, held-to-maturity investments and loans and receivables) calculated using the effective interest method is recognised in the statement of profit or loss as part of Finance income.

E) Dividend income

Dividends are received from financial assets measured at fair value through profit or loss (FVTPL), at fair value through other comprehensive income (FVOCI) (2017 – from financial assets at FVTPL, available-for-sale financial assets). Dividends are recognised as Finance income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment.

F) Contract manufacturing and other services

Rendering services, such contract manufacturing, marketing services and transportation are performance obligations, which are satisfied over time. At the end of each reporting period, the Group remeasures the progress towards complete satisfaction of such services and recognizes revenue accordingly.

V) Property, plant and equipment and Investment property

Property, plant and equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period.

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment loss.

Depreciation is charged so as to write the cost of assets (less residual value) off from Balance Sheet on a straight-line basis over their estimated useful lives. The Group uses the following depreciation rates:

Name	Depreciation
Land	**0%**
Buildings	**1-10%**
Plant and equipment	
Plant and machinery	5-33.33%
Vehicles	10-20%
Office equipments	8-33.33%

The depreciation amount for a period of a property, plant and equipment shall be determined based on its expected usage, useful life, physical wear and tear and estimated residual value. Depreciation is calculated monthly and recognised as cost of sales, sales and marketing expenses or administration and general expenses, depending on the purpose of usage of underlying assets, in the Consolidated Income Statement or recognised as inventories in the Consolidated Balance Sheet.

Assets in the course of construction are not depreciated. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. Repair and maintenance costs are not capitalised.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Initial cost of construction in progress shall contain all cost elements that are directly attributable to its production or installation during the reporting period.

The residual value of property, plant and equipment with the exception of cars is zero, because of the nature of the activity of the Group. Residual value of cars is 20% of their initial cost.

The depreciation period and the depreciation method for property, plant and equipment shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, then depreciation calculated for current and future periods shall be adjusted accordingly.

Investment property

Investment properties, which are held to earn rentals are measured initially at cost. Subsequent to initial recognition, investment properties are measured at fair value determined by independent appraiser. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise and presented as Other income and other expenses (net).

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

VI) Goodwill

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

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

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

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

VII) Intangible assets

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

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

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

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

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

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

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

VIII) Impairment of tangible and intangible assets excluding goodwill

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

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

IX) Research and development

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

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

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

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

X) Financial assets

Accounting policy based on IAS 39 (in financial year 2017)

Financial assets are classified into the following categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

A) Financial assets are classified at FVTPL where the financial asset is either held for trading or it is designated at FVTPL or derivatives. Financial assets at FVTPL are stated at fair value, with any resulting gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

B) Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with income recognised on an effective yield basis.

C) Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.
Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised in other comprehensive income. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the Consolidated Income Statement as 'Finance income' or 'Finance costs'. Dividends on available-for-sale equity instruments and interest on available-for-sale securities calculated using the effective interest method are recognised in the income statement as financial income.

In case of purchase or sale of financial assets the transactions are accounted at the settlement date.

D) Financial assets constituting loans receivables are carried at amortized cost and are presented separately in XIV.) Loans receivable, XX.) Cash and cash equivalents while Trade receivables are described in XV.) Trade receivables. In case the risks and characteristics of embedded derivative instruments are not closely related to those of the host contract, these are treated as separate derivative instruments and valued accordingly.

For assets carried at amortised cost the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For assets classified as available for sale the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria described above.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. This impairment is accounted in the Consolidated Income Statement as Finance costs. Impairment losses recognised in the Consolidated Income Statement on equity instruments are not reversed through the Consolidated Income Statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the Consolidated Income Statement.

In case of the purchase or sale of financial assets, the transaction is accounted for at the date of completion. The Group derecognizes financial assets when the contractual right to the cash flows from the financial asset expires, or when it transfers the financial asset and all the related risks and rewards of ownership of the asset to another party.

Accounting policy based on IFRS 9 (in financial year 2018)

Financial assets are classified into the following categories: financial assets 'at fair value through profit or loss' (FVTPL), 'at fair value through other comprehensive income' (FVOCI), 'at amortised cost'.
Classification of financial assets depends on:

- whether the asset is an equity investment or a debt instrument
- if the financial asset is a debt instrument considerations are required to assess:
  - the business model for managing the financial asset
  - contractual cash flow characteristics of the financial asset.

A) Debt instruments measured at amortised cost

A financial asset is measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The adoption of IFRS 9 results in reclassification of financial assets carried at amortized cost to fair value through profit and loss for the exchangeable bonds and convertible loans as presented in Note 38.

B) Debt instruments measured at fair value through OCI

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met cumulatively:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("hold & sell" business model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

C) Debt instruments measured at fair value through profit or loss

Under the new model, FVTPL is the residual category: a financial asset that is not measured at amortized cost or at fair value in other comprehensive income is measured at fair value through profit or loss.

D) Equity instruments measured at fair value through OCI

Investments in equity instruments are always measured at fair value. Equity instruments that are held for trading are classified at FVTPL. For all other equity instrument, the Group has the ability to make an irrevocable election on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in OCI rather than profit or loss. If this election is made, all fair value changes, excluding dividends that are a return on investment, will be included in OCI. The Group has elected to measure all of its equity instrument in the scope of IFRS 9 at fair value through OCI.

E) Equity instruments measured at fair value through profit or loss

Investments in equity instruments are always measured at fair value. Equity instruments that are held for trading are required to be classified to FVTPL.

The effect of implementation of IFRS 9 on classification of financial assets is presented in Note 38.

Impairment

Credit loss allowance for ECL: The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts, for contract assets. The Group measures ECL and recognises Net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC and contract assets are presented in the consolidated statement of financial position net of the allowance for ECL. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables

and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. The expected loss rates are based on the historical payment profiles of sales and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information. Historical loss rates are determined by the Group based on the payment experience of the previous 3 years. Defining forward-looking information, the Group takes into account the change in the Probability of Default (PD) of the receivables with the largest receivable amount (based on market information) and thus corrects historical loss rates. The impact of forward-looking information on impairment is not significant.

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL.For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL.

XI) Financial liabilities

The implementation of IFRS 9 did not effect the financial liability classification and measurement relevant for the Group. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.
Financial liabilities are classified as FVTPL where the financial liability is either held for trading or it is designated at FVTPL or derivatives. Financial liabilities at FVTPL are stated at fair value, with any gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. Financial liabilities constituting trade payables are described separately in XVI) Trade payables.

XII) Contingent-deferred purchase price

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

XIII) Other financial assets

Accounting policy based on IAS 39 (in financial year 2017)

Investments comprise long term bonds and unconsolidated investments in other companies. These investments contain 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivable investments' (non-derivative financial assets with fixed or determinable payments that are not quoted in an active market) as described in Note 15.

Accounting policy based on IFRS 9 (in financial year 2018)

Investments comprise long term bonds and unconsolidated investments in other companies. These investments are measured at amortised cost or fair value through other comprehensive income as described in Note 15.

XIV) Loans receivable

Loans receivables include given loans measured at amortised cost both under IAS 39 and IFRS 9. It also contains interest free loans given to employees with maximum of 8 years maturity. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. If the loan is off-market conditions (for example: interest free loan to employees, interest free capital contribution, supplementary payment), then the difference between the fair value and the transaction value should be recognized in profit or loss or as a capital increase in the investment depending on the economic substance of the transaction.

XV) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment as described in accounting policy section X) above.

XVI) Contract asset

The Group's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance), less provision for impairment as described in accounting policy section X) above.

XVII) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

XVIII) Contract liabilities

If a customer pays consideration or an entity has a right to an amount of consideration that is unconditional before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due. A contract liability is an obligation of the Group to transfer goods and services to a customer for which the entity has received consideration from the customer.

XIX) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at the end of each reporting period to their fair value. The resulting gain or loss is immediately recognized in the Consolidated Income statement the profit, because the Group did not apply hedge accounting in 2018. Other derivative contracts are presented under „Other current assets" and „Other payables and accruals".

XX) Cash and cash equivalents

In the Consolidated Cash Flow Statement Cash and cash equivalents comprise: cash in hand, bank deposits, and investments in money market instruments with a maturity date within three months accounted from the date of acquisition, net of bank overdrafts. In the Consolidated Balance Sheet bank overdrafts are shown within "Borrowings" in current liabilities.

XXI) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated Income Statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates. Regarding the capitalization of borrowing cost please see in XXVI) Borrowing costs.

XXII) Inventories

Inventories are stated at the lower of cost or net realisable value. Goods purchased shall be measured by using the FIFO (first in first out) method. Costs of purchased inventory are determined after deducting rebates and discounts. Goods produced shall be measured at actual (post calculated) production cost.
Net costs of own produced inventories include the direct cost of raw materials, the actual cost of direct production labour, the related maintenance and depreciation of production machinery and related direct overhead costs.

XXIII) Provisions

Provisions are recognised when the Group has a current legal or constructive obligation arising as a result of past events, and when it is likely that an outflow of resources will be required to settle such an obligation, and if a reliable estimate for such amounts can be made.

Provision for Environmental Expenditures

The Group is exposed to environmental liabilities relating to its past operations and purchases of property, mainly in respect of soil and groundwater remediation costs. Provisions for these costs are made when the Group has constructive or legal obligation to perform these remedial works and when expenditure on such remedial work is probable and its costs can be estimated within a reasonable range. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The Group does not have legal or constructive obligation in relation to environmental expenditures as of 31 December 2018 and as of 31 December 2017.

Provision for Retirement Benefits

The Group operates a long term defined employee benefit program, which is described in XXVIII) Employee Benefits.

XXIV) Income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Parent Company and its subsidiaries operate and generate taxable income.

Deferred tax is provided, using the balance sheet method, in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

In case the Group is eligible for investment tax credit, the initial recognition exception is applied therefore no deferred tax is recognised in connection with this investment (see Note 3.2).

XXV) Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

XXVI) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

XXVII) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at commencement of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Balance Sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

XXVIII) Employee benefits

Pension obligations

The Group operates a long term defined employee benefit program, which is presented as Provision in the Consolidated Balance Sheet. In line with IAS 19 for defined retirement benefit plans the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. The estimated amount of the benefit is accounted in equal amounts each period until maturity date (straight line method) and valued at present value by using actuarial discount rate.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions regarding defined benefit plans are charged to the Other Comprehensive Income while the remeasurements of other long term employee benefit program are charged to the Consolidated Income Statement in the period in which they arise.

Defined contribution plans

For defined contribution plans the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Termination benefit

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

XXIX) Share based payments

Equity settled share based payments

The Group is granting treasury shares to certain employees in its employee share bonus programs. Details of these bonus programs are set out in Note 25. These bonus programs are accounted for as equity-settled share-based payments and from year 2018 cash-settled share-based payments.
Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis (adjusted with the change in estimate) over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the entity revises its estimates of the number of shares granted that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Cash-settled share-based payments

The Group operates an Employee's Share Ownership Programme (ESOP) that qualifies to be a cash-settled share based payment. The fair value of the liability for cash-settled transactions is re-measured at each reporting date and at the date of settlement. Any changes in fair value are recognised in the Income Statement for the period.

XXX) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property, plant and equipment are included in Other non-current liabilities and accruals in the Consolidated Balance Sheet and credited to the income statement as Other income and other expenses (net) on a straight-line basis over the expected useful live of the related assets.

XXXI) Share Capital

Ordinary shares are classified as equity. Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, and is included in equity attributable to the Company's equity holders.

XXXII) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares.
Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

XXXIII) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability and debited against equity (retained earnings) in the Group's financial statements in the period in which the dividends are approved by the shareholders of the Company.

3. Key sources of estimation uncertainty and critical accounting judgements

In the application of the Group's accounting policies, which are described in Note 2 management is required to make judgements, estimates and assumptions about the carrying amounts of the assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and the underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Consolidated Financial Statements are the following:

3.1 Key sources of estimation uncertainty

The effects of the European Commission decision to ESMYA® sales

In December 2017, the European Medicines Agency (EMA) Pharmacovigilance Risk Assessment Committee (PRAC) started a review of drug induced liver injury potentially related to ESMYA® (ulipristal-acetate) that applies to all EU Member States. On 9 February 2018, the EMA initiated the implementation of temporary measures as part of the review process. The PRAC recommended that new treatments using ESMYA® should not be started, but ongoing treatments could be completed. These measures were of a temporary nature and are intended to protect the health of patients.

The PRAC's final recommendations were published on 18.05.2018 which were adopted by Committee for Medicinal Products for Human Use (CHMP) (01.06.2018) and based on CHMP's opinion the European Commission decided to implement them on 26.07.2018. According to PRAC's recommendations the measures include: contraindication in women with known liver problems; liver tests before, during and after stopping treatment; a card for patients to inform them about the need for liver monitoring and to contact their doctor should they develop symptoms of liver injury. In addition, use of the medicine for more than one treatment course has been restricted to women who are not eligible for surgery.
Richter takes the safety of patients seriously. Based on the data collected during clinical trials, the Management believes that ESMYA® is a safe medicinal product, and Richter is committed to provide this unique treatment option to women suffering myoma tumor.

In August, 2018, Richter's license partner for North-America ESMYA® sales, Allergan received a Complete Response Letter (CRL) from the U.S. Food and Drug Administration (FDA) in response to the New Drug Application (NDA) for ulipristal acetate (UPA) for the treatment of abnormal uterine bleeding in women with uterine fibroids.

The letter from the FDA indicates it is not able to approve the ulipristal acetate NDA in its current form and is requesting additional information. The agency cited safety concerns regarding ESMYA® post-marketing reports outside the United States and Canada.

In January 2019 the Canadian regulatory authority imposed restrictions on Fibristal (ulipristal acetate) commercialised by Allergan plc in Canada due to a potentially increased risk of liver damage. The management has incorporated the effects of the restrictions on the expected future cash flows.

The Company's judgment that the CRL issued by the FDA gives rise to significant uncertainty about the launch and date of the US market.

The Group prepared its Consolidated Financial Statements for 2018, considering the negative effects of European Commission's decision on ESMYA® and CRL issued by FDA. Based on that, Management has reduced its long term sale forecasts for ESMYA® in markets in EU and North-America. In addition to the revised forecasts, the Group has accounted for impairment on PregLem Goodwill and on intangible assets in North-America. The overall value is totalled to HUF 24.9 billion. Please see further details in Note 18 and 12.

As a result of EC's resolution and FDA's letter, on the balance sheet date the Group has an exposure on the following items in the balance sheet after recognition of impairment loss.

Factors of the exposure*	**31 December 2018** HUFm	**31 December 2017** HUFm
Goodwill	2,268	12,194
Esmya EU, NA and other Esmya intangible assets	30,823	44,882
Total exposure	**33,091**	**57,076**

* In the course of PregLem S.A.'s acquisition the rights attached to the distribution in the EU and North America of ESMYA, was recognised as an independent intangible asset parallel with a Goodwill. The sales rights acquired after the acquisition were presented as intangible assets. The above figures do not include any inventories, because the risk of obsolescence is not significant considering the turnover period of the inventories.

Impairment testing of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in point VI). The impairment assessment performed by the Group contains significant estimates that depend on future events. The assumptions used and the sensitivity of the estimation is presented in details in Note 18.

Depreciation and amortization

Property, plant and equipment and intangible assets are recorded at cost and are depreciated or amortised on a straight-line basis over their estimated useful lives. The estimation of the useful lives of assets is a matter of judgement based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use.
However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical, market and legal conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

The appropriateness of the estimated useful lives is reviewed annually. If the estimated useful lives would be lower by 10% in comparison to management's estimates, depreciation for the year ended 31 December 2018 would be greater by HUF 3,878 million (2017: increase by HUF 3,860 million).

The Group recorded depreciation and amortisation expense in the amount of HUF 34,907 million and HUF 34,747 million for the years ended 31 December 2018 and 2017, respectively.

Uncertain tax position in Romania

From 1 October 2009 the Government approved a debated claw-back regime (aimed at financing the overspending of the national pharmaceutical budget) to be paid to the CNAS (Casa Nationala de Asigurari Sanatate) by the domestic manufacturers and wholesalers in the range of 5-12 % from sales of reimbursed drugs. The related uncertain tax position is disclosed in more details in Note 36.
From 1 October 2011, a new version of Romania's pharmaceutical claw-back mechanism came into force levying direct liabilities for the domestic and foreign manufacturers, which does not constitute to be an uncertain tax position; the related expenses have been disclosed in Note 5.
In September 2017, the National Authority of Fiscal Administration („RTA") imposed RON 9.09 million as claw-back contribution for the period Q1-Q3 2011 and RON 10.4 million as interest and penalties to the Romanian wholesale company. The company submitted a Tax challenge with RTA and sent a suspension claim to the court immediately. In December 2017 the special court in Bucharest (Romania) has approved the claim of Pharmafarm S.A. for suspension of payment for the claw-back. At the end of 2018 the first instance court has decide in favour Pharmafarm S.A., annuling the claw-back decision of RTA, but as part of the verdict, the court ordered the re-execution of the tax audit. As a result of the second investigation, RTA imposed again the RON 9.09 million claw-back tax payment obligation, which Pharmafarm S.A. did not accept and filed a lawsuit. The Bucharest Special Court approved again Pharmafarm S.A.'s application for suspension of claw-back payment until the case was finally closed.

Taking into consideration the opinion of experts, the management of the Parent Company estimates more likely than not that the imposed tax obligation will not have to be paid on the basis of a subsequent final court decision, therefore no provision has been made.
In May 2018, a comprehensive tax audit covering the period from 01.01.2011 to 31.12.2015 was also completed at Gedeon Richter Romania S.A. As a result of the investigation, a tax deficit has been established for a claw-back tax, corporate income tax and VAT. The total value of the established tax shortfall and related interest and fines amount to RON 13.2 million. Although the Company will challenge the decision of the tax authority in court, taking into account the opinions of experts, the management of the Company sees a more than 50% chance that the findings will have to be paid by Gedeon Richter Romania in the future, therefore a provision of RON 13.2 million has been recognised.

3.2 Critical judgements in applying entities accounting policies

Hybrid tax

The Parent Company prepared its first separate IFRS financial statements on 31 December 2017, as a result of that the corporate income tax is also determined based on the separate IFRS financial statements from 1 January 2017. Based on the corporate income tax regulations, if the corporate income tax calculated based on the regulations relevant for IFRS preparers is less than the actual corporate income tax for the period ending on 31 December 2016 in the year of the first IFRS financial statements and the following year (i.e in 2017 and 2018), the IFRS preparer chooses to:

- pay the corporate income tax determined in the period ending on 31 December 2016 also in the two years following the transition, or
- determine its corporate income tax on the basis as if the Company would have not transitioned to IFRS.

