# Gedeon Richter
annual report
2012

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# I. Richter – Corporate Review

## 1. Fact Sheet

Richter Group is active in two major business segments, primarily Pharmaceuticals comprising the research and development, manufacturing, sales and marketing of pharmaceutical products, and it is also engaged in the Wholesale and Retail of these products. In addition, there is a third group ('Other') of companies comprising those members of the Group which provide auxiliary services to the former segments. Research, development, manufacturing and marketing of pharmaceutical products are the core activities of Richter and in this endeavour the Group is supported by a number of subsidiaries, joint ventures and associated companies. Manufacturing subsidiaries of the Group which operate in traditional markets together with a broad network of trading affiliates which ensure a strong market presence have together created the foundation for regional leadership and a pan-European presence in the specialty area of Gynaecology.

### Parent Company Data

| | |
|---|---|
| Headquarters | 1103 Budapest, Gyömrői út 19–21., Hungary |
| Mail address | 1475 Budapest, Pf. 27., Hungary |
| Phone | +36 1431 4000 |
| Fax | +36 1260 4891 |
| E-mail | posta@richter.hu |
| Website | www.richter.hu |
| Established | 1901 |
| Main activity | Research, development, manufacturing and marketing of pharmaceutical products |
| VAT Number | 10484878-2-44<br>HU 10484878 |
| Share capital | HUF 18,637,486,000 |
| Number of shares issued | 18,637,486 |
| Auditor | PricewaterhouseCoopers Auditing Ltd. |
| Shares listed at | Budapest Stock Exchange ISIN: HU0000067624<br>Luxembourg Stock Exchange ISIN: US3684672054 |
| GDRs | issued by BNY Mellon<br>GDR / Ordinary share ratio = 1:1 |

### Investor Relations Department

| | |
|---|---|
| Address | 1103 Budapest, Gyömrői út 19–21., Hungary |
| Mail address | 1475 Budapest, Pf. 10., Hungary |
| Phone | +36 1431 5764 |
| Fax | +36 1261 2158 |
| E-mail | investor.relations@richter.hu |
| Website | www.richter.hu |

# 2. Financial Highlights

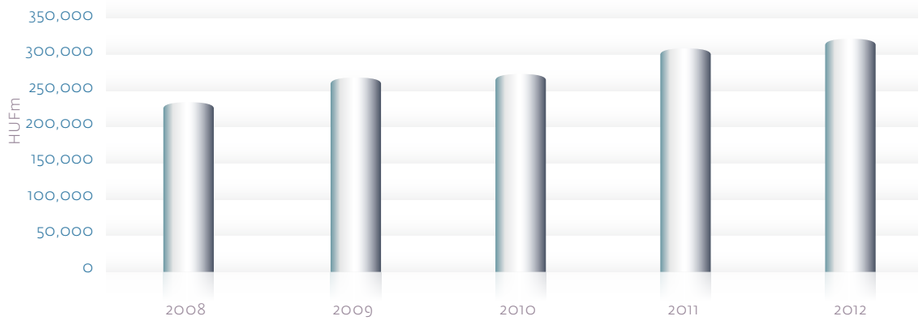
## Consolidated financial highlights

| | 2012 HUFm | 2011 HUFm | Change % | 2012 EURm | 2011 EURm | Change % |
|---|---|---|---|---|---|---|
| Total revenues | 326,702 | 307,868 | 6.1 | 1,130.1 | 1,099.5 | 2.8 |
| Profit from operations | 48,721 | 60,927 | -20.0 | 168.5 | 217.6 | -22.6 |
| Profit for the year | 49,080 | 49,453 | -0.8 | 169.8 | 176.6 | -3.9 |

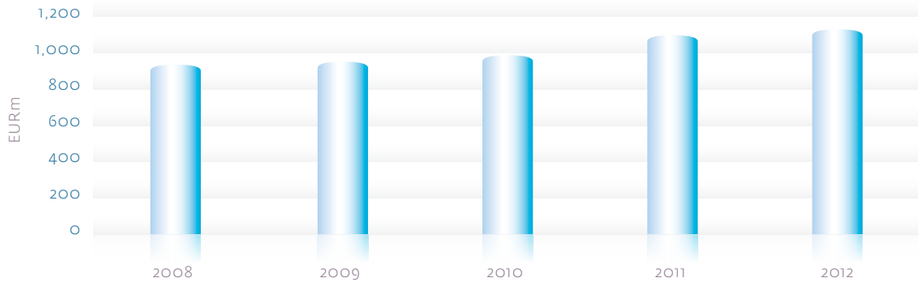
| | 2012 HUF | 2011 HUF | Change % | 2012 EUR | 2011 EUR | Change % |
|---|---|---|---|---|---|---|
| Earnings per share (EPS) [1] | 2,643 | 2,644 | 0.0 | 9.14 | 9.44 | -3.2 |
| Dividends per ordinary shares [2] | 660 | 660 | 0.0 | 2.28 | 2.36 | -3.4 |

Notes: [1] Earnings per share calculations were based on the total number of shares issued.
[2] The amount of 2012 dividend per ordinary share is HUF 660 as proposed by the Board of Directors.

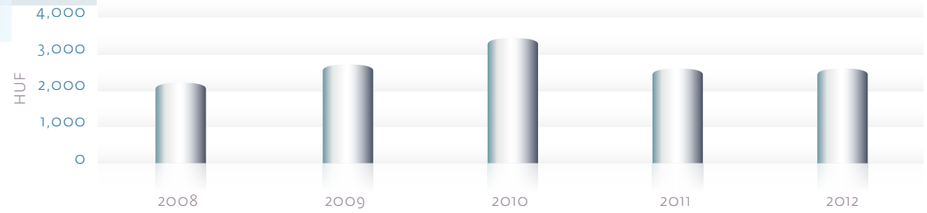
### Revenues




### Revenues

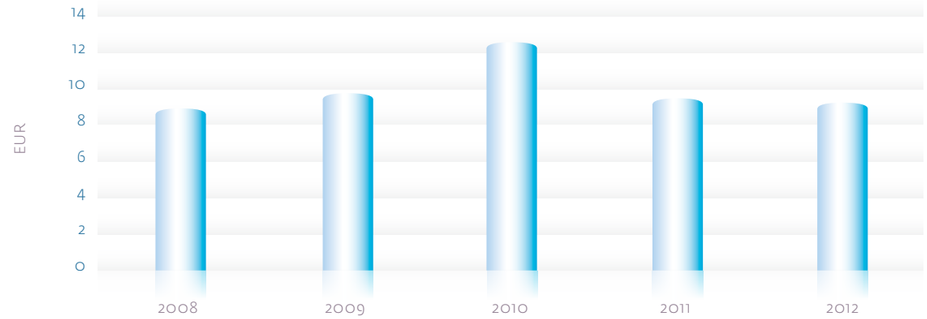



### Earnings per share*



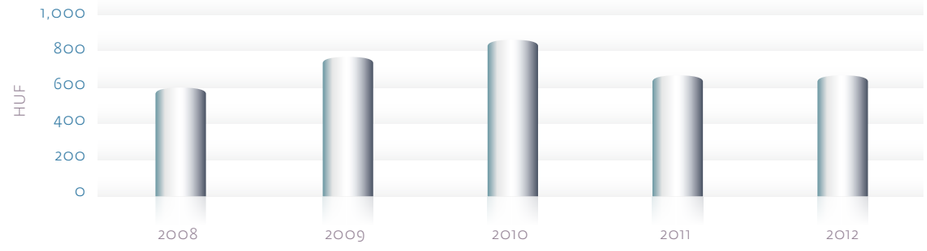

Note: * Earnings per share calculations were based on the total number of shares issued.

### Earnings per share*



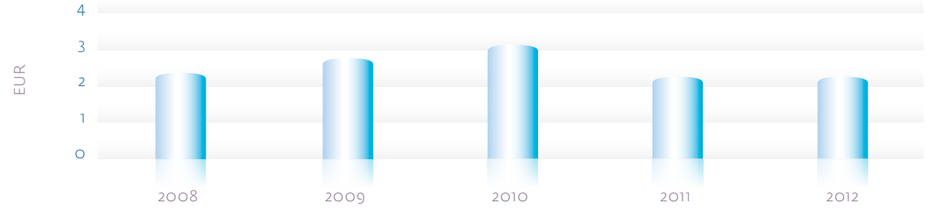

Note: * Earnings per share calculations were based on the total number of shares issued.

### Dividends per ordinary share*




Note: * The amount of 2012 dividend per ordinary share is HUF 660 as proposed by the Board of Directors.

### Dividends per ordinary share



**William de Gelsey** – Chairman

# 3. Chairman's Letter to the Shareholders

I am pleased to present Richter's Annual Report for 2012, an eventful year with satisfactory financial and operational results. The economic and debt crisis in the EU had cast a shadow over the Western economies; despite these difficulties Richter's achievements were noteworthy:

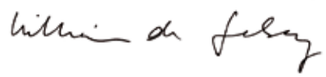
I am proud to report that Cariprazine is the Company's first registration with the U.S. Food and Drug Administration, a discovery made by Richter researchers. Forest Laboratories, our strategic partner in the USA, submitted the New Drug Application in November 2012, a major milestone in the Company's history.

A further most encouraging development is our target to improve women's healthcare; the European Commission granted its marketing approval for ESMYA® in February 2012, an original product for the treatment of uterine fibroids which was also introduced in a number of European countries. This development enhances our strategic aim to become increasingly a specialty Pharma Company with high added value products.

Significant advances were also recorded in the execution of our biosimilar strategy during 2012. In April, Richter's state-of-the-art mammalian cell manufacturing plant in Debrecen, the second largest city in Hungary, was officially inaugurated in the presence of Mr Viktor Orbán, Hungary's Prime Minister. We expect that the Company will start to manufacture its first test batches during the second half 2013.

None of the above results would have been possible without the leadership of Mr Erik Bogsch, the Managing Director, who has been at the helm of the Company for twenty years, supported by the members of his Executive team. On behalf of the Board I would like to record our sincere appreciation for their devoted service, to our employees both in Hungary and abroad who contributed a great deal for the long-term success of the Company in the year under review.

I am confident that Richter will continue to strive to create increasing value for its shareholders.



William de Gelsey KCSG
Chairman

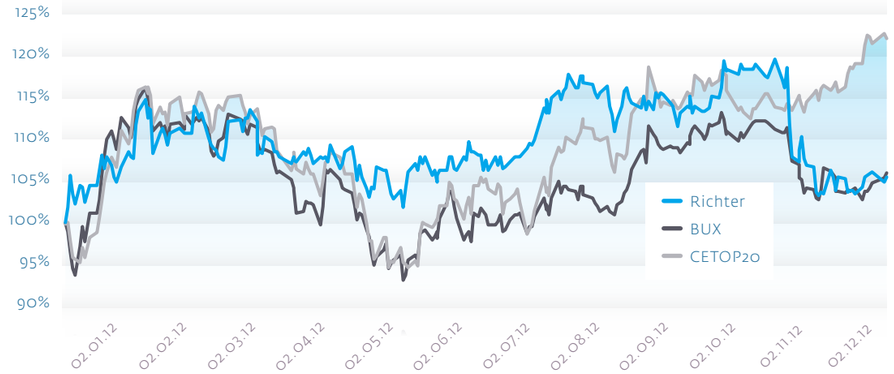
# 4. Investor Information

## a. Share Price and Market Capitalisation

Richter share price on 2 January 2012 was HUF 34,205. Following local peaks slightly above HUF 39,000 in February 2012, Richter shares weakened back by June close to their early January levels. A period of steady increases was suddenly broken by a fall in mid November as a result of the exclusion of Richter shares from the MSCI index which was announced two weeks in advance of its occurrence. Such a measure was taken as a result of falling liquidity experienced in the 12 months preceding the announcement, a period when a rather stable shareholder base and a generally decreasing level of transactions recorded at the Budapest Stock Exchange resulted in the level of traded Richter shares falling short of the minimum amounts required. The exclusion from the MSCI index with effect from 1 December 2012 led to a drop of 12.6 percent in the share price between 14 and 30 November 2012 and a historic record number of shares traded was set on the last trading day prior to the exclusion - more than 1.1 million shares were traded that day representing 5.9 percent of total shares outstanding. Richter shares traded at HUF 36,210 on 28 December 2012.

The company's market capitalisation followed the performance of its share price on the Budapest Stock Exchange and by the end of 2012 at HUF 675 billion reflected a 6.0 percent increase, in HUF terms when compared to its value recorded on 31 December 2011. Market capitalisation on 31 December 2012 in Euro terms was EUR 2.3 billion, 14.4 percent above the EUR 2.0 billion amount recorded on 31 December 2011.

