2019 Gedeon Richter Consolidated Financial Statements

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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 2019 (in which the consolidated total assets is MHUF 858,651), the consolidated income statement, the consolidated statement of comprehensive income (in which the total comprehensive income for the year is MHUF 59,881 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 2019, 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 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 2019 to 31 December 2019, are disclosed in Note 5 of the consolidated 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.

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Our audit approach

Overview

Overall group materiality	Overall group materiality applied was MHUF 3,200
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 86% of the consolidated total assets, 80% 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 3,200
Determination	Approximately 3.9% 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 measure the performance of the Group against the profit before tax adjusted by one-off transactions. We chose 3.9% ratio as suitable considering the operation of the Group and the users of the consolidated financial statements.

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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 86% of the total assets and 80% 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's consolidated 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 net book value of the Group's goodwill related to PregLem S.A. amounts to HUF zero and the Esmya intangible asset amounts to MHUF 759 as of 31 December 2019 as a result of recording an impairment of MHUF 2,421 on the goodwill and an impairment of MHUF 28,801 on the intangible asset in the reporting period. See Notes in the accounting policy section VI)-VIII), Note 3.1 (Key sources of estimation uncertainty), Note 12.2 and 18 of the consolidated financial statements for management's disclosures of the balances, judgments and estimates on these assets. Uncertainties related to the Esmya intangible asset and the factors led to the write-off of PregLem S.A. goodwill are disclosed in Note 3.1 of the consolidated financial statements. Management has identified the events presented in Note 3.1 of the consolidated	Before becoming aware of the events after the balance sheet date disclosed in Note 3.1 of the consolidated financial statements, 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 Group 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*
financial statements as impairment indicators related to the Esmya intangible asset, therefore the Management has performed an impairment 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).	Adverse events after the balance sheet date presented in Note 3.1 to the consolidated financial statements significantly reduced the uncertainties related to impairment of intangible asset and goodwill. We have assessed the events to be adjusting events in accordance with *IAS 10 Events after the Reporting Period.*
We paid special attention to the intangible asset and goodwill due the existing uncertainty through the year as well as the material impact of their impairment on the results.	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.*
Valuation of other goodwill balances The Group has other goodwill balance of MHUF 29,503 as of 31 December 2019. Management's disclosures of the balances, judgments and estimates on these assets were disclosed in notes in the accounting policy section VI, Note 3.1 (Key sources of estimation uncertainty) and 18 of the consolidated financial statements. 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 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.	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. 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.

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Key audit matter	*How our audit addressed the key audit matter*
We focused on goodwill related to GRMed Company Ltd. which represents more than 86% of the entire balance.	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*.

Other information: the consolidated business report and the annual report

Other information comprises the 2019 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 its 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.

In our opinion, the 2019 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 2019 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 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 10 years.

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

Budapest, 23 March 2020

Árpád Balázs
Partner
Statutory auditor
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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	2019 HUFm	2018 HUFm
Revenues	5	**507,794**	**445,484**
Cost of sales		(224,500)	(191,648)
Gross profit		**283,294**	**253,836**
Sales and marketing expenses		(121,819)	(115,584)
Administration and general expenses		(28,977)	(24,070)
Research and development expenses		(48,860)	(40,545)
Other income and other expenses (net)	5	(44,793)	(29,004)
Net impairment losses on financial and contract assets		1,051	407
Profit from operations	**5**	**39,896**	**45,040**
Finance income	7	20,500	19,285
Finance costs	7	(10,206)	(21,427)
Net financial income/(loss)	**7**	**10,294**	**(2,142)**
Share of profit of associates and joint ventures	14	658	1,055
Profit before income tax		**50,848**	**43,953**
Income tax	8	(2,418)	(7,760)
Profit for the year		**48,430**	**36,193**
Profit attributable to			
Owners of the parent		47,135	35,348
Non-controlling interest		1,295	845
Earnings per share (HUF)	9		
Basic and diluted		253	190

Consolidated Statement of Comprehensive Income

for the year ended 31 December	Notes	2019 HUFm	2018 HUFm
Profit for the year		**48,430**	**36,193**
Items that will not be reclassified to profit or loss (net of tax)			
Actuarial loss on retirement defined benefit plans	28	(640)	(353)
Changes in the fair value of equity investments at fair value through other comprehensive income	24	3,810	(5,154)
		3,170	**(5,507)**
Items that may be subsequently reclassified to profit or loss (net of tax)			
Exchange differences arising on translation of foreign operations		8,460	4,609
Exchange differences arising on translation of associates and joint ventures	14	(179)	(95)
		8,281	**4,514**
Other comprehensive income for the year		**11,451**	**(993)**
Total comprehensive income for the year		**59,881**	**35,200**
Attributable to:			
Owners of the parent		58,336	34,168
Non-controlling interest		1,545	1,032

The notes on pages 20-97 form an integral part of the Consolidated Financial Statements.

Consolidated Balance Sheet

	Notes	31 December 2019 HUFm	31 December 2018 HUFm
ASSETS			
Non-current assets			
Property, plant and equipment	12	244,754	214,880
Investment property		111	135
Goodwill	18	29,503	35,386
Other intangible assets	12	127,635	151,648
Investments in associates and joint ventures	14	16,192	11,755
Other financial assets	15	19,030	9,452
Deferred tax assets	16	6,988	7,895
Loans receivable	17	2,021	2,626
Long term receivables	15	2,837	6,035
		449,071	**439,812**
Current assets			
Inventories	19	98,995	92,687
Trade receivables	20	154,426	129,006
Contract assets	21	3,466	1,425
Other current assets	21	21,376	16,187
Investments in securities	22	1,545	4,728
Current tax asset	16	1,199	1,017
Cash and cash equivalents	23	128,573	113,021
		409,580	**358,071**
Total assets		**858,651**	**797,883**
EQUITY AND LIABILITIES			
Capital and reserves			
Equity attributable to owners of the parent			
Share capital	24	18,638	18,638
Treasury shares	25	(3,870)	(2,186)
Share premium		15,214	15,214
Capital reserves		3,475	3,475
Foreign currency translation reserves	24	22,213	14,182
Revaluation reserve for securities at FVOCI	24	8,620	4,810
Retained earnings		653,691	626,052
		717,981	**680,185**
Non-controlling interest	13	6,892	5,560
		724,873	**685,745**
Non-current liabilities			
Borrowings	29	-	2
Deferred tax liability	16	1,925	7,176
Other non-current liabilities and accruals	30	18,004	9,255
Provisions	28	4,287	3,554
		24,216	**19,987**
Current liabilities			
Borrowings	29	-	-
Trade payables	26	61,770	54,549
Contract liabilities	27	745	85
Current tax liabilities	16	382	438
Other payables and accruals	27	42,721	33,664
Provisions	28	3,944	3,415
		109,562	**92,151**
Total equity and liabilities		**858,651**	**797,883**

The notes on pages 20-97 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 securities at FVOCI	Foreign currency translation reserves	Retained earnings	Equity attributable to owners of the parent	Non-controlling interest	Total
		HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
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 retirement defined benefit plans	28	-	-	-	-	-	-	(353)	(353)	-	(353)
Revaluation reserve for securities 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**
Purchase of treasury shares	25	-	-	-	(3,607)	-	-	-	(3,607)	-	(3,607)
Transfer of treasury shares	25	-	-	-	1,836	-	-	(1,836)	-	-	-
Recognition of share-based payments	24	-	-	-	-	-	-	1,697	1,697	-	1,697
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
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 20-97 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019	Notes	Share capital	Share premium	Capital reserves	Treasury shares	Revaluation reserve for securities at FVOCI	Foreign currency translation reserves	Retained earnings	Equity attributable to owners of the parent	Non-controlling interest	Total
		HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Balance at 1 January 2019		**18,638**	**15,214**	**3,475**	**(2,186)**	**4,810**	**14,182**	**626,052**	**680,185**	**5,560**	**685,745**
Profit for the year		-	-	-	-	-	-	47,135	47,135	1,295	48,430
Exchange differences arising on translation of foreign operations		-	-	-	-	-	8,210	-	8,210	250	8,460
Exchange differences arising on translation of associates and joint ventures	14	-	-	-	-	-	(179)	-	(179)	-	(179)
Actuarial loss on retirement defined benefit plans	28	-	-	-	-	-	-	(640)	(640)	-	(640)
Revaluation reserve for securities at FVOCI	24	-	-	-	-	3,810	-	-	3,810	-	3,810
Comprehensive income for year ended 31 December 2019		**-**	**-**	**-**	**-**	**3,810**	**8,031**	**46,495**	**58,336**	**1,545**	**59,881**
Purchase of treasury shares	25	-	-	-	(3,539)	-	-	-	(3,539)	-	(3,539)
Transfer of treasury shares	25	-	-	-	1,855	-	-	(1,855)	-	-	-
Recognition of share-based payments	24	-	-	-	-	-	-	1,636	1,636	-	1,636
Ordinary share dividend for 2018	31	-	-	-	-	-	-	(18,637)	(18,637)	-	(18,637)
Dividend paid to non-controlling interest		-	-	-	-	-	-	-	-	(213)	(213)
Acquisition of non-controlling interest		-	-	-	-	-	-	-	-	-	-
Additional paid in capital to subsidiaries		-	-	-	-	-	-	-	-	-	-
Sale of subsidiary		-	-	-	-	-	-	-	-	-	-
Transactions with owners in their capacity as owners for year ended 31 December 2019		**-**	**-**	**-**	**(1,684)**	**-**	**-**	**(18,856)**	**(20,540)**	**(213)**	**(20,753)**
Balance at 31 December 2019		**18,638**	**15,214**	**3,475**	**(3,870)**	**8,620**	**22,213**	**653,691**	**717,981**	**6,892**	**724,873**

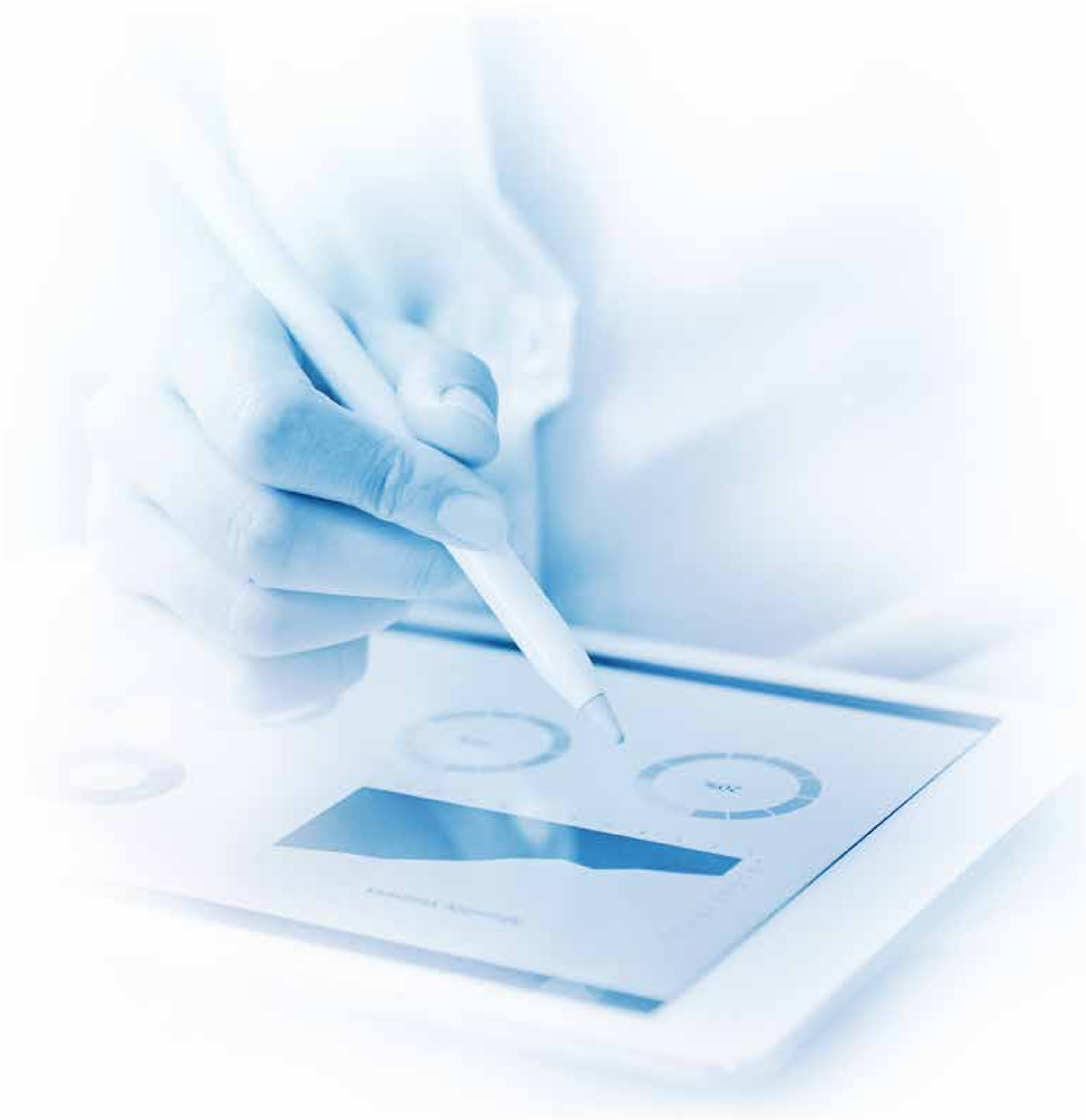
The notes on pages 20-97 form an integral part of the Consolidated Financial Statements.