Similar regulation is relevant for the tax basis of the local business tax and innovation contribution.
As a result of the regulation, the taxes above are so called hybrid taxes in 2017 and 2018, since the tax payable is not purely, but partially based on taxable profit. IAS 12 does not have specific guidance on the treatment of hybrid taxes. Based on the accounting policy choice, the Parent Company accounts for the amount that is based on the current year's taxable profit as income tax, while the tax exceeding this amount is recorded as Other Expense in the Income Statement. According to the Company's decision made in 2018 (similarly to 2017), the income tax is defined in compliance with the corporate tax rules effective in the particular business year in a way, as if the transition to IFRS had not happened and the value of corporate tax is defined accordingly. Therefore no other expense is recognized in the financial statements related to the corporate income tax.

Deferred tax at Parent Company

The Company has significant deductible temporary differences, part of which is related to the tax loss carried forward. Deferred tax asset should be recognized for accrued unused negative tax bases to the extent that it is probable that sufficient future taxable profit will be available against which unused negative tax bases can be utilised.
Despite of the profitable operation of the Company, the tax base is expected to be negative in the next 5 years, considering the tax base adjusting items, there for the realization of a significant part is not probable.
The Company's calculated deferred tax asset is HUF 5,473 million, of which HUF 4,049 million is not recognized in the balance sheet because no taxable profit is expected when the related temporary differences reverse. The management of the Company expects to realise the deferred tax related to temporary differences that reverses after 5 years. These temporary differences are:

- difference between IFRS value and the tax value of the intangible assets or property, plant and equipment,
- fair-valuation difference of financial assets,
- the provision for post-employment and other long term benefits.

The deferred tax expense is presented in Note 16.

4. Segment Information

Management has determined the operating segments based on the reports reviewed by the Board of Directors (Chief Operating Decision Makers) that are used to make strategic decisions. The three main segments for management purposes:

- Pharmaceuticals: includes the companies that are involved in the Group's core business, i.e. research, development and production of pharmaceutical products
- Wholesale and retail: distribution companies and pharmacies that are part of the sales network in various regional markets and, as such, convey our products to consumers
- Other: presents all the other consolidated companies that provide marketing and sales support services mainly to the members of the Group.

In the Pharmaceuticals segment of the Group a dominant part of the revenue from sale of goods originates from sale of finished form pharmaceuticals and active pharmaceutical ingredients. From therapeutic point of view the female healthcare, cardiovascular and central nervous system related drugs are the most significant products.

I) Business segments

	Pharmaceuticals		Wholesale and retail		Other		Eliminations		Total	
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
3rd party revenues	356,024	355,194	88,596	88,458	864	704	-	-	445,484	444,356
Inter segment revenues	8,707	9,646	2	3	5,391	4,691	(14,100)	(14,340)	-	-
Revenues	**364,731**	**364,840**	**88,598**	**88,461**	**6,255**	**5,395**	**(14,100)**	**(14,340)**	**445,484**	**444,356**
Profit from operations	44,631	18,617	(97)	1,777	331	391	175	(74)	45,040	20,711
Total assets	867,803	831,128	52,726	47,753	3,777	3,402	(126,423)	(121,418)	797,883	760,865
Current contract asset	1,425	-	-	-	-	-	-	-	1,425	-
Loss allowance on contract assets	-	-	-	-	-	-	-	-	-	-
Total contract assets	**1,425**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,425**	**-**
Total liabilities	89,088	74,620	40,927	35,743	990	797	(18,867)	(14,314)	112,138	96,846
Contract liabilities	85	-	-	-	-	-	-	-	85	-
Capital expenditure**	57,167	39,077	650	656	238	196	-	-	58,055	39,929
Depreciation and amortization*	33,965	33,839	702	675	240	233	-	-	34,907	34,747
Share of profit of associates and joint ventures	(431)	60	1,428	1,466	27	58	31	(56)	1,055	1,528
Investments in associates and joint ventures	2,794	2,996	7,722	7,398	1,316	1,561	(77)	(108)	11,755	11,847

* See Note 12 and in the Consolidated Cash flow Statement.
** See in the Consolidated Cash flow Statement.

II) Entity wide disclosures

The external customers of the Group are domiciled in the following regions:

1. Hungary
2. CIS (Commonwealth of Independent States)
3. EU, other than Hungary
4. USA
5. China
6. Latin America
7. Other countries

2018	Hungary	CIS	EU	USA	China	Latin America	Other countries	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Timing of revenue recognition								
At a point in time	38,708	133,260	173,059	10,841	26,384	9,206	16,822	408,280
Over time	764	96	8,706	25,145	0	1	2,492	37,204
Revenues	39,472	133,356	181,765	35,986	26,384	9,207	19,314	445,484
Total assets	592,915	61,361	106,587	2,639	11,821	7,535	15,025	797,883
Capital expenditure	49,376	2,816	5,451	1	-	62	349	58,055
2017	**Hungary**	**CIS**	**EU**	**USA**	**China**	**Latin America**	**Other countries**	**Total**
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Revenues	36,040	139,689	190,720	27,472	24,004	9,418	17,013	444,356
Total assets	569,785	54,601	98,662	2,590	9,563	6,920	18,744	760,865
Capital expenditure	34,473	1,328	3,667	1	-	222	238	39,929

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

Analyses of revenue by category	2018	2017
	HUFm	HUFm
Sales of goods	408,280	420,125
Revenue from services	12,068	9,235
Royalty income	25,136	14,996
Total revenues	**445,484**	**444,356**

Revenues of approximately HUF 16,674 million (2017: HUF 19,496 million) are derived from a single external customer. These revenues are attributable to the Pharmaceuticals segment and located in the CIS region.
There is no customer exceeding 10% of net sales, therefore the Group assesses the risk of customer concentration as not significant.

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

	31 December 2018	1 January 2018
	HUFm	HUFm
Current contract assets	1,425	1,676
Loss allowance	-	-
Total contract assets	**1,425**	**1,676**
Contract liabilities	**85**	**59**

5. Profit from operations – expenses by nature

	2018	2017
	HUFm	HUFm
Revenues	445,484	444,356
From this: royalty and other similar income	*25,136*	*14,996*
Changes in inventories of finished goods and work in progress, cost of goods sold	(82,268)	(106,013)
Material type expenses	(133,645)	(116,866)
Personnel expenses	(121,027)	(111,811)
Depreciation and amortisation (Note 12)	(34,907)	(34,747)
Other income and other expenses (net)	(29,004)	(54,208)
Net impairment losses on financial and contract assets	407	-
Profit from operations	**45,040**	**20,711**

The statutory auditor provided other assurance services for HUF 17 million, tax advisory service for HUF 5 million and other non-audit services for HUF 33 million in 2018. The fee for the statutory audit was HUF 19 million.

The balance of Impairment on financial assets and contracts

The net Impairment recognised on financial and contract assets in accordance with in IFRS 9 was HUF 407 million in 2018. In the comparative these are presented as Other income and other expenses (net) or Net financial (loss)/income.

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

The balance of other income and expense changed from HUF 54,208 million (expense) in the base period to HUF 29,004 million (expense) in 2018.

Claw-back expenses are partial repayments of the received Sales revenue of the reimbursed products to the State where the product was distributed (further "claw-back"). In accordance with the announced claw-back regime local authorities established the amount of extraordinary tax to be paid based on the comparison of the subsidies allocated for reimbursed drugs and manufacturers' sales thereof. Other income and expenses include expenditures in respect of the claw-back regimes effective in Romania, Germany, France, Spain, Portugal, Belgium, Italy, Bulgaria, Austria, Poland, Latvia, Slovenia, Croatia and UK amounting to HUF 4,784 million in 2018 (in 2017 HUF 6,701 million). The 20 % tax obligation payable in respect of turnover related to reimbursed sales in Hungary amounted to HUF 432 million in 2018 and HUF 399 million in 2017.

In 2017 Other income and expenses net included impairment of Rights HUF 8,443 million, and the effect of probabilities and change of gross payment on the contingent-deferred purchase price an income in the amount of HUF 367 million .

The restrictions imposed by the European Commission significantly impaired the sales potentials of ESMYA® in the European Union, and the FDA's decision delays the market authorisation for the U.S. market and, according to the Executive Board's estimates, it reduces the potential market size. The impairment tests of ESMYA for the 2018 statements had to be conducted in consideration of these decisions by the regulatory authorities and market effects. As a result, the Group reported HUF 13,788 million impairment of the intangible asset ESMYA. In 2017, the other income and other expenses item is greatly affected negatively by the impairment of the intangible asset related to the PRAC's temporary measures regarding ESMYA in European countries (HUF 20,512 million, see Note 12).

In 2018 an impairment loss amounting to HUF 10,482 million was recorded in respect of the Goodwill related to PregLem S A. For the same item in 2017, HUF 20,229 million was charged. For details please see in Note 18.

Settlement of accounts were made and contracts terminated during 2017 in respect of the market withdrawal of Lisvy® and as a result thereof Richter accounted for other income amounting to HUF 2,147 million (EUR 6.9 million).

In the reported period one-off milestone income amounted to HUF 8,429 million mainly related to Reagila's European authorisation and introduction to the EU15 markets, successful clinical trials of cariprazine for the treatment

of bipolar I depression, and FDA's acceptance of Allergan's application for registration of the extension of indication. In the reported year a one-off milestone income was reported in conjunction with the acceptance of the regulatory submission of ESMYA® in the USA, and the starting of the regulatory procedure in South Korea regarding cariprazine.

6. Employee information

	2018	2017
Average number of people employed during the year	12,696	12,172

7. Net financial result

The Group is translating its foreign currency monetary assets and liabilities to the year-end exchange rate on individual item level, which is presented in the Consolidated Income Statement separately as Finance income or Finance costs. Since the management of the Company is analysing these translation differences on net basis, balances are presented on net basis as follows:

	2018	2017
	HUFm	HUFm
Unrealised financial items	**(2,106)**	**(3,660)**
Exchange (loss)/gain on trade receivables and trade payables	(3,259)	156
Gain/(loss) on foreign currency loans receivable	1,276	(4,276)
Year-end foreign exchange translation difference of borrowings	-	65
Exchange (loss)/gain on other currency related items	(96)	369
Result of unrealised forward exchange contracts	(27)	26
Realised financial items	**(36)**	**(4,678)**
Exchange gain/(loss) realised on trade receivables and trade payables	316	(5,411)
Foreign exchange difference on conversion of cash	1,305	(966)
Dividend income	15	675
Interest income	1,349	1,563
Interest expense	(2)	(990)
Other financial items	(3,019)	451
Total	**(2,142)**	**(8,338)**

Unrealised financial loss was heavily affected by the 4.05 RUB/HUF, 280.94 USD/HUF exchange rates in effect on 31 December 2018 (4.49 RUB/HUF on 31 December 2017, 258.82 USD/HUF respectively) which impacted the revaluation of currency related Balance Sheet items. These translation differences together resulted in a loss of HUF 2.1 billion in the net financial loss for 2018. For the sensitivity analysis relating to foreign currency exposure see Note 10.

The other financial items contain the fair value change of the MNV exchangeable bond before it was sold.

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

The Company does not apply hedge accounting according to IAS 39 and IFRS 9. The forward transactions are carried at fair value, which is determined based on forward rates provided by the commercial banks.

8. Income tax expense

The Group discloses the Hungarian local business tax and innovation contribution as income taxes as we have established that these taxes have the characteristics of income taxes in accordance with IAS 12 rather than operating expenses.

	2018	2017
	HUFm	HUFm
Domestic corporate income tax	(38)	(17)
Foreign corporate income tax	(1,940)	(2,093)
Local business tax	(3,529)	(4,172)
Innovation contribution	(533)	(532)
Current tax	**(6,040)**	**(6,814)**
Deferred tax (Note 16)	(1,720)	2,983
Income tax	**(7,760)**	**(3,831)**

The average effective tax rate calculated on the basis of the current tax is 13.7% and 17.7% taking into account the effect of deferred tax as well, in 2017 these rates were 49.0% and 27.6% respectively.

Current corporate tax rates at the Parent Company and at the three most significant subsidiaries are as follows:

Parent Company	9%
Romania	16%
Russia	15,5%
Poland	19%

The tax authorities may at any time inspect the books and records within the time frame described in the related statutory regulation and may impose additional tax assessments with penalties and penalty interest. Management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Relating to uncertain tax position please see Note 36.

Tax rate reconciliation

	2018	2017
	HUFm	HUFm
Profit before income tax	**43,953**	**13,901**
Tax calculated at domestic tax rates applicable to profits in the respective countries*	8,660	6,148
Tax effects of:		
Associates results reported net of tax	(95)	(138)
Income not subject to tax	(1,267)	(110)
Expense not deductible for tax purposes	331	443
Expense eligible to double deduction**	(2,839)	(3,019)
The effect of changes in tax loss for which no deferred income tax has been recognised***	2,752	(434)
Correction of tax return	-	(111)
Effect of change in tax rate	-	3,512
Impact of deferred tax exceptions on subsidiaries and goodwill****	218	(2,460)
Tax charge	**7,760**	**3,831**

* The tax has been calculated with domestic tax rates including the effect of every income tax (including e.g. local business tax).
** These expenditures can be deducted twice from the current years result to get the taxable profit (qualifying R&D expenses).
*** Unused tax loss of the current year on which no deferred tax asset has been recognised adjusted by the effect of the tax loss utilised in current period on which no deferred tax asset was recognised.
**** Deferred tax liability is not recognized in accordance with IAS 12.15 on the related temporary difference.

Investment tax credit

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

The project was finished in 2011 and all the equipments that formed part of the project was commissioned. The Company has taken advantage of the investment tax benefit for the first time in financial year 2012, proceeding and calculating it in accordance with the applicable laws and regulations. For financial year 2018, the Company does not have corporate income tax liability, therefore it does not utilize any development tax benefit.
The remaining tax relief in connection with the Debrecen project is available for subsequent years amounts to HUF 2,021 million at current value. Therefore Richter can take advantage of the tax relief up to 2021 at the latest.

Accounting treatment of the tax credit

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

9. Consolidated earnings per share

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

For diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to assume conversion of all dilutive potential ordinary shares. As of 31 December 2017 and 2018 there are no potential dilutive instruments issued by the Group.

EPS (basic and diluted)	**2018**	**2017**
Net consolidated profit attributable to owners of the parent (HUFm)	35,348	8,885
Weighted average number of ordinary shares outstanding (thousands)	186,314	186,221
Earnings per share (HUF)	**190**	**48**

10. Financial instruments

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

	Notes	Carrying value	Fair value
		31 December 2017	31 December 2017
		HUFm	HUFm
Financial assets[1]			
Available for sale investments carried at fair value			
Investments in securities[2]	22	18	18
Loans and receivables carried at amortised cost			
Loans receivable	21	3,608	3,608
Trade receivables	20	123,023	123,023
Other current assets	21	3,735	3,735
Cash and cash equivalents	23	76,041	76,041
Financial assets carried at fair value through profit or loss			
Foreign exchange forward contracts[4]	21	26	26
Current		**206,451**	**206,451**
Available for sale investments carried at fair value			
Investments[3]	15	15,539	15,539
Held to maturity investments carried at amortised cost			
Investments	15	1,649	1,649
Loans and receivables carried at amortised cost			
Loans and receivable investments	15	15,903	15,903
Loans receivable	17	2,132	2,132
Financial assets carried at fair value through profit or loss			
Convertible loan option[6]	15	45	45
"Exchangeable bonds" option[7]	15	2,346	2,346
Non-current		**37,614**	**37,614**
Financial liabilities			
Liabilities carried at amortised cost			
Borrowings	29	-	-
Trade payables	26	47,495	47,495
Other payables and accrual	27	22,766	22,766
Financial liabilities carried at fair value through profit or loss			
Other payables[5]	11,27	-	-
Current		**70,261**	**70,261**
Liabilities carried at amortised cost			
Borrowings	29	3	3
Other non-current liabilities	30	483	483
Non-current		**486**	**486**

[1] All financial assets are free from liens and charges.
[2] The fair valuation of securities was based on bank data supply.
Level 2: in 2017 HUF 18 million
[3] Level 1: in 2017 HUF 15,539 million
[4] Level 2: in 2017 26 million
[5] Level 3 (constituting contingent-deferred purchase price): in 2017 none
[6] Level 3: in 2017 HUF 45 million
[7] Level 3: in 2017 HUF 2,346 million

Above mentioned different levels have been defined as follows:

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

	Notes	Carrying value		Fair value	
		31 December 2018	1 January 2018	31 December 2018	1 January 2018
		HUFm	HUFm	HUFm	HUFm
Financial assets[1]					
Financial assets measured at amortised cost					
Investments in debt securities	22	4,728	-	4,728	-
Loans receivable	21	225	3,608	225	3,608
Trade receivables	20	129,006	122,536	129,006	122,536
Other current assets	21	5,595	3,735	5,595	3,735
Cash and cash equivalents	23	113,021	76,041	113,021	76,041
Financial assets measured at fair value through other comprehensive income					
Investments in securities[2]	22	-	18	-	18
Financial assets measured at fair value through profit or loss					
Foreign exchange forward contracts[4]	21	-	26	-	26
Current		**252,575**	**205,964**	**252,575**	**205,964**
Financial assets measured at amortised cost					
Investments in debt securities	15	55	1,649	55	1,649
Loans receivable	17	2,171	1,927	2,171	1,927
Financial assets measured at fair value through OCI					
Investments[3]	15	9,397	15,539	9,397	15,539
Financial assets measured at fair value through profit or loss					
Convertible loan	17	455	400	455	400
“Exchangeable bonds”	15	-	19,200	-	19,200
Non-current		**12,078**	**38,715**	**12,078**	**38,715**
Financial liabilities					
Liabilities carried at amortised cost					
Trade payables	26	54,549	47,495	54,549	47,495
Other payables and accrual	27	25,381	22,766	25,381	22,766
Current		**79,930**	**70,261**	**79,930**	**70,261**
Liabilities carried at amortised cost					
Borrowings	29	2	3	2	3
Other non-current liabilities	30	164	483	164	483
Non-current		**166**	**486**	**166**	**486**

[1] All financial assets are free from liens and charges.
[2] The fair valuation of securities was based on bank data supply.
Level 2: 31 Dec. 2018 HUF 18 million (1 Jan. 2018 HUF 18 million)
[3] Level 1: 31 Dec. 2018 HUF 9,397 million (1 Jan. 2018 HUF 15,539 million)
[4] Level 2: the entire balance 31 Dec. 2018 none (1 Jan. 2018 26 million)

Financial risk management

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

Interest rate risk

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

Security price risk

Investment in securities mainly held in treasury bills and government securities issued or granted by the Hungarian State. Therefore security price risk is not material (see credit risk point in this note). The most significant investment of the Group is represented by the interest held in Protek Group most of the security price risk is related to that investment which is stated in Note 15.