### Gedeon Richter share price on the Budapest Stock Exchange compared to BUX and CETOP20 indices

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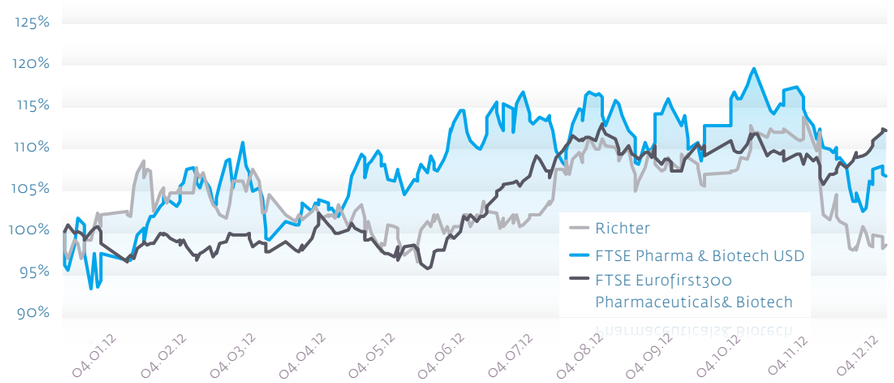
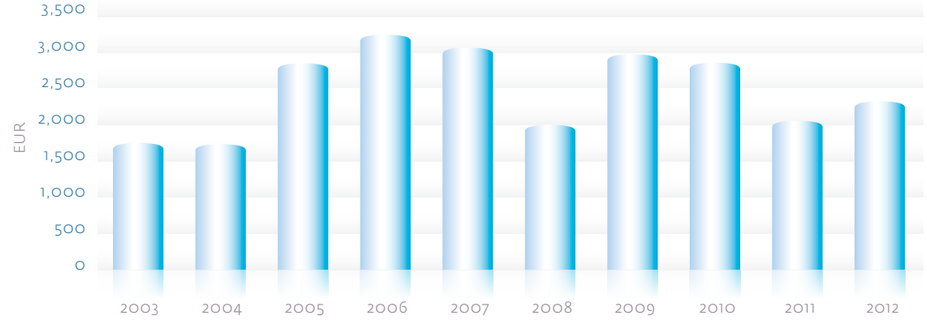



### Market Capitalisation*


Note: * All data based on year-end prices. Calculations based on the total number of shares issued.

### Market Capitalisation*




Note: * All data based on year-end prices. Calculations based on the total number of shares issued.
Euro calculations adjusted with HUF/EUR exchange rate.

## b. Annual General Meeting

The Annual General Meeting is the highest decision-making body of the Company, comprising all shareholders.

The Annual General Meeting will be held at 15.00 on 25 April 2013 at Budapest 1143, Stefánia út 34.

## c. Dividend

In accordance with the dividend policy practised by the Company, the Board of Directors recommends the payment of 25 percent of Gedeon Richter Plc.'s net consolidated profit calculated according to International Financial Reporting Standards (IFRS) for 2012.
Dividends approved by the shareholders of Gedeon Richter Plc. at the Annual General Meeting held on 26 April 2012 totalled HUF 12,211 million (EUR 41.2 million) in respect of 2011. The portion payable in relation to ordinary shares amounted to HUF 660 per share, 66 percent of the nominal share value. The record dates for these dividend payments were announced on 18 May 2012 with payments having commenced on 18 June 2012.

## d. Investor Relations Activities

The Company reports formally to shareholders four times a year, simultaneously with the announcement of its quarterly non-audited results and publishes its Annual Report including audited financial statements no later than the date of the Annual General Meeting. The AGM of the Company takes place in Budapest and formal notification is sent to shareholders at least 30 days in advance of the meeting.

### Conferences in 2012

| | | | |
|---|---|---|---|
| Concorde | 'One on One Conference' | Budapest | 4 April, 2012 |
| UBS | 'EMEA One on One Conference' | London | 30 May, 2012 |
| Erste | 'Investor Conference' | Stegersbach | 1 October, 2012 |

### Investor roadshows in 2012

| | |
|---|---|
| London | 7–10 February, 2012 |
| New York, Boston | 7–9 February, 2012 |
| Frankfurt | 12 April, 2012 |
| Copenhagen, Stockholm | 14–16 May, 2012 |
| London | 17–18 September, 2012 |

At the Meeting a business presentation is made to shareholders by the Managing Director, and all Directors are available during the meeting to respond to questions.

Management, principally the Managing Director and investor relations staff, maintain a dialogue with institutional shareholders on Company performance and objectives through a programme of conferences, regular meetings, conference calls and investor roadshows. Representatives of the IR Department of Gedeon Richter Plc. participated at 3 international conferences and 5 additional investor roadshows in 2012. Gedeon Richter's management also held 24 meetings for approximately 57 fund managers and analysts at its headquarters where the Company's business progress and financial results were presented. Regular conference calls were organised during the year, following publication of the quarterly reports of the Company.

The Company's website (www.richter.hu) includes an area which is intended to meet the specific stated needs of investors, analysts and media concerning information on Richter's business operations.

The Company's Investor Relations Department at its office in Budapest continues to act as a focal point for contact with institutional shareholders.
(Email: investor.relations@richter.hu
Phone: +36 1 431 5764)

## e. Analysts Providing Coverage

### Analysts providing regular coverage about the company during 2012

| | |
|---|---|
| Bank of America Merrill Lynch | Mr Jamie Clark |
| Concorde | Mr Attila Vágó |
| Credit Suisse | Mr Mark Wadley |
| Deutsche Bank* | Mr Gergely Várkonyi |
| Erste | Ms Vladimíra Urbánková |
| Goldman Sachs | Ms Yulia Gerasimova |
| ING* | Mr Luke Poloniecki |
| Jefferies | Mr James Vane-Tempest |
| KBC | Mr Gergely Pálffy |
| Morgan Stanley | Mr Peter Verdult |
| Raiffeisen | Mr Daniel Damaska |
| Renaissance Capital | Ms Natasha Zagvozdina, Ms Ulyana Lenvalskaya |
| UBS Warburg | Mr Guillaume van Renterghem |
| UniCredit* | Ms Adriana Marin |
| Wood | Mr Bram Buring |

Note: *discontinued coverage during 2nd half 2012

## f. Information Regarding Richter Shares

### Shares In Issue

The total number of shares in issue as at 31 December 2012 – 18,637,486 – remained unchanged from the levels reported as at 31 December 2011.

### Treasury Shares

#### Shares held by the Company in Treasury

| | 31 December, 2012 | 31 December, 2011 |
|---|---|---|
| Number | 45,336 | 124,399 |
| Nominal value (HUF '000) | 45,336 | 124,399 |
| Book value (HUF '000) | 1,670,893 | 4,468,276 |

The number of shares held by the Parent company in Treasury decreased during 2012.

On 31 December 2012 the Group's subsidiaries held a total of 10,550 ordinary Richter shares, unchanged from their holding on 31 December 2011.
The total number of Company shares at Group level held in Treasury at 31 December 2012 was 55,886.

The Company purchased 10,000 treasury shares on the Budapest Stock Exchange during 2012 in addition to a further 45,102 shares on the OTC market.
Based on a decision of the Board of Directors of Gedeon Richter Plc., 89,728 shares held by the Company in Treasury were granted as bonuses during 2012 to qualified employees participating in the bonus share programme as well as to members of staff rendering outstanding performance.

on 19 December 2012 the Company granted a total of 45,681 shares in respect of 4,750 of its employees for 2012. The value of these shares amounted to HUF 1,642 million. These shares will be deposited at the employees' individual securities accounts at UniCredit Bank Hungary Zrt. until 2 January 2015.

On 2 January 2013, following the expiry of the lock-up period the Company was able to remove all


In accordance with a repurchase obligation stipulated in the programme approved by the Ministry of Finance related to employee share bonuses, the Company repurchased 1,244 shares from employees who resigned from the Parent company during 2012.

In line with a programme approved by the National Tax and Customs Authority (NAV) in respect of the years 2012-2014 related to employee share bonuses, restrictions on 38,629 Richter ordinary shares granted to its employees on 20 December 2010 during the second year of a three-year programme approved by the Ministry of Finance in respect of years 2009-2011, thereby enabling these shares to be traded.

### Registered Shareholders

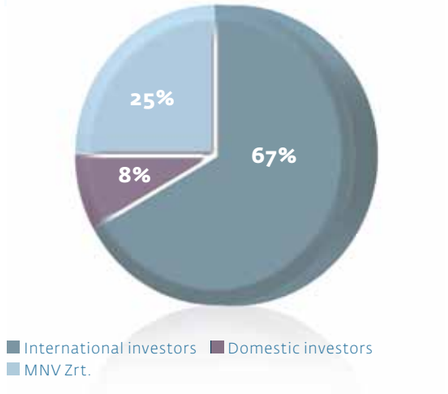
Pension Reform and Debt Reduction Fund sold its approximately 5 percent stake during 2012, while

the shares held by the Hungarian State Holding Company (MNV Zrt.) remained at 25 percent, approximately the same level as at 31 December 2011. The proportion held by domestic investors increased slightly to about 8 percent while that of international investors increased to about 67 percent. The proportion of treasury shares was approximately 0.3 percent at the end of December 2012.

Data in the table below was compiled based on the share registry adjusted for information provided by KELER Zrt. as clearing company, global custodians and nominees.

Detailed ownership structure as of 31 December 2012

### Detailed ownership structure of the Company as of 31 December 2012




### Ownership Structure

| Ownership | Ordinary shares Number | Voting rights % | Share capital % |
|---|---|---|---|
| Domestic ownership | 6,160,077 | 33.15 | 33.05 |
| MNV Zrt. (Hungarian State Holding Company) | 4,703,921 | 25.31 | 25.24 |
| Municipality | 107 | 0.00 | 0.00 |
| Institutional investors | 691,038 | 3.72 | 3.71 |
| Retail investors | 765,011 | 4.12 | 4.10 |
| International ownership | 12,392,915 | 66.70 | 66.50 |
| Institutional investors | 12,278,251 | 66.08 | 65.88 |
| out of which Aberdeen Asset Management Plc. | 2,372,669 | 12.77 | 12.73 |
| out of which Skagen Kon-Tiki Verdipapirfond | 997,104 | 5.37 | 5.35 |
| Retail investors | 114,664 | 0.62 | 0.62 |
| Treasury shares * | 55.886 | 0.00 | 0.30 |
| Undisclosed ownership | 28.608 | 0.15 | 0.15 |
| Share capital | 18,637,486 | 100.00 | 100.00 |

Note: * Treasury shares include the combined ownership of the parent company and subsidiaries.

### Ordinary shareholdings by the members of the Company's Boards

| | 31 December 2012 Number of ordinary shares | 31 December 2011 Number of ordinary shares |
|---|---|---|
| Board of Directors | 6,153 | 6,660 |
| Supervisory Committee | 535 | 535 |
| Executive Board | 10,343 | 7,924 |
| **Total** | **17,031** | **15,119** |

Membership of the Company's Boards is shown on pages 17-19 of the Annual Report.



# 5. Corporate Governance

Corporate Governance principles and practice implemented by the Company are in accordance both with the guidelines set by the Budapest Stock Exchange and the directives of the capital market.

Gedeon Richter's key principles of Corporate Governance are to create and maintain satisfactory dialogue with shareholders so as to enhance shareholder value, to differentiate the roles and responsibilities of the Board of Directors, the Executive Board and the Supervisory Board, and to operate the Group's business in compliance with legal and regulatory requirements and to maintain the highest ethical standards.

The Annual General Meeting ranks as the highest decision making body of the Company, and comprises all shareholders. The Annual General Meeting decides on the adoption of the annual financial statements and the appropriation of profit, the election or removal of members of the Board of Directors and Supervisory Board, the appointment of auditors, amendments to the Statutes, changes in the Company's share capital and other issues in its competence. With the exception of cases where the presence of a larger number of shareholders is required in order to constitute a quorum, a quorum of the General Meeting exists if shareholders, personally or through their representatives, representing over half of the votes embodied by voting shares are present at the General Meeting and have duly evidenced their shareholder representative status. If the General Meeting has no quorum, the General Meeting is required to be reconvened. With the exception of cases where under given circumstances the presence of a larger number of shareholders is required in order to constitute a quorum, the reconvened General Meeting shall have a quorum for the purpose of considering items on the agenda of the original General Meeting if shareholders representing more than 20 percent of the votes relating to the voting shares issued by the Company are presented personally or via proxy at the reconvened General Meeting and their shareholding or representation right has been duly evidenced.

The Board of Directors is the ultimate decision-making body of the Company except with respect to those matters reserved for shareholders. A majority of Directors of the Board are Non-Executive Directors. All the non-executive directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment. The offices of Managing Director and Chairman are

held separately. The latter is elected amongst the non-executive directors. The Board meets regularly, once a month, throughout the year. According to the Statutes, it has a formal schedule of matters reserved to it for decisions. The Board works to an agreed agenda in reviewing the key activities of the business and the Company's long-term strategy. The Company Secretary is responsible to the Board and is available to individual Directors in respect of Board procedures. Board members are elected and re-elected at the AGM for a maximum term of 5 years. Two subcommittees of the Board exist which prepare and submit proposals contributing to the Board's decision making process. The subcommittees each consist of at least three non-executive independent Board directors.

The Corporate Governance and Nomination Subcommittee is responsible for considering and making recommendations to the Board concerning the appropriate size, functions and needs of the Board. This responsibility includes establishing the criteria for Board membership; conducting appropriate inquiries into the background and qualifications of possible candidates; considering matters of corporate governance and reviewing periodically our Corporate Governance Principles.