Consolidated Cash Flow Statement

for the year ended 31 December	Notes	2019 HUFm	2018 HUFm
Operating activities			
Profit before income tax		50,848	43,953
Depreciation and amortisation	5	39,320	34,907
Non-cash items accounted through Consolidated Income Statement	14	(503)	2,130
Net interest and dividend income	7	(320)	(1,362)
Changes in provision for defined benefit plans	28	733	249
Reclass of results on changes of property, plant and equipment and intangible assets		1,725	312
Impairment recognised on intangible assets and goodwill	12,18	38,055	24,680
Expense recognised in respect of equity-settled share based payments	24	1,636	1,743
Movements in working capital			
Increase in trade and other receivables		(33,063)	(4,617)
Increase in inventories		(6,308)	(8,772)
Increase in payables and other liabilities		13,452	13,300
Interest paid		(1)	(2)
Income tax paid	16	(7,360)	(6,178)
Net cash flow from operating activities		**98,214**	**100,343**
Cash flow from investing activities			
Payments for property, plant and equipment*		(39,507)	(39,073)
Payments for intangible assets*		(18,578)	(18,982)
Proceeds from disposal of property, plant and equipment		1,449	736
Government grant received related to investments		2,428	901
Payments to acquire financial assets		(11,633)	(3,291)
Proceeds on sale or redemption on maturity of financial assets		4,731	17,498
Disbursement of loans net		492	(646)
Interest received	7	914	1,349
Dividend received	7	1	15
Net cash outflow on purchase of group of assets		-	(2,881)
Net cash flow to investing activities		**(59,703)**	**(44,374)**
Cash flow from financing activities			
Purchase of treasury shares	25	(3,539)	(3,653)
Dividend paid	31	(18,850)	(12,673)
Principal elements of lease payments	12	(3,791)	-
Repayment of borrowings	29	(2)	-
Net cash flow to financing activities		**(26,182)**	**(16,326)**
Net increase/(decrease) in cash and cash equivalents		**12,329**	**39,643**
Cash and cash equivalents at beginning of year		**113,021**	**76,041**
Effect of foreign exchange rate changes on the balances held in foreign currencies		3,223	(2,663)
Cash and cash equivalents at end of year		**128,573**	**113,021**

* 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 20-97 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 16 effective from 1 January 2019, 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 2019 and the Group has adopted:

- IFRS 16, Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019, the EU has endorsed the amendments). 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 are 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 the effect of initial application of the standard in Note 38.

B) The following standards and amended standards became effective for the Group from 1 January 2019, but did not have any material impact on the Group:

- IFRIC 23 Uncertainty over income tax treatments (issued on June 2017 and effective for annual periods beginning on or after 1 January 2019, the EU has endorsed the amendments).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual 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 endorsed the amendments).
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019, the EU has endorsed the amendment on 13 March 2019).

C) 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 annual 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).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020, the EU has endorsed the amendments).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual 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 annual periods beginning on or after 1 January 2020, the EU has endorsed the amendments).
- Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020, the EU has endorsed the amendments).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022, the EU has not yet endorsed the amendments).

Any other new/modified standards or interpretations are not expected to have a significant impact on the Consolidated Financial Statements of 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 16 from 1 January 2019, 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 Consolidated 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 Consolidated 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 Consolidated Income Statement. Foreign exchange gains and losses are presented in the Consolidated 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

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 as well as considering the estimated discounts to be provided after the sales already performed and after eliminating sales within the Group. Revenue on sales transactions is recognised upon fulfilment the terms of sales contracts.

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
- performance-related milestone received for products with marketing authorisation (e.g. cumulative sales related milestone),
- contract manufacturing service
- other services including provision of marketing service, performing transportation activity etc.

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

The 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.
Income arising from the sale/transfer or partial sale of intangible assets - capitalized or not - not directly attributable to current R&D expenses, is recognized as Other income and other expenses (net). Additionally, Other income and expenses (net) include milestone and down-payments realised on the sale/transfer of non-capitalized intangible assets.

D) Interest Income

Interest income from financial assets at FVTPL is included in the net fair value gains/(losses) on these assets, presented as Finance income or Finance expense. Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in the statement of profit or loss as part of Finance income.

E) Dividend Income

Dividends are received from financial assets measured at fair value through profit or loss (FVTPL), at fair value through other comprehensive income (FVOCI). 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, Investment property and Right-of-use assets

A) Property, plant and equipment

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

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

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

B) Investment property

Investment properties, which are held to earn rentals are measured initially at historical 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.

C) Right-of-use assets

The Group as a lessee applies the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset, subject to the requirements as follows:

If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

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

Financial instruments are all contracts which mean a financial asset at an entity and financial liability or equity instrument at another entity at the same time.

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

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

A) Debt instruments measured at amortised cost

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

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

B) Debt instruments measured at fair value through OCI

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

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

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

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

D) 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.

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

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 XVII) 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

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

XIV) Loans receivable

Loans receivables include given loans measured at amortised cost. 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 2019. Derivative financial instruments are classified under „Non-current assets" and „Non-current liabilities", if the instrument has a residual maturity of more than 12 months and is not expected to be realized within 12 months. Other derivative contracts are presented under „Other current assets" and „Other payables and accruals".

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 2019 and as of 31 December 2018.

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 Consolidated 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) Leases

The Group has applied IFRS 16 using the modified retrospective approach. Therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately and the impact of changes is disclosed in Note 38.

Accounting policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:
the Group applies comparative pricing method for calculating interest rate. The reference interest rate is determined based on public data related to the specific market taking into consideration the amount, currency, maturity date of the transaction, the borrower's business sector and the purpose of the financing.

Lease payments are allocated between cost of sales, operating expenses and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Exemptions

Contracts may contain both lease and non-lease components. The Group applies the practical expedient allowed by IFRS 16.15 and does not separate non-lease components from lease components and accounts for any lease components and associated non-lease components as a single lease component.

Payments associated with short-term leases for all assets and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets (that the underlying assets, when new, are individually low value that is under HUF 1.5 million) comprise IT and office equipment.

Where the Group acts as a lessor, the lease is classified to be either finance lease (where substantially all of the risks and rewards incidental to ownership are transferred to the lessee) or operating lease. Currently the Group does not act as finance lessor.

For operating lease the Group continues to recognize the underlying asset and do not recognize a net investment in the lease on the balance sheet or initial profit (if any) on the income statement. The underlying asset continues to be accounted for in accordance with applicable accounting standards (e.g., IAS 16). Lessors subsequently recognize lease payments over the lease term on either a straight-line basis or another systematic and rational basis if that basis better represents the pattern in which benefit is expected to be derived from the use of the underlying asset.

Accounting policy based on IAS 17 (in financial year 2018)

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 Consolidated 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 Consolidated 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 Consolidated 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 Consolidated 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 and PRAC recommendation on 13 March 2020 to ESMYA® sales

In December 2017, the European Medicines Agency (EMA) Pharmacovigilance Risk Assessment Committee (PRAC) started a review of drug induced liver injury potentially related to ESMYA® (ulipristal-acetate) that applies to all EU Member States. On 9 February 2018, the EMA initiated the implementation of temporary measures as part of the review process.

The PRAC's final recommendations were published on 18 May 2018 which were adopted by Committee for Medicinal Products for Human Use (CHMP) (01 June 2018) and based on CHMP's opinion the European Commission decided to implement them on 26 July 2018.
Richter takes the safety of patients seriously. Based on the data collected during clinical trials, the Management believes that ESMYA® is a safe medicinal product, and Richter is committed to provide this unique treatment option to women suffering myoma tumor.

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

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

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

In August 2019 the deadline to take further response and actions regarding the CPL expired and no further actions were taken, therefore the FDA withdrew the request for drug application. Neither the Company nor the licensing partner Allergan intend to submit a new application.

On 13 March 2020 the Company announced, subsequent to its meeting held on 09-12 March 2020 the Pharmacovigilance Risk Assessment Committee (PRAC) of European Medicines Agency (EMA) has started a review procedure following a recent case of liver injury which led to liver transplantation in a patient taking ESMYA®. PRAC recommends suspension of ulipristal acetate for uterine fibroids during ongoing review of liver injury risk. The PRAC has recommended, as a precautionary measure, that women should stop taking 5-mg ulipristal acetate (Esmya and generic medicines) for uterine fibroids while a safety review started this month is ongoing. No new patients should start treatment with these medicines.

The Group concluded that according to IAS 10 the event mentioned above is an adjusting event after the reporting period.

The Group prepared its Consolidated Financial Statements for 2018, considering the negative effects of European Commission’s decision on ESMYA®, the PRAC recommendation issued in 2020 and the withdrawn application by FDA. Based on that, Management has reduced its long-term sale forecasts for ESMYA® in markets in EU and North-America. In addition to the revised forecasts, the Group has accounted for impairment on PregLem goodwill and on intangible assets. The overall value is totalled to HUF 31,222 million. Please see further details in Notes 18 and 12.2.

As a result of EC’s resolution, PRAC’s recommendation and the withdrawn application for US territory, 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 2019** HUFm	**31 December 2018** HUFm
Goodwill	0	2,268
ESMYA EU, NA and other ESMYA intangible assets	759	30,823
Total exposure	**759**	**33,091**

Taken into account the PRAC’s recommendation issued in 2020, the Group discloses the ESMYA® related inventory on 31 December 2019 as a further exposure:

ESMYA® related inventory	**31 December 2019** HUFm
EU	163
Other countries	230
Total exposure	**393**

The recoverability of these inventories may be partly affected by the PRAC’s recommendation issued in 2020. The Group does not expect the effect of potential returns to be material, therefore did not take into account during the preparation of the Consolidated Financial Statements.

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 was lower by 10% in comparison to management's estimates, depreciation for the year ended 31 December 2019 would be greater by HUF 3,958 million (2018: increase by 3,878 HUF million).

The Group recorded depreciation and amortisation expense in the amount of HUF 35,628 million and HUF 34,907 million for the years ended 31 December 2019 and 2018, respectively.

Unlike property, plant and equipment and intangible assets, there is another type of decision uncertainty when reviewing the depreciation of the right-of-use assets, whereas the estimated useful lives of these assets are essentially determined by the duration of the lease and not by the useful life of the asset. The depreciation of the right-of-use assets during the current year was not significant (HUF 3,692 million) comparing to the depreciation of the fixed assets (HUF 35,628 million). For these reasons, the uncertainty arising from the depreciation of the right-of-use asset is not quantified.

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., annulling 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 had been recognised in 2018.

3.2 Critical judgements in applying entities accounting policies

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 unused tax losses 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. On consolidated level there are further taxable temporary differences associated to the Parent Company (related to the BEMFOLA intangible asset as disclosed in Note 16) that provides partial recoverability to these deductible temporary differences in accordance with the guidance of IFRIC issued on May 2014 on "Income taxes- recognition and measurement on deferred tax assets when an entity is loss-making".

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
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
3rd party revenues	397,712	356,024	109,244	88,596	838	864	-	-	507,794	445,484
Inter segment revenues	9,630	8,707	2	2	5,804	5,391	(15,436)	(14,100)	-	-
Revenues	**407,342**	**364,731**	**109,246**	**88,598**	**6,642**	**6,255**	**(15,436)**	**(14,100)**	**507,794**	**445,484**
Profit from operations	38,835	44,631	734	(97)	340	331	(13)	175	39,896	45,040
Total assets	927,894	867,803	63,279	52,726	4,027	3,777	(136,549)	(126,423)	858,651	797,883
Contract assets	3,466	1,425	-	-	-	-	-	-	3,466	1,425
Total liabilities	102,468	89,088	51,794	40,927	979	990	(21,463)	(18,867)	133,778	112,138
Contract liabilities	745	85	-	-	-	-	-	-	745	85
Capital expenditure**	57,350	57,167	537	650	198	238	-	-	58,085	58,055
Depreciation and amortization*	37,801	33,965	1,237	702	217	240	65	-	39,320	34,907
from this: IFRS16 related	*3,145*	-	*547*	-	-	-	-	-	*3,692*	-
Share of profit of associates and joint ventures	(388)	(431)	1,230	1,428	43	27	(227)	31	658	1,055
Investments in associates and joint ventures	6,957	2,794	8,112	7,722	1,289	1,316	(166)	(77)	16,192	11,755

* 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

2019	Hungary	CIS	EU	USA	China	Latin America	Other countries	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
Timing of revenue recognition								
At a point in time	39,763	137,285	199,627	13,405	18,975	10,663	18,868	438,586
Over time	739	114	9,220	57,696	-	2	1,437	69,208
Revenues	**40,502**	**137,399**	**208,847**	**71,101**	**18,975**	**10,665**	**20,305**	**507,794**
Total assets	625,054	77,377	127,565	2,843	2,345	8,611	14,856	858,651
Capital expenditure	49,807	2,239	4,715	-	-	98	1,226	58,085

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	-	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

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

Analyses of revenue by category	**2019**	**2018**
	HUFm	HUFm
Sale of goods	438,586	408,280
Revenue from services	13,556	12,068
Royalty income	55,652	25,136
Total revenues	**507,794**	**445,484**

Revenues of approximately HUF 54,637 million (2018: HUF 24,221 million) are derived from a single external customer (Allergan) that exceeded 10% of total revenues. The revenue is royalty and milestone payments, related to Vraylar™ and are attributable to the Pharmaceuticals segment and located in the USA region. There was no other customer exceeding 10% of revenues in 2019. In 2018, there was no customer exceeding 10% of total revenues.

