



**Gedeon Richter Plc.**

# **Financial statements**

**31 December 2012**

- *Balance sheet*
- *Income statement*
- *Supplementary notes*
- *Business report*

**Budapest, 25 April 2013**

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Gedeon Richter Plc.  
Balance Sheet (Assets)

31 December 2012

Data in HUF Million

	Description	Previous year	Current year
		31.12.2011	31.12.2012
a	b	c	e
A.	Fixed Assets	389 191	406 814
I.	Intangible Assets	80 721	84 362
	1. Capitalised value of reorganization		
	2. Capitalised value of research and development		
	3. Rights	70 566	68 723
	4. Intellectual property	1 713	1 969
	5. Goodwill	8 442	13 670
	6. Advances given for intangibles		
	7. Adjusted value of intangible assets		
II.	Tangible Assets	122 614	126 003
	1. Land and buildings	80 237	81 047
	2. Technical equipment	19 097	22 727
	3. Other equipment	14 953	14 746
	4. Animals		
	5. Investments	7 712	7 403
	6. Advances given for tangible assets	615	80
	7. Adjusted value of tangible assets		
III.	Financial Investments	185 856	196 449
	1. Long-term shares in subsidiaries	131 987	118 649
	2. Other long-term shares	3 587	5 783
	3. Long-term loans given to subsidiaries	39 034	52 402
	4. Long-term loans given to other affiliates	758	784
	5. Other long-term loans	447	479
	6. Long-term bonds	10 043	18 352
	7. Adjusted value of financial investments		
	8. Valuation difference of non-current assets		

Data in HUF Million

a	Description	Previous year	Current year
		31.12.2011	31.12.2012
	b	c	e
B.	Current Assets	256 409	243 681
I.	Inventories	39 481	43 481
1.	Raw materials	7 197	8 509
2.	Work in progress, semi-finished products	20 935	22 045
3.	Live stock		
4.	Finished products	7 798	9 197
5.	Goods	3 549	3 730
6.	Advances given for inventories	2	0
II.	Receivables	104 571	108 393
1.	Trade receivables	39 858	42 049
2.	Receivables due from subsidiaries	46 033	42 088
3.	Receivables due from other affiliates	15 776	17 629
4.	Bills receivable		
5.	Other receivables	2 904	6 627
6.	Valuation difference of receivables		
7.	Positive fair value difference of derivative instruments		
III.	Securities	16 657	11 604
1.	Shares in subsidiaries		
2.	Other shares		
3.	Own shares	4 468	1 671
4.	Short-term bonds	12 189	9 911
5.	Fair value difference of securities		22
IV.	Cash	95 700	80 203
1.	Cash	37	39
2.	Bank deposits	95 663	80 164
C.	Prepayments	3 609	4 458
1.	Accrued income	1 584	2 203
2.	Prepaid expenses	2 025	2 255
3.	Deferred expenses		
	Total Assets	649 209	654 953

Budapest, 25 April 2013


  
 Managing  
 Director

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Gedeon Richter Plc.

Balance Sheet (Equity and Liabilities)

31 December 2012

Data in HUF Million

	Description	Previous year	Current year
		31.12.2011	31.12.2012
a	b	c	e
D.	Shareholder's Equity	490 412	522 041
I.	Issued capital	18 637	18 637
	- including own-shares repurchased at face value	124	45
II.	Issued unpaid capital (-)		
III.	Share premium	19 256	19 256
IV.	Retained earnings	381 122	450 818
V.	Tied-up reserve	4 468	1 671
VI.	Revaluation reserve	0	22
	1. Valuation reserve		
	2. Fair value reserve		22
VII.	Profit or Loss for the year	66 929	31 637
E.	Provisions	29	1 209
	1. Provision for expected liabilities	29	1 209
	2. Provision for expected expenses		
	3. Other provisions		
F.	Liabilities	152 316	123 933
I.	Subordinated liabilities	0	0
	1. Subordinated liabilities due to subsidiaries		
	2. Subordinated liabilities due to other affiliates		
	3. Other subordinated liabilities		
II.	Long-term liabilities	70 994	83 658
	1. Long-term loans		
	2. Convertible bonds		
	3. Debts on issue of bonds		
	4. Investment and development loans		
	5. Other long-term loans	62 226	72 823
	6. Long-term liabilities due to subsidiaries		
	7. Long-term liabilities due to other affiliates		
	8. Other long-term liabilities	8 768	10 835

Data in HUF Million

	Description	Previous year	Current year
		31.12.2011	31.12.2012
a	b	c	e
III.	Current liabilities	81 322	40 275
1.	Short-term loans		
	- including: convertible bond		
2.	Other short-term loans		
3.	Advances received from customers	237	347
4.	Trade payables	17 711	17 394
5.	Bills payable		
6.	Short-term liabilities due to subsidiaries	5 076	6 664
7.	Short-term liabilities due to other affiliates	18	10
8.	Other short-term liabilities	58 031	15 356
9.	Valuation difference of current liabilities		
10.	Negative fair value difference of derivative instruments	249	504
G.	Accruals	6 452	7 770
1.	Accrued income		
2.	Accrued expenses	5 097	6 343
3.	Deferred income	1 355	1 427
	Total Liabilities and Equity	649 209	654 953

Budapest, 25 April 2013



Managing  
Director

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Gedeon Richter Plc.  
Income Statement

"A" Type

31 December 2012

Data in HUF Million

a	Descriptions	Previous year	Current year
		12 months	12 months
b		c	e
01.	Domestic sales	33 965	29 539
02.	Export sales	215 885	225 959
I.	Total Sales (01+02)	249 850	255 498
03.	Direct cost of production	43 875	44 476
04.	Cost of goods sold	13 831	10 912
05.	Value of services sold	206	493
II.	Direct costs of sales (03+04+05)	57 912	55 881
III.	Gross profit (I-II)	191 938	199 617
06.	Sales and marketing expenses	70 303	80 378
07.	Administration and general expenses	22 954	23 341
08.	Other general expenses	31 947	40 237
IV.	Indirect costs of sales (06+07+08)	125 204	143 956
V.	Other income	23 340	13 087
	<i>including reversal of impairment</i>	<i>1 266</i>	<i>455</i>
VI.	Other expenditures	16 000	11 885
	<i>including impairment</i>	<i>2 704</i>	<i>2 116</i>
A.	OPERATING RESULTS (I+II+III-IV-V-VI-VII)	74 074	56 863

Data in HUF Million

a	b Descriptions	Previous year	Current year
		12 months	12 months
		c	e
13.	Dividends and profit-sharing (received or due)	434	1 378
	<i>including from affiliated undertakings</i>	395	1 072
14.	Capital gains on the sale of investments	0	25
	<i>including from affiliated undertakings</i>	0	25
15.	Interest income and capital gains on financial investments		
	<i>including from affiliated undertakings</i>		
16.	Other interest and similar income	4 413	5 275
	<i>including from affiliated undertakings</i>	1 730	1 616
17.	Other financial income	28 193	5 697
	<i>including from valuation difference</i>	11	249
VIII.	<b>INCOME FROM FINANCIAL TRANSACTIONS (13+14+15+16+17)</b>	<b>33 040</b>	<b>12 375</b>
18.	Losses on financial investments		
	<i>including to affiliated undertakings</i>		
19.	Interests payable and similar expenses	1 220	1 805
	<i>including to affiliated undertakings</i>		
20.	Losses on shares, securities and bank deposits	15 567	1 062
21.	Other financial expenses	10 146	20 600
	<i>including from valuation difference</i>	322	504
IX.	<b>EXPENSES ON FINANCIAL TRANSACTIONS (18+19+20+21)</b>	<b>26 933</b>	<b>23 467</b>
B.	<b>PROFIT OR LOSS FROM FINANCIAL TRANSACTIONS (VIII-IX)</b>	<b>6 107</b>	<b>-11 092</b>
C.	<b>PROFIT OR LOSS OF ORDINARY ACTIVITIES (+A+B)</b>	<b>80 181</b>	<b>45 771</b>
X.	<b>EXTRAORDINARY INCOME</b>	<b>580</b>	<b>130</b>
XI.	<b>EXTRAORDINARY EXPENSES</b>	<b>1 861</b>	<b>1 339</b>
D.	<b>EXTRAORDINARY RESULT (X-XI)</b>	<b>-1 281</b>	<b>-1 209</b>
E.	<b>INCOME BEFORE TAXES (±C±D)</b>	<b>78 900</b>	<b>44 562</b>
XII.	<b>TAXES PAYABLE</b>	<b>-240</b>	<b>654</b>
F.	<b>PROFIT AFTER TAXES (±E-XII)</b>	<b>79 140</b>	<b>43 908</b>
22.	Profit reserves used for dividends and profit-sharing		
23.	Dividends and profit-sharing paid (payable)	12 211	12 271
G.	<b>PROFIT OR LOSS FOR THE YEAR (±F+22-23)</b>	<b>66 929</b>	<b>31 637</b>

Budapest, 25 April 2013


  
 Managing  
 Director

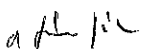
GEDEON RICHTER PLC.

**NOTES TO THE  
FINANCIAL STATEMENTS  
2012**



Erik Bogsch  
Managing Director

Budapest, 25 April 2013



# CONTENTS

I	General section	2
	I/1 Company data	2
	I/2 Short summary of the accounting policy, general information	3
	I/3 Evaluation of the activities of 2012	7
	3.1 Revenue by geographical segment	7
	3.2 Balance sheet	9
	3.3 Cash-flow statement	14
	3.4 Financial performance indicators	15
II	Specific section	20
	II/1 Fixed assets	20
	1.1 Intangible assets	20
	1.2 Tangible assets	21
	1.2.1 Tangible assets directly used for environment protection	22
	1.2.2 Investments	22
	1.3 Financial investments	23
	1.3.1 Gedeon Richter Plc.'s shareholdings based on ownership ratios	23
	1.3.2 Related parties in a breakdown by degree of involvement	25
	1.3.3 Changes in direct participations	27
	1.3.4 Impairment of participations	29
	II/2 Inventories	30
	2.1 Purchased materials, stock	30
	2.2 Self	30
	2.3 Hazardous waste	31
	2.4 Impairment of inventories	31
	2.4.1 Impairment of materials purchased	31
	2.4.2 Impairment of self-manufactured inventories	31
	II/3 Receivables	32
	3.1 Receivables without impairment	32
	3.1.1 Accounts receivable	32
	3.1.2 Receivables from other related parties	32
	3.1.3 Receivables due from associated parties	33

3.2	Impairment on receivables	33
3.2.1	Impairment of accounts receivables	33
3.2.2	Impairment of receivables from other related parties	33
3.2.3	Changes in receivables and impairment of receivables	33
3.2.4	Impairment of loan receivables	33
3.3	Impairment of accounts receivables in a breakdown by relations	34
II/4	Tied-up reserve, provisions	35
4.1	Tied-up reserve	35
4.2	Provision for expected liabilities	35
II/5	Liabilities	35
5.1	Long-term liabilities	35
5.2	Short-term liabilities	35
5.3	Off-balance sheet items	36
II/6	Prepayments and accruals	36
6.1	Prepayments	36
6.2	Accruals	36
II/7	Costs, expenses, revenues	37
7.1	Expenses by nature	37
7.2	Value of own performance capitalised	37
7.3	R&D expenditures	37
7.4	Other income and expenditures	38
7.5	Profit on financial transactions	39
7.5.1	Evaluation of derivative contracts not closed by the balance sheet date	39
7.6	Extraordinary profit	40
7.7	Wage costs, headcount, remuneration	40
7.7.1	Wage costs	40
7.7.2	Average statistical headcount	41
7.7.3	Remuneration of the Board of Directors and the Supervisory Board	41
II/8	Calculation of the income tax	42
8.1	Criteria for eligibility for corporate income tax relief, and the fulfilment of such criteria	43

## I. General Section

### I/1 Company data

<b>Company name:</b>	<b>Chemical Works of Gedeon Richter Plc.</b>
<b>Short name of the Company:</b>	<b>Gedeon Richter Plc.</b>
<b>Date of foundation of legal predecessor:</b>	<b>2 October 1923</b>
<b>Address of the Company:</b>	<b>1103 Budapest, Gyömrői út 19-21.</b>
<b>Site:</b>	<b>2510 Dorog, Esztergomi út 27.</b>
<b>Company website:</b>	<b>www.richter.hu</b>
<b>Date of the first Articles of Association:</b>	<b>24 July 1923</b>
<b>Date of the effective Articles of Association:</b>	<b>26 April 2011</b>
<b>Reference and place of last Company Court registration:</b>	<b>Cg. 01-10-040944/398 Budapest</b>
<b>Current registered capital:</b>	<b>HUF 18,637,486,000</b>
<b>Principal activity:</b>	<b>Manufacture of pharmaceutical products</b>
<b>TEÁOR No.:</b>	<b>2442</b>
<b>Duration of the Company:</b>	<b>indefinite</b>
<b>Business year:</b>	<b>corresponding to the calendar year</b>
<b>Name and address of the auditor company:</b>	<b>PricewaterhouseCoopers Auditing Ltd. 1077 Budapest, Wesselényi u. 16.</b>
<b>Natural person:</b>	<b>Éva Barsi</b>
<b>Registration number at the Chamber of Hungarian Auditors:</b>	<b>002945</b>
<b>Company announcements are published in:</b>	<b>Company Gazette</b>
<b>Name of the person authorised to sign on behalf of the Company:</b>	<b>Erik Bogsch</b>
<b>Address:</b>	<b>Budapest</b>
<b>The person responsible for the management and supervision of the tasks relating to book-keeping is:</b>	<b>Lászlóné Bejczy</b>
<b>Address:</b>	<b>Budapest</b>
<b>Registration number:</b>	<b>160173</b>

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

### **2.1 Preparation of the financial statements**

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

**Balance sheet date:** 31 December 2012

**Balance sheet preparation date:** 30 January 2013

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

### **2.2 Selected form of the balance sheet and the income statement**

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

### **2.3 Valuation procedures**

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

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

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

#### **2.3.1 Current assets**

##### *Inventories*

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

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

Content of direct manufacturing costs:

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

### **2.3.2 Measurement of equity and liabilities**

Richter Gedeon Nyrt measures issued capital at a book value, which corresponds to the amount of capital registered at the Registry Court. Capital reserve, retained earnings, provision and short-term liabilities are measured at book value in the balance sheet.

### **2.4 Accounting for impairment**

Financial investments are impaired if the carrying value of significantly exceeds the market value, and this tendency is prolonged.

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

The purchase price of purchased inventories and the production costs of self-manufactured inventories - in addition to the provisions described above - are shown in the balance sheet at a lower value if such inventories are not compliant with the relating requirements or not suitable for the original purpose, if damaged, redundant or their use or sale is doubtful.

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

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

#### *Review of domestic receivables*

Based on the time tables of customer current accounts the Accounting and Finance Department puts forward a proposal on receivables for impairment, with the customers rated. The proposal is reviewed by the CFO and the Chief Accountant, who then make a written recommendation regarding the rate of allowance with detailed analyses of the individual customers attached. The recommendation is approved by the Deputy Chief Executive Officer responsible for Finance.

#### *Review of export receivables*

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

## 2.5 Depreciation method

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

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

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

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

Description	Rates
Land	0 %
Buildings	1-8 %
Machineries	14.5-33 %
Office furniture and equipments	33 %
Vehicles	20 %

Concessions, licences and similar rights, intellectual property and tangible assets below an individual historical cost of HUF 100,000 are immediately recognised as depreciation on capitalisation.

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

## 2.6 Accounting policy

The Company has amended its Accounting policy in 2012.

- a.) Provisions have been accrued in respect of benefits related to pensions and to employees having been with Richter over a longer period of time as per defined in the collective bargaining and in accordance with relevant IFRS regulations based on actuarial assumptions.
- b.) A significant error related to the year under review – a result of which reports are required to have three columns – is an error which was revealed either by an external or by an internal audit and as a result of which cumulative changes irrespective of the sign thereof impacting profits and the equity attributable to the owners of the parent exceed the 2 percent of total assets of the year under review.

## **2.7 Tax audit**

A comprehensive tax audit procedure covering business activities for the years 2006-2007-2008 ended by a second instance resolution on 13 July, 2011. Books and ledgers of the company may be audited for a period of up to six years following the current year. The Management of the Company is unaware of any circumstances that may materially impact its business on these grounds.

## **2.8 Post-balance sheet date events**

In January 2013 Richter drew the third EUR 50 million tranche of the EUR 150 million loan extended by the European Investment Bank.

In January 2013 the U.S. Food and Drug Administration announced the acceptance of the NDA of cariprazine for the treatment of acute manic episodes associated with bipolar I disorder and schizophrenia indications.

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

## **2.9 Audit fees**

The Company signed a contract with PricewaterhouseCoopers Auditing Ltd to perform the financial audit in respect of 2012. The annual fee due to this activity amounts to HUF 19 million + VAT.

### I/3 Evaluation of the 2012 activities of Gedeon Richter Plc.

Expressed in HUF million, the reference figures used for evaluating the 2012 business of Gedeon Richter Plc. are taken from the 2011 audited annual report as approved by the General Meeting.

#### 3.1 Total sales geographical segment

Sales income		2011	2012	Variance	
				Amount	%
Domestic	MHUF	33 965	29 539	-4 426	-13,0
	M€	121,3	102,2	-19,1	-15,7
Export	MHUF	215 885	225 959	10 074	4,7
	M€	771,1	781,5	10,4	1,3
CIS	MHUF	118 890	127 429	8 539	7,2
	M€	424,6	440,8	16,2	3,8
EU	MHUF	69 947	73 296	3 349	4,8
	M€	249,8	253,5	3,7	1,5
USA	MHUF	11 879	9 539	-2 340	-19,7
	M€	42,5	32,9	-9,6	-22,6
Other countries	MHUF	15 169	15 695	526	3,5
	M€	54,2	54,3	0,1	0,2
<b>Total sales income</b>	<b>MHUF</b>	<b>249 850</b>	<b>255 498</b>	<b>5 648</b>	<b>2,3</b>
	<b>M€</b>	<b>892,4</b>	<b>883,7</b>	<b>-8,7</b>	<b>-1,0</b>
Average exchange rate	HUF/€	280,0	289,1	9,1	3,3

In 2012, the total sales increased in forint as well as in euro, it was HUF 5,648 million higher and EUR 8.7 million less year-on-year. Export contributed 88% to total income from sales compared to 86% in 2011.