The Compensation Subcommittee is responsible for establishing annual and long-term performance goals and objectives for elected officers. This responsibility includes making recommendations to the Board of Directors with respect to cash-based incentive compensation plans and equity-based compensation plans; and preparing proposals for the compensation of the Managing Director.

The Executive Board is responsible for the executive management of the Company's business. The Executive Board is chaired by the Managing Director. In order to maintain a sharp focus on strategic management the board comprises only the Executive Directors.

Overseeing the management of the Company is the Supervisory Board. It meets every month during the year in accordance with legal requirements and at other times when necessary to consider details of the Company's operating activities. It submits proposals to the Board of Directors and discusses the Company's strategy, financial results, investment policy and systems of internal audit and control. The Supervisory Board is provided with regular and detailed information about the management of the Company. The Chairman of the Supervisory Board may attend meetings of the Board of Directors as an advisor. The members of the Supervisory Board are elected or re-elected at the AGM for a maximum term of 3 years.

The Audit Board is responsible for the oversight of the Company's internal accounting standards. The Board consists three independent members of the Supervisory Board who are elected at the AGM.



# 6. Company's Boards

## Board of Directors

### Mr William de Gelsey (1921)

Senior adviser to CA IB Corporate Finance Limited, Member of UniCredit Markets & Investment Banking Division Vienna, London and Budapest. More than 50 years of international investment banking experience. Has significant banking experience in Hungary. A graduate of Trinity College, Cambridge. Joined the Board in 1995. Chairman since 1999.

### Mr Erik Bogsch (1947)

Appointed Managing Director in 1992. Chemical engineer, qualified economic engineer. With Richter since 1970 in a number of Research and Development management positions. Medimpex director in Mexico from 1977 to 1983. Managing Director of Medimpex UK from 1988 to 1992. Member of the Board of MAGYOSZ, Chairman from 2006.

### Dr Gábor Gulácsi (1958)

Appointed Deputy Managing Director upon joining the Company in 2000. Responsible for Finance. Economist, University doctorate in Economic Sciences. Previously General Secretary of State, Ministry of Economic Affairs. Joined the Board in 2010.

### Mr Gergely Horváth (1961)

Managing Director of Hungarian State Holding Company between 2010 and end of 2012. Graduated from Budapest University of Technology, then studied for a degree in engineering economics as well as an MBA. In a number of significant positions, mostly in banking. CEO of KELER Zrt. for six years. Joined the Board in 2011.

### Dr Jenő Koltay (1944)

PhD in Economics. Between 1991 and 2004 Director of the Institute of Economics of the Hungarian Academy of Sciences, currently head of the Public Economics research programme. Visiting professor at the Sorbonne during 1994-1997, Széchenyi professor of ELTE during 2000-2003, currently teaching at the Pannon University. Joined the Board in 1998.

### Dr László Kovács (1944)

Strategic adviser to Gedeon Richter Plc. Previously Deputy Managing Director with responsibility for Commerce and Marketing from 1990 to 2005. Economist, University doctorate in Economic Sciences. Formerly with Medimpex from 1966 to 1990, Secretary of the Commercial Section of the Hungarian Embassy in São Paulo, Brazil, 1975 to 1978. Joined the Board in 1992.

### Mr Csaba Lantos (1962)

Economist and sociologist. From 2000 to 2007 deputy CEO and member of the Board of Directors of OTP Bank Nyrt. Chairman of the Board of Directors of KELER Zrt since 1993, and from 2005 to May 2011 chairman of the Supervisory Committee of Budapest Stock Exchange. From December 2009, chairman of the Board of MOL Energy Trade Ltd. Joined the Board of Richter in 2010.

### Mr Christopher William Long (1938)

Career diplomat. Experience in the full range of diplomatic work including management, personnel, political and economic analysis. British Ambassador to Hungary from 1995 to 1998. Joined the Board in 1998.

### Dr Tamás Mészáros (1946)

Candidate of Economic Sciences, doctor representative of the Hungarian Academy of

Sciences. Rector of the Budapest Corvinus University between 2004 and 2011. President of the Board of Directors of the Hungarian Privatisation and State Holding Company between 2002 and 2006. Joined the Board in 2006.

### Dr Gábor Perjés (1941)

Medical doctor, urologist, nephrologist. Assistant at the Postgraduate Medical School between 1966–1970. Member of Parliament from 1990 to 1994. Currently practising as a physician, head of department with Gyógyír XI. Public Company responsible for medical services in district XI of Budapest. Has been a member of the Board since 1992.

### Prof Dr Szilveszter E. Vizi (1936)

Medical doctor, academician. Graduated from Semmelweis University of Medicine. From 1989 to 2002 Director of the Institute of Experimental Medicine (IEM) of the Hungarian Academy of Sciences. President of the Hungarian Academy of Sciences between 2002 and 2008. Currently a researcher at the IEM. Joined the Board in 2008.

## Executive Board

### Mr Erik Bogsch (1947)

Appointed Managing Director in 1992. Chemical engineer, qualified economic engineer. With Richter since 1970 in a number of Research and Development management positions. Medimpex Director in Mexico from 1977 to 1983. Managing Director of Medimpex UK from 1988 to 1992. Member of the Board of MAGYOSZ, Chairman from 2006.

### Dr Gábor Gulácsi (1958)

Appointed Deputy Managing Director upon joining the Company in 2000. Responsible for Finance. Economist, University doctorate in Economic Sciences. Previously General Secretary of State, Ministry of Economic Affairs.

### Mr Lajos Kovács (1960)

Appointed Director in 2005. Responsible for Technical services. Chemical engineer, with postgraduate degree in pharmaceutical research. With Richter since 1984 in a number of different roles. Research fellow at the University of Liverpool (UK) between 1987 and 1989.

### Mr Sándor Kováts (1960)

Appointed Director in 2006. Responsible for Commercial Operations. Chemical engineer specialised in refined chemistry. Joined Richter in 1984 and has held a number of management positions including Director responsible for Technical Services at Gedeon Richter USA Inc. during 2001-2002.

### Mr András Radó (1954)

Appointed Director in 1995. Responsible for Production and Logistics. Deputy Managing Director since 2000. Chemical engineer, economic engineer. With Richter since 1979 in a number of management positions.



### Dr Zsolt Szombathelyi (1957)

Appointed Research Director in 2000. Physician, graduated from the Semmelweis Medical University. With Richter since 1981 in a number of management positions. Director of the Representative Office of Medimpex Japan Co. Ltd. in Tokyo from 1993 to 1998.

### Dr György Thaler (1959)

Appointed Development Director in 1993. Chemical engineer, University doctorate in Chemical Sciences. With Richter since 1983 in a number of management positions.

## Supervisory Board

### Dr Attila Chikán (1944)

Professor of the Corvinus University of Budapest, Business Economics Department. Manager of the Competitiveness Research Centre, doctor of the Hungarian Academy of Sciences. Between 2000 and 2003 Rector of the Budapest University of Economics and Public Administration. From 1998 to 1999 Minister of Economy. Chairman of the Supervisory Board since 2000. Member, Chairman of Audit Board.

### Dr Jonathán Róbert Bedros (1961)

Physician, health economist, honorary associate professor. Graduate of Semmelweis Medical University. Head physician and general director of the Ministry of Interior's Central Hospital and Institutions from 1999 to 2005, and of Pest County Flór Ferenc Hospital from 2006 to 2011. Currently head physician and general director of Szent Imre Hospital. Joined the Board in 2012. Member of the Audit Board.

### Mr Jenő Fodor (1958)

Employee representative. MA in Chemical-mechanics. With Richter since 1984, Head of Investment at Dorog Site. Joined the Board in 2006.

### Mrs Tamásné Méhész (1948)

Chartered accountant, qualified tax expert. Also a certified public accountant. Managing director and owner of S&M Economix Ltd. Registered auditor of various companies. Joined the Board in 2012. Member of the Audit Board.

### Mr Gábor Tóth (1955)

Employee representative. Chemical engineer, economic engineer. With Richter since 1980, currently responsible for administration of the share register and representing the Company at the Budapest Stock Exchange (BSE). Joined the Board in 1990.

## Changes to Boards during 2012

At the Annual General Meeting on 26 April 2012, the following were appointed as members of the Supervisory Board for a 3 year period until the 2015 AGM:

Dr Attila Chikán (reappointed)
Dr Jonathán Róbert Bedros
Mrs Tamásné Méhész
Mr Gábor Tóth (reappointed employee representative)
Mr Jenő Fodor (reappointed employee representative)

Dr Attila Chikán was reelected as Chairman of the Supervisory Board.

The Annual General Meeting approved the election of Dr Attila Chikán, Dr Jonathán Róbert Bedros and Mrs Tamásné Méhész as members of the Audit Board for a 3 year period until the 2015 AGM.

# 7. Risk Management

Richter is committed to creating long-term value for its customers, shareholders, employees and society at large. To achieve its corporate goals, the Company recognizes that risks are an integral part of its business and can feature opportunities, as well as threats and losses.
The effective management of risks plays an important role in the continued growth and success of Richter. The objective of risk management at Richter is not to eliminate risks, but rather to manage them in a way so as to provide that they remain within the predefined limits necessary for the Company to achieve its business objectives. Risk management at Richter is therefore about finding the right balance between risks and opportunities.
By understanding and managing risk we endeavour to provide greater certainty for our shareholders, our employees, our customers and suppliers, and the communities in which we operate.
Richter views risk management as one of the tools for effective Corporate Governance. Our approach is to ensure that risks are identified in a timely manner, adequately understood, properly assessed and efficiently responded to by the Company.
Our risk management approach involves the following aspects:

- A risk management process that provides insight to the risks that the company faces
- A common risk language encompassing strategic, operational, compliance and financial risks to facilitate communications and decision-taking on risks
- Respect of risk attitude
- Periodic management review process to update the risk profile and monitor the effectiveness of risk management and internal controls
- Accountability and governance structure in relation to risk management.

As part of a company-level risk assessment, relevant strategic, operational, compliance and financial risks have been identified, and evaluated by the management of the Company. The following risks proved to be the most typical in each category during the assessment.

## 1. Strategic risks

| | Description | Key risk management methods |
|---|---|---|
| Healthcare Budget | The potential impact on the Company of changes and monetary restrictions in healthcare budget and regulation | • Regular analysis of market environment, monitoring changes in the legal and pharmaceutical reimbursement system<br>• Communication with authorities<br>• Adaptation in cost management |
| Competition and Pricing | The impact on the Company's market position and results of increasing generic competition and the decreasing prices in the competitive market | • Identifying competitive advantages<br>• Focusing on new original and value added products<br>• Introducing new generic products<br>• Competitor-, industry- and effectiveness analyses performed regularly |
| Macroeconomic Factors | Risk of changes in macroeconomic factors affecting the Company's markets, and especially the impacts of the financial crisis | • Monitoring changes in major macroeconomic factors, incorporating their effects into the planning<br>• Adaptation in cost management and customer relations |

## 2. Operational risks

| | Description | Key risk management methods |
|---|---|---|
| Original and Biosimilar R&D | Risk relating to the success of original research activities and biosimilar development | • Focusing original R&D activity on CNS and Female Healthcare<br>• Assessment of milestones related to original and biosimilar R&D activity<br>• Assessment of programs and decision-making within the Research Council |
| Specialised Sales Force in Western Europe | Risks relating to the setup of a Western European sales force specialised in the promotion and marketing of our gynaecological products | • Company scale projects to take over the acquired Female Healthcare portfolio and to co-ordinate the launch of ESMYA®<br>• Setting up a new unit to manage the promotion of Female Healthcare portfolio |
| Qualified Workforce | Risk relating to retention of employees in key positions and ensuring a qualified workforce | • Periodic revision of the HR strategy<br>• Training plans, carrier and succession programs<br>• Incentive and performance assessment system |

## 3. Compliance risks

| | Description | Key risk management methods |
|---|---|---|
| Health Authority Regulations, Quality Requirements, Quality Assurance | Risk of compliance with Authority's regulations | • Implementing Quality systems and Standard Operational Processes (SOP)<br>• Monitoring compliance with health authority regulations |
| Intellectual Property, Patents and Litigations | Risk relating to patents and intellectual property rights | • Continuous assessment and monitoring of intellectual property and patents<br>• Enforcement of intellectual property rights<br>• Risk minimising agreements |
| Contracts and Liabilities | Risk relating to managing contractual liabilities and enforcing contractual terms | • Centralised contracting processes<br>• Special treatment of unique contracts |

## 4. Financial risks

| | Description | Key risk management methods |
|---|---|---|
| Credit and Collections | Risk relating to cash and receivables collection procedures | • Customer rating<br>• Establishing payment terms and credit limits<br>• Regular review of receivables<br>• Insurance at MEHIB on customer credits in the case of countries within the CIS region |
| Foreign Exchange Rate | Unfavorable changes in the exchange rate of the Company's key foreign currencies | • Monitoring annual open FX positions and selected exchange rates<br>• Natural hedging provided by FX loans |
| Capital Structure and Cash Management | Risk relating to the effective management of the Company's cash demands and cash assets | • Developing and monitoring cash-flow plans<br>• Contracting loans in order to improve financing capabilities<br>• Establishing common regulation for financial investments at Group level |

# 8. Litigation Proceedings

There were no litigation proceedings in place which would materially impact the business of Gedeon Richter during 2012.