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

	31 December 2019	31 December 2018
	HUFm	HUFm
Contract assets	3,466	1,425
Contract liabilities	745	85

5. Profit from operations – expenses by nature

	2019	2018
	HUFm	HUFm
Revenues	507,794	445,484
From this: royalty and other similar income	*55,652*	*25,136*
Changes in inventories of finished goods and work in progress, cost of goods sold	(129,668)	(82,268)
Material type expenses	(122,768)	(133,645)
Personnel expenses	(132,400)	(121,027)
Depreciation and amortisation (Note 12)	(39,320)	(34,907)
from this: IFRS16 related	*(3,692)*	-
Other income and other expenses (net)	(44,793)	(29,004)
from this: IFRS16 related	*22*	-
Net impairment losses on financial and contract assets	1,051	407
Profit from operations	**39,896**	**45,040**

In 2019 the statutory auditor provided other assurance services for HUF 30 million (HUF 17 million in 2018), and other non-audit services for HUF 38 million (HUF 33 million in 2018). There were no fees charged for tax advisory services (HUF 5 million in 2018). The fee for the statutory audit amounted to HUF 22 million in 2019 and HUF 19 million in 2018.

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 1,051 million in 2019 and HUF 407 million in 2018.

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

The balance of other income and expense changed from HUF 29,004 million (expense) in the base period to HUF 44,793 million (expense) in 2019.

The impairment tests of ESMYA for the 2019 financial statements had to be conducted in consideration of decisions by the regulatory authorities and market effects. As a result, the Group reported HUF 29,114 million impairment of the intangible asset ESMYA. (See details in Note 3.1). Furthermore Executive Board decided to discontinue the Trastuzumab development project resulting in HUF 2,096 million in impairment. In 2018 the impairment of the intangible asset ESMYA was HUF 13,788 million.

In the reported period HUF 5,717 million one-off milestone income was reported in conjunction with the extended indication of cariprazine and the related licensing agreements. In the previous year 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 indication extension.

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 3,300 million in 2019 (in 2018 HUF 4,784 million). The 20% tax obligation payable in respect of turnover related to reimbursed sales in Hungary amounted to HUF 631 million in 2019 and HUF 432 million in 2018.

In 2019 an impairment loss amounting to HUF 7,104 million was recorded in respect of the Goodwill related to PregLem S A., GR Med and GR Mexico. In 2018, HUF 10,482 million was charged in respect of PregLem related Goodwill. For details please see in Note 18.

Depreciation charge of right-of-use assets:

	2019
	HUFm
Land	(20)
Building	(2,181)
Machinery	(1)
Office equipment	(15)
Vehicles	(1,475)
Total	**(3,692)**

The Consolidated Income Statement includes HUF 2,829 million expenses from short-term, low-value and variable lease payments.

6. Employee information

	2019	**2018**
Average number of people employed during the year	12,906	12,696

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:

	2019	2018
	HUFm	HUFm
Unrealised financial items	**(740)**	**(2,106)**
Exchange gain/(loss) on trade receivables and trade receivables	360	(3,259)
Gain on foreign currency loans receivable	1,166	1,276
Foreign exchange and fair valuation difference of other financial assets and liabilities	(1,582)	(96)
Result of unrealised forward exchange contracts	-	(27)
Interest expenses related to IFRS 16 standard	(594)	-
Year-end foreign exchange difference related to IFRS 16 standard	(90)	-
Realised financial items	**11,034**	**(36)**
Exchange gain realised on trade receivables and trade payables	8,971	316
Foreign exchange difference on conversion of cash	1,283	1,305
Dividend income	1	15
Interest income	914	1,349
Interest expense	(1)	(2)
Other financial items	(134)	(3,019)
Total	**10,294**	**(2,142)**

Unrealised financial gain was heavily affected by the 4.74 RUB/HUF, 294.74 USD/HUF and 330.52 EUR/HUF exchange rates as of 31 December 2019 (4.05 RUB/HUF on 31 December 2018, 280.94 USD/HUF and 321.51 EUR/HUF respectively) which impacted the revaluation of currency related Balance Sheet items, primarily foreign currency loans receivable. This gain was partly offset by a fair valuation loss of the acquired Mycovia asset, presented as financial assets measured at fair value through profit or loss (Note 10, 11 and 15). These translation and fair valuation differences together resulted in a loss of HUF 56 million in the net financial loss for 2019. For the sensitivity analysis relating to foreign currency exposure see Note 10.

The Group did not apply hedge accounting under IFRS 9 derivative transactions are reported at fair value as established by the bank.

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

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.

	2019	**2018**
	HUFm	HUFm
Corporate income tax	(2,469)	(1,978)
Local business tax	(4,079)	(3,529)
Innovation contribution	(614)	(533)
Current tax	**(7,162)**	**(6,040)**
Deferred tax (Note 16)	4,744	(1,720)
Income tax	**(2,418)**	**(7,760)**

The average effective tax rate calculated on the basis of the current tax is 14.1% and 4.8% taking into account the effect of deferred tax as well, in 2018 these rates were 13.7% and 17.7% 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

	2019	2018
	HUFm	HUFm
Profit before income tax	**50,848**	**43,953**
Tax calculated at domestic tax rates applicable to profits in the respective countries*	8,907	8,660
Tax effects of:		
Associates results reported net of tax	(59)	(95)
Income not subject to tax	(2,262)	(1,267)
Expense not deductible for tax purposes	504	331
Expense eligible to double deduction**	(3,203)	(2,839)
The effect of changes in tax loss for which no deferred income tax has been recognised***	(44)	2,752
Effect of change in tax rate	(1,622)	-
Impact of deferred tax exceptions on subsidiaries and goodwill****	197	218
Tax charge	**2,418**	**7,760**

* 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 equipment that formed part of the project was commissioned. The Company took advantage of the investment tax benefit for the first time in financial year 2012, proceeding and calculating it in accordance with the applicable laws and regulations. For financial year 2019, the Company did not have corporate income tax liability, therefore it did not utilize any development tax benefit.
The remaining tax relief in connection with the Debrecen project is available for subsequent year's with an amount of HUF 2,049 million at current value. Therefore Richter is able to take advantage of the tax relief up to 2021, at the latest.

Accounting treatment of the tax credit

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

9. Consolidated earnings per share

Basic earnings per share is calculated by reference to the net profit attributable to shareholders of the Parent Company and the weighted average number of ordinary shares outstanding during the year. These exclude the average number of ordinary shares purchased by the Company and held as Treasury shares.
For diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to assume conversion of all dilutive potential ordinary shares. As of 31 December 2018 and 31 December 2019 there are no potential dilutive instruments issued by the Group.

EPS (basic and diluted)	**2019**	**2018**
Net consolidated profit attributable to owners of the parent (HUFm)	47,135	35,348
Weighted average number of ordinary shares outstanding (thousands)	186,011	186,314
Earnings per share (HUF)	**253**	**190**

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 2019	31 December 2018	31 December 2019	31 December 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	673	225	673	225
Trade receivables	20	154,426	129,006	154,426	129,006
Other current assets	21	7,315	5,595	7,315	5,595
Cash and cash equivalents	23	128,573	113,021	128,573	113,021
Financial assets measured at fair value through profit or loss					
Other securities[2]	22	1,545	-	1,545	-
Current		**292,532**	**252,575**	**292,532**	**252,575**
Financial assets measured at amortised cost					
Investments in debt securities	15	57	55	57	55
Loans receivable	17	2,021	2,171	2,021	2,171
Financial assets measured at fair value through OCI					
Investments	15	13,546	9,397	13,546	9,397
Financial assets measured at fair value through profit or loss					
Other financial assets	15	5,427	-	5,427	-
Convertible loan	17	-	455	-	455
Non-current		**21,051**	**12,078**	**21,051**	**12,078**
Financial liabilities					
Liabilities carried at amortised cost					
Borrowings		-	-	-	-
Trade payables	26	61,770	54,549	61,770	54,549
Other payables and accrual	27	33,706	25,381	33,706	25,381
from this: Lease liabilities		*3,729*	-	*3,729*	-
Current		**95,476**	**79,930**	**95,476**	**79,930**
Liabilities carried at amortised cost					
Borrowings	29	-	2	-	2
Other non-current liabilities	30	11,318	164	11,318	164
from this: Lease liabilities		*10,296*	-	*10,296*	-
Non-current		**11,318**	**166**	**11,318**	**166**

[1] All financial assets are free from liens and charges.
[2] Convertible promissory note to associates is presented as Other securities.

Above mentioned different levels have been defined as follows:

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

Financial risk management

During the year Gedeon Richter Plc. has identified its relevant financial risks that are continuously monitored and evaluated by 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

Convertible promissory note denominated in foreign currency is presented as Investment in securities. The value of this financial instrument is influenced by the FX change. The most significant investments of the Group are represented by the interest held in Protek Group and Themis Medicare Ltd. Most of the security price risk is related to Protek investment which is stated in Note 15.

I) Capital management

The capital structure of the Group consists of net debt (borrowings as detailed in Note 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 and also taking into account the Company's net cash flow and the financing needs of the ongoing acquisition projects.
The amount of 2019 dividend per ordinary share is HUF 63 as proposed by the Board of Directors.

The capital risk of the Group was still limited in both 2019 and 2018, 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 2019	31 December 2018
	HUFm	HUFm
Borrowings (Note 29)	-	2
Less: cash and cash equivalents (Note 23)	(128,573)	(113,021)
Net debt	**(128,573)**	**(113,019)**
Total equity	724,873	685,745
Total capital	**596,300**	**572,726**
EBITDA*	75,524	79,947
Net debt to EBITDA ratio	**(1.70)**	**(1.41)**
Net debt to equity ratio	**(0.18)**	**(0.16)**

* The Group defines EBITDA as operating profit increased by depreciation and amortization expense. From 1 January 2019 the Group applies the IFRS 16 Leases standard. As a result of the new standard certain rental expenses are capitalised and the expense is charged as depreciation and interest expense. Such depreciation related to the right-of-use assets is not added back when determining the EBITDA.

	2019	2018
	HUFm	HUFm
Profit from operations	39,896	45,040
Depreciation (except for right-of-use asset)	35,628	34,907
EBITDA*	**75,524**	**79,947**

* The Group defines EBITDA as operating profit increased by depreciation and amortization expense. From 1 January 2019 the Group applies the IFRS 16 Leases standard. As a result of the new standard certain rental expenses are capitalised and the expense is charged as depreciation and interest expense. Such depreciation related to the right-of-use assets is not added back when determining the EBITDA.

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:

2019					**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	
103.07%	**335.35**											
		305.15	**1.10**	**77.95**	**70.84**	**4.94**	**305.96**	**0.84**	**43.36**	**12,239**	**13,380**	**largest growth**
		290.62	1.15	75.63	68.73	4.49	291.39	0.76	42.07	1,039	1,192	
		276.09	1.21	73.31	66.62	4.04	276.82	0.68	40.78	(10,161)	(10,997)	
100.00%	325.36											
		305.15	1.07	77.95	70.84	4.94	305.96	0.84	43.36	11,200	12,188	
		290.62	1.12	75.63	68.73	4.49	291.39	0.76	42.07	0	0	
		276.09	1.18	73.31	66.62	4.04	276.82	0.68	40.78	(11,200)	(12,188)	
96.93%	**315.37**											
		305.15	1.03	77.95	70.84	4.94	305.96	0.84	43.36	10,161	10,997	
		290.62	1.09	75.63	68.73	4.49	291.39	0.76	42.07	(1,039)	(1,192)	
		276.09	**1.14**	**73.31**	**66.62**	**4.04**	**276.82**	**0.68**	**40.78**	**(12,239)**	**(13,380)**	**greatest decrease**

* Change of EUR/HUF average exchange rates.

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**											
		282.93	**1.16**	**77.18**	**70.62**	**4.75**	**288.87**	**0.87**	**42.08**	**9,627**	**9,165**	**largest growth**
		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)	
		255.99	**1.21**	**72.48**	**66.32**	**3.89**	**261.35**	**0.71**	**39.52**	**(9,627)**	**(9,165)**	**greatest decrease**

* Change of EUR/HUF average exchange rates.

