GEDEON RICHTER PLC.

IFRS CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2012

GEDEON RICHTER PLC.
Consolidated Financial Statements and
Independent Auditors' Report
For the year ended 31 December 2012

Erik Bogsch
Managing Director

22 March, 2013.

Gedeon Richter Plc.

CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Income Statement
for the year ended 31 December 2012

	Notes	2012 HUF m	2011 HUF m Restated*
Total revenues	5	**326,702**	**307,868**
Cost of sales		(124,999)	(114,529)
Gross profit		**201,703**	**193,339**
Sales and marketing expenses		(92,794)	(79,120)
Administration and general expenses		(20,179)	(24,407)
Research and development expenses		(38,847)	(28,713)
Other income and other expenses (net)		(1,162)	(172)
Profit from operations	5	**48,721**	**60,927**
Finance income		24,050	28,853
Finance costs		(23,192)	(35,875)
Net financial income/(loss)	7	**858**	**(7,022)**
Share of profit/(loss) of associates	15	342	(4,234)
Profit before income tax		**49,921**	**49,671**
Income tax	8	(841)	(218)
Profit for the year		**49,080**	**49,453**
Profit attributable to			
Owners of the parent		49,265	49,281
Non-controlling interest		(185)	172
Earnings per share (HUF)	9		
Basic		2,660	2,649
Diluted		2,643	2,644

* Restatement in connection with intangible assets (ESMYA), (Note 41).

The notes on pages 10 to 70 form an integral part of the consolidated financial statements

22 March, 2013.

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Managing Director

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012

	Notes	2012 HUF m	2011 HUF m Restated*
Profit for the year		**49,080**	**49,453**
Exchange differences arising on translation of foreign operations		(12,874)	21,263
Revaluation reserve for available for sale investments	25	2,495	(3,388)
Other comprehensive income for the year		**(10,379)**	**17,875**
Total comprehensive income for the year		**38,701**	**67,328**
Attributable to:			
Owners of the parent		39,251	66,905
Non-controlling interest		(550)	423

* Restatement in connection with intangible assets (ESMYA), (Note 41).

The notes on pages 10 to 70 form an integral part of the consolidated financial statements

22 March, 2013.

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Managing Director

Consolidated Balance Sheet
at 31 December 2012

	Notes	2012 HUF m	31 December 2011 HUF m Restated*	1 January 2011 HUF m Restated*
ASSETS				
Non-current assets				
Property, plant and equipment	11	158,508	155,630	144,674
Investment property	12	1,090	1,379	1,006
Goodwill	19	31,602	33,743	29,983
Other intangible assets	11	149,308	158,748	149,606
Investments in associates	15	2,115	1,754	6,093
Other financial assets	16	25,426	14,338	18,278
Deferred tax assets	17	3,342	3,605	1,624
Loans receivable	18	5,051	4,072	2,693
		376,442	**373,269**	**353,957**
Current assets				
Inventories	20	64,149	63,437	51,657
Trade receivables	21	102,476	103,487	85,602
Other current assets	22	16,582	10,873	10,485
Investments in securities	23	9,966	11,752	20,285
Current tax asset	17	1,117	501	164
Cash and cash equivalents	24	101,505	118,651	75,600
		295,795	**308,701**	**243,793**
Total assets		**672,237**	**681,970**	**597,750**

* Restatement in connection with intangible assets (ESMYA), (Note 41).

The notes on pages 10 to 70 form an integral part of the consolidated financial statements

22 March, 2013.

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Managing Director

Consolidated Balance Sheet
at 31 December 2012 - continued

	Notes	2012 HUF m	31 December 2011 HUF m Restated*	1 January 2011 HUF m Restated*
EQUITY AND LIABILITIES				
Capital and reserves				
Equity attributable to owners of the parent				
Share capital	25	18,638	18,638	18,638
Treasury shares	26	(1,716)	(4,513)	(539)
Share premium		15,214	15,214	15,214
Capital reserves		3,475	3,475	3,475
Foreign currency translation reserves	25	9,189	21,698	686
Revaluation reserve for available for sale investments	25	2,463	(32)	3,356
Retained earnings		469,498	431,513	398,154
		516,761	**485,993**	**438,984**
Non-controlling interest		3,313	3,863	3,131
		520,074	**489,856**	**442,115**
Non-current liabilities				
Borrowings	30	73,163	62,226	41,694
Deferred tax liability	17	9,634	14,154	14,153
Other non-current liability	31	11,568	9,708	37,730
		94,365	**86,088**	**93,577**
Current liabilities				
Borrowings	30	148	164	21
Trade payables	27	40,033	41,016	32,370
Current tax liabilities	17	123	34	192
Other payables and accruals	28	15,015	62,289	27,298
Provisions	29	2,479	2,523	2,177
		57,798	**106,026**	**62,058**
Total equity and liabilities		**672,237**	**681,970**	**597,750**

* Restatement in connection with intangible assets (ESMYA), (Note 41).

The notes on pages 10 to 70 form an integral part of the consolidated financial statements

22 March, 2013.

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Managing Director

all amounts in HUF m

Consolidated Statement of Changes in Equity
for the year ended 31 December 2011

	Notes	Share capital	Share premium	Capital reserves	Treasury shares	Revaluation reserve for available for sale investments	Foreign currency translation reserves	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
		HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m
Balance at 1 January 2011		18,638	15,214	3,475	(539)	3,356	686	398,154	438,984	3,131	442,115
Net profit		-	-	-	-	-	-	49,380	49,380	172	49,552
Exchange differences arising on translation of foreign operations		-	-	-	-	-	21,025	-	21,025	251	21,276
Revaluation reserve for available for sale investments		-	-	-	-	(3,388)	-	-	(3,388)	-	(3,388)
Comprehensive income at 31 December 2011		-	-	-	-	(3,388)	21,025	49,380	67,017	423	67,440
Impact of restatement*	41	-	-	-	-	-	(13)	(99)	(112)	-	(112)
Comprehensive income at 31 December 2011 (as restated)		-	-	-	-	(3,388)	21,012	49,281	66,905	423	67,328
Net treasury shares transferred to employees	26	-	-	-	(3,974)	-	-	-	(3,974)	-	(3,974)
Ordinary share dividend for 2010	32	-	-	-	-	-	-	(16,009)	(16,009)	-	(16,009)
Recognition of share-based payments	25	-	-	-	-	-	-	87	87	-	87
Non-controlling interest on new acquisition	37.1	-	-	-	-	-	-	-	-	309	309
Balance at 31 December 2011 (as restated)		18,638	15,214	3,475	(4,513)	(32)	21,698	431,513	485,993	3,863	489,856

* Restatement in connection with intangible assets (ESMYA), (Note 41). This adjustment has no impact on years prior to 2011 in relation to Consolidated Statement of Changes in Equity

The notes on pages 10 to 70 form an integral part of the consolidated financial statements

all amounts in HUF m

Consolidated Statement of Changes in Equity
for the year ended 31 December 2012

	Notes	Share capital	Share premium	Capital reserves	Treasury shares	Revaluation reserve for available for sale investments	Foreign currency translation reserves	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
		HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m
Balance at 1 January 2012 (as restated)		18,638	15,214	3,475	(4,513)	(32)	21,698	431,513	485,993	3,863	489,856
Net profit		-	-	-	-	-	-	49,265	49,265	(185)	49,080
Exchange differences arising on translation of foreign operations		-	-	-	-	-	(12,509)	-	(12,509)	(365)	(12,874)
Revaluation reserve for available for sale investments		-	-	-	-	2,495	-	-	2,495	-	2,495
Comprehensive income at 31 December 2012		-	-	-	-	2,495	(12,509)	49,265	39,251	(550)	38,701
Net treasury shares transferred to employees	26	-	-	-	2,797	-	-	-	2,797	-	2,797
Ordinary share dividend for 2011	32	-	-	-	-	-	-	(12,211)	(12,211)	-	(12,211)
Recognition of share-based payments	25	-	-	-	-	-	-	931	931	-	931
Balance at 31 December 2012		18,638	15,214	3,475	(1,716)	2,463	9,189	469,498	516,761	3,313	520,074

The notes on pages 10 to 70 form an integral part of the consolidated financial statements

Consolidated Cash Flow Statement

for the year ended 31 December 2012

	Note	2012 HUF m	2011 HUF m Restated*
Operating activities			
Net income attributable to owners of parent company		49,265	49,281
Depreciation and amortisation	5	26,883	24,459
Non cash items accounted through Total Comprehensive Income	15, 31	3,781	20,389
Year end foreign exchange translation difference of borrowing	7	(4,191)	5,504
Net interest and dividend income	7	(3,155)	(2,208)
Income tax recognised through Consolidated Income Statement		841	218
Changes in provision for defined benefit plans	29	97	13
Loss on disposal of property, plant and equipment and intangible assets		1,251	899
Impairment loss recognised on intangible assets		375	198
Impairment losses on investments		-	4,558
Movements in working capital			
Increase in trade and other receivables		(4,698)	(17,561)
Increase in inventories		(712)	(10,271)
(Decrease)/increase in payables and other liabilities		(6,118)	12,326
Interest paid		(1,805)	(1,266)
Income tax paid	17	(4,812)	(3,566)
Net cash flow from operating activities		**57,002**	**82,973**
Cash flow from investing activities			
Payments for property, plant and equipment**		(23,803)	(26,617)
Payments for intangible assets**		(5,874)	(5,668)
Proceeds from disposal of property, plant and equipment		531	494
Payments to acquire financial assets		(7,167)	(3,535)
Proceeds on sale of financial assets		25	8,321
Payments of loans		(979)	(1,376)
Interest and similar income	7	4,652	3,415
Dividend income		308	59
Net cash outflow on acquisition of subsidiaries	28	(42,328)	(14,555)
Net cash flow from investing activities		**(74,635)**	**(39,462)**
Cash flow from financing activities			
Proceeds from disposal of/ (purchase of) / treasury shares	26	2,797	(3,974)
Dividends paid		(12,206)	(15,994)
Other payments of financing activities		-	(371)
Proceeds from borrowings		15,129	15,088
Net cash flow to/from financing activities		**5,720**	**(5,251)**
Net (decrease)/increase in cash and cash equivalents		**(11,913)**	**38,260**
Cash and cash equivalents at beginning of year		**118,651**	**75,600**
Effect of foreign exchange rate changes on the balances held in foreign currencies		(5,233)	4,791
Cash and cash equivalents at end of year		**101,505**	**118,651**

* Restatement in connection with intangible assets (ESMYA), (Note 41).

** The Payments for property plant and equipment and the Payments for intangible assets can not be directly reconciled to the Note 11 Transfers and capital expenditure row, because the later one contains also non-cash addition of the assets, including transfers.

The notes on pages 10 to 70 form an integral part of the consolidated financial statements

Notes to the Consolidated Financial Statements

1. General background

I) Legal status and nature of operations
Gedeon Richter Plc. ("the Company"), the immediate parent of the Group, a manufacturer of pharmaceutical products based in Budapest, was established first as a Public Limited Company in 1923. The predecessor of the Parent Company was founded in 1901 by Mr Gedeon Richter, when he acquired a pharmacy. The Company is a public limited company, which is listed on Budapest Stock Exchange. The Company is headquartered in Hungary and its registered office is at Gyömrői út 19-21, 1103 Budapest.

II) Basis of preparation
The consolidated financial statements of Richter Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). All standards and interpretations issued by the International Accounting Standards Board (IASB) effective at the time of preparing the consolidated financial statements and applicable to Richter Group have been endorsed by the EU. Therefore the consolidated financial statements currently also comply with IFRS as issued by the IASB and also comply with the Hungarian Accounting Law on consolidated financial statements, which refers to the IFRS as endorsed by the EU.

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

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

These financial statements present the consolidated financial position of the Group, the result of its activity and cash flows, as well as the changes in shareholder's equity. The Group's consolidated companies are shown in Notes 13, 14.

III) Adoption of new and revised Standards

A) Standards, amendments and interpretations effective in 2012 but not relevant for the Group

- IFRS 7 (amended). The IASB published an amendment to IFRS 7 – Amendments to IFRS 7 Financial Instruments: Disclosures in October 2010. The amendment requires quantitative and qualitative disclosures regarding transfers of financial assets that do not result in entire derecognition or that result in continuing involvement. This is intended to allow users of financial statements to improve their understanding of such transactions (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of such transactions are undertaken around the end of a reporting period. The Group adopted the amended standard as of 1 January, 2012. The amended standard did not have any impact on the disclosures in the Group's financial statements.

- IAS 12 (amended). In December 2010, the IASB issued the pronouncement "Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12". The new pronouncement "Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12" sets presumptions for the recovery (e.g. use or sale) of certain assets. This is relevant in cases where the type of recovery has different tax consequences. The pronouncement sets the rebuttable presumption that the carrying amount of investment property that is measured using the fair value model in IAS 40 will be recovered through sale. Moreover, the carrying amount of a non-depreciable asset measured using the revaluation model in IAS 16 is always deemed to be recovered through sale. The amendment superseded SIC 21. As the Group has investment properties only in Hungary, where the income tax treatment of these assets does not depend on whether the asset value has been recovered through use or sale and the group does not have non-depreciable asset measured using the revaluation model in IAS 16, the amendment of the standard did not have any impact on the Group's financial statements.

B) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group

- IAS 1 (amended). The IASB published amendments to IAS 1 Presentation of Financial Statements in June 2011. The amendments to IAS 1 retain the 'one or two statement' approach at the option of the entity and only revise the way other comprehensive income is presented: requiring separate subtotals for those elements which may be reclassified to the profit or loss section of the income statement (recycled) and those elements that will not. The application of the amendment is required for annual periods beginning on or after July 1, 2012. We do not expect that the adoption of the amended standard would result in significant changes in the financial statements of the Group. The European Union has endorsed the amendments of the standard.

- IAS 19 (amended). The IASB published amendments to IAS 19 – Employee Benefits in June 2011. The amendments focus on the following key areas:

  - Recognition (only defined benefit plans) – elimination of the "corridor approach"
  - Presentation (only defined benefit plans) – gains and losses that arises from remeasurements should be presented (only) in other comprehensive income (elimination of the remaining options)
  - Disclosures – enhancing of disclosure requirements, e.g.
    - the characteristics of a company's defined benefit plans,
    - amounts recognized in the financial statements,
    - risks arising from defined benefit plans and
    - participation in multi-employer plans
  - Improved / clarified guidance relating to several areas of the standard, e.g.
    - classification of benefits,
    - recognition of termination benefits and
    - interest rate relating to the expected return on the plan assets.

  The application of the amendment is required for annual periods beginning on or after 1 January, 2013. The group is currently recognizing the gains and losses that arises from remeasurements in the consolidated income statement. Since this amount is not significant, we do not expect that the adoption of the amended standard would result in significant changes in the financial statements of the Group. The European Union has endorsed the amendments of the standard.

- IAS 32 (amended). The IASB published amendments to IAS 32 – Financial Instruments: Presentation in December 2011. The amendments to IAS 32 clarify the IASB's requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32. The pronouncement clarifies:

  - the meaning of "currently has a legally enforceable right of set off the recognized amounts"; and
  - that some gross settlement systems may be considered equivalent to net settlement.

  The application of the amendment is required for annual periods beginning on or after 1 January, 2014. A reporting entity must apply the amended standard retrospectively. We do not expect that the adoption of the amended standard would result in significant changes in the financial statements of the Group. The European Union has endorsed the amendment of the standard.

- IFRS 7 (amended). The IASB published amendments to IFRS 7 – Amendments to IFRS 7 Financial Instruments: Disclosures in December 2011. The IASB and the Financial Accounting Standards Board (FASB) issued common disclosure requirements that are intended to help assessing better the effect or potential effect of offsetting arrangements on a company's financial position. The common disclosure requirements also improve transparency in the reporting of how companies mitigate credit risk, including disclosure of collateral pledged or received. The application of the amendment is required for annual periods beginning on or after 1 January, 2013. A reporting entity must apply the amended standard retrospectively. We do not expect that the adoption of the amended standard would result in significant changes in the financial statements disclosures of the Group. The European Union has not yet endorsed the amended standard.

- IFRS 9 Financial Instruments - The standard forms the first part of a three-phase project to replace IAS 39 (Financial Instruments: Recognition and Measurement) with a new standard, to be known as IFRS 9 – Financial Instruments. IFRS 9 prescribes the classification and measurement of financial assets and liabilities. The remaining phases of this project, dealing with the impairment of financial instruments and hedge accounting, as well as a further project regarding derecognition,are in progress.

  Financial assets – At initial recognition, IFRS 9 requires financial assets to be measured at fair value. After initial recognition, financial assets continue to be measured in accordance with their classification under IFRS 9. Where a financial asset is classified and measured at amortized cost, it is required to be tested for impairment in accordance with the impairment requirements in IAS 39. IFRS 9 defines the below rules for classification.

  - IFRS 9 requires that financial assets are classified as subsequently measured at either amortized cost or fair value. There are two conditions needed to be satisfied to classify financial assets at amortized cost: (1) The objective of an entity's business model for managing financial assets has to be to hold assets in order to collect contractual cash flows; and (2) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Where either of these conditions is not satisfied, financial assets are classified at fair value.
  - Fair Value Option: IFRS 9 permits an entity to designate an instrument, that would otherwise have been classified in the amortized cost category, to be at fair value through profit or loss if that designation eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch').
  - Equity instruments: The default category for equity instruments is at fair value through profit or loss. However, the standard states that an entity can make an irrevocable election at initial recognition to present all fair value changes for equity investments not held for trading in other comprehensive income. These fair value gains or losses are not reported as part of a reporting entity's profit or loss, even when a gain or loss is realized. Only dividends received from these investments are reported in profit or loss.
  - Embedded derivatives: The requirements in IAS 39 for embedded derivatives have been changed by no longer requiring that embedded derivatives be separated from financial asset host contracts.
  - Reclassification: IFRS 9 requires reclassification between fair value and amortized cost when, and only when there is a change in the entity's business model. The 'tainting rules' in IAS 39 have been eliminated.

  Financial liabilities – IFRS 9 "Financial Instruments" sets the requirements on the accounting for financial liabilities and replaces the respective rules in IAS 39 "Financial Instruments: Recognition and Measurement". The new pronouncement

  - Carries forward the IAS 39 rules for the recognition and derecognition unchanged.
  - Carries forward most of the requirements in IAS 39 for classification and measurement.
  - Eliminates the exception from fair value measurement for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument.
  - Changes the requirements related to the fair value option for financial liabilities to address own credit risk.