In 2012, 99% of total sales were contributed by pharmaceuticals.

HUF 62,177 million was realised with associated enterprises including HUF 51,429 million from sales to subsidiaries.

With this performance the Company's market share was 5.3% in 2012, 0.6% below the reference year's figure. Richter ranked third in the prescription drugs market with a share of 7.1%.

Due to introduction of the blind bidding on 1 October the Company lowered the price of several products; these drugs are still within the limits of delisting and will continue to be subsidized.

In the CIS region the Company achieved a 7.2% sales increase expressed in forint and a 3.8% decrease expressed in EUR. The increase in sales income was due to the performance achieved in the Ukrainian market, which was further strengthened by rising turnover in the Other CIS states segment.

Sales in the European Union were 4.8 % higher in HUF and 1.5 % higher in EUR year-on-year. In the EU 15 region, increasing competition in the generic market and the resulting decreasing prices, as well as significant supplies in 2011 of gynaecological products to the Group's trading companies explain Richter's shrinking sales income.

Richter has been present for decades in the central and eastern markets of the European Union and has been selling its products through its own well-established distribution network. In this geographical segment, too, Richter faced strengthening competition and prices kept low as a result of government measures and an unfavourable social security environment. Despite these unfavourable trends the Company achieved growth mainly because of the successful launch of its new products.

Sales revenue in the USA region lagged behind the reference year figures in both HUF (-19.7%) and USD terms (-28.1%) due primarily to plummeting sales of oral contraceptive APIs. Turnover lagged behind the reference year's figure due to price reductions required by strong competition.

In the Other countries region the turnover was 3.5% above the 2011 figure. The region's sales denominated in euro are essentially unchanged.

### 3.2 Balance sheet

#### Total assets

As of 31 December 2012 the Company's total assets amounted to HUF 654,953 million, HUF 5,744 million higher than the opening value. The 0.9 % increase of total assets boosted Richter's wealth. The main items on the asset side are as follows:

#### *Fixed assets*

The closing value of this item was HUF 406,814 million, HUF 17,623 million higher than the opening value. Most of the increase in fixed assets was due to the increase of the value of financial investments and, to a lesser extent, by intangible and tangible assets.

As of 31 December 2012 the combined value of the Company's holdings amounted to HUF 124,432 million and shrank by HUF 11,142 million year-on-year. The decrease was mainly due to the following factors: revision of the value of the investment in PregLem and harmonization of the corporate tax rates applied in the calculation of goodwill as a result of which the Swiss company's book value dropped by HUF 5,228 million; the book value of Gedeon Richter Romania S.A. increased due to a capital increase from loan extended by the parent company (HUF +2.644 million); conversely, impairment amounting to HUF 2,821 million was reported in conjunction with Armedica Trading S.R.L. in which Richter has a 100% share. The reversed impairment (HUF +2,362 million) due to the change in the fair value of the Russian wholesale and retail group Protek boosted the value of investments.

The reassessment of holdings as of the balance sheet date resulted in a decrease of HUF 7,529 million.

Long-term loans given amounted to HUF 53,665 million and included predominantly long-term loans extended to pharmaceutical production companies.

The bond bought by the Company and to be held until maturity in 2014, when it will be converted to Richter Treasury shares was reported under investments with a book value of HUF 14,297 million in 2012.

The value of tangible assets was HUF 3,389 million above the reference year figure: The net value of technical equipment was HUF 3,630 million higher than the opening figure due to capitalizations in the Debrecen injectables development plant and the Budapest injectables plant. Depreciation was HUF 14,161 million in the reported period. The total value of capitalised capital expenditure is HUF 18,633 million. The total capitalised value includes group assets of minor value at HUF 50 million and completed refurbishment projects at HUF 1,787 million.

Intangible assets are HUF 3,641 million higher than the opening figure. At the close of 2012 the value of the investment in PregLem was revised and the corporate tax rates applied in the calculation of goodwill were harmonized. As a result PregLem's book value decreased, ipso facto the goodwill on the remainder

of the acquisition value increased by HUF 5,228 million. The growth is mainly attributed to the change in PregLem's goodwill and the intangible asset generated by Richter increasing its share in the traditional sale of Chinese products. The increase was restrained by the depreciation reported on the 2010 capitalization of the marketing and brand related rights of the acquired Grünenthal portfolio, as well as depreciation on Esmya capitalized in 2012 and on the fees paid to the competent authorities for new marketing authorizations.

### *Current assets*

The total value of current assets was HUF 243,681 million as of 31 December 2012, HUF 12,728 million below the opening value.

Inventories increased by HUF 4,000 million by the end of the year and included a HUF 1,491 million increase in the combined value of purchased materials, goods and advances. The combined value of work in progress, finished products and semi-finished goods was HUF 2,509 million higher than the opening value recorded on January 1.

Trade receivables are HUF 3,822 million higher than the opening figure. The closing balance of loans extended to affiliated undertakings and undertakings linked by participating interest was HUF 356 million higher year-on-year predominantly because of the loan items extended to Gedeon Richter Romania S.R.L. due within a year. Net trade receivables were HUF 3,887 million less than in the reference year due primarily to the decrease in trade receivables in the EU. This figure also contains HUF 6,078 million decrease in liabilities to other related parties. The capital increase in ZAO Gedeon Richter-RUS paid in 2012 but not yet registered also increases liabilities (HUF +3,630 million).

As of 31 December 2012 the value of cash decreased by HUF 15,497 million. The 2011 high closing value was further increased by the drawdown of the second EUR 50 million tranche of the European Investment Bank (EIB) credit line in January 2012, and was then significantly decreased by the payment of the outstanding portion of the purchase price to PregLem's previous shareholders.

The closing value of securities was HUF 5,053 million below the opening value, due mainly to the combined decreasing value of proprietary shares and quotas and securities held for trading.

### **Total Liabilities and Equity**

#### *Shareholders' equity*

There was a substantial, HUF 31,629 million, increase in shareholders' equity, which resulted from a HUF 69,696 million increase in retained earnings, a HUF 22 million increase in fair value reserve, a HUF 35,292 million decrease in profit for the year, and a HUF 2,797 million decrease in tied-up reserve, while the value of issued capital and share premium remained unchanged.

	Issued capital	Share premium	Retained earnings	Tied-up reserve	Fair value reserve	Profit or Loss for the year	Shareholders' equity
<b>Balance 31.12.2011</b>	<b>18 637</b>	<b>19 256</b>	<b>381 122</b>	<b>4 468</b>	<b>0</b>	<b>66 929</b>	<b>490 412</b>
31.12.2011 Profit for the year			66 929			-66 929	
31.12.2011 repurchased treasury shares value released			4 468	-4 468			
31.12.2012 treasury shares repurchase value locked			-1 671	1 671			
31.12.2011 fair valuation reserve released					0		
31.12.2012 fair valuation reserve created					22		
Supplementary payment *			-30				
31.12.2012 Profit for the year						31 637	
<b>Balance 31.12.2012</b>	<b>18 637</b>	<b>19 256</b>	<b>450 818</b>	<b>1 671</b>	<b>22</b>	<b>31 637</b>	<b>522 041</b>

\* To Pharmapolis Gyógyszeripari Tudományos Park Kft. and Ceronin Kft. in order to settle shareholder's equity.

*Changes in issued capital*

**Shares of the company**

	31.12.2011			31.12.2012		
	Number	Nominal value HUF'000	Ratio %	Number	Nominal value HUF'000	Ratio %
Ordinary shares	18 637 486	18 637 486	100,00	18 637 486	18 637 486	100,00
<b>Total shares</b>	<b>18 637 486</b>	<b>18 637 486</b>	<b>100,00</b>	<b>18 637 486</b>	<b>18 637 486</b>	<b>100,00</b>

*Fair valuation reserve*

	HUF million		
	31.12.2011	31.12.2012	Változás
Securities held for trading	0	22	22

The fair valuation of securities was based on bank data.

### Ownership structure as known by the Company

	Ordinary shares		Voting capital %		Subscribed capital %	
	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012
<b>Domestic shareholders</b>						
MNV ZRt.	4 700 370	4 703 921	25,40	25,31	25,22	25,24
Pension Reform and Debt Reduction Fund	957 021	0	5,17	0,00	5,13	0,00
Local government	100	107	0,00	0,00	0,00	0,00
Institutional investors	596 859	691 038	3,23	3,72	3,20	3,71
Private investors	644 355	765 011	3,48	4,12	3,46	4,10
<b>Total</b>	<b>6 898 705</b>	<b>6 160 077</b>	<b>37,28</b>	<b>33,15</b>	<b>37,01</b>	<b>33,05</b>
<b>Foreign shareholders</b>						
Private investors	71 925	114 664	0,39	0,62	0,39	0,62
Institutional investors	11 527 116	12 278 251	62,30	66,08	61,85	65,88
<i>including: Skagen Kon-Tiki Verdipapirfond</i>	<i>968 258</i>	<i>997 104</i>	<i>5,23</i>	<i>5,37</i>	<i>5,20</i>	<i>5,35</i>
<i>Aberdeen Asset M. PLC.</i>	<i>2 503 184</i>	<i>2 372 669</i>	<i>13,53</i>	<i>12,77</i>	<i>13,43</i>	<i>12,73</i>
<b>Total</b>	<b>11 599 041</b>	<b>12 392 915</b>	<b>62,69</b>	<b>66,70</b>	<b>62,24</b>	<b>66,50</b>
Non-specified shareholder	4 791	28 608	0,03	0,15	0,03	0,15
Treasury shares *	134 949	55 886	0,00	0,00	0,72	0,30
<b>Subscribed capital</b>	<b>18 637 486</b>	<b>18 637 486</b>	<b>100,00</b>	<b>100,00</b>	<b>100,00</b>	<b>100,00</b>

\* At Group level it includes the 10,550 treasury shares held by subsidiaries. Treasury shares carry no voting rights.

The book value of treasury shares held by Richter is HUF 1,671 million.

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

### Changes in treasury shares

	Number of shares	HUF million
Opening 01.01.2012	124 399	4 468
Share purchase	55 102	2 035
Transferred in the context of bonus program	-38 948	-1 405
Transferred as premium	-50 780	-1 832
Transferred in the context of PM program	-45 681	-1 642
Repurchased in the context of PM program	1 244	47
Closing 31.12.2012	45 336	1 671

### **Liabilities**

As of 31 December 2012 total liabilities amounted to HUF 123,933 million and included HUF 83,658 million long-term liabilities.

Long-term liabilities include the HUF 150 million club facility taken out in 2010, the EUR 100 million drawdown to finance R&D, and HUF 10,835 million deferred purchase price for PregLem reported at fair value.

Trade payable increased by HUF 1,263 million. This figure also contains changes in liabilities to other related parties.

The main item contributing to the decrease of Other short-term liabilities is the next instalment due of PregLem's purchase price (HUF 42,329 million).

### 3.3 Cash Flow Statement

		MHUF	
		2011	2012
I.	Net cash flow from ordinary business (Operating cash flow, lines 1-13)	58 392	13 798
1.	Profit before taxation ±	78 900	44 562
1/a.	Dividends received -	-434	-1 378
1b.	Other profit items that do not imply cash movements	-14 127	9 377
2.	Depreciation charge +	20 210	20 708
3.	Impairment charge and reversal ±	17 957	3 508
4.	Difference in recognition and reversal of provisions ±	-68	1 180
5.	Gains and losses of selling non-current assets ±	-51	-28
5/a.	Change of non-current assets without cash flow generating effect ±	-905	-36
6.	Change of trade payables ±	6 570	1 263
7.	Change of other short term liabilities ±	558	-42 370
8.	Change of accruals ±	2 109	1 318
9.	Change of trade receivables ±	-32 814	34
10.	Change in current assets (less receivables and liquid assets) ±	-3 694	-10 309
10/a.	Change of other current assets without cash flow generating effect ±	748	-317
11.	Change of prepayments ±	-798	-849
12.	Taxes paid or payable (on profits) -	240	-654
13.	Dividend paid or payable -	-16 009	-12 211
II.	Cash flow from investing activities (lines 14-16)	-38 753	-43 455
14.	Purchasing non-current assets -	-24 571	-23 518
15.	Sales of non-current assets +	355	251
16.	Change of financial investments ±	-14 971	-21 566
16/a.	Dividends received +	434	1 378
III.	Cash flow from financing activities (lines 17-27)	21 196	14 160
17.	Proceeds from issuing shares +		
18.	Proceeds from issuing bonds +		
19.	Taking credits or loans +	20 563	14 788
20.	Repayment of long term loans +	5 237	3 332
21.	Liquid assets received without the obligation of repayment +		
22.	Withdrawal of shares -		
23.	Repayment of bonds -		
24.	Repayment of loans and credit -		
25.	Long term loans extended -	-3 532	-2 921
26.	Liquid assets given without the obligation of repayment -	-1 072	-1 039
27.	Change of liabilities in connection with founders ±		
IV.	Net cash flow (lines I-III) ±	40 835	-15 497

### 3.4 Financial performance indicators

#### Profitability indicators

##### a.) Profit margin

Profit rate	=	$\frac{\text{Profit for the year}}{\text{Total sales income}^*}$	
<b>2011.</b>		<b>2012.</b>	
66 929		31 637	
<hr/>	=	<hr/>	=
278 016	0,241	256 284	0,123

\* Net sales revenue + other income + profit on financial transactions + extraordinary profit

##### b.) Turnover and profit ratio

Turnover and profit ratio	=	$\frac{\text{Operating result}}{\text{Total income}}$	
<b>2011.</b>		<b>2012.</b>	
74 074		56 863	
<hr/>	=	<hr/>	=
249 850 + 23 340	0,271	255 498 + 13 087	0,212

##### c.) Profit per capita

Profit per capita	=	$\frac{\text{Profit for the year}}{\text{Average headcount}}$	
<b>2011.</b>		<b>2012.</b>	
66 929		31 637	
<hr/>	=	<hr/>	=
6 487	10,32	6 604	4,79
	MHUF/ per capita		MHUF/ per capita

**d.) ROE = Return on Equity**

Return on equity	=	$\frac{\text{Net profit}}{\text{Shareholder's equity}}$	x 100	
<b>2011.</b>				<b>2012.</b>
$\frac{79\ 140}{490\ 412}$	x 100 =	16,14		$\frac{43\ 908}{522\ 041}$
				x 100 =
				8,41

**e.) ROA = Return on Assets**

Return on assets	=	$\frac{\text{Net profit}}{\text{Total assets}}$	x 100	
<b>2011.</b>				<b>2012.</b>
$\frac{79\ 140}{649\ 209}$	x 100 =	12,19		$\frac{43\ 908}{654\ 953}$
				x 100 =
				6,70

**d.) EBITDA**

EBITDA ratio	=	$\frac{\text{Operating profit + depreciation}}{\text{Net sales}}$	x 100	
<b>2011.</b>				<b>2012.</b>
$\frac{74\ 074 + 20\ 210}{249\ 850}$	x 100 =	37,74		$\frac{56\ 863 + 20\ 708}{255\ 498}$
				x 100 =
				30,36

**Financing ratio of assets**

		Shareholder's equity	
		Fixed assets + Inventories	
2011.		2012.	
490 412		522 041	
<u>389 191</u>	+ 39 481	<u>406 814</u>	+ 43 481
	= 1,144		= 1,159

**Liquidity indicators**

		Current assets	
		Current liabilities	
2011.		2012.	
256 409		243 681	
<u>81 322</u>	= 3,15	<u>40 275</u>	= 6,05
		Cash and bank x 100	
		Current liabilities	
2011.		2012.	
95 700	x 100	80 203	x 100
<u>81 322</u>	= 117,68	<u>40 275</u>	= 199,14
		[Cash and Bank + Receivables + Securities] x 100	
		Current liabilities	
2011.		2012.	
95 700 + 104 571 + 16 657	x 100 = 266,75	80 203 + 108 393 + 11 604	x 100 = 497,08
<u>81 322</u>		<u>40 275</u>	

**Financial risk indicators**

**a.) Indebtedness**

Indebtedness ratio	=	$\frac{\text{Liabilities}}{\text{Total assets}}$	
<b>2011.</b>			<b>2012.</b>
152 316			123 933
<hr/>	=	0,235	<hr/>
649 209			654 953 = 0,189

**b.) Gearing ratio**

Gearing ratio	=	$\frac{\text{Liabilities}}{\text{Shareholder's equity}}$	
<b>2011.</b>			<b>2012.</b>
152 316			123 933
<hr/>	=	0,311	<hr/>
490 412			522 041 = 0,237

**c.) Equity ratio**

Equity ratio	=	$\frac{\text{Shareholder's equity}}{\text{Total liabilities and Equity}}$	
<b>2011.</b>			<b>2012.</b>
490 412			522 041
<hr/>	=	0,755	<hr/>
649 209			654 953 = 0,797



## II. Specific section

### II/1 Fixed assets

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

#### 1.1 Intangible assets

Intangible assets	Account groups				MHUF
	Rights	Intellectual property	Goodwill	Capitalised R&D	Total
<b>Gross value</b>					
Opening balance, 01.01.2012	85 468	2 213	8 787	382	96 850
Capitalization	5 157	569	5 228		10 954
Sale	84				84
Scrapping	549	191			740
Closing balance, 31.12.2012	89 992	2 591	14 015	382	106 980
<b>Accumulated amortization</b>					
Opening balance, 01.01.2012	14 902	500	345	382	16 129
Amortization accounted in respect of the current year	6 406	141			6 547
Sale	30				30
Scrapping	9	19			28
Closing balance, 31.12.2012	21 269	622	345	382	22 618
<b>Net book value</b>					
01.01.2012	70 566	1 713	8 442	0	80 721
31.12.2012	68 723	1 969	13 670	0	84 362