Based on the yearly average currency rate sensitivity analysis of 2019 the combination of weak Hungarian Forint –335.35 EUR/HUF against other currencies – would have caused the largest growth in the amount of HUF 12,239 million on the Group's consolidated operating profit and HUF 13,380 million on the Group's consolidated profit for the year. The greatest decrease HUF 12,239 million on operating and HUF 13,380 million on profit for the year would have been caused by the combination of exchange rates of 315.37 EUR/HUF against other currencies.

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.

Currency sensitivity of balance sheet items

Foreign currency risk can only arise on financial instruments that are denominated in a currency other than the functional currency in which they are measured. Translation exposures arise from financial and non-financial items held by an entity with a functional currency different from the Group's presentation currency.
Currency sensitivity analysis of balance sheet items is applied to third party trade receivables and trade payables, bank accounts, loans receivable, borrowings and 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. Recently, Management has experienced higher sensitivity in case of certain currencies, therefore these currencies have been diverted more when determining the exchange rate combinations (RUB, KZT +/- 10%; USD, CHF +/- 5%).

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

2019				**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	
103.07%	**340.67**										
		309.48	**1.10**	**79.97**	**71.20**	**5.21**	**319.61**	**0.85**	**43.64**	**7,353**	**best case scenario**
		294.74	1.16	77.59	69.08	4.74	304.39	0.77	42.34	402	
		280.00	1.22	75.21	66.96	4.27	289.17	0.69	41.04	(6,548)	
100.00%	330.52										
		309.48	1.07	79.97	71.20	5.21	319.61	0.85	43.64	6,950	
		294.74	1.12	77.59	69.08	4.74	304.39	0.77	42.34	-	
		280.00	1.18	75.21	66.96	4.27	289.17	0.69	41.04	(6,950)	
96.93%	**320.37**										
		309.48	1.04	79.97	71.20	5.21	319.61	0.85	43.64	6,548	
		294.74	1.09	77.59	69.08	4.74	304.39	0.77	42.34	(402)	
		280.00	**1.14**	**75.21**	**66.96**	**4.27**	**289.17**	**0.69**	**41.04**	**(7,353)**	**worst case scenario**

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

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**										
		295.00	**1.12**	**77.20**	**71.20**	**4.50**	**299.40**	**0.80**	**42.20**	**6,799**	**best case scenario**
		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)	
		266.90	**1.17**	**72.50**	**66.80**	**3.60**	**270.90**	**0.70**	**39.60**	**(6,791)**	**worst case scenario**

* 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 7,353 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 7,353 million.

In 2018 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 6,791 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 6,799 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:

2019	**Currencies** (all amounts in millions)							
	EUR	USD	CHF	RUB	RON	PLN	KZT	CNY
Loans receivable	0.5	2.1	-	-	-	-	-	-
Trade receivables	63.2	93.9	0.9	8,090.9	494.9	88.8	1,910.6	130.4
Investments in securities	-	26.3	-	-	-	-	-	-
Bank deposits	57.6	34.2	0.8	27.3	0.2	3.6	519.5	47.1
Trade payables	(31.3)	(3.5)	(0.4)	(47.3)	(415.8)	(9.6)	(33.3)	-
Other liabilities	(0.1)	(16.7)	-	(225.7)	-	-	-	-
Lease liabilities	(63.0)	(0.7)	(0.6)	(32.2)	(0.9)	(22.1)	-	-
Total	**26.9**	**135.6**	**0.7**	**7,813.0**	**78.4**	**60.7**	**2,396.8**	**177.5**

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**

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. In 2019 there is only one customer (Allergan) where the turnover exceeds 10% of total revenues. The revenue is royalty and milestone payments, related to Vraylar™.
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 2019	Type of security		
		Credit insurance	Bank guarantee	L/C
	HUFm	HUFm	HUFm	HUFm
CIS	30,747	13,433	17,314	-
EU	420	-	420	-
USA	-	-	-	-
China	-	-	-	-
Latin America	171	171	-	-
Other	698	351	149	198
Total	**32,036**	**13,955**	**17,883**	**198**

Regions	Trade receivables secured as at 31 December 2019	Type of security		
		Credit insurance	Bank guarantee	L/C
	HUFm	HUFm	HUFm	HUFm
CIS	27,206	15,819	11,387	-
EU	411	-	411	-
USA	-	-	-	-
China	-	-	-	-
Latin America	-	-	-	-
Other	938	440	129	369
Total	**28,555**	**16,259**	**11,927**	**369**

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 75% 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 2019 based on Standard and Poor's international credit rating institute are the followings (if such credit rating is not available we present the rating of its "ultimate parent"):

	31 December 2019	31 December 2018
Banca Commerciala Romana SA *	BBB+	BBB+
Bank of China Ltd. Magyarországi Fióktelepe	A	A
BNP Paribas Magyarországi Fióktelepe	A+	A
CIB Bank Zrt. *	BBB-	BBB-
Erste Bank Hungary Zrt. *	BBB+	BBB
K&H Bank Zrt.*	BBB+	BBB
KDB Bank Európa Zrt. (ultimate parent - Korea Development Bank)	AA	AA-
OTP Bank Nyrt.	BBB-	BBB-
Raiffeisen Bank Zrt. **	BAA2	-
UniCredit Bank Hungary Zrt. (ultimate parent - UniCredit SpA)	BBB	BBB

* For these financial institutes we present the rating of Fitch Ratings, since rating of Standard and Poor's is not available.
** For this financial institute only rating of Moody's is 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.
The Group has a customer (Allergan) where the turnover exceeds 10% of net sales. The customer has settled all open item up to the balance sheet date.

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 2019 and 2018, 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:

	2019 HUFm	2018 HUFm
Bank guarantee for National Tax and Customs Administration of Hungary – collaterals for customs and excise duty related liabilities	196	197
Bank guarantee for Romanian suppliers	3,408	3,140
Other, individually not significant bank guarantees	185	114

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 2019				31 December 2018			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets									
Other financial assets	15	13,546	-	5,427	**18,973**	9,397	-	-	**9,397**
Investments in securities	22	-	-	1,545	**1,545**	-	-	-	**-**
Convertible loan	17	-	-	-	**-**	-	-	455	**455**
Total assets recurring fair value measurements		**13,546**	**-**	**6,972**	**20,518**	**9,397**	**-**	**455**	**9,852**

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 2019 and 2018.

The valuation technique, inputs used in the fair value measurement for most significant Level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2018 and 2019 (Note 3.1):

	Fair value at 31 December 2019 HUFm	Valuation technique	Unobservable inputs	Range of inputs (weighted average)	Sensitivity of fair value measurement
Assets at fair value					
Convertible bond option Prima Temp	1,545	Option valuation model	• Price of the stock	37.5 USD/share	The change of the stock price multiples the fair value
			• Strike price of the option	0.96 USD/share	The higher the strike price the lower the fair value
			• Time in years	0.25 year	The longer the time in years the higher the fair value
			• The annualised risk free rate	1.54 %	The higher the annualised risk free rate the higher the fair value
			• Standard deviation of the stock's returns (volatility)	11.92 %	The higher the standard deviation the higher the fair value
Other financial asset Mycovia	5,427	Discounted cash flows (DCF)	• Estimated future profit		The higher estimated future profits the higher the fair value
			• Foreign currency rate	294.74 HUF/USD	The higher the FX rate the higher the fair value
			• Discount rate	12.08 %	The higher the discount rate the lower the fair value
Total recurring fair value measurements at Level 3	**6,972**				

The above 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.

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, Right-of-use assets and Other itangible assets

12.1 Property, plant and equipment

	31 December 2019	31 December 2018
	HUFm	HUFm
Property, plant and equipment without right-of-use assets	230,979	214,880
Right-of-use assets	13,775	-
Total	**244,754**	**214,880**

12.1.1 Property, plant and equipment without Right-of-use assets

	Land and buildings HUFm	Plant and equipment HUFm	Construction in progress HUFm	Total HUFm
Gross value				
at 31 December 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**

	Land and buildings HUFm	Plant and equipment HUFm	Construction in progress HUFm	Total HUFm
Gross value				
at 31 December 2018	**170,836**	**294,801**	**22,383**	**488,020**
Translation differences	2,401	2,373	274	**5,048**
Effect of newly acquired companies	-	-	-	**-**
Capitalization	9,881	26,354	(36,235)	**-**
Transfers and capital expenditure	1,365	674	39,526	**41,565**
Disposals	(2,858)	(7,594)	(467)	**(10,919)**
at 31 December 2019	**181,625**	**316,608**	**25,481**	**523,714**
Accumulated depreciation				
at 31 December 2018	**52,048**	**221,092**	**-**	**273,140**
Translation differences	510	1,431	-	**1,941**
Current year depreciation	5,151	18,714	-	**23,865**
Net foreign currency exchange differences	24	123	-	**147**
Disposals	(321)	(6,037)	-	**(6,358)**
at 31 December 2019	**57,412**	**235,323**	**-**	**292,735**
Net book value				
at 31 December 2018	**118,788**	**73,709**	**22,383**	**214,880**
at 31 December 2019	**124,213**	**81,285**	**25,481**	**230,979**

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.
From 2019 leased assets are presented among Property, plant and equipment in the Consolidated Balance Sheet, see Note 12.1.2. Refer to Note 38 for details about the changes in accounting policy.

12.1.2 Right-of-use assets

The Consolidated Balance Sheet shows the following amounts relating to leases:

	31 December 2019	1 January 2019
	HUFm	HUFm
Land	1,397	1,353
Building	9,790	7,766
Machinery	6	7
Office equipment	54	66
Vehicles	2,528	2,337
Total	**13,775**	**11,529**

The gross value of the right-of-use assets increased by HUF 5,938 million which was offset by the depreciation in the current year (HUF 3,692 million, see Note 5). Therefore the net increase was HUF 2,246 million in the value of right-of- use assets in 2019, which comprises of new transactions, revaluations and modifications.

12.2 Other intangible assets

	Rights HUFm	Intellectual property HUFm	Research and development HUFm	ESMYA* HUFm	BEMFOLA** HUFm	Total 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 depreciation						
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**	**-**	**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.

	Rights HUFm	Intellectual property HUFm	Research and development HUFm	ESMYA* HUFm	BEMFOLA** HUFm	Total HUFm
Gross value						
at 31 December 2018	**159,863**	**5,162**	**423**	**83,530**	**53,613**	**302,591**
Translation differences	500	71	-	4,842	-	**5,413**
Acquisition	18,588	466	-	-	-	**19,054**
Disposals	(1,388)	(25)	-	-	-	**(1,413)**
at 31 December 2019	**177,563**	**5,674**	**423**	**88,372**	**53,613**	**325,645**
Accumulated depreciation						
at 31 December 2018	**87,835**	**3,238**	**423**	**54,086**	**5,361**	**150,943**
Translation differences	409	58	-	3,313	-	**3,780**
Current year amortization	7,855	406	-	1,357	2,145	**11,763**
Net foreign currency exchange differences	19	6	-	56	-	**81**
Impairment and reversal of impairment (net)	2,928	-	-	28,801	-	**31,729**
Disposals	(263)	(23)	-	-	-	**(286)**
at 31 December 2019	**98,783**	**3,685**	**423**	**87,613**	**7,506**	**198,010**
Net book value						
at 31 December 2018	**72,028**	**1,924**	**-**	**29,444**	**48,252**	**151,648**
at 31 December 2019	**78,780**	**1,989**	**-**	**759**	**46,107**	**127,635**

* 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.
Started in 2017 and completed by the end of 2018, Richter's integration of the company's operations into Richter's system took over the full distribution of Bemfola®, the Western European marketing of the product and the secondary packaging of the product. As a result, the business model of the product has changed and the profit center has been moved from Finox to the Parent Company. Finox has transferred the commercial rights of Bemfola® under an agreement, so that from the date of the contract all profits/losses will be realized at the Parent Company. Accordingly, the BEMFOLA intangible asset recognized at the acquisition, at the consolidated level, also owned by the Parent Company, which means that the value previously recorded in EUR - Finox Group currency - was converted into the currency of the Parent (HUF) at the date of the transfer. Net book value of BEMFOLA intangible is HUF 44,705 million as of 31 December 2019.
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 1,402 million as of 31 December 2019.

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

Net book value	31 December 2019 HUFm	31 December 2018 HUFm
ESMYA LatAm	0	410
Grünenthal	25,989	30,378
Levosert	2,633	3,310
Bemfola®/Afolia	6,242	6,447
Mithra/Estelle	11,365	11,365
Trastuzumab	0	2,096
Mifepristone	3,502	1,238
Terrosa	2,999	1,849
Mycovia	6,025	-
Pharmacy licenses	2,630	2,328
Other, individually not significant rights	17,395	12,607
Total	**78,780**	**72,028**

Rights – ESMYA EU intangible asset

Taken into account the circumstances and events presented in Note 3.1 the Group determined that 100% impairment should be accounted for the ESYMA EU intangible asset. The total impairment expense accounted amounts to HUF 22,873 million and the remaining carrying value of the asset is HUF 0.

Key assumptions of impairment test as of 31 December 2018

EU forecasts as of 31 December 2018

Considering the negative effects of the European Commission's restrictive measures on the business, the Company reviewed and modified the ESMYA® EU sales forecast in connection with the impairment test as of 31 December 2018. 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 costs/sales ratio is expected to decrease continuously until 2025, from where the cost/sales 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 application of ESMYA® in the USA was withdrawn and neither the Company nor its license partner Allergan would like to submit a new application. Based on the above the Company determined that 100% impairment should be accounted for the USA related part of the NA ESMYA intangible asset.