  The IASB issued amendments to IFRS 9 in December 2011 and deferred the mandatory effective date of IFRS 9 from 1 January, 2013 to 1 January, 2015. The deferral will make it possible for all phases of the IFRS 9 project to have the same mandatory effective date. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. The adoption of the new standard will likely result in changes in the financial statements of the Group, the exact extent of which we are currently analyzing. The European Union has not yet endorsed either the standard or its amendment.

- IFRS 10, IFRS 11, IFRS 12, IAS 27 (amended) and IAS28 (amended) – The IASB published IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements, IFRS 12 – Disclosures of Interests in Other Entities and amendments to IAS 27 – Separate Financial Statements and IAS 28 – Investments in Associates and Joint Ventures in May 2011.

  IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has

  - power over the investee;
  - exposure, or rights, to variable returns from its involvement with the investee; and
  - the ability to use its power over the investee to affect the amount of the returns.

  IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 – Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement, whereby the parties that have joint control have rights to the net assets.

  IFRS 12 will require enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities.

  The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27 – Separate Financial Statements. The other portions of IAS 27 are replaced by IFRS 10.

  IAS 28 – Investments in Associates and Joint Ventures is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

  The IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 in June 2012. The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements and provide additional transition relief in IFRS 10, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments remove the requirement to present comparative information for periods before IFRS 12 is first applied.

  An entity shall apply this package of five new and revised standards for annual periods beginning on or after 1 January, 2014. The Group has joint arrangements, based on their significance, we do not expect that the adoption would result in significant changes in the financial statements of the Group, the exact extent of which we are currently analyzing. The European Union has endorsed the new standards.

- IFRS 13 The IASB published IFRS 13 – Fair Value Measurement in May 2011in order to replace the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. IFRS 13 seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorizes the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure fair value are categorized into different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement (based on the application of judgment). The new standard should be applied for annual periods beginning on or after 1 January, 2013. Earlier application is permitted. We do not expect that the adoption of the new standard would result in significant changes in the financial statements of the Group, the exact extent of which we are currently analyzing. The European Union has endorsed the new standard from 1 January 2014.

C) Standards, amendments and interpretations that are not yet effective and not relevant for the Group's operations

- IFRS 1 In 2012, the IASB published amendments to IFRS 1. As the group has already adopted IFRS, the amendments will not have any impact on the Group's financial statements.

- IFRS 10, IFRS 12, IAS 27 (amended) – The IASB published "Investment Entities" (Amendments to IFRS 10, IFRS 12 and IAS 27) in October 2012. The amendments apply to a particular class of business that qualify as investment entities. As the Group does not have investment entities, the amended standards will not have any impact on the Group's financial statements. The European Union has not yet endorsed the amended standards.

- IFRIC 20 In October 2011, the IASB published IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine. As the Group does not have mining activity, the interpretation will not have any impact on the Group's financial statements.

D) Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013).

The improvements consist of changes to five standards.

- IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23, Borrowing costs, retrospectively by first-time adopters.

- IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements.

- IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory.

- IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12.

- IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements.

The European Union has not yet endorsed these improvements.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

I) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company and entities directly or indirectly controlled by the Parent Company (its subsidiaries), the jointly controlled entities (joint ventures) and those companies where the Parent Company has significant influence (associated companies). Control of an entity is achieved where the Parent Company has the power to govern financial and operating policies so as to obtain benefits from its activities.

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

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

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

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

II) Investments in joint ventures and associated companies

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

Joint venture arrangements involving the establishment of a separate entity with controlling powers for each shareholder are referred to as jointly controlled entities. The Group reports its participation in jointly controlled entities using proportionate consolidation – the Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

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

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

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

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

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

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

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

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

A) Sales of goods
The Group manufactures and sells wide range of pharmaceuticals in the wholesale and retail market.

The Richter Group operates a chain of pharmacies - mainly located in Romania – and several distribution companies to convey products to consumers. Most of their turnover is generated by products other than those manufactured by the Group.

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

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

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

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

C) Profit sharing
Sales revenue includes also Profit sharing income, paid by the partners according to agreed terms. These partners are providing information on regular basis to the group on their turnover and assess the Group's share of the profit of these transactions. Revenue from profit sharing agreements are accounted in the accounting period when the underlying sales is performed.

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

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

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

V) Property, plant and equipment

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

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

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

Name	Depreciation
Land	0
Buildings	1-4.5%
Plant and equipments	5-33.33%
Vehicles	10-20%
Office equipments	8-33.33%

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

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

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

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

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

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

VI) Goodwill

Goodwill arising on consolidation represents the excess of the cost of combination over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, or jointly controlled entity at the date of acquisition. Goodwill is recognised separately in the Consolidated Balance Sheet and is not amortised but is reviewed for impairment annually in line with IAS 36. In each reporting period the Parent Company reviews its goodwill for possible impairment. For impairment testing goodwill is allocated to Group's individual or group of cash generating units. The recoverable amount of the cash generating unit is the higher of fair value less cost to sell or its value in use, which is determined by Discounted Cash Flow method.

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

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

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

VII) Intangible assets

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

Name	Amortization
Property rights (connected with properties)	5%
Other rights (licences)	20-50%
Intellectual property, software	20-50%

Individually significant intangible assets are presented in Note 11.

Amortization is recognised as cost of sales in the Consolidated Income Statement.

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

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

In the Annual Report the term of ESMYA® is used for indication of the brand name of the product containing ulipristal acetate on Gyneacology therapeutic area in uterine myoma indication, while the terminology of ESMYA refers to the intangible asset acquired by Richter and presented in the consolidated Balance Sheet.

VIII) Investment property

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

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

IX) Impairment of tangible and intangible assets excluding goodwill

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

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

X) Research and development

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

To-date, no R&D costs have met these recognition criteria. Accordingly, all of the Company's R&D costs to-date have been expensed when incurred.

XI) Financial assets

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

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

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

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

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

~~D) Financial assets constituting loans receivables are presented separately in XIV) Loans receivable, while Trade receivables are described in XVI) Trade receivables.~~

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

For assets classified as available for sale the group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the group uses the criteria described above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. This impairment accounted in Consolidated Income Statement as Financial costs. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

XII) Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

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

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

XIII) Other financial assets

Investments comprise long term bonds and unconsolidated investments in other companies. These investments are 'held-to-maturity' investments and 'available-for-sale' financial assets as described in Note 16.
Unconsolidated investments are those investments where the Parent Company does not hold controlling powers, joint control or does not have an ability to exercise significant influence.

XIV) Loans receivable

Loans receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans receivables include given loans measured at amortised cost. It also contains interest free loans given to employees with maximum of 8 years maturity presented at discounted value as of the balance sheet date.

XV) Inventories

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

XVI) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

XVII) Trade payables

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

XVIII) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised as they arise in the income statement. The derivative transactions of the Group do not qualify to be hedging transactions therefore no hedge accounting is applied.

XIX) Cash and cash equivalents

In the consolidated statement of cash flows Cash and cash equivalents comprise: cash in hand, bank deposits, and investments in money market instruments with a maturity date within three months accounted from the date of acquisition, net of bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities. The Group does not have any bank overdraft as of the year end of 2012 and 2011.

XX) Borrowings

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

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

XXI) Provisions

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

<u>Provision for Environmental Expenditures</u>

The Group is exposed to environmental liabilities relating to its past operations and purchases of property, mainly in respect of soil and groundwater remediation costs. Provisions for these costs are made when the Group has constructive or legal obligation to perform these remedial works and when expenditure on such remedial work is probable and its costs can be estimated within a reasonable range. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The Group does not have legal or constructive obligation in relation to environmental expenditures as of 31 December 2012 and as of 31 December 2011.

<u>Provision for Retirement Benefits</u>

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

XXII) Income taxes

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

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

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

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

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

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

XXIII) Segment information

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

XXIV) Borrowing costs

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

XXV) Leasing

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

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

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term (Note 34). Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

XXVI) Employee benefits

Pension obligations

The Group operates long term defined employee benefit program, which is presented as Provision in the Consolidated Balance Sheet. In line with IAS 19, for defined retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period.

The estimated amount of the benefit is accounted in equal amounts each period until maturity date (straight line method), and valued at present value by using actuarial discount rate.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged to the Consolidated Income Statement in the period in which they arise.

Defined contribution plans

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

Termination benefit

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination, that is the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal.

XXVII) Share based payment

The Group is granting treasury shares to certain employees in its employee share bonus programs. Details of these bonus programs are set out in Note 26. These bonus programs are accounted for as equity-settled share-based payments.

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis (adjusted with the change in estimate) over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the entity revises its estimates of the number of shares granted that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

XXVIII) Government grants

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

The Group benefits from other government assistance, that are not treated as government grants in line with IAS 20. 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. Those companies whose R&D reaches or exceeds 15 %-20 %-25 % of the reimbursement based on manufacturer price levels during the previous year are entitled to a 20 %-60 %-90 % extraordinary tax deduction. An additional criterion for this allowance is a minimum level of personnel related expenditure established at 3 % for staff involved in R&D Details of the system were adopted by Parliament in the form of an act, which entered into effect on 28 December 2012.

XXIX) Share Capital

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

XXX) Dividend distribution

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

XXXI) Comparative financial information

Different levels of corporate taxation applied at the valuation of intangible asset ESMYA and at the calculation of relevant deferred tax effectuated at the first inclusion of PregLem in the consolidated accounts of the Group have been reassessed and unificated. As a result related figures for the years 2010 and 2011 were restated. Please see more detailed in Note 41.

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

3.1 Key sources of estimation uncertainty

<u>Impairment of goodwill</u>

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in point VI). The impairment assessment performed by the Group contains significant estimates that depend on future events. The assumptions used and the sensitivity of the estimation is presented in details in Note 19.

<u>Allowance for bad and doubtful accounts receivable</u>

The Group calculates an allowance for bad and doubtful accounts receivable to cover the incurred losses resulting from the inability of its customers to make required payments according to original contractual terms. Allowance for bad and doubtful accounts receivable recognized in the Consolidated Balance Sheet amounted to HUF 1,192 million and HUF 2,499 million at 31 December 2012 and 2011, respectively. The estimates used in evaluating the adequacy of the allowance for bad and doubtful accounts receivable are based on the aging of the accounts receivable balances, customer credit-worthiness and changes in customer payment pattern.

Depreciation

Property, plant and equipment and intangible assets are recorded at cost and are depreciated or amortised on a straight-line basis over their estimated useful lives. The estimation of the useful lives of assets is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use.

However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

The appropriateness of the estimated useful lives is reviewed annually. If the estimated useful lives would decrease by 10% in compare to management's estimates, depreciation for the year ended 31 December 2012 would be greater by HUF 2,688 million (2011: increase by HUF 2,446 million).

The Group recorded depreciation and amortisation expense in the amount of HUF 26,883 million and HUF 24,459 million for the years ended 31 December 2012 and 2011, respectively.

Uncertain tax position in Romania

From 1 October 2009 the Government approved a debated claw back regime (aimed at financing the overspending of the national pharmaceutical budget) to be paid to the CNAS (Casa Nationala de Asigurari Sanatate) by the domestic manufacturers and wholesalers in the range of 5-12 % from sales of reimbursed drugs. The related uncertain tax position is disclosed in more details in Note 38.

From 1 October 2011, a new version of Romania's pharmaceutical claw back mechanism came into force levying direct liabilities for the domestic and foreign manufacturers, which does not constitutes to be an uncertain tax position, the related expenses has been disclosed in Note 5.

PregLem deferred purchase price payments

As announced at 6 October 2010, Gedeon Richter Plc. acquired a 100% ownership in PregLem. A purchase price up to CHF 445 million is payable, provided that certain milestone are achieved. The amount of deferred purchase price due to previous owners of PregLem is presented in our accounts at probability weighted discounted value reflecting the likelihood of future payment and it is remeasured in every period. The effect of change in the probability of the payment in respect of the outstanding price in comparison with previous year is presented as Other expense in Note 5. The effect of unwinding of discounted value is described in Note 7 (as financial expense), while the related liability as of 31 December 2012 as other non-current liabilities (Note 31). The maximum amount of exposure of the Group relating to the deferred purchase price amounts to be CHF 60 million as of 31 December 31 2012 is disclosed.

3.2 Critical judgements in applying entities accounting policies

Investment tax credit

The Parent Company has been eligible to tax credit as a result of the investment performed by the Company. The criteria that are needed to be fulfilled in order to qualify for this tax credit is described in Note 8. The Group assesses that the amount of investment is the only substantial criteria in relation to the tax credit because the operation of the assets purchased requires clearly more human resource than prescribed by the relevant regulation. The Group assessed this relief to be an investment tax credit. Based on the accounting policy of the Group, investment tax credit is treated as increase of the related asset's tax base. Since the asset was not acquired in a business combination and neither accounting profit nor taxable profit is affected on the related asset's initial recognition, the deductible temporary difference that arises will be exempt due to the initial recognition exception in paragraph 24 of IAS 12 and therefore no deferred tax asset is recognised.

4. Segment Information

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

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

I) Business segments

	Pharmaceuticals HUF m		**Wholesale and retail** HUF m		**Other** HUF m		**Eliminations** HUF m		**Total** HUF m	
	2012	**2011** Restated*	**2012**	**2011** Restated*	**2012**	**2011** Restated*	**2012**	**2011** Restated*	**2012**	**2011**
3rd party revenues	279,460	266,591	46,162	40,374	1,080	903	-	-	326,702	307,868
Inter segment revenues	7,019	5,101	4	4	2,808	2,810	(9,831)	(7,915)	-	-
Total revenues	**286,479**	**271,692**	**46,166**	**40,378**	**3,888**	**3,713**	**(9,831)**	**(7,915)**	**326,702**	**307,868**
Profit from operations	50,426	63,160	(1,334)	(2,300)	(116)	275	(255)	(208)	48,721	60,927
Total assets**	731,128	732,828	44,034	49,854	5,188	9,497	(108,113)	(110,209)	672,237	681,970
Liabilities**	132,531	171,217	44,066	49,639	778	2,595	(25,212)	(31,337)	152,163	192,114
Capital expenditure	28,734	31,388	555	537	388	366	-	(6)	29,677	32,285
Depreciation	26,006	23,526	679	735	198	198	-	-	26,883	24,459
Share of profit of associates	-	-	342	(4,234)	-	-	-	-	342	(4,234)
Investments in associates	-	-	2,115	1,754	-	-	-	-	2,115	1,754

* Base period figures restated to reflect the segment reclassification of certain member companies of the Group.
**Restatement in the Pharmaceuticals segment in connection with intangible assets (ESMYA), (Note 41).

II) Entity wide disclosures

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

1. Hungary
2. CIS (Commonwealth of Independent States)
3. EU
4. USA
5. Other countries.

2012	**Hungary**	**CIS**	**EU**	**USA**	**Other countries**	**Total**
	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m
Total revenues	30,932	143,975	116,721	16,123	18,951	326,702
Total assets	516,709	36,430	71,258	2,480	45,360	672,237
Capital expenditure	24,427	2,727	1,529	-	994	29,677

2011	**Hungary***	**CIS**	**EU**	**USA**	**Other countries**	**Total**
	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m
Total revenues	35,683	124,410	108,916	20,513	18,346	307,868
Total assets*	508,447	41,626	78,826	2,713	50,358	681,970
Capital expenditure	25,130	1,863	1,731	13	3,548	32,285

* Restatement in connection with intangible assets (ESMYA), (Note 41).

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

Analyses of revenue by category	**2012**	**2011**
	HUF m	HUF m
Sales of goods	320,778	302,679
Revenue from services	5,639	4,959
Royalty income	285	230
Total revenues	326,702	**307,868**

Revenues of approximately HUF 35,705 million (2011: HUF 31,913 million) are derived from a single external customer. These revenues are attributable to the Pharmaceuticals segment and located in the CIS region.
There is no other customer exceeding 10% of net sales, therefore the Group assesses the risk of customer concentration as not significant.

5. Profit from operations – expenses by nature

	2012 HUF m	**2011** HUF m
Total revenues	326,702	307,868
From this: royalty and other similar income	*285*	*230*
Changes in inventories of finished goods and work in progress, cost of goods sold	(26,142)	(23,909)
Material type expenses	(135,721)	(116,703)
Personnel expenses	(88,073)	(81,698)
Depreciation and amortisation	(26,883)	(24,459)
Other income and other expenses (net)	(1,162)	(172)
Profit from operations	**48,721**	**60,927**

The three most significant items presented within Other income and other expenses (net):

One-off milestone payments received during 2012 positively impacted the other income, while in the base period the break-up fee of HUF 8.1 billion paid by Genefar was recognised. Changes in the likelihood of payments in respect of deferred liabilities to previous owners of PregLem impacted negatively both 2011 and 2012. We accounted for an expense of HUF 5,041 million in 2011 while only HUF 654 million were expensed on this ground in the reporting year.

In accordance with the claw back regime announced in Romania the authority establishes the amount of extraordinary tax to be paid based on the comparison of the subsidies allocated for reimbursed drugs and manufacturers' sales thereof. Such taxes were accounted for in the amount of RON 12.8 million during the reported year at those companies which belong to the Pharmaceutical segment of the Group.

The 20 % tax obligation payable in respect of turnover related to reimbursed sales in Hungary amounted to HUF 487 million in 2012. In accordance with the most recent changes to the regulations we were able to offset the tax payable in 2012 on this ground by 90 % of tax liability of same kind incurred during 2011.

6. Employee information

	2012	**2011**
Average number of people employed during the year	10,982	10,752

The newly established companies resulted in an increase of 10 in the average number of employees during 2012.