## 1.2 Tangible assets

MHUF

Tangible assets	Account groups				Total
	Land and buildings	Technical equipment	Other equipment	Recorded in groups	
<b>Gross value</b>					
Opening balance, 01.01.2012	99 117	107 459	51 721	542	258 839
Capitalization	2 838	9 605	4 353	50	16 846
Renovations	731	936	120		1 787
Sale	26	277	677	1	981
Scrapping	58	768	769	78	1 673
Loss event		8	44	0	52
Shortage		3	22	2	27
Transferred without payment			14		14
Reclassification, other	-14	19	-5		0
<b>Closing balance, 31.12.2012</b>	<b>102 588</b>	<b>116 963</b>	<b>54 663</b>	<b>511</b>	<b>274 725</b>
<b>Accumulated depreciation</b>					
Opening balance, 01.01.2012	18 880	88 362	36 768	542	144 552
Depreciation charged to date	2 688	6 896	4 527	50	14 161
Sale	1	266	544	1	812
Scrapping	13	765	766	78	1 622
Loss event		7	26	0	33
Shortage		3	22	2	27
Transferred without payment			14		14
Reclassification, other	-13	19	-6		0
<b>Closing balance, 31.12.2012</b>	<b>21 541</b>	<b>94 236</b>	<b>39 917</b>	<b>511</b>	<b>156 205</b>
<b>Net book value</b>					
01.01.2012	80 237	19 097	14 953	0	114 287
31.12.2012	81 047	22 727	14 746	0	118 520

### 1.2.1 Tangible assets directly used for environment protection

MHUF

Tangible assets	Account groups			
	Land and buildings	Technical equipment	Other equipment	Total
<b>Gross value</b>				
Opening balance, 01.01.2012	1 734	820	556	3 110
Capitalization	130	2		132
Renovations	3	1		4
Scrapping		1	0	1
Reclassification, other			1	1
Closing balance, 31.12.2012	1 867	822	555	3 244
<b>Depreciation change</b>				
Opening balance, 01.01.2012	317	690	467	1 474
Depreciation charged to date	41	75	44	160
Scrapping		1	0	1
Reclassification, other			1	1
Closing balance, 31.12.2012	358	764	510	1 632
<b>Net book value</b>				
01.01.2012	1 417	130	89	1 636
31.12.2012	1 509	58	45	1 612

### 1.2.2 Construction in progress

MHUF

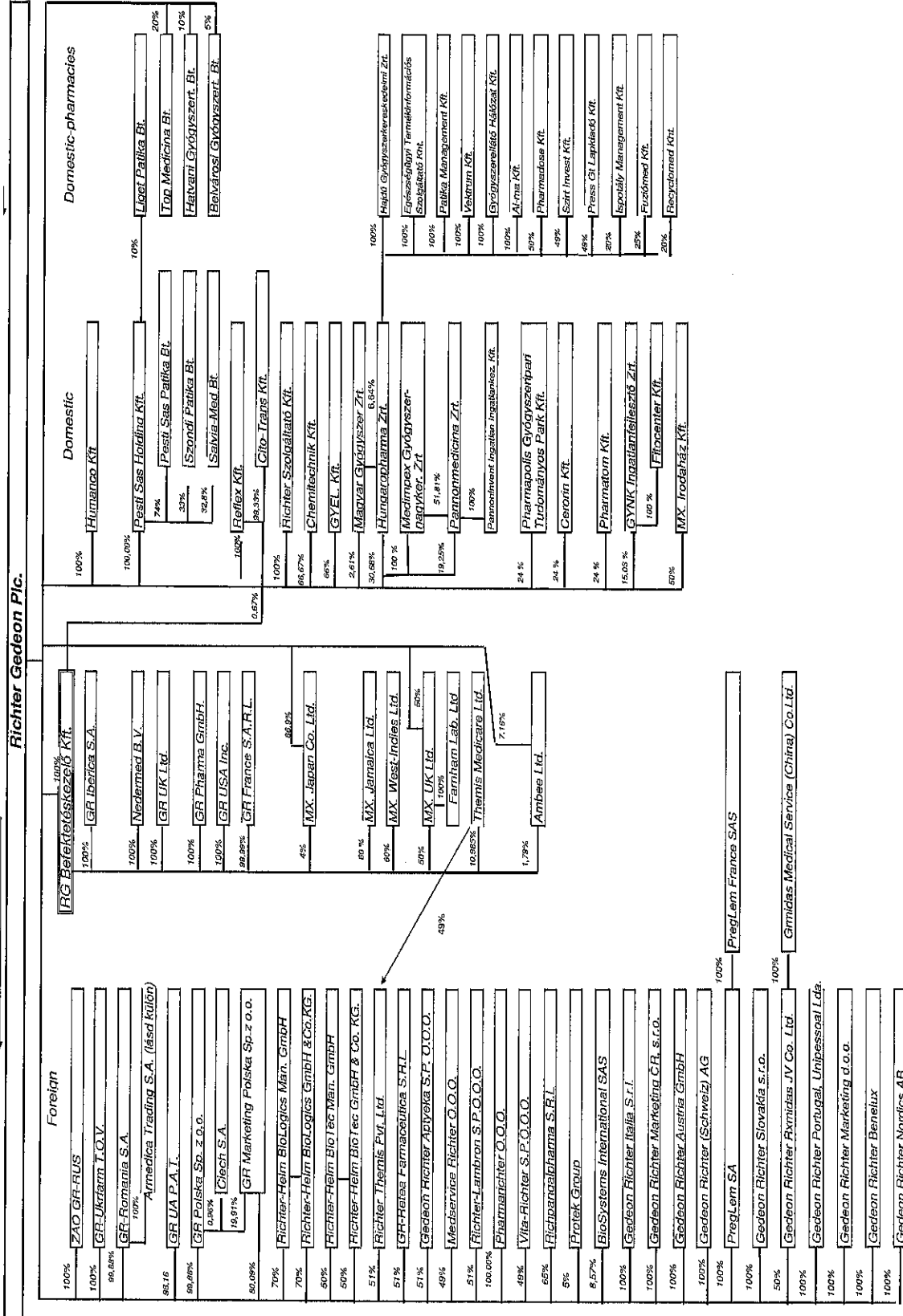
Description	Variance						
	Opening balance 01.01.2012	CAPEX	Capitalisation	Sales	Scrap	Assets received without consideration	Closing balance 31.12.2012
CAPEX	7 177	16 382	16 796		3		6 760
Renewal	444	1 890	1 787				547
Grouped	91	53	50		0	2	96
<b>Total</b>	<b>7 712</b>	<b>18 325</b>	<b>18 633</b>		<b>3</b>	<b>2</b>	<b>7 403</b>

The value of construction in progress as at 31 December was HUF 7,403 million.

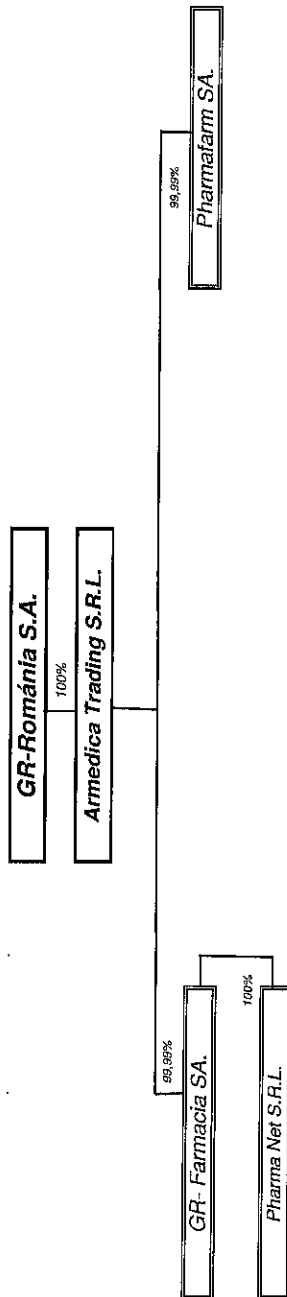
The amount of intangible assets acquired during 2012 is HUF 2,693 million.

### 1.3 Financial Investments

#### 1.3.1 Investments of GR Plc. based on rate of ownership as 12/31/2012



Investments of Armedica Trading Group based on rate of ownership as of 12/31/2012



### 1.3.2 Related parties in a breakdown by degree of participation 31.12.2012

Description	Head office	RGs direct and indirect participation	
		ownership (%)	votes (%)
<b>Subsidiary companies</b>			
<i>Direct participation</i>			
Himanco Szolgáltató Kft.	1103 Bp., Gyömrői út 19-21.	100,00	100,00
Pesti Sas Hlding Vagyonkezelő Kft.	1103 Bp., Gyömrői út 19-21.	100,00	100,00
Reflex Kft.	1107 Bp., Száva u. 9.	100,00	100,00
Richter Befektetéskezelő Kft.	1103 Bp., Gyömrői út 19-21.	100,00	100,00
Richter Szolgáltató Kft.	1103 Bp., Gyömrői út 19-21.	100,00	100,00
Chemitechnik Pharma Mérnöki Szolg. Kft.	1103 Bp., Gyömrői út 19-21.	66,67	66,67
Gyógyszár. Ellenőző és Fejl. Labor Kft.	1149 Bp., Mexikói út 9.	66,00	66,00
Pharm Richter OOO	115201 Moszkva, Kasziszkoje 22. Oroszország	100,00	100,00
PregLem SA	1228 Hlan-les-Quelles, Chemin des Aulx 12. Svájc	100,00	100,00
GR Marketing CR s.r.o.	Prága 4, Násle, Na Strži 1702/65 Csehország	100,00	100,00
GR Szlovákia s.r.o.	Bratislava 81 108, Sltésovej 14 Szlovákia	100,00	100,00
GR Austria GmbH	1010 Wien, Dr.-Karl-Lueger-Ring 12. Ausztria	100,00	100,00
GR Svájc AG	6301 Zug, Baarerstrasse 8. Svájc	100,00	100,00
GR Portugália Lda	Lisbon Iua Almirante Barosso 7-A Portugália	100,00	100,00
GR Slovenia d.o.o.	Ljubljana, Cesta v Mestri log 088 A Szlovénia	100,00	100,00
GRRUSZAO	Jegorjevskz. Suvyje, Lesnja u. 40. Oroszország	100,00	100,00
GR Urfarm T.O.V.	Kijev, Turgenevszkaja u. 17/b. Ukrajna	100,00	100,00
Medimpex UK Ltd *	127 Shirland Road, London W9 2EP, Nagy-Britannia	100,00	100,00
GR Italia S.r.l.	Milano, Via Val D'Intelni 4 Olaszország	100,00	100,00
GR Benelux S.p.r.l.	Mormmentslaan 18B á 1831 Diegem Brussels, Belgium	100,00	100,00
GR Nordics	c/o Advokátfirmán Lindahl KB 10139 Stockholm Sweden	100,00	100,00
GR Marketing Polska Sp.z.o.o.*	Warsava, ul. Marconich 9/5 02-954 Lengyelország	99,98	99,98
GR Polska Sp.z.o.o.	Grodzisk Mazowiecki 05-825 Poniatowskiého u. 5.	99,88	99,88
GR Romania SA	Tirgu Mures, Cuza Vodá 99-105., Románia	99,88	99,88
GR UAP.A.T.	Komintem u 16., 252032 Kijev, Ukrajna	98,16	98,16
Medimpex Japan Co.Ltd. *	Noyori Bldg. 2-17., Tokyo 105, Japán	90,90	90,90
Richter HelmBioLogics Mán GmbH	Bovenau Gut Dengelsberg Németország	70,00	70,00
Richter HelmBioLogics GmbH & Co.KG	Bovenau Gut Dengelsberg Németország	70,00	70,00
Richpangalpharma S.R.L.	Parisz u.51., 2051 Kisinyev, Moldávia	65,00	65,00
Richter-Lantron S.P.O.O.O.	375002 Jereván Kazara Parpci 22. Örményország	51,00	51,00
GR APIYEKAS.P.O.O.O.	22, K. Papetsi Str., 0002, Jerevan, Örményország	51,00	51,00
GR Retea S.R.L.	Kisinyov, Calea Ieslor u. 1. E. Moldávia	51,00	51,00
Richter - Theris Pvt.Ltd.	69,GDC Industrial Estate Vapi, Gujarat, India	51,00	51,00
<i>Indirect participation</i>			
Cto - Trans Flv. és Szállítm Kft.	1107 Bp., Száva u.9.	100,00	100,00
GR Ibérica SA	c/dr. Ferran 6-8, Barcelona 08034, Spanyolország	100,00	100,00
Nedamed B.V	Straat van Magelhaens 13, Amstelveen 1183 Norvégia	100,00	100,00
GR Pharma GmbH	Frankfurter Str. 13-15., Eschbon, 65760, Németország	100,00	100,00
GR UK Ltd.	127 Shirland Road, London W9 2EP, Nagy-Britannia	100,00	100,00
GR USA Inc.	1200 ERidge wood Avenue, New Jersey 07450 USA	100,00	100,00
Fanham Lab Ltd.*	127 Shirland Road, London W9 2EP, Nagy-Britannia	100,00	100,00
Preglem France	1/3 Rue Caumartin, Paris 75009, Franciaország	100,00	100,00
GR France S.A.R.L	1/3 Rue Caumartin, Paris 75009, Franciaország	99,99	99,99
Armedica Trading S.A	Tirgu Mures, Cuza Vodá 99-105., Románia	99,88	99,88
Pharmfarm SA	Str. Mijakovski Nr.2 Jud Cluj, Romania	99,88	99,88
GR Farmacia S.A	TGMURES, STR. CUZA VODAN:99-105, Románia	99,88	99,88
Pharmnet S.R.L.	Str. Mijakovski Nr.2 Jud Cluj, Romania	99,88	99,88
Medimpex Jamaica Ltd.	Kingston 5, Ripon Road 10, Jamaica	60,00	60,00
Medimpex West Indies Ltd.	Kingston 5, Ripon Road 10, Jamaica	60,00	60,00

Description	Head office	RG's direct and indirect participation	
		ownership (%)	votes (%)
<b>Joint venture companies</b>			
<i>Direct participation</i>			
Medimpex Irodaház Ingatlankezelő Kft.	1051 Bp., Vörösmarty tér 4.	50,00	50,00
Richter Helm BioTec Management GmbH	Hamburg, Nordkanal str.	50,00	50,00
Richter Helm BioTec GmbH & Co. KG.	Hamburg, Nordkanal str.	50,00	50,00
GR Rxmidas JV Co. Ltd.	Hong Kong, Des Voeux Road Central	50,00	50,00
<i>Indirect participation</i>			
Pesti Sas Patika Bt.	1091 Bp., Üllői út 105.	74,00	50,00
Grmidas Medical Service Co. Ltd.		50,00	50,00
<b>Associated companies</b>			
<i>Direct participation</i>			
Hungaropharma Zrt.	1061 Bp., Király u. 12	30,68	30,68
Cerorin Kft.	4025 Debrecen, Bartók Béla út 226	24,00	24,00
Pharmapolis Gyógyszeripari Tud. Park Kft.	4025 Debrecen, Petőfi tér 10	24,00	24,00
Pharmatom Kft.	4025 Debrecen, Bem tér 18/c	24,00	24,00
Top Medicina Bt.	3200 Gyöngyös, Hanisz tér 1.	20,00	20,00
Medservice-Richter O.O.O	480004, Almaty Mametovoj u. 54., Kazah Közt.	49,00	49,00
VITA - Richter S.P.O.O.O	Baku, 7-aya Chernogorodskaya 5. Azerbajdzsán	49,00	49,00
<i>Indirect participation</i>			
Szondi Patika Bt.	1067 Bp., Teréz krt. 41.	33,00	33,00
Salvia-Med Bt.	2510 Dorog, Rákóczi út 9.	32,80	33,30
Hajdú Gyógyszerkereskedelmi Zrt.	1061 Budapest, Király u.14.	30,68	30,68
Egészségügyi Termékinf. Szolgáltató Kht.	1061 Budapest, Király u.12.	30,68	30,68
Medimpex Gyógyszernagyker Zrt.	1151 Bp., Károlyi S. u. 121.	30,68	30,68
Vektrum Kft.	1061 Bp., Király út 12.	30,68	30,68
Patika Management Kft.	1075 Bp, Rumbach Sebestyén u. 15.b II.em	30,68	30,68
Gyógyszerellátó Hálózat Kft.	1061 Bp, Király u. 14.	30,68	30,68
Al-ma Kft.	1075 Bp, Rumbach Sebestyén u. 15.b II.em	30,68	30,68
Pannonmedicina Zrt.	7600 Pécs, Ürögi fasor 2/a.	21,80	21,80
Pannoninvent Ingatlan Ingatlankez. Kft.	7634 Pécs, Ürögi fasor 2/a.	21,80	21,80
<b>Other related companies</b>			
<i>Direct participation</i>			
Gyógynövénykutató Ingatlanfejlesztő Zrt.	2011 Budakalász, József A. u 68	15,03	15,03
Hatvani István Gyógyszertár Bt.	4032 Debrecen, Lehel u. 22.	10,00	14,28
Belvárosi Gyógyszertár Bt.	1052 Bp., Szervita tér 5.	5,00	14,28
Magyar Gyógyszer Zrt.	8220 Balatonalmádi Rákóczi út 37	2,61	2,61
Ambee Pharmaceuticals Ltd. *	Dhaka G.P.O.B. 957., Bangladesh	8,95	8,95
BioSystem International SAS	4, rue Pierre Fontaine, 91000 Evry, Franciaország	8,57	8,57
Protek Group	Moszkva, Kasirszkoje 22. Orosz Föderáció	5,00	5,00
<i>Indirect participation</i>			
Liget Patika Bt.	1102 Bp., Liget tér 3.	10,00	10,00
Pharmadose Kft.	1061 Budapest, Király u. 12.	15,34	15,34
Press Gt Lapkiadó Kft.	1134 Budapest, Úteg u. 49.	15,03	15,03
Fitocenter Kft.	2011 Budakalász, József A. u 68	15,03	15,03
Szirt Invest Kft.	1162 Bp., Budapesti út 238.	15,03	15,03
Fuziómed Kft.	1134 Budapest, Kassák L. u. 69-71.	7,67	7,67
Recyclomed Kht.	1134 Bp., Lehel u. 11.	6,14	6,14
Ispotaly Management Kft.	1061 Budapest, Király u. 14.	6,14	6,14
Themis Medicare Ltd.	11-12. Udyognagar Ind. Est., Bombay 400-062,	10,99	10,99
Ciech S.A.	Warsawa 01-728 Powazkowska u. 46/50	0,96	0,96