As a result of the impairment test it was found that the recoverable amount of the ESMYA NA intangible asset's part which is allocated to USA is HUF 0, which meant a need to account for an impairment amounting to HUF 5,928 million. The remaining Canada related recoverable amount is 20% higher than its book value, therefore no impairment deemed to be necessary to be accounted for. The remaining book value of the ESMYA NA intangible asset is HUF 759 million.

The discount rates (NA post tax: 8.5%, in 2018 10.5%) 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.

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

North American (NA) intangible asset forecasts as of 31 December 2018

North American cash flows include the expected license fee payments from PregLem NA Partner, Allergan in connection with its sales on the USA and Canadian markets (please find further details in Note 12 „ESMYA North America 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.
After the market launch according to Company's estimation the sales 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%).

Result of ESMYA EU and NA intangible asset impairment tests as of 31 December 2018

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%; NA post tax: 10.5%,) 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

During 2019 there were no significant changes in circumstances which would have resulted in any reversal of previously recognised impairment.

Rights – ESMYA other countries' intangible assets

Taken into account the impairment accounted for PregLem goodwill, ESMYA North-America intangible asset and ESMYA LatAm intangible assets (Brazil, Mexico) the Company concluded that 100% impairment is necessary to be recognised regarding the remaining ESMYA related intangible assets, which were determined as individually not significant assets in previous financial statements. The impairment expense recognised is HUF 1,275 million.

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 25,989 million as of 31 December 2019 and HUF 30,378 million as of 31 December 2018.

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 2,633 million as of 31 December 2019 and HUF 3,310 million as of 31 December 2018.

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. As of 31 December 2019,

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

Rights – Mithra/Estelle

As part of Richter's Specialty Pharma strategy on 2 September 2018 Richter announced that it entered into an exclusive license and supply agreement with Mithra Pharmaceuticals to commercialize Estelle®, a combined oral contraceptive, containing 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. Further sales related royalties will become payable to Mithra subsequent to the launch of the product and Mithra will receive guaranteed annual recurring revenues based on minimum annual quantities (MAQ), in addition to tiered royalties on net sales. As of 31 December 2019, we performed impairment test for intangible assets based on qualitative indicators and concluded that there was no need to recognize any impairment loss.

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. Executive Board decided to discontinue the trastuzumab development project resulting in HUF 2,096 million in impairment.

Rights – Mycovia

On 16 October 2019 Richter and Mycovia Pharmaceuticals, Inc. announced that they have entered into an exclusive license and development and technology transfer agreement to commercialize and manufacture VT-1161, currently in Phase III clinical trials for the treatment of Recurrent Vulvovaginal Candidiasis.
The geographic scope of the license agreement covers Europe, Russia, the other CIS countries, Latin America and Australia. Under the terms of the agreement Richter shall make milestone payments related to the clinical development process. These payments shall extend over the next two years and will total USD 20 million. Additional development and sales milestone payments shall be due depending on the progress of the regulatory process and commercial success of the product.). The value of Mycovia intangible asset is HUF 6,025 million as of 31 December 2019.

Rights – Pharmalicences

Impairment test was performed on the value of pharmacy licenses in Romania (presented in the Wholesale and retail segment) which resulted in impairment of HUF 84 million and reversal of impairment of HUF 527 million in 2019. In 2018, impairment losses of HUF 158 million and reversal of HUF 128 million were recognized for the same reason. Acquisitions were performed in 2019 in the Romanian pharmaceutical market, from which the prices of the transactions became public for the listed companies. The area coverage of the pharmacy chain in question is very similar to that of the pharmacies of Gedeon Richter Farmacia, so we were able to use these information to update our estimate on the residual value of the pharmacy licences. When performing the impairment assessment at year end we have applied the market approach instead of the income approach applied in prior years.
When performing the impairment assessment on the carrying amount of the assets of the pharmacies taking into account goodwill, the fair value of the pharmacy licences exceeded the carrying amount, hence no impairment was required.

The average remaining useful life of the intellectual properties does not exceed 8 years, in 2018 it was 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
			2019	2018	2019	2018	
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.	Poland	99.84	99.84	99.84	99.84	Pharmaceutical manufacturing, Marketing services
4	Richter Themis Pvt. Ltd.	India	51.00	51.00	51.00	51.00	Pharmaceutical manufacturing
5	Gedeon Richter Pharma GmbH	Germany	100.00	100.00	100.00	100.00	Pharmaceutical trading, Marketing services
6	Gedeon Richter USA Inc.	USA	100.00	100.00	100.00	100.00	Pharmaceutical trading
7	RG Befektetéskezelő Kft.	Hungary	100.00	100.00	100.00	100.00	Financial-accounting and controlling activities
8	Gedeon Richter UA PAT	Ukraine	98.16	98.16	98.16	98.16	Pharmaceutical trading
9	Gedeon Richter UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading, Marketing services
10	Gedeon Richter Iberica S.A.U	Spain	100.00	100.00	100.00	100.00	Pharmaceutical trading, Marketing services
11	Nedermed B.V. (1)	The Netherlands	100.00	100.00	100.00	100.00	Pharmaceutical trading
12	Medimpex Jamaica Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
13	Medimpex West Indies Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
14	Humanco Kft.	Hungary	100.00	100.00	100.00	100.00	Social, welfare services
15	Pesti Sas Holding Kft.	Hungary	100.00	100.00	100.00	100.00	Portfolio management
16	Richter Szolgáltató Kft.	Hungary	100.00	100.00	100.00	100.00	Catering services
17	Reflex Kft.	Hungary	100.00	100.00	100.00	100.00	Transportation, carriage
18	Chemitechnik Pharma Kft.	Hungary	66.67	66.67	66.67	66.67	Engineering services
19	GYEL Kft.	Hungary	66.00	66.00	66.00	66.00	Quality control services
20	Armedica Trading S.R.L.	Romania	99.92	99.92	99.92	99.92	Portfolio management
21	Gedeon Richter Farmacia S.A.	Romania	99.92	99.92	99.92	99.92	Pharmaceutical retail
22	Gedeon Richter France S.A.S.	France	100.00	100.00	100.00	100.00	Pharmaceutical trading, Marketing services
23	I.M. Gedeon Richter-Retea Farmaceutica S.R.L.	Moldavia	51.00	51.00	51.00	51.00	Pharmaceutical retail
24	Richter-Helm BioLogics GmbH & Co. KG	Germany	70.00	70.00	70.00	70.00	Biotechnological manufacturing and research
25	Richter-Helm BioLogics Management GmbH	Germany	70.00	70.00	70.00	70.00	Asset management
26	Medimpex UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
27	Farnham Laboratories Ltd. (2)	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
28	Gedeon Richter Aptyeka SP OOO	Armenia	51.00	51.00	51.00	51.00	Pharmaceutical trading
29	Pharmafarm S.A.	Romania	99.92	99.92	99.92	99.92	Pharmaceutical wholesale
30	Gedeon Richter Ukrfarm TOV	Ukraine	100.00	100.00	100.00	100.00	Pharmaceutical retail
31	Gedeon Richter Italia S.R.L.	Italy	100.00	100.00	100.00	100.00	Pharmaceutical trading, Marketing services
32	PregLem S.A.	Switzerland	100.00	100.00	100.00	100.00	Manufacturing and research
33	Gedeon Richter Marketing ČR s.r.o.	Czech Republic	100.00	100.00	100.00	100.00	Marketing services
34	Gedeon Richter Slovakia s.r.o.	Slovak Republic	100.00	100.00	100.00	100.00	Marketing services
35	Richter-Lambron SP OOO	Armenia	51.00	51.00	51.00	51.00	Pharmaceutical trading

	Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
			2019	2018	2019	2018	
36	Gedeon Richter Austria GmbH	Austria	100.00	100.00	100.00	100.00	Marketing services
37	Gedeon Richter (Schweiz) AG	Switzerland	100.00	100.00	100.00	100.00	Marketing services
38	Pharmarichter OOO	Russia	100.00	100.00	100.00	100.00	Pharmaceutical sales promotion
39	I.M. Rihpangalpharma S.R.L.	Moldavia	65.00	65.00	65.00	65.00	Pharmaceutical wholesale
40	Gedeon Richter Portugal S.A.	Portugal	100.00	100.00	100.00	100.00	Marketing services
41	PregLem France SAS	France	100.00	100.00	100.00	100.00	Management services
42	Gedeon Richter Slovenija, d.o.o.	Slovenia	100.00	100.00	100.00	100.00	Marketing services
43	Gedeon Richter Benelux SPRL	Belgium	100.00	100.00	100.00	100.00	Marketing services
44	Gedeon Richter Nordics AB	Sweden	100.00	100.00	100.00	100.00	Marketing services
45	TOO Gedeon Richter KZ	Kazakhstan	100.00	100.00	100.00	100.00	Pharmaceutical trading, Marketing services
46	GRMed Company Ltd. (3)	Hong-Kong	100.00	100.00	100.00	100.00	Marketing services, distribution
47	Rxmidas Pharmaceuticals Company Ltd. (3)	China	100.00	100.00	100.00	100.00	Marketing services
48	Gedeon Richter Pharmaceuticals (China) Co. Ltd.	China	100.00	100.00	100.00	100.00	Marketing services
49	Gedeon Richter Colombia S.A.S.	Columbia	100.00	100.00	100.00	100.00	Pharmaceutical trading
50	Gedeon Richter Croatia d.o.o.	Croatia	100.00	100.00	100.00	100.00	Marketing services
51	Gedeon Richter Mexico, S.A.P.I. de C.V	Mexico	100.00	100.00	100.00	100.00	Pharmaceutical trading
52	Gedeon Richter do Brasil Importadora, Exportadora e Distribuidora S.A.	Brazil	100.00	100.00	100.00	100.00	Pharmaceutical trading
53	Gedeon Richter Chile SpA	Chile	100.00	100.00	100.00	100.00	Pharmaceutical trading
54	Mediplus (Economic Zone) N.V.	Curaćao	100.00	100.00	100.00	100.00	Pharmaceutical trading, Marketing services
55	Gedeon Richter Peru S.A.C.	Peru	100.00	100.00	100.00	100.00	Pharmaceutical trading
56	GEDEONRICHTER Ecuador S.A.	Ecuador	100.00	100.00	100.00	100.00	Pharmaceutical trading
57	Gedeon Richter Bolivia SRL	Bolivia	100.00	100.00	100.00	100.00	Pharmaceutical trading
58	Gedeon Richter Rxmidas Joint Venture Co. Ltd. (3)	Hong-Kong	100.00	100.00	100.00	100.00	Marketing services
59	Gedeon Richter Australia PTY Ltd.	Australia	100.00	100.00	100.00	100.00	Trading of biotech products
60	Finox AG	Switzerland	100.00	100.00	100.00	100.00	Biotechnological services
61	Finox Biotech AG	Lichtenstein	100.00	100.00	100.00	100.00	Biotechnological services
62	Finox Biotech Germany GmbH	Germany	100.00	100.00	100.00	100.00	Marketing services
63	Finox Biotech Nordics AB. (4)	Sweden	-	100.00	-	100.00	Marketing services
64	Finox Biotech UK and Ireland Ltd.	UK	100.00	100.00	100.00	100.00	Marketing services
65	Finox Biotech Benelux BV (4)	Belgium	-	100.00	-	100.00	Marketing services
66	GR Ireland Ltd.	Ireland	100.00	100.00	100.00	100.00	Marketing services
67	Gedeon Richter Bulgaria	Bulgaria	100.00	100.00	100.00	100.00	Marketing services
68	Gedeon Richter Pharma O.O.O	Russia	100.00	100.00	100.00	100.00	Marketing services
69	Pharmapolis Gyógyszeripari Tud. Park Kft.	Hungary	100.00	100.00	100.00	100.00	Building project management, rental services

(1) The company had been liquidated in January 2020.
(2) The company's principal activity has been suspended.
(3) The principal activity is carried forward by GRMed Company Ltd. after Rxmidas Pharmaceuticals Company Ltd. and Gedeon Richter Rxmidas Joint Venture Co. Ltd. finished their activity.
(4) Finox's marketing companies, along with their activities, have merged with their parent companies in their country.

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

The total non-controlling interest as of 31 December 2019 is HUF 6,892 million (in 2018 HUF 5,560 million), of which HUF 4,312 million (in 2018 HUF 3,299 million) is for Richter-Helm BioLogics GmbH & Co. KG, HUF 1,431 million (in 2018 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.