7. Net financial income

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

	2012 HUF m	2011 HUF m
Unrealised financial items	**5,745**	**(13,025)**
Unrealised exchange gains on trade receivables and trade payables	3,912	2,248
(Loss)/Gain on foreign currency loans receivable	(81)	132
Year end foreign exchange translation difference of borrowing	4,191	(5,504)
Unrealised exchange gains/(losses) on other currency related items	982	(537)
Unwinding of discounted value related to liability in respect of PregLem	(3,004)	(4,493)
Reversal of assessment of forward exchange contracts as of 1 Jan.	249	(64)
Result of unrealised forward exchange and swap contracts	(504)	(249)
Impairment loss on investments	-	(4,558)
Realised financial items	**(4,887)**	**6,003**
Realised (loss)/gains on forward exchange contracts	(138)	189
Exchange (loss)/gains realised on trade receivables and trade payables	(3,905)	2,089
Exchange (losses)/gains on conversion	(3,379)	1,744
Dividend income	308	59
Interest income	4,652	3,415
Interest paid	(1,805)	(1,266)
Other financial items	(620)	(227)
Total	**858**	**(7,022)**

Unrealised financial income/(expense) was heavily affected by the 220.93 US$/HUF and 291.29 EUR/HUF exchange rates in effect on 31 December 2012 (on 31 December 2011 240.68 US$/HUF and 311.13 EUR/HUF respectively) which impacted the revaluation of currency related Balance Sheet items. These translation differences together resulted an increase of HUF 9.0 billion in the net financial income for 2012.

Derivative transactions are only made by the Parent Company. At the end of the financial period Richter had only a single open transaction, an interest rate swap transaction, that was measured at fair value. The fair value of this transaction is HUF 504 million loss.

Exchange rate movements are closely monitored by the Company and the conclusion of further forward contracts will be subject to Management's review and approval.

The Company has no forward transactions accountable for hedge according to IAS 39. The forward transactions are presented at fair value, based on forward rates provided by the commercial banks.

In the Consolidated Financial Statements of financial year 2010, the Group recognised the deferred contingent purchase price of PregLem depending on achievement of certain milestones, on a discounted probability weighted amount.
Contingent consideration arising from the acquisition of PregLem have been recalculated as of 31 December 2012 at their present value resulting in a loss of HUF 3,004 million as a result of the unwinding of the discounted value, in 2011 it was HUF 4,493 million financial loss.

In November 2010 Gedeon Richter Plc. signed an agreement for 5 year period, EUR 150 million club credit facility, which has been called and presented as borrowings in the financial statements. In June 2011 Gedeon Richter Plc. and the European Investment Bank (EIB) signed a EUR 150 million credit line contract with a 9 year term comprising an initial 3 year period of grace followed by a 6 year repayment period. EUR 100 million credit instalment has been drawn down until 31 December 2012. These bank loans are presented as Borrowings which are described in Note 30. The year end foreign exchange translation difference of these credits was HUF 4,191 million gain in 2012 and HUF 5,504 million loss in 2011.

~~Since there was significant rise of HUF 2,196 million in the fair value of ZAO Firma CV Protek an increase has been recorded against revaluation reserve for available for sale investments (through Consolidated Statement of Comprehensive income) in 2012.~~ In 2011 HUF 4,194 million impairment has been recorded as a result of a significant fall as Impairment loss on investments in Net financial income.

8. Income tax expense

The Group discloses the Hungarian local business tax and innovation fee as income taxes as we have established that these taxes have the characteristics of income taxes rather than operating expenses.

	2012 HUF m	**2011** HUF m Restated*
Domestic	(670)	218
Foreign	(911)	(803)
Local business tax	(2,159)	(2,914)
Innovation fee	(547)	-
Current tax	**(4,287)**	**(3,499)**
Deferred tax (17)	3,446	3,281
Income tax	**(841)**	**(218)**

* Restatement in connection with intangible assets (ESMYA), (Note 41).

The average effective tax rate calculated on the basis of the current tax 8.6% and 1.7% calculated with deferred tax, in 2011 these rates were 7.0% and 0.2%.

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

Parent Company	19%
Romania	16%
Russia	20%
Poland	19%

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

Relating to uncertain tax position please see Note 38.

Tax rate reconciliation

	2012 HUF m	2011 HUF m Restated*
Profit before income tax	**49,921**	**49,671**
Tax calculated at domestic tax rates applicable to profits in the respective countries	7,303	8,554
Tax effects of:		
Benefit of utilising investment tax credit at Parent	(2,615)	(12,505)
Associates results reported net of tax	(65)	705
Income not subject to tax	(1,257)	(106)
Expense not deductible for tax purposes	580	815
Expense eligible to double deduction**	(5,169)	(3,425)
Tax loss for which no deferred income tax has been recognised***	2,131	4,238
Local business tax and innovation fee presented as income tax	3,298	2,914
Self-revision of tax of the Parent	(592)	(240)
Derecognising deferred tax liability as change of tax status of assets	(2,773)	(476)
Re- measurement of deferred tax due to change in tax law - Hungary	-	(256)
Tax charge	**841**	**218**

* Restatement in connection with intangible assets (ESMYA), (Note 41).
** These expenditures can be deducted twice from the current years result to get the taxable profit (qualifying R&D expenses).
*** The tax loss for which no deferred tax asset has been recognised is mainly related to the unused tax loss of PregLem at cantonal level, which is presented in more details in Note 17.

Tax credit

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

There are some criteria for eligibility for the tax relief:
- the value of investment is to be at least HUF 3 billion,
- installed assets shall be kept for 5 years in the beneficiary region and
- during this period, the number of staff employed shall exceed that of the tax year preceding the investment project by at least 75 people.

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 m	2007	2008	2009	2010	2011	2012
Present value factor		8.54%	9.58%	9.37%	6.97%	6.61%	8.48%
Utilized tax relief at current price in 2012	2,615						
Present value of unused tax relief	6,014						

Accounting treatment of the tax credit

The Group assesses that the amount of investment is the only substantial criteria in relation to the tax credit because clearly more human resource is required to operate the assets purchased. The increase of the average number of employees exceeds the criteria defined in the tax credit by 348 employees. Therefore the Group assessed this tax credit to be an investment tax credit and applied the initial recognition exception stated in IAS 12.24 and did not recognise any deferred tax in connection with these assets.

9. Consolidated earnings per share

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

EPS (basic)

	2012	**2011** Restated*
Net consolidated profit attributable to owners of the parent (HUF m)	49,265	49,281
Weighted average number of ordinary shares outstanding (thousands)	18,522	18,601
Basic earnings per share (HUF)	**2,660**	**2,649**

For diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to assume conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares are the ordinary shares of Richter Gedeon Plc. which will be transferred to Management and to Employees as part of its remuneration policy.

EPS (diluted)

	2012	**2011** Restated*
Net consolidated profit attributable to owners of the parent (HUF m)	49,265	49,281
Weighted average number of total shares issued (thousands)	18,637	18,637
Diluted earnings per share (HUF)	**2,643**	**2,644**

* Restatement in connection with intangible assets (ESMYA), (Note 41).

10. Financial instruments

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

	Notes	Carrying value 31 December 2012 HUF m	Carrying value 31 December 2011 HUF m	Fair value 31 December 2012 HUF m	Fair value 31 December 2011 HUF m
Financial assets*					
Available for sale investments carried at fair value					
Investments***	16	6,714	4,232	6,714	4,232
Investments in securities**	23	9,966	11,752	9,966	11,752
Held to maturity investments carried at amortised cost					
Investments	16	18,712	10,106	18,985	8,899
Loans and receivables carried at amortised cost					
Loans receivable	18, 22	5,440	4,811	5,440	4,811
Trade receivables	21	102,476	103,487	102,476	103,487
Other current assets	22	4,181	1,567	4,181	1,567
Cash and cash equivalents	24	101,505	118,651	101,505	118,651
Financial assets carried at fair value through profit or loss					
Current		**218,517**	**236,196**	**218,517**	**236,196**
Non-current		**30,477**	**18,410**	**30,750**	**17,203**
Financial liabilities					
Liabilities carried at amortised cost					
Borrowings	30	148	164	148	164
Trade payables	27	40,033	41,016	40,033	41,016
Other payables and accruals	28	9,186	57,488	9,186	57,488
Financial liabilities carried at fair value through profit or loss					
Foreign exchange forward contracts****	28	504	249	504	249
Current		**49,871**	**98,917**	**49,871**	**98,917**
Borrowing	30	73,163	62,226	73,163	62,226
Other non-current liability****	31	11,568	9,708	11,568	9,708
Non-current		**84,731**	**71,934**	**84,731**	**71,934**

* All financial assets are free from liens and charges.
** The fair valuation of securities was based on bank data supply.
Level 1: in 2012 HUF 7,719 million (in 2011 HUF 9,572 million)
Level 2: in 2012 HUF 2,247 million (in 2011 HUF 2,180 million)
*** Level 1: in 2012 HUF 6,714 million (in 2011 HUF 4,232 million)
**** Level 3: in 2012 HUF 12,072 million (in 2011 HUF 9,957 million)

Above mentioned different levels have been defined as follows:

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

Financial risk management

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

I.) Capital management

The capital structure of the Group consists of net debt (borrowings as detailed in Notes 30 and 24 offset by cash and bank balances) and equity of the Group (comprising issued capital, reserves, retained earnings and non-controlling interests).

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group is also monitoring the individual entities to meet their statutory capital requirements. The Parent company has been pursuing constant dividend policy, provided dividend from the profit to the owners every year.

The capital risk of the Group was still limited in 2012, since the Net cash shows surplus in the balance sheet. In November 2010 Gedeon Richter Plc. signed an agreement for 5 year period, EUR 150 million club credit facility, which has been called and presented as borrowings in the financial statements. Within the range of that, Richter adopted the monitoring some capital risk ratios.

In June 2011 Gedeon Richter Plc. and the European Investment Bank (EIB) signed a EUR 150 million credit line contract with a 9 year term comprising an initial 3 year period of grace followed by a 6 year repayment period. This agreement has as its aim the financing during the period of 2011-2014 of Richter's original research activities targeting compounds, which are active in diseases of the Central Nervous System, combined with the development of bio similar products. The total amount of the credit facility is to be utilised in several tranches within 18 months from the signing of the agreement. EUR 100 million credit instalment has been drawn down by the balance sheet date, until December 2012.

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

	31 December 2012 HUF m	**31 December 2011** HUF m Restated*
Borrowings (Note 30)	73,311	62,390
Less: cash and cash equivalents (Note 24)	(101,505)	(118,651)
Net debt	**(28,194)**	**(56,261)**
Total equity*	520,074	489,856
Total capital	**491,880**	**433,595**
EBITDA**	75,912	85,445
Net debt to EBITDA ratio	**(0.37)**	**(0.66)**
Net debt to equity ratio	**(0.05)**	**(0.11)**

* Restatement in connection with intangible assets (ESMYA), (Note 41).
** EBITDA has been determined in line with the credit agreement as operating profit increased by dividend income and depreciation and amortization expense.

	2012 HUF m	2011 HUF m
Profit from operations	48,721	60,927
Depreciation	26,883	24,459
Dividend income	308	59
EBITDA	**75,912**	**85,445**

The Group is in compliance with the ratios stated as covenants both in the club credit facility agreement and the EIB credit line agreement.

II.) Foreign currency risk

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

Foreign exchange sensitivity of actual costs

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

The foreign currency risk management calculation is based on the balances exposed to exchanges of foreign currencies of the Parent Company and the four principal subsidiaries (GR Polska, GR Romania, GR RUS, PregLem), which perform pharmaceutical activity. The items of the other consolidated companies have minimal foreign currency exposure as they are performing mainly wholesale and retail activity. The effect of the risk arising from currency fluctuation is measured by different change in the exchange rates.

The table below presents the effect of the change in the average foreign currency rate on the operating profit and on the profit for the year.

2012			**Exchange rates**					**Effect on operating profit**	**Effect on profit for the year**
	EUR/HUF	US$/HUF	EUR/US$	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	HUF m	HUF m
103.5%	299.1								
		235.0	1.27	71.5	67.2	7.5	248.4	4,768	4,509
		225.0	1.33	69.1	65.0	7.2	240.0	685	528
		215.0	1.39	66.7	62.7	7.0	231.7	(3,397)	(3,453)
100.0%	289.1								
		235.0	1.23	71.5	67.2	7.5	248.4	4,083	3,981
		225.0	1.28	69.1	65.0	7.2	240.0	0	0
		215.0	1.34	66.7	62.7	7.0	231.7	(4,083)	(3,981)
96.5%	279.1								
		235.0	1.19	71.5	67.2	7.5	248.4	3,397	3,453
		225.0	1.24	69.1	65.0	7.2	240.0	(685)	(528)
		215.0	1.30	66.7	62.7	7.0	231.7	(4,768)	(4,509)

2011			Exchange rates					Effect on operating profit	Effect on profit for the year
	EUR/HUF	US$/HUF	EUR/US$	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	HUF m	HUF m
103.6%	290.0								
		210.0	1.38	70.0	68.0	7.0	235.0	4,234	4,162
		201.0	1.44	67.8	65.9	6.8	226.9	1,014	1,076
		190.0	1.53	65.5	63.5	6.6	220.0	(3,185)	(3,055)
100.0%	280.0								
		210.0	1.33	70.0	68.0	7.0	235.0	3,220	3,087
		201.0	1.39	67.8	65.9	6.8	226.9	0	0
		190.0	1.47	65.5	63.5	6.6	220.0	(4,198)	(4,131)
96.4%	270.0								
		210.0	1.29	70.0	68.0	7.0	235.0	2,207	2,011
		201.0	1.34	67.8	65.9	6.8	226.9	(1,014)	(1,076)
		190.0	1.42	65.5	63.5	6.6	220.0	(5,212)	(5,207)

Based on the yearly average currency rate sensitivity analysis of 2012 the combination of weak Hungarian Forint (with rate of 299.1 EUR/HUF) and strong US$ (with rate of 1.27 EUR/US$) – by 71.5 PLN/HUF, 67.2 RON/HUF, 7.5 RUB/HUF and 248.4 CHF/HUF- would have caused the largest growth (in the amount of HUF 4,509 million) on the Group's consolidated operating profit. The greatest decrease (HUF 4,509 million) would have been caused by the combination of exchange rates of 279.1 EUR/HUF, 215 US$/HUF, 66.7 PLN/HUF, 62.7 RON/HUF, 7.0 RUB/HUF and 231.7 CHF/HUF.

Currency sensitivity of balance sheet items

Currency sensitivity analysis of balance sheet items is applied to third parties receivables, payables and bank accounts in foreign currency, considering that items of related parties are eliminated during consolidation. The calculation is based on the items of the Parent Company and the four principal subsidiaries (GR Polska, GR Romania, GR RUS, PregLem). The effect of the risk arising from currency fluctuation is measured by different change in the exchange rates.
The calculation is based on balance sheet date exchange rates.

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

2012			Exchange rates					Effect on net financial position
	EUR/HUF	US$/HUF	EUR/US$	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	HUF m
103.5%	301.4							
		228.5	1.32	74.0	68.0	7.6	249.4	3,386
		220.9	1.36	71.5	65.7	7.3	241.1	(398)
		213.3	1.41	69.0	63.4	7.0	232.8	(4,181)
100.0%	291.3							
		228.5	1.27	74.0	68.0	7.6	249.4	3.784
		220.9	1.32	71.5	65.7	7.3	241.1	0
		213.3	1.37	69.0	63.4	7.0	232.8	(3,784)
96.5%	281.2							
		228.5	1.23	74.0	68.0	7.6	249.4	4,181
		220.9	1.27	71.5	65.7	7.3	241.1	398
		213.3	1.32	69.0	63.4	7.0	232.8	(3,386)

2011				**Exchange rates**				**Effect on net financial position**
	EUR/HUF	US$/HUF	EUR/US$	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	HUF m
103.6%	322.2							
		249.3	1.29	73.0	74.6	7.7	265.0	1,695
		240.7	1.34	70.5	72.1	7.5	255.9	(50)
		232.1	1.39	68.0	69.5	7.2	246.8	(1,963)
100.0%	311.1							
		249.3	1.25	73.0	74.6	7.7	265.0	1,745
		240.7	1.29	70.5	72.1	7.5	255.9	0
		232.1	1.34	68.0	69.5	7.2	246.8	(1,913)
96.4%	300.0							
		249.3	1.20	73.0	74.6	7.7	265.0	1,794
		240.7	1.25	70.5	72.1	7.5	255.9	50
		232.1	1.29	68.0	69.5	7.2	246.8	(1,864)

The worst case scenario is when EUR strengthens and US$, PLN, RON, RUB, CHF weaken against HUF. In this case the consolidated financial result would decrease by HUF 4,181 million.
The best case scenario is when EUR weakens and US$, PLN, RON, RUB, CHF would strengthen against HUF. In this case the consolidated financial result would increase by HUF 4,181 million.

III.) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers. The Group regularly assesses its customers and establishes payment terms and credit limits associated to them. Richter also reviews the payment of the receivables regularly and monitors the overdue balances. The Group also regularly requires securities (e.g credit insurance, bank guarantees…) from its customers.

The Group does business with key customers in many countries. These customers are major import distributors in their countries and management of the Group maintains close contact with them on an ongoing basis. Provisions for doubtful receivables are estimated by the Group's management based on prior experience and current economic environment.

Regions	**Trade receivables secured by 31. Dec. 2012**	**Type of security** **Credit insurance**	**Bank guarantee**	**L/C**
	HUF m	HUF m	HUF m	HUF m
CIS	35,591	35,503	-	88
EU	976	-	976	-
USA	-	-	-	-
Other	473	154	88	231
Total	**37,040**	**35,657**	**1,064**	**319**

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

The credit rating of the five most significant bank's as of 31 December 2012 based on Standard and Poor's international credit rating institute are the followings:

	2012	2011
BNP Paribas SA	A+	AA-
MKB Bank Zrt.	BB+	B
ING Bank N.V	A+	A+
Raiffeisen Bank Zrt.	A	A-
K&H Bank	BBB	BBB

The Group holds more than 59% of its cash and cash equivalents in 2012 (more than 79% in 2011) in the above mentioned financial institutes.
The Group has no significant concentration of credit risk, with its exposure spread over a large number of counterparties and customers.

IV.) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group. These forecasts are updated on a monthly basis based on actual data. All amounts presented in cash-flow statement are in line with actual numbers of general ledgers. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times so that the Group does not breach covenants. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance. Group treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities.