**Erik Bogsch** – Managing Director

# II. Managing Director's Review

In the face of sustained pressure on the business, 2012 was a year in which Richter made substantial progress in executing its strategic initiatives.

Our Group reported HUF 326,702 million (EUR 1,130.1 million) consolidated sales in 2012, which represented 6 percent growth (3 percent in Euro terms), when compared with 2011. Profit after taxation decreased by 1 percent (by 4 percent in EUR terms) in 2012 to a total of HUF 49,080 million (EUR 169.8 million). In our core activity, the pharmaceutical business, the following results were recorded during 2012:

A good 7 percent sales increase in EUR terms was reported in Russia. During the year the stabilizing rouble/euro exchange rate and the increasing crude oil revenue created a predictable political and economic environment. In Ukraine a substantial 22 percent increase in US$ terms in our sales was recorded primarily related to efficient promotional activity. Despite strong competition and sustained pressure from governments which resulted in both price erosion and lower reimbursement levels in almost all EU countries our Group reported a moderate 5 percent sales growth in EUR terms compared to 2011. In the USA, a 30 percent revenue decrease in US$ terms was primarily due to an expected decline in the contribution from the profit sharing agreement related to drospirenone with Teva-Barr combined with erosion in sales of APIs. Due to a difficult macroeconomic environment pharmaceutical market conditions in Hungary remained unfavourable throughout 2012. We reported a 14 percent decline in HUF terms on the Company's domestic market.

Substantial healthcare budget constraints were evident throughout the year with increasing pricing pressure on almost all of our markets in Europe. We continued to progress our medium to long term strategic objectives during 2012, namely to become a specialty pharma company and in turn to increase the proportion of high added value products within our Company's portfolio.

One of our key specialty areas is Female Healthcare, where we provide one of the widest ranges of products available to women of all age groups. Gynaecological products represented 33 percent of our total consolidated turnover in 2012.

Following the receipt of the marketing authorization to ESMYA® 5mg tablet as pre-operative treatment of moderate to severe symptoms of uterine fibroids which has been granted by the European Commission (EC) in February 2012 we gradually started to launch the product across Europe depending on the status of the reimbursement and price negotiations.

ESMYA® was subsequently launched in mid March 2012 in Germany and in the UK. In both countries ESMYA® was included in the reimbursement lists. Reimbursed status was granted in Austria and in Denmark during October 2012, in Norway in November 2012 and also in Sweden during February 2013. In Spain, in Italy and in France such negotiations were commenced with the competent authorities.

ESMYA® was also introduced in Poland, in Hungary, in the Czech Republic in the second quarter 2012 and in the Baltic States, in Bulgaria, in Romania and in Slovakia in the third quarter 2012. Reimbursement status was granted in Slovakia with effect from 1 January 2013 and also in Hungary in February 2013.

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. The slower than expected pickup in sales was mostly related to the reluctance of major Mediterranean countries to grant to ESMYA® a reimbursement status.

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 2012 to establish the long term (on-off) usage of ESMYA® targeting a substantial recession of fibroid tumors consequently making surgical interventions unnecessary. The studies are expected to be completed by second quarter 2014.

Innovation is a key element in our strategy, as it ensures our Company's future in the long run. Therefore I personally pay particular attention to the environment in which our R&D team operates. I make every effort possible both to create an encouraging atmosphere and also to maintain strict scientific criteria in order to sustain projects with only the highest quality of science, which together enhances our chances of future success and productivity.

I am very pleased to report that in February 2012 jointly with our US based partner, Forest Laboratories we announced positive top-line results in Phase III clinical trials of cariprazine for both the treatment

of acute exacerbation of schizophrenia and bipolar disorder. Consequently Forest submitted a New Drug Application (NDA) to the U.S. Food and Drug Administration (FDA) for cariprazine for both indications in November 2012. The regulatory procedure is expected to take approximately twelve months. It is indeed very encouraging that we may offer promising treatment options for both conditions.

I am convinced that a pharmaceutical company, which aims to remain competitive over the long term, should create a portfolio containing high added value products. Exploration into new innovative areas, such as original research activity or biosimilar product development, carries high risks but provide opportunities for future relatively high revenue.

The significance of biotechnology products continues unabated in the global pharmaceutical market. Twenty-eight percent of the products given marketing authorisation between November 2010 and October 2011 in the USA and one-third of all the new drugs in the European Union are of biotechnological origin. Experts unanimously agree that the market share of biotechnology products will continue to grow in the future. While the small-molecule drug market is estimated to grow by 4 percent annually between now and 2015, the market for biotechnology products is expected to grow by more than 10 percent a year. The trend is further bolstered by the fact that approximately one-third of the current clinical development topics are of biotechnological origin.

We made further progress during the year in establishing a strong biological product line. Our new HUF 25 billion Biotechnology Plant built in Debrecen has been inaugurated by Hungarian Prime Minister, Mr Viktor Orbán on 19 April 2012, which in turn shows the significance and the advantage of our investments from the standpoint of the National Economy. It can be stated that the complete infrastructure has been shaped, as we, jointly with Helm AG, established the Hamburg based Richter-Helm Biologics which carries out development and manufacturing of microbial proteins while the new state of art facility enables us to produce the most complex mammalian cell products.

I am pleased to report that on 2 November 2012, a strategic cooperation agreement between the Hungarian Government and Gedeon Richter was signed by the Hungarian Prime Minister Viktor Orbán and myself. The established partnership involves the Government using the means at its disposal to encourage Richter's innovation and development activities with particular regard to the development and manufacture of biotechnology products, while Richter will strive to increase its manufacturing and research and development activities in Hungary. The general purpose of this agreement was to help Richter retain its independence so that the strategic decisions concerning the company's development, which also support the development of Hungary's national economy, will continue to be made in Hungary.

We are in a transition period, changing our business model substantially, which is to create opportunities for us to remain competitive in the long run. But it also triggers significant burdens and carries high risks, that is the significant increase in the level of operating expenses, primarily Sales and Marketing costs and Research and Development costs. We consider this trend as a short terms sacrifice for the medium-long term success, whereby our strategic projects really start to bear fruits and deliver growth both at the top and the bottom lines. I personally appreciate our shareholders patience and their trust which enables us to proceed on our way of executing our strategy.

I would like to take this opportunity to thank all employees for their dedication and tireless commitment, which helped us in 2012 to generate good results and allowed us to make progress in our key strategic initiatives, despite the unfavourable pitfalls of the global financial and economic crisis. We will continue to do everything we can in 2013 to consistently focus our efforts on the needs of patients around the world, and I am confident that this will enable us to generate strong, sustainable results over the long term.

Erik Bogsch
Managing Director

# III. In Transition

## 1. The Pharmaceutical Industry

The steady growth experienced by the pharmaceutical industry over the past few decades was brought to an abrupt end when the financial crisis suddenly erupted in mid 2008. The increasing instability of the financial institutions soon enough infected entire economies. In addition, the well known issue of drying out the pipelines resulted in disturbing volatility for the pharmaceutical industry with a sound defensive reputation among investors.

Industry related problems which accumulated slowly during the past decades suddenly broke out. Issues like lengthy product development, increasing regulatory hurdles and exposure to constraints of national healthcare budgets underlined the vulnerability of the pharmaceutical business.

Most of the generic companies which found themselves in the double constraints of increasing peer competition and a restrictive (national) budgetary environment were to select strategies to secure their future presence on the pharmaceutical market. They could get either global and protect margins through improving economies of scale or get special and protect margins by implementing a complex business model.

Richter having preserved its original research over the past century and having invested significant resources in building up one of the widest female healthcare portfolio worldwide was a natural candidate for the latter strategy, i.e. go specialised.

## 2. Transition from Regional Midpharma to Pan-European Specialty Pharma

Following the Russian financial crisis in 1998 Richter decided to balance its geographic exposure and the USA business was scaled up initially by signing a strategic agreement with Duramed, later revised and extended both in scope and in duration with Barr, acquirer of Duramed. The arrangements focusing on Richter's niche specialty area, Female Healthcare, presented a concentration of the business from a therapeutic point of view, with a dilution of excessive dependency from a geographic point of view. Following recent negative developments experienced at our USA business Richter has repeated the same scenario, which has proven to be successful in the past decade, having acquired a divested OC portfolio and a novel original drug being on the verge of European authorization Richter has moved into Western European markets with one, carefully selected therapeutic area - Female Healthcare.

Thus from a regional point of view Richter is on track to become a Pan-European pharmaceutical company. From the point of view of therapeutic areas represented on each of the sub-regions we can state that Female Healthcare has a strong presence also in Western Europe as well as in Central and Eastern Europe and the CIS region. Gynaecological sales are complemented with more generic sales in the growing CIS region while more specialty sales (cariprazine, biosimilars) are expected to add value to Western European sales in the medium to long term.

It is our endeavour within the next five to ten years to establish our presence in such fast growing regions as Latin America or China. This strategy is being carried out purposefully having announced in February 2013 that Richter will increase its direct Chinese presence by establishing a majority stakeholding in a JV making the distribution of prescription drugs on the local market besides existing JV selling oral and emergency contraceptives.

# 3. Strategic Focus – Innovation

All our activities are connected by one key word: innovation. One can only successfully adapt to the rapidly changing domestic and international environment if innovation is placed at the very heart of all of Group activities. All three specialty businesses Richter is engaged to require significant amounts.

## a. Female Healthcare

One of Richter's most important niche areas is its gynaecological business. The Company has unique and long-term experience in this field dating back to when its founder, Mr. Gedeon Richter, a pharmacist started to research steroids. This was at a time when they had complete novelty. Since then the Company has consistently utilised its pharmaceutical manufacturing facilities to undertake the required complex and lengthy development processes which result in high quality gynaecological products.

Currently, Richter makes available one of the world's widest range of female healthcare products while still continuing to broaden its product portfolio. A key element of the Company's strategy has been and remains the development of its gynaecological business.

In accordance with this strategy two acquisitions were concluded during 2010, both of which further strengthened the female healthcare portfolio. The acquisition of PregLem created a platform for Richter to develop a new class of drugs for the treatment of benign gynaecological conditions. The most advanced product in this portfolio is ESMYA® for preoperative treatment of uterine fibroids, which was launched in 2012 across Europe. The purchase of Grünenthal's well established oral contraceptive franchise boosted both our existing gynaecological sales and also expanded our female healthcare product portfolio.

### ESMYA®

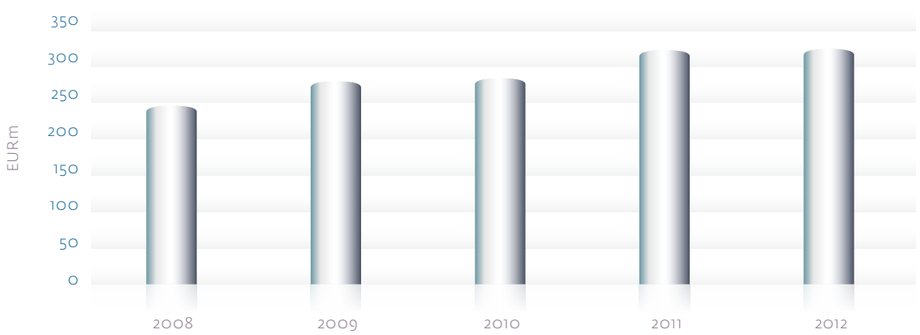
Uterine fibroids are the most common benign, solid tumours of the female genital tract, affecting between 20 and 25 percent of women of reproductive age. The condition is characterized by excessive uterine bleeding, anaemia, pain, frequent urination or incontinence, and infertility. So far, GnRH agonists were the only approved pre-operative treatment for uterine fibroids and their use has been relatively limited due to side effects resulting from the suppression of oestrogen to post-menopausal levels (hot flashes, depression, mood swings, loss of libido, vaginitis and loss of bone mineral density).

ESMYA® 5mg tablet containing ulipristal acetate is a first-in-class, orally active, selective progesterone receptor modulator. It reversibly blocks the progesterone receptors in target tissues. The 12 weeks once-a-day oral therapy (vs. injectable GnRH agonist) is effective to stop uterine bleeding, correct anaemia and shrink fibroid volume. It improves quality of life and has no castration side effects unlike GnRH agonists.

In February 2012 the European Commission (EC) granted marketing authorization to ESMYA® 5mg tablet as pre-operative treatment of moderate to severe symptoms of uterine fibroids. Following the receipt of the marketing approval we initiated the introduction of the product across Europe via our sales network.

It was launched in mid March 2012 in Germany and in the UK. In both countries ESMYA® was included in the reimbursement lists. Reimbursement status was granted in Austria and in Denmark in October 2012, in Norway in November 2012 and also in Sweden during February 2013. In Spain, in Italy and in France such negotiations have commenced with the competent authorities.