\* Direct + indirect ownership

### 1.3.3. Changes in Direct Investments 31.12.2012

	01.01.,2012		Changes in 2012		31.12.2012		Dividend received (MHUF)		
	book value (MHUF)	ownership ratio (%)	MHUF	description	revaluation as of 31.12.2012	book value (MHUF)	ownership ratio (%)	after 2011	after 2012
<b>Subsidiaries:</b>									
Humanco Szolgáltató Kft	3	100,00				3	100,00		
Pesti Sas Holding Vagyonkezelő Kft.	203	100,00				203	100,00	6	
Reflex Kft.	220	100,00				220	100,00	78	
Richter Befektetéskezelő Kft.	328	100,00				328	100,00		210
Richter Szolgáltató Kft.	3	100,00				3	100,00		
Chemitechnik Pharma Mérnöki Kft.	8	66,67				8	66,67		
Gyógyszeripari Ellenőrző és Fejlt. Labor Kft.	78	66,00				78	66,00	38	
Medimpex Uk Ltd	294	100,00				294	100,00	18	
Pharmarichter O.O.O.	2	100,00			0	2	100,00		
GR Italia S.r.l	34	100,00			-2	32	100,00		
GR Marketing CR s.r.o.	339	100,00			-12	327	100,00		
GR Szlovákia s.r.o.	219	100,00			-14	205	100,00		
GR Ausztria Gmbh.	34	100,00			-2	32	100,00		
GR Svájc AG.	26	100,00			-2	24	100,00		
GR Portugália Lda.	2	100,00	25	Capital increase	-1	26	100,00		
GR Szlovénia	9	100,00			0	9	100,00		
GR Benelux			2	Estabilishment	0	2	100,00		
GR Nordics			2	Estabilishment	0	2	100,00		
PregLem Holding SA.	86 044	100,00	-5 228	Correction goodwill	-5 767	75 049	100,00		
GR-RUS	6 410	100,00			-180	6 230	100,00		
GR-Ukrfarm T.O.V	0	100,00				0	100,00		
GR Románia SA.	11 763	99,87	2 644	Capital increase	-1 145	10 441	99,88		
			-2 821	Impairment loss					
GR Polska Sp z.o.o..	17 501	99,88	3	Share purchase	246	17 750	99,88	688	
GR Marketing Polska Spz o.o. *	1 299	99,98			18	1 317	99,98		
GR-UA P.A.T.	507	98,16			-43	464	98,16		
Richter Helm Biologics Management GmbH	10	70,00			-1	9	70,00		
Richter Helm Biologics GmbH	4 037	70,00	-603	Impairment loss	-357	3 077	70,00		
Richpangalpharma SR.L.	34	65,00			-4	30	65,00		
Richter Themis Pvt.Ltd.. *	324	51,00			-36	288	51,00	33	
GR-Retea S.R.L.	12	51,00			-1	11	51,00		
GR-Aptyeka S.P.O.O.O.	0	51,00				0	51,00		
Richter- LambronS.P.O.O.O..	85	51,00			-10	75	51,00		
<b>Direct+indirect ownership</b>									
Medimpex Japan Co.Ltd.	0	90,90				0	90,90		
Richter Rt. Direct	0	86,90				0	86,90		

all amounts in MHUF

	2012.01.01		Changes in 2012				31.12.2012		Dividend received (MHUF)	
	book value (MHUF)	ownership ratio (%)	MHUF	description	revaluation as of 31.12.2011	book value (MHUF)	ownership ratio (%)	after 2011	after 2012	
<b>Joint ventures:</b>										
Medimpex Irodaház Ingatlankezelő Kft.	303	50,00				303	50,00			
Richter Helm BioTec Management GmbH.	4	50,00			0	4	50,00			
Richter Helm BioTec GmbH.	311	50,00			-20	291	50,00			
GR Rxmídas JV o.Ltd.	333	50,00			-27	306	50,00			
<b>Associated companies:</b>										
Hungaropharma Zrt.	1 191	30,68				1 191	30,85			
Cerotin Kft.	0	24,00				0	24,00			
Pharmapolis Gyógyszeripari Tud. Park Kft.	1	24,00				1	24,00			
Pharmatom Kft.	1	24,00				1	24,00			
Gyulai Fodormenta Bt.	0	20,00		Sale				1		
Top Medicina Bt.	1	20,00				1	20,00			
Medservice-Richter O.O.O.	2	49,00			0	2	49,00			
VITA - Richter S.P.O.O.O.	11	49,00			-1	10	49,00			
<b>Direct associated parties in total</b>	<b>131 987</b>		<b>-5 976</b>		<b>-7 362</b>	<b>118 649</b>		<b>862</b>		<b>210</b>

### 1.3.4 Impairment of participations

MHUF

Participation	31.12.2011	Impairment	31.12.2012
ZAO GR-RUS	1 409		1 409
VITA-Richter S.P.O.O.O	14		14
Richter Szolgáltató Kft.	3		3
Medimpex Japán Co. Ltd.	17		17
GR-Aptyeka S.P.O.O.O	16		16
GR-Ukrfarm T.O.V	104		104
GR-Románia S.A.	14 739	2 821	17 560
Richter Helm Biologics GmbH & Co.KG	755	603	1 358
Protek Group	4 194	-2 362	1 832
BioSystem International SAS	416		416
Hungaropharma Rt.	1 330		1 330
<b>Total</b>	<b>22 997</b>	<b>1 062</b>	<b>24 059</b>

## II/2 Inventories

### 2.1 Purchased materials, stock

Description	MHUF	
	31.12.2011	31.12.2012
Chemicals	3 795	4 941
Fine chemicals	52	20
Organs	0	1
Herbs	26	46
Finishing materials	1 215	1 059
Recycled raw material waste	262	369
Invoiced raw materials not received	627	285
Auxiliary substances	340	789
Technical materials	401	535
Spare parts	237	267
Gifts	76	42
Brochures	75	54
Fuels	2	1
Other assets	87	98
Invoiced materials not received	2	2
<b>Total materials</b>	<b>7 197</b>	<b>8 509</b>
Purchased medicine	3 549	3 730
<b>Purchased inventories total</b>	<b>10 746</b>	<b>12 239</b>

### 2.2 Self-manufactured inventories

Description	MHUF	
	31.12.2012	31.12.2012
Work in progress	193	366
Materials self manufactured	25	30
<i>Total WIP and materials self manufactured</i>	<i>218</i>	<i>396</i>
Semi finished raw materials	17 335	18 517
Semi finished lose product	3 382	3 132
<i>Total semi finished products</i>	<i>20 717</i>	<i>21 649</i>
<b>Total WIP and semi finished products</b>	<b>20 935</b>	<b>22 045</b>
Domestic finished	1 424	1 533
Export finished	6 374	7 664
<b>Total finished goods</b>	<b>7 798</b>	<b>9 197</b>
<b>Total self produced inventories</b>	<b>28 733</b>	<b>31 242</b>

## 2.3 Hazardous waste

31.12.2011		Change of inventory				31.12.2012	
		Increase		Decrease			
Tons	MHUF	Tons	MHUF	Tons	MHUF	Tons	MHUF
55	0	25 328	3	25 338	3	45	0

The costs of waste neutralisation amounted to HUF 964 million in the current year.

## 2.4 Impairment of inventories

### 2.4.1 Impairment of materials purchased

MHUF

Changes in inventory		
Description	2011	2012
Scrapping	265	333
Devaluation	31	1
Loss event	11	29
Shortage, drainage loss	3	6
<b>Total</b>	<b>310</b>	<b>369</b>

### 2.4.2 Impairment of self-manufactured inventories

MHUF

Changes in inventory		
Description	2011	2012
Scrapping	714	746
Devaluation	20	335
Loss event	1	1
Shortage, drainage loss	27	24
<b>Total</b>	<b>762</b>	<b>1 106</b>

Reversal of impairment loss related to self manufactured stocks amounted to HUF 28 million in 2012.

## II/3 Receivables

### 3.1 Receivables without impairment

#### 3.1.1 Accounts receivable open

MHUF

Segment	12.31.2011	12.31.2012	Variance
Domestic trade receivables	1 644	* 1 345	-299
<i>including overdue</i>	62	29	-33
Foreign trade receivables	39 941	** 42 343	2 402
<i>including overdue</i>	6 858	1 979	-4 879
<b>Total trade receivables</b>	<b>41 585</b>	<b>43 688</b>	<b>2 103</b>

\* of which HUF 946 million was collected by 30 January 2013

\*\* of which HUF 10,139 million was collected by 30 January 2013

#### 3.1.2 Receivables from other related parties open

MHUF

Segment	12.31.2011	12.31.2012	Variance
Domestic trade receivables	2 640	* 3 039	399
<i>including overdue</i>	1 631	1 950	319
Unincorporated controlled domestic account	25	100	75
Foreign trade receivables	48 275	** 41 809	-6 466
<i>including overdue</i>	5 551	8 267	2 716
Unregistered capital increase in controlled foreign account, share purchase	11 081	14 992	3 911
<b>Total receivables from related parties</b>	<b>62 021</b>	<b>59 940</b>	<b>-2 081</b>

\* of which HUF 1,175 million was collected by 30 January 2013

\*\* of which HUF 6,226 million was collected by 30 January 2013

#### 3.1.3 Receivables due from associated parties

MHUF

	31.12.2011	31.12.2012	Variance
Domestic trade receivables	2 640	3 039	399
Foreign trade receivables	32 668	24 180	-8 488
Loans given for related companies	10 937	11 462	525
Related companies' capital increase		3 630	3 630
<b>Total</b>	<b>46 245</b>	<b>42 311</b>	<b>-3 934</b>

### 3.2 Impairment of receivables

#### 3.2.1 Impairment of accounts receivables

MHUF

Segment	31.12.2011	31.12.2012	Variance
Domestic trade receivables	1	19	18
Foreign trade receivables	1 726	1 620	-106
<b>Total trade receivables</b>	<b>1 727</b>	<b>1 639</b>	<b>-88</b>

#### 3.2.2 Impairment of receivables from other related parties

MHUF

Segment	31.12.2011	31.12.2012	Variance
Receivables from foreign participations	212	223	11
<b>Trade receivables from participations</b>	<b>212</b>	<b>223</b>	<b>11</b>

#### 3.2.3 Changes in receivables and impairment of receivables

MHUF

	31.12.2011	Reversal	Recognition	31.12.2012
Domestic trade receivables	1		18	19
Foreign trade receivables	1 726	418	312	1 620
Related parties	212		11	223
<b>Total</b>	<b>1 939</b>	<b>418</b>	<b>341</b>	<b>1 862</b>

#### 3.2.4 Impairment of loan receivables

MHUF

	31.12.2011	Reversal	Recognition	31.12.2012
GR Ukrfarm T.O.V	495			495
GR Retea S.R.L.	746			746
Pharmapolis Kft.			300	300
<b>Total</b>	<b>1 241</b>		<b>300</b>	<b>1 541</b>

### 3.3 Impairment of accounts receivable in a breakdown by relations

#### Domestic

	Open	Collected 30.01.2013	Adjusted open	Impairment	
				MHUF	%
0	2 405	1 108	1 297	-	-
1-30	779	8	771	-	-
31-90	1 182	1 007	175	-	-
91-180	-1	-2	1	-	-
181-360	19	0	19	19	100
361-	0	0	0	-	-
<b>Σ</b>	<b>4 384</b>	<b>2 121</b>	<b>2 263</b>	<b>19</b>	<b>1</b>

#### Export

<i>CIS</i>	Open	Collected 30.01.2013	Adjusted open	Impairment	
				MHUF	%
0	45 793	4 306	41 487	-	-
1-30	4 260	2 515	1 745	-	-
31-90	2 733	1 940	793	15	2
91-180	359	45	314	-	-
181-360	219	3	216	121	56
361-	1 226	11	1 215	1 216	100
<b>Σ</b>	<b>54 590</b>	<b>8 820</b>	<b>45 770</b>	<b>1 352</b>	<b>3</b>

#### Export

<i>EU</i>	Open	Collected 30.01.2013	Adjusted open	Impairment	
				MHUF	%
0	16 668	4 041	12 627	-	-
1-30	1 708	1 374	334	-	-
31-90	966	227	739	30	4
91-180	1 055	134	921	-	-
181-360	791	246	545	53	10
361-	349	0	349	349	100
<b>Σ</b>	<b>21 537</b>	<b>6 022</b>	<b>15 515</b>	<b>432</b>	<b>3</b>

#### Export

<i>USA</i>	Open	Collected 30.01.2013	Adjusted open	Impairment	
				MHUF	%
0	3 988	203	3 785	-	-
1-30	55	1	54	-	-
31-90	0	0	0	-	-
91-180	54	0	54	27	50
181-360	0	0	0	-	-
361-	0	0	0	-	-
<b>Σ</b>	<b>4 097</b>	<b>204</b>	<b>3 893</b>	<b>27</b>	<b>1</b>

#### Export

<i>Other</i>	Open	Collected 30.01.2013	Adjusted open	Impairment	
				MHUF	%
0	3 526	1 083	2 443	-	-
1-30	178	63	115	-	-
31-90	100	87	13	-	-
91-180	92	86	6	-	-
181-360	0	0	0	-	-
361-	32	0	32	32	100
<b>Σ</b>	<b>3 928</b>	<b>1 319</b>	<b>2 609</b>	<b>32</b>	<b>1</b>
<b>ΣΣ</b>	<b>88 536</b>	<b>18 486</b>	<b>70 050</b>	<b>1 862</b>	<b>3</b>

## II/4 Tied-up reserve, provisions

### 4.1 Tied-up reserve

MHUF

	31.12.2011	31.12.2012
Repurchase value of treasury shares	4 468	1 671
<b>Total tied up reserve</b>	<b>4 468</b>	<b>1 671</b>

### 4.2 Provision for expected liabilities

MHUF

Title	31.12.2011	31.12.2012
Liabilities in connection with retirement		880
Liabilities of jubilee service period		300
CO <sub>2</sub> quota	29	29
<b>Total</b>	<b>29</b>	<b>1 209</b>

The Company has adjusted its accounting policy with provisions having been accrued based on actuarial assumptions in respect of benefits as per defined in the collective bargaining.

## II/5 Liabilities

### 5.1 Long-term liabilities

MHUF

	31.12.2011	31.12.2012
Credit	62 226	72 823
Other liabilities	8 768	10 835
<b>Total non-current liabilities</b>	<b>70 994</b>	<b>83 658</b>

It contains the EUR 150 million long term club facility extended by the European Investment Bank taken out in 2010, and the drawdown of EUR 100 million tranche of loans to finance R&D projects. Other long term liabilities reflects the present value of the deferred purchase price payable as part of the consideration for the PregLem acquisition.

### 5.2 Short-term liabilities

MHUF

	31.12.2011	31.12.2012
Advances received	237	347
Trade payables	17 711	17 394
Payables to related companies	5 076	6 664
Payables to other participations	18	10
Dividends	12 333	12 398
Other	45 947	3 462
<b>Total current liabilities</b>	<b>81 322</b>	<b>40 275</b>

The instalment of purchase price related to PregLem acquisition paid in 2012 is the dominant part of decrease of the other current liabilities.

### 5.3 Off-balance items

	MHUF
Liabilities connected to incentive scheme for the PregLem management	682
Guarantees provided by the Company	66

## II/6 Prepayments and accruals

### 6.1 Prepayments

	MHUF	
	31.12.2011	31.12.2012
Interest on securities	372	488
Bank interest	201	176
Interest on loans	992	1 524
Other	19	15
<b>Prepaid income</b>	<b>1 584</b>	<b>2 203</b>
Journals, reference books, CD	334	330
Foreign offices	1 009	1 120
Season's passes for public transport	310	347
Insurance	112	84
Other	260	374
<b>Prepaid costs and expenses</b>	<b>2 025</b>	<b>2 255</b>
<b>Prepayments</b>	<b>3 609</b>	<b>4 458</b>

### 6.2 Accruals

	MHUF	
	31.12.2011	31.12.2012
Rewards and bonuses	1 437	2 321
Licence	183	233
Research contract	1 434	1 662
Fee for inventions	334	410
Insurance	100	69
Endowment insurance	399	443
Food vouchers	249	
Payment of medicine price subsidy to NHF	446	243
Payment of foreign medicine price subsidy	69	526
Other	446	436
<b>Accrual of costs and expenses</b>	<b>5 097</b>	<b>6 343</b>
<b>Accrued income</b>	<b>1 355</b>	<b>1 427</b>
<b>Accruals</b>	<b>6 452</b>	<b>7 770</b>

## II/7 Costs, expenses, revenues

### 7.1 Expenses by nature

Description	2011	2012	Index %	MHUF
				Type "A" in Annex 2 to Accounting Act
Material cost	33 791	38 950	115,3	(05)
Purchased services	61 199	72 765	118,9	(06)
Other services	1 738	1 633	94,0	(07)
COGS	13 831	10 912	78,9	(08)
Cost of services sold (mediated)	206	493	239,3	(09)
<b>Material type costs</b>	<b>110 765</b>	<b>124 753</b>	<b>112,6</b>	<b>IV.(05+06+07+08+09)</b>
Wages and salaries	29 277	31 934	109,1	(10)
Other employee benefits	13 791	15 144	109,8	(11)
Contribution on wages and salaries	9 911	11 632	117,4	(12)
<b>Wages and related payments</b>	<b>52 979</b>	<b>58 710</b>	<b>110,8</b>	<b>V.(10+11+12)</b>
Depreciation charge	20 210	20 708	102,5	VI.
<b>Total costs and expenses</b>	<b>183 954</b>	<b>204 171</b>	<b>111,0</b>	

### 7.2 Value of own performance capitalized

Description	31.12.2011	31.12.2012	Index %	MHUF
				Type "A" in Annex 2 to Accounting Act
Change of self manufactured inventories	-186	2 509	-1 348,9	(03)
Capitalised value of self manufactured assets	1 024	1 825	178,2	(04)
<b>Value of capitalised own performance</b>	<b>838</b>	<b>4 334</b>	<b>n.a.</b>	<b>II.(±03+04)</b>

### 7.3 R&D expenditures

In 2012 the Company spent 13% of the revenue on R&D activities.