	Notes	Less than 3 months HUF m	Between 3 months and 1 year HUF m	Between 1 and 2 years HUF m	Between 2 and 5 years HUF m	Over 5 years HUF m
At 31 December 2012						
Other financial asset		18	892	16,910	3,751	6,469
Loans receivable		188	208	1,990	3,542	289
Investments in securities		4,216	5,433	37	537	8
Cash and cash equivalents	24	101,505	-	-	-	-
Borrowings		551	1,208	16,786	45,105	17,305
Trade payables	27	37,555	2,104	180	194	-
Other non-current liabilities	31	-	-	16	11,552	-
Other liabilities		14,872	101	-	33	9
Net balance		**52,949**	**3,120**	**1,955**	**(49,054)**	**(10,548)**

At 31 December 2011	Notes	Less than 3 months HUF m	Between 3 months and 1 year HUF m	Between 1 and 2 years HUF m	Between 2 and 5 years HUF m	Over 5 years HUF m
Other financial asset		-	465	486	11,050	4,269
Loans receivable		135	640	419	4,275	266
Investments in securities		2,336	7,769	2,420	-	-
Cash and cash equivalents	24	118,651	-	-	-	-
Borrowings		531	1,511	1,896	55,274	11,213
Trade payables	27	39,200	1,601	215	-	-
Other non-current liabilities	31	-	-	60	9,648	-
Other liabilities		60,717	-	-	-	-
Net balance		**20,674**	**5,762**	**1,154**	**(49,597)**	**(6,678)**

We have classified the investments without maturity to the "over 5 years" category, since the management of the Group is not planning to sell these assets within 5 years.

The cash flows of the Investments in securities contain the expected interest and the principal amount as well.

The Cash and cash equivalents has been classified to the "less than 3 months" category.

The Other non-current liabilities and Other liabilities contain the purchase price of PregLem, which are related to the achievements of specific milestones. These payments have been categorized based on the expected date of the payments.

11. Property, plant and equipment, and other intangible assets

	Land and buildings HUF m	Plant and equipment HUF m	Construction in progress HUF m	Total HUF m
Gross value				
at 31 December 2010	**108,019**	**171,012**	**20,197**	**299,228**
Translation differences	2,248	1,878	112	**4,238**
Effect of newly acquired companies	1,243	225	6	**1,474**
Capitalization	17,611	19,533	(37,144)	**-**
Transfers and capital expenditure	-	239	26,624	**26,863**
Transfer to Investment property	-	-	(345)	**(345)**
Disposals	(1,357)	(3,511)	(21)	**(4,889)**
at 31 December 2011	**127,764**	**189,376**	**9,429**	**326,569**
Accumulated depreciation				
at 31 December 2010	**24,386**	**130,168**	**-**	**154,554**
Translation differences	379	1,149	-	**1,528**
Effect of newly acquired companies	147	155	-	**302**
Current year depreciation	3,065	14,329	-	**17,394**
Net foreign currency exchange differences	82	235	-	**317**
Disposals	(282)	(2,874)	-	**(3,156)**
at 31 December 2011	**27,777**	**143,162**	**-**	**170,939**
Net book value				
at 31 December 2010	**83,633**	**40,844**	**20,197**	**144,674**
at 31 December 2011	**99,987**	**46,214**	**9,429**	**155,630**

	Land and buildings HUF m	Plant and equipment HUF m	Construction in progress HUF m	Total HUF m
Gross value				
at 31 December 2011	**127,764**	**189,376**	**9,429**	**326,569**
Translation differences	(1,629)	(1,603)	(105)	**(3,337)**
Capitalization	4,471	18,102	(22,573)	**-**
Transfers and capital expenditure	267	324	24,043	**24,634**
Transfer to Investment property	-	-	(10)	**(10)**
Disposals	(1,532)	(3,577)	(19)	**(5,128)**
at 31 December 2012	**129,341**	**202,622**	**10,765**	**342,728**
Accumulated depreciation				
at 31 December 2011	**27,777**	**143,162**	**-**	**170,939**
Translation differences	(293)	(973)	-	**(1,266)**
Current year depreciation	3,626	14,243	-	**17,869**
Net foreign currency exchange differences	10	31	-	**41**
Disposals	(394)	(2,969)	-	**(3,363)**
at 31 December 2012	**30,726**	**153,494**	**-**	**184,220**
Net book value				
at 31 December 2011	**99,987**	**46,214**	**9,429**	**155,630**
at 31 December 2012	**98,615**	**49,128**	**10,765**	**158,508**

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

	Rights HUF m	Intellectual property HUF m	ESMYA HUF m Restated*	Total HUF m Restated*
Gross value				
at 31 December 2010*	**88,280**	**7,850**	**65,693**	**161,823**
Translation differences	472	667	9,365	10,504
Effect of newly acquired companies**	1	1	-	2
Capitalization	4,339	1,329	-	5,668
Transfers and capital expenditure	1,116	18	-	1,134
Disposals	(520)	(549)	-	(1,069)
at 31 December 2011*	**93,688**	**9,316**	**75,058**	**178,062**
Accumulated amortization				
at 31 December 2010	**11,225**	**992**	**-**	**12,217**
Translation differences	14	57	-	71
Effect of newly acquired companies	1	1	-	2
Current year amortization	6,829	236	-	7,065
Net foreign currency exchange differences	26	10	-	36
Impairment	198	-	-	198
Disposals	(105)	(170)	-	(275)
at 31 December 2011	**18,188**	**1,126**	**-**	**19,314**
Net book value				
at 31 December 2010*	**77,055**	**6,858**	**65,693**	**149,606**
at 31 December 2011*	**75,500**	**8,190**	**75,058**	**158,748**

* Restatement in connection with intangible assets (ESMYA), (Note 41).
**The effect of newly acquired companies line also contains the translation difference of the year of acquisition.

	Rights HUF m	Intellectual property HUF m	ESMYA HUF m	Total HUF m
Gross value				
at 31 December 2011	**93,688**	**9,316**	**75,058**	**178,062**
Translation differences	(485)	(408)	(4,355)	(5,248)
Capitalization	5,191	683	-	5,874
Disposals	(669)	(195)	-	(864)
at 31 December 2012	**97,725**	**9,396**	**70,703**	**177,824**
Accumulated amortization				
at 31 December 2011	**18,188**	**1,126**	-	**19,314**
Translation differences	(117)	(34)	-	(151)
Current year amortization	6,754	469	1,791	9,014
Net foreign currency exchange differences	8	5	30	43
Impairment	375	-	-	375
Disposals	(56)	(23)	-	(79)
at 31 December 2012	**25,152**	**1,543**	**1,821**	**28,516**
Net book value				
at 31 December 2011	**75,500**	**8,190**	**75,058**	**158,748**
at 31 December 2012	**72,573**	**7,853**	**68,882**	**149,308**

All other intangible assets are free from liens and charges.

Impairment test – as it is described in Note 19 Goodwill - was performed on the value of Intangible assets and as a consequence to that we had to account for HUF 375 million as impairment loss related to some of the Romanian retail companies in 2012 and HUF 198 million in 2011.

The most significant other intangible, which has been recorded as R&D asset is representing ESMYA recognised in the acquisition transaction of PregLem in 2010 (see Note 37) was accounted as Intangible with 25 years useful life. The amortization of this asset started in the second quarter of 2012 as a result of the market launch of the product.

The products right acquired from Grünenthal in 2010 containing manufacturing rights (amounted to EUR 600 thousand) and market authorisation (amounted to EUR 235.9 million) together with the value of the established products brand are presented as Rights. The estimated useful life for both rights is 15 years. The amortization period started in 2010. Net book values of the right in relation to Grünenthal is HUF 60,645 million in 2011 and HUF 56,554 million in 2012.

12. Investment property

A real estate property, located in Budapest is accounted for as investment property owned by Medimpex Irodaház Kft. This company is a joint venture with EGIS Plc. in 50-50%.
Subsequent to initial recognition, investment properties are measured at fair value.

Book value of investment property:

	Investment property HUF m
Fair value	
at 1 January 2011	**1,006**
Capitalization	345
Fair value adjustment	28
at 31 December 2011	**1,379**
Capitalization	10
Fair value adjustment	(299)
at 31 December 2012	**1,090**

The Discounted Cash Flow method is used for calculation of investment property's fair value.
A fair valuation of the investment property was carried out by the Company's professionals using discounted cash flow method. The timeframe of the calculation was ten years, the discount rate as at 31 December 2012 and 2011 was 7.85 % and 8.50 %, respectively. The model also has taken into account a residual value after the 10 years' period based on market information.

Incomes from renting and operating expenses of real estate are the followings:

	2012 HUF m	**2011** HUF m
Income from renting real estate	143	173
Operating expenses	53	57
Net balance	**90**	**116**

For the year ended 31 December 2012. all amounts in HUF m

13. Consolidated companies

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

Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		2012	2011	2012	2011	
ZAO Gedeon Richter - RUS	Russia	100.00	100.00	100.00	100.00	Pharmaceutical manufacturing
Gedeon Richter Romania S.A.	Romania	99.88	99.87	99.88	99.87	Pharmaceutical manufacturing
Gedeon Richter Polska Sp. z o.o.	Poland	99.88	99.88	99.88	99.88	Pharmaceutical manufacturing
Richter Themis Ltd.	India	51.00	51.00	51.00	51.00	Pharmaceutical manufacturing
Gedeon Richter Pharma GmbH	Germany	100.00	100.00	100.00	100.00	Pharmaceutical trading
Gedeon Richter USA Inc.	USA	100.00	100.00	100.00	100.00	Pharmaceutical trading
RG Befektetéskezelő Kft.	Hungary	100.00	100.00	100.00	100.00	Financial-accounting and controlling activities
Gedeon Richter UA V.A.T.	Ukraine	98.16	98.16	98.16	98.16	Pharmaceutical manufacturing
Gedeon Richter UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
Gedeon Richter Iberica S.A.	Spain	100.00	100.00	100.00	100.00	Pharmaceutical trading
Nedermed B.V.	The Netherlands	100.00	100.00	100.00	100.00	Pharmaceutical trading
Medimpex Japan Co. Ltd.	Japan	90.90	90.90	90.90	90.90	Pharmaceutical trading
Medimpex Jamaica Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
Medimpex West Indies Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
Humanco Kft.	Hungary	100.00	100.00	100.00	100.00	Social, welfare services
Pesti Sas Holding Kft.	Hungary	100.00	100.00	100.00	100.00	Portfolio management
Richter Szolgáltató Kft.	Hungary	100.00	100.00	100.00	100.00	Catering services
Reflex Kft.	Hungary	100.00	100.00	100.00	100.00	Transportation, carriage
Cito-Trans Kft.	Hungary	100.00	100.00	100.00	100.00	Car rental
Chemitechnik Pharma Kft.	Hungary	66.67	66.67	66.67	66.67	Engineering services
GYEL Kft.	Hungary	66.00	66.00	66.00	66.00	Quality control services
Armedica Trading S.R.L.	Romania	99.88	99.87	99.88	99.87	Asset management
Gedeon Richter Farmacia S.A.	Romania	99.88	99.87	99.88	99.87	Pharmaceutical retail
Pharmanet S.R.L.	Romania	99.88	99.87	99.88	99.87	Pharmaceutical retail
Gedeon Richter France S.A.R.L.*	France	99.99	99.99	99.99	99.99	Pharmaceutical retail
Gedeon Richter-Retea Farmaceutica S.R.L.	Moldavia	51.00	51.00	51.00	51.00	Pharmaceutical retail
Richter-Helm BioLogics GmbH & Co. KG	Germany	70.00	70.00	70.00	70.00	Biotechnological manufacturing and research
Richter-Helm BioLogics Management GmbH	Germany	70.00	70.00	70.00	70.00	Asset management
Medimpex UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
Farnham Laboratories Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
Gedeon Richter Aptyeka sp.O.O.O.	Armenia	51.00	51.00	51.00	51.00	Pharmaceutical retail
Pharmafarm S.A.	Romania	99.88	99.87	99.88	99.87	Pharmaceutical wholesale
Gedeon Richter Ukrfarm O.O.O.	Ukraine	100.00	100.00	100.00	100.00	Pharmaceutical retail

all amounts in HUF m

Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		2012	2011	2012	2011	
Gedeon Richter Marketing Polska Sp. z o.o.	Poland	99.98	99.98	99.98	99.98	Marketing services
Gedeon Richter Italia S.R.L.	Italy	100.00	100.00	100.00	100.00	Pharmaceutical retail
PregLem S.A.	Switzerland	100.00	100.00	100.00	100.00	Manufacturing and research
Gedeon Richter Marketing ČR s.r.o.	Czech Republic	100.00	100.00	100.00	100.00	Marketing services
Gedeon Richter Slovakia s.r.o.	Slovak Republic	100.00	100.00	100.00	100.00	Marketing services
Richter-Lambron O.O.O.	Armenia	51.00	51.00	51.00	51.00	Pharmaceutical trading
Gedeon Richter Austria GmbH	Austria	100.00	100.00	100.00	100.00	Marketing services
Gedeon Richter (Schweiz) AG	Switzerland	100.00	100.00	100.00	100.00	Marketing services
Pharmarichter O.O.O.	Russia	100.00	100.00	100.00	100.00	Pharmaceutical sales promotion
Richpangalpharma O.O.O.	Moldavia	65.00	65.00	65.00	65.00	Pharmaceutical trading
Gedeon Richter Portugal, Unipessoal Lda.	Portugal	100.00	100.00	100.00	100.00	Marketing services
PregLem France SAS	France	100.00	100.00	100.00	100.00	Marketing services
Pesti Sas Patika Bt.	Hungary	74.00	74.00	50.00	50.00	Pharmaceutical retail
Gedeon Richter Slovenija, trženje, d.o.o.	Slovenia	100.00	100.00	100.00	100.00	Marketing services

* Gedeon Richter France S.A.R.L. merged into Medimpex France S.A.R.L. in January 2012 and continues to operate as Gedeon Richter France S.A.R.L.

Subsidiaries newly included in the consolidation

Name	Date of establishment/ acquisition	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
			2012	2011	2012	2011	
Gedeon Richter Benelux SPRL*	02.2012	Belgium	100.00	-	100.00	-	Marketing services
Gedeon Richter Nordics AB*	04.2012	Sweden	100.00	-	100.00	-	Marketing services

* Newly established by the Group.

14. Joint ventures

The Group had the following interests in joint ventures:

Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		2012	2011	2012	2011	
Medimpex Irodaház Kft.	Hungary	50.00	50.00	50.00	50.00	Renting real estate
Richter-Helm BioTec Management GmbH	Germany	50.00	50.00	50.00	50.00	Assets management
Richter-Helm BioTec GmbH & Co. KG	Germany	50.00	50.00	50.00	50.00	Trading of biotech products
Gedeon Richter Rxmidas Ltd.	Hong-Kong	50.00	50.00	50.00	50.00	Marketing services
Grmidas Medical Service (China) Co.Ltd.	China	50.00	50.00	50.00	50.00	Marketing services

The following amounts are included in the Group's financial statements as a result of the proportional consolidation of the above joint ventures.

	31 December 2012 HUF m	31 December 2011 HUF m
Current assets	357	225
Non-current assets	1,273	1,393
Short-term liabilities	212	132
Long-term liabilities	3,614	2,477
Revenues	254	291
Cost of sales	164	144
R&D cost	1,116	1,121

Joint ventures companies have no significant financial and other cost.

15. Investments in associated companies

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

	2012 HUF m	2011 HUF m
At 1 January	**1,754**	**6,093**
Step up to subsidiary	-	(403)
Sale of investment	(12)	(1)
Merge	-	(4)
Increase of share capital	-	283
Additional payment	30	17
Share of profit/(loss)*	342	(4,234)
Exchange difference	1	3
At 31 December	**2,115**	**1,754**

* Hungaropharma Zrt. is the most significant associated company of the Group, caused HUF 4,294 million loss from associates in 2011, this amount presented in Consolidated Cash Flow Statement within Non cash items accounted through Comprehensive and Consolidated Income Statement.

Name	Place of incorporation	Principal activity	Assets	Liabilities	Revenues	Profit/ (loss)	Interest held
			HUF m	HUF m	HUF m	HUF m	%
2011							
Hungaropharma Zrt.	Hungary	Pharmaceutical wholesale	56,116	52,254	254,828	(8,220)	30.68
Salvia-Med Bt.	Hungary	Pharmaceutical retail	56	27	499	15	32.79
Szondi Bt.	Hungary	Pharmaceutical retail	157	24	464	23	33.00
Gyulai Fodormenta Bt.	Hungary	Pharmaceutical retail	85	24	449	23	20.00
Top Medicina Bt.	Hungary	Pharmaceutical retail	56	47	314	(1)	20.00
Medservice Richter O.O.O.	Kazakhstan	Pharmaceutical trading	53	9	-	-	49.00
Vita-Richter O.O.O.	Azerbaijan	Pharmaceutical trading	554	476	-	-	49.00
Pharmapolis Kft.	Hungary	Building project management	5,549	5,576	-	(29)	24.00
Cerorin Kft.	Hungary	Biotechnological research, development	1	0	-	(0.6)	24.00
Pharmatom Kft.	Hungary	Biotechnological research, development	276	261	-	13	24.00

Name	Place of incorporation	Principal activity	Assets	Liabilities	Revenues	Profit/ (loss)	Interest held
			HUF m	HUF m	HUF m	HUF m	%
2012							
Hungaropharma Zrt.	Hungary	Pharmaceutical wholesale	51,796	46,646	232,790	928	30.68
Salvia-Med Bt.	Hungary	Pharmaceutical retail	52	33	468	13	32.79
Szondi Bt.	Hungary	Pharmaceutical retail	162	28	439	25	33.00
Top Medicina Bt.	Hungary	Pharmaceutical retail	54	52	295	(7)	20.00
Medservice Richter O.O.O.	Kazakhstan	Pharmaceutical trading	48	8	-	-	49.00
Vita-Richter O.O.O.	Azerbaijan	Pharmaceutical trading	509	438	-	-	49.00
Pharmapolis Kft.	Hungary	Building project management	6,904	7,021	155	(120)	24.00
Cerorin Kft.	Hungary	Biotechnological research, development	1	0	-	(0.6)	24.00
Pharmatom Kft.	Hungary	Biotechnological research, development	366	385	-	(61)	24.00

The balances of Hungaropharma Zrt, the most significant associate of the Group is not yet audited.
Amounts of assets, liabilities, revenues and profit/loss are presented at 100%.

16. Other financial assets

	31 December 2012 HUF m	31 December 2011 HUF m
Held to maturity investments carried at amortised cost	18,712	10,106
Available-for-sale investments carried at fair value	6,714	4,232
Total	**25,426**	**14,338**

The held to maturity investment contains "Exchangeable Bonds" issued by the Hungarian State Holding Company (MNV Zrt.) that has maturity date of 2014. At maturity these bonds might be transferred to Richter shares already in the ownership of MNV Zrt. The Group owns "Exchangeable Bonds" in the nominal value of EUR 52 million as of 31 December 2012. (EUR 34 million as of 31 December 2011).