I) Capital management

The capital structure of the Group consists of net debt (borrowings as detailed in Notes 29 offset by cash and bank balances in Note 23) and equity of the Group (comprising share capital, retained earnings, other reserves and non-controlling interests).

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group is also monitoring the individual entities to meet their statutory capital requirements.
The Company is pursuing constant dividend policy, providing dividend from the profit to the owners every year. The Board of Directors recommends for the Annual General Meeting the payment of dividend calculated from the Group's IFRS consolidated profit attributable to the owners of the parents adjusted with the impairment of ESMYA, intangible assets and goodwill related to the Preglem S.A. net of deferred tax effect, and also taking into account the Company's net cash flow and the financing needs of the ongoing acquisition projects.

The capital risk of the Group was still limited in both 2018 and 2017, since the net debt calculated as below shows surplus in the balance sheet.

The gearing at end of the reporting period was as follows:

	31 December 2018	31 December 2017
	HUFm	HUFm
Borrowings (Note 29)	2	3
Less: cash and cash equivalents (Note 23)	(113,021)	(76,041)
Net debt	**(113,019)**	**(76,038)**
Total equity	685,745	664,019
Total capital	**572,726**	**587,981**
EBITDA*	79,947	55,458
Net debt to EBITDA ratio	**(1.41)**	**(1.37)**
Net debt to equity ratio	**(0.16)**	**(0.11)**

* Up to December 2017 EBITDA has been determined in line with the EIB credit agreement, repaid in December 2017, as operating profit increased by dividend income and depreciation and amortization expense. From 1 January 2018 EBITDA is determined as operating profit increased by depreciation and amortization expense. The prior year data has been recalculated according to the new definition.

	2018	2017
	HUFm	HUFm
Profit from operations	45,040	20,711
Depreciation	34,907	34,747
EBITDA*	**79,947**	**55,458**

* Up to December 2017 EBITDA has been determined in line with the EIB credit agreement, repaid in December 2017, as operating profit increased by dividend income and depreciation and amortization expense. From 1 January 2018 EBITDA is determined as operating profit increased by depreciation and amortization expense. The prior year data has been recalculated according to the new definition.

II) Foreign currency risk

The Group performs significant transactions in currencies other than the functional and the presentation currency, therefore faces the risk of currency rate fluctuation. The Group continuously calculates open FX positions and monitors key foreign exchange rates. In order to mitigate the foreign exchange risk the Group is aiming to achieve natural hedging through loans taken in foreign currency. There is no formal threshold stated in the policies of the Group on the exposure level that would automatically require conclusion of derivative instruments to mitigate the foreign currency risk.

Foreign exchange sensitivity of profit

The Group does business in a number of regions, and countries with different currencies. The most typical foreign currencies are the EUR, USD, PLN, RON, RUB, CHF, KZT and the CNY. The calculation of exposure to foreign currencies is based on these eight currencies.

The foreign currency risk management calculation is based on the balances exposed to exchanges of foreign currencies of the Parent Company and the nine principal subsidiaries (Gedeon Richter Polska Sp. z o.o., Gedeon Richter Romania S.A., AO Gedeon Richter – RUS, PregLem S.A., Richter-Helm BioLogics GmbH & Co. KG, Pharmafarm S.A., Gedeon Richter Farmacia S.A., TOO Gedeon Richter KZ, GRMed China). The items of the other consolidated companies have insignificant foreign currency exposure as they are performing mainly wholesale and retail activity, purchasing and selling in their functional currency. The effect of the risk arising from currency fluctuation is measured by different change in the exchange rates. Certain foreign currencies recently showed higher volatility therefore according to the decision of the Management these currencies have been diverted in a reasonable level when determining the exchange rate combination (RUB, KZT +/- 10%; USD, CHF +/- 5%).

The table below presents the effect of the change in the average foreign currency rate on the operating profit and on the profit before income tax:

2018				**Exchange rates**						**Effect on operating profit**	**Effect on profit before income tax**
*	EUR/ HUF	USD/ HUF	EUR/ USD	PLN/ HUF	RON/ HUF	RUB/ HUF	CHF/ HUF	KZT/ HUF	CNY/ HUF	HUFm	HUFm
103.14%	**328.61**										
largest growth		**282.93**	**1.16**	**77.18**	**70.62**	**4.75**	**288.87**	**0.87**	**42.08**	**9,627**	**9,165**
		269.46	1.22	74.83	68.47	4.32	275.11	0.79	40.80	714	781
		255.99	1.28	72.48	66.32	3.89	261.35	0.71	39.52	(8,199)	(7,604)
100.00%	318.61										
		282.93	1.13	77.18	70.62	4.75	288.87	0.87	42.08	8,913	8,385
		269.46	1.18	74.83	68.47	4.32	275.11	0.79	40.80	0	0
		255.99	1.24	72.48	66.32	3.89	261.35	0.71	39.52	(8,913)	(8,385)
96.86%	**308.61**										
		282.93	1.09	77.18	70.62	4.75	288.87	0.87	42.08	8,199	7,604
		269.46	1.15	74.83	68.47	4.32	275.11	0.79	40.80	(714)	(781)
greatest decrease		**255.99**	**1.21**	**72.48**	**66.32**	**3.89**	**261.35**	**0.71**	**39.52**	**(9,627)**	**(9,165)**

* Change of EUR/HUF average exchange rates.

2017				**Exchange rates**						**Effect on operating profit**	**Effect on profit before income tax**
*	EUR/ HUF	USD/ HUF	EUR/ USD	PLN/ HUF	RON/ HUF	RUB/ HUF	CHF/ HUF	KZT/ HUF	CNY/ HUF	HUFm	HUFm
103.23%	**319.28**										
largest growth		**282.58**	**1.13**	**74.98**	**69.86**	**5.18**	**306.15**	**0.96**	**41.47**	**5,479**	**5,037**
		273.73	1.17	72.63	67.67	4.71	278.32	0.87	40.17	550	538
		264.88	1.21	70.28	65.48	4.24	250.49	0.78	38.87	(4,379)	(3,961)
100.00%	309.28										
		282.58	1.09	74.98	69.86	5.18	306.15	0.96	41.47	4,929	4,499
		273.73	1.13	72.63	67.67	4.71	278.32	0.87	40.17	0	0
		264.88	1.17	70.28	65.48	4.24	250.49	0.78	38.87	(4,929)	(4,499)
96,77%	**299.28**										
		282.58	1.06	74.98	69.86	5.18	306.15	0.96	41.47	4,379	3,961
		273.73	1.09	72.63	67.67	4.71	278.32	0.87	40.17	(550)	(538)
greatest decrease		**264.88**	**1.13**	**70.28**	**65.48**	**4.24**	**250.49**	**0.78**	**38.87**	**(5,479)**	**(5,037)**

* Change of EUR/HUF average exchange rates.

Based on the yearly average currency rate sensitivity analysis of 2018 the combination of weak Hungarian Forint – 328.61 EUR/HUF against other currencies – would have caused the largest growth in the amount of HUF 9,627 million on the Group's consolidated operating profit and HUF 9,165 million on the Group's consolidated profit for the year. The greatest decrease HUF 9,627 million on operating and HUF 9,165 million on profit for the year would have been caused by the combination of exchange rates of 308.61 EUR/HUF against other currencies.

Based on the yearly average currency rate sensitivity analysis of 2017 the combination of weak Hungarian Forint – 319.28 EUR/HUF against other currencies – would have caused the largest growth in the amount of HUF 5,479 million on the Group's consolidated operating profit and HUF 5,037 million on the Group's consolidated profit for the year. The greatest decrease HUF 5,479 million on operating and HUF 5,037 million on profit for the year would have been caused by the combination of exchange rates of 299.28 EUR/HUF against other currencies.

Currency sensitivity of balance sheet items

Currency sensitivity analysis of balance sheet items is applied to third party trade receivables and trade payables, bank accounts in foreign currency, loans receivable, borrowings, and contingent-deferred purchase price liabilities considering that items of related parties are eliminated during consolidation. The calculation is based on the items of the Parent Company and the nine principal subsidiaries (Gedeon Richter Polska Sp. z o.o., Gedeon Richter Romania S.A., AO Gedeon Richter – RUS, PregLem S.A., Richter-Helm BioLogics GmbH & Co. KG, Pharmafarm S.A., Gedeon Richter Farmacia S.A., TOO Gedeon Richter KZ, GRMed China). The effect of the risk arising from currency fluctuation is measured by different scenarios regarding the exchange rates.
The calculation is based on the exchange rates combinations presented below. Certain foreign currencies recently showed higher volatility therefore according to the decision of the Management these currencies have been diverted in reasonable level when determining the exchange rate combination (RUB, KZT +/- 10%; USD, CHF +/- 5%).

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

2018				**Exchange rates**						**Effect on net financial position**
*	EUR/HUF	USD/HUF	EUR/USD	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	KZT/HUF	CNY/HUF	HUFm
103.14%	**331.60**									
best case scenario		**295.00**	**1.12**	**77.20**	**71.20**	**4.50**	**299.40**	**0.80**	**42.20**	**6,799**
		280.94	1.18	74.82	69.01	4.05	285.16	0.75	40.90	810
		266.90	1.24	72.50	66.80	3.60	270.90	0.70	39.60	(5,170)
100.00%	321.51									
		295.00	1.09	77.20	71.20	4.50	299.40	0.80	42.20	5,989
		280.94	1.14	74.82	69.01	4.05	285.16	0.75	40.90	0
		266.90	1.20	72.50	66.80	3.60	270.90	0.70	39.60	(5,980)
96.86%	**311.40**									
		295.00	1.06	77.20	71.20	4.50	299.40	0.80	42.20	5,178
		280.94	1.11	74.82	69.01	4.05	285.16	0.75	40.90	(812)
worst case scenario		**266.90**	**1.17**	**72.50**	**66.80**	**3.60**	**270.90**	**0.70**	**39.60**	**(6,791)**

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

2017				**Exchange rates**						**Effect on net financial position**
*	EUR/HUF	USD/HUF	EUR/USD	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	KZT/HUF	CNY/HUF	HUFm
103.23%	**320.20**									
best case scenario		**267.20**	**1.20**	**76.80**	**68.70**	**4.90**	**291.80**	**0.90**	**41.10**	**5,714**
		258.82	1.24	74.35	66.57	4.49	265.24	0.78	39.77	816
		250.50	1.28	71.90	64.40	4.00	238.70	0.70	38.50	(4,617)
100.00%	310.14									
		267.20	1.20	76.80	68.70	4.90	291.80	0.90	41.10	4,898
		258.82	1.24	74.35	66.57	4.49	265.24	0.78	39.77	0
		250.50	1.28	71.90	64.40	4.00	238.70	0.70	38.50	(5,433)
96.77%	**300.10**									
		267.20	1.20	76.80	68.70	4.90	291.80	0.90	41.10	4,083
		258.82	1.24	74.35	66.57	4.49	265.24	0.78	39.77	(815)
worst case scenario		**250.50**	**1.28**	**71.90**	**64.40**	**4.00**	**238.70**	**0.70**	**38.50**	**(6,248)**

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

The worst case scenario is when EUR, USD, PLN, RON, RUB, CHF, KZT and CNY weaken against HUF. In this case the consolidated financial result would decrease by HUF 6,791 million.
The best case scenario is when EUR, USD, PLN, RON, RUB, CHF, KZT and CNY would strengthen against HUF. In this case the consolidated financial result would increase by HUF 6,799 million.

In 2017 the worst case scenario was when EUR, USD, PLN, RON, RUB, CHF, KZT and CNY weaken against HUF. In this case the consolidated financial result would decrease by HUF 6,248 million.
The best case scenario was when EUR, USD, PLN, RON, RUB, CHF, KZT and CNY would strengthen against HUF. In this case the consolidated financial result would increase by HUF 5,714 million.

Since loans receivables and borrowings given to subsidiaries are eliminated during the consolidation process these items are not taken into consideration in the sensitivity analyses, however the revaluation effect of these balance sheet items influence the Net Financial Income/(loss) of the Group.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in million foreign currency units, were as follows:

2018	**Currencies** (all amounts in millions)							
	EUR	USD	CHF	RUB	RON	PLN	KZT	CNY
Trade receivables	50.7	59.5	0.8	9,271.4	392.8	91.3	971.0	153.7
Trade payables	(29.2)	(4.1)	(0.2)	(37.2)	(332.0)	(8.0)	(30.5)	-
Loans receivable	0.5	2.1	-	-	-	-	-	-
Bank deposits	58.3	13.9	0.5	19.6	0.5	18.9	357.7	125.0
Total	**80.3**	**71.4**	**1.1**	**9,253.8**	**61.3**	**102.2**	**1,298.2**	**278.7**

2017	**Currencies** (all amounts in millions)							
	EUR	USD	CHF	RUB	RON	PLN	KZT	CNY
Trade receivables	47.1	53.8	1.1	7,365.5	323.3	84.7	1,479.3	387.1
Trade payables	(26.1)	(9.2)	(0.2)	(15.3)	(310.5)	(5.6)	(6.8)	-
Loans receivable	1.2	3.6	-	-	-	-	-	-
Bank deposits	59.0	25.1	0.9	440.6	35.5	4.7	138.1	22.3
Total	**81.2**	**73.3**	**1.8**	**7,790.8**	**48.3**	**83.8**	**1,610.6**	**409.4**

III) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers. The Group regularly assesses its customers and establishes payment terms and credit limits associated to them. Richter also reviews the payment of the receivables regularly and monitors the overdue balances. The Group also regularly requires securities (e.g. credit insurance, bank guarantees) from its customers. If the customers reached the contractual credit limit and even not able to present any securities required, further shipments can be suspended by the Group.
The Group does business with key customers in many countries. These customers are major import distributors in their countries and management of the Group maintains close contact with them on an ongoing basis. Provisions for doubtful debts receivables are estimated by the Group's management based on the expected credit loss model from 1 January 2018. The following securities are applied to minimize the credit risk.

Regions	Trade receivables secured as at 31 December 2018	Type of security		
		Credit insurance	Bank guarantee	L/C
	HUFm	HUFm	HUFm	HUFm
CIS	27,206	15,189	11,387	-
EU	411	-	411	-
USA	-	-	-	-
China	-	-	-	-
Latin America	-	-	-	-
Other	938	440	129	369
Total	**28,555**	**15,629**	**11,927**	**369**

Regions	Trade receivables secured as at 31 December 2017	Type of security		
		Credit insurance	Bank guarantee	L/C
	HUFm	HUFm	HUFm	HUFm
CIS	14,965	14,837	128	-
EU	345	-	345	-
USA	-	-	-	-
China	-	-	-	-
Latin America	-	-	-	-
Other	526	237	124	165
Total	**15,836**	**15,074**	**597**	**165**

Credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with credit ratings assigned by international rating agencies presented below.

As a result of the composition of the Group, the Parent Company has the most significant Cash and cash equivalents (more than 60% of the Group's total Cash and cash equivalents). Therefore details of the Parent Company are disclosed.

The credit rating of the most significant banks as of 31 December 2018 based on Standard and Poor's international credit rating institute are the followings (if such credit rating is not available we present the rating of its "ultimate parent"):

	2018	2017
Bank of China Zrt. Hungary (ultimate parent – Bank of China Ltd)	A	A
BNP Paribas Hungary Branch (ultimate parent – BNP Paribas SA)	A	A
K&H Bank Zrt*	BBB	BBB
OTP Bank Nyrt.	BBB-	BBB-
UniCredit Bank Zrt (ultimate parent – UniCredit SpA)	BBB	BBB
Banca Commerciala Romana SA*	BBB+	BBB+
Raiffeisen Bank Zrt. (ultimate parent – Raiffeisen Bank Intl AG)	BBB+	BBB+
CIB Bank Zrt.	BBB-	BBB-
ING Bank N.V. Magyarországi Fióktelepe (ultimate parent – ING Bank NV)	A+	A+
KDB Bank Európa Zrt. (ultimate parent – Korea Development Bank)	AA-	AA-

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

The other bank relations of the Group are widely dispersed, therefore the credit exposure with one financial institution is limited.
The Group has no significant concentration of credit risk, with its exposure spread over a large number of counterparties and customers.

IV) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group. These forecasts are updated on a monthly basis based on actual data. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times so that the Group does not breach covenants. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance. Group treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities. Besides these, on operational level various cash pool systems throughout the Group help to optimise liquidity surplus and need on a daily basis.
The liquidity risk of the Group was limited in 2018 and 2017, since the Cash and cash equivalents presented in the balance sheet exceeds the Current liabilities and the balance of the Current assets is higher than the total liabilities.

The banks of the Group issued the guarantees detailed below, enhancing the liquidity in a way that the Group did not have to provide for these cash amounts:

	2018 HUFm	2017 HUFm
Bank guarantee for National Tax and Customs Administration of Hungary – collaterals for customs and excise duty related liabilities	197	194
Bank guarantee for Romanian suppliers	3,140	3,600
Other, individually not significant bank guarantees	114	101

11. Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows:

Level 1 measurements are at quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 measurements are valuations techniques with all material inputs observable at the market for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses unobservable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the Consolidated Balance Sheet at the end of each reporting period.

The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

HUFm	Notes	31 December 2018				1 January 2018			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets									
Other financial assets	15	9,397	-	-	**9,397**	15,539	-	-	**15,539**
Investments in securities	22	-	-	-	**-**	-	18	-	**18**
Foreign exchange forward contracts	21	-	-	-	**-**	-	26	-	**26**
Convertible loan	17	-	-	455	**455**	-	-	400	**400**
“Exchangeable bonds”	15	-	-	-	**-**	19,200	-	-	**19,200**
Total assets recurring fair value measurements		**9,397**	**-**	**455**	**9,852**	**34,739**	**44**	**400**	**35,183**

There is no financial liability measured at fair value.

HUFm	Notes	31 December 2017			
		Level 1	Level 2	Level 3	Total
Financial assets					
Other financial assets	15	15,539	-	-	**15,539**
Investments in securities	22	-	18	-	**18**
Foreign exchange forward contracts	21	-	26	-	**26**
Convertible loan option	15	-	-	45	**45**
“Exchangeable bonds” option	15	-	-	2,346	**2,346**
Total assets recurring fair value measurements		**15,539**	**44**	**2,391**	**17,974**

There was no financial liability measured at fair value.

Please see the details of the Other investments’ fair value (presented in other financial assets) in Note 15.