Cost category	MHUF	
	2011	2012
R&D expenses	26 238	32 966

#### 7.4 Other income and expenditures

	MHUF	
	2011	2012
<b>Total other income*</b>	<b>23 340</b>	<b>13 087</b>
<b>Other expenditure</b>		
Provisioning	29	1 180
Write-off unrecoverable receivables	224	0
Impairment of receivables	1 632	641
Impairment of inventories	1 072	1 475
Book value of tangible assets sold	217	169
Local business tax	2 866	2 078
Buildings tax	291	306
Innovation fee		547
Flat tax on reimbursed drugs payable to NHF **	1 037	487
Registration fee of medical representatives **	639	431
Other	7 993	4 571
<b>Total other expenditure</b>	<b>16 000</b>	<b>11 885</b>
<b>Balance of other income and expenditure</b>	<b>7 340</b>	<b>1 202</b>

\* In 2012, the line of Other income included HUF 727 million from associated companies.

\*\* According to the in 2007 established drug economic act's amendments to the law with effect from 1 July 2011 the 12 % tax the yearly amount of the reimbursement based on manufacturer price increased to 20 % while the medical representative fee was doubled to HUF 0.8 million per month per representative. Parliament passed an Act on 21 December 2011 which provides for a 20 %-60 %-90 % extraordinary tax deduction for those companies whose R&D reaches or exceeds 15 %-20 %-25 % of the reimbursement based on manufacturer price levels during 2011. An additional criterion for this allowance is a minimum level of personnel related expenditure established at 3 % for staff involved in R&D. Considering the above conditions Richter qualifies for the maximum available allowance i.e. 90 % of the tax liability incurred in respect of 2011.

## 7.5 Profit on financial transactions

	MHUF	
	2011	2012
<b>Income from financial operations</b>		
Dividends and share of profits received	434	1 378
Interest and related income received	4 413	5 275
<i>including income from securities</i>	<i>1 624</i>	<i>1 495</i>
Capital gains on selling participations	0	25
Other income	28 193	5 697
<i>gains on conversion at year end date</i>	<i>18 617</i>	
<i>gains on covering receivables, payables and foreign currency</i>	<i>9 339</i>	<i>5 416</i>
<i>gains on futures transactions, closed</i>	<i>196</i>	
<i>fair value of futures transactions</i>	<i>11</i>	<i>249</i>
<i>gains on securities sold</i>	<i>30</i>	<i>32</i>
<b>Total income from financial operations</b>	<b>33 040</b>	<b>12 375</b>
<b>Cost of financial operations</b>		
Interes and related expense due	1 220	1 805
Impairment of participations and reversal *	15 567	1 062
Other expenditure	10 146	20 600
<i>loss on conversion at year end date</i>		<i>3 655</i>
<i>loss on covering receivables, payables and foreign currency</i>	<i>5 296</i>	<i>13 119</i>
<i>loss on futures transactions, closed</i>	<i>7</i>	<i>139</i>
<i>release of fair value of futures trasnactions</i>	<i>322</i>	<i>504</i>
<i>loss on securities sold</i>	<i>28</i>	<i>179</i>
<i>Unwinding of discounted value related to liability in respect of PregLem</i>	<i>4 493</i>	<i>3 004</i>
<b>Total cost of financial operations</b>	<b>26 933</b>	<b>23 467</b>
<b>Result of financial operations</b>	<b>6 107</b>	<b>-11 092</b>

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

	MHUF	
	31.12.2011	31.12.2012
OTC interest swap contract not closed by the balance sheet date, evaluated on balance sheet date.	249	504

## 7.6 Extraordinary profit

MHUF

	2011	2012
<b>Extraordinary income</b>		
Repurchase of shares in program approved by Ministry of Finance	28	47
Materials and goods received without consideration	358	83
Contractual value of contribution-in-kind	194	
<b>Total extraordinary income</b>	<b>580</b>	<b>130</b>
<b>Extraordinary expenditure</b>		
Inventories transferred without consideration	415	141
Book value of asset contribution-in-kind	252	
Subsidies	953	864
Other	241	334
<b>Total extraordinary expenditure</b>	<b>1 861</b>	<b>1 339</b>
<b>Extraordinary loss</b>	<b>-1 281</b>	<b>-1 209</b>

## 7.7 Wage costs, headcount, remuneration

### 7.7.1 Wage costs

MHUF

Employment type	Employee groups					
	Blue collar		White collar		Total	
	2011	2012	2011	2012	2011	2012
Full time wage mass	7 684	8 321	19 999	21 829	27 683	30 150
Part time wage mass	5	5	191	230	196	235
Pensioner wage mass	30	19	310	260	340	279
Wages to non-employees					1 058	1 270
Wage cost per balance sheet	7 719	8 345	20 500	22 319	29 277	31 934
Annual wage mass per (full time) employee	3,3	3,5	4,9	5,3	4,4	4,6

### 7.7.2 Average statistical headcount

person

Employment type	Employee groups					
	Blue collar		White collar		Total	
	2011	2012	2011	2012	2011	2012
Full time employees	2 339	2 352	4 034	4 149	6 373	6 501
Part time employees	2	2	48	55	50	57
Pensioners	13	8	51	38	64	46
<b>Total:</b>	<b>2 354</b>	<b>2 362</b>	<b>4 133</b>	<b>4 242</b>	<b>6 487</b>	<b>6 604</b>

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

MHUF

	Remuneration	
	2011	2012
Board of Directors	73	76
Supervisory Board	36	28
<b>Total:</b>	<b>109</b>	<b>104</b>

**II/8 Calculation of the income tax**

MHUF

1.	<b>Corporate income tax</b>	2 011	2 012
	Profit before taxation	78 900	44 562
	- total of items reducing tax base	40 300	51 753
	- total of items added tax base	25 425	24 635
2.	Tax base	64 025	17 444
3.	Calculated tax	12 165	3 269
4.	Tax relief	12 165	2 615
5.	Tax liability	-240	654
7.	<b>Profit after taxation</b>	<b>79 140</b>	<b>43 908</b>
1.	Amounts of provision against future liabilities and costs reversed	97	
2.a.	Depreciation charged under Tax Act	20 030	20 975
2.b.	Calculated book value of the sale and scrapping of intangible property and tangible assets, ect.	924	896
3.	Reversed impairment of receivables, collected bad debt	648	418
4.	Dividends, share of profits received	434	1 378
5.	Relief due to apprentices	14	16
6.	50% of interest received from associated companies	-	171
7.	Subsidies, assets and services received without consideration or the duty to repay		27 207
8.	50% of royalties received	122	686
9.	Direct cost of R&D	18 026	6
11.	Amount of donation	5	
	<b>Total of items reducing tax base</b>	<b>40 300</b>	<b>51 753</b>
1.	Amounts of provision against future liabilities and costs reversed and stated as expenditure	29	1 180
2.a.	Depreciation charged under Accounting Act	20 044	20 708
2.b.	Book value of intangible property and tangible assets, sold, scrapped etc.	982	1 008
3.	Impairment of receivables	1 632	675
4.	Penalties and fines	13	18
5.	Amount identified by self-review and stated as expenditure	201	74
6.	Costs not recognised for the purposes of doing business	2 419	921
7.	Tax paid abroad	105	51
	<b>Total of items added to tax base</b>	<b>25 425</b>	<b>24 635</b>

## 8.1 Eligibility to investment tax incentive

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

The project was concluded in 2011 and all the equipment that formed part of the project was commissioned. The Company intends to take advantage of the investment tax relief for the first time in the 2012 fiscal year in the amount of HUF 2,615,333,416.

The terms and conditions of having recourse to the present investment tax relief are regulated by the provisions of Sections 22/B and 23 of Act LXXXI of 1996 on Corporate Tax and Dividend Tax, Government Decree No. 206 of 2006 (16 October) on the investment tax incentive, and Government Decree No. 85 of 2004 (19 April) on the procedure related to State aids pursuant to Article 87 (1) of the Treaty establishing the European Community and on the regional support map.

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

1. Pursuant to Section 3 (1) of Government Decree No. 206 of 2006 (16 October) the taxpayer shall commission and take use of all tangible and intangible assets forming part of the investment, and (the large enterprise) shall continue to operate and use the same in the region concerned for at least five years after commissioning. Pursuant to Section 8 (2) in case the taxpayer derecognizes the assets within the mandatory period of operation without supplementing them or discontinues operating the assets, the taxpayer shall reduce the eligible costs constituting the basis of the tax relief with the historical costs of such assets.
2. Pursuant to the optional condition set out in Section 22/B (9) of the Act, in the four fiscal years following the first year of the tax relief the average work force employed should exceed the average number of persons employed by the taxpayer during the fiscal year prior to the commencement of the project (or the mathematical average headcount of the three years preceding the commencement of the project) by at least 75 workers if the project is started and operated within the administrative jurisdiction of a preferential local government specified in the relevant Government Decree.

Under the support contract signed with the Ministry of National Development in connection with the project Richter undertook to increase the number of its employees by 110 including 85 new jobs to be created in Debrecen.

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

In calculating the amount of tax relief in connection with the capital expenditure project in Debrecen it is possible to proceed from the present value of the notified costs, because the present value of the actually incurred capital expenditure is higher. In the case of major projects the support intensity under Section 30 (1) of Government Decree No. 85 of 2004 (19 April) established for the North Great Plains region is 100% of 50% for the portion between the HUF equivalent of EUR 50 to 100 up to the HUF amount equivalent of a maximum of EUR 50 million at present value. In consideration of the above, the present value of the project's eligible costs adjusted with support intensity is HUF 6,966,858 thousand.

Under the support contract mentioned above the Company received a total of HUF 1,379,860 thousand non-refundable State support with present value of HUF 1,146,975 thousand.

According to the above formula the present value of the investment related tax relief is HUF 5,819,883 thousand of which the Company uses HUF 1,763,957 thousand in the 2012 business year. Thus the remaining tax relief open for subsequent years amounts to HUF 4,055,926 thousand at present value.

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

	HUF	2007	2008	2009	2010	2011
<b>Present value factor</b>		8,54%	9,58%	9,37%	6,97%	6,61%
Utilized tax relief at current price in 2012	2 615 333 416					
Present value of utilized tax relief in	1 763 956 776					

GEDEON RICHTER PLC.

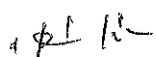
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# **Business Report 2012**



Erik Bogesch  
Managing Director

Budapest, 25 April 2013



## TABLE OF CONTENTS

	<u>Page</u>
1. General data	3
1.1 Brief history of the Company	3
1.2 Main objectives for 2012	7
1.3 Share structure of the Company	8
1.4 Treasury shares	9
1.5 Corporate governance	9
1.6 Site	10
1.7 Other information	10
2. 2012 operating review	12
2.1 The balance sheet as of 31 December 2012	12
2.2 The 2012 income statement	15
2.2.1 Total sales	15
2.2.2 Direct and indirect costs of sales; operating results	17
2.2.3 Other income statement items	19
2.2.4 Contribution of key products to sales revenues	21
2.2.5 Contribution of key markets to sales revenues	22
3. Functional activities of the Company	23
3.1 Research and development	23
3.2 Quality assurance	26
3.3 Production	26
3.4 Technology	27
3.4.1 Energy supply	27
3.4.2 Environmental protection, occupational health and safety	28
3.5 IT support	29
4. Human resource	30
5. Capital expenditure on tangibles and intangibles	31
6. Foreign investment	33
6.1. Pharmaceutical companies	33
6.2. Wholesale and retail	36
6.3. Other consolidated companies	39
7. Risk management	40
8. Post-balance sheet date events	41
9. Future outlook	42

## 1. General data

### 1.1 Brief history of the Company

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

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

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

#### *Privatization*

Due to the involvement of Hungarian and international investors the Company's capital was increased by HUF 4.4 billion to reach HUF 17.6 billion on 28 September 1994 and its shares were listed on the Budapest Stock Exchange. Privatization connected with capital increase resulted in the expansion of sources of financing.

Commenced in 1994, the privatization process continued in the fourth quarter of 1995, enlarging the Company's basis of domestic and international investors.

In 1997 another 2,600,000 shares owned by the State Privatization and Holding Company (ÁPV Rt.) were offered to institutional investors in the context of a private placement, and 200,000 shares were sold to domestic private investors in the context of a public offering.

The Extraordinary General Meeting approved a HUF 1,000 billion capital increase to HUF 18,637,486,000 by the issuance of 1,000,000 new shares. As a result of these transactions the State's share in Richter was reduced to 25%.

On 14 September 2004 the State Privatization and Holding Company ÁPV Rt. launched 4,659,373 bonds convertible to Richter shares with maturity in 2009 in the context of private offering that involved institutional investors specialized in this type of investment. The bonds matured on 29 September 2009. The government decided in favour of consideration instead of share conversion. At the same time, the government supported the idea that MNV Zrt., ÁPV Rt.'s legal successor should handle financing by issuing new bonds convertible to Richter shares. As a result of the subscription that was concluded on 25 September 2009, bonds with 2014 maturity amounting to EUR 833.3 million were issued to institutional investors, convertible to 4,680,672 Richter ordinary shares. By retaining its shares in Richter the Hungarian State ensures the continuation of Richter's strategy, which relies on the Company's continued independence.

#### *Major acquisitions to promote the expansion of the Company*

Through the establishment of greenfield investments from the mid-1990s Richter has expanded its network of manufacturing bases in Russia (1996) and India (2004), and strengthened its position through new establishments and acquisitions in Romania (1998), Poland (2002), Germany (2007) and Switzerland (2010).

The merger the Company started in 2007 with Polpharma, the largest Polish generic drugs manufacturer failed through the fault of Genefar BV, Polpharma's shareholder. In its decree dated 3 August 2011 the competent court of arbitration obliged Genefar BV to pay Gedeon Richter Plc. compensation amounting to USD 40 million plus interest up to the date of payment. Genefar BV paid the full amount in October 2011.

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

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

The gynaecological portfolio acquired from Grünenthal AG contains seven brands. Their main sales areas are the major Western European countries but sales are also aimed at Central and Eastern Europe and the Middle East. Introduction in the Russian market was also started in Q4 of 2012.

*Impact of the market environment; the Company's global activity*

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

In the late 1990s, in response to the economic crisis in Russia, the Company revised its long-term strategic goals: strengthening regional multinational activities handled as a priority, maintaining stable positions in its traditional markets, strengthening its presence in the EU and the United States with proprietary and generic products, and building long-term co-operations in supplying active ingredients. The primary focus of the Company is on the expansion of the gynaecological business and an increase in generic sales, the latter in preparation for upcoming patent expiries. In the United States Richter concluded long-term supply contracts with manufacturers specialized in gynaecological products.

In accordance with strategic goals in the years after the turn of the millennium the Company achieved a significant upswing in turnover realized in EU markets, particularly in the turnover in the new Member States joining after 2004. The latter trend is particularly significant as drug subsidies in the new accession countries are generally underfinanced, which led the Company to reduce the price of some of its products. Consolidation of the economy in Russia gave a boost to the pharmaceutical market in most CIS states, which triggered a dynamic growth in Richter's turnover in this region. Rising income from sales in the CIS, the USA, then in the EU led to exports contributing approximately 90 percent to total turnover.

Contrary to export markets, ongoing uncertainties prevailed in the domestic market. Despite the agreement between the Government and the pharmaceutical industry price increases were delayed, and the pharma companies were forced to share the burden of financing the overspending in the social security system. Due to mergers and acquisitions of competitors the Company lost its leading position in the Hungarian market although its sales increased significantly up to 2005: while revenues from sales still soared in the period 2006-2009, a distribution agreement ceased, and this, coupled with generally unfavourable macroeconomic trends and the negative impact of the Government's measures affecting the pharmaceutical market resulted in declining sales revenues. The trend turned around in 2010, albeit not because of the improvement of the economic environment but mainly as a result of increasing sales of the products launched over the past three years. While growth continued in 2011, sales plummeted in 2012.

## 1.2 Main objectives for 2012

The Company's main objectives for 2012 were as follows: to expand sales despite a difficult market environment; to retain and improve market shares; and to strengthen the strategy of standing on multiple legs in the market; based on the strategic principles, to shift business to enhance the contribution of high value added products; to expand the gynaecological business; and to enter the market of biosimilar products. In 2012 significant advancement was achieved in the following areas:

- Income from sales significantly increased in the CIS and EU markets.
  
- According to Richter's announcement on 27 February 2012, Esmya, a proprietary product developed by PregLem, a pharma company solely owned by Richter had been granted marketing authorisation for the EU member states for its indication of pre-operative treatment of uterine fibroids (myomas). The product was launched in 17 member states in the course of the year.
  
- In 2011 Richter upgraded its existing and newly created marketing companies in Western Europe: the companies' scope of business was expanded and a network of pharmaceutical representatives specialized in gynaecological treatments was developed in all of the companies. In 2012 Richter established new subsidiaries in the Benelux and Nordic countries and started building its network of representatives.
  