Available-for-sale investments presented among Other financial assets have not been sold in current year and therefore no amount has been recycled to the Consolidated Income Statement.
Available-for-sale investment contains 5% ownership in Zao Firma CV Protek valued at fair value based on the closing stock exchange price (7.26 RUB/share). Since there was significant rise in the fair value of investment an increase of HUF 2,196 million has been recorded against revaluation reserve for available for sale investments (through Consolidated Statement of Comprehensive Income) in 2012.

17. Current income tax and deferred tax

Current tax assets and liabilities

	31 December 2012 HUF m	31 December 2011 HUF m
Current tax assets	1,117	501
Current tax liabilities	123	34

Deferred tax is calculated by the liability method based on the temporary differences. Deferred tax assets and liabilities and the deferred tax (charge)/credit in the Consolidated Balance Sheet are included to the following items:

	31 December 2012 HUF m	31 December 2011 HUF m Restated*
Deferred tax assets	3,342	3,605
Deferred tax liabilities	(9,634)	(14,154)
Net position at 31 December	**(6,292)**	**(10,549)**

* Restatement in connection with intangible assets (ESMYA), (Note 41).

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

Deferred tax assets	Local GAAPs – IFRS differences	Fixed and intangible assets	Provision	Impairment	Other temporary differences	Consolidation adjustments	Total
	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	**HUF m**
31 December 2010	**452**	**503**	**131**	**293**	**(232)**	**477**	**1,624**
Charged/(credited) to the income statement	(448)	240	200	45	320	1,217	**1,574**
Charged/(credited) to other comprehensive income	-	-	-	-	374	-	**374**
Exchange differences	-	13	5	-	29	-	**47**
Transfer	-	-	-	-	(14)	-	**(14)**
31 December 2011	**4**	**756**	**336**	**338**	**477**	**1,694**	**3,605**
Charged/(credited) to the income statement	18	(58)	29	(25)	(266)	92	**(210)**
Charged/(credited) to other comprehensive income	-	-	-	-	(42)	-	**(42)**
Exchange differences	(2)	(9)	3	-	(3)	-	**(11)**
Transfer	-	38	13	11	(62)	-	-
31 December 2012	**20**	**727**	**381**	**324**	**104**	**1,786**	**3,342**

Deferred tax liabilities	Local GAAPs – IFRS differences	Fixed and intangible assets	Other temporary differences*	Total
	HUF m	HUF m	HUF m Restated**	**HUF m Restated****
31 December 2010**	**533**	**268**	**13,352**	**14,153**
Charged/(credited) to the income statement**	(477)	(120)	(1,885)	**(2,482)**
Charged/(credited) to other comprehensive income	(51)	-	32	**(19)**
Exchange differences	8	(14)	2,522	**2,516**
Transfer	-	-	(14)	**(14)**
31 December 2011	**13**	**134**	**14,007**	**14,154**
Charged/(credited) to the income statement	-	12	(3,668)	**(3,656)**
Charged/(credited) to other comprehensive income	-	-	12	**12**
Exchange differences		(15)	(861)	**(876)**
Transfer	-	5	(5)	**-**
31 December 2012	**13**	**136**	**9,485**	**9,634**

* The most significant deferred tax liability balance presented is in relation to the acquisition of PregLem, where the deferred tax liability that arose as a result of recognition of ESMYA was partially off set by the unused tax loss of the company available at federal level. As a result of this transaction net deferred tax liability has been presented in the value of HUF 9,325 million in 2012 and HUF 13,707 million in 2011 after the restatement.

** Restatement in connection with intangible assets (ESMYA), (Note 41).

In the deferred tax balance presented above, HUF 591 million is expected to reverse after 12 months.

At 31 December 2012 Richter Group has HUF 38,904 million unused tax loss (that would result in HUF 6,386 million deferred tax asset) for which no deferred tax asset has been recognised since the recovery is not probable, while in 2011 the Group had HUF 28,071 million unused tax loss (that would have resulted in HUF 4,588 million deferred tax asset after the restatement).

In 2012 most of the unused tax loss for which no deferred tax asset has been recognised is in relation to PregLem's unused tax loss at cantonal level. The unused tax loss for which no deferred tax asset has been recognised is expected to expire or be utilised during the period of tax holiday of PregLem.

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

As a result of the decision of Richter's and PregLem's Boards Preglem's activities will be restructured from 2013 onwards and ESMYA® will be manufactured and sold by the Parent Company. While after this restructuring most of ESMYA® revenues will be taxed by the effective tax rates of the Parent Company therefore Deferred tax liabilities related to ESMYA intangible assets were re-estimated and recalculated. This change in management estimations resulted in HUF 2,820 million decrease in Deferred tax liabilities with a corresponding charge to income tax in the Consolidated Income Statement in 2012.

18. Loans receivable

	31 December 2012 HUF m	31 December 2011 HUF m
Loans given to related parties	4,584	3,627
Loans given to employees	462	440
Other loans given	5	5
Total	**5,051**	**4,072**

19. Goodwill

	Goodwill HUF m Restated*
Cost	
At 1 January 2011	33,170
Decrease from sale of subsidiaries	(23)
Exchange differences	4,054
At 31 December 2011	**37,201**
At 1 January 2012	**37,201**
Exchange differences	(1,940)
At 31 December 2012	**35,261**
Impairment	
At 1 January 2011	**(3,187)**
Impairment charged for the year	(271)
At 31 December 2011	**(3,458)**
At 1 January 2012	**(3,458)**
Impairment charged for the year	(201)
At 31 December 2012	**(3,659)**
Net book value	
At 1 January 2011	**29,983**
At 31 December 2011	**33,743**
At 31 December 2012	**31,602**

* Restatement in connection with intangible assets (ESMYA), (Note 41).

Closing goodwill on Cash Generating Units (Companies)

	31 December 2012 HUF m	31 December 2011 HUF m Restated*
Pharmaceuticals segment		
GR Polska Sp. z o.o.	1,069	1,055
Richter-Helm Biologics Co & KG	93	99
PregLem S.A.*	28,789	30,562
Wholesale and retail segment		
Armedica Trading Group	1,590	1,966
Other segment		
Pesti Sas Holding Kft.	61	61
Total	**31,602**	**33,743**

* Restatement in connection with intangible assets (ESMYA), (Note 41).

Impairment test was performed on the value of the goodwill.

Gedeon Richter Polska Sp. z o.o.
Gedeon Richter Polska Sp. z o.o. achieved significant profit in 2012, and according to its midterm financial plans further growth is expected of the company. As a result of this no impairment was required at the end of financial year of 2012 similar to 2011. Any reasonable change in the key assumptions are still not expected to result in an impairment of Goodwill.

Armedica Trading Group
The Group has allocated the goodwill to pharmacies and performs the impairment review on group of cash generating units (CGU) level similarly to prior years. Two groups of CGUs have been set up and the pharmacies were categorized into these groups based on their EBITDA performance.
Each year the performance of the pharmacies is assessed whether they are grouped into the correct category of pharmacies. A classification criteria has been defined as -0.75% EBITDA/sales level. The Group determined this level by analysing, that there have been more developing pharmacies reaching this limit in 2012 and forecasting their further growth strengthening the future return of the group. At the same time above the indicated level the Group has observed a well-performing pharmacy subgroup where in certain cases slight fluctuation has appeared in the individual EBITDA levels which is only temporary phenomenon.

We have assessed the recoverable amount with "value in use" method considering the economic environment, which did not change significantly in compare to the prior year. In the "value in use" model we have made estimation on future performance based on historical data and realistic market assumptions on mid and long term timeframe. The Group performed the present value calculation using estimation of 5 years cash flows and applying a perpetuity cash flow afterwards for the residual periods.

In case of the underperforming group where the recoverable amount of the group is less than its carrying amount, The Group has recorded impairment on the goodwill balance.

Since as a result of prior year impairment tests, the entire goodwill balance have been impaired for the group which contains the pharmacies that achieve the lowest EBITDA, we have focused our impairment review on the developing and well-performing group.

We also performed sensitivity test including the following parameters: Volume of sales, Weighted Average Cost of Capital (WACC) and mark-up. By changing ceteris paribus these factors 10% declining for the volume of sales and 10% increase of WACC and 5% declining for mark-up the following additional impairment would be required.

	HUF m
WACC	0
Net-sales	357
Mark-up	357

PregLem S.A.

PregLem was acquired on 6 October 2010. This acquisition supports and provides a gynaecological portfolio and development of the Group's presence in Western Europe. On the acquisition the intangible asset ESMYA and goodwill has also been recognized.
At the date of the acquisition ESMYA®, the most important product in this portfolio, a novel treatment for uterine fibroids, was close to the registration. In February 2012 the European Commission (EC) has granted marketing authorization to ESMYA® as pre-operative treatment of uterine fibroids. After the approval during 2012 ESMYA® was launched gradually in 17 EU member countries, ESMYA® reported total sales of EUR 3.6 million at the end of 2012. Turnover recorded in Germany contributed the most to the achieved sales levels.
In order to expand the indication to meet the needs of a wider range of affected women Richter initiated Phase III clinical studies at the beginning of the third quarter to establish the long term (on-off) usage of ESMYA® targeting a substantial recession of fibroid tumours consequently making surgical interventions unnecessary. The studies are expected to be completed by second quarter 2014.

The ESMYA intangible asset and the connected goodwill of Preglem have been tested together. Considering that the future cash flows from continuing use of the assets are considerable, the recoverable amount has been determined for a cash generating unit connected with the ESMYA intangibles and Preglem goodwill (ESMYA GW CGU).
On the basis of the impairment test performed the management assessed that no impairment should be charged on the goodwill of Preglem as of 31 December 2012.

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

Cash flow projections have been prepared separately for EU and US ESMYA® sales.

Key facts and assumptions for the EU ESMYA® sales: for the product launched in 2012 in Europe for preoperative treatment, an authorization is expected to be obtained in 2014 for extended use. For long term treatment the product shall be available from 2016. The group has data exclusivity till 2020, so generic competition and market share loss/price decrease expected from only 2020 as a consequence.

Key facts and assumptions for the US ESMYA® sales: ESMYA® expected to be launched in 2016 by the US partner. As a conservative scenario, sales decrease has been considered from 2020 because of the expiration of exclusivity.

The income approach has been used to determine the recoverable amount of the CGU, in a fair value aspect. These calculations use cash-flow projections based on financial budgets approved by management for the period 2013-2016. Cash-flows beyond 2016 are based on management estimations taking into account the original long term ESMYA® revenue model.

When management assesses the estimated future performance, cash flows have been projected over the estimated useful life of the asset. The growth in future cash flows is strictly determined by an expected uptake and the period of data exclusivity. Free cash flow is expected to peak in 2019. The Compound Annual Growth Rate (CAGR) for the period 2013-2019 is 40%. After termination of data exclusivity the free cash flow is expected to decline to the 23% of the peak, over 4 year with a CAGR -26%. After reaching this level the free cash flow is expected to remain stable till the end of the forecast period.

The discount rate (post tax: 8.63%; equivalent to a pre-tax rate of 11.35 %) applied reflects current market assessments of the time value of money and the risks specific to the CGU for which future cash flow estimates have not been adjusted.

The present value of the above mentioned cash-flows does not differ significantly from the present value of the cash-flows calculated for 7 years until 2019 and applying a perpetuity cash flow estimation afterwards.

The recoverable amount of ESMYA GW CGU calculated based on fair value approach exceeded carrying value of the sum of ESMYA intangible asset and the related GW. A rise in post tax discount rate to 9.13 % would remove the remaining headroom.

20. Inventories

	31 December 2012 HUF m	31 December 2011 HUF m
Raw materials, packaging and consumables	23,745	23,821
Production in progress	1,396	1,048
Semi-finished and finished goods	39,008	38,568
Total	**64,149**	**63,437**

Inventories include impairment in value of HUF 1,902 million and reversal of impairment in value of HUF 236 million in 2012 (HUF 1,733 million impairment and HUF 804 million reversal was made in 2011).
The reversal of impairment is due to the change of market conditions.
As of 31 December 2012 the total carrying amount of inventories that are valued at the net realisable value amounts to be HUF 270 million
All items of Inventories are free from liens and charges.

21. Trade receivables

	31 December 2012 HUF m	31 December 2011 HUF m
Trade receivables	81,442	84,973
Amounts due from related companies	21,034	18,514
Total	**102,476**	**103,487**

Trade receivables include HUF 1,192 million impairment and HUF 1,659 million reversal of impairment in 2012 (in 2011 the net impairment was HUF 1,283 million).
The reversal of impairment is explained with the decrease of overdue receivables.

Ageing of Trade receivables

	31 December 2012 HUF m	31 December 2011 HUF m
Trade receivables not expired	87,325	89,138
Trade receivables overdue, not impaired	13,342	11,443
1-90 days	*11,761*	*10,341*
91-180 days	*1,068*	*809*
181-360 days	*461*	*237*
>360 days	*52*	*56*
Trade receivables overdue, impaired	6,948	9,194
1-90 days	*1,218*	*2,005*
91-180 days	*461*	*516*
181-360 days	*563*	*1,629*
>360 days	*4,706*	*5,044*
Impairment on trade receivables	(5,139)	(6,288)
1-90 days	*(122)*	*(200)*
91-180 days	*(80)*	*(26)*
181-360 days	*(250)*	*(1,056)*
>360 days	*(4,687)*	*(5,006)*
Total	**102,476**	**103,487**

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

	31 December 2012 HUF m	31 December 2011 HUF m
At 1 January	**6,288**	**4,629**
Provision for receivables impairment	1,192	2,499
Reversal of impairment for trade receivables	(1,659)	(1,216)
Exchange difference	(682)	376
At 31 December	**5,139**	**6,288**

The Group has no individually significant impaired trade receivable.

22. Other current assets

	31 December 2012 HUF m	31 December 2011 HUF m
Loans receivable	389	739
Other receivables	4,181	1,567
Fair value of open forward exchange contracts	-	-
Subtotal of financial assets	**4,570**	**2,306**
Tax and duties recoverable	5,689	3,447
Advances	2,738	2,185
Prepayments	3,585	2,935
Total	**16,582**	**10,873**

23. Investments in securities

	31 December 2012 HUF m	31 December 2011 HUF m
Treasury bills and government securities	7,719	9,572
Open-ended investment funds	2,224	2,156
Other securities	23	24
Total	**9,966**	**11,752**

All current investments are classified as available for sale. The fair value adjustment was HUF 15 million loss in 2012, and HUF 213 million loss in 2011 recognised in other comprehensive income.
Treasury bills and government securities are issued or granted by the Hungarian State.

24. Cash and cash equivalents

	31 December 2012 HUF m	31 December 2011 HUF m
Bank deposits	101,385	118,171
Cash on hand	120	105
Short term government securities	-	375
Total	**101,505**	**118,651**

At the balance sheet date there were no short term securities classified as Cash and cash equivalents. In 2011 the fair value adjustment of short term securities presented as Cash and cash equivalents was HUF 1 million loss.
Those short term securities are treated as cash and cash equivalents which have a maturity period less than 3 months at purchase.

25. Share capital and reserves

Share capital	31 December 2012 Number	31 December 2012 HUF m	31 December 2011 Number	31 December 2011 HUF m
Ordinary shares of HUF 1,000 each	18,637,486	18,638	18,637,486	18,638

Detailed ownership structure of the Parent

Ownership	Ordinary shares number 31 December 2012	Ordinary shares number 31 December 2011	Voting rights % 31 December 2012	Voting rights % 31 December 2011	Share capital % 31 December 2012	Share capital % 31 December 2011
Domestic ownership	**6,160,077**	**6,898,705**	**33.15**	**37.28**	**33.05**	**37.01**
MNV Zrt.	4,703,921	4,700,370	25.31	25.40	25.24	25.22
Hungarian Pension Reform and Public Debt Reduction Fund	-	957,021	-	5.17	-	5.13
Municipality	107	100	0.00	0.00	0.00	0.00
Institutional investors	691,038	596,859	3.72	3.23	3.71	3.20
Retail investors	765,011	644,355	4.12	3.48	4.10	3.46
International ownership	**12,392,915**	**11,599,041**	**66.70**	**62.69**	**66.50**	**62.24**
Retail investors	114,664	71,925	0.62	0.39	0.62	0.39
Institutional investors	12,278,251	11,527,116	66.08	62.30	65.88	61.85
out of which Bank of New York Mellon *	-	929,512	-	5.02	-	4.99
out of which Aberdeen Asset M. Plc.	2,372,669	2,503,184	12.77	13.53	12.73	13.43
out of which Skagen Kon-Tiki Verdipapirfond	997,104	968,258	5.37	5.23	5.35	5.20
Undisclosed ownership	**28,608**	**4,791**	**0.15**	**0.03**	**0.15**	**0.03**
Treasury shares**	**55,886**	**134,949**	**0.00**	**0.00**	**0.30**	**0.72**
Share capital	**18,637,486**	**18,637,486**	**100.00**	**100.00**	**100.00**	**100.00**

* The owners are global custodians or nominees acting as global custodians.
** Treasury shares include the combined ownership of the Parent company and subsidiaries. The treasury shares have no voting rights.

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

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

Foreign currency translation reserves

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

Revaluation reserve for available for sale investments

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

	Revaluation reserve for available for sale investments HUF m
At 1 January 2011	**3,356**
Recycled through income statement	(71)
Revaluation gross	(3,710)
Deferred tax effect	393
At 31 December 2011	**(32)**
Recycled through income statement	221
Revaluation gross	2,328
Deferred tax effect	(54)
At 31 December 2012	**2,463**

Equity-settled share based payment presented within retained earnings

Equity-settled employee benefits reserve is presented within Retained earnings, therefore current year's effect is shown in the Consolidated Statement of Changes in Equity.
The reserve contains equity-settled share-based payments to employees measured at the fair value of the equity instruments at the grant date. Please see more detailed in Note 26 Treasury shares.