There were no changes in valuation method neither for level 1, nor for level 2 and level 3 recurring fair value measurements during the year ended 31 December 2018 and 2017.

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2018 and 2017 (Note 3.1):

	Fair value at 31 December 2017 HUFm	Valuation technique	Unobservable inputs	Range of inputs (weighted average)	Sensitivity of fair value measurement
Assets at fair value					
Convertible loan option EVESTRA	45	Option valuation model	• Price of the stock	3.7378 USD/ share	The change of the stock price multiples the fair value
			• Strike price of the option	4.50 USD/ share	The higher the strike price the lower the fair value
			• Time in years	2.38 year	The longer the time in years the higher the fair value
			• The annualised risk free rate	1.9383%	The higher the annualised risk free rate the higher the fair value
			• Standard deviation of the stock's returns (volatility)	28.34%	The higher the standard deviation the higher the fair value
"Exchangeable bonds" option*	2,346	Option valuation model	• Price of the stock	6,780 HUF/ share	The change of the stock price multiples the fair value
			• Strike price of the option	5,966 HUF/ share	The higher the strike price the lower the fair value
			• Time in years	1.18 year	The longer the time in years the higher the fair value
			• Standard deviation of the stock's returns (volatility)	18.28%	The higher the standard deviation the higher the fair value
Total recurring fair value measurements at Level 3	**2,391**				

* MNV bond contains an "Exchangeable bond" option classified as embedded derivative according to IAS 39. The fair value of this option is HUF 2,346 million and presented separately in the Consolidated Financial Statements.

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

The effect of IFRS 9 first application is detailed in Note 38.

The Group does not have exchangeable bonds since these were repurchased by the issuer in 2018. The value of the convertible loan is not significant.

b) Non-recurring fair value measurements

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

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

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

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

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

12. Property, plant and equipment and other intangible assets

Property, plant and equipment	Land and buildings HUFm	Plant and equipment HUFm	Construction in progress HUFm	Total HUFm
Gross value				
at 31 December 2016	**157,464**	**253,756**	**18,786**	**430,006**
Translation differences	(785)	(640)	(59)	**(1,484)**
Capitalization	5,924	22,130	(28,054)	-
Transfers and capital expenditure	373	595	30,335	**31,303**
Disposals	(1,690)	(5,823)	(31)	**(7,544)**
at 31 December 2017	**161,286**	**270,018**	**20,977**	**452,281**
Accumulated depreciation				
at 31 December 2016	**43,429**	**195,575**	**-**	**239,004**
Translation differences	(12)	(310)	-	**(322)**
Current year depreciation	4,634	17,003	-	**21,637**
Net foreign currency exchange differences	(9)	(60)	-	**(69)**
Disposals	(372)	(4,587)	-	**(4,959)**
at 31 December 2017	**47,670**	**207,621**	**-**	**255,291**
Net book value				
at 31 December 2016	**114,035**	**58,181**	**18,786**	**191,002**
at 31 December 2017	**113,616**	**62,397**	**20,977**	**196,990**

Property, plant and equipment	Land and buildings HUFm	Plant and equipment HUFm	Construction in progress HUFm	Total HUFm
Gross value				
at 31 December 2017	**161,286**	**270,018**	**20,977**	**452,281**
Translation differences	(333)	16	69	**(248)**
Effect of newly acquired companies	1,886	774	-	**2,660**
Capitalization	8,672	29,041	(37,760)	**(47)**
Transfers and capital expenditure	869	573	39,214	**40,656**
Disposals	(1,544)	(5,621)	(117)	**(7,282)**
at 31 December 2018	**170,836**	**294,801**	**22,383**	**488,020**
Accumulated depreciation				
at 31 December 2017	**47,670**	**207,621**	**-**	**255,291**
Translation differences	137	114	-	**251**
Current year depreciation	4,691	17,680	-	**22,371**
Net foreign currency exchange differences	(18)	(33)	-	**(51)**
Disposals	(432)	(4,290)	-	**(4,722)**
at 31 December 2018	**52,048**	**221,092**	**-**	**273,140**
Net book value				
at 31 December 2017	**113,616**	**62,397**	**20,977**	**196,990**
at 31 December 2018	**118,788**	**73,709**	**22,383**	**214,880**

All items of Property, plant and equipment are free from liens and charges. The amount of Land and buildings does not contain any Investment property.

Since the value of Investment properties are not material it is not presented separately in the current Financial Statements.

Other intangible assets	Rights HUFm	Intel-lectual property HUFm	Research and devel-opment HUFm	ESMYA* HUFm	BEMFOLA** HUFm	Total HUFm
Gross value						
at 31 December 2016	**135,747**	**3,701**	**423**	**84,884**	**51,864**	**276,619**
Translation differences	(703)	(31)	-	(6,370)	(147)	**(7,251)**
Acquisition	9,479	122	-	-	-	**9,601**
Disposals	(478)	(10)	-	-	-	**(488)**
at 31 December 2017	**144,045**	**3,782**	**423**	**78,514**	**51,717**	**278,481**
Accumulated amortization						
at 31 December 2016	**66,230**	**2,575**	**254**	**13,846**	**1,037**	**83,942**
Translation differences	(428)	(28)	-	(1,156)	(3)	**(1,615)**
Current year amortization	7,878	309	84	2,774	2,065	**13,110**
Net foreign currency exchange differences	(14)	-	-	(860)	4	**(870)**
Impairment and reversal of impairment (net)	8,443	-	-	20,512	-	**28,955**
Disposals	8	(7)	-	-	-	**1**
at 31 December 2017	**82,117**	**2,849**	**338**	**35,116**	**3,103**	**123,523**
Net book value						
at 31 December 2016	**69,517**	**1,126**	**169**	**71,038**	**50,827**	**192,677**
at 31 December 2017	**61,928**	**933**	**85**	**43,398**	**48,614**	**154,958**

* The ESMYA presented as separate subcategory within the intangible assets represents the intangible asset recognized at the acquisition of PregLem S.A.

** The BEMFOLA presented as separate subcategory within the intangible assets represents the intangible asset recognized at the acquisition of Finox.

Other intangible assets	Rights	Intel-lectual property	Research and devel-opment	ESMYA*	BEMFOLA**	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Gross value						
at 31 December 2017	**144,045**	**3,782**	**423**	**78,514**	**51,717**	**278,481**
Translation differences	660	90	-	5,016	1,896	**7,662**
Acquisition	17,886	1,530	-	-	-	**19,416**
Disposals	(2,728)	(240)	-	-	-	**(2,968)**
at 31 December 2018	**159,863**	**5,162**	**423**	**83,530**	**53,613**	**302,591**
Accumulated amortization						
at 31 December 2017	**82,117**	**2,849**	**338**	**35,116**	**3,103**	**123,523**
Translation differences	458	77	-	2,637	114	**3,286**
Current year amortization	7,814	348	85	2,166	2,126	**12,539**
Net foreign currency exchange differences	13	1	-	60	18	**92**
Impairment and (reversal) of impairment (net)	29	-	-	14,107	-	**14,136**
Disposals	(2,596)	(37)	-	-	-	**(2,633)**
at 31 December 2018	**87,835**	**3,238**	**423**	**54,086**	**5,361**	**150,943**
Net book value						
at 31 December 2017	**61,928**	**933**	**85**	**43,398**	**48,614**	**154,958**
at 31 December 2018	**72,028**	**1,924**	**0**	**29,444**	**48,252**	**151,648**

* The ESMYA presented as separate subcategory within the intangible assets represents the intangible asset recognized at the acquisition of PregLem S.A.

** The BEMFOLA presented as separate subcategory within the intangible assets represents the intangible asset recognized at the acquisition of Finox.

All intangible assets are free from liens and charges. The intangible assets of the Group, except for R&D, are not own produced.

ESMYA (covering the entire ESMYA column above EU/NA region)

In the course of PregLem S'A.'s acquisition the rights attached to the distribution in the EU and the North America of ESMYA® was recognised as an independent intangible asset in 2010. The amortization of the asset related to the EU market started in the second quarter of 2012 as a result of the market launch of the product with an estimated useful life of 25 years.

ESMYA asset belongs to a group of CGU with goodwill – see details of impairment testing of the PregLem S.A. goodwill in Note 18.

BEMFOLA

The intangible asset was recognised at the acquisition transaction of Finox in the value of HUF 50,916 million with 25 years useful life. The amortisation of this asset started in 2016. Net book value of Bemfola intangible is HUF 46,785 million as of 31 December 2018.

Another intangible asset was recognised during the acquisition in the amount of HUF 1,597 million, as Customer Relationship. The value of this intangible was considerably smaller compared to BEMFOLA. Net book value after amortisation, started in 2016, is HUF 1,468 million as of 31 December 2018.

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

Net book value	31 December 2018 HUFm	31 December 2017 HUFm
ESMYA LatAm	410	429
Grünenthal	30,378	34,766
Levosert	3,310	3,575
Bemfola®/Afolia	6,447	-
Mithra/Estelle	11,365	-
Trastuzumab	2,096	1,986
Pharmacy licenses	2,328	2,406
Other, individually not significant rights	15,694	18,766
Total	**72,028**	**61,928**

Rights – ESMYA EU intangible asset

As announced by Richter on 09.02.2018, the European Medicines Agency (EMA) Pharmacovigilance Risk Assessment Committee (PRAC) has initiated the implementation of temporary precautionary measures as a part of its review procedure on drug induced liver injury potentially related to ESMYA® (ulipristal acetate). PRAC considers that until a thorough assessment of the available data is performed within the ongoing review, temporary measures are needed to minimise potential risks to patients.

The PRAC has recommended regular liver monitoring for women taking ESMYA® for uterine fibroids. The PRAC has also recommended that no new patients should be started on ESMYA® and no patients who have completed a course of treatment should start another one. Treatments commenced prior to this decision are allowed to be completed. PRAC recommendations are temporary measures to protect patients' health.

The PRAC's final recommendations were published on 18.05.2018 which were adopted by CHMP (Committee for Medicinal Products for Human Use) (01.06.2018) and based on CHMP's opinion the European Commission decided to implement them on 26.07.2018. According to PRAC's recommendations the measures include: contraindication in women with known liver problems; liver tests before, during and after stopping treatment; a card for patients to inform them about the need for liver monitoring and to contact their doctor should they develop symptoms of liver injury. In addition, use of the medicine for more than one treatment course has been restricted to women who are not eligible for surgery.
Richter takes the safety of patients seriously. Based on the data collected during clinical trials, the Management believes that ESMYA® is a safe medicinal product, and Richter is committed to provide this unique treatment option to women suffering myoma tumor.

The restrictions imposed by the European Commission significantly impaired the sales potentials of ESMYA® in the European Union, and the FDA's decision delays the market authorisation for the U.S. market and, according to the Executive Board's estimates, it reduces the potential market size. The impairment tests of ESMYA for the 2018 statements had to be conducted in consideration of these decisions by the regulatory authorities and market effects.

In the context of the restrictions of EC (which is identified as an impairment indicator) and in connection with the impairment test as of 31 December 2018, the Company reviewed and modified the ESMYA® EU sales forecast, taking into account the expected negative impact on business. The modifications were made on the basis of the following assumptions:

2019–2020

Sales:

In 2019 the sales expected to increase continuously, after the relaunch and expected to be higher Year on Year by 108% compared to 2018.
As data exclusivity expires in May 2020, a continual launch of generics is expected in second half of 2020 (including the launch of own ESMYA® generic as well to offset the losses of ESMYA® brand itself) which assumed to decrease the sales by 17% compared to 2019.

Costs:

2019 costs are expected at a level comparable to 2018 actual costs. Some activities that had been discontinued in 2018 due to stop in promotion will need to be revamped.
In 2020 the total costs are expected to be 13% less than in 2019. Brand building ends and the focus moves to the generic brand launch.

2021–2035

The focus will be on the protection of sales (on some markets) and also on own generic promotion (on the others). General assumption is to have 3-5 generics per each market.

Sales:

From 2021 onwards decrease in sales expected as follows: 17% in 2021, 12% and 11% in 2022 and 2023, 9% in 2024 and 6% from 2025 to 2035 each year.

Costs:

In 2021 the spending planned to be cut to 50% of previous year costs. The marketing costs/sales ratio is expected to decrease continuously until 2025, from where it is considered to be a constant 10% which is expected to be necessary for the maintenance of optimal cost vs. sales ratio.

ESMYA North American intangible asset

The registration of ESMYA® is ongoing in the USA. The Company expects FDA to form its independent opinion on the matter, but it is not possible to foresee the FDA's decision. In August, 2018, Richter's license partner for North-America Esmya sales, Allergan received a Complete Response Letter (CRL) from the U.S. Food and Drug Administration (FDA) in response to the New Drug Application (NDA) for ulipristal acetate (UPA) for the treatment of abnormal uterine bleeding in women with uterine fibroids.

The letter from the FDA indicates it is not able to approve the ulipristal acetate NDA in its current form and is requesting additional information. The agency cited safety concerns regarding ESMYA post-marketing reports outside the United States.
There are two major assumptions that has changed in contrast to the previous year expectations: due to the CRL issued by FDA and taken into account the possible negative effects of EC decision (based on EU actual sales data for 2018), the expected sales are decreased by 75% and the launch of the ESMYA is postponed by one year.

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

Result of ESMYA EU and NA intangible asset impairment tests

As a result of the impairment test it was found that the recoverable amount of the ESMYA EU intangible asset is 29.8% less than its carrying value which meant a need to account for an impairment amounting to HUF 9,610 million. The remaining book value of the asset is HUF 22,670 million. +/-1% change in WACC would result in HUF 1,825 million decrease or HUF 2,023 million increase in the recoverable amount. +/-10% change per year regarding the sales volume in the adjusted forecast would result in HUF 4,385 million higher (in case of increase in sales volume) or in HUF 4,388 million lower recoverable amount (in case of decrease in sales volume).

As a result of the impairment test it was found that the recoverable amount of the ESMYA NA intangible asset is 39.8% less than its carrying value which meant a need to account for an impairment amounting to HUF 4,497 million. The remaining book value of the asset is HUF 6,774 million. +/-1% change in WACC would result in HUF 211 million decrease or HUF 224 million increase in the recoverable amount. +/-10% change per year regarding the sales volume in the adjusted forecast would result in HUF 716 million higher (in case of increase in sales volume) or in HUF 1,512 million lower recoverable amount (in case of decrease in sales volume).

The discount rates (EU post tax: 9.1%, in 2017 8.0%; NA post tax: 10.5%, in 2017 8.1%) applied reflect current market assessments of the time value of money and the risks specific to the intangible assets for which future cash flow estimates have not been adjusted. After the market launch according to Company's estimation the royalty income will achieve their maximum over 5 years, with a CAGR of 62% and after it due to generic competition they are likely to drop significantly and expected to reach their minimum over 4 years (CAGR: -55%).

Rights – ESMYA LatAm intangible asset

In 2014 Richter purchased the right to utilization of ulipristal-acetate (ESMYA®'s active ingredient) for the Latin American region from HRA Pharma. The Company split the purchase price among markets and recognised intangible assets accordingly. The amortization of these intangibles had already been started in the markets where the product launches occurred.
In 2018 no significant changes occurred. In 2017 among the rights (in use), the Mexican asset was significant, while among the assets not yet in use the Brazilian was the only significant. The Company prepared an impairment test for the Mexican and Brazilian intangible assets by taking into consideration the potential impact of PRAC's temporary measures on ESMYA.

The recoverable amount of ESMYA Brazilian and Mexican intangibles were determined by the fair value less cost of disposal applying the Multi-Period Excess Earnings Method. The calculations were based on long term projections (corresponding with useful life of these assets and reviewed taking into account the expected negative impact of PRAC measures) adopted by the management.
Based on the outcomes of the impairment models the Company found that writing off the carrying value of these assets is reasonable. Also, the Company decided on the full impairment of the Venezuelan asset (has not been in use yet, similarly to the Brazilian asset), taking into consideration not only the impacts of PRAC measures but the general economic situation of the country as well.

In 2017 the total amount of impairment losses regarding ESMYA LatAm assets according to the above decisions amount to HUF 7,992 million.

In 2017 the management did not consider the remaining ESMYA LatAm intangible assets neither individually nor in aggregate to be significant and therefore did not perform a detailed impairment testing on the balance of HUF 429 million.

During 2018 there were no significant changes in circumstances which would have resulted in any reversal of previously recognised impairment.

Rights – Grünenthal

The product rights acquired from Grünenthal in 2010 containing manufacturing rights (amounted to EUR 600 thousand) and market authorisation (amounted to EUR 235.9 million) together with the value of the established products brand are presented as Rights. The estimated useful life for both rights is 15 years. The amortization period started in 2010. Net book value of the rights in relation to Grünenthal is HUF 30,378 million as of 31 December 2018 and HUF 34,766 million as of 31 December 2017.

Rights – Levosert

The product commercializing rights of Levosert® for the Central and Eastern European region were presented as Rights accordingly to the contract signed with Uteron Pharma in 2011. In 2017 Richter announced that it has entered into a distribution and supply agreement with Allergan plc to commercialize its levonorgestrel releasing Intrauterine

System (IUS) in Western Europe and in other European countries under the trademark of Levosert®. National marketing authorizations have been already granted in Western and Northern Europe and the product had been launched by Allergan in a number of these countries. The estimated average useful life for the rights is 10 years. The amortization period started in 2014 and 2017 (for the rights not used yet the amortization starts in line with market launches). Net book value of the rights in relation to Levosert® is HUF 3,310 million as of 31 December 2018 and HUF 3,575 million as of 31 December 2017.

Rights – Bemfola®/Afolia

On 30 June 2016 Richter acquired Finox Holding, a privately held Swiss biotech company focused on development and commercialisation of innovative and cost effective products addressing female fertility. Finox's product, BEMFOLA® is a recombinant-human Follicle Stimulating Hormone (r-hFSH) which was the first biosimilar r-hFSH launched in Europe. Richter obtained global rights for BEMFOLA® except for the US. As a result of the acquisition Richter expanded its Women's Healthcare portfolio with the female fertility therapeutic area and was able to increase its biosimilar market potential. On 10 July, 2018 Richter announced that it established a sale and purchase agreement with Fertility Biotech AG, in connection with the transfer of intellectual property rights, relevant studies, related data and documents of r-hFSH containing product, Bemfola®/Afolia, for the use in the United States. The transaction is considered to be a current year event, we examined whether there are any indicators of the intangible asset's impairment came to the conclusion, that there is no need to account for impairment.