2019	**Medimpex West Indies Ltd. (13)** HUFm	**Richter-Helm BioLogics GmbH & Co. KG (24)** HUFm
Accumulated non-controlling interest	1,431	4,312
Non-current assets	56	6,672
Current assets	4,252	11,554
Non-current liabilities	-	1,129
Current liabilities	573	3,327
Revenues	3,234	14,312
Profit/(loss)	443	3,031
Dividends paid	512	-
Total cash-flow	(50)	916

2018	**Medimpex West Indies Ltd. (13)** HUFm	**Richter-Helm BioLogics GmbH & Co. KG (24)** 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	-
Total cash-flow	79	1,478

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

	2019 HUFm	**2018** HUFm
At 1 January	**11,755**	**11,847**
Acquisition/capital increase	4,840	-
Share of profit of associates and joint ventures	658	1,055
Net investments*	28	345
Dividend	(910)	(1,104)
Reclassification to subsidiary (Pharmapolis Gyógyszeripari Tud. Park Kft)	-	(293)
Exchange difference	(179)	(95)
At 31 December	**16,192**	**11,755**
out of investment in associates	***14,902***	***10,440***
out of investment in joint ventures	***1,290***	***1,315***

* 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 2019 are related to the subscription of newly issued Evestra shares (HUF 4,840 million). As a result of these transactions Richter has become Evestra's biggest shareholder, please see Note 39.

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.

	2019 HUFm	**2018** HUFm
Opening net assets at 1 January of Hungaropharma Zrt.	**24,755**	**23,697**
Profit for the year*	2,065	2,137
Dividends	(818)	(1,079)
Closing net assets of Hungaropharma Zrt. at 31 December	**26,002**	**24,755**
Interest in associate (at 30.85%)	8,026	7,637
Unrealised profit elimination	(166)	(77)
Interest in other associates	**7,043**	**2,880**
Carrying value at 31 December	**14,902**	**10,440**

* 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 %
2019									
Hungaropharma Zrt.	Hungary	Pharmaceutical wholesale	13,030	66,588	7,278	47,679	371,434	3,974	30.85
Salvia-Med Bt.	Hungary	Pharmaceutical retail	1	136	-	93	651	33	32.79
Szondi Bt.	Hungary	Pharmaceutical retail	36	160	-	25	612	40	33.00
Top Medicina Bt.	Hungary	Pharmaceutical retail	26	38	-	26	382	3	20.00
Vita-Richter SP OOO	Azerbaijan	Pharmaceutical trading	-	-	-	-	-	-	49.00
Pharmatom Kft.	Hungary	Biotechnological research, development	438	9	-	447	-	(3)	24.00
Pesti Sas Patika Bt.	Hungary	Pharmaceutical retail	2	13	-	14	122	(3)	49.00
Evestra Inc.	USA	Biotechnological research, development	1,247	4,441	3	457	-	(1,359)	35.45
Prima Temp Inc.	USA	Pharmaceutical research	395	1,345	59	1,649	721	(610)	27.73

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	-	33	368	4	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	Biotechnological research, 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

The financial statements for 2019 of Hungaropharma Zrt, the most significant associate of the Group have not been audited yet. Corresponding data for year 2018 has not been amended in 2018 Consolidated Financial Statements as there were no material differences between the audited and unaudited figures of 2018.

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

The associates did not have any item in Other Comprehensive Income (in 2019 and 2018).

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 HUFm
2019										
Medimpex Irodaház Kft. *	Hungary	Renting real estate	2,018	154	-	57	346	89	-	50.00
Richter-Helm BioTec Management GmbH	Germany	Asset management	-	7	-	1	-	-	-	50.00
Richter-Helm BioTec GmbH & Co. KG	Germany	Trading of biotech products, Marketing services	-	2,478	11,905	174	3,684	1,588	111	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 HUFm
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, Marketing services	-	680	11,291	310	368	(338)	155	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 2019 HUFm	31 December 2018 HUFm
Financial assets measured at amortised cost	57	55
Financial assets measured at fair value through OCI	13,546	9,397
Financial assets measured at fair value through profit or loss	5,427	455
Total	**19,030**	**9,907**

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

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 increase in the share price, and a positive change of RUB/HUF exchange rate, a significant increase has been recorded against revaluation reserve for securities at FVOCI. As a result of the above mentioned reasons, a significant revaluation gain was recorded in 2019 (Note 24).

	31 December 2019	31 December 2018
Opening value (HUFm)	8,327	12,971
Change in the fair value (HUFm)	*4,204*	*(4,644)*
Closing value (HUFm)	12,531	8,327
Share price (RUB/share)	100.3	78.0
RUB/HUF exchange rate	4.74	4.05
Change in the fair value (HUFm)	*4,204*	*(4,644)*

The other available-for-sale investment is a 9.63% ownership in Themis Medicare Ltd. valued at fair value based on the closing stock exchange price. Since there was a significant decrease in the share price, therefore HUF 16 million revaluation loss was recorded against revaluation reserve for securities at FVOCI in 2019. A closing fair value is HUF 1,167 million.

On 16 October 2019 Gedeon Richter Plc. and Mycovia Pharmaceuticals Inc. signed a royalty purchase agreement according to which Richter acquires a certain portion of the net turnover of US sales of the future product (for more details pls. see Note 12) for the purchase price of USD 25 million. The amount of purchased royalty right is presented as a financial asset and valued at fair value through profit or loss as of 31 December 2019. The fair value of Mycovia financial assets was HUF 5,427 million at 31 December 2019.

15.2. Long term receivables

Since the Group complies with all attached conditions there is a reasonable assurance that the government grant will be received. Therefore the Group recognised HUF 2,837 million approved but not financially settled, due over one year as long term receivables. This amount is related to property, plant and equipment and research and development activities.

	31 December 2019 HUFm	31 December 2018 HUFm
Government grants	2,837	6,034
Total	**2,837**	**6,034**

16. Current income tax and deferred tax

Current tax assets and liabilities

	31 December 2019 HUFm	31 December 2018 HUFm
Current tax assets	1,199	1,017
Current tax liabilities	(382)	(438)

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 2019 HUFm	31 December 2018 HUFm
Deferred tax assets	6,988	7,895
Deferred tax liabilities	(1,925)	(7,176)

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

Deferred tax assets	**PPE and intangible assets**	**Provision**	**Impairment**	**Other temporary differences**	**Unrealised profit elimination**	**Total**
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
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**
(Debited)/credited to the income statement	191	(251)	(1,995)	(559)	458	**(2,156)**
(Debited)/credited to other comprehensive income	-	(11)	-	510	-	**499**
Exchange differences	(5)	10	-	42	-	47
Transfer	(4)	(53)	-	760	-	**703**
31 December 2019	**(222)**	**243**	**-**	**1,033**	**5,934**	**6,988**

* Deferred tax assets and liabilities debited/credited to other comprehensive income was HUF 383 million in 2019 and HUF 405 million in 2018 (expense), out of which accounted through revaluation reserve HUF 377 million in 2019 and HUF 410 million in 2018 (expense, see Note 24) and HUF 11 million in 2019 and HUF 5 million in 2018 (expense) presented through retained earnings.

Deferred tax liabilities	PPE and intangible assets	Provision	Impairment	ESMYA	BEMFOLA	Other temporary differences	Total
	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm	HUFm
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**
(Debited)/credited to the income statement	(2,319)	(417)	(199)	(2,226)	(1,541)	(198)	**(6,900)**
(Debited)/credited to other comprehensive income	-	(4)	-	-	-	886	**882**
Exchange differences	-	-	-	49	-	6	**55**
Transfer	2	50	-	-	-	660	**712**
31 December 2019	**(2,287)**	**(372)**	**(199)**	**-**	**3,753**	**1,030**	**1,925**

* Deferred tax assets and liabilities debited/credited to other comprehensive income was HUF 383 million in 2019 and HUF 405 million in 2018 (expense), out of which accounted through revaluation reserve HUF 377 million in 2019 and HUF 410 million in 2018 (expense, see Note 24) and HUF 11 million in 2019 and HUF 5 million in 2018 (expense) presented through retained earnings.

From the deferred tax balance presented above it is expected that HUF 1,992 million (in 2018 HUF 7,519 million) of the liabilities and HUF 154 million (in 2018 HUF 293 million) of the assets will reverse after 12 months.

The Parent Company has significant deductible temporary differences, part of which is related to the tax loss carried forward. Deferred tax asset should be recognized for unused tax losses 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. On consolidated level there are further taxable temporary differences associated to the Parent Company (related to the BEMFOLA intangible asset) that provides partial recoverability to these deductible temporary differences.

The balance of deferred tax liability decreased due to the following events: from 1 January 2019 the consolidated intangible asset BEMFOLA is recognised as an asset of the Parent Company, because of the restructuring of Finox's activities, and hence its value is determined in HUF (See Note 12). The related deferred tax liability is determined with the tax rate of the parent (9%), while in the previous year it was determined with the tax rate of Finox (10.97%). This amount is partially offset by the deferred tax asset of the Parent Company that was previously not recognized, in the lack of sufficient taxable profit. As a result of impairment of ESMYA intangible asset, the related deferred tax liability was also derecognized.

In addition to the Parent Company, there were significant tax loss carried forward at Romanian subsidiaries (in the amount of HUF 7,474 million) on which no deferred tax assets have been recognized as of 31 December 2019. This would have resulted in a deferred tax asset in the amount of HUF 1,196 million. In 2018 the Romanian subsidiaries had HUF 2,404 million unused tax loss (that would have resulted in HUF 385 million deferred tax asset).

The expiration of the unrecognised deferred tax asset effect of the tax loss carried forward of the Group is as follows: within 3 years HUF 2,573 million, between 3 and 5 years HUF 2,496 million over 5 years HUF 281 million.

Temporary differences arising in connection with interest in associates and joint ventures are insignificant.

17. Loans receivable

	31 December 2019 HUFm	31 December 2018 HUFm
Loans given to related parties	815	1,510
Loans given to employees	1,032	917
Other loans given	174	199
Total	**2,021**	**2,626**

18. Goodwill

	Goodwill MFt
Cost	
At 1 January 2018	**44,377**
Exchange differences	1,851
Impairment charged for the year	(10,842)
At 31 December 2018	**35,386**
At 1 January 2019	35,386
Decrease deriving from sale of subsidiary	(17)
Exchange differences	1,387
Impairment charged for the year	(7,253)
At 31 December 2019	**29,503**

The above mentioned impairment was charged in Pharmaceuticals segment related to PregLem, GRMed Company and Gedeon Richter Mexico goodwill.

Closing goodwill on Cash Generating Units (Companies)

	31 December 2019 HUFm	31 December 2018 HUFm
Pharmaceuticals segment		
Gedeon Richter Polska Sp. z o.o.	1,160	1,119
Richter-Helm BioLogics GmbH & Co. KG	105	102
PregLem S.A.	-	2,268
GRMed Company Ltd.	25,514	28,972
Gedeon Richter do Brasil Importadora, Exportadora e Distribuidora S.A.	61	60
Gedeon Richter Mexico, S.A.P.I. de C.V	**1,625**	**1,811**
Wholesale and retail segment		
Armedica Trading Group	**977**	**993**
Other segment		
Pesti Sas Holding Kft.	**61**	**61**
Total	**29,503**	**35,386**

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

Gedeon Richter Polska Sp. z o.o.

Gedeon Richter Polska Sp. z o.o. is profitable on consolidated level (taking into account the intercompany eliminations) in 2019. 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 2019 similar to 2018. Any reasonable change in the key assumptions is still not expected to result in an impairment of Goodwill.

Armedica Trading Group

Acquisitions were performed in 2019 in the Romanian pharmaceutical market, from which the prices of the transactions became public for the listed companies. The area coverage of the pharmacy chain in question is very similar to that of the pharmacies of Gedeon Richter Farmacia, so we were able to use these information to update our estimate on the residual value of the pharmacy licences. When performing the impairment assessment at year end we have applied the market approach instead of the income approach applied in prior years.

When performing the impairment assessment on the carrying amount of the assets of the pharmacies taking into account goodwill, the fair value of the pharmacy licences exceeded the carrying amount, hence no impairment was required in connection with goodwill.

In 2018 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 EBITDA 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 2019. 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 Group conducted an impairment test of PregLem goodwill for the 2019 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 and ESMYA North-America 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 and also the USA registration withdrawal and PRAC's recommendation issued in 2020 were taken into account, as presented in Note 3.1.

As a consequence of the modification of ESMYA EU sales forecast the recoverable amount is 0. This resulted in an impairment against goodwill amounting to HUF 2,421 million. The remaining book value of goodwill amounts to HUF 0.

The discount rate (EU-based cash flows post tax: 6.6%, 9.1% in 2018; NA-based cash flows 8.5%, 10.5% in 2018 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.

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 2019 and it was found that there was a need to account for impairment amounting to HUF 4,478 million.
Since the Goodwill has been allocated to the traditional products, the Group disregarded the cash flows and assets connected to products launched or planned to be launched after the acquisition when determining the recoverable amount and the carrying value.

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.

The Company reconsidered the market position of the products and concluded that sales targets set earlier could not be achieved to that extent. According to the current projections, only less than two thirds of cash flows will be obtainable compared to previous expectations.

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

The present value of the 2020-2029 cash flows and (by applying a conservative estimate of) residual value reckoning with 0% growth is 12% below the tested amount. The remaining book value of goodwill amounts to HUF 25,514 million. The discount rate (post tax: 12.2%; 2018: 13.7%) 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 decrease in post-tax discount rate to 10.7% or a 4% increase in forecasted sales volumes would remove the difference between the carrying value of goodwill and the recoverable amount of the CGU.