	2012 HUF m	**2011** HUF m
Expense recognized in current year	5,763	5,186
Treasury share given	4,832	5,099
Total changes in reserve presented in the Consolidated Statement of Changes in Equity	**931**	**87**

26. Treasury shares

It is the intention of the Company to grant Treasury shares to management and employees as part of its remuneration policy. The Company is operating three share based payment programs, described below in more details. From these programs, the individual bonuses and the bonus program vest immediately, while the shares granted under the Finance Ministry program have a vesting condition of employment at the end of the deposit period also described below.

Bonus program
Richter operates a bonus share programme since 1996 to further incentive managers and key employees of the Company. In 2012 38,948 shares were granted to 464 employees of the Company while in 2011 39,358 shares were granted to 449 employees.

Individual bonuses
50,780 ordinary shares were granted to qualified employees as bonuses during the year while 51,508 ordinary shares were granted in 2011.

Recognised Staff Stock Bonus Plan
Pursuant to a programme approved by the Ministry of Finance related to employee share bonuses (Recognised Staff Stock Bonus Plan 2012-2014), the Company granted 45,681 treasury shares to 4,750 employees. The shares will be deposited on the employees' security accounts with UniCredit Bank Hungary Ltd. until 2 January 2015. In 2011 48,973 shares were granted to 4,760 employees deposited on their accounts until 2 January 2014.

The AGM held on 26 April 2012 approved that the Company may purchase its own shares for the treasury, the aggregated nominal value of which shall not exceed 10 percent of the registered capital of the Company. Based on this approval, the Company purchased 10,000 treasury shares at the Budapest Stock Exchange during the year, and a further 45,102 shares on the OTC market.

	Ordinary shares
Number of shares	
at 31 December 2011	**134,949**
Out of these, number of shares owned by subsidiaries	*10,550*
Share purchase	55,102
Issued as part of bonus program	(38,948)
Individual bonuses	(50,780)
Granted pursuant to the Finance Ministry-approved plan	(45,681)
Granted pursuant to the Finance Ministry – repurchased	1,244
at 31 December 2012	**55,886**
Out of these, number of shares owned by subsidiaries	*10,550*

Book value	**HUF m**
at 31 December 2011	**4,513**
Share purchase	2,035
Issued as part of bonus program	(1,405)
Individual bonuses	(1,832)
Granted pursuant to the Finance Ministry-approved plan	(1,642)
Granted pursuant to the Finance Ministry – repurchased	47
at 31 December 2012	**1,716**

27. Trade payables

	31 December 2012 HUF m	31 December 2011 HUF m
Trade payables	39,986	40,893
Amount due to related companies	47	123
Total	**40,033**	**41,016**

28. Other payables and accruals

	31 December 2012 HUF m	31 December 2011 HUF m
Accruals	6,940	6,522
Other liabilities	2,246	50,966
Fair value of open forward exchange contracts	504	249
Subtotal of financial liabilities	**9,690**	**57,737**
Wages and payroll taxes payable	3,964	3,343
Dividend payable	128	123
Deposits from customers	753	819
Accrual for costs of share options and other bonuses	480	267
Total	**15,015**	**62,289**

As announced at 6 October 2010, Gedeon Richter Plc. acquired a 100% ownership in PregLem. A purchase price up to CHF 445 million is payable, provided that certain milestone are achieved. PregLem shareholders received CHF 150 million in cash upfront and further milestone payments of up to CHF 295 million will be paid assuming achievement of all milestone targets, in 2011 CHF 65 million, while in 2012 CHF 170 million was settled as milestone payments.
A part of this deferred purchase price - two instalments of PregLem's purchase price which amounted to HUF 42,328 million - was presented as Other payables and accruals in the Consolidated Balance Sheet in 2011. No similar item is presented in the Balance Sheet in 2012 because last instalment is expected to be paid in 2015.

29. Provisions

	31 December 2012 HUF m	31 December 2011 HUF m
Other provisions	871	1,020
Provision for retirement liabilities	1,608	1,503
from this retirement defined benefit plans at the Parent (Note 29.1)	*880*	*804*
from this retirement defined benefit plans at GR Polska (Note 29.2)	*172*	*167*
Total	**2,479**	**2,523**

29.1 Retirement defined benefit plans at the Parent

Actuarial valuation related to retirement benefit plans

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

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

The valuation method

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

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

RESULTS

	2012 HUF m	2011 HUF m
Opening value of retirement benefit	804	1,045
Interest costs and current service costs	98	92
Actuarial gains and benefits payments	(22)	(333)
Retirement benefit	**880**	**804**
Amortisation of non-recognised past service costs	-	85
Interest cost	47	51
Current service costs	51	41
Pension costs	**98**	**177**
Opening value of provision	804	960
Benefits paid (release of provision) and actuarial gains	(22)	(333)
Current year provision	98	177
Closing value of provision	**880**	**804**
Non-recognised past service cost	-	-

The principal actuarial assumptions were as follows:

The estimation was perfomed based on the assumption that the employees will have a yearly increase in their wages 1% exceeding the inflation until their retirement similar to 2011.

Discount rate

The estimation is based on auction gain of Hungarian government securities (source Bloomberg).

For the years where auction gain data is provided this data was the base of the calculation. For the remaining (interim) period the discount rate has been determined with linear interpolation using 4% for 30 years and 3.0% for 40 years maturity for periods exceeding 15 years.

Assumptions regarding the benefit plans

According the statistics the following probabilities were used:

Probability of resigning from the Company before retirement

Term of employment 2012		**Ages 2012**	
	<30	**30-45**	**45<**
between 0 – 1 year	59.0%	51.0%	31.0%
between 1 - 5 years	58.0%	45.0%	22.0%
between 6 - 14 years	33.0%	29.0%	16.0%
between 15 - 29 years	8.0%	20.0%	13.0%
between 30 - 44 years	0.0%	2.0%	14.0%
over 45 years	0.0%	0.0%	6.0%

Probability of resigning from the Company before retirement

Term of employment 2011	Ages 2011		
	<30	30-45	45<
between 0 – 1 year	60.0%	50.0%	40.0%
between 1 - 5 years	60.0%	45.0%	25.0%
between 6 - 14 years	40.0%	30.0%	16.0%
between 15 - 29 years	0.0%	16.0%	14.0%
between 30 - 44 years	0.0%	3.0%	17.0%
over 45 years	0.0%	0.0%	1.0%

The probability of resigning has been split to ages of employees.

The statistics of resignation presented above are based on actual figures of the period 2008-2012 for 2012 and 2008-2011 for 2011.

29.2 Retirement defined benefit plans at GR Polska

Amongst the subsidiaries of the Richter Group, only Gedeon Richter Polska Sp. z o.o. accounts pension related benefits as provision set forth in the articles of the Union Agreement. Expenses allocated to pension related provision amounted to HUF 172 million on 31 December 2012 when compared to HUF 167 million reported on 31 December 2011.

According to Collective Labour Agreement of Gedeon Richter Polska Sp. z o.o. there is retirement benefit obligation which is described in details below:

Years of tenure	Amount to be paid as the percentage of the basis*	
	2012	2011
after 10 years	50%	50%
after 15 years	100%	100%
after 20 years	150%	150%
after 25 years	200%	200%
after 30 years	250%	250%
after 35 years	300%	300%
after 40 years	350%	350%

* The basis of additional retirement benefits is equal to average salary in the Company (average of 3 months).

Amounts recognized in the balance sheet

	2012 HUF m	2011 HUF m
Present value of the obligations	**172**	**167**
Liabilities recognised in the balance sheet	**172**	167
Current service costs	9	**9**
Interest costs	9	**8**
Net actuarial losses recognised in year	(3)	7
Expenses recognised in the income statement	**15**	**24**

Technical assumptions and principles of calculation

Parameters having a significant impact on the value of defined benefit obligations are the following:

- rate of staff turnover
- interest rate
- salary increase rate

For the year ended 31 December 2012. all amounts in HUF m

Staff turnover

The rate of mobility is based on historical data provided by Gedeon Richter Polska Sp. z o.o. According to this data the rate of turnover of staff at GR Polska is low and we assume that it will remain at this level in the future.
Under the adopted assumptions the expected rate of mobility will amount to 4.0% (in 2011 4.4%), which means that – according to the model - the employment of approximately 18 people (in 2011 20 people) will be terminated (natural mobility).
Theoretical number and structure of these employees:

Age	Men	Women	Men	Women
	2012		2011	
18 - 30	1	3	2	3
31 - 40	3	6	4	6
41 - 50	1	2	1	2
51 - 60	1	2	1	1
61 - ...	0	0	0	0

The mobility rate in the following years is assumed to be approximately on the same level (there might be changes due to the evolution of age structure of the employees).

Other actuarial assumptions

The source of death probabilities is the Central Statistical Office (the data can be found in the internet at www.stat.gov.pl).

Financial assumptions

The following financial assumptions have been adopted in the calculations for both 2011 and 2012:
- assumed rate of inflation amounts to 2.5% annually (according to monetary policy objectives assuming stabilisation of inflation rate at 2.5% with a possible fluctuation of +/- 1 percentage point).
- nominal rate of discount has been assumed to be equal to 5.5% annually (meaning real discount rate being equal to around 3.0%).
- salary increase rate has been assumed to be equal to 3.5% annually (1.0% above inflation). According to IAS 19 outlines, evaluation of future salaries takes into account the rate of inflation, years of service and employee's future promotions.
- the calculations have been performed in the Polish currency (PLN) and translated into Hungarian Forint (HUF) using the exchange rate prevailing on the balance sheet date.

Methodology of calculation

The calculation of defined benefit obligations has been performed for present employees of Gedeon Richter Polska Sp. z o.o. and does not concern those who will be employed in the future. It is based on the projected unit credit method.
According to this method each period of employment gives right to an additional unit of future employee benefits and each of these units is calculated separately. It is assumed that the salary of each employee will grow as assumed in the previous chapters.
The calculation of disability benefit obligations consists of determining the actuarial present value of benefits basing on data as on the day of calculation.

30. Borrowings

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

	31 December 2012 HUF m	31 December 2011 HUF m
Long-term borrowings	73,163	62,226
Short-term borrowings	148	164
Total	**73,311**	**62,390**

The long-term borrowing contains club credit facility of EUR 150 million taken in November 2010 by Gedeon Richter Plc. for 5 year period. The purpose of this facility is to finance general objectives of the Parent Company. The club comprises ING Bank Zrt, Raiffeisen Bank Zrt and K&H Bank Zrt.

In June 2011 Gedeon Richter Plc. and the European Investment Bank (EIB) signed a EUR 150 million credit line contract with a 9 year term comprising an initial 3 year period of grace followed by a 6 year repayment period. This agreement has as its aim the financing during the period of 2011-2014 of Richter's original research activities targeting compounds, which are active in diseases of the Central Nervous System, combined with the development of bio similar products. The total amount of the credit facility is to be utilised in several tranches within 18 months from the signing of the agreement. EUR 100 million credit instalment has been drawn down until 31 December 2012.

31. Other non-current liabilities

	31 December 2012 HUF m	31 December 2011 HUF m
Other non-current liability	11,568	9,708

As it is prescribed in Note 28, in connection with PregLem acquisition, milestone payments are payable assuming achievement of milestone targets stipulated in purchase agreement. Payments pending upon certain milestones criteria (EU approval of ESMYA® as long term on-off treatment of uterine fibroids) to be met in the future by PregLem are accounted for as a long term liability. The amount presented as Other non-current liabilities is the probability weighted present value of the outstanding milestone payments.

32. Dividend on ordinary shares

	2012 HUF m	2011 HUF m
Dividend paid on ordinary shares	12,211	16,009

A dividend of HUF 660 per share (HUF 12,211 million) was declared in respect of the 2011 results, approved at the Company's Annual General Meeting on 26 April 2012 and paid during the year.

33. Agreed capital commitments and expenses related to investments

	2012 HUF m	2011 HUF m
Capital expenditure that has been contracted for but not included in the financial statements	1,376	2,889
Capital expenditure that has been authorised by the directors but has not yet been contracted for	23,413	18,093

The capital expenditure programme of the Parent Company approved by the Board of Directors totalling HUF 24,789 million comprises all costs associated with capital expenditure planned for 2013. The above commitments were not recorded either in the Income Statement or in the Balance sheet.

34. Operating lease – Group as lessee

In 2012 HUF 6,442 million has been recorded as operating lease cost.

35. Guarantees given in respect of Group companies and third parties

Maximum amount of exposure as the result of guarantees:

	2012 HUF m	2011 HUF m
Bank guarantee given by Parent relating to Pharmapolis Gyógyszeripari Tudományos Park Kft.	-	3,000
Bank guarantee given by Medimpex Jamaica Ltd. (US$ 0.3 million)	66	72
Cash surety given by Gedeon Richter Romania S.A. for Pharmafarm S.A. (EUR 1.3 million)	379	405
Bank guarantee given by Gedeon Richter Polska Sp. z o.o.	12	11
Bank guarantee given by Richter Themis Ltd.	15	16
Bank guarantee given by Gedeon Richter Pharma GmbH	17	-
Bank guarantee given by PregLem S.A.	29	43

36. Social security and pension schemes

At the Parent Company social contribution tax amounting to 27 percent and vocational training contribution amounting to 1.5 percent of gross salaries were paid during 2012 to the National Tax and Customs Administration of Hungary. The Parent Company has no further obligations beyond the statutory rates in force during the year.

The Parent Company contributes 6 percent of the monthly gross wages for those employees who decided to participate in the scheme. In addition, a one-off contribution is made in respect of employees who are within five years of the statutory retirement age. The total cost of the contributions made by the Parent Company was HUF 904 million in 2012 (in 2011: HUF 850 million). The pension fund had a total of 6,360 members (in 2011: 6,345 members) in 2012, 4,340 of whom were members entitled to receive the Company contributions (in 2011: 4,313 members).

The Parent Company has contributed to a private health insurance fund for the benefit of its employees since 1 September 2003. Amounts paid were HUF 4,000/person/month in 2012 and in 2011. 4,785 employees are members of Patika Health Insurance Fund and the total amount paid on their behalf to the fund was HUF 230 million during 2012 (in 2011 it was HUF 250 million for 4,766 employees).

Pension contribution paid by Hungary based subsidiaries in respect of their employees amounted to HUF 31 million in 2012 and HUF 28 million in 2011.

Foreign subsidiaries pay contributions to various pension funds in respect of their employees which amounted to HUF 130 million and HUF 134 million in 2012 and 2011, respectively.

The social securities paid by the company and described above are Defined Contribution Plan.

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

37. Business Combination

The Group has no new acquisition in 2012.

37.1 Business Combination in 2011

In 2011 the Group via purchases of additional equity has increased the rate of its ownership in Richpangalpharma O.O.O. (Moldavia) and became fully consolidated company, while in the prior years it was consolidated at equity method. The Group recognised in the Consolidated Income Statement loss of HUF 385 million as a result of remeasuring to fair value its previously held 49% equity interest in Richpangalpharma O.O.O.

Step acquisition

	Carrying value HUF m	**Fair value** HUF m
Paid consideration satisfied by cash	**(39)**	
Property, plant and equipments	1,041	1,041
Other intangible asset	0	0
Other financial assets	0	0
Loans receivable	3	3
Inventories	1,509	1,509
Receivables	712	712
Cash and cash equivalents	43	43
Long term liabilities	(750)	(750)
Trade and other payables	(1,675)	(1,675)
Non controlling interest	(309)	(309)
Negative Goodwill		**(535)**

37.2 Business Combination in 2010 that are affected by the restatement

On 6 October 2010, the Group acquired 100% of the share capital of PregLem Holding S.A., a Swiss based, specialty biopharmaceutical company focused on the development and commercialisation of women's reproductive medicine.
The Acquisition of PregLem:

- Increases Richter's exposure to specialty pharma
- Develops Richter Group's presence in main European markets
- Complements Richter's existing Women's Health Franchise.

	Carrying value HUF m	**Fair value** HUF m Restated*
Paid consideration satisfied by cash	**(31,496)**	-
Contingent liability (non-current)	(32,987)	-
Contingent liability (current)	(13,648)	-
Total consideration	**(78,131)**	-
Property, plant and equipments	48	48
Intangible assets	2,891	2,891
Receivables	207	207
Cash and cash equivalents	3,070	3,070
Trade and other payables	(2,430)	(2,430)
Other intangible asset (ESMYA)	-	61,585
Deferred tax liability	-	(13,138)
Goodwill		**25,898**

* Restatement in connection with intangible assets (ESMYA), (Note 41).

PregLem was acquired 6 October 2010. This acquisition supports and provides a gynaecological portfolio and development of the Group's presence in Western Europe. The management expects to realise significant synergies on income and expenditures as a result of launching the products of PregLem.

All costs incurred in connection with PregLem acquisition were accounted in income statement as Administration and general expense.

38. Contingent liabilities

Uncertain tax position in Romania

From 1 October 2009 the Government approved a debated claw back regime in the range of 5-12 % (aimed at financing the overspending of the national pharmaceutical budget) to be paid to the CNAS by the domestic manufacturers and wholesalers from sales of reimbursed drugs. The Group has similar taxes in other countries which are treated as other expense in the consolidated financial statements. On 1 October 2011, a new version of Romania's pharmaceutical claw back mechanism came into force levying direct liabilities for the domestic and foreign manufacturers. No provision has been recorded related to the contingent liabilities for the periods preceding 1 October 2011. The uncertain tax position has not been quantified in the Financial Statements because there is an ongoing debate on the taxable person and the calculation of the tax, therefore reliable estimate can not be made on the exposure.
The new measures will apply to suppliers of medicines that are partly or fully reimbursed and the overspending of the national pharmaceutical budget has to be paid by the manufacturers based on their market shares. Negotiations between the pharmaceutical companies and the Government on an amendment and revision to the new claw back system are currently ongoing.

39. Disposal of subsidiary

The Group disposed of one of its joint-ventures Westpharma S.R.L. in year 2011 which did not materially impact the consolidated figures. No similar transaction occurred in 2012.

40. Related-party transactions

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

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

	2012 HUF m	2011 HUF m
Dividend paid to MNV Zrt.	3,102	4,030

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

40.1 Related parties

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

	31 December 2012 HUF m	31 December 2011 HUF m
Loans to associated companies	3,800	2,869
Related receivables (joint ventures)	135	90
Related receivables (associates)	3,391	2,877
Related payables (associates)	47	106
Revenue from joint ventures	782	705
Revenue from associates	12,079	12,950

The loans are nominated in Hungarian Forint, and have maturity date of 2014 and 2016 in the amounts of HUF 1,500 million and HUF 2,300 million respectively.
All related-party transactions were made on an arm's length basis.