Rights – Mithra/Estelle

As part of Richter's Specialty Pharma strategy on 2 September, 2018 Richter announced that it entered into an exclusive license and supply agreement with Mithra Pharmaceuticals to commercialize Estelle®, a combined oral contraceptive, containing estetrol and drospirenone. Richter is going to commercialize the product under a different brand name. The geographic scope of the agreement covers Europe and Russia. Under the terms of the agreement Richter made upon signature of the contract an upfront payment totalling EUR 35 million. Mithra is entitled to receive additional milestone payments amounting to EUR 20 million depending on the progress of development and regulatory process of the product. Besides, further sales related royalties will become payable to Mithra subsequent to the launch of the product and Mithra will receive guaranteed annual recurring revenues based on minimum annual quantities (MAQ), in addition to tiered royalties on net sales. The transaction is considered to be a current year event, we examined whether there are any indicators of the intangible asset's impairment are in place and came to the conclusion, that there is no need to account for impairment.

Rights – Trastuzumab

In 2016 Richter signed a technology transfer and license-in agreement with DM Bio ("DM Bio") in respect of the development and commercialization of DM Bio's biosimilar monoclonal antibody, Trastuzumab. According to the agreement, Richter receives exclusive distribution rights for Europe, the CIS region and Latin American countries and it also obtains the pilot technology for further development. Under the terms of the agreement Richter made an upfront payment upon signature of the contract and further milestone payments were and shall be made depending on the progress of the technology transfer and clinical programme of the product. In addition, further sales related royalties will become payable to DM Bio subsequent to the launch of the product. Based on the management evaluation there is no need to account for impairment, based on this the Net book value of the intangible asset is HUF 2,096 million as of 31 December 2018 and HUF 1,986 million as of 31 December 2017.

Rights – Pharmalicences

Impairment test was performed on the value of pharmacy licenses in Romania (presented in the Wholesale and retail segment) and as a consequence to that we had to account for HUF 158 million as impairment loss and HUF 128 million as reversal of impairment in 2018 and HUF 83 million impairment loss and HUF 235 million as reversal of impairment in 2017. The goodwill related to the pharmacy licenses was also tested for impairment, which is described in Note 18 under the Armedica Trading Group subheading. For pharmacy licenses where the recoverable amount was lower than the carrying value, impairment was recognized first on goodwill balance related to the license if any, and the remainder of the impairment loss was recognized on the pharmacy licenses. Net book value of pharmacy licenses was HUF 2,328 million as of 31 December 2018 and HUF 2,406 million as of 31 December 2017.

The average remaining useful life of the intellectual properties does not exceed 5 years.

13. Consolidated companies

Details of the Group's subsidiaries at 31 December are as follows:

	Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
			2018	2017	2018	2017	
1.	AO Gedeon Richter - RUS	Russia	100.00	100.00	100.00	100.00	Pharmaceutical manufacturing
2.	Gedeon Richter Romania S.A.	Romania	99.92	99.92	99.92	99.92	Pharmaceutical manufacturing
3.	Gedeon Richter Polska Sp. z o.o.[1]	Poland	99.84	99.84	99.84	99.84	Pharmaceutical manufacturing
4.	Gedeon Richter Marketing Polska Sp. z o.o. [1]	Poland	-	99.97	-	99.97	Marketing services
5.	Richter Themis Pvt. Ltd.	India	51.00	51.00	51.00	51.00	Pharmaceutical manufacturing
6.	Gedeon Richter Pharma GmbH	Germany	100.00	100.00	100.00	100.00	Pharmaceutical trading
7.	Gedeon Richter USA Inc.	USA	100.00	100.00	100.00	100.00	Pharmaceutical trading
8.	RG Befektetéskezelő Kft.	Hungary	100.00	100.00	100.00	100.00	Financial-accounting and controlling activities
9.	Gedeon Richter UA PAT	Ukraine	98.16	98.16	98.16	98.16	Pharmaceutical trading
10.	Gedeon Richter UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
11.	Gedeon Richter Iberica S.A.U	Spain	100.00	100.00	100.00	100.00	Pharmaceutical trading
12.	Nedermed B.V.	The Netherlands	100.00	100.00	100.00	100.00	Pharmaceutical trading
13.	Medimpex Japan Co. Ltd.[2]	Japan	-	90.90	-	90.90	Pharmaceutical trading
14.	Medimpex Jamaica Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
15.	Medimpex West Indies Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
16.	Humanco Kft.	Hungary	100.00	100.00	100.00	100.00	Social, welfare services
17.	Pesti Sas Holding Kft.	Hungary	100.00	100.00	100.00	100.00	Portfolio management
18.	Richter Szolgáltató Kft.	Hungary	100.00	100.00	100.00	100.00	Catering services
19.	Reflex Kft.	Hungary	100.00	100.00	100.00	100.00	Transportation, carriage
20.	Chemitechnik Pharma Kft.	Hungary	66.67	66.67	66.67	66.67	Engineering services
21.	GYEL Kft.	Hungary	66.00	66.00	66.00	66.00	Quality control services
22.	Armedica Trading S.R.L.	Romania	99.92	99.92	99.92	99.92	Asset management
23.	Gedeon Richter Farmacia S.A.	Romania	99.92	99.92	99.92	99.92	Pharmaceutical retail
24.	Gedeon Richter France S.A.S.	France	100.00	100.00	100.00	100.00	Pharmaceutical trading
25.	I.M. Gedeon Richter-Retea Farmaceutica S.R.L.	Moldavia	51.00	51.00	51.00	51.00	Pharmaceutical retail
26.	Richter-Helm BioLogics GmbH & Co. KG	Germany	70.00	70.00	70.00	70.00	Biotechnological manufacturing and research
27.	Richter-Helm BioLogics Management GmbH	Germany	70.00	70.00	70.00	70.00	Asset management
28.	Medimpex UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
29.	Farnham Laboratories Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
30.	Gedeon Richter Aptyeka SP OOO	Armenia	51.00	51.00	51.00	51.00	Pharmaceutical retail
31.	Pharmafarm S.A.	Romania	99.92	99.92	99.92	99.92	Pharmaceutical wholesale
32.	Gedeon Richter Ukrfarm TOV	Ukraine	100.00	100.00	100.00	100.00	Pharmaceutical retail
33.	Gedeon Richter Italia S.R.L.	Italy	100.00	100.00	100.00	100.00	Pharmaceutical retail
34.	PregLem S.A.	Switzerland	100.00	100.00	100.00	100.00	Manufacturing and research
35.	Gedeon Richter Marketing ČR s.r.o.	Czech Republic	100.00	100.00	100.00	100.00	Marketing services
36.	Gedeon Richter Slovakia s.r.o.	Slovak Republic	100.00	100.00	100.00	100.00	Marketing services
37.	Richter-Lambron SP OOO	Armenia	51.00	51.00	51.00	51.00	Pharmaceutical trading

Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		2018	2017	2018	2017	
38. Gedeon Richter Austria GmbH	Austria	100.00	100.00	100.00	100.00	Marketing services
39. Gedeon Richter (Schweiz) AG	Switzerland	100.00	100.00	100.00	100.00	Marketing services
40. Pharmarichter OOO	Russia	100.00	100.00	100.00	100.00	Pharmaceutical sales promotion
41. I.M. Rihpangalpharma S.R.L.	Moldavia	65.00	65.00	65.00	65.00	Pharmaceutical trading
42. Gedeon Richter Portugal S.A.	Portugal	100.00	100.00	100.00	100.00	Marketing services
43. PregLem France S.A.S.	France	100.00	100.00	100.00	100.00	Marketing services
44. Gedeon Richter Slovenija, d.o.o.	Slovenia	100.00	100.00	100.00	100.00	Marketing services
45. Gedeon Richter Benelux SPRL	Belgium	100.00	100.00	100.00	100.00	Marketing services
46. Gedeon Richter Nordics AB	Sweden	100.00	100.00	100.00	100.00	Marketing services
47. TOO Gedeon Richter KZ	Kazakhstan	100.00	100.00	100.00	100.00	Marketing services
48. Grmed Company Ltd.	Hong-Kong	100.00	100.00	100.00	100.00	Asset management
49. Rxmidas Pharmaceuticals Company Ltd.	China	100.00	100.00	100.00	100.00	Marketing services
50. Gedeon Richter Pharmaceuti-cals (China) Co. Ltd.	China	100.00	100.00	100.00	100.00	Marketing services
51. Gedeon Richter Colombia S.A.S.	Columbia	100.00	100.00	100.00	100.00	Pharmaceutical trading
52. Gedeon Richter Croatia d.o.o.	Croatia	100.00	100.00	100.00	100.00	Marketing services
53. Gedeon Richter Mexico, S.A.P.I. de C.V	Mexico	100.00	100.00	100.00	100.00	Pharmaceutical trading
54. Gedeon Richter do Brasil Importadora, Exportadora e Distribuidora S.A.(3)	Brazil	100.00	51.00	100.00	51.00	Pharmaceutical trading
55. Gedeon Richter Chile SpA	Chile	100.00	100.00	100.00	100.00	Pharmaceutical trading
56. Mediplus (Economic Zone) N.V.	Curaćao	100.00	100.00	100.00	100.00	Pharmaceutical trading
57. Gedeon Richter Peru S.A.C.	Peru	100.00	100.00	100.00	100.00	Pharmaceutical trading
58. GEDEONRICHTER Ecuador S.A.	Ecuador	100.00	100.00	100.00	100.00	Pharmaceutical trading
59. Gedeon Richter Bolivia SRL	Bolivia	100.00	100.00	100.00	100.00	Pharmaceutical trading
60. Gedeon Richter Rxmidas Joint Venture Co. Ltd.(4)	Hong-Kong	100.00	100.00	100.00	100.00	Marketing services
61. Grmidas Medical Service (China) Co.Ltd.(4)	China	-	100.00	-	100.00	Pharmaceutical trading
62. Gedeon Richter Australia PTY Ltd.(5)	Australia	100.00	100.00	100.00	100.00	Trading of biotech products
63. Finox Holding AG(6)	Switzerland	-	100.00	-	100.00	Asset management
64. Finox AG(6)	Switzerland	100.00	100.00	100.00	100.00	Biotechnological manufacturing
65. Finox Biotech AG	Lichtenstein	100.00	100.00	100.00	100.00	Trading of biotech products
66. Finox Biotech Germany GmbH	Germany	100.00	100.00	100.00	100.00	Marketing services
67. Finox Biotech Nordics AB.	Sweden	100.00	100.00	100.00	100.00	Marketing services
68. Finox Biotech Iberia S.L.(7)	Spain	-	100.00	-	100.00	Marketing services
69. Finox Biotech France SARL(7)	France	-	100.00	-	100.00	Marketing services
70. Finox Biotech Italy S.r.l.(7)	Italy	-	100.00	-	100.00	Marketing services
71. Finox Biotech UK and Ireland Ltd.	UK	100.00	100.00	100.00	100.00	Marketing services
72. Finox Biotech Benelux BV	Belgium	100.00	100.00	100.00	100.00	Marketing services
73. GR Ireland Ltd.	Ireland	100.00	100.00	100.00	100.00	Marketing services

(1) Gedeon Richter Marketing Polska Sp. z o.o. merged into Gedeon Richter Polska Sp. z o.o.in the third quarter of 2018.
(2) The company wound up in 2018.
(3) Richter acquired shares of the minority owner, increasing its share from 51% to 100%
(4) The company merged with Gedeon Richter Rxmidas Joint Venture Co. Ltd.
(5) Formerly named as Finox Biotech Australia PTY Ltd. and owned by Finox AG. At the second half of 2018 Gedeon Richter Plc. acquired the investment and directly owned by the Parent.
(6) Finox Holding AG merged with its subsidiary, Finox AG during 2018.
(7) Finox's marketing companies, along with their activities, have merged with their parent companies in their country.

Subsidiaries newly included in the consolidation

	Name	Date of establish-ment/ acquisition	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
				2018	2017	2018	2017	
74.	Gedeon Richter Bulgária	02 2018	Bulgaria	100.00	-	100.00	-	Marketing services
75.	Gedeon Richter Pharma O.O.O.	10 2018	Russia	100.00	-	100.00	-	Marketing services
76.	Pharmapolis Gyógyszeripari Tud. Park Kft.*	11 2018	Hungary	100.00	24.00	100.00	24.00	Building project management

* Richter acquired shares of the other two owners in November 2018, increasing its share from 24% to 100%. The transaction constitutes to be purchase of group of assets and not a business combination.

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

The total non-controlling interest as of 31 December 2018 is HUF 5,560 million, of which HUF 3,299 million is for Richter-Helm BioLogics GmbH & Co. KG, HUF 1,394 million is attributed to Medimpex West Indies Ltd.. The impact of other owners of the remaining subsidiaries with non-controlling interests are insignificant on the Group.

Amounts of assets, liabilities, revenues, profit/loss and dividends are presented at 100%, before intercompany eliminations.

2018	Medimpex West Indies Ltd. (14) HUFm	Richter-Helm BioLogics GmbH & Co. KG (25) HUFm
Accumulated non-controlling interest	1,394	3,299
Non-current assets	59	4,774
Current assets	4,133	7,540
Non-current liabilities	-	14
Current liabilities	553	1,893
Revenues	3,185	12,351
Profit/(loss)	505	2,129
Dividends paid	220	0
Total cash-flow	79	1,478

2017	Medimpex West Indies Ltd. (14) HUFm	Richter-Helm BioLogics GmbH & Co. KG (25) HUFm
Accumulated non-controlling interest	1,091	2,405
Non-current assets	79	4,677
Current assets	3,450	5,703
Non-current liabilities	-	1,089
Current liabilities	440	1,275
Revenues	3,005	9,658
Profit/(loss)	386	1,974
Dividends paid	217	-
Total cash-flow	211	1,089

In case of subsidiaries with material non-controlling interests Other comprehensive income is not material (see the Consolidated Statement of Changes in Equity), therefore not disclosed individually.

The non-controlling interest is recognised to the extent the risks and rewards of ownership of those shares remain with them. For each acquisition the terms of the contracts are analysed in detail. In case of complex scenarios (e.g when contingent-deferred purchase prices are also involved), factors considered includes, the pricing of the forward contract, any ability to avoid future payment, whether share price movements during the contract period result in benefits and losses being borne by the Group or by the non-controlling shareholder.

14. Investments in associates and joint ventures

	2018 HUFm	2017 HUFm
At 1 January	**11,847**	**8,541**
Additional payment	-	-
Acquisition/capital increase	-	2,996
Share of profit of associates and joint ventures	1,055	1,528
Net investments*	345	(44)
Dividend	(1,104)	(1,157)
Reclassification to subsidiary (Pharmapolis Gyógyszeripari Tud. Park Kft.)	(293)	-
Reclassification to associates	-	-
Impairment	-	-
Exchange difference	(95)	(17)
At 31 December	**11,755**	**11,847**
out of investment in associates	*10,440*	*10,582*
out of investment in joint ventures	*1,315*	*1,265*

* Share of loss and exchange difference recognized against loans provided to joint ventures (as net investment in joint ventures) in accordance with IAS 28.38.

In November 2018 Pharmapolis Kft.'s share was reclassified to subsidiaries as a result of the buy-out. The acquisition of investments in associates and joint ventures in 2017 are related to the investment in Evestra Inc (HUF 1,620 million) and Prima Temp Inc. (HUF 1,376 million). The Group has significant influence over these entities since it has the right to delegate a member to the Board of the companies.
Reconciliation of the summarised financial information presented to the carrying amount of the associates, highlighting the most significant associate of the Group (Hungaropharma Zrt.). Since Hungaropharma Zrt. is a group preparing IFRS consolidated financial statements, therefore in the net asset figure below, the "preliminary consolidated net asset attributable to the owner of the parent" was taken into account.

	2018 HUFm	2017 HUFm
Opening net assets at 1 January of Hungaropharma Zrt.	**23,697**	**22,638**
Profit for the year*	2,137	2,178
Dividends	(1,079)	(1,119)
Closing net assets of Hungaropharma Zrt. at 31 December	**24,755**	**23,697**
Interest in associate (at 30.85%)	7,637	7,311
Unrealised profit elimination	(77)	(108)
Interest in other associates	2,880	3,379
Carrying value at 31 December	**10,440**	**10,582**

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

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

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

Name	Place of incorporation	Principal activity	Non-current assets HUFm	Current assets HUFm	Non-current liabilities HUFm	Current liabilities HUFm	Revenues HUFm	Profit/ (loss) HUFm	Interest held %
2018									
Hungaropharma Zrt.	Hungary	Pharmaceutical wholesale	9,149	62,402	6,128	41,823	344,440	4,502	30.85
Salvia-Med Bt.	Hungary	Pharmaceutical retail	1	72	-	32	590	29	32.79
Szondi Bt.	Hungary	Pharmaceutical retail	38	164	-	33	595	43	33.00
Top Medicina Bt.	Hungary	Pharmaceutical retail	27	43	-	-	-	-	20.00
Vita-Richter SP OOO	Azerbaijan	Pharmaceutical trading	-	-	-	-	-	-	49.00
Pharmatom Kft.	Hungary	Biotechnological research, development	438	12	-	447	4	-	24.00
Pesti Sas Patika Bt.	Hungary	Pharmaceutical retail	2	14	-	12	116	(4)	49.00
Evestra Inc.	USA	Biopharmaceutical research and development	1,223	1,138	473	53	1,657	(563)	17.26
Prima Temp Inc.	USA	Pharmaceutical research	416	432	-	232	169	(1,027)	22.99

Name	Place of incorporation	Principal activity	Non-current assets HUFm	Current assets HUFm	Non-current liabilities HUFm	Current liabilities HUFm	Revenues HUFm	Profit/ (loss) HUFm	Interest held %
2017									
Hungaropharma Zrt.	Hungary	Pharmaceutical wholesale	7,737	55,600	100	40,843	289,177	4,657	30.85
Salvia-Med Bt.	Hungary	Pharmaceutical retail	1	61	-	27	544	22	32.79
Szondi Bt.	Hungary	Pharmaceutical retail	41	167	-	31	569	43	33.00
Top Medicina Bt.	Hungary	Pharmaceutical retail	28	45	-	35	351	7	20.00
Vita-Richter SP OOO	Azerbaijan	Pharmaceutical trading	-	-	-	-	-	-	49.00
Pharmapolis Kft.	Hungary	Building project management	4,837	306	2,956	2,145	399	36	24.00
Pharmatom Kft.	Hungary	Biotechnological research, development	438	8	-	446	1	(4)	24.00
Pesti Sas Patika Bt.	Hungary	Pharmaceutical retail	2	18	-	12	111	(4)	49.00
Evestra Inc.*	USA	Biopharmaceutical research and development	1,164	1,702	416	313	2,627	444	17.26
Prima Temp Inc.**	USA	Pharmaceutical research	29	1,487	65	231	-	(507)	26.76

* Convertible loan has been transferred into Investment on 5 December, 2017.
** New acquisition of associate in 2017.