- On 2 November 2012 Richter signed a strategic agreement with the Government of Hungary. The general purpose of the agreement is to support the continued independence of Gedeon Richter Plc. so that strategic decisions determining the future development of the company and supporting the development of the Hungarian national economy continue to be taken in Hungary and with a view to the interests of the Hungarian economy. In the context of the partnership the Government promotes Richter's innovation and R&D efforts by the means available to it; Richter, on the other hand, will strive to expand its domestic pharmaceutical manufacturing, research and development activities. The parties also agreed to develop a transparent and sustainable R&D-based tax incentive system, which includes eligibility to tax credits beyond the year of reporting. Details of the system were adopted by Parliament in the form of an act, which entered into effect on 28 December 2012.

- At the end of 2011 the Company capitalized the assets created as a result of the capital expenditure started in Debrecen in 2007 and thus took a big step forward towards plant-level manufacturing of biosimilar products in Hungary. Trial runs started in 2012 and are expected to lead to the manufacturing of samples required for clinical studies by 2014 followed by routine production of drugs, as well as anticancer and chronic anti-inflammatory proteins and antibodies from 2015.

- On 2 and 28 February 2012 Richter and its partner, Forest Laboratories, Inc. announced the successful conclusion of the third Phase III trial of the antipsychotic cariprazine for the acute treatment of manic or mixed episodes associated with bipolar I disorder, and two positive Phases III trials of the same drug for the treatment of schizophrenia. The Company thus boasts of three positive Phase III trials in respect of both indications. On 28 November 2012 Richter announced that Forest Laboratories submitted a new drug application (NDA) to the United States Food and Drug Administration (FDA) for cariprazine for both indications.

In 2012 Richter took further steps to expand its international business through a capital increase in its manufacturing companies and continuing its investments. Details are described in Chapter 5: Capital expenditure on tangibles and intangibles, and Chapter 6: Foreign investment.

### 1.3 Share structure of the Company

As of 1 January 2012 the number of ordinary shares comprising the Company's subscribed capital was 18,637,486. The number of shares did not change in the course of 2012.

As regards ownership structure, as of 31 December 2012, 66.50% of shares were held by foreign institutional and private investors, the Hungarian State held 25.24%, and Hungarian institutional and private investors held a total of 7.81%. Treasury shares together with 10,550 shares owned by subsidiaries amounted to 0.30 %; the rate of other ownership was 0.15 %.

The closing price of shares as of 31 December 2011 was HUF 34,200 compared to HUF 36,210 as of 31 December 2012. Average monthly share prices in 2012 moved between the minimum of HUF 36,009 per share (in December) and the maximum of HUF 39,786 per share (in October).

#### 1.4 Treasury shares

	Ordinary shares	
	31.12.2011	31.12.2012
Shares	124,399	45,336
Nominal value HUF'000	124,399	45,336
Book value HUF'000	4,468,276	1,670,893

Following the decision of the Board of Directors 89,728 ordinary shares were granted as bonus to employees whose outstanding performance contributed to Richter's earnings for the year.

In keeping with the programme approved by the National Tax and Customs Administration of Hungary (NAV) related to employee share bonuses the Company granted 45,681 Treasury shares to 4,750 employees on 19 December 2012.

#### 1.5 Corporate governance

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

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

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

The Annual General Meeting on 25 April 2013 has approved the election of the following as Member of the Board of Directors for a 3 year period until the 2016 Annual General Meeting:

Christopher William Long (re-elected)  
dr. Gábor Gulácsi (re-elected)  
Csaba Lantos (re-elected)  
dr. Csaba Polacsek.

#### 1.6 Site

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

27 Esztergomi út, H-2510 Dorog

#### 1.7 Other information

Government Decree No. 2056 of 1994 licensed Richter to claim 100% tax benefit for a period of five years starting from 1994, and 60% tax benefit for an additional five years thereafter on the basis of the provisions of Section 14/A, subsection (2) of Act LXXXVI of 1991 on Corporate Tax as amended by Act IC of 1993. Accordingly, Richter was liable to pay 7.2% corporate tax from 1999.

In 2000 the Company embarked upon another medium-term capital expenditure programme and by 31 December 2003 commissioned for operation a production investment project at a value in excess of HUF 10 billion that resulted in an increase in average staff number by at least 500 compared to the average number of staff employed preceding commencement of the investment project. Having met these statutory

requirements, the Company became eligible for 100% corporate tax benefit from 2004 to not later than 2011. In order to close the chapter on competition at the accession negotiations the Hungarian Government and the European Union reached an agreement in respect of changing certain instances of tax benefit granted by the Act on Corporate Tax and Dividend Tax. The agreement allows the Company to continue to benefit from the tax break, granted from 1 January 2004 under Section 21(11) of the Act, after Hungary's accession to the EU.

In 2007 the parent company commenced construction of a new plant in Debrecen to develop and manufacture biotechnology products, and announced making use of the tax benefit with the contents set out in the relevant Government Decree. The investment that meets the condition in Section 22/B (1) b) of the Act on Corporate Tax and Dividend Tax was concluded in 2011 and all the equipment that formed part of the project was commissioned. Richter decided to make use of the tax break related to the investment project for the first time in the 2012 business year, in the rate of 80% of the corporate tax.

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

## 2. 2012 operating review

### 2.1 The balance sheet as of 31 December 2012

#### TOTAL ASSETS

The Company's total assets amounted to HUF 654,953 million, HUF 5,744 million (0.9%) higher than the opening value. Fixed assets were up by HUF 17,623 million, current assets dropped by HUF 12,728 million.

#### *Fixed assets*

**Intangible assets** amounted to HUF 84,362 million in the reported period, HUF 3,641 million up from the reference figure.

At the close of 2012 the value of the investment in PregLem was revised and the corporate tax rates applied in the calculation of goodwill were harmonized. As a result PregLem's book value decreased, ipso facto the goodwill on the remainder of the acquisition value increased by HUF 5,228 million. The growth is mainly attributed to the change in PregLem's goodwill and the intangible asset generated by Richter increasing its share in the traditional sale of Chinese products. The increase was partly offset by the amortisation on the capitalization of the marketing and brand related rights of the Grünenthal portfolio acquired in 2010, on the Esmya capitalized in 2012, and on the also capitalized fees paid to the competent authorities for new marketing authorizations.

- There was no significant change in the value of **tangible assets** year-on-year (+2.8%). The net value of technological installations, equipment and vehicles was HUF 3,630 million higher than the opening figure due to capitalizations in the Debrecen injectables development plant and the Budapest injectables plant.

Depreciation on tangibles and intangibles was HUF 20,708 million in 2012, HUF 498 million in excess of the 2011 figure.

- The book value of **financial investments** in other companies reported under investments decreased by HUF 11,142 million y/y. As a result of the above mentioned restatement PregLem's book value dropped by HUF 5,228 million, the book value of Gedeon Richter Romania S.A. rose as a result of reclassification of a loan extended by the parent company to capital increase (HUF +2,644 million); conversely, impairment amounting to HUF 2,821 million was reported in conjunction with Armedica Trading S.R.L. in which Richter has a 100% holding. The reassessment of holdings as of the balance sheet date resulted in an decrease of HUF 7,529 million, but due to the change in the fair value of the Russian wholesale and retail group Protek the value of investments was increased by reversed impairment (HUF +2,362 million).

The bond bought by the Company and to be held until maturity in 2014, when it will be converted to Richter Treasury shares was reported under investments with a book value of HUF 14,297 million in 2012.

Long-term loans amounted to HUF 53,665 million and includes mainly long-term capital contributions extended to PregLem S.A. and Richter's production companies, in particular to Gedeon Richter Romania S.A., ZAO Gedeon Richter-RUS and the Indian subsidiary. The increase compared to the reference year figure was primarily caused by the reporting of the capital increase in PregLem S.A.

#### *Current assets*

- **Inventories** amounted to HUF 43,481 million, 10.1% above the opening figure.
- **Receivables** amounted to HUF 108,393 million, HUF 3,822 million above the opening figure. Net trade receivables were HUF 3,887 million less than in the reference year. The closing balance of loans extended to affiliated undertakings and undertakings linked by participating interest was HUF 356 million higher year-on-year predominantly because of the loan items extended to Gedeon Richter Romania S.R.L. due within a year. The capital increase in ZAO Gedeon Richter-RUS paid in 2012 but not yet registered also increases receivables (HUF +3,630 million).
- The value of **cash and securities** decreased by HUF 20,550 million. The 2011 high closing value was further increased by the drawdown of the second EUR 50 million tranche of the European Investment Bank (EIB) credit line in January 2012, and was

then significantly decreased by the payment of the outstanding portion of the purchase price to PregLem' previous shareholders.

As of 31 December 2012 the portfolio of securities held for trading contained government securities, open-end investment funds and other bonds.

#### TOTAL LIABILITIES AND EQUITY

- **Shareholders' equity** increased by 6,4 % to reach HUF 522,041 million as a result of the 2012 earnings on the balance sheet and retained earnings.
  
- The Company's **liabilities** amounted to HUF 123,933 million and include the long-term liabilities items of EUR 150 million club facility taken out in 2010, the above mentioned EUR 100 million drawdown to finance R&D, and HUF 10,835 million deferred purchase price for PregLem reported at fair value. Current liabilities were HUF 41,054 million down as a result of meeting the next instalment of PregLem S.A.'s purchase price (HUF 42,329 million). The biggest items reported among the remainder of current liabilities were trade payables together with related parties amounting to HUF 24,068 million (HUF +1,263 million) and the dividend in connection of the result of 2012 and approved by the Annual General Meeting to the amount of HUF 12,271 million.

## 2.2 The 2012 income statement

The Group's profit after taxes for 2012 was HUF 43,908 million, 44.5%, or HUF 35,232 million, lower year-on-year. Massive increases in marketing and distribution costs as well as R&D costs compounded by losses on Forex items reported in financial income played a key role in the decrease.

### 2.2.1 *Total sales*

	2011 HUF million	2012 HUF million	Variance	
			HUF million	%
Hungary	33,965	29,539	-4,426	-13.0
Export				
CIS	118,890	127,429	8,539	7.2
EU *	69,947	73,296	3,349	4.8
USA	11,879	9,539	-2,340	-19.7
Other countries	15,169	15,695	526	3.5
Export total	215,885	225,959	10,074	4.7
Total Sales	249,850	255,498	5,648	2.3

\* Excluding Hungary

Income from the 2012 domestic sales was 13.0% down compared to the reference year. Export in HUF was 4.7% up; and in EUR, 1.3% up year-on-year.

Changes in the breakdown of export by regions in the reported year: The largest contributor (49,9%) continues to be the CIS, which was 2,3 percentage points up from the reference year. The EU States gained 0,7 percent and contributed 28,7%; the contribution of the United States and Hungary dropped by 2,0% and 1,0% respectively (11,6% and 3,7%). The cumulative category of Other countries stayed at the reference level (6,1%).

Based on the year-end figures for 2012 the Company realized HUF 29,539 million income from sales **in the domestic market**, 13.0% (HUF 4,426 million) less than in 2011. With

this performance the Company's market share was 5.2% in 2012, 0.6% below the reference year's figure. Richter ranked third in the prescription drugs market with a share of 7.1%.

The drop was caused primarily by the discontinuation of Avonex and lagging sales of Xeter, Calumid, Quamatel and Portiron. In 2012 oral contraceptives were the leading item in terms of sales with a 13.1% year-on-year increase in turnover.

The tax payable on the full-year amount of subsidy calculated on the producer prices of reimbursed products under the Dug Economy Act was 12% until 1 July 2011 and then 20% thereafter. Richter made use of the tax benefit granted in proportion to R&D expenditure, thus this liability item was HUF 1,037 million in 2011 and HUF 487 million in 2012. Pharmaceutical representatives' registration fee (HUF 0.4 million per representative, later increased to HUF 0.8 million) was reintroduced as of 15 February 2009 and cost Richter HUF 639 million in 2011 and HUF 431 million in 2012 after deducting the allowance.

Income from **exports** in the pharmaceutical production segment was up from HUF 215,885 million (EUR 771.1 million) in 2011 to HUF 225,959 million (EUR 781.5 million) in 2012.

Russia continues to be the leading market of the **CIS region and also of the Company**, with turnover denominated in EUR 3.2% below the reference year figure. The best performing products were oral contraceptives, Rosuvastatin, Tolperison and Mycosyst, each achieving a considerable rise in sales. Conversely, overall turnover were seriously affected by the discontinuation of Suprax and very sluggish sales of Panangin and Gordox. In the wake of efficient marketing promotions in Ukraine the Company's turnover was boosted significantly despite the relatively high reference level even compared to combined sales in the other CIS states.

The total turnover achieved in the CIS market was HUF 127,429 million, 56.4% of total export. Year-on-year increase was 7.2% (HUF 8,539 million). Expressed in Forex, the turnover was EUR 440.8 million (USD 566.4 million) with a 3.8% increase in EUR.

The turnover achieved in the **European Union** was HUF 73.296 million, 4.8% up year-on-year. The contribution of this region to total exports remained at 32.4%. Expressed in Forex, the increase amounted to EUR 253.5 million with a 1.5% increase.

In the EU 15 region, increasing competition in the generic market and the resulting decreasing prices, as well as significant supplies in 2011 of gynaecological products to trading companies caused a 12.1% drop in Richter's EUR-denominated sales income.

On the other hand, the CEE Member States increased their contribution to total sales in the EU region to approximately 62% in 2012 with a 12.0% increase in sales income in euro. In this geographical segment, too, Richter was faced with mounting competition and prices kept low as a result of government measures and an unfavourable social security environment. Several Member States introduced austerity measures to reduce rising health care costs. In the CEE countries turnover increased mainly due to the launch of new products in Poland, the Czech Republic, Romania and the Baltic States.

Sales in the **United States** dropped by 19.7% (HUF 2,340 million), or, expressed in USD, by 28.1% (to USD 16.6 million) due primarily to a massive decrease in the sales of oral contraceptives supplied primarily in the form of APIs. Turnover lagged behind the reference year's figure due to price reductions required by keen competition.

In the category of **Other countries**, oral contraceptives were the leading products.

Income from sales in the Other countries category was HUF 15,695 million (EUR 54.3 million) with no change y/y. The contribution of this region to total export was 7.0%.

Net income from sales **totalled** HUF 255,498 million, a HUF 5,648 million increase on the 2011 figure.

### *2.2.2 Direct and indirect costs of sales; operating results*

The aggregate year-on-year increase in direct and indirect costs of sales was 9.1%.

**Direct costs of sales** totalled HUF 55,881 million and were HUF 2,031 million less than the 2011 figure due to the effect of exchange rates and the positive change in the portfolio of products. Gross profit from sales was HUF 199,617 million, HUF, 7,679 million above the reference year's figure, with the gross margin up from 76.8% in the reference year to 78.1% in 2012.

**Indirect costs of sales** amounted to HUF 143,956 million in 2012, exceeding the 2011 figure by 15.0%.

- Rise in wages and other payroll expenses contributed HUF 4,704 million to the increase.
- Costs of advertising and promotion were HUF 4,120 million higher y/y and reflected the costs of developing the Western European sales network and expenditure on marketing in support of rising sales in the CIS markets.
- In 2012 research commissions increased by HUF 2,137 million resulting predominantly from items arising at partners that have signed an R&D agreement with the Company.
- Depreciation exceeded the reference year's figure by HUF 832 million. The increase was caused mainly by the depreciation on the capitalization of the Debrecen investment.

The balance of **other income and expenditure** was HUF 1,202 million as opposed to HUF 7,340 million achieved in 2011. The primary source of the decrease was that the reference year figure included Genefar BV's payment of the USD 40 million compensation plus interest awarded to Richter by the ruling of ICC's International Court of Arbitration dated 3 August 2011. On the expenditure side, the item includes HUF 5,041 reflecting the change in the likelihood of payment in respect of the outstanding price paid for PregLem. In 2012 Richter received milestone income related to cariprazine, whereas there was no such income in 2011. The 12%, then 20% tax payable on subsidized products was a significant line item on the expenditure side (amounting to HUF 1,037 million in the reference year and HUF 487 million in the reported year), as well as local taxes.

The Company's *operating result* was HUF 56,863 million, 23.2 % down compared to 2011. After a 7.3 percentage point increase, the operating margin was 22.3 %.

### 2.2.3 Other income statement items

#### *Profit or loss from financial transactions*

Loss from financial transactions in 2012 was HUF 11,092 million as opposed to HUF 6,107 million profit in 2011.

Richter's achievements and their changes compared to the reference year were very strongly influenced by the strengthening of the forint against the euro and the dollar. As of the 2012 balance sheet date, the exchange rate was 291.29 forints to the euro and 220.93 forints to the dollar, considerably below the 2011 closing EUR/HUF rate of 311.13 and USD/HUF rate of 240.68.

The balance of revaluations as of the 2012 balance sheet date was HUF 3,655 million decrease as opposed to HUF 18,618 million appreciation in 2011. The item includes revaluation of investments, loans receivable, advances, Forex accounts, loans payable and trade receivables and payables.

The Company made a loss on forward transactions amounting to HUF 122 million in 2011 and HUF 394 million in 2012.

In 2011 net impairment of investments was HUF 15,567 million, however, in 2012 HUF 1.062 million. The most important item was the HUF 2,821 million impairment reported in conjunction with Armedica Trading S.R.L. in which Richter has a 100% holding, however reversal of HUF 2,362 million impairment due to the change in the fair value of the Russian wholesale and retail group Protek increased financial income.

Exchange rate losses realized from trade on receivables, payables and other items were HUF 4,158 million as opposed to a HUF 2,259 million gain in the preceding year. The aggregate gain contributed HUF 6.4 billion to a year-on-year decrease in earnings.

In 2012 the time value and exchange rate effects of the liability related to PregLem reduced the net financial income to a lesser extent (by HUF 3,004 million as opposed to HUF 4,493 million in the reference year).

Net income from interest was HUF 3,470 million in 2012, HUF 277 million in excess of the reference year.