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 2019 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 (2020-2029), 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).
Since the Goodwill has been allocated to the traditional products, the Company disregarded the cash flows and assets connected to products launched or planned to be launched after the acquisition when determining the recoverable amount and the carrying value.
Long term expectations regarding traditional products turnover have worsened. Current forecast shows that only a little over two-third of previously projected sales revenue can be achieved affecting free cash flows adversely.
The present value of the 2020-2029 cash flows represents around 50% of total recoverable amount.
Since the recoverable amount determined based on the assumptions above also requires contribution of certain fixed 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 constitutes only the 83.5% of the CGU book value which meant a need to account for impairment amounting to HUF 354 million. The remaining book value of goodwill amounts to HUF 1,625 million.
The discount rate (post tax: 8.6%; in 2018 8.4%) applied reflects current market assessments of the time value of money and the risks specific to the CGU for which future cash flow estimates have not been adjusted.

19. Inventories

	31 December 2019 HUFm	31 December 2018 HUFm
Raw materials, packaging and consumables	51,416	46,163
Production in progress	3,039	1,837
Semi-finished and finished goods	44,540	44,687
Total	**98,995**	**92,687**

Inventories include impairment and scrapping in value of HUF 8,273 million and reversal of impairment in value of HUF 1,423 million in 2019 (HUF 3,370 million impairment and scrapping and HUF 507 million reversal was made in 2018). 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 2019 the total carrying amount of inventories that are valued at net realisable value amounts to HUF 12,435 million (in 2018 it was HUF 10,144 million).
All items of Inventories are free from liens and charges.

20. Trade receivables

	31 December 2019 HUFm	31 December 2018 HUFm
Trade receivables (3rd parties)	148,307	118,953
Amounts due from related companies and other participations (Note 37)	6,119	10,053
Total	**154,426**	**129,006**

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

	2019 HUFm	2018 HUFm
At 1 January	**7,187**	**7,643**
Provision for receivables impairment	804	1,125
Reversal of impairment for trade receivables	(1,800)	(1,935)
Exchange difference	(46)	354
Total	**6,145**	**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 2019 nor in 2018.

Impairment of financial assets

31 December 2019	Current	1-30 days past due	31-90 days past due	91-180 days past due	181-360 days past due	>360 days past due	Total
Expected loss rate	0.24%	0.44%	1.59%	2.55%	10.86%	95.40%	**3.83%**
Gross carrying amount-trade receivables	139,594	8,479	4,791	1,257	580	5,870	**160,571**
Loss allowance	337	37	76	32	63	5,600	**6,145**

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**

21. Other current assets and contract assets

21.1 Other current asset

	31 December 2019 HUFm	31 December 2018 HUFm
Loans receivable	673	225
Other receivables	7,315	5,595
Subtotal of financial assets (Note 10)	**7,988**	**5,820**
Tax and duties recoverable	6,078	5,211
Advances	3,979	2,308
Prepayments	3,331	2,848
Total	**21,376**	**16,187**

21.2 Contract assets

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

	31 December 2019 HUFm	31 December 2018 HUFm
Current contract assets	3,466	1,425
Total	**3,466**	**1,425**

22. Investments in securities

	31 December 2019 HUFm	31 December 2018 HUFm
Government bonds*	-	4,728
Other securities**	1,545	-
Total (Note 10)	**1,545**	**4,728**

* Treasury bills and government securities are issued or granted by the Hungarian State.
** Convertible promissory note to associates is presented as Other securities.

23. Cash and cash equivalents

	31 December 2019 HUFm	31 December 2018 HUFm
Bank deposits	122,401	112,827
Cash on hand	6,172	194
Total (Note 10)	**128,573**	**113,021**

The total amount of Cash and cash equivalents at the balance sheet date was mainly (more than 75%) 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 2019		31 December 2018	
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 2019

Ordinary shares	Ownership number	Voting rights* %	Share capital %
Domestic ownership	**64,010,047**	**34.47**	**34.34**
State ownership total	47,052,641	25.34	25.24
out of which MNV Zrt.**	28,415,029	15.30	15.24
out of which Maecenas Universitatis Corvini Foundation**	18,637,486	10.04	10.00
out of which Municipality	126	0.00	0.00
Institutional investors	8,411,253	4.53	4.51
Retail investors	8,546,153	4.60	4.59
International ownership	**121,677,349**	**65.52**	**65.29**
Institutional investors	121,381,988	65.36	65.13
Retail investors	295,361	0.16	0.16
Undisclosed ownership	**12,999**	**0.01**	**0.01**
Treasury shares* **	**674,465**	**0.00**	**0.36**
Share capital	**186,374,860**	**100.00**	**100.00**

* Article 13.8 of the Statutes restricts the voting rights of shareholders, alone or together with other related persons to no more than 25%.
** Maecenas Universitatis Corvini Fundation and MNV Zrt. are controlled by the same investor (the Hungarian State). Even if representing themselves individually at the Annual General Meeting, their votes are determined by the ultimate parent (MNV Zrt.).
*** The treasury shares, except for the ones owned by Employee Share Ownership Trust's (ESOT), have no voting rights.

Detailed ownership structure of the Parent 31 December 2018

Ordinary shares	Ownership 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**
Institutional investors	121,914,003	65.43	65.41
Retail investors	335,369	0.18	0.18
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**

* Article 13.8 of the Statutes restricts the voting rights of shareholders, alone or together with other related persons to no more than 25%.
** MNV Zrt. are controlled by the Hungarian State. At the Annual General Meeting, its votes are determined by the ultimate parent.
*** The treasury shares, except for the ones owned by Employee Share Ownership Trust's (ESOT), have no voting rights.

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

The 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 securities at FVOCI (based on IFRS 9)

When measuring financial assets measured at fair value through OCI (Note 15 and 22), the difference shall be recognized as Revaluation reserve for securities at FVOCI. It shall not be recycled to the Consolidated Income Statement subsequently.

	Revaluation reserve for securities at FVOCI HUFm
At 1 January 2018	**9,964**
Revaluation gross	(5,564)
Deferred tax effect	410
At 31 December 2018	**4,810**
Revaluation gross	4,187
Deferred tax effect	(377)
At 31 December 2019	**8,620**

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.

	2019 HUFm	**2018** HUFm
Expense recognized in current year	1,636	1,697
Treasury share given (Note 25)	1,855	1,836
Total changes in reserve presented in the Consolidated Statement of Changes in Equity	**(219)**	**(139)**

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 941 million, while in 2018 it was HUF 1,510 million.

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 and 2019, 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 2019, the program was redesigned: the bonus for managers was paid in cash. As a result in 2019 just 15,327 shares were granted to 281 key employees of the Company while in 2018 14,473 shares were granted to 284 employees.

Individual bonuses

No treasury shares were granted to qualified employees as bonuses during the year due to the introduction of the Employee's Share-Ownership Program. In 2018, 7,543 treasury shares were granted.

Employee's Share- Ownership Program (ESOP)

In order to strengthen the performance and loyalty of senior executives and senior employees, the Company started Employee's Share- Ownership Programme (ESOP) in 2018.
The Company established the ESOP Organization on 26 February 2018 and approved the ESOP Organization's First Remuneration Policy in 2018, and the Second Remuneration Policy for two years (2019-2020) in 2019. The total amount related to the First Remuneration Policy was HUF 1.8 billion, and HUF 1.5 billion related to the Second.
Regarding each participant, the Company transferred a certain number of shares to the ESOP Organization, determined by the market value of the transferred shares and the determined amount of the remuneration. The shares can not be disposed until the end of the evaluation period.
The benefit is only vested if the remuneration condition is met. Remuneration condition: the level of the unweighted average consolidated revenues realized in the measurement period shall exceed the consolidated revenues of the comparative period. The First Remuneration Policy vested, therefore the employees received the benefits in 2019.

Staff Stock Bonus Plan

Pursuant to the program related to employee share bonuses (Staff Stock Bonus Plan 2019), the Company granted 320,534 treasury shares to 4,484 employees in 2019. The shares will be deposited on the employees' security accounts with UniCredit Bank Hungary Ltd. until 2 January 2022. In 2018 324,226 shares were granted to 4,346 employees deposited on their accounts until 2 January 2021.

The AGM held on 24th April 2019 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 607,752 treasury shares during the year.

Treasury shares	**2019** Numbers	**2018** Numbers
at 1 January	**389,028**	**66,183**
Out of these, number of shares owned by subsidiaries	*5,500*	*5,550*
Share purchase	607,752	661,049
Transferred as part of bonus program	(15,327)	(14,473)
Individual bonuses	-	(7,543)
Granted pursuant to employee share bonuses	(320,534)	(324,226)
Shares of the employees share bonus that have not vested	13,546	8,038
at 31 December	**674,465**	**389,028**
Out of these, number of shares owned by subsidiaries	*5,500*	*5,500*

Book value	**2019** HUFm	**2018** HUFm
at 1 January	**2,186**	**415**
Share purchase	3,539	3,607
Transferred as part of bonus program	(88)	(77)
Individual bonuses	-	(40)
Granted pursuant to employee share bonuses	(1,839)	(1,764)
Shares of the employees share bonus that have not vested	72	45
at 31 December	**3,870**	**2,186**

26. Trade payables

	31 December 2019 HUFm	**31 December 2018** HUFm
Trade payables (3rd parties)	61,426	54,429
Amount due to related companies and other participations (Note 37)	344	120
Total	**61,770**	**54,549**

27. Other payables and accruals and Contract liabilities

27.1 Other payables and accruals

	31 December 2019 HUFm	**31 December 2018** HUFm
Short term accruals	12,993	16,573
Other liabilities	16,829	8,656
Dividend payable	155	152
Current lease liabilities	3,729	-
Subtotal of financial liabilities (Note 10)	**33,706**	**25,381**
Wages and payroll taxes payable	6,911	6,599
Other taxes	1,282	1,260
Deposits from customers	822	424
Total	**42,721**	**33,664**

27.2 Contract liabilities

	31 December 2019 HUFm	31 December 2018 HUFm
Contract liabilities	745	85
Total	**745**	**85**

28. Provisions

	31 December 2019 HUFm	31 December 2018 HUFm
Other short term provisions	3,944	3,415
Long term provisions – for retirement and other long term benefits*	4,287	3,554
from this defined retirement benefit plans at the Parent	*2,466*	*1,857*
from this defined retirement benefit plans at GR Polska	*877*	*773*
from this defined retirement benefit plans at PregLem	*230*	*259*
from this defined retirement benefit plans at GR Ecuador	*21*	*13*
Total	**8,231**	**6,969**

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

At 31 December 2019 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 Collective Agreement of Gedeon Richter Plc., if the Employee is eligible for an old-age pension or disability care and his/her employment is being terminated for that reason by either parties unilaterally or by mutual consent, or the Employee retire in the end of a fix-term employment contract, the Employer may provide

a) 1 month's absentee pay after an uninterrupted employment relationship of at least 15 years at the Employer
b) 2 months' absentee pay after an uninterrupted employment relationship of at least 30 years at the Employer
c) 3 months' absentee pay after an uninterrupted employment relationship of at least 35 years at the Employer
d) 4 months' absentee pay after an uninterrupted employment relationship of at least 40 years at the Employer

in addition to his/her other emoluments, if the following exclusion does not arise.

As a prior obligatory condition of payment, the Employee shall not engage in any misconduct which may lead to the immediate termination of his/her employment, until the closing of the employment.

For renumerations defined in subsections b)-d) above, the Employee is entitled to an additional absentee pay equal to 45 calendar days, except if the Employee is exempted from work for a longer period.

Provided that the exemption period is longer than 45 days, the entitlement period for the absentee pay (for the "uninterrupted employment relationship at the Employer") determined at subpoints a)-d) shall be reduced by the amount exceeding the 45 days of the exemption period.

The valuation method

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

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

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

	2019 HUFm	**2018** HUFm
Opening value of retirement benefit	1,857	1,711
Interest costs (charged to the P&L)	3	58
Current service costs (charged to the P&L)	122	149
Settlement	(224)	(90)
Actuarial loss/(gain) (charged to the OCI)	708	29
Retirement benefit liability	**2,466**	**1,857**

The principal actuarial assumptions were as follows:

The estimation was performed with a 2.3% 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 applied 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, opposite the previously applied method, for discount calculations in 2019 we switched to using the yield curve based on the Hungarian government securities and adjusted to cash-flows. We use the latest available ÁKK (Government Debt Management Center) yield data and the yield data derived from the so-called Nelson-Siegel methodology after the interpolation to interim dates.

For the purpose of determining the value of the liabilities, an interest rate of 3.51% was applied for 2018. In 2019 a yield curve adjusted to cash-flows was used. Upon maturity an interest rate of 0-2% is used in the first 10 years, 2-3% between years 10-20, 3% over 20 years.

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

Relying on factual data the probability of resigning was estimated on the basis of annual average probability of resigning in groups set up by duration of employment as shown in the following table.