The financial statements for 2018 of Hungaropharma Zrt., the most significant associate of the Group have not been audited yet. Corresponding data for year 2017 has not been amended in 2018 Consolidated Financial Statements as there were no material differences between the audited and unaudited figures of 2017.
Amounts of assets, liabilities, revenues and profit/loss are presented at 100%.
The associates did not have any item in Other Comprehensive Income (in 2018 and 2017).

At 31 December the following joint ventures have been accounted for using the equity method:

Name	Place of incorporation	Principal activity	Non-current assets HUFm	Current assets HUFm	Non-current liabilities HUFm	Current liabilities HUFm	Revenues HUFm	Profit/ (loss) HUFm	OCI HUFm	Interest held %
2018										
Medimpex Irodaház Kft.*	Hungary	Renting real estate	2,002	246	-	82	334	92	-	50.00
Richter-Helm BioTec Management GmbH	Germany	Asset management	-	7	-	1	-	(1)	-	50.00
Richter-Helm BioTec GmbH & Co. KG	Germany	Trading of biotech products	-	680	11,291	310	368	(338)	155	50.00

Name	Place of incorporation	Principal activity	Non-current assets HUFm	Current assets HUFm	Non-current liabilities HUFm	Current liabilities HUFm	Revenues HUFm	Profit/ (loss) HUFm	OCI HUFm	Interest held %
2017										
Medimpex Irodaház Kft.*	Hungary	Renting real estate	1,517	153	38	19	320	100	-	50.00
Richter-Helm BioTec Management GmbH	Germany	Asset management	-	7	-	0	-	0	0	50.00
Richter-Helm BioTec GmbH & Co. KG	Germany	Trading of biotech products	-	973	10,892	287	865	121	17	50.00

* The balance of Medimpex Irodaház Kft. contains adjustment of the fair value of the Investment property to be in line with the Accounting Policy of the Group.

Amounts of assets, liabilities, revenues and profit/loss are presented at 100%.
Neither the individual nor the cumulated figures of the joint ventures are material therefore no further disclosures are considered to be relevant.

15. Other financial assets and long term receivables

15.1. Other financial assets

	31 December 2018 HUFm	1 January 2018 HUFm	31 December 2017 HUFm
Financial assets previously classified as held to maturity investments carried at amortised cost - under IFRS 9 measured at amortized cost	55	1,649	1,649
Investments previously carried at amortised cost as loans and receivables	-	-	15,903
Financial assets previously classified as available-for-sale investments carried at fair value - under IFRS 9 measured at FVTOCI	9,397	15,539	15,539
Financial assets carried at fair value through profit or loss	-	19,200	2,391
Total	**9,452**	**36,388**	**35,482**

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

Investments carried at amortised cost as loans and receivables comprised "exchangeable bonds" that were issued at 6 December 2013 by the Hungarian State Holding Company (MNV Zrt.) with maturity date of 2019. MNV bond contained an "exchangeable bond" option classified as embedded derivative according to IAS 39. After the separation of this option the net value of the bond was HUF 15,903 million as of 31 December 2017.
The instrument is measured at fair value through profit or loss from 1 January 2018 based on the requirements of IFRS 9, without bifurcating the embedded derivative. The fair value of the instrument was HUF 19,200 million, the instrument was repurchased by the issuer during 2018.

The 'exchangeable bond' option was measured at fair value through other comprehensive income and when the exchangeable bond was sold the related option was derecognised by the Parent Company. In 2017 the value of above stated option was HUF 2,346 million which was presented as financial assets carried at fair value through profit or loss.

The one significant available-for-sale investment contains 5% ownership in Protek Holding valued at fair value based on the closing stock exchange price. A result of the decrease in the share price, and a negative change of RUB/HUF exchange rate, a significant decrease has been recorded against revaluation reserve for securities at FVOCI. As a result of the above mentioned reasons, a significant revaluation loss was recorded in 2018 (Note 24).

	31 December 2018	31 December 2017
Opening value (HUFm)	12,971	12,536
Change in fair value (HUFm)	*(4,644)*	*435*
Closing value (HUFm)	8,327	12,971
Share price (RUB/share)	78.0	109.7
RUB/HUF exchange rate	4.05	4.49
Change in the fair value (HUFm)	*(4,644)*	*435*

The other available-for-sale investment is a 9.79% ownership in Themis Medicare Ltd. valued at fair value based on the closing stock exchange price. Since there was a significant decrease in the share price, therefore HUF 920 million revaluation loss was recorded against revaluation reserve for securities at FVOCI in 2018. A closing fair value is HUF 1,183 million.

On 19 February 2015 Gedeon Richter Plc. and Evestra Inc. announced that they have signed a collaboration agreement in which Richter provided a USD 5 million convertible loan to Evestra. Under the terms of the agreement, after three years Richter had an option to decide whether the loan is to be reimbursed, including earned interest, or converted into an equity stake in Evestra. According to IAS 39 this option was classified as embedded derivative, measured at fair value and recorded through profit and loss (fair value measurement is provided in Note 11). Initial recognition of the derivative did not impact the Consolidated Income Statement. The change in the fair value of the option resulted in HUF 24 million gain as financial income. On 5 December 2017, at the end of the duration, Richter decided to convert the loan – including interests and the option - into investment in Evestra, which is a new associate of the Group as presented in Note 14.

15.2. Long term receivables

	31 December 2018 HUFm	31 December 2017 HUFm
Government grants	6,035	-
Total	**6,035**	**-**

The Company recognised a subsidy amount of HUF 6,035 million approved but not financially settled, due over one year. From this amount, HUF 3,830 million is related to research and development activities, HUF 2,205 million for purchasing equipment.

16. Current income tax and deferred tax

Current tax assets and liabilities

	31 December 2018 HUFm	31 December 2017 HUFm
Current tax assets	1,017	795
Current tax liabilities	(438)	(703)

Deferred tax is calculated by the balance sheet method based on the temporary differences. Deferred tax assets and liabilities in the Consolidated Balance Sheet are as follows:

	31 December 2018 HUFm	31 December 2017 HUFm
Deferred tax assets	7,895	10,548
Deferred tax liabilities	(7,176)	(8,005)

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

Deferred tax assets	PPE and intangible assets	Provision	Impair-ment	Other temporary differences	Unrealised profit elimination	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
31 December 2016	**130**	**87**	**13**	**220**	**4,966**	**5,416**
(Debited)/credited to the income statement	7	(19)	-	3,275	1,753	**5,016**
(Debited)/credited to other comprehensive income*	-	(4)	-	-	-	**(4)**
Exchange differences	(4)	1	-	2	-	**(1)**
Transfer	(265)	405	1,018	(1,037)		**121**
31 December 2017	**(132)**	**470**	**1,031**	**2,460**	**6,719**	**10,548**
Deferred tax effect of first adoption of IFRS 9	-	-	(42)	(33)	-	**(75)**
Deferred tax effect of first adoption of IFRS 15	-	-	-	(99)	-	**(99)**
1 January 2018	**(132)**	**470**	**989**	**2,328**	**6,719**	**10,374**
(Debited)/credited to the income statement	(248)	51	1,006	(2,068)	(1,243)	**(2,502)**
(Debited)/credited to other comprehensive income*	-	(3)	-	409	-	**406**
Exchange differences	4	14	-	19	-	**37**
Transfer	(28)	16	-	(408)	-	**(420)**
31 December 2018	**(404)**	**548**	**1,995**	**280**	**5,476**	**7,895**

* Deferred tax assets and liabilities debited/credited to other comprehensive income was HUF 405 million in 2018 and HUF 100 million in 2017 (expense), out of which accounted through revaluation reserve HUF 410 million in 2018 and HUF 79 million in 2017 (expense, see Note 24) and HUF 5 million in 2018 and HUF 21 million in 2017 (expense) accounted through retained earnings in excess of the deferred tax effect of the adoption of IFRS 9 and IFRS 15.

Deferred tax liabilities	PPE and intangible assets	Provi-sions	Fair valuation	ESMYA	BEMFOLA	Other temporary differences	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
31 December 2016	**211**	**(489)**	**(166)**	**1,431**	**4,096**	**879**	**5,962**
Debited/(credited) to the income statement	90	65	(725)	2,057	729	(183)	**2,033**
Debited/(credited) to other comprehensive income*	-	1	(134)	-	-	237	**104**
Exchange differences	2	(6)	7	(195)	(10)	(13)	**(215)**
Transfer	(265)	405	1,018	-	-	(1,037)	**121**
31 December 2017	**38**	**(24)**	**-**	**3,293**	**4,815**	**(117)**	**8,005**
Debited/(credited) to the income statement	19	-	-	(1,318)	300	217	**(782)**
Debited/(credited) to other comprehensive income*	-	7	-	-	-	(8)	**(1)**
Exchange differences	1	-	-	202	179	(8)	**374**
Transfer	(28)	16	-	-	-	(408)	**(420)**
31 December 2018	**30**	**(1)**	**-**	**2,177**	**5,294**	**(324)**	**7,176**

* Deferred tax assets and liabilities debited/credited to other comprehensive income was HUF 405 million in 2018 and HUF 100 million in 2017 (expense), out of which accounted through revaluation reserve HUF 410 million in 2018 and HUF 79 million in 2017 (expense, see Note 24) and HUF 5 million in 2018 and HUF 21 million in 2017 (expense) presented through retained earnings.

From the deferred tax balance presented above it is expected that HUF 8,187 million (in 2017 HUF 8,060 million) of the liabilities and HUF 293 million (in 2017 HUF 585 million) of the assets will reverse after 12 months.

The Parent Company did not recognize deferred tax assets of HUF 4,049 million, as these are related to temporary differences that are expected to reverse within 5 years when the Company is not expected to have sufficient taxable profit to recover them. The most significant item of these deductible temporary difference relates to the tax loss carried forward (tax effect of HUF 3,588 million).
In addition to the Parent Company, there were significant tax loss carried forward at two Romanian subsidiaries (in the amount of HUF 2,404 million) on which no deferred tax assets have been recognized as of 31 December 2018. This would have resulted in a deferred tax asset in the amount of HUF 385 million. In 2017 the Group had HUF 7,150 million unused tax loss (that would have resulted in HUF 1,144 million deferred tax asset).
Temporary differences arising in connection with interest in associates and joint ventures are insignificant.

17. Loans receivable

	31 December 2018 HUFm	1 January 2018 HUFm	31 December 2017 HUFm
Loans given to related parties	1,510	1,311	1,116
Loans given to employees	917	883	883
Other loans given	199	133	133
Total	**2,626**	**2,327**	**2,132**

The loans given to related parties contains the convertible loan provided to Evestra Inc. in the amount of HUF 455 million (1 January 2018 HUF 400 million, 31 December 2017 HUF 355 million).

18. Goodwill

	Goodwill HUFm
Cost	
At 1 January 2017	**68,632**
Exchange differences	(4,026)
Impairment charged for the year	(20,229)
At 31 December 2017	**44,377**
At 1 January 2018	44,377
Exchange differences	1,851
Impairment charged for the year	(10,842)
At 31 December 2018	**35,386**

The above mentioned impairment was charged in Pharmaceuticals segment related to PregLem goodwill.

Closing goodwill on Cash Generating Units (Companies)

	31 December 2018 HUFm	31 December 2017 HUFm
Pharmaceuticals segment		
GR Polska Sp. z o.o.	1,119	1,111
Richter-Helm BioLogics Co & KG	102	99
PregLem S.A.	2,268	12,194
GRMed Company Ltd	28,972	28,172
GR Brasil	60	65
GR Mexico	1,811	1,669
Wholesale and retail segment		
Armedica Trading Group	993	1,006
Other segment		
Pesti Sas Holding Kft.	61	61
Total	**35,386**	**44,377**

The group has restructured its operation in China and merged the activity of Gedeon Richter Rxmidas Joint Venture Co. Ltd. to GRMed Company Ltd. As a result of reorganisation of the reporting structure as well as, both of the goodwill presented before the transaction is allocated to the merged GRMed Company Ltd.

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

Gedeon Richter Polska Sp. z o.o.

Even if Gedeon Richter Polska Sp. z o.o. achieved negative profit in 2018, according to its midterm financial plans growth is expected for the following years. As a result of this no impairment was required at the end of financial year of 2018 similar to 2017. Any reasonable change in the key assumptions is still not expected to result in an impairment of Goodwill.

Armedica Trading Group

The Group has allocated the goodwill to individual pharmacies and performs the impairment review on group of cash generating units (CGU) level. Two groups of CGUs have been set up and the pharmacies were categorized into these groups based on their current EBITDA/sales performance.
Each year the performance of the pharmacies is assessed whether they are grouped into the correct category of pharmacies. Classification criterion has been defined as -3.5% EBITDA/sales level. The Group determined this level by analyses. The pharmacies that exceeded the above mentioned EBITDA/sales ratio achieved in total an EBIDTA amount close to break even and the Group expects that the performance of this pharmacies will improve.

Similarly to previous years we have assessed the recoverable amount with fair value less cost of disposal method considering the economic environment, Romania will remain among the fastest growing pharmaceutical markets among EU member states. The market performance assumes a relatively constant regulatory framework in 2018. In the fair value less cost of disposal model we have made estimation on future performance based on historical data and realistic market assumptions on mid and long term timeframe. The Group performed the present value calculation using estimation of 12 years cash flows which is in line with the remaining estimated useful life of the licenses.

In case of the underperforming group where the recoverable amount of the group is less than its carrying amount the Group has recorded impairment on the related pharmacy licenses as disclosed in Note 12. No impairment was required on the good performance group of pharmacy licenses.

We also performed sensitivity test on the good performing pharmacies including the following parameters: Volume of sales, Weighted Average Cost of Capital (WACC) and mark-up. By changing ceteris paribus these factors: 5% decline in sales price would require full impairment for goodwill and pharmacy licences. 5% decrease of the mark-up similarly to 5 percentage points increase of WACC would require varying degrees of partial impairment for goodwill.

PregLem S.A.

On the acquisition of Preglem S.A. the intangible asset ESMYA (EU & North America) and goodwill has also been recognized. Similarly to previous years, the Company conducted an impairment test of PregLem goodwill for the

2018 balance sheet date. The recoverable amount has been determined for a cash generating unit including the ESMYA intangibles, PregLem goodwill and other tangible assets used to generate cash inflows (ESMYA CGU). ESMYA EU intangible asset was taken into account at a value reduced with impairment loss (please see Note 12). The return on the ESMYA CGU was determined by means of the income-based method with a fair value less cost of disposal approach. Key assumptions were the same as in case of ESMYA EU & NA intangible asset impairment testing. As a consequence of the modification of ESMYA EU sales forecast the recoverable amount is 26% below the CGU book value. This resulted in an impairment against goodwill amounting to HUF 10,482 million. The remaining book value of goodwill amounts to HUF 2,268 million.
EU-based cash flows still represent the bigger portion (79%; in 2017 61%) of the total recoverable amount, in which cash flows up to 2025 have a proportion of 53%.

The discount rate (EU-based cash flows post tax: 9.1%, 8.0% in 2017; NA-based cash flows 10.5%, 8.1% in 2017 as well) applied reflects current market assessments of the time value of money and the risks specific to the CGU for which future cash flow estimates have not been adjusted.
+/-1 percentage point change in WACC would result in HUF 1,867 million decrease or HUF 2,054 million increase in the recoverable amount. +/-10% change per year regarding the sales volume in the adjusted forecast would result in around HUF 6,390 million lower recoverable amount in case of sales decrease and in case of sales increase the recoverable amount would be higher around HUF 5,597 million.

GRMed Company Ltd.

GRMed Company Ltd. was acquired in 2013, which transaction supported the Group's stronger presence in China. The realised goodwill has been tested for impairment for the previous years. Considering that the future cash flows from continued use of the assets were considerable, the return has been determined for a cash generating unit (CGU) by means of the income-based method with a fair value less cost of disposal approach.
The Company announced on 01.22.2016 that it acquired from its partner, Rxmidas Pharmaceuticals Holdings Ltd. its outstanding 50% stake in Gedeon Richter Rxmidas Joint Venture Co. Ltd. following the setting up of a joint venture with an initial 50% share of equity announced in December 2010. Subsequent to the acquisition, the Company now holds 100% of Gedeon Richter Rxmidas Joint Venture Co. Ltd., consequently is in full charge of its Rx and OTC business in China.
The Group has restructured its operation in China and merged the activity of Gedeon Richter Rxmidas Joint Venture Co. Ltd. to GRMed Company Ltd. As a result of reorganisation (in 2017) of the business and the reporting structure, both of the goodwill presented before the transaction are allocated to the merged GRMed Company Ltd.
The goodwill impairment was tested as of the balance sheet date of 31 December 2018 and it was found that there was no need to account for impairment.
The calculations were based on the long term turnover projection and cost plan 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 (2019-2028) due to the average annual 2.1% growth in turnover.
Since the recoverable amount determined based on the assumptions above also requires contribution of other assets (e.g. machineries) of the Group, the carrying amount of these assets was also considered when the Group compared the carrying amount of the CGU to the recoverable amount.

The present value of the 2019-2028 cash flows and (by applying a conservative estimate of) residual value reckoning with 0% growth is 28% higher than the tested amount.
The discount rate (post tax: 13.7%; 2017: 12.8%) 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.
A rise in post-tax discount rate to 17.5% or a 7.7% decrease in forecasted sales volumes would remove the remaining headroom.

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

DNA Pharmaceuticals S.A. of Mexico was acquired and involved in consolidation from 2014. The realised goodwill was tested by the Company for impairment as of 31 December 2018 similarly to prior years.
The return has been determined for a cash generating unit (CGU) by means of the income-based method with a fair value less cost of disposal approach. The calculations were based on the long term turnover projection adopted by the management (2019-2028), the underlying cash flows of which are expected to reflect market participant assumptions on the respective markets as well. The present value of cash flows beyond this was determined by means of the terminal value formula without any further growth (conservative estimate).

The sales revenue forecast of the traditional products tested within the CGU has not been changed significantly in comparison to the previous period. The biggest change regarding the Mexican operations is the inclusion of several new license-in products that are expected to contribute to a better “economies of scale”. Since the Goodwill has been allocated to the traditional products, therefore the contribution of these assets to the recoverable amount and the book value of the related assets in the carrying amount of the CGU was ignored. As a consequence the CGU need to bear decreased level of operating expenses.

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

The calculated return is 61% higher than the CGU book value (in 2017 120%). The present value of the 2019-2028 cash flows represents the 53% of total recoverable amount.
Cash flows are quite stable over the whole forecasting period. Residual value was calculated in line with similar expectations.
The discount rate (post tax: 8.4%; in 2017 8.0%) applied reflects current market assessments of the time value of money and the risks specific to the CGU for which future cash flow estimates have not been adjusted.