Dividends received contributed HUF 1,378 million to the 2012 financial income, HUF 944 millions higher than the HUF 434 million realized in 2011.

*Extraordinary result*

The balance of exceptional result was HUF -1,209 million, approximately the same as in 2011.

*Income before taxes*

The 2012 income before taxes amounted to HUF 44,562 million, HUF 34,338 million less than the 2011 earnings.

*Taxes payable*

As described in chapter 1.7 above, between 1 January 2004 and 31 December 2011 Richter was granted a 100% corporate tax benefit. In 2011 the HUF -240 million reported in taxes contained the reclaimable surtax items paid earlier. The 2012 tax payable amounted to HUF 654 million.

*Profit after taxes*

The Company's profit after taxes for 2012 was HUF 43,908 million compared to HUF 79,140 million in 2011.

### 2.2.4 Contribution of key products to sales revenues

Finished products contributed over 92% to the 2012 sales revenues. The contribution of APIs was 5%.

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

2011				2012			
Rank		Sales HUF million	Share %	Rank		Sales HUF million	Share %
1	Oral contraceptives	76,019	30.4	1	Oral contraceptives	76,053	29.8
2	Cavinton/vinpocetine	19,007	7.6	2	Cavinton/vinpocetine	19,249	7.5
3	Panangin/asparaginates	16,486	6.6	3	ACE inhibitors /enalapril, lisinopril	16,196	6.3
4	ACE inhibitors /enalapril, lisinopril	15,108	6.0	4	Mydeton/tolperisone	16,195	6.3
5	Mydeton/tolperisone	14,225	5.7	5	Panangin/asparaginates	15,258	6.0
6	Verospiron/ /spironolactone	9,924	4.0	6	Verospiron/ /spironolactone	11,387	4.5
7	Quamatel/famotidine	8,157	3.3	7	Quamatel/famotidine	7,953	3.1
8	Lisonorm /lisinopril, amlodipine	6,095	2.5	8	Lisonorm /lisinopril, amlodipine	6,735	2.6
9	Suprax/cefixime	5,307	2.1	9	Aflamin/aceclofenac	5,358	2.1
10	Xeter/rosuvastatin	5,014	2.0	10	Xeter/rosuvastatin	5,328	2.1
	Total	175,342	70.2		Total	179,712	70.3
	<i>Net income from sales</i>	<i>249,850</i>	<i>100.0</i>		<i>Net income from sales</i>	<i>255,498</i>	<i>100.0</i>

The contribution of the ten leading product categories to total sales was 70.3%, almost identical with the reference year's figure.

Oral contraceptives are the leading products with a turnover of HUF 76.1 billion, approximately the same as in 2011. Income from drospirenone products offset lagging income from the portfolio acquired from Grünenthal. The latter was outstandingly high in the reference year because of supplies of stocks for 2011. The contribution of this product category to total turnover was 29.8%, 0.6 percentage points less year-on-year. Richter's proprietary drug Cavinton ranked second with a turnover HUF 242 million higher y/y due primarily to keen sales in Ukraine and Romania. Fourth in 2011, ACE inhibitors advanced

to 3rd place (in the wake of Polish and CIS sales increase), while Panangin slipped to 5th place after dropping sales in Russia in 2012, so this product category contributed 6.0% to total income sales. Mydeton advanced from 5th to 4th place due primarily to API sales to the Russian subsidiary and finished product sales in Ukraine. Verospiron (6th) and Lisonorm (8th) retained their respective places mainly because of substantially rising sales in the Russian market. Ranked 7th, Quamatel retained its earlier position, albeit with a smaller share and lesser contribution to sales income. A new advent on the list of Top Ten is Aflamin (CIS and Poland), and rosuvastatin managed to keep its 10th place as a result of rising sales in Hungary.

### 2.2.5 Contribution of key markets to sales revenues

In 2012 the Company's ten leading markets were as follows:

	2012	
	HUF million	EUR million
1. Russia	88,262	305.3
2. Hungary	29,539	102.2
3. Ukraine	19,400	67.1
4. Poland	17,141	59.3
5. Germany	12,949	44.8
6. United States of America	9,539	33.0
7. Czech Republic	8,432	29.2
8. Slovak Republic	6,097	21.1
9. Romania	5,422	18.7
10. Kazakhstan	5,152	17.8
Total	201,933	698.5
<i>Net income from sales</i>	<i>255,498</i>	<i>883.7</i>

The ten leading countries jointly contributed approximately 80% to Richter's total sales. Russia stayed at the head of the list with sales slightly rising for the reasons mentioned above. Hungary was again 2nd followed by Ukraine and Poland, each of the latter two countries taking one step upward, while Germany lost two places and was only 5th as a result of dropping oral contraceptives sales. The United States retained its 6th place. There was no change in the order of the next two countries on the list (Czech Republic and Slovakia); by contrast, Romania overtook Kazakhstan compared to 2011.

### 3. Functional activities of the Company

#### 3.1 Research and development

Innovation and the research of proprietary drug molecules have been key elements in the parent company's strategy since its foundation in 1901. With over 1000 employees in the field of research and development, Gedeon Richter Plc. today is the most significant pharmaceutical research base in the Central and Eastern European region. R&D is focused on three strategic areas: original research and development of proprietary small molecules, biotechnology, and genetic research and development.

Small molecular R&D is focused on gynaecological products on the one hand, and molecules effective in treating CNS diseases. The Company has a portfolio of 15 ongoing projects of which one is in clinical Phase I trials and the rest are in the preclinical phase.

On 8 and 28 February 2012 Richter and its partner, Forest Laboratories, Inc. announced the successful conclusion of the third Phase III trial of the antipsychotic cariprazine for the acute treatment of manic or mixed episodes associated with bipolar I disorder, and two positive Phases III trials of the same drug for the treatment of schizophrenia. The Company thus boasts of three positive Phase III trials in respect of both indications. On 28 November 2012 Richter announced that Forest Laboratories submitted a new drug application (NDA) to the United States Food and Drug Administration (FDA) for cariprazine for both indications. In January 2013 Richter was notified of the acceptance of the NDA, which led to Forest's milestone payment obligation. There are ongoing parallel clinical studies to expand the indications and to penetrate the European and Japanese markets.

One of the world's leading manufacturers of steroid products, Richter has been traditionally strong in the gynaecological market. After the acquisition of the Swiss company PregLem S.A. in 2010 Richter joined gynaecological development activities primarily in the field of uterine myoma indications. According to Richter's announcement on 27 February 2012, Esmya, a proprietary product developed by PregLem S.A., a company solely owned by Richter had been granted marketing authorisation for the EU member states for its indication of pre-operative treatment of uterine fibroids (myomas). In addition, Phase III

clinical trials are in progress to expand the indication, and Phase II studies are in progress relating to two new molecules developed for the treatment of endometriosis.

The resulting clinical portfolio at the end of 2012 was as follows:

Description	Clinical phase		Primary indication	Partner
Esmya*	Marketing authorization granted (EU)		Uterine myoma	Watson Laboratories USA
	Ph3	USA		
PGL 2	Ph2	EU	Endometriosis	
PGL 5	Ph2	EU		
Cariprazine (RGH-188)	Registration pending	USA	Schizophrenia, bipolar disorder	Forest Laboratories
	Ph3		Major depressive disorder	
	Ph2		Bipolar depression	
	Ph3	Japan	Schizophrenia,	Mitsubishi-Tanabe

\* According to Richter's announcement on 27 February 2012, the drug was granted marketing authorisation valid for all EU member states.

In 2007 (at the 50th anniversary of Richter's launching its first fermentation research effort) biotechnology R&D was put on the agenda. Founded in Germany together with Helm AG, Richter-Helm BioLogics GmbH & Co. KG develops and manufactures pharmaceuticals based on proteins derived by microbial biotechnology processes.

By the end of 2009 a biotechnology research facility and a pilot plant were developed in Budapest to conduct research in microbial drug therapy, biosimilar monoclonal antibodies development. Started in 2007, the construction of the Debrecen plant creating capacities for mammalian cell biotechnology based pharmaceutical manufacturing was concluded, the related assets were capitalized. Trial runs commenced in 2012, and the most complex protein-based pharmaceuticals can be manufactured on a commercial scale.

As has been the case so far, the Company considers it essential to identify R&D partners for cooperation. We join forces with academic and university institutes in the early stages of our research activities, and we make an effort to establish cooperation with other companies in the pharmaceutical industry when it comes to the development of molecules in the clinical phases. In this respect partnerships with the Japanese Mitsubishi-Tanabe Pharmaceuticals and with Forest Laboratories of the United States continue to make a considerable contribution to effective research activity. In particular, Richter's experience in preclinical trials has been successfully complemented by Forest's experience in clinical trials in testing CNS molecules.

R&D expenditure was 12.9% of sales income in 2012 and amounted to HUF 32,966 million.

To achieve the strategic goals outlined above, the Company's product development units continued upgrading their instrumentation in 2012 in support of the development of biotechnology and special products with high intellectual value added. After niche areas, combination products and simple oral drugs a new line of development is opened by the more complex DDS (Drug Delivery Systems), specifically orally expanding drugs, intragastric floating systems as well as nanodrugs.

The key tasks for product development in 2012 were to support the launch of Esmya, to supply the Western European network with oral contraceptives, and to switch Grünenthal's portfolio to own-produced drugs. Moreover, special attention was paid to the support of introducing new products in the domestic and Russian markets.

At the close of 2012 Richter had over 50 generic development and 18 license topics in progress. In the course of the year Richter had 24 license renewal and maintenance projects; moreover, support of original, biotechnology and transfer projects (20 in total) have engaged an increasing portion of resources. As biotechnology and proprietary development projects are conducted predominantly at the parent company, development sites of the subsidiaries have been appreciated as regards generic R&D (Gedeon Richter Romania S.A., Gedeon Richter Polska Sp. z o.o.). These companies undertake 44% of generic R&D projects.

The Company launched one proprietary product and six license products in 2012, all of which are new in all of the markets. In addition, many products not yet sold by Richter were introduced in several countries: they numbered 160, an unprecedented figure.

As a result of intensive registration activities a total of 330 marketing authorizations were granted to Richter in 2012 in the EU, including Hungary (taking different dosage forms into consideration). Eighty-seven percent of the marketing authorizations involve proprietary products and 13% are related to the takeover of licensed products. In this region 206 renewal applications were submitted. In 2012, 88 renewal procedures were concluded.

A total of 50 new authorizations and 145 renewal applications were submitted in the twelve CIS countries. In the course of the year the Company secured 111 new authorizations and 134 renewals.

In the Other countries segment the Company submitted 23 new applications and 30 renewals in 2012. In the course of the year the Company secured 18 new authorizations in addition to 27 renewal procedures concluded.

### 3.2 Quality assurance

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

In 2012 the main direction of the quality assurance effort was the continued upgrading of production processes in accordance with cGMP (API, injectables and tablet production and packaging), and ongoing quality assurance support to the biotechnology construction projects in Debrecen.

As regards the 2012 IT developments, mention should be made of the newly installed system providing up-to-date information on product quality and production processes. Risk assessment at the level of suppliers has been a growing focus in quality management required by the supervisory authorities and also fuelled by reasons of cost effectiveness.

Supporting quality management of the subsidiaries continues to be a priority task.

Over the past year Richter and its subsidiaries were inspected on 20 occasions by consumer authorities and once by the competent supervisory authorities.

### 3.3 Production

Production in the manufacturing plants was in line with the amounts required by the market: the output of plants manufacturing solid drugs that constitute the main category of the portfolio of products grew only minimally; the output of injectables, products of a

lesser weight in the portfolio, was almost 15% higher year-on-year due primarily to the reference year's lower performance because of plant upgrading.

There volume of own-produced APIs for steroid and non-steroid products was up by 8% in 2012.

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

#### *Inventories*

As of the balance sheet date of 31 December 2012 the value of inventories was HUF 43,481 million, 10.1% above the opening balance. The increase in inventories is attributed to the need to bring low opening levels of finished products in line with the amounts required by the market. In addition, highly expensive biotech materials and excipients applied in the biotechnology plant considerably boosted the value of inventories.

### 3.4 Technology

In recent years the Company has developed a new sourcing management system and separated special procurement tasks from the professional activities of the management of the various organizational units. In the new structure all machines, equipment, technological materials and general devices as well as services are sourced centrally. The same applies to utilities such as natural gas, electricity and steam supply, as well as waste disposal. Concluding the construction, maintenance, operation and utility contracts for the Debrecen facility was a priority task for 2012.

Similarly to the preceding year, optimization of centralized sourcing resulted in substantial savings on funds, capacities and time in 2012. In certain areas of sourcing the parent company and its subsidiaries cooperated successfully.

The Company continued with its regular and ad hoc maintenance activities in 2012, which was heavily focused on development of the maintenance system and routines of the Debrecen biotechnology facility.

#### *3.4.1 Energy supply*

Smooth energy supply ensured uninterrupted production throughout the year and met users' demand in terms of both quality and quantity. Started earlier, the investment

program to enhance the security of energy supply, to optimize utilization and to ensure compliance with increasingly strict regulations was continued in 2012.

Compared to the reference year, the volume of energy utilized in 2012 increased across the Company as a whole and energy prices also rose considerably. The 21.8 % increase emerged as the result of 7.3% increase in energy use and 14.5% increase in energy prices. Energy and water costs amounted to HUF 9.5 billion for the entire Company and included HUF 102.0 million energy and water load taxes.

#### *3.4.2 Environmental protection, occupational health and safety*

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

The audits of the Environmental Management System (KIR-ISO 14001) and the Occupational Safety and Health Management System (MEBIR-MSZ 28001) by the supervisory agencies, as well as the certification of the Safety and Environmental Labs were successful and proved that internal audits, education and training, regulations, performance evaluation, risk management and occupational hazard measurements are appropriate and in keeping with the rules. The Dorog Environmental and Occupational Safety and Health Lab was granted accreditation.

Environmental and security related expenditure were at the 2011 level in the reported period.

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

In accordance with the relevant statutory provisions Richter conducted a psychosocial risk assessment in 2011 and launched a smoking cessation program in an effort to protect the health of its staff followed by stress management programs in 2012.

#### *Water pollution, protection of water quality and noise management*

In the reported year the biggest advancement in environmental protection was the implementation of tasks envisioned for the year in the Intervention Plan for the reduction of ground water pollution in the Dorog facility. The first stage of the constructions has been concluded.

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

Due to legislative changes, new noise limits were introduced at the Dorog plant; consequently, in 2011 the Company developed a new noise management program and submitted it to the competent Regional Environmental Protection Centre. In 2012 Richter embarked upon implementation of the related action plan.

#### *Waste management*

In 2012 hazardous wastes were incinerated, deposited or composted, and selective waste collection was introduced.

The costs of waste disposal were HUF 1.0 billion in 2012, 5.2% more than in 2011.

### 3.5 IT support

The Company's business processes were captured in the SAP system. SAP tracks every step of the process from sourcing to sales and provides interfaces to other special systems supporting operation. Over the past years, major Group level IT development took place primarily in order to achieve the most important strategic goal of creating a central IT architecture that controls and supervises Richter Group's IT systems and is suitable for communicating Group level strategy and control and serving operation.

IT infrastructure development has been in keeping with Group-level needs; the emerging IT background is a uniform and transparent system for Group users. A dynamic VPN network created between Group companies overarching the Internet network provides access to distant systems via audio and video connection as necessary.

Similarly to the previous year, major Group level IT development took place in 2012, the most important achievements and events were as follows:

- A priority project was the expansion of SAP to include more of the subsidiaries. Mention should be made of the production subsidiary ZAO Gedeon Richter-RUS, where almost all SAP modules operating at the parent company were introduced simultaneously, and the newly established and transformed Western European trading companies, where SAP was installed to ensure seamless data transfer. The processes and their operation were largely

modelled on those of the parent company, taking into consideration the provisions of relevant local legislation. For the most part, SAP's Finance and Accounting and Controlling systems were developed, and in the case of several of the training companies, the Sales Module as well.

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

#### 4. Human resource

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

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

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

As of 31 December 2012 the Company's total headcount was 6,677. In Hungary, headcount totalled 4,948 of whom 2,500 persons, including 1,848 university or college graduates, worked in white-collar positions.

## 5. Capital expenditure on tangibles and intangibles

In 2012 capital expenditure and intangible assets amounted to HUF 24,051 million and included HUF 21,326 million capitalization (without reclassification of PregLem goodwill). Assets in the course of construction not yet capitalized amounted to HUF 7,403 million on 31 December, HUF 309 million short of the reference year figure.

The Company's main capex areas in 2012 were as follows

### Biotechnology

Richter spent a total of HUF 4,518 million on investments related to the biotechnology business in 2012. In the Debrecen API plant a special project was launched in 2012 to validate the unique equipment from the aspect of quality assurance, as well as to develop the production control software and connect it to the equipment. The project is expected to end in the second half of 2013. Also in Debrecen a modern low-volume plant was finished and commissioned for product development purposes.

### Production

The 2012 investments related to production plants amounted to HUF 7,140 million.

In finished drug manufacturing, upgrading the equipment of the Injectables Plant was continued (installation of ampoule impermeability inspection machines, upgrading the pharmaceutical water purification system). The following equipment were purchased and installed: new capsules sorting machine and a tablet press in the Tablets Plant, two packaging lines for hormonal products in the Packaging Plant, and a packaging machine in the Galenic Formulations Plant.

In the field of API manufacturing, investments were basically aimed at maintaining production capacities. Mention should be made of the modernization of the manufacturing hall, a project that started in Dorog in 2012 and focused on the Synthetic I and Steroid II plants in the course of the year.

### Production support

Investment projects related to production support totalled HUF 3,907 million in 2012.

Major environmental protection projects included the reconstruction of the communal sewage system and the modernization of the HVAC systems of the API plants in Dorog.

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

As regards the Company's projects related to energy supply, modernization of the steam and condensation pipes and replacement of a malfunctioning refrigeration compressor were the more important investments.

In Dorog works continued to upgrade the transformer stations and to revamp the main cable network and trunk cables.