40.2 Remuneration of the Board of Directors and the Supervisory Board

	Short-term benefits - Allowance	
	2012 HUF m	2011 HUF m
Board of Directors	76	73
Supervisory Board	28	36
Total	**104**	**109**

40.3 Key management compensation

	31 December 2012 HUF m	31 December 2011 HUF m
Salaries and other short term employee benefits	700	717
Share based payments	1,305	1,326
Total short term compensation	**2,005**	**2,043**
Pension contribution paid by the employer	541	552
Total	**2,546**	**2,595**

The table above contains the compensation received by the chief executive officer, directors and other senior member of management, constituting 42 people.
There were no redundancy payments to key management members neither in 2011 nor 2012.

41. Adjustments in connection with Consolidated Financial Statements as of 31 December 2010 and 2011

The Group has used an incorrect income tax rate for the accounting of the acquisition as of 6 October 2010 in Switzerland and for the accounting of the corresponding Deferred tax liability as of the year end 2010 and 2011. As a result related figures for the years 2010 and 2011 were restated. The restatement has been made retrospectively. The restatement effects the Goodwill, Other intangible assets and Deferred tax liability as of 1 January, 2011, therefore the opening balances of the comparative period for other disclosures have not been presented. The effect of this adjustment is in the following table:

Consolidated Balance Sheet

	1 January 2011 HUF m As previously presented	Change HUF m	1 January 2011 HUF m Restated	31 December 2011 HUF m As previously presented	Change HUF m	31 December 2011 HUF m Restated
Goodwill	29,933	50	29,983	33,686	57	33,743
Other intangible assets	155,183	-5,577	149,606	165,120	-6,372	158,748
Foreign currency translation reserves	686	-	686	21,711	-13	21,698
Retained earnings	398,154	-	398,154	431,612	-99	431,513
Deferred tax liability	19,680	-5,527	14,153	20,357	-6,203	14,154

Consolidated Income Statement

	2011 HUF m As previously presented	Change HUF m	2011 HUF m Restated
Income tax	(119)	-99	(218)
Profit for the year	49,552	-99	49,453
Profit attributable to owners of the parent	49,380	-99	49,281

Consolidated Statement of Comprehensive Income

	2011 HUF m As previously presented	Change HUF m	2011 HUF m Restated
Profit for the year	49,552	-99	49,453
Exchange differences arising on translation of foreign operations	21,276	-13	21,263
Total comprehensive income for the year attributable to owners of the parent	67,017	-112	66,905

Since the restatement had an impact the Profit attributable to owners of the Parent it effected the EPS of 2011:

Consolidated Earnings per Share	2011 HUF As previously presented	Change HUF	2011 HUF Restated
EPS (basic)	2,655	-6	2,649
EPS (diluted)	2,649	-5	2,644

The restatement did not have any impact directly on the Cash and cash equivalents balance and the Cash flow Statement. Restatement resulted in a decrease of HUF 99 million in Net income attributable to owners of parent company against Income tax recognised through profit or loss therefore it did not effect the Net cash flow from operating activities.

42. Events after the date of the balance sheet

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.

In January 2013 the Company drew down the third tranche (EUR 50 million) of the EUR 150 million EIB credit facility.

Except for the above mentioned events, there were no events after balance sheet date that would influence the presentation of the Group financial statements.

43. Approval of financial statements

Current consolidated financial statements have been approved by the Board of Directors and authorised for release at 22 March 2013.

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

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CONFIDENTIAL

CONSOLIDATED BUSINESS REPORT 2012

Erik Bogsch
Managing Director

Budapest, 22 March 2013

ɸL 1.

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1. General data

1.1 Brief History of Richter Group

The parent company

Gedeon Richter Plc. 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: nearly 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 Group 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 Group.

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.

Major consolidated companies and related changes in the Group

a. Pharmaceutical segment

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 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. KG**'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 PR support to Richter products. The products promoted by the Czech, Slovak and Slovenian subsidiaries also include some of those resulting from Richter's 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.

b. Wholesale and Retail segment

Romania

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

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.

Pharmafarm S.A. is the Group's wholesale company in Romania. 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.** 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.

c. Other Companies segment

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.

Impact of the market environment; the Group's global activity

With its global business comprising five continents, Richter Group 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. The Group'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 response to the economic crisis in Russia the parent 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, building long-term co-operations in supplying active ingredients. The primary focus of the Group 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 the Group 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 Richter 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 Group 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 Group'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 Hungarian 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 parent 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 Group'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 parent 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.

1.3 Share structure of Gedeon Richter Plc.

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 held by the Group

Parent company	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

As of 31 December 2012 the subsidiaries held a total of 10,550 Richter shares.

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

In keeping with the programme approved by the National Tax and Customs Administration of Hungary (NAV) related to employee share bonuses the Company granted 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 of the parent company 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.

At Richter's Annual General Meeting on 26 April 2012, the following directors were re-elected to serve on the Board of Directors for a period of three years until the 2015 Annual General Meeting:

Dr. Attila Chikán

Mr. Gábor Tóth (employee representative)

Mr. Jenő Fodor (employee representative).

The AGM elected the following persons to serve on the Supervisory Board for a period of three years until the 2015 Annual General Meeting:

Dr. Jonathán Róbert Bedros and

Mrs. Tamásné Méhész.

The AGM approved the appointment to the Audit Committee of Dr. Attila Chikán, Dr. Jonathán Róbert Bedros and Mrs. Tamásné Méhész for the three-year period until the 2015 AGM.

1.6 Site (parent company)

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 parent 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 parent 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, income statement and cash flow statement data according to IFRS. Availing itself with the option provided by the Hungarian Accounting Act, since 2005 Richter has only prepared financial statements in accordance with IFRS, consolidating all of its subsidiaries, joint ventures and associated companies with the parent company.

2. The Group's 2012 operating review

2.1 The balance sheet as of 31 December 2012

At the close of 2012 the first consolidation of PregLem was revised and corporate tax rates were harmonized in the valuation of Esmya as an intangible and in the calculation of deferred tax on Esmya as an intangible asset. As a result, some of the items of the audited 2010 and 2011 financial statements were restated. The value of the intangible asset Esmya upon the first consolidation in 2010 was reduced by HUF 5,577 million, consequently, the goodwill on the remainder of the buyout price increased by an equivalent amount. The deferred tax reported on the intangible asset was reduced by HUF 5,527 million. The goodwill offsetting the deferred tax liability was likewise reduced by HUF 5,527 million. As a result of these two opposing effects there was only a slight change, a HUF 50 million increase, in goodwill. While there was no change in the 2010 income statement there was a slight change in the 2011 income statement and the report on shareholders' equity (after-tax profit was reduced by HUF 99 million because of the change in the balance of deferred tax, and revaluation reserve was reduced by an additional HUF 13 million). The combined effect of all these changes is captured in the modified balance sheet for 2011. In what follows the figures as of 31 December 2012 are compared to the modified items of the 31 December 2011 statements.

ASSETS

The Group's assets amounted to HUF 672,237 million, HUF 9,733 million (-1.4 %) less than the opening value. Fixed assets were up by HUF 3,173 million, current assets decreased by HUF 12,906 million.

Fixed assets

Invested assets amounted to HUF 376,442 million in the reported period, HUF 3,173 million (or 0.9 %) up from the reference figure. The increase is attributed primarily to the increase in long-term securities and the change in the fair value of the Russian wholesale and retail group Protek. The value of intangibles was substantially less in the wake of the change in the value of the intangible asset Esmya upon the first consolidation. Moreover, the value of Esmya reported in this line item was restated in accordance with IAS 21, and amortisation started as the product was launched, pursuant to the provisions of IFRS 3. This caused a negative effect of HUF 6,176 million (3.9%) compared to the restated value as of 31 December 2011.

Current assets

The value of current assets dropped by 4.2%, from HUF 308,701 million in the reference year to HUF 295,795 million in the reported year. The main balance sheet item contributing to the change is cash and cash equivalents: the instalments due in connection with the acquisition of PregLem as well as the dividends from the 2011 earnings approved by the AGM were paid; on the other hand, cash and cash equivalents were increased by the drawdown of the second EUR 50 million tranche of a EUR 150 million five-year loan from the EIB to finance Richter's research focusing on compounds affecting the central nervous system and the development of biosimilar products.

SHAREHOLDERS' EQUITY AND LIABILITIES

- In 2012 *shareholders' equity* was HUF 520,074 million, or 6.2%, higher compared to the restated 31 December 2011 figure.

- The Group's *total liabilities* amount to HUF 152,163 million.
  Non-current liabilities were HUF 94,365 million, HUF 8,277 million above the restated 31 December 2011 figure. Liabilities are increased by the third tranche of the above mentioned EIB loan extended to finance R&D projects and drawn by the parent company in January 2012 and the revaluation of loans as of the balance sheet date. Deferred taxes payable were HUF 4,520 million less than the restated closing value.
  Current liabilities amounted to HUF 57,798 million as of 31 December 2012, 45.5% below the 31 December 2011 figure, primarily in conjunction with recognition of the next instalment due of PregLem's purchase price.

2.2 The 2012 income statement

The Group's profit after taxes for 2012 was HUF 49,080 million, 0.8%, or HUF 373 million, lower than the restated last year's result. The income from export and financial result items boosted after-tax profit, while increasing operating costs reduced it.

Richter Group's activity can be classified into three operating segments. The Pharmaceutical segment includes the companies that are involved in the Group's core business, i.e. research, development, and production of pharmaceutical products. Following the decision of the parent company's management, as of 1 January 2012 Group trading and marketing companies that are directly involved in product sales and promotion were transferred from the Other Companies segment to the Pharmaceutical segment. Wholesale and Retail contains the performance of the Group's distribution and retail companies (pharmacies) that are involved in getting the products to the end-user as parts of the pharmaceutical supply chain of the various regional markets. As of 1 January 2012 the Group's Jamaican subsidiaries active in distribution have also been transferred from the Other Companies segment to Wholesale and Retail. The third operating segment (Other Companies) presents all the other consolidated companies that provide services in support of the production members of the Group. For the sake of comparability the 2011 reference figures have been drawn up according to the new classification.

	Pharmaceuticals		Wholesale and Retail		Other		Eliminations		**Group total**	
	2011 * HUF million	2012 HUF million	2011 * HUF million	2012 HUF million	2011 * HUF million	2012 HUF million	2011 * HUF million	2012 HUF million	**2011 * HUF million**	**2012 HUF million**
Total sales	271,692	286,479	40,378	46,166	3,713	3,888	(7,915)	(9,831)	**307,868**	**326,702**
Gross profit	186,655	195,096	5,605	5,480	1,447	1,431	(368)	(304)	**193,339**	**201,703**
Operating profit	63,160	50,426	2,300	(1,334)	275	116	(208)	(255)	**60,927**	**48,721**
Share of profit of associates	-	-	(4,234)	342	-	-	-	-	**(4,234)**	**342**
Closing headcounts	8,997	9,294	1,421	1,451	355	358	-	-	**10,773**	**11,103**

* Reference figures have been converted in order to reflect changes in the reclassification of Group companies into segments.

2.2.1 Income from sales

Income from the Pharmaceutical segment

	2011 HUF million	2012 HUF million	Variance HUF million	%
Hungary	34,424	29,660	-4,764	-13.8
Export				
CIS	119,226	136,568	17,342	14.5
EU *	81,304	87,766	6,462	7.9
USA	20,513	16,123	-4,390	-21.4
Other countries	16,225	16,362	137	0.8
Export total	237,268	256,819	19,551	8.2
Total	271,692	286,479	14,787	5.4

* Excluding Hungary

Net income from sales totalled HUF 286,479 million, a HUF 14,787 million increase on the 2011 figure.

Income from the 2012 Pharmaceutical segment's sales in Hungary was 13.8 % lower compared to the reference year. Export in HUF was 8.2% up; and in EUR, 4.8% up year-on-year.

Changes in the breakdown of export by regions in the reported year: The largest contributor (48%) continues to be the CIS, which was four percentage points up from the reference year. The EU Member States gained one percentage point and contributed 31%; the contribution of Other countries was 6%. Hungary and the United States dropped by 3 percentage point and 2 percentage point respectively (to 10% and 5%).

Based on the 2012 year-end figures, the Pharmaceutical segment realized HUF 29,660 million sales **in the Hungarian market**, 13.8% (or HUF 4,764 million) below the 2011 figure.

Lower turnover can be attributed mainly to Avonex, Rosuvastatin, Calumid and Quamatel. In 2012 oral contraceptives were the leading item in terms of sales.

The 12% tax payable until 1 July 2011, then 20% tax payable thereafter on the full-year amount of subsidy calculated on the producer prices of reimbursed products under the Dug Economy Act cost the parent HUF 1,037 million in 2011 and HUF 487 million in 2012.

Richter made use of the tax benefit granted in proportion to R&D expenditure. Pharmaceutical representatives' registration fee (HUF 0.4 million per month per representative, later increased to HUF 0.8 million per month per representative) cost Richter HUF 639 million in 2011 and HUF 431 million in 2012 after deducting the allowance.

Richter's share in the Hungarian market was 5.3%, 0.6% less than in the reference year. The parent company ranked third in the prescription drugs market with a share of 7.1%.

Income from **exports** in the Pharmaceutical segment was up from HUF 237,268 million (EUR 847.4 million) in 2011 to HUF 256,819 million (EUR 888.3 million) in 2012.

Russia continues to be the leading market of the **CIS region**, with a turnover denominated in EUR 6.5% exceeding the reference year figure. Russia continues to be the Group's most important export market. The Group achieved the above increase owing to its efficient promotional and marketing activities despite mounting competition in the generic market. The best performing products were Mydocalm, oral contraceptives and Mertenil.
In Ukraine stabilization of the economic environment, efficient marketing promotions and preliminary shipment for registration reasons jointly resulted in a significant increase in the Group's sales income. Turnover also increased in terms of the combined achievement of the other CIS countries.
The total turnover achieved in the CIS market was HUF 136,568 million, 53.2% of total export. Year-on-year increase was 14.5 % (HUF 17,342 million). Expressed in Forex, the turnover was EUR 472.4 million with an 11.0 % increase.

Sales in the **European Union** totalled HUF 87,766 million, 7.9% above the 2011 figure. The region's contribution to exports grew to 34.2%. Expressed in Forex, the increase amounted to EUR 303.5 million with a 4.5% increase.

The turnover realized in the pharmaceutical markets of the EU 15 region was roughly the same as in the reference year.
Despite keen competition and various restrictions imposed by national governments sales in the CEE member states of the region were 4.7% higher year-on-year, denominated in euro. In the CEE countries turnover increased due to the launch of new products in Poland, the Czech Republic, Bulgaria and the Baltic States.

Sales in the **United States** dropped by 21.4 % (HUF 4,390 million), or, expressed in USD, by 29.7% (USD 30.3 million) due primarily to dropping payments pursuant to profit sharing agreements. Keen competition continued to have a negative effect on turnover.

In the category of **Other countries**, oral contraceptives were the leading products; at the same time this is the category where the drop in sales was greatest.

The turnover generated in the Other countries category amounted to HUF 16,362 million (EUR 56.6 million) with a year-on-year increase of 0.8% (HUF 137 million), and in Forex sales, with a year-on-year decrease of 2.2% (EUR 1.3 million). The contribution of this region to total export was 6.4 %.

The contribution of priority products to the Pharmaceutical segment's sales

Finished products contributed over 90 % to the 2012 sales revenues. The contribution of APIs was 3 %.

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	80,775	29.7	1	Oral contraceptives	82,383	28.8
2	Cavinton/vinpocetine	19,531	7.2	2	Cavinton/vinpocetine	19,699	6.9
3	Panangin/asparaginates	16,459	6.1	3	Mydeton/tolperisone	18,458	6.4
4	ACE inhibitors /enalapril, lisinopril	15,861	5.8	4	ACE inhibitors /enalapril, lisinopril	16,098	5.6
5	Mydeton/tolperisone	14,824	5.5	5	Panangin/asparaginates	15,476	5.4
6	Verospiron/ /spironolactone	9,987	3.7	6	Verospiron/ /spironolactone	12,040	4.2
7	Quamatel/famotidine	8,215	3.0	7	Quamatel/famotidine	7,978	2.8
8	Lisonorm /lisinopril, amlodipine	5,880	2.2	8	Lisonorm /lisinopril, amlodipine	7,187	2.5
9	Xeter/rosuvastatin	5,281	1.9	9	Aflamin/aceclofenac	5,636	2.0
10	Suprax/cefixime	5,134	1.9	10	Xeter/rosuvastatin	5,585	1.9
	Total	181,947	67.0		Total	190,540	66.5
	Net income from sales	*271,692*	*100.0*		*Net income from sales*	*286,479*	*100.0*

The contribution of the ten leading product categories to total sales was 66.5%, 0.5 percentage points lower than the reference year's figure.

Oral contraceptives are the leading products with a turnover of HUF 82.4 billion, 2.0% higher than in 2011. The change is due primarily to an increase in the Russian, German, French and Ukrainian markets. The contribution of this product category to total turnover was 28.8%, 0.9 percentage points less than last year. The runner-up proprietary drug Cavinton realized almost HUF 168 million higher turnover than in the reference year thanks to sales in Ukraine and Romania. Ranked 5th in the 2011 list, Mydeton overtook the reference year's 3rd and 4th best selling products thanks to soaring sales in Russia. The performance of ACE inhibitors exceeded the reference year figure; on the other hand, Panangin fell short of the reference year sales by HUF 983 million as a result of declining sales in Russia. There was no change in the order of the next two products, mainly because of strong sales in the Russian and Ukrainian markets. Ranked 8th, Lisonorm increased its sales by HUF 1.3 billion; a new advent on the list of Top Ten is Aflamin gaining ground in the CIS and Poland; conversely, Rosuvastatin slipped to 10th place.