A rise in post-tax discount rate to 13.3% (in 2017 18.8%) would remove the remaining headroom.

19. Inventories

	31 December 2018 HUFm	**1 January 2018** HUFm	**31 December 2017** HUFm
Raw materials, packaging and consumables	46,163	42,435	42,435
Production in progress	1,837	2,339	2,339
Semi-finished and finished goods	44,687	39,141	39,700
Total	**92,687**	**83,915**	**84,474**

Inventories include impairment and scrapping in value of HUF 3,370 million and reversal of impairment in value of HUF 507 million in 2018 (HUF 2,411 million impairment and scrapping and HUF 1,287 million reversal was made in 2017). The main reasons for impairment and scrapping are the obsolescence of the inventory and the unfavourable changes of the market conditions of the particular product. The reversal of impairment is due to the change of market conditions. As of 31 December 2018 the total carrying amount of inventories that are valued at net realisable value amounts to HUF 10,144 million (in 2017 it was HUF 9,548 million).

All items of Inventories are free from liens and charges.

20. Trade receivables

	31 December 2018 HUFm	1 January 2018 HUFm	31 December 2017 HUFm
Trade receivables	118,953	120,097	120,581
Amounts due from related companies (Note 37)	10,053	2,439	2,442
Total	**129,006**	**122,536**	**123,023**

Ageing of Trade receivables:

	31 December 2017 HUFm
Trade receivables not yet due	108,783
Trade receivables overdue, not impaired	12,775
1-90 days	*10,141*
91-180 days	*1,407*
181-360 days	*948*
›360 days	*279*
Trade receivables overdue, impaired	8,621
1-90 days	*1,849*
91-180 days	*121*
181-360 days	*317*
›360 days	*6,334*
Impairment on trade receivables overdue	(7,156)
not yet due	*(448)*
1-90 days	*(222)*
91-180 days	*(45)*
181-360 days	*(213)*
›360 days	*(6,228)*
Total	**123,023**

The closing loss allowances for trade receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Loss allowances for trade receivables HUFm
At 1 January 2017	**7,216**
Provision for receivables impairment	1,843
Reversal of impairment for trade receivables	(1,757)
Exchange difference	(146)
At 31 December 2017	**7,156**
Impact of initial application of IFRS 9	487
At 1 January 2018	**7,643**
Provision for receivables impairment	1,125
Reversal of impairment for trade receivables	(1,935)
Exchange difference	354
At 31 December 2018	**7,187**

The reversal of impairment is explained with the financial settlement of overdue receivables.

There was no individually significant impairment loss accounted for customers neither in 2018 nor in 2017.

Impairment of financial assets

31 December 2018	**Current**	**1-30 days past due**	**31-90 days past due**	**91-180 days past due**	**181-360 days past due**	**>360 days past due**	**Total**
Expected loss rate	0.21%	2.51%	2.20%	8.16%	44.10%	85.72%	**5.28%**
Gross carrying amount – trade receivables	113,866	8,174	4,122	1,742	1,431	6,858	**136,193**
Loss allowance	238	206	91	142	631	5,879	**7,187**
1 January 2018	**Current**	**1-30 days past due**	**31-90 days past due**	**91-180 days past due**	**181-360 days past due**	**>360 days past due**	**Total**
Expected loss rate	0.51%	2.76%	1.81%	3.36%	18.28%	98.41%	**5.87%**
Gross carrying amount – trade receivables	108,783	8,156	3,834	1,528	1,265	6,613	**130,179**
Loss allowance	558	225	69	52	231	6,508	**7,643**

21. Other current assets and contract assets

21.1 Other current asset

	31 December 2018 HUFm	1 January 2018 HUFm	31 December 2017 HUFm
Loans receivable	225	3,608	3,608
Other receivables	5,595	3,735	3,735
Fair value of open forward exchange contracts	-	26	26
Subtotal of financial assets (Note 10)	**5,820**	**7,369**	**7,369**
Tax and duties recoverable	5,211	5,033	5,033
Advances	2,308	4,843	4,843
Prepayments	2,848	2,935	2,935
Total	**16,187**	**20,180**	**20,180**

21.2 Contract assets

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

	31 December 2018 HUFm	1 January 2018 HUFm	31 December 2017 HUFm
Current contract assets	1,425	1,676	-
Loss allowance	-	-	
Total contract assets	**1,425**	**1,676**	**-**

Detailed information is presented in Note 38.

22. Investments in securities

	31 December 2018 HUFm	31 December 2017 HUFm
Government bonds	2,997	-
Other securities	1,731	18
Total (Note 10)	**4,728**	**18**

23. Cash and cash equivalents

	31 December 2018 HUFm	31 December 2017 HUFm
Bank deposits	112,827	75,871
Cash on hand	194	170
Total (Note 10)	**113,021**	**76,041**

The total amount of Cash and cash equivalents at the balance sheet date was mainly (more than 61%) held by the Parent Company out of which major part is short term bank deposit and minor part is on demand deposit. It is denominated in EUR, USD, HUF and other currencies as disclosed in more details in Note 10.

24. Share capital and reserves

	31 December 2018		31 December 2017	
Share capital	Number	HUFm	Number	HUFm
Ordinary shares of HUF 100 each	186,374,860	18,638	186,374,860	18,638

Detailed ownership structure of the Parent 31 December 2018

Ownership	**Ordinary shares** number	**Voting rights**** %	**Share capital** %
Domestic ownership	**63,716,497**	**34.20**	**34.19**
State ownership total	47,051,794	25.25	25.25
out of which MNV Zrt.	47,051,668	25.25	25.25
out of which Municipality	126	0.00	0.00
Institutional investors	7,443,002	3.99	3.99
Retail investors	9,221,701	4.95	4.95
International ownership	**122,249,372**	**65.61**	**65.59**
Retail investors	335,369	0.18	0.18
Institutional investors	121,914,003	65.43	65.41
Undisclosed ownership	**19,963**	**0.01**	**0.01**
Treasury shares*	**389,028**	**0.18**	**0.21**
Share capital	**186,374,860**	**100.00**	**100.00**

Detailed ownership structure of the Parent 31 December 2017

Ownership	**Ordinary shares** number	**Voting rights**** %	**Share capital** %
Domestic ownership	**60,272,583**	**32.35**	**32.34**
State ownership total	47,051,794	25.25	25.25
out of which MNV Zrt.	47,051,668	25.25	25.25
out of which Municipality	126	0.00	0.00
Institutional investors	6,150,262	3.30	3.30
Retail investors	7,070,527	3.80	3.79
International ownership	**126,025,320**	**67.64**	**67.61**
Retail investors	801,326	0.43	0.43
Institutional investors	125,223,994	67.21	67.18
out of which Aberdeen Asset Mgmt. Plc.	18,243,530	9.79	9.79
out of which Black Rock, Inc.	9,628,286	5.17	5.17
out of which Harding Loevner LP	9,367,925	5.03	5.03
Undisclosed ownership	**10,774**	**0.01**	**0.01**
Treasury shares*	**66,183**	**0.00**	**0.04**
Share capital	**186,374,860**	**100.00**	**100.00**

* The treasury shares, except for the ones owned by Employee Share Ownership Trust's (ESOT), have no voting rights.
** Article 13.8 of the Statutes restricts the voting rights of shareholders, alone or together with other related persons to no more than 25%.

Data in the above table were compiled based on the share registry amended with information provided by KELER Zrt. as clearing company, global custodians and nominees.

The Group does not have any (ultimate) controlling party. The Hungarian State is having significant influence through the ownership of MNV Zrt.

Foreign currency translation reserves

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss.
Changes of foreign currency translation reserves are presented in the Consolidated Statement of Changes in Equity.

Revaluation reserve for available for sale investments (based on IAS 39)

When measuring financial assets available for sale (Note 15, 22) at their fair values the difference shall be recognized as Revaluation reserve for available for sale investments. It shall be recycled to the income statement at the time of disposal or impairment.

Revaluation reserve for available for securities at FVOCI (based on IFRS 9)

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

	Revaluation reserve for available for sale investments HUFm
At 1 January 2017	**8,825**
Recycled through Other comprehensive income	(708)
Revaluation gross	1,929
Deferred tax effect	(82)
At 31 December 2017	**9,964**
Reclassification according to IFRS 9	(9,964)
Closing balance at 31 December 2018	**-**

	Revaluation reserve for securities at FVOCI HUFm
At 31 December 2017	**-**
Reclassification according to IFRS 9	9,964
Effect of first application of IFRS 9	-
Opening balance at 1 January 2018	**9,964**
Recycled through Other comprehensive income	
Revaluation gross	(5,564)
Deferred tax effect	410
At 31 December 2018	**4,810**

Equity-settled share based payment presented within retained earnings

Equity-settled employee benefits reserve is presented within Retained earnings, therefore the current year's effect is shown in the Consolidated Statement of Changes in Equity.
The reserve contains equity-settled share-based payments to employees measured at the fair value of the equity instruments at the grant date. Please see more details in Note 25 Treasury shares.

	2018 HUFm	**2017** HUFm
Expense recognized in current year	1,697	3,640
Treasury share given (Note 25)	1,836	4,728
Total changes in reserve presented in the Consolidated Statement of Changes in Equity	**(139)**	**(1,088)**

Parallel to the Equity-settled share based payment program Richter operates cash-settled share based payment program for its senior executives and senior employees through Employee's Share- Ownership Programme (ESOP). The cost of the program was HUF 1,510 million in 2018.

25. Treasury shares

It is the intention of the Company to grant Treasury shares to management and employees as part of its remuneration policy. The Company is operating four share based payment programs, described below in more details. The individual bonuses and the bonus program vest immediately, while the shares granted under the Staff Stock Bonus Plan have a vesting condition of employment at the end of the deposit period also described below. In 2018, the Company launched the Employee's Share-Ownership Programme, according to which a worker receives a benefit after the conditions specified in the program have been met.

Bonus program

Richter operates a bonus share program since 1996 to further incentivise managers and key employees of the Company. In 2018, the program was redesigned: the bonus for managers was paid in cash. As a result in 2018 just 14,473 shares were granted to 284 key employees of the Company while in 2017 72,904 shares were granted to 441 employees.

Individual bonuses

7,543 treasury shares were granted to qualified employees as bonuses during the year while 431,800 treasury shares were granted in 2017. The significant decrease was due to the introduction of the Employee's Share-Ownership Program.

Employee's Share- Ownership Program (ESOP)

In order to strengthen the performance and loyalty of senior executives and senior employees through the Company's success in 2018, the Company started Employee's Share- Ownership Program (ESOP).
In the second quarter of 2018, the Company transferred 333,698 treasury shares to the ESOP in two tranches, in accordance with the Employee Share Ownership Trust's (ESOT) Articles of Association and Remuneration Policy. Program constitutes to be a cash-settled share based payment program.

Staff Stock Bonus Plan

Pursuant to the program related to employee share bonuses (Staff Stock Bonus Plan 2018), the Company granted 324,226 treasury shares to 4,346 employees in 2018. The shares will be deposited on the employees' security accounts with UniCredit Bank Hungary Ltd. until 2 January 2021. In 2017 245,163 shares were granted to 4,266 employees deposited on their accounts until 2 January 2020.

The AGM held on 25th April 2018 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 661,049 treasury shares during the year.

Treasury shares	2018 Numbers	2017 Numbers
at 1 January	**66,183**	**241,634**
Out of these, number of shares owned by subsidiaries	*5,550*	*60,284*
Share purchase	661,049	561,499
Transferred as part of bonus program	(14,473)	(72,904)
Individual bonuses	(7,543)	(431,800)
Granted pursuant to the National Tax and Customs Administration – approved plan	(324,226)	(245,163)
Granted pursuant to the National Tax and Customs Administration – repurchased	8,038	12,917
at 31 December	**389,028**	**66,183**
Out of these, number of shares owned by subsidiaries	*5,500*	*5,500*

Book value	2018 HUFm	2017 HUFm
at 1 January	**415**	**1,285**
Share purchase	3,607	3,858
Transferred as part of bonus program	(77)	(428)
Individual bonuses	(40)	(2,690)
Granted pursuant to the National Tax and Customs Administration – approved plan	(1,764)	(1,696)
Granted pursuant to the National Tax and Customs Administration – repurchased	45	86
at 31 December	**2,186**	**415**

26. Trade payables

	31 December 2018 HUFm	31 December 2017 HUFm
Trade payables	54,429	47,446
Amount due to related companies (Note 37)	120	49
Total	**54,549**	**47,495**

27. Other payables and accruals and Contract liabilities

27.1 Other payables and accruals

	31 December 2018 HUFm	31 December 2017 HUFm
Short term accruals	16,573	17,357
Other liabilities	8,656	5,259
Dividend payable	152	150
Subtotal of financial liabilities (Note 10)	**25,381**	**22,766**
Wages and payroll taxes payable	6,599	6,287
Other taxes	1,260	1,204
Deposits from customers	424	258
Total	**33,664**	**30,515**

27.2 Contract liabilities

	31 December 2018 HUFm	1 January 2018 HUFm
Contract liabilities	85	59
Total	**85**	**59**

28. Provisions

	31 December 2018 HUFm	31 December 2017 HUFm
Other short term provisions	3,415	2,473
Long term provisions –for retirement and other long term benefits*	3,554	3,305
from this defined retirement benefit plans at the Parent	*1,857*	*1,711*
from this defined retirement benefit plans at GR Polska	*773*	*299*
from this defined retirement benefit plans at PregLem	*259*	*263*
from this defined retirement benefit plans at Finox Group	*13*	*66*
Total	**6,969**	**5,778**

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

At 31 December 2018 Other short term provisions include provisions created for individual bonuses, and penalties.

From the defined benefit plans of the Group, it is considered that only the pension plan operated by the Parent Company is significant, therefore further disclosures are provided only related to that. Since the plan is operated in Hungary the benefits and the disclosures below are determined in Hungarian Forint.

Defined retirement benefit plans at the Parent

Actuarial valuation related to retirement benefit plans

According to the 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 valuation method

In line with IAS 19, defined benefit obligation was calculated by using Projected Unit Credit Method. The estimated amount of the benefit shall be accounted in equal amounts for each period until the maturity date (straight line method), and valued at present value by using actuarial discount rate.

Any reasonable change in the key assumptions are not expected to result in a significant change in the value of provision therefore a detailed sensitivity analysis is not required for the variables of the valuation model.

The calculation is applied for all employees employed at the balance sheet date.

	2018 HUFm	**2017** HUFm
Opening value of retirement benefit	1,711	1,525
Interest costs (charged to the P&L)	58	48
Current service costs (charged to the P&L)	149	130
Settlement	(90)	(92)
Actuarial loss/(gain) (charged to the OCI)	29	100
Retirement benefit liability	**1,857**	**1,711**

The principal actuarial assumptions were as follows:

The estimation was performed with a 2.2% annual increase in the wages.

Discount rate

The discount calculation is made "on the basis of available high quality corporate bonds or, in the absence thereof, of government securities in the given market."
When estimating the level of interest we apply the yields of long term government securities established by EUROSTAT on a country by country basis for the reported year and published at the date closest to the assessment.
In 2017 and 2018 – since the fluctuation of the yield was remarkable – we applied a three year average of the yields published to determine the discount rate for the calculation of liabilities. In 2017 3.31% while in 2018 3.51% technical interest rate was applied.

Distribution of probability of resigning in terms of the age of employees and the duration of their employment

Relying on factual data the probability of resigning was estimated on the basis of annual average probability of resigning in groups set up by duration of employment as shown in the following table. At the same time to reckon with future uncertainty a risk factor increasing in time is taken into account.

Term of employment at Richter	**Uncertainty factor related to the probability of resigning**
Relevant data applied during the actuarial calculation:	
between 1-5 years	5.0%
between 6-15 years	10.0%
between 16-30 years	20.0%
over 30 years	30.0%

Annual average probability of resigning applied:

Term of employment at Richter	**less than 6 years**	**between 6-15 years**	**between 16-25 years**	**over 25**
	12.0%	4.0%	2.0%	1.5%

29. Net debt reconciliation

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

Net debt	**31 December 2018** HUFm	**31 December 2017** HUFm
Cash and cash equivalents	113,021	76,041
Borrowings-current	-	-
Borrowings-non-current	(2)	(3)
Net debt	113,019	76,038

	Other assets	**Liabilities from financing activities**		
	Cash/bank overdraft HUFm	**Borrowings due within 1 year** HUFm	**Borrowing due after 1 year** HUFm	**Total** HUFm
Net debt as at 1 January 2017	**96,053**	**(7,776)**	**(28,874)**	**59,403**
Cash flows	(22,906)	7,711	28,871	**13,676**
Effect of foreign exchange changes	2,894	65	-	**2,959**
Reclassification from long-term to short-term	-	-	-	**-**
Net debt as at 31 December 2017	**76,041**	**-**	**(3)**	**76,038**
Effect of first application of IFRS 9	-	-	-	**-**
Net debt as at 1 January 2018	**76,041**	**-**	**(3)**	**76,038**
Cash flows	39,643	-	-	**39,643**
Effect of foreign exchange changes	(2,663)	-	1	**(2,662)**
Reclassification from long-term to short-term	-	-	-	**-**
Net debt as at 31 December 2018	**113,021**	**-**	**(2)**	**113,019**

30. Other non-current liabilities and accruals

	31 December 2018 HUFm	**31 December 2017** HUFm
Government grants	9,091	3,864
Other non-current liabilities	164	483
Total	**9,255**	**4,347**

Government grants relates to property, plant and equipment.

31. Dividend on ordinary shares

	2018 HUFm	2017 HUFm
Dividend on ordinary shares	12,673	19,756

A dividend of HUF 68 per share (HUF 12,673 million) was declared in respect of the 2017 results, approved at the Company's Annual General Meeting on 25 April 2018 and paid during the year.

32. Agreed capital commitments and expenses related to investments

Data are presented for the Parent Company and the Russian subsidiary since they have the most significant capital expenditure in the Group.

	31 December 2018 HUFm	31 December 2017 HUFm
Contractual capital commitments of Parent	5,925	9,143
Contractual capital commitments of AO Gedeon Richter -RUS	431	999
Capital expenditure that has been authorised by the directors but has not yet been contracted for at Parent	36,479	30,082
Capital expenditure that has been authorised by the directors but has not yet been contracted for at AO Gedeon Richter-RUS	2,532	2,539

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

33. Operating lease – Group as lessee

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

	2018 HUFm	2017 HUFm
Within 1 year	2,957	3,768
Between 1 and 5 years	4,312	8,186
Over 5 years	3,919	3,601
Total	**11,188**	**15,555**

The agreements do not include purchase option.
In 2018 HUF 6,478 million and in 2017 HUF 6,310 million has been recorded as operating lease expense.