In the field of logistics, Richter deployed a multi-year project to install air conditioning in the warehouses; the budget spent in 2012 was HUF 415 million.

In quality management instruments were purchased (in order to improve the conditions of quality control and reduce lead time of tests) with the investment of HUF 295 million.

#### R&D

In 2012 Richter deployed a total of HUF 1,758 million investments to maintain the level and quality of research and development. A significant portion of the investment was related to device and instrument purchase. Upgrading of the Budapest steroid pilot plant continued and a new tablet press was purchased for the steroid pilot plant.

#### Licenses and intangibles

The 2012 expenditure on licenses and other intangibles amounted to HUF 4,005 million and comprised expenditure on the acquisition of manufacturing and marketing rights, new registrations and renewals, as well as the purchase price of marketing intangibles supporting the distribution of Richter's products in China.

#### Other

In 2012 Richter spent HUF 852 million on IT development supporting operation, and HUF 564 million on improving the conditions for distribution.

## 6. Foreign investment

### 6.1 Pharmaceutical companies

#### Pharmaceutical companies

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

The Romanian pharmaceutical market is faced with prolonged liquidity problems and significant delays in payments by the National Health Insurance Funds.

Due to the global economic meltdown and the endemic problems of the Romanian pharmaceutical market the company's sales in the Romanian market slightly decreased for the first time in 2012; nevertheless, total turnover increased. Intra-group sales were a significant factor in the increase.

Similarly to 2011, the company closed the year with a net operating profit despite the claw-back payment, which is a great burden on the Romanian subsidiary.

The 2012 investment activities envisioned primarily strategic projects supporting Gedeon Richter Romania S.A.'s role within the Group. The company's specific needs in terms of capacity development and upgrading were not neglected either.

In the course of 2012 the parent company increased its Romanian production company's capital from a shareholder's loan.

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

**Gedeon Richter Polska Sp. z o. o.** is Richter's Polish production subsidiary. The measures deployed in 2010 to rationalize costs and headcount in an effort to improve efficiency of production resulted in a marked improvement in the company's efficiency and profitability. While income from sales was relatively unchanged compared to the reference year, there was a shift in terms of its structure: the contribution of Group sourcing continued to increase along with ongoing Group level development support; at the same time the contribution of finished products and products purchased for distribution decreased. Because of the integration of export markets the company conducts its exports through Richter Group. In addition, the Polish manufacturing subsidiary undertakes the Group's tasks related to registration and pharmacovigilance in Poland.

In 2012 Richter's Russian subsidiary, **ZAO Gedeon Richter-RUS** put special emphasis on medium-term investment to expand production capacities and technology transfers to fully exploit them. Discontinuation of the Suprax line is a major change in the subsidiary's portfolio and to make up for the products in the short and medium term is a priority task. Nevertheless income from sales continued to increase year-on-year and approached EUR 100 million. Sales of finished products distributed by the subsidiary and the parent company was an important item contributing to income from sales, albeit its amount was below projections. The subsidiary has grown to be a strong distribution and production unit of Gedeon Richter in Russia and contributes substantial value added to the Group.

In order to finance the substantial investment the parent company increased the Russian subsidiary's capital in 2012.

In 2012 **Richter Themis Medicare (India) Ltd.** was active predominantly as a manufacturer and distributor of intermediate products and APIs for Group members. Besides continuously expanding its portfolio the company supplies significant amounts of products to external partners and thus improved exploitation of its capacities.

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

Despite declining orders in biotechnology services **Richter-Helm BioLogics GmbH & Co.**'s turnover in 2012 was around the reference figure. The microbial biotechnology company continues to engage in sourced development at three sites. Today Group developments directly funded by the shareholders feature prominently among its activities but long-term relations outside the Group have retained their importance.

With the launch of Esmya in the European market **PregLem S.A.**'s R&D activities were complemented by sales and marketing in the 2012 business year.

The company's most prominent R&D research line is the expansion of the indications of the leading gynaecological product Esmya with ulipristal acetate as active ingredient.

Marketing of Esmya in Europe is supported by the parent company on an ongoing basis through direct financing.

Other consolidated companies providing ancillary services for the pharmaceutical segment:

With a view to strengthen its gynaecology business strategy in Western Europe through product portfolio acquisition, in 2010 Richter bought Grünenthal A.G.'s gynaecological portfolio for Europe and the rest of the world, with the exception of Latin America.

To promote its sales effort in Western Europe since 2011 Richter has expanded the scope of business of its subsidiaries with marketing and other ancillary activities and started to build a network of pharmaceutical representatives specialized in gynaecological products. The subsidiaries **Gedeon Richter Iberica S.A.** of Spain, **Gedeon Richter Italia S.r.l.** of Italy and **Gedeon Richter Pharma GmbH.** of Germany were involved in the expansion. To achieve the above goals in 2011 Richter established subsidiaries in Switzerland (**Gedeon Richter (Schweiz) AG**), Portugal (**Gedeon Richter Portugal, Unipessoal Lda.**) and Austria (**Gedeon Richter Austria GmbH**) and expanded the Group in 2012 with new subsidiaries in Belgium, the Netherlands and Luxemburg (**Gedeon Richter Benelux SPRL**) and the Nordic countries (**Gedeon Richter Nordics AB**), where it started developing its networks of representatives.

Together with the British and French subsidiaries (**Gedeon Richter UK Ltd. and Gedeon Richter France S.A.R.L.**) - the expanded group of subsidiaries constitutes the basis of Esmya's launch and long-term promotion.

Created by Group-level restructuring of the marketing network, **Gedeon Richter Marketing Polska Sp.z o.o.** has extended marketing and PR services in Poland to its shareholders, Richter and GR Polska since 1 January 2009.

After transforming its Polish agency into a subsidiary, the parent company decided to make a similar move in 2010 in the Czech Republic and Slovakia, and transformed its agents into **Gedeon Richter Marketing ČR s.r.o.** and **Gedeon Richter Slovakia s.r.o.** respectively. Richter established **Gedeon Richter Slovenija, trženje, d.o.o.**, its subsidiary in Slovenia at the end of 2011. The Czech, the Slovak and the Slovenian subsidiaries have operated networks of representatives and thus provide efficient marketing and PR support to Richter's products. The products promoted by the Czech, Slovak and Slovenian subsidiaries also include some of those resulting from recent acquisitions.

Richter established **Gedeon Richter Rxmidas JV Co. Ltd.** under joint management with 50% participation in China at the end of 2010. In the second half of 2011 the company

established a 100% owned subsidiary **GRmidas Medical Service (China) Co. Ltd.**, which has provided marketing support to Richter's gynaecological portfolio of oral and Plan B contraceptives for over a year with costs exceeding income from sales for the time being,

Active in promotional purchases, storage and distribution, Moscow based **Pharmarichter O.O.O.** proved to be a high-performing company in 2012 in both professional and financial terms.

The core business of **Richter-Helm BioTec GmbH & Co KG** has been project management and business development in the field of microbial biotechnology over the past years, focusing on Group projects as well as external projects. The 2012 performance of the company was in keeping with expectations.

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

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

## 6.2 Wholesale and retail

### *Romania*

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

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

The wholesale segment is represented by **Pharmafarm S. A.** As a result of its clear logistics structure the company significantly improved its turnover while at the same time it managed to contain costs and strengthened its well-balanced customer, inventories and sourcing policy. Cooperation between the parent and Gedeon Richter Romania S.A., Gedeon Richter Farmacia S.A. and Pharmafarm S.A. continued to improve in order to achieve a bigger share in the Romanian market.

The interpretation of the claw-back system for the period from October 2009 until September 2011 is still laden with uncertainties.

At the end of 2012 **Gedeon Richter Farmacia S.A.** Gedeon Richter Farmacia S.A. managed by the holding company had a network of 106 pharmacies with nationwide penetration and steadily increasing performance. Pharmanet, a chain of 14 basically drug store type outlets centred around Cluj and its area is operated by GRFA's subsidiary (Pharmanet S.R.L.).

The new managing director, who joined the company in 2011, introduced a new trading policy in 2012 coupled with more advantageous sourcing policy and a focus on higher-yield products. As a result, the company's gross margin has been boosted.

In 2012 additional impairment was reported on the licenses of outlets held by Gedeon Richter Farmacia S.A.

#### *Ukraine and the CIS*

After the dismantling of the wholesale segment in 2009 Richter's fully owned Ukrainian subsidiary **Gedeon Richter Ukrfarm O.O.O.** focuses exclusively on pharmaceutical retail. Besides implementing successful headcount and cost containment measures to improve efficiency, Richter changed its strategy regarding the retail sector in Ukraine. In 2011 the Company decided to discontinue a retail network of 20 outlets.

In the Moldovan pharma market Gedeon Richter Plc. managed to retain its primacy owing to its balanced performance. Provision of multifaceted services to meet a variety of needs efficiently and at a high standard of quality is ensured by wholesale and retail companies whose excellent cooperation resulted in outstanding market share in the region for several years in succession. It is of particular importance that **Richpangalfarma O.O.O.**, Richter's wholesale company registered in 1996 is a key player in the pharmaceutical wholesale market in the Republic of Moldova. Its balanced operation generates continuously improving performance and profits.

On completion of the investment project the retailer **GR-Retea Farmaceutica S.R.L.** founded in 2007 operated a nationwide network of 39 outlets in 2012. The outlets operating in the capital (10 outlets) and the biggest cities in the country (for instance Balti with 14 outlets) are continuously strengthening their positions; their improving sales revenues strengthen the performance of the entire network.

Richter's wholesale and retail holdings in Armenia have scored major progress and achieved an impressive performance in 2012. The wholesale subsidiary **Richter-Lambron O.O.O.** made a successful appearance in the market of third-party products. As a result, it expanded its network of suppliers and costumers and its figures achieved considerable growth. This greatly contributed to the company's reinforcement of its top position in the market.

The subsidiary **Gedeon Richter Aptyeka Sp O.O.O.** expanded its network to include 14 pharmacies by the end of 2012 and continued to increase sales and earnings; as a result, the company has become a local brand, which fully justified the parent's investment and promotes awareness of Richter as well as the parent company's market share and progress.

The performance of the two wholesale companies operating in *Jamaica* (**Medimpex Jamaica Ltd.** and **Medimpex West Indies Ltd.**) resulted in greatly improving turnover and strong profits. As a result of the wholesalers' activities Richter managed to step up the distribution of its products in the region in 2012.

There was no change in the *domestic* wholesale share: the parent company continues to be a shareholder of the biggest pharmaceutical distributor in Hungary.

The 2012 performance of **Hungaropharma Zrt.** improved compared to the reference year in an extremely difficult pharma trade environment. Richter has a 30.68% direct holding in the company.

The Hungarian retail network of the parent shrank by one outlet as a result of sale of holdings in 2012.

### 6.3 Other consolidated companies

There has been no change in the profiles of the other consolidated companies of Richter Group; they provided continuous support fully in line with expectations and with good performance throughout 2012. Operation of these affiliated undertakings is focused predominantly to Hungary.

Richter's undertakings in this segment with foreign sites continue to be dormant.

## 7. Risk management

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

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

### *Strategic risks*

Risk	Description	Key risk management methods
Healthcare budget	Potential impact on the company of changes and monetary restrictions in the healthcare budget and regulation	<ul style="list-style-type: none"> <li>- Regular analysis of market environment, monitoring changes in the legal and medical subsidy system-Communication with authorities</li> <li>- Cost management adaptation</li> </ul>
Competition and pricing	The impact on the company's market position and results of the increasing generic competition and the decreasing prices in the competitive market	<ul style="list-style-type: none"> <li>- Identifying competitive advantages</li> <li>- Focusing on new proprietary and value added products</li> <li>- Launching new generic products</li> <li>- Regularly performed competitor, industry and effectiveness analysis</li> </ul>
Macroeconomic factors	Risk of changes in macroeconomic factors affecting the company's markets with special regard to the impacts of the financial crisis	<ul style="list-style-type: none"> <li>- Monitoring changes in major macroeconomic factors, incorporating their effects into the planning</li> <li>- Cost management and adaptation of customer relations</li> </ul>

*Operational risks*

Risk	Description	Key risk management methods
Original and biosimilar R&D	Risk relating to the success of original research and biosimilar development	<ul style="list-style-type: none"> <li>- Focusing original research on CNS and gynaecology lines</li> <li>- Determining milestones of original research and biosimilar development</li> <li>- Assessment of programs and decision-making within the Research Council</li> </ul>
Specialized marketing network in Western Europe	Risks related to the development of specialized Western European sales and marketing support of gynaecological products	<ul style="list-style-type: none"> <li>- Company-level projects for the acquired gynaecological portfolio and the coordination of the launch of Esmya</li> <li>- Setting up a new organizational unit for the management of gynaecological promotion</li> </ul>
Qualified workforce	Risk relating to retention of employees in key positions and ensuring qualified workforce	<ul style="list-style-type: none"> <li>- Periodic revision of HR strategy</li> <li>- Training plans, career and succession programs</li> <li>- Incentive and performance assessment system</li> </ul>

*Compliance risks*

Risk	Description	Key risk management methods
Health Authority Regulations, Quality Requirements, Quality Assurance	Risk of non-compliance with relevant regulations relating health and quality	<ul style="list-style-type: none"> <li>- Implementing Quality systems and Standard Operational Processes (SOP)-Monitoring the compliance with health authority regulations</li> </ul>
Intellectual Property, Patents and Litigations	Risk relating to patents and patent rights	<ul style="list-style-type: none"> <li>- Continuous assessment and monitoring of intellectual property and patents</li> <li>- Enforcement of intellectual property rights</li> <li>- Conclusion of risk mitigation agreements</li> </ul>
Contracts and Liabilities	Risk relating to managing contractual liabilities and enforcing contractual terms	<ul style="list-style-type: none"> <li>- Centralised contracting processes</li> <li>- Special treatment of unique contracts</li> </ul>

*Financial risks*

Risk	Description	Key risk management methods
Credit and collections	Risk relating to cash and receivables collection procedures	<ul style="list-style-type: none"> <li>- Customer rating</li> <li>- Establishing payment terms and credit limits</li> <li>-Regular review of receivables</li> <li>- Insurance of CIS customers' credits with MEHIB</li> </ul>
Foreign exchange Rate	Unfavourable changes in the exchange rate of the company's key foreign currencies	<ul style="list-style-type: none"> <li>- Calculating annual open FX positions and monitoring key FX rates</li> <li>- Natural hedging through FX loans</li> </ul>
Capital structure, cash management and financial investment	Risk relating to the effective management of the Company's cash needs and cash funds	<ul style="list-style-type: none"> <li>- Developing and monitoring cash-flow plans</li> <li>- Group level principles for allocating free cash and cash equivalents</li> <li>- Financial Investment Rules to manage investment risk</li> </ul>

8. Post-balance sheet date events

In January 2013 Richter drew the third EUR 50 million tranche of the EUR 150 million loan extended by the European Investment Bank.

In January 2013 the U.S. Food and Drug Administration announced the acceptance of the NDA of cariprazine for the treatment of acute manic episodes associated with bipolar I disorder and schizophrenia indications.

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

## 9. Future outlook

Retaining the Company's position in the Hungarian market despite an increasingly difficult environment whose problems fall hard on the entire pharmaceutical industry, stepping up exports to European Union and CIS markets, retaining and strengthening positions acquired in the United States continue to feature among Richter's strategic goals. The main tool to achieve these goals in the context of Hungary, the CIS and the CEE countries is to strengthen Richter's sales networks. In Western Europe and the United States the strategy is implemented through long-term agreements concluded with strategic partners.

The success of original research and development, the value added of the product portfolio bought in 2010 and the Swiss acquisition, together with the support of the newly established Western European marketing network are crucial for the Company's future and for strengthening its market positions, as are the development of biosimilar products and the major investment enabling their manufacturing.

The Company's ongoing objective is to achieve faster growth in its special niche of oral contraceptives and steroid-based gynaecological products than total sales growth resulting in a greater contribution to annual turnover. As of 2012 the line was completed with Richter's proprietary product Esmya.

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



## INDEPENDENT AUDITOR'S REPORT

**To the shareholders of Gedeon Richter Plc.**

### **Report on the financial statements**

We have audited the accompanying financial statements of Gedeon Richter Plc. ("the Company") which comprise the balance sheet as of 31 December 2012 (in which the balance sheet total is MHUF 654 953, the profit per balance sheet is MHUF 31 637, the related profit and loss account for the year then ended, and the notes to the financial statements including a summary of the significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Gedeon Richter Plc. as of 31 December 2012, and of the results of its operations for the year then ended in accordance with the provisions of the Accounting Act.



### **Other reporting requirements regarding the business report**

We have examined the accompanying business report of Gedeon Richter Plc. ("the Company") for the financial year of 2012.

Management is responsible for the preparation and fair presentation of the business report in accordance with the provision of the Accounting Act. Our responsibility is to assess whether or not the accounting information disclosed in the business report is consistent with that contained in the financial statements. Our work in respect of the business report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. In our opinion the 2012 business report is consistent with the disclosures in the financial statements as of 31 December 2012.

Budapest, 25 April 2013

A handwritten signature in black ink, appearing to read 'Barsi Éva', is written above the printed name.

Barsi Éva  
Partner  
Statutory auditor  
Licence number: 002945  
PricewaterhouseCoopers Auditing Ltd.  
Licence Number: 001464  
1077 Budapest, Wesselényi u. 16.

#### *Translation note:*

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



GEDEON RICHTER

*Established in 1901*

## DECLARATION

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

**d e c l a r e**

that the 2012 annual financial statement, which have been prepared to the best of our knowledge and in accordance with the applicable set of accounting standards and approved by the General Meeting of the Company, gives true and fair view of the assets, liabilities, financial position and profit and loss of the Company, and that the management report includes a fair review of the development and performance of the business and position of the Company, together with the description of the principal risks and uncertainties.

Date: Budapest, 26<sup>th</sup> April, 2013

Erik Bogsch  
Managing Director

Chemical Works of Gedeon Richter Plc.