The contribution of leading markets to the sales of the Pharmaceutical segment

In 2011 the Pharmaceutical Production segment's ten leading markets were as follows:

		2012	
		HUF million	EUR million
1.	Russia	97,388	336.9
2.	Hungary	29,660	102.6
3.	Poland	22,622	78.2
4.	Ukraine	19,400	67.1
5.	Germany	16,150	55.9
6.	United States of America	16,123	55.8
7.	Romania	9,049	31.3
8.	Czech Republic	8,402	29.1
9.	Slovak Republic	6,096	21.1
10.	Kazakhstan	5,154	17.8
	Total	230,044	795.8
	Net income from sales	*286,479*	*990.9*

The ten leading countries jointly contributed 80.3 % to Richter Group's total pharmaceutical sales. Russia stayed at the head of the list with sales massively rising for the reasons mentioned above. Despite a declining turnover Hungary managed to keep its position. Poland stepped one place up with a HUF 3.1 billion increase in sales. Increasing oral contraceptive and Panangin sales landed Ukraine 4th place, and Germany managed to keep its position. Due to decreasing income under the profit sharing agreement the U.S. slipped to 6th place. There was no change in the last four places.

Turnover of the Wholesale and Retail segment

	2011 HUF million	2012 HUF million	Variance	
			HUF million	%
Hungary	553	407	-146	-26.4
Export				
CIS	6,359	10,097	3,738	58.8
EU *	30,760	32,448	1,688	5.5
USA	-	-	-	-
Other countries	2,706	3,214	508	18.8
Export total	39,825	45,759	5,934	14.9
Total	*40,378*	*46,166*	*5,788*	*14.3*

* Excluding Hungary

Based on the year-end figures for 2012 the Wholesale and Retail segment realized HUF 46,166 million (EUR 159.7 million) income from sales, 14.3% (10.7%) above the 2011 figures.

The most significant portion of income generated by this segment was contributed by the Romanian pharmaceutical wholesale companies and Gedeon Richter Farmacia network of pharmacies. Sales in Romania was 5.5% higher expressed in in HUF and 2.2% higher expressed in EUR y/y. Due to the Central Insurance House's continued delays in payments to pharmacies the Romanian pharmaceutical market is still characterized by massive delays in paying outstanding dues to pharma companies.

The rise in the Romanian region was further boosted by the performance of the wholesale and retail networks in the CIS (Moldova and Armenia).

Among the leading products of Wholesale and Retail, income from the sales of Cavinton, Lisopress, Moduxin, Verospiron and Panangin increased.

Turnover of the Other Consolidated Companies segment

	2011 HUF million	2012 HUF million	Variance HUF million	Variance %
Hungary	3,541	3,721	180	5.1
Export				
CIS	148	131	-17	-11.5
EU *	23	36	13	56.5
USA	0	0	0	0
Other countries	1	0	-1	-100.0
Export total	172	167	-5	-3.0
Total	*3,713*	*3,888*	*175*	*4.7*

* Excluding Hungary

The turnover of the Other Consolidated Companies segment was 4.7% up in HUF, 1.5% up in EUR and 6.5% down in USD compared to the 2011 reference year figures.

2.2.2 Costs of sales and cost of operation; operating profit

Costs of sales amounted to HUF 124,999 million (EUR 432.4 million), HUF 10,470 million (EUR 23.4 million) more than the figures achieved in 2011. Sales of Esmya for the indication of pre-operative treatment of uterine fibroids commenced in some of the European countries, consequently a HUF 1,791 million amortisation was reported in conjunction with the product as an intangible asset from the second quarter of 2012.

As a result of Pharmaceutical Production's improving margin **gross profit from sales** was HUF 201,703 million, 4.3% higher year-on-year. The **gross margin** was down from 62.8% in the reference year to 61,7% in 2012. The gross margin was negatively affected by the increasing turnover of Wholesale and Retail, as well as declining sales in the U.S.A. and Hungary, and was boosted by the above-the-average sales increase in the CIS and the worsening HUF/EUR rate compared to the reference period.

Within the operating costs item **sales and marketing costs** amounted to HUF 92,794 million in the reported year, 17.3% higher year-on-year. Sales and marketing costs were 28.4 % of sales revenues in the period of reporting. Sales and marketing costs were strongly affected by the ongoing expansion of the Western European gynaecological network, as well as marketing and promotion related to the launch of Esmya. Amortisation of marketing and brand related rights of the contraceptives acquired from Grünenthal added HUF 4,355 million to the level of costs and constituted 1.3% of total sales. Domestic pharmaceutical representatives' registration fee payable pursuant to the Drug Economy Act totalled HUF 431 million in 2012. Richter was able to reduce its 2012 tax payable by 90% of the 2011 extraordinary tax liability, in accordance with the latest amendment of the regulations relevant to this tax type.

In 2012 **administrative and other operating costs** amounted to HUF 20,179 million, 17.3% less than in the reference year. The 2011 administrative and operating costs included the one-off commitment related to the medium-term incentive system due to PregLem's management *pro rata temporis* resulting in a high reference year value, followed by cost reduction in 2012.

The rate of **R&D expenditure** to sales incomes was 11.9 % in 2012 and amounted to HUF 38,847 million, 35.3 % above the reference year figure. The Group's biggest R&D expenditure item was the costs of joint clinical trials with Forest Laboratories still in progress, as well as PregLem's research expenditures and those on biotechnology research in Hungary and Germany.

The balance of **other income and expenditure** changed from HUF 172 million expenditure in 2012 to HUF 1,162 million in 2012. The one-off milestone incomes reported in 2012 improved the balance; conversely, in the reference year the compensation paid by Genefar resulted in a much more substantial (HUF 8.1 billion) improvement in the balance. On the expenditure side, in 2012 HUF 654 million was reported, as opposed to

HUF 5,041 million in 2011, in respect of the change in the likelihood of payment of the deferred portion of the purchase price to PregLem's previous shareholders.

The 20% tax payable thereafter on the full-year subsidy calculated on the producer prices of subsidized products under the Dug Economy Act amounted to HUF 487 million in 2012. Richter was able to reduce its 2012 tax payable by 90% of the 2011 extraordinary tax liability, in accordance with the latest amendment of the regulations relevant to this tax type.

Under the new claw-back system the amount of dues is set by the Romanian authorities based on the return from sales of subsidized products and comparing it to the support envisioned in the budget. In 2012 Richter Group's production companies accounted for RON 12.8 million taxes.

The 2012 *profit from operations* was HUF 48,721 million. The positive effect of favourable exchange rates in H1 of 2012 and the one-off milestone incomes were offset by the rising marketing and R&D costs. In addition, the Group also realized an outstandingly high one-off income. Thus the consolidated operating profit dropped from 19.8% in 2011 to 14.9% in 2012. Following the 2010 acquisitions amortisation on the acquired contraceptives portfolio and Esmya was reported as a new item amounting to HUF 6,146 million in the reported period.

2.2.3 Other profit and loss statement items

Net financial income

In 2012 net financial income was a profit of HUF 858 million as opposed to HUF 7,022 million loss in 2011.

At year-end Forex assets and liabilities were reassessed and reported under Unrealized financial items. The balance of restatement was HUF 9,004 million profit in the reported year, HUF 12,665 million higher than the HUF 3,661 million loss in 2011. The HUF 3,004 million loss resulting from the change in time value of the liability in relation to PregLem was partially offset by the gains resulting from the restatement of exchange rates related to this liability, which is reported in the Restatement of other currency related items.

On 14 June 2011 the European Investment Bank and Gedeon Richter Plc. signed a credit line agreement amounting to EUR 150 million to finance original CNS research and the development of biosimilar products. The second EUR 50 million tranche of the credit line was drawn on 30 January 2012.

The loss from realised FX differences for 2012 resulted mainly from the considerable strengthening of the forint compared to the 2011 year-end rate. Exchange rate losses realized from trade receivables and payables were HUF 3,905 million and exchange rate loss amounted to HUF 3,379 million.

In Q2 of 2012 the instalment of the acquisition price due upon the granting of European marketing authorization to the first indication of Esmya was paid to PregLem's previous shareholders; this was followed by another instalment payment in Q3 in conjunction with the Phase III trials of Esmya's indication for long-term periodic treatment.

	2011 HUF million	2012 HUF million	Variance HUF million
Unrealised financial items	**(13,025)**	**5,745**	**18,770**
Restatement of currency related trade receivables and trade payables	2,248	3,912	1,664
Restatement of currency loans given	132	(81)	-213
Restatement of loans received	(5,504)	4,191	9,695
Restatement of other currency related items	(537)	982	1,519
Time value change of PregLem liability	(4,493)	(3,004)	1,489
Unrealised forward contracts as of 1 January	(64)	249	313
Unrealised forward contracts as of the balance date	(249)	(504)	-255
Impairment of holdings	(4,558)	-	4,558
Realised financial items	**6,003**	**(4,887)**	**-10,890**
Result of forward exchange contracts	189	(138)	-327
Exchange losses/gains realised on trade receivables and trade payables	2,089	(3,905)	-5,994
Exchange rate gains/(losses)	1,744	(3,379)	-5,123
Dividends	59	308	249
Interest received	3,415	4,652	1,237
Interest paid	(1,266)	(1,805)	-539
Other	(227)	(620)	-393
Net financial income	**(7,022)**	**858**	**7,880**

Closing rates applied in restatements:

	31.12.2011	31.12.2012	30.06.2012	30.09.2012	31.12.2012
EUR/HUF	311.13	295.60	288.22	283.71	291.29
USD/HUF	240.68	221.60	229.13	219.17	220.93
CHF/HUF	255.91	245.33	239.88	234.51	241.06

Profit before taxes

The 2012 profit before taxes amounted to HUF 49,921 million, HUF 250 million higher than in 2011.

As of 1 January 2012 Gedeon Richter Plc.'s 100% corporate tax break ceased. Henceforth the parent company pays taxes in accordance with the general Hungarian provisions on taxation, however, it is entitled to write off 90% of the direct costs of R&D from its taxable income. Furthermore, the parent company is entitled to development related tax allowance in conjunction with the Debrecen biosimilar plant investment in both 2012 and 2013. Other Group companies are taxed in accordance with the taxation laws of their domicile. In both 2011 and 2012 the balance of the Group's corporate and deferred taxes was significantly improved by the recalculation and adjustment of the value of the deferred tax payable mainly related to PregLem's activity.

Profit after taxes

Profit after taxes was HUF 49.080 million in the reported period, HUF 373 million lower than the 2011 Group profit.

After a HUF 16 million decrease in 2011 *after-tax profit of the parent company's shareholders* was HUF 49,265 million by 31 December 2012, and was 15.1% of the sales revenues as opposed to 16.0% in the reference period.

3. Functional activities of the Group

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 R&D 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.

The parent company's 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 Group 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	
	Ph3	USA		Watson Laboratories
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 Group 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.

Richter Group's development activities are undertaken by three members: the parent company, Gedeon Richter Polska and Gedeon Richter Romania. Allocation of tasks to the development sites is determined by availability of capacities, patent conditions and the need for specialized skills. All three sites have modern facilities including state-of-the-art technological and analytical instruments. In 2012 the Budapest development site expanded its instrument stock in order to support biotechnology and other special product development activities representing high intellectual added value. 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 Group's Indian member Richter-Themis is active in API development.

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 Group 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 Group continued the major investment programme commenced in previous years with a view to safeguardings 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 processed in accordance with cGMP (API, injectables and tablet production and packaging), and ongoing quality assurance support to the parent company's biotechnology construction projects in Debrecen.

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

Similarly to previous years, Group companies had regular inspections by the competent authorities in 2011. Mention should be made of the inspection by the U.S. Food & Drug Administration (FDA), concluded favourably.

3.3 Production

Production in the manufacturing plants was in line with the amounts required by the market: at Group level, the output of plants in terms of numbers of boxes was 6% higher over the reference year figure; 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.

Manufacturing subsidiaries slightly increased their output. Technology transfers to the Russian production subsidiaries were steps taken in preparation for tightening requirements in Russia.

The Indian subsidiary manufacturing APIs and intermediate products managed to increase the volume of some of its products and improved the exploitation of capacities. Mass production and validation continued in 2012 and are expected to lead to an even better exploitation of production capacities.

Cooperation between the parent company and the subsidiaries that are active in the pharmaceutical production business has been intensive and involves an increasing number of products; in addition to manufacturing own-produced products, it takes the shape of product transfer, sourced production and development; as a result, the Group's Polish, Russian and Romanian members are becoming reliable sourcing companies.

3.4 Technology

In recent years Richter 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.

Environmental protection, occupational health and safety

Operating in accordance with environmental standards is a priority for Richter Group particularly in countries where the Group has production facilities.

The audits of the parent company's 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.

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

Operation of the production subsidiaries is in full conformity with the environmental, health and safety regulations, as proved by regular inspections by the competent authorities.

3.5 IT support

The Group'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 the parent company's 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 Group'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 policy is critical for enhancing and sustaining the performance of each member of Richter Group. Supporting the professional development and improving the quality of life of staff and retention of high performers are priority tasks.

As of 31 December 2012 the Group's combined headcount was 11,103, 7,364 of whom work in white-collar positions including 6,217 university or college graduates. The headcount of the parent company was 6,677 at the same time.

5. Capital expenditure

Capital expenditure and intangible assets amounted to HUF 29,677 million (EUR 102.7 million) in 2012 as opposed to HUF 32,285 million (EUR 115.3 million) in 2011. Capital expenditure was dominated by the projects deployed by the parent company.

In 2012 capital expenditure related to creating the capacities for biotechnology research, development and production in Hungary amounted to HUF 4,518 million (EUR 15.6 million).

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. Also in Debrecen a modern low-volume sterile plant was finished and commissioned for product development purposes based on the API manufactured in the facility.

At the Group's Budapest production facility the most important capex projects aimed at traditional pharmaceutical manufacturing included the purchase of two hormonal products packaging lines in the Packaging Plant in order to eliminate capacity shortage resulting from the acquisition of the Grünenthal portfolio, as well as the acquisition of machines and equipment as part of the upgrading of the Injectables Plant. In the field of API manufacturing, investments were typically aimed at maintaining production capacities in both Budapest and Dorog. Environmental and safety projects included the upgrading of the wastewater system in Dorog, the revamping of the HVAC system of the API production facilities, the preventive investments related to the Environmental and Occupational Safety and Health Management Systems (KIR-MEBIR), and the upgrading of central systems improving safe energy supply.

Major capex projects of the subsidiaries included expenditures on production companies.

Capex projects at the Russian subsidiary were aimed mainly at logistics, production, quality management and technology (warehouse of finished goods, expansion of production capacities, infrastructure development related to production capacity expansion, lab development).

The focus at the Polish subsidiary was on production, in particular on tablets production.

The Romanian subsidiary's investment activities envisioned primarily strategic projects supporting Gedeon Richter Romania's role within the Group. The company's specific needs in terms of capacity development and upgrading were not neglected either: in this context a new packaging line and a coating machine were purchased.

6. 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	- Regular analysis of market environment, monitoring changes in the legal and medical subsidy system - Communication with authorities - Cost management adaptation
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	- Identifying competitive advantages - Focusing on new proprietary and value added products - Launching new generic products - Regularly performed competitor, industry and effectiveness analysis
Macroeconomic factors	Risk of changes in macroeconomic factors affecting the company's markets with special regard to the impacts of the financial crisis	- Monitoring changes in major macroeconomic factors, incorporating their effects into the planning - Cost management and adaptation of customer relations

Operational risks

Risk	Description	Key risk management methods
Original and biosimilar R&D	Risk relating to the success of original research and biosimilar development	- Focusing original research on CNS and gynaecology lines - Determining milestones of original research and biosimilar development - Assessment of programs and decision-making within the Research Council
Specialized marketing network in Western Europe	Risks related to the development of specialized Western European sales and marketing support of gynaecological products	- Company-level projects for the acquired gynaecological portfolio and the coordination of the launch of Esmya - Setting up a new organizational unit for the management of gynaecological promotion
Qualified workforce	Risk relating to retention of employees in key positions and ensuring qualified workforce	- Periodic revision of HR strategy - Training plans, career and succession programs - Incentive and performance assessment system

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	- Implementing Quality systems and Standard Operational Processes (SOP) - Monitoring the compliance with health authority regulations
Intellectual property, patents and litigations	Risk relating to patents and patent rights	- Continuous assessment and monitoring of intellectual property and patents - Enforcement of intellectual property rights - Conclusion of risk mitigation agreements
Contracts and liabilities	Risk relating to managing contractual liabilities and enforcing contractual terms	- Centralised contracting processes - Special treatment of unique contracts

Financial risks

Risk	Description	Key risk management methods
Credit and collections	Risk relating to cash and receivables collection procedures	- Customer rating - Establishing payment terms and credit limits - Regular review of receivables - Insurance of CIS customers' credits with MEHIB
Foreign exchange rate	Unfavourable changes in the exchange rate of the company's key foreign currencies	- Calculating annual open FX positions and monitoring key FX rates - Natural hedging through FX loans
Capital structure, cash management and financial investment	Risk relating to the effective management of the Company's cash needs and cash funds	- Developing and monitoring cash-flow plans - Group level principles for allocating free cash and cash equivalents - Financial Investment Rules to manage investment risk

7. 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 Group's business.

8. 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 the parent'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 Group'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 Group's organizational functioning on an ongoing basis.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Gedeon Richter Plc.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Gedeon Richter Plc. and its subsidiaries (together "the Group") which comprise the consolidated balance sheet as of 31 December 2012 (in which the balance sheet total is MHUF 672,237), the consolidated income statement, consolidated statement of comprehensive income (in which the total comprehensive income for the year is MHUF 38,701) and consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements including a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

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Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of Gedeon Richter Plc. and its subsidiaries as of 31 December 2012, and of the results of its operation for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Other reporting requirements regarding the consolidated business report

We have examined the accompanying consolidated business report of Gedeon Richter Plc. and its subsidiaries (together "the Group") for the financial year of 2012.

Management is responsible for the preparation of the consolidated business report which is consistent with the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU. Our responsibility is to assess whether or not the accounting information disclosed in the consolidated business report is consistent with that contained in the consolidated financial statements. Our work in respect of the consolidated 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 Group. In our opinion the 2012 consolidated business report is consistent with the disclosures in the consolidated financial statements as of 31 December 2012.

Budapest, 22 March 2013

Barsi Éva
Partner
Statutory auditor
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1077 Budapest, Wesselényi u. 16.

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. 3.4. of 24/2008. (VIII.15.) Ministry of Finance Decree hereby

declare

that the 2012 annual consolidated 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 Annual General Meeting of the Company, gives true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole, and that the consolidated management report includes a fair review of the development and performance of the business and position of the Company and the undertakings included in the consolidation taken as a whole, together with the description of the principal risks and uncertainties.

Date: Budapest, 26th April, 2013

Erik Bogsch
Managing Director