### Sales of gynaecological products




### Female Contraception

We offer a broad range of contraceptive options to assist women to shape their lives according to their wishes. When it comes to the choice of contraceptive methods, reliability, safety, ease of use and convenience all play a major role. Step by step we have built up a product portfolio, which contains a number of first, second, third and fourth generation oral contraceptives and emergency contraceptives providing a wide range for the female population to choose those products which fit most with their personal needs.

ESMYA® was introduced in Poland, in Hungary, in the Czech Republic in the second quarter 2012 and in the Baltic States, in Bulgaria, Romania and Slovakia in the third quarter 2012. Reimbursement status was granted in Slovakia with effect from 1 January 2013 and in Hungary with effect from February 2013. Given, however, a sensitive period of budgetary constraints, the likelihood of receiving reimbursement approval is low in many of the mentioned 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 with the objective of making surgical interventions unnecessary. The studies are expected to be completed by second quarter 2014.

### Products for Menopause (Hormone Replacement Therapy, Osteoporosis Medications)

The menopause is a period of natural transition which every woman eventually experiences. The decline in oestrogen production that characterises this transition period can have short and long term implications. It is no secret that the menopause might have a negative influence on the quality of life. Furthermore, oestrogen loss is closely associated with the development of osteoporosis and bone fractures. Our aim is to maintain women's health and quality of life over the long term.

### Other Gynaecological Products

Richter's overall target is to offer a complete range of female healthcare products and in accordance with this objective we also provide treatment for gynaecological infections. The antifungals GYNAZOLE-1® and GYNOFORT licensed in from KV Pharmaceuticals, with an innovative drug delivery system are available on most of our CEE and CIS markets.

## Main gynaecological products of Richter Group

| Brand name | Active ingredients | Product type | Regions where launched [1] |
|---|---|---|---|
| Oral contraceptives (OC) | | | |
| VOLINA / MIDIANA / ARANKA / MAITALON30 | DRP + 30mcg EE | Fourth generation | Hungary; EU; CIS; RoW |
| SYMICIA / DAYLETTE / VOLINA MITE / REZIA | DRP + 20mcg EE | Fourth generation | Hungary; EU; CIS |
| MISTRAL / SILUETTE | dienogest + 30mcg EE | Fourth generation | Hungary; CIS |
| REGULON / DESORELLE / DESMIN 30 | DSG + 30mcg EE | Third generation | Hungary; EU; CIS; RoW |
| NOVYNETTE / DESMIN 20 | DSG + 20mcg EE | Third generation | Hungary; EU; CIS; RoW |
| AZALIA / LACTINETTE | DSG | Third generation | Hungary; EU; CIS; RoW |
| LINDYNETTE 20 / KARISSA | GST + 20mcg EE | Third generation | Hungary; EU; CIS; RoW |
| LINDYNETTE 30 | GST + 30mcg EE | Third generation | Hungary; EU; CIS; RoW |
| MILLIGEST / TRISTIN / PERLEAN | GST + EE | Third generation | Hungary; EU; CIS |
| RIGEVIDON | LVG + EE | Second generation | Hungary; EU; CIS; RoW |
| TRI-REGOL | LVG + EE | Second generation | Hungary; EU; CIS; RoW |
| BELARA / CHARIVA / LYBELLA / BALANCA | CLM + EE | | Hungary; EU; CIS; RoW |
| NEO-EUNOMIN | BCLM + EE | | EU |
| EVE 20 | norethisterone + EE | First generation | EU |
| Emergency contraceptives (EC) | | | |
| POSTINOR / RIGESOFT / LEVONELLE-2 / PLAN B | LVG (2x) | | Hungary; EU; CIS; USA; RoW |
| ESCAPELLE / LEVONELLE ONE-STEP / PLAN B ONE-STEP | LVG (1x) | | Hungary; EU; CIS; USA; RoW |
| ELLAONE [2] | ulipristal acetate | | Hungary; EU; CIS; RoW |
| Contraceptive device (CD) | | | |
| GOLDLILY / SILVERLILY | Cu + Au, Cu + Ag | IUD | Hungary; EU; CIS |
| Menopausal care | | | |
| TULITA / MINIVEL | norethisterone + estradiol | Hormone replacement therapy | Hungary |
| FEMSEVEN [2] | estradiol hemihydrate | Hormone replacement therapy (patch) | EU |
| FEMSEVEN COMBI [2] | LVG + estradiol | Hormone replacement therapy (patch) | EU |
| TRIAKLIM | norethisterone + estradiol | Hormone replacement therapy | Hungary |
| PAUSOGEST | norethisterone + estradiol | Hormone replacement therapy | Hungary |
| GOLDAR [2] | tibolone | Hormone replacement therapy | EU |
| ESTRIMAX | estradiol | Hormone replacement therapy | Hungary; EU |
| SEDRON / OSTALON / SIRANIN / BEENOS | alendronate | Osteoporosis | Hungary; EU; CIS; RoW |
| CALCI-SEDRON-D / OSTALON CALCI D | alendronate + Ca, vitamine D | Osteoporosis | Hungary; CIS |
| OSSICA | ibandronate | Osteoporosis | EU |
| Pregnancy care and Obstetrics | | | |
| GRAVIDA [2] | vitamins | Pregnancy care | Hungary |
| OXYTOCIN | oxytocine | Labour induction (injection) | Hungary; EU; CIS; RoW |
| BROMOCRIPTIN | bromocriptin mesilate | Prolactin inhibitor | Hungary; EU; CIS; RoW |
| Gynaecological infections | | | |
| MYCOSYST | fluconazole | Antifungal | Hungary; EU; CIS; RoW |
| GYNO FEMIDAZOL | miconazole nitrate | Antifungal | EU |
| GYNOFORT / GYNAZOL-1 [2] | butoconazole nitrate | Antifungal (cream) | Hungary; EU; CIS |
| KLION D | metronidazole + miconazole | Antifungal | Hungary; EU; CIS; RoW |
| Other Gynaecological conditions | | | |
| ESMYA® | ulipristal acetate | Gynaecology, uterine myoma | Hungary; EU; RoW |
| NORCOLUT | norethisterone | Premenstruation syndrome, mastodynia, dysfunctional uterine bleeding, endometriosis | Hungary; CIS; RoW |
| Bulk products | | Oral contraception | EU; USA;RoW |

Abbreviations used in the table: DRP: Drospirenone, LVG: Levonorgestrel, GST: Gestodene, EE: Ethynil estradiol, DSG: Desogestrel, CLM: Chlormadinone, BCLM: Biphasic-chlormadinone

Notes: [1] Products are launched in certain countries of the given region.
[2] Licenced-in products.



# b. Original Research – Focus on CNS

Research of new chemical entities has always been a paramount objective to our corporate strategy. Since 1998 major changes have occurred in the structure of research organisation. State of art laboratories have been built in the area of neuropharmacology, molecular biology, kinetics, metabolism and bioequivalence during the late 1990's. Pharmacological facilities have also been upgraded, while a new chemical–analytical research centre that meets

the highest quality and technological requirements has more recently been constructed. In addition, modernisation of the technological infrastructure, a restructuring strategy has been implemented to ensure the quality of science, innovation and speed are critically important factors in our research and to increase the opportunities for the research system to deliver high quality develo pable compounds. Following a major review of our research pipeline and resources, a strategic decision was taken to focus our original research activities exclusively on the CNS area. Aware of our capabilities and limits it was concluded that cooperation was required in order to share our knowledge and experience and share the significant related development costs and risks. In line with this aim, in 2004 we signed a research and development collaboration agreement with Forest Laboratories and also with Mitsubishi – Tanabe for our atypical antipsychotic, cariprazine and the related compounds.

## Cariprazine

### About Schizophrenia

Schizophrenia affects approximately 2.2 million people in the United States (NIMH). Although the condition affects a relatively small portion of the population, it consumes a disproportionate share of health care and social service costs as the disease is chronic, affects people in their youth, and requires frequent hospitalizations and intensive outpatient care. People with schizophrenia suffer from hallucinations, delusions and other disorders of their thought process. It is estimated that 30-40 percent of patients are unresponsive or only partially responsive to current therapies. Therefore, improved overall efficacy against positive and negative symptoms and cognitive dysfunction and better tolerance to medication remain unmet needs in the pharmacological treatment of schizophrenia.

### About Acute Mania in Bipolar Disorder

Bipolar disorder, also known as manic depression, is a serious medical illness most commonly characterized by extreme shifts in mood ranging from crippling "lows" (depression) to intense "highs" (mania). During the manic phase of the illness, the person may feel euphoric or extremely irritable. Other signs and symptoms include a high energy level, racing thoughts, impaired judgment, and denial that anything is wrong. A manic episode is diagnosed if symptoms occur in combination most of the day, nearly every day, for one week or longer. Bipolar

disorder affects approximately 2.3 million adults in the United States.

### About Cariprazine

Cariprazine, discovered by researchers at Gedeon Richter, is an orally active, potent D3/D2 receptor partial antagonist that preferentially binds to D3 receptors. In addition, cariprazine has a low potency at other receptor sites, such as 5-HT2C, histamine H1, and adrenergic receptor sites, which have been associated with adverse events.

### Recent Developments

Jointly with Forest we have carried out successful phase II and phase III trials in bipolar mania and schizophrenia, which enabled our partner to compile and submit a New Drug Application (NDA) to the U.S. Food and Drug Administration (FDA) for both indications in November 2012. We are pleased with these results and this joint success achieved gives us full confidence to make further advances on the way of to targeting new chemical entities in the field of the Central Nervous System.

## c. Biosimilars

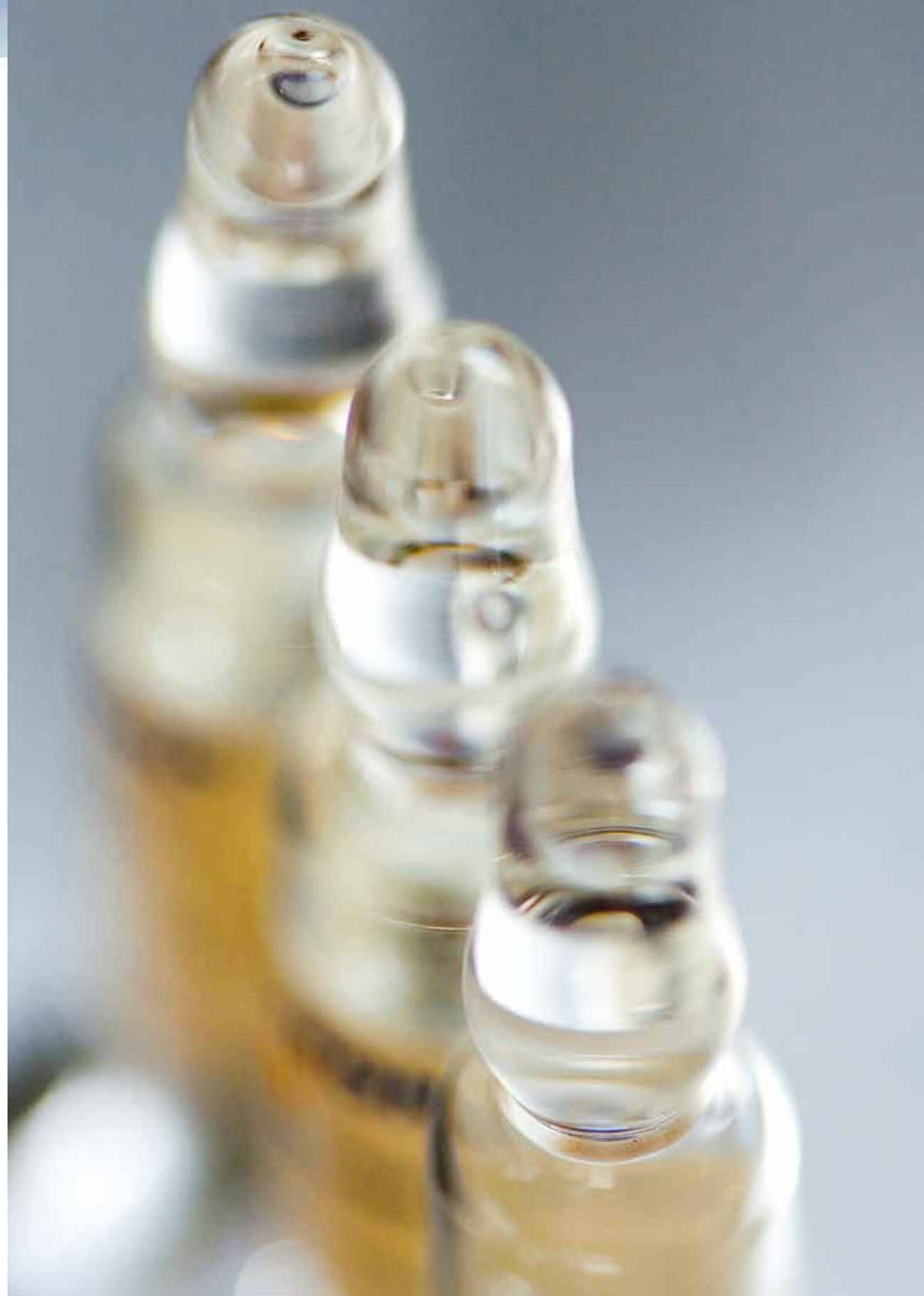
Richter acknowledged the growing importance of biological drugs in the medium to long term and took, a number of years ago, the strategic decision to enter this novel, high added intellectual value field. Richter's management was confident that its decade long expertise in fermentation, as being a most sensitive procedure used both in the manufacturing process of biological drugs and in that of steroids, creates a competitive edge over most of its peers which might be considering a similar shift in strategy.

Initially Richter acquired in 2007 a family owned manufacturing site in Germany, near Hamburg setting up a business with Helm where Richter owns the majority of shares. The site comprises a plant able to perform the manufacturing of bacterial cell based, simpler biosimilars, as well as a pilot plant and a connecting laboratory unit.

A much larger scale investment followed with the construction in Budapest of a pilot plant and a laboratory unit to complement a totally new manufacturing unit built in Eastern Hungary in the city of Debrecen. The Hungarian complex will manufacture biological drugs based on mammalian cells.

When selecting the candidate products Richter proceeded very carefully, narrowing down the therapeutic areas to two: Oncology and Immunology. Both areas belong to the highest growth rate therapeutic segments. Richter expects its first biosimilar products to be launched in 2016 and onwards.

As it usually does when it comes to risky or costly businesses, Richter identified strategic alliances with companies interested in biosimilars in order to share both risks and costs. In its endeavour Richter realised two such agreements, one with Mochida for the Japanese market, and the other with Stada. Further partners are sought to become involved in the product development procedures.



**Dr. Zsolt Szombathelyi** – Research Director **Dr. György Thaler** – Development Director

# IV. Business Review

# 1. Pharmaceuticals

## a. Research and Development

Innovation and the research of original drug molecules have been key elements in the Company's strategy since its foundation in 1901. With more than 1,000 employees in the field of research and development, Gedeon Richter today is the most significant pharmaceutical research base in the Central and Eastern European region. Pharmaceutical R&D covers three strategic areas, notably research and development of new chemical entities (NCEs), recombinant biotechnological activities and the development of generic products.

Research and development of new chemical entities focuses on the Female Healthcare and Central Nervous System areas.

In 2012 we made significant progress in the development process of cariprazine (RGH 188), our antipsychotic compound. In February 2012 jointly with our partner, Forest Laboratories, we announced positive results from two Phase III trials with cariprazine for the treatment of schizophrenia and another Phase III trial related to bipolar mania. Consequently Forest submitted New Drug Application (NDA) to the U.S. Food and Drug Administration (FDA) for both indications in November 2012. According to normal protocol the registration procedure is expected to take approximately twelve months. In addition, further phase II clinical trials for cariprazine are being carried out in cooperation with Forest Laboratories in bipolar depression and also in adjunctive therapy to major depression indications, results of which are expected to be presented in the fourth quarter of 2013 and second quarter of 2014 respectively. Further clinical trials for cariprazine were initiated during 2012 in order to meet the regulatory criteria established in the European Union. Our partner in Japan, Mitsubishi-Tanabe, is also conducting phase III clinical trials to facilitate the product introduction on the Japanese market.

Besides cariprazine, the Company has a research portfolio of 14 ongoing projects, of which one is in clinical Phase I trials. The remainder are in the preclinical phase of development.

Our research programmes in Female Healthcare are conducted by our Swiss based subsidiary, PregLem. Following receipt of the marketing authorization to ESMYA® 5mg tablet as pre-operative treatment of moderate to severe symptoms of uterine fibroids February 2012, we initiated Phase III clinical studies at the beginning of the third quarter 2012 to establish the long term (on-off) usage of ESMYA® targeting a substantial recession of fibroid tumors consequently making surgical interventions unnecessary. The studies are expected to be completed by the second quarter 2014.

At the end of 2012 the clinical portfolio consisted of the following:

**Clinical portfolio**

| Name of compound | Clinical phase | | Primary indications | Partner |
|---|---|---|---|---|
| ESMYA® | Phase III | United States | Uterine myoma | Watson Laboratories (Actavis) |
| Cariprazine (RGH-188) | Under registration | United States | Schizophrenia, bipolar mania | Forest Laboratories |
| | Phase III | | Major depression | |
| | Phase II | | Bipolar depression | |
| | Phase III | Japan | Schizophrenia | Mitsubishi-Tanabe |

Based on our long term almost 50 years experience in the area of classical fermentation, combined with molecular biological knowledge, a strategic decision was made by management in 2006 to start recombinant biotechnological activities at the Company. The Hamburg based Richter-Helm biologics, established jointly with Helm AG, carries out development and manufacturing of microbial proteins. In addition, a biotechnology laboratory and pilot plant in Budapest became operational in 2009. Meanwhile a greenfield investment which was commenced in Debrecen in 2008 targeting the production of the most complex mammalian cell products, was inaugurated and became operational in 2012.

The Company considers it essential to establish partnerships to facilitate the development and marketing of new molecules. We join forces with academic and university institutions in the early phase of our research activities, while we make efforts to establish cooperation with other pharmaceutical companies when it comes to the development of molecules in clinical phases. In this regard partnerships with the US-based Forest Laboratories and with the Japanese company Mitsubishi-Tanabe Pharmaceuticals have contributed substantially to the Company's research activity. In particular Richter's experience in preclinical trials is complementary with Forest's experience in clinical trials. In addition to the comprehensive and long term license and collaboration agreement signed in late 2010 with Mochida Pharmaceutical Co. Ltd. in respect of the development and marketing of Richter's biosimilar product portfolio we have announced two separate license and collaboration agreements in respect of the development and marketing of two biosimilar products, two monoclonal antibodies, with STADA Arzneimittel AG.

Generic development work in several therapeutic areas continued in 2012 at the Parent company and at its two subsidiaries in Poland and Romania. The Group's target is to launch at least 5-7 new generic and branded generic products per year on its traditional markets, i.e. Hungary, CEE and CIS. Licensing-in activity also contributes to the continuous development of the Group's product portfolio. Process development activities and bioequivalence studies on several active pharmaceutical ingredients and finished products continued during the year.

Following the receipt of the marketing authorization to ESMYA®, the product has been launched in 17 EU countries. Several products developed in-house were also introduced during 2012, namely the amlodipine and perindopril containing antihypertensive combination product VIDONORM in Hungary, the levocetirizine containing antiallergic ZILOLA also in Hungary and in Ukraine and the dienogest + 30mcg ethynil estradiol containing third generation oral contraceptive in Hungary, in Russia, in the Czech Republic and in Germany under different brand names. Additionally the licensed - in telmisartan containing antihypertensive TANYDON was launched in Hungary and certain EU9 countries during the year. New formulations of our existing products were also launched in number of our traditional markets.

The Group reported in 2012 a 35.3 percent increase in its spending on research and development which totalled HUF 38,847 million (EUR 134.4 million), representing 11.9 percent of consolidated sales.

**András Radó** – Director, Production and Logistics

## b. Manufacturing and Supply

Richter has always paid special attention to being in a position to offer reliable and modern products at affordable prices. Our key objective is to satisfy market demand by providing sufficient quantities of quality products in a timely and a cost efficient manner. We manage that by continually optimizing cost efficiency of products and technologies and by operating an integrated supply process system including all subsidiaries.

Despite the negative impact of the economic turmoil we have continued in 2012 to drive operational excellence and make adjustments to our operational base so as to maximize the efficiency of our supply chain whilst maintaining the highest standards of quality and security of supply. During the year we maintained our focus on driving continuous improvement in our supply systems as part of a wide ranging cost and efficiency programme.

Volumes shipped of finished products moderately increased in 2012 when compared to the levels reported in 2011, outperforming the overall pharmaceutical sales growth repor ted by the Group reflecting price pressure prevailing in most of our CEE and CIS regions.

At all of our manufacturing units in the CIS and CEE region manufacturing of new products commenced during 2012.

Overall volumes of API manufacturing increased in line with the volume growth of finished dosage form products in 2012 when compared to the levels recorded in 2011. Both steroids and generic API's volumes showed increase year on year.

A number of investment programmes were initiated during 2012 in the area of packaging of finished dosage form products - two new steroid packaging lines were put in operation to respond to the increasing capacity needs resulting from the manufacturing relocation of the OC portfolio acquired from Grünenthal. Modernization of the injectable plant, initiated during 2011, continued in 2012.

From among the various small-scale capital expenditure programs carried out at subsidiaries of the Group it should be highlighted that in line with the announced expansion of our Russian operations the warehousing capacity expansion project was carried out having completed a temporary area to receive incoming materials.

Throughout the year, several audits were conducted both on a regulatory and business partnership level, encompassing not only our facilities but also the production processes of finished form products and APIs. We are pleased to report that all audits resulted in positive and satisfactory feedback.

## c. Products

Richter recognises that currently it is considered primarily to be a branded generic pharmaceutical manufacturer. Whilst the dominant part of its turnover originates from generic drugs the Group also manufactures and markets steroid based pharmaceuticals which represent a specialised, higher margin group of products. Over the last decade this niche portfolio has contributed substantially to both the increase in sales and to the relatively high margins achieved by the Group. It has been a priority for Richter management to further strengthen this therapeutic area where we traditionally have possessed special knowledge. The acquired ex-Grünenthal oral contraceptive portfolio represents a strategic fit for Richter to both strengthen its presence in Western European markets and expand its oral contraceptive portfolio. Additionally the acquisition of PregLem

increases Richter's exposure to specialty pharma and complements its existing Women's Health franchise. In this Annual Report the separate section on Female Healthcare describes our gynaecological products in detail.

Richter also markets as part of its portfolio original products and continues to carry out intensive research activities, to treat diseases of the Central Nervous System. It is management's opinion that it is important for the longer term success of the Group that it continues to research own developed compounds.

Gedeon Richter is a regional mid-sized pharma company with a vertically integrated structure. This is based on a good market position with geographic and therapeutic niches supported by continuous enhancement through the supply of specialties partly via licensing agreements. Licensing-in has become an important route for the Group to renew its product portfolio. This is accomplished partly as an expansion of our existing generic product line and partly via providing high added value products including original compounds in the field of Female Healthcare or in other therapeutic areas.

Richter's management continues to endeavour to provide greater focus and improved shape to the product portfolio. With this background it is understandable that most of the top ten products in 2012 originate from the three largest therapeutic categories. Products belonging to the therapeutic areas of Gynaecological, Cardiovascular and Central Nervous System together generated 71 percent of total pharmaceutical sales.

Central Nervous System related drugs contributed altogether 12 percent of total pharmaceutical sales. The leading CNS product was our original product, CAVINTON (vinpocetine). The turnover of CAVINTON remained near flat in 2012 compared with the turnover reported in 2011. The sales performance achieved in Russia, in Poland and in Hungary contributed the most to the turnover recorded. In spite of a slight decline recorded in its total sales amount, the licensed-in multiple sclerosis drug AVONEX (interferon-beta-1a) showed good sales performance in Poland and in the Baltic States. The paroxetine containing antidepressant REXETIN contributed substantially to the sales levels reported in this therapeutic group.

Cardiovascular drugs also showed sales growth in 2012, accounting for 26 percent of total pharmaceutical sales. The cardiac therapy PANANGIN (asparaginates) remained the leading product in this therapeutic area despite a 6 percent decline in sales with most of the turnover originating in Russia. Antihypertension products including VEROSPIRON (spironolactone) and LISONORM (lisinopril + amlodipine) were also among the key drivers of the growth. The cholesterol lowering XETER (rosuvastatin) also contributed to the sales level achived during 2012. Turnover of NORMODIPINE (amlodipine) slightly declined in 2012, as the sales increase recorded in CIS and the Rest of the World region was more than offset by the decrease of turnover in most of the EU member states.

Muscle relaxant drugs amounted to 7 percent of total pharmaceutical revenue of the Group in 2012. The most significant sales were achieved by the original product MYDETON / MYDOCALM (tolperisone), primarily in Russia.

Gastrointestinal products represented 4 percent of total pharmaceutical sales led by the $H_2$-blocker QUAMATEL (famotidine) in 2012.

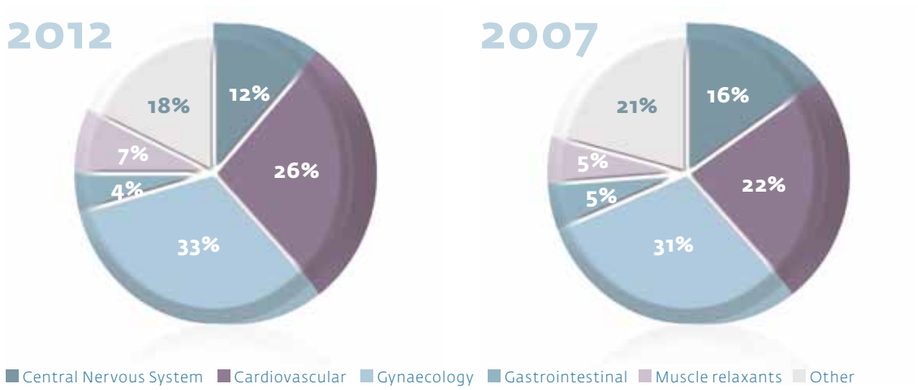
Sales of TERBISIL (terbinafine) and MYCOSYST (fluconazole) contributed significantly to the turnover coming from Antifungals.

In line with Group strategy the product portfolio has been successfully enhanced and it is under continuous renewal. This focus continues through withdrawing low volume and low margin products and introducing new products with improved profitability. Progress by the Group in launching new products continued in 2012. Several new generic products were launched on our markets.

## Main licencing-in partners of Richter

| Company | Country | Product | Therapeutic area |
|---|---|---|---|
| Astellas | Japan | SUPRAX | Antibiotic |
| Biogen Idec | USA | AVONEX, TYSABRI | Central nervous system, sclerosis multiplex |
| Almirall Prodesfarma | Spain | AFLAMIN | Non-steroid antiinflammatory |
| Janssen | Belgium | Several products | Central nervous system, Antifungal, Antibacterial |
| KV Pharmaceutical | USA | GYNAZOL-1 | Gynaecologycal infections |
| Helm | Germany | FENTANYL patch, ANASTRAZOL, LETROZOL | Oncology, opioid analgesic |
| ProStrakan | United Kingdom | LUNALDIN | Oncology, opioid analgesic |
| Actavis | Switzerland | Several products | Gastrointestinal, Urology |
| Takeda | Japan | LANSONE | Gastrointestinal, antiulcer |
| Sanofi-Aventis | France | TARIVID | Antibiotic |
| HRA Pharma | France | ELLAONE | Gynaecology, emergency contraceptive |

## Products by therapeutic groups




## TOP 10 products

| Brand name | Active ingredient | Therapeutic area | 2012 | 2011 | Change | |
|---|---|---|---|---|---|---|
| | | | HUFm | HUFm | HUFm | % |
| Oral contraceptives | hormones | Gynaecology, oral contraceptives | 82,383 | 80,775 | 1,608 | 2.0 |
| CAVINTON | vinpocetine | Central nervous system, nootropic | 19,699 | 19,531 | 168 | 0.9 |
| MYDETON / MYDOCALM | tolperisone | Muscle relaxant | 18,458 | 14,824 | 3,634 | 24.5 |
| LISOPRESS | lisinopril | Cardiovascular, antihypertensive | 16,098 | 15,861 | 237 | 1.5 |
| PANANGIN | asparaginates | Cardiovascular, cardiac therapy | 15,476 | 16,459 | -983 | -6.0 |
| VEROSPIRON | spironolactone | Cardiovascular, diuretic | 12,040 | 9,987 | 2,053 | 20.6 |
| QUAMATEL | famotidine | Gastrointestinal, antiulcer | 7,978 | 8,215 | -237 | -2.9 |
| LISONORM | lisinopril + amlodipine | Cardiovascular, antihypertensive | 7,187 | 5,880 | 1,307 | 22.2 |
| AFLAMIL / AFLAMIN BIOFENAC° | aceclofenac | Non-steroid antiinflammatory | 5,636 | 4,189 | 1,447 | 34.5 |
| XETER / MERTENIL / ZARANTA / ROSTAT | rosuvastatin | Cardiovascular, cholesterol lowering | 5,585 | 5,281 | 304 | 5.8 |
| Subtotal | | | 190,540 | 181,002 | 9,538 | 5.3 |
| Other | | | 95,939 | 90,690 | 5,249 | 5.8 |
| **Total** | | | **286,479** | **271,692** | **14,787** | **5.4** |
| **TOP 10 %** | | | **66.5 %** | **66.6 %** | | |

Note: ° Licensed-in products

## New Product Launches

| Brand name | Active ingredients | Therapeutic area | HUN | POL | ROM | EU9 | EU15 | RUS | UKR | RoCIS | RoW |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Own developed compounds | | | | | | | | | | | |
| AMLATOR | amlodipine + atorvastatin | Cardiovascular, antihypertensive + cholesterol lowering | 12Q1 | 12Q1 | | 12Q1 | | | | | |
| BIDOP | bisoprolol | Cardiovascular, antihypertensive, cardiac therapy | | | | | | | | 12Q3 | |
| DANURIT | perindopril + indapamide | Cardiovascular, antihypertensive | | | 12Q1 | | | | | | |
| DIRONORM | lisinopril + amlodipine | Cardiovascular, antihypertensive | | 12Q3 | | 12Q3 | | | | | |
| DIRONORM FORTE | lisinopril + amlodipine | Cardiovascular, antihypertensive | | | | 12Q1 | | | | | |
| DUPLECOR | amlodipine + atorvastatin | Cardiovascular, antihypertensive + cholesterol lowering | | | | | | 12Q3 | | | |
| LENUXIN | escitalopram | Central nervous system, antidepressant | | | | | | 12Q3 | | | |
| LISONORM | lisinopril + amlodipine | Cardiovascular, antihypertensive | | | | | | | | | 12Q1 |
| LORDESTIN | desloratadin | Respiratory, antiallergic | 12Q2 | | 12Q2 | | | | | | |
| MERTENIL | rosuvastatin | Cardiovascular, cholesterol lowering | | | | | | | | 12Q3 | |
| MODUXIN | trimetazidine | Cardiovascular, cardiac therapy | | | | 12Q2 | | | | | |
| MOILEC | meloxicam | Non-steroid antiinflammatory | | 12Q3 | | | | | | | |
| PARNASSAN | olanzapine | Central nervous system, antipsychotic | | | | 12Q1 | | 12Q1 | | | |
| PERINDOPRIL-INDAPAMIDE RICHTER | perindopril + indapamid | Cardiovascular, antihypertensive | | | | | | 12Q3 | | | |
| PROTEVASC | trimetazidine | Cardiovascular, cardiac therapy | | | | 12Q1 | | | | | |
| SINGLON | montelucast | Respiratory, antiasthmatic | | | | | | | | 12Q3 | |
| SONIRID DUO | finasteride + tamsulosine | Urology, benign prostate hypertrophy | | | | | | 12Q4 | | | |
| TANYDON | telmisartan | Cardiovascular, antihypertensive | 12Q1 | | 12Q1 | 12Q1 | | | | | |
| VIDONORM | amlodipine + perindopril | Cardiovascular, antihypertensive | 12Q3 | | | | | | | | |
| VIDOTIN | perindopril | Cardiovascular, antihypertensive | | | | | | 12Q2 | | | |
| ZILOLA | levocetirizin | Respiratory, antiallergic | 12Q2 | | | | | | 12Q4 | | |

## New Product Launches

| Brand name | Active ingredients | Therapeutic area | HUN | POL | ROM | EU9 | EU15 | RUS | UKR | RoCIS | RoW |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Licensed-in products | | | | | | | | | | | |
| AFLAMIL / AFLAMIN/ BIOFENAC | aceclofenac | Non-steroid antiinflammatory | | | | 12Q2 | | | | | |
| DOLFORIN / LUNALDIN | fentanyl | Oncology, opioid analgesics | | | | | | | | 12Q2 | |
| SUPRAX | cefixime | Antibiotic | | | | | | | | 12Q2 | |



## New Product Launches

| Brand name | Active ingredients | Therapeutic area | HUN | POL | ROM | EU9 | EU15 | RUS | UKR | RoCIS | RoW |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Gynaecological products | | | | | | | | | | | |
| ARANKA | drospirenone + 30mcg EE* | Gynaecology, oral contraceptive | | | | | 12Q1 | | | | |
| ARANKELLE | drospirenone + 20mcg EE* | Gynaecology, oral contraceptive | | | | | 12Q4 | | | | |
| BELARA | chlormadinone + 30mcg EE* | Gynaecology, oral contraceptive | 12Q1 | | | 12Q1 | | 12Q4 | | | |
| BELARINA | chlormadinone + 20mcg EE* | Gynaecology, oral contraceptive | | | | | | | | | 12Q2 |
| DARYLIA | drospirenone + 20mcg EE* | Gynaecology, oral contraceptive | | | | | | | 12Q2 | | |
| DAYLETTE/LILADROS | drospirenone + 20mcg EE* | Gynaecology, oral contraceptive | | | | 12Q1 | 12Q1 | | | | |
| DIMIA | drospirenone + 20mcg EE* | Gynaecology, oral contraceptive | | | | | | 12Q3 | | | |
| ESMYA® | ulipristal acetate | Gynaecology, uterine myoma | 12Q2 | 12Q2 | 12Q3 | 12Q2 | 12Q2 | | | | |
| GOLDLILY | Cu + Au | Gynaecology, IUD | | | | | | 12Q2 | | | |
| MAITALON 20 | drospirenone + 20mcg EE* | Gynaecology, oral contraceptive | | | | | 12Q2 | | | | |
| MAITALON 30 | drospirenone + 30mcg EE* | Gynaecology, oral contraceptive | | | | | 12Q2 | | | | |
| MIDIANA | drospirenone + 30mcg EE* | Gynaecology, oral contraceptive | | | | | 12Q3 | | | | |
| MISTRAL | dienogest + 30 mcg EE* | Gynaecology, oral contraceptive | 12Q4 | | | | | | | | |
| OSSICA | ibandronate | Gynaecology, osteoporosis/ Oncology | | | 12Q3 | 12Q3 | | | | | |
| REZIA | drospirenone + 20mcg EE* | Gynaecology, oral contraceptive | 12Q2 | | | | | | | | |
| SILUETTE | dienogest + 30 mcg EE* | Gynaecology, oral contraceptive | | | | | | 12Q3 | | | |
| VOLINA | drospirenone + 30mcg EE* | Gynaecology, oral contraceptive | | | | | 12Q1 | | | | |
| VOLINA MITE | drospirenone + 20mcg EE* | Gynaecology, oral contraceptive | | | | | 12Q1 | | | | |

Note: * ethynil estradiol

**Sándor Kováts** – Commercial and Marketing Director

## d. Sales by Markets

Sales in the pharmaceutical segment in 2012 totalled HUF 286,479 million (EUR 990.9 million), an increase of 5.4 percent (2.1 percent in Euro terms).

In Hungary sales totalled HUF 29,660 million (EUR 102.6 million) in 2012, a decline of 13.8 percent (in Euro terms 16.5 percent) when compared to 2011. Changes to the price regulations which were implemented gradually between the second and fourth quarters 2011 impacted adversely the Group's performance in 2012.

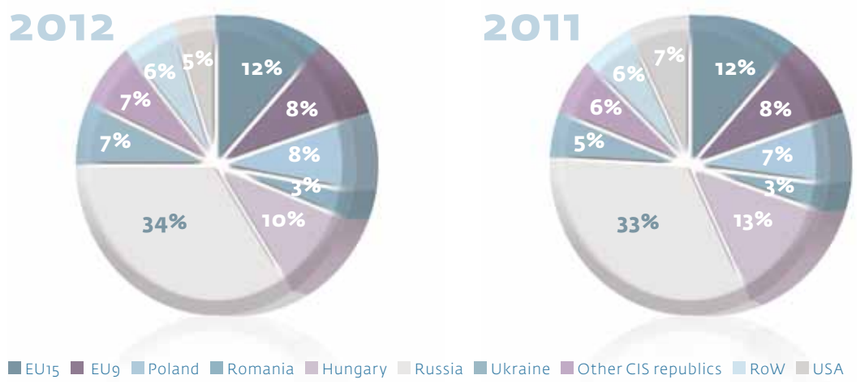
A new tender system introduced in 2011 aiming towards semestral price adjustments adversely affected several major Richter brands in Hungary. The price cuts applied during 2011 and early 2012 amounted to an annual revenue loss of more than HUF 3 billion by the end of 2012. Nevertheless a number of products showed significant sales growth during the reported period, notably a range of oral contraceptives and the cardiovascular product TANYDON.

### Sales by region

| | 2012 HUFm | 2011 [1] HUFm | HUFm | Change % | 2012 EURm | 2011 [1] EURm | EURm | Change % |
|---|---|---|---|---|---|---|---|---|
| Hungary | 29,660 | 34,424 | -4,764 | -13.8 | 102.6 | 122.9 | -20.3 | -16.5 |
| EU [2] | 87,766 | 81,304 | 6,462 | 7.9 | 303.5 | 290.4 | 13.1 | 4.5 |
| Poland | 22,622 | 19,503 | 3,119 | 16.0 | 78.2 | 69.7 | 8.5 | 12.2 |
| Romania | 9,049 | 8,697 | 352 | 4.0 | 31.3 | 31.1 | 0.2 | 0.6 |
| EU 9 | 23,106 | 21,368 | 1,738 | 8.1 | 79.9 | 76.3 | 3.6 | 4.7 |
| EU 15 | 32,989 | 31,736 | 1,253 | 3.9 | 114.1 | 113.3 | 0.8 | 0.7 |
| CIS | 136,568 | 119,226 | 17,342 | 14.5 | 472.4 | 425.8 | 46.6 | 10.9 |
| Russia | 97,388 | 88,598 | 8,790 | 9.9 | 336.9 | 316.4 | 20.5 | 6.5 |
| Ukraine | 19,400 | 14,150 | 5,250 | 37.1 | 67.1 | 50.5 | 16.6 | 32.9 |
| Other CIS republics | 19,780 | 16,478 | 3,302 | 20.0 | 68.4 | 58.9 | 9.5 | 16.1 |
| USA | 16,123 | 20,513 | -4,390 | -21.4 | 55.8 | 73.3 | -17.5 | -23.9 |
| Rest of the World | 16,362 | 16,225 | 137 | 0.8 | 56.6 | 57.9 | -1.3 | -2.2 |
| **Total** | **286,479** | **271,692** | **14,787** | **5.4** | **990.9** | **970.3** | **20.6** | **2.1** |

Notes: [1] Segment compositions have changed, base period data have been restated accordingly.
[2] All Member States of the European Union, except for Hungary.

### Sales analysis by region




## Hungary

A further depreciating national currency, together with delaying recovery of the Eurozone has set the limits for Hungarian economic development. GDP turned into negative at a rate of 1.7 percent, inflation accelerated to 5.2 percent and unemployment rate also increased, marginally exceeding the 11 percent. Pharmaceutical market aligned to the negative trends and showed a 3.7 percent drop according to market intelligence.

Sales performance in Hungary was also negatively impacted by the termination of the licensing-in contract for AVONEX and TYSABRI with effect from 31 December 2011.

In 2012 the pharmaceutical market decreased slightly year-on-year, with sales of Richter products also falling behind the levels achieved in 2011 by 12.7 percent. Richter is now the fourth player on the Hungarian pharmaceutical market with a 5.3 percent share based on the latest available market audit (IMS) data for the full year 2012. When considering only the market for retail prescription drugs, Richter qualified for third place with a market share of 7.1 percent.

## Hungarian Regulatory Environment

### Extraordinary Taxes

The 2007 drug economic act established that pharmaceutical companies were required to pay as a contribution to the nation's health care budget an amount equal to 12 percent of the reimbursement based on manufacturer price levels to the Tax Authority. A medical representative fee was also reintroduced from 15 February 2009 in the amount of HUF 0.4 million per month per representative. Amendments to the law with effect from 1 July 2011 increased the 12 percent tax to 20 percent while the medical representative fee was doubled to HUF 0.8 million per month per representative.

### Price Regulations

Recent amendments to the law include:

- Implementation of a preferred reference pricing range of 10 percent above the reference price for both active substance reimbursement and therapeutic reimbursement groups, with any failure to keep the price within the preferred range resulting in a 15 percent reduction in the reimbursement amount: manufacturers' price proposals are submitted via a "blind" auction system.
- Introduction of an international reference pricing system with a 20 percent ceiling above the average of the three cheapest prices of a given manufacturer applied in any of the EU countries to retain reimbursement status. This measure has yet to be put into practice as at the publication date of this annual report.
- On 18 June 2012 the Hungarian Parliament approved a new measure referred to as the Spanish model. Drug manufacturers are required to pay a 10 percent rebate based on the retail price of the product (excluding reimbursement), with effect from 1 August 2012 in the case of such reimbursed products which have been marketed for a period of at least 6 years with a retail price exceeding HUF 1000 and which face no current generic competition. An estimated 1600 drugs are impacted by this measure. It is estimated that this measure implies an annual payment liability of approximately HUF 100 million for Richter.
- With effect from 1 August 2012 the wholesale markup for reimbursed drugs was reduced by regulation, the resulting difference being allocated to retailers.

### R&D Based Tax Allowances

Parliament passed an Act on 21 December 2011 which provides for a 20 percent–60 percent–90 percent extraordinary tax deduction for those companies whose R&D reaches or exceeds 15 percent–20 percent–25 percent of the reimbursement based on manufacturer price levels during 2011. An additional criterion for this allowance is a minimum level of personnel related expenditure established at 3 percent for staff involved in R&D. Considering the above conditions Richter qualifies for the maximum available allowance i.e. 90 percent of the tax liability incurred in respect of 2011; the scope of which having been extended in order to include rebates arising from the introduction of the so called "Spanish model" and also the financing of a potential overspending of the pharma budget.



## New products launched in Hungary during 2012

| Brand name | Active ingredient | Therapeutic area | Launch date |
|---|---|---|---|
| AMLATOR | amlodipine + atorvastatin | Cardiovascular, antihypertensive, cholesterol lowering | Q1, 2012 |
| BELARA | chlormadinone + EE° | Gynaecology, oral contraceptive | Q1, 2012 |
| TANYDON | telmisartan | Cardiovascular, antihypertensive | Q1, 2012 |
| ESMYA® | ulipristal acetate | Gynaecology, uterine myoma | Q2, 2012 |
| REZIA | drospirenone + 20 mcg EE° | Gynaecology, oral contraceptive | Q2, 2012 |
| LORDESTIN | desloratadine | Respiratory, antiallergic | Q2, 2012 |
| ZILOLA | levocetirizine | Respiratory, antiallergic | Q2, 2012 |
| VIDONORM | amlodipine + perindopril | Cardiovascular, antihypertensive | Q3, 2012 |
| MISTRAL | dienogest + 30mcg EE° | Gynaecology, oral contraceptive | Q4, 2012 |

Note: ° ethynil estradiol

## TOP 10 products in Hungary

| Brand name | Active ingredient | Therapeutic area | 2012 HUFm | 2011 HUFm | HUFm | Change % |
|---|---|---|---|---|---|---|
| Oral contraceptives | hormones | Gynaecology | 3,332 | 3,010 | 322 | 10.7 |
| CAVINTON | vinpocetine | Central nervous system, nootropic | 2,033 | 2,029 | 4 | 0.2 |
| XETER | rosuvastatin | Cardiovascular, cholesterol-lowering | 1,742 | 2,860 | -1,118 | -39.1 |
| QUAMATEL | famotidine | Gastrointestinal, antiulcer | 1,336 | 1,688 | -352 | -20.9 |
| LISONORM | lisinopril + amlodipine | Cardiovascular, antihypertensive | 1,030 | 1,127 | -97 | -8.6 |
| MODUXIN | trimetazidine | Cardiovascular, cardiac therapy | 969 | 1,178 | -209 | -17.8 |
| LAMOLEP | lamotrigine | Central nervous system, epilepsy treatment | 824 | 778 | 46 | 5.8 |
| PANANGIN | asparaginates | Cardiovascular, cardiac therapy | 739 | 556 | 183 | 33.0 |
| AFLAMIN° | aceclofenac | Non-steroid antiinflammatory | 708 | 699 | 9 | 1.3 |
| PORTIRON / PORTIRON HCT | losartan / losartan + hydrochlorothiazide | Cardiovascular, antihypertensive | 691 | 1,009 | -318 | -31.5 |
| Subtotal | | | 13,404 | 14,934 | -1,530 | -10.3 |
| Other | | | 16,256 | 19,490 | -3,234 | -16.6 |
| **Total** | | | **29,660** | **34,424** | **-4,764** | **-13.8** |
| **TOP 10 %** | | | **45.2** | **43.4** | | |

Note: ° Licensed-in products

## Strategic Agreement Between Richter and the Hungarian Government

On 2 November 2012 Richter signed a strategic agreement with the Hungarian Government which among other benefits established a transparent and sustainable system for the R&D based tax allowances including the carry of such allowances beyond the end of the financial year. The agreement is expected to contribute to the settlement in the medium and long term of the turmoil in the pharmaceutical market in Hungary. Details of the R&D based tax allowances were subsequently enacted by the Parliament and entered into force with immediate effect as of 28 December 2012.

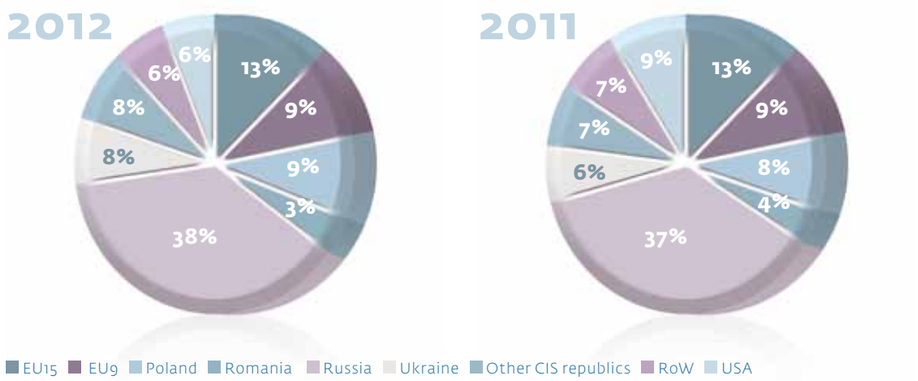
## International Sales

International sales amounted to EUR 888.3 million in 2012, an increase of EUR 40.9 million or 4.8 percent over 2011. Sales in the CIS totalled EUR 472.4 million (US$ 606.9 million), 10.9 percent higher (in US$ terms 2.3 percent) when compared to 2011. In Russia a steady growth of 6.5 percent in EUR terms was reported in 2012. A significant 22.4 percent growth in US$ terms (32.9 percent in EUR terms) was reported in Ukraine, while a 7.2 percent increase in turnover in US$ terms (16.1 percent in EUR terms) was reported in the Other CIS republics. The increase in turnover reported for the EU region (4.5 percent in Euro terms) was primarily driven by higher sales levels recorded in Poland, but the EU 9 countries also significantly contributed to the higher sales levels achieved. Sales recorded in the USA declined by 29.7 percent in US$ terms. Turnover reported in the Rest of the World region decreased by 2.2 percent in EUR terms in 2012 when compared to 2011.

## Sales to TOP 10 international markets

| | 2012 EURm | 2011 EURm | EURm | Change % |
|---|---|---|---|---|
| Russia | 336.9 | 316.4 | 20.5 | 6.5 |
| Poland | 78.2 | 69.7 | 8.5 | 12.2 |
| Ukraine | 67.1 | 50.5 | 16.6 | 32.9 |
| Germany | 55.9 | 47.6 | 8.3 | 17.4 |
| USA | 55.8 | 73.3 | -17.5 | -23.9 |
| Romania | 31.3 | 31.1 | 0.2 | 0.6 |
| Czech Republic | 29.1 | 25.4 | 3.7 | 17.6 |
| Slovakia | 21.1 | 22.2 | -1.1 | -5.0 |
| Kazakhstan | 17.8 | 17.8 | 0.0 | 0.0 |
| France | 15.0 | 13.0 | 2.0 | 15.4 |
| **Subtotal** | **708.1** | **666.9** | **41.2** | **6.2** |
| **Total international sales** | **888.3** | **847.4** | **40.9** | **4.8** |
| Share of the TOP 10 international markets | 79.7% | 78.7% | | |

## International sales analysis by region




## European Union

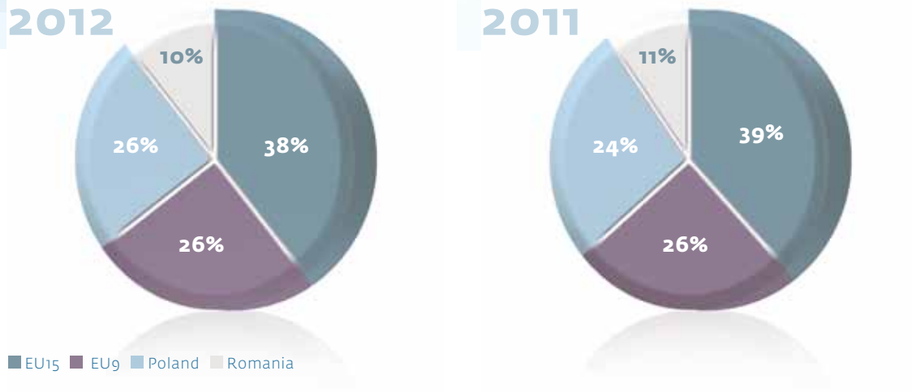
Sales in the European Union, excluding Hungary, amounted to EUR 303.5 million in 2012, representing an increase of 4.5 percent when compared to 2011.

Mid single digit sales growth was reported in the EU mostly due to good growth recorded in Poland and in the EU9 region, despite the fact that the Group continued to face strong competition and sustained pressure from governments which together resulted year on year in both lower prices and reimbursement levels. Novel Female Healthcare generics launched by Richter in key Western European countries have strongly contributed to the turnover growth.

Macroeconomic developments in Poland were mixed as decreasing inflation rate was contrasted by a falling GDP and a pharmaceutical market shrinking by 4.5 percent. In spite of difficult macro environment the Group recorded sales of PLN 327.4 million (EUR 78.2 million) in 2012, an increase of 13.8 percent in PLN terms (12.2 percent in EUR terms) over the levels achieved in 2011 in Poland, its largest market in the region. The reported good sales levels were primarily due to Richter's efficient promotional activities. The range of oral contraceptives, BIOFENAC, AVONEX, and SPIRONOL contributed the most to the recorded good growth when compared to the sales levels achieved in the base period.

A new drug economic act came into effect on 1 January 2012 in Poland, resulting in a further tightening of the measures regulating the activity of pharmaceutical companies. The most important provisions of the