The Group expects that the application of IFRS 16 will not have material impact on the equity. The value of the lease liability and a right-of-use asset will not exceed 4% of the total assets.

34. Guarantees provided by the Group

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

35. Social security and pension schemes

The Group has provided in relation to the employees in Hungary social contribution tax amounting to 19.5% and vocational training contribution amounting to 1.5% of gross salaries which are paid during 2018 to the National Tax and Customs Administration by the Group. The Group has no further obligations beyond the statutory rates in force during the year. In relation to employees employed in abroad, the social insurance contributions have been paid in accordance with the laws of each country.

The Parent Company contributes 6% of the monthly gross wages (maximum 50% of the current minimum wage) for those employees who decided to participate in the voluntary pension fund. In addition, one-off contribution is made in respect of employees who are reaching the age limit of 55, 57, 59, 61, 63, 65 years in the amount of HUF 50,000 within five years of the statutory retirement age. The total cost of the contributions made by the Parent Company was HUF 1,537 million in 2018 (in 2017: HUF 1,354 million).

Pension contribution paid by Hungary based subsidiaries in respect of their employees amounted to HUF 35 million in 2018 and HUF 33 million in 2017.

Foreign subsidiaries pay contributions to various pension funds in respect of their employees which amounted to HUF 712 million and HUF 584 million in 2018 and 2017, respectively.

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

None of the subsidiaries of the Group operate any similar pension schemes, but all Hungary based subsidiaries pay a contribution to the voluntary pension fund and the Patika Voluntary Health Insurance Fund.

36. Contingent liabilities

HRA licence fee

In 2017 HRA Pharma, the partner of Richter related to ESMYA®, initiated a negotiation on the interpretation of the license agreement between the parties that was different from the past practice.
The discussion with HRA was at a preliminary phase, therefore the exposure could not be determined at that point. At the end of 2018 the negotiations were ongoing for the period 2012-2018 retrospectively and for the period after 2018 on the French and Canadian royalty. The resulting exposure is not significant.

Uncertain tax positions in Romania

From 1 October 2009 the Government approved a debated claw-back regime in the range of 5-12 % (aimed at financing the overspending of the national pharmaceutical budget) to be paid to the CNAS by the domestic manufacturers and wholesalers from sales of reimbursed drugs. The Group has similar taxes in other countries which are treated as other expense in the Consolidated Financial Statements. On 1 October 2011, a new version of Romania's pharmaceutical claw-back mechanism came into force levying direct liabilities for the domestic and foreign manufacturers.

In September 2017, the National Authority of Fiscal Administration („RTA") imposed RON 9.9 million as claw-back contribution for the period Q1-Q3 2011 and RON 10.4 million as interest and penalties to the Romanian wholesale company. The company submitted a Tax challenge with RTA and sent a suspension claim to the court immediately. In December 2017 the special court in Bucharest (Romania) has approved the claim of Pharmafarm S.A. for suspension of payment for the claw-back. At the end of 2018 the first instance court has decide in favour Pharmafarm S.A., annuling the claw-back decision of RTA, but as part of the verdict, the court ordered the re-execution of the tax audit. As a result of the second investigation, RTA imposed again the RON 9.09 million claw-back tax payment obligation, which Pharmafarm S.A. did not accept and filed a lawsuit. The Bucharest Special Court approved again Pharmafarm S.A.'s application for suspension of claw-back payment until the case was finally closed.

Taking into consideration the opinion of experts, the management of the Parent Company estimates more likely than not that the imposed tax obligation will not have to be paid on the basis of a subsequent final court decision, therefore no provision has been made.
In May 2018, a comprehensive tax audit covering the period from 01.01.2011 to 31.12.2015 was also completed at Gedeon Richter Romania S.A. As a result of the investigation, a tax deficit has been established for a claw-back tax, corporate income tax and VAT. The total value of the established tax shortfall and related interest and fines amount to RON 13.2 million. Although the Company will challenge the decision of the tax authority in court, taking into account the opinions of experts, the management of the Company sees a more than 50% chance that the findings will have to be paid by Gedeon Richter Romania in the future, therefore a provison of RON 13.2 million has been recognised.

For further information please see Note 3.1.
Other uncertain tax position related to GR Romania is disclosed in Note 3.1.

37. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

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

	2018 HUFm	**2017** HUFm
Dividend paid to MNV Zrt.	3,201	4,994

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

37.1 Related parties

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

	31 December 2018 HUFm	31 December 2017 HUFm
Loans to joint ventures	480	-
Loans to associated companies	1,204	3,639
Trade receivables (joint ventures)	254	240
Trade receivables (associates)	9,702	2,202
Trade payables (joint ventures)	2	5
Trade payables (associates)	118	44
Revenue from joint ventures	895	564
Revenue from associates	14,933	13,280

The loans are in Hungarian Forint, Euro and US dollars, out of which HUF 1,279 million are long and HUF 405 million are short term.
Revenues from related parties almost exclusively represents sale of pharmaceutical products. The Group has no open trading commitments with related parties as of 31 December 2018.

Richter has financing obligations to Richter-Helm BioTec GmbH & Co. KG (joint ventures), which requires further capital contributions to finance the clinical and registration stage of teriparatide.
All related-party transactions were made on an arm's length basis.

37.2 Remuneration of the Board of Directors and the Supervisory Board

	Short-term benefits – Allowance	
	2018 HUFm	**2017** HUFm
Board of Directors	71	78
Supervisory Board	24	24
Total	**95**	**102**

37.3 Key management compensation

	2018 HUFm	**2017** HUFm
Salaries and other short term employee benefits	1,563	1,157
Share based payments	761	1,457
Total short term compensation	**2,324**	**2,614**
Pension contribution paid by the employer	305	575
Total	**2,629**	**3,189**

The table above contains the compensation received by the chief executive officer, directors and other senior members of management, constituting 49 people.
There were no redundancy payments to key management members neither in 2017 nor in 2018.

38. Changes in accounting policy

The Group has adopted IFRS 15 Revenue from contracts with customers and IFRS 9 Financial instruments from 1 January which resulted in changes in accounting policy and adjustments to the amounts recognised in the financial statements. For further information please see Note 1. (III/A point).

Impact on the financial statements:

The following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

	Notes	31 December 2017 HUFm	IFRS 15 adjustments HUFm	IFRS 9 adjustments HUFm	1 January 2018 HUFm
ASSETS					
Non-current assets					
Property, plant and equipment	12	196,990	-	-	196,990
Goodwill	18	44,377	-	-	44,377
Other intangible assets	12	154,958	-	-	154,958
Investments in associates and joint ventures	14	11,847	-	-	11,847
Other financial assets	15	35,482	-	906	36,388
Deferred tax assets	16	10,548	(99)	(75)	10,374
Long term receivables		-	-	-	-
Loans receivable	17	2,132	-	195	2,327
		456,334	**(99)**	**1,026**	**457,261**
Current assets					
Inventories	19	84,474	(559)	-	83,915
Trade receivables	20	123,023	-	(487)	122,536
Contract assets		-	1,676	-	1,676
Other current assets	21	20,180	-	-	20,180
Investments in securities	22	18	-	-	18
Current tax asset	16	795	-	-	795
Cash and cash equivalents	23	76,041	-	-	76,041
		304,531	**1,117**	**(487)**	**305,161**
Total assets		**760,865**	**1,018**	**539**	**762,422**

	Notes	31 December 2017 HUFm	Effect of IFRS 15 HUFm	Effect of IFRS 9 HUFm	1 January 2018 HUFm
EQUITY AND LIABILITIES					
Capital and reserves					
Equity attributable to owners of the parent					
Share capital	24	18,638	-	-	18,638
Treasury shares	25	(415)	-	-	(415)
Share premium		15,214	-	-	15,214
Capital reserves		3,475	-	-	3,475
Foreign currency translation reserves	24	9,855	-	-	9,855
Revaluation reserve for available for sale investments	24	9,964	-	(9,964)	-
Revaluation reserve for securities at FVOCI		-		9,964	9,964
Retained earnings		602,596	959	539	604,094
		659,327	**959**	**539**	**660,825**
Non-controlling interest	13.1	4,692	-	-	4,692
		664,019	**959**	**539**	**665,517**
Non-current liabilities					
Borrowings	29	3	-	-	3
Deferred tax liability	16	8,005	-	-	8,005
Other non-current liabilities and accruals	30	4,347	-	-	4,347
Provisions	28	3,305	-	-	3,305
		15,660	**-**	**-**	**15,660**
Current liabilities					
Borrowings	29	-	-	-	-
Trade payables	26	47,495	-	-	47,495
Contract liabilities		-	59	-	59
Current tax liabilities	16	703	-	-	703
Other payables and accruals	27	30,515	-	-	30,515
Provisions	28	2,473	-	-	2,473
		81,186	**59**	**-**	**81,245**
Total equity and liabilities		**760,865**	**1,018**	**539**	**762,422**

Had IFRS 15 not been adopted in the year to 31 December 2018 then it would have reported the following amounts by applying IAS 18 Revenue, IAS 11 Construction Contracts and related Interpretations:

	As reported on IFRS 15 basis HUFm	Effect HUFm	As would have been reported HUFm
Revenues	445,484	251	445,735
Cost of sales	(191,648)	(99)	(191,747)
Profit before tax	43,953	152	44,105
Income tax	(7,760)	(99)	(7,859)
Profit for the year	36,193	53	36,246

The impact on the Group retained earnings as at 1 January 2018 is as follows:

	Notes	2018 HUFm
Closing retained earnings 31 December 2017 – IAS 39, IAS 18		**602,596**
Increase in provision for trade receivables and contract assets	20	(487)
Increase in provision for debt investments at amortised cost	17	150
Reclassification investments from loans and receivables to FVTPL	15	951
Change in deferred tax assets relating to IFRS9 adjustments	16	(75)
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018		**539**
Opening retained earnings 1 January – IFRS 9 (before restatement for IFRS 15)		**603,135**

	Notes	2018 HUFm
Retained earnings after IFRS 9 restatement		**603,135**
Recognition of revenue for sale of goods meeting the overtime revenue recognition criteria	21,22	1,617
Recognition of cost for sale of goods meeting over time revenue recognition criteria		(559)
Increase in deferred tax liabilities	16	(99)
Adjustment to retained earnings from adoption of IFRS 15		**959**
Opening retained earnings 1 January (IFRS 9 and 15)		**604,094**

In accordance with the requirements of IFRS 15 the Group recognizes revenue when the expenditures are incurred for those sale of good transactions where the Group's performance does not create an asset with an alternative use and provides enforceable right to payment for performance completed to date. This results in an earlier revenue and cost recognition from the past practice of the Group. The table above summarises the effect of this change.

On 1 January 2018 (the date of initial application of IFRS 9), the group's management has assessed which business models apply to the financial assets held by the group and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

	FVTPL HUFm	FVOCI HUFm	Amortised cost HUFm
Closing balance 31 December 2017 – IAS 39	**2,417**	**15,557**	**226,091**
Reclassifications from amortised cost to FVTPL	16,258	-	(16,258)
Related FV adjustments	951	-	-
Release of related AFS reserves	-	-	-
Effect of IFRS 9 impairment	-	-	(337)
Opening balance 1 January 2018	**19,626**	**15,557**	**209,496**

39. Notable events in 2018

Sales dropped in the EU, particularly in the EU 15 (member states that joined before 01.05.2004) member states as well as in the CIS, particularly in Russia and Ukraine; conversely, they soared in the United States, China, and the domestic market. Please see Note 4 for details.

In December 2017 EMA's Pharmacovigilance Risk Assessment Committee (PRAC) started a review in the EU member states of ESMYA® (ulipristal acetate) investigating liver injury possibly induced by the product. The Company's audited financial statements for 2017 are going to be prepared taking into account the expected negative impact on business as a result of the temporary measures imposed by PRAC in respect of ESMYA®. The EMA adopted temporary measures on 9 February 2018 as part of the review. The PRAC has recommended that no new patients should be started on ESMYA® but treatments in progress can be completed. These recommendations are temporary measures to protect patients' health. In May 2018 the PRAC announced new measures to minimise the risk of rare but serious liver damage. In June 2018 EMA's Committee for Medicinal Products for Human Use (CHMP) also issued a statement of opinion and supported the PRAC's recommendations. On 30 July 2018, after the adoption of the CHMP's opinion, the European Commission passed a decision regarding the marketing authorisation of 5 mg ESMYA® tablet. The decision is valid for all EU member states. Doctors have been sent a letter of information containing the restrictions imposed by the EC's decision.

To benefit from synergies the merger of Gedeon Richter Polska and Gedeon Richter Marketing Polska was performed in 2018.

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™. In August 2016, the two companies released a topline results from the MD-72 trial indicate that flexible doses of cariprazine did not separate significantly from placebo as an add-on treatment in adults with major depressive disorder in this trial. Then in December 2017 the two companies announced the second, and in April 2018, the third positive topline results for a phase III study of cariprazine for the treatment of adults with major depressive episodes associated with bipolar I disorder (bipolar I depression). Thus the efficacy and safety of cariprazine for the treatment of patients suffering from bipolar I depression are underpinned by three clinical trials for regulatory submission. In possession of these data, in September 2018 the FDA accepted Allergan's application for registration of the expansion of indication.

On 16 April 2018 Richter announced that on the basis of its mandate from the Board of Directors of the Company it approved the Statutes of the Richter Gedeon Nyrt. Employee Share Ownership Trust (ESOT) and the respective remuneration policy related to the allocations to be provided within the framework of an Employee's Share-Ownership Program for certain of its titleholders and key employees. The aim of the establishment of the ESOT is to strengthen the performance and loyalty of the titleholders and key employees through the sharing the success of the Company.

On 21 June 2018 Richter announced that with effect from 21 June 2018, the Romanian National Agency for Medicines and Medical Devices (NAMMD) suspended the licence of operation of Pharmafarm S.A., Richter's wholesaler subsidiary following a breach of Good Distribution Practice. After the suspension Pharmafarm's staff embarked without delay upon the development of a package of corrective and preventive measures that are in keeping with the requirements of the Authority. As a result, NAMMD lifted the withdrawal with effect from 18 September 2018.

In 2016 Richter announced the acquisition of Finox Holding, a Swiss based biotech company engaged in the development and commercialisation of innovative and cost effective products addressing female fertility. Finox Holding's product Bemfola® is a recombinant human follicle stimulating hormone (r-hFSH), the first biosimilar r-hFSH product. Richter has obtained global rights for Bemfola® (with the exception of the United States). On 10 July 2018 Richter announced that it concluded a sale and purchase agreement with Fertility Biotech AG in connection with the transfer of intellectual property rights, relevant studies, related data and documents of Bemfola®/Afolia, for the use in the United States.

Based on the successful U.S. Venus I and Venus II trials whose results were published in May 2016 and January 2017 respectively, our partner Allergan plc started in 2017 the registration application process for ulipristal acetate in treating women with uterine fibroids causing irregular uterine bleeding. On 22 August 2018 Allergan plc announced it received a Complete Response Letter from the U.S. Food and Drug Administration (FDA) regarding

registration. The FDA is requesting additional information, citing safety concerns regarding ESMYA post-marketing reports outside the United States.

In line with the specialty pharma strategy, on 12 September 2018 the Company announced that it had entered into a license and supply agreement with Mithra Pharmaceuticals to commercialize Estelle®, a combined oral contraceptive, containing estetrol and drospirenone. Richter is going to commercialize the product under a different brand name. The geographic scope of the agreement covers Europe and Russia.

On 18 September 2018 Richter announced that it had entered into a license and distribution agreement with L.D. Collins & Co. Limited, a UK based company, to commercialize its progesterone containing assisted reproduction technology (ART) product, Cyclogest®. The product will be commercialized in 27 EU countries for which marketing authorizations have already been granted.

In 2018 Richter took further steps to expand its international business through a capital increase some of in its manufacturing companies and continuing its investments. Driven by the goal of adapting to the Russian economic policy of favouring local production, Richter made supporting investments into the Russian subsidiary a special priority.

40. Events after the date of the balance sheet

On 11 January 2019 the Company announced that Mr. András Radó, Deputy Managing Director for Production and Logistics retired as of 2 January 2019 and will continue to support the company's day-to-day activity as a consultant. Chief Executive Officer Mr Gábor Orbán will supervise Production and Logistics pending the appointment of a new deputy managing director.

Dr. Margit Dr Pellionisz Paróczai, Director of Human Resources also retired at the end of 2018, and will participate in the activities of Richter's foundations. The new HR Director is Katalin Erdei.

In January 2019 the Canadian regulatory authority imposed restrictions on Fibristal (ulipristal acetate) commercialised by Allergan plc in Canada due to a potentially increased risk of liver damage.

On 1 February 2019 Richter announced the withdrawal of application for registration of the proprietary biosimilar product Efgratin (pegfilgrastim) due to its inability to relieve CHMP's concerns by the prescribed deadline.

Richter and the Dutch company Pantharhei announced that they had signed a license and supply agreement for the combined oral contraceptive ARC developed by Pantharhei and containing estradiol, levonorgestrel and dehydroepiandrosterone with the geographic scope covering Europe, Russia, Latin America and Australia. The product is under development with successfully completed Phase II trials and is ready for further clinical studies to obtain marketing approval. ARC (Androgen Restored Contraception) is a novel concept of oral contraception with the aim to restore sexual function with a special focus on sexual desire and arousal and to prevent mood disturbances.

On 5 February 2019 the Company announced that Mr. Lajos Kovács Director of Technical Services will be involved in Richter's day-to-day activity as a consultant. Chief Executive Officer Mr Gábor Orbán will supervise Technical Services pending the appointment of a new deputy managing director.

In February 2019 Richter announced that it had entered into a distribution and supply agreement with a subsidiary of Allergan plc to commercialize its Levosert in Latin American countries.

In February 2019 the Hungarian government decided to establish Maecenas Universitatis Corvini Foundation whose job it would be to operate Corvinus University of Budapest, and would transfer substantial funds to the Foundation the form of 10% of State-owned MOL and Richter shares each. The shares are non-alienable.

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

41. Approval of financial statements

Current Consolidated Financial Statements have been approved by the Board of Directors and authorised for release at 20 March 2019.

These Consolidated Financial Statements of the Company were approved for issue by the Company's Board of Directors (the Board), however, the Annual General Meeting (AGM) of the owners, authorized to accept these financials, has the right to require amendments before acceptance. The probability of any potential change required by the AGM is extremely remote.

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