Term of employment at Richter	**Annual average probability of resigning**
Relevant data applied during the actuarial calculation:	
up to 3 years	20.0%
between 3-6 years	10.0%
between 6-10 years	8.0%
between 10-15 years	7.0%
between 16-25 years	5.0%
between 26-35 years	3.0%
over 35 years	2.0%

29. Net debt reconciliation

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

Net debt	**31 December 2019** HUFm	**31 December 2018** HUFm
Cash and cash equivalents	128,573	113,021
Borrowings-non-current	-	(2)
Net debt	**128,573**	**113,019**

	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 2018	**76,041**	**-**	**(3)**	**76,038**
Cash flows	39,643	-	-	**39,643**
Effect of foreign exchange changes	(2,663)	-	1	**(2,662)**
Net debt as at 31 December 2018	**113,021**	**-**	**(2)**	**113,019**
Cash flows	12,353	-	2	12,355
Effect of foreign exchange changes	3,199	-	-	3,199
Net debt as at 31 December 2019	**128,573**	**-**	**-**	**128,573**

30. Other non-current liabilities and accruals

	31 December 2019 HUFm	**31 December 2018** HUFm
Government grants	6,685	9,091
Other non-current liabilities	1,023	164
Non-current lease liabilities	10,296	-
Total	**18,004**	**9,255**

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

31. Dividend on ordinary shares

	2019 HUFm	**2018** HUFm
Dividend on ordinary shares	18,637	12,673

A dividend of HUF 100 per share (HUF 18,637 million) was declared in respect of the 2018 results, approved at the Company's Annual General Meeting on 24 April 2019 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 2019 HUFm	31 December 2018 HUFm
Contractual capital commitments of Parent	6,914	5,925
Contractual capital commitments of AO Gedeon Richter -RUS	538	431
Capital expenditure that has been authorised by the directors but has not yet been contracted for at Parent	35,387	36,479
Capital expenditure that has been authorised by the directors but has not yet been contracted for at AO Gedeon Richter-RUS	2,511	2,532

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

33. Operating lease – Group as lessee

The Group recognised the lease contracts in compliance with IAS 17 in 2018 and compliance with IFRS 16 following its becoming effective in 2019.

Operating lease commitments of the Group (based on the contracts effective as of 31 December 2018) are mainly related to vehicle, equipment and building rental. The non-cancellable operating lease commitments are as follows:

	2018 HUFm
Within 1 year	2,957
Between 1 and 5 years	4,312
Over 5 years	3,919
Total	**11,188**

Intangible assets are not included in the above values, the other lease contracts have been taken into account with a minimum lease term.
The agreements do not include purchase option.
In 2018 HUF 6,478 million has been recorded as operating lease expense.

According to IFRS 16 the difference between opening leasing liability and lease payments liabilities arising from non-cancellable lease contracts is demonstrated in Note 38.

In 2019 the Group leases various offices, warehouses, land, parking places, energy systems, retail stores, equipment and vehicles. Rental contracts are typically made for fixed periods of 11 months to 95 years, but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.
Lease payments are allocated between cost of sale, operating expenses and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Variable lease payments

Some real estate leases contain variable leasing elements that are related to sales on the business premises. The leasing fee for individual stores includes a fixed part that is payable periodically in each case. If 5% of the net sales revenue of the periodic sales of the business exceeds the fixed part, then the difference is paid in the form of a variable lease payment. The variable payment terms that are not based on an index or a rate are not part of the lease liability. Such variable lease payments are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

The Consolidated Income Statement includes HUF 2,954 million expenses from short-term, low-value and variable lease payments.

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% until 30 June 2019 and 17.5% from 1 July and vocational training contribution amounting to 1.5% of gross salaries which are paid during 2019 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 1,705 million in 2019 (in 2018: HUF 1,537 million).

Pension contribution paid by Hungary based subsidiaries in respect of their employees amounted to HUF 40 million in 2019 and HUF 35 million in 2018.

Foreign subsidiaries pay contributions to various pension funds in respect of their employees which amounted to HUF 1,718 million and HUF 712 million in 2019 and 2018, 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.

36. Contingent liabilities

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., annulling 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 had been recognised in 2018. 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, then the regular dividend payments.

	2019 HUFm	**2018** HUFm
Dividend paid to MNV Zrt.	2,847	3,201

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 2019 HUFm	31 December 2018 HUFm
Loans to joint ventures	-	480
Loans to associated companies	158	1,204
Convertible promissory note to associates	1,545	-
Trade receivables (joint ventures)	195	254
Trade receivables (associates)	2,548	9,702
Trade payables (joint ventures)	53	2
Trade payables (associates)	222	118
Revenue from joint ventures	1,434	895
Revenue from associates	17,323	14,933

The loans are in Hungarian Forint, Euro and US dollars, all of them are short term as at 31 December 2019. 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 2019.

According to the Memorandum of Understanding signed on 24 September 2010 with Helm AG, Richter has financing obligations related to costs of projects managed by Richter-Helm BioTec GmbH & Co. KG (joint ventures). In accordance with the request of the management, this funding is provided in the form of capital contribution and the company records these liabilities separately by owners. In 2019 the revenues of the company exceeded the development costs incurred, therefore no further capital contribution payment was required in the financial period.

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	
	2019 HUFm	**2018** HUFm
Board of Directors	74	71
Supervisory Board	27	24
Total	**101**	**95**

37.3 Key management compensation

	2019 HUFm	**2018** HUFm
Salaries and other employee benefits	1,678	1,563
Share based payments	536	716
Total compensation	**2,214**	**2,279**
Pension contribution paid by the employer	309	305
Total	**2,523**	**2,584**

From 2018 share based payments were modified due to the introduction of the Employee's Share-Ownership Program, please see further details in Note 25.

The table above contains the compensation received by the chief executive officer, directors and other senior members of management, constituting 58 people.
There were no redundancy payments to key management members neither in 2018 nor in 2019.

38. Changes in accounting policy

The Group has adopted IFRS 16 Leases from 1 January which resulted in changes in accounting policy and adjustments to the amounts recognised in the financial statements.

The Group has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2 (XXVII).

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.65%.

38.1 Practical Expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has elected to reassess all existing contracts that are, or contain, a lease applying the criteria in IAS 17 / IFRIC 4 whether they still are, or contain, a lease under the lease definition in IFRS 16. The same assessment has been done for contracts assessed as not being or containing a lease under IAS 17 / IFRIC 4.

Measurement of the lease liability	HUFm
Operating lease commitments disclosed as at 31 December 2018	**11,188**
Discounted using the lessee's incremental borrowing rate of at the date of initial application	9,732
(Less): short-term leases not recognised as a liability	(552)
Add/(less): contracts reassessed as lease contracts*	2,049
(Less): low-value leases not recognised as a liability and other individually non-significant items	300
Lease liability recognised as at 1 January 2019	**11,529**
Of which are:	
Current lease liabilities	2,552
Non-current lease liabilities	8,977
	11,529

* On the line "contracts reassessed as lease contracts" contains the 95 years usufruct agreement of Gedeon Richter Polska Sp.z.o.o. payable to local municipalities, that is assessed to be a lease agreement under IFRS 16, but classified as not being a lease under IFRIC-4.

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

38.2 Adjustments recognized in the Consolidated Balance Sheet on 1 January 2019

The changes in the accounting policy affected the following items in the Consolidated Balance Sheet on 1 January 2019:

- Property, plant and equipment – increase by HUF 11,529 million.
- Lease liability – increase by HUF 11,529 million.

There was no impact on retained earnings on 1 January 2019.

38.3 Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16. Note however that the number of leases in which the Company acts as a lessor is very limited and not material.

39. Notable events in 2019

The pharmaceutical production segment's income from the United States, the EU (mainly the EU15) and Other CIS regions as well as Ukraine increased, dampened by dropping income from Russia and China.

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 on 5 February 2019 an announcement was made that Mr. Lajos Kovács, Director of Technical Services would be involved in Richter's day-to-day activity as an expert advisor. Chief Executive Officer Mr Gábor Orbán will supervise both directorates pending the appointment of new directors. As of 31 December 2018 Dr Margit Dr Pellionisz Paróczai, Director of Human Resources also retired, and will in future be engaged in the work 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.

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 with the aim to operate Corvinus Universtiy of Budapest. The government transferred substantial funds to the Foundation in the form of 10% of state-owned MOL and Richter shares each. The shares are non-alienable.

On 27 March 2019 Richter announced subscription of convertible bonds amounting to USD 5 million issued by Prima-Temp Inc. The transaction was concluded after Richter and Prima-Temp Inc. of the United States announced, in October 2017, that they had entered into an exclusive license and distribution agreement for Richter to commercialize the innovative medical device, PriyaRing globally, except for the USA and Canada. PriyaRing is an internal sensor that identifies the subtle temperature changes that occur prior to ovulation. The above agreement was complemented by the acquisition of a minority stake in Prima-Temp for a consideration of USD 5 million.

On 24 May 2019 Richter announced the conclusion of a license agreement with Sequirus Pty Ltd for the exclusive commercialisation of cariprazine in Australia and New Zealand. Under the terms of the agreement, Richter shall receive upfront payment upon signature of the agreement as well as subsequent milestone payments.

In a joint statement on 28 May 2019 Richter and its American partner Allergan announced that the U.S. Food and Drug Administration (FDA) had approved a supplemental New Drug Application (sNDA) for Vraylar™ for expanded use to treat depressive episodes associated with bipolar I disorder in adults. In September 2015 Vraylar™ was also approved in the U.S. to treat schizophrenia and manic or mixed episodes associated with bipolar I disorder in adults.

In July 2019 Richter announced subscription of newly issued Evestra Inc. shares amounting to USD 15 million. The transaction was part of a capital increase initiated by Richter. At the same time Richter's USD 1.5 million loan provided to Evestra in 2017 was converted to shares. As a result of these transactions Richter has become Evestra's biggest shareholder with a stake of 35.45%.

On 25 July 2019 Richter and Hikma Pharmaceuticals Plc. announced the signing of an exclusive license agreement to commercialize cariprazine, a novel antipsychotic drug in certain Middle East and North African (MENA) markets. Richter receives a preliminary payment upon execution of the agreement followed by milestone payments upon meeting certain targets commensurate with sales once the product is launched.

In August 2019 Richter announced that Mitsubishi Tanabe Pharma Corporation's subsidiaries in ASEAN obtained the regulatory approval of cariprazine for the treatment of schizophrenia. Current approvals have been granted in Singapore and in Thailand. Richter is entitled to milestone payments in conjunction with the registration procedure, and then to royalty depending on sales.

On 20 August 2019 Richter announced that it launched its biosimilar teriparatide in Europe. The product has been launched through Richter's subsidiaries under the brand name Terrosa® after the expiry of the patent protection of the European reference product (Eli Lilly's Forsteo). The biosimilar teriparatide has been developed by the Company's subsidiary Richter-Helm BioTec GmbH & Co. KG.

In September 2019 Richter announced that its license partner Mochida Pharmaceutical Co. received marketing authorization for biosimilar teriparatide and launched the product in November.

On 16 October 2019 Richter and Mycovia Pharmaceuticals announced that they entered into an exclusive license and development and technology transfer agreement to commercialize and manufacture a molecule currently in Phase III clinical trials for the treatment of recurrent vulvovaginal candidiasis. The geographic scope of the license agreement covers Europe, Russia, the other CIS countries, Latin America and Australia. In addition, the two companies signed a royalty purchase agreement according to which Richter also acquires a certain portion of the net turnover of US sales of the product.

In 2019 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

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

On 2 March 2020 Richter and WhanIn Pharm. Co., Ltd. announced the signing of an exclusive license and supply agreement to commercialize cariprazine, a novel antipsychotic in South Korea. Richter receives a one-off milestone payment upon signature and will be entitled to further sales-related milestone payments after the product is launched if certain targets are met.

In accordance with the applicable laws of the Russian Federation, ZAO Firma CV «PROTEK», has submitted a voluntary bid to buy back the shares issued by PAO «PROTEK» at a purchase price of RUB 100 (one hundred) per share. The Company considers the purchase offer to be a non-adjusting event after the balance sheet date. The offer has no significant impact on these financial statements nor on 2020's, given that according to IFRS 9 standard, the investment in Protek is valued at fair value based on stock exchange price. Share price was RUB 100.3 per share as at 31 December 2019 (See Note 15.2).

In late 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally and its negative impact had gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event.
While this is still an evolving situation at the time of issuing these separate financial statements, to date there has been no discernible impact on the Group's sales or supply chain, however the future effects cannot be predicted. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects.

On 13 March 2020 the Company announced, subsequent to its meeting held on 09-12 March 2020 the Pharmacovigilance Risk Assessment Committee (PRAC) of European Medicines Agency (EMA) has started a review procedure following a recent case of liver injury which led to liver transplantation in a patient taking ESMYA®. PRAC recommends suspension of ulipristal acetate for uterine fibroids during ongoing review of liver injury risk. The PRAC has recommended, as a precautionary measure, that women should stop taking 5-mg ulipristal acetate (ESMYA® and generic medicines) for uterine fibroids while a safety review started this month is ongoing. No new patients should start treatment with these medicines. The Group concluded that according to IAS 10 the event mentioned above is an adjusting event after the reporting period, related exposure please see more detailed in Note 3.1.

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 23 March 2020.

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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Fig.10
100
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Fig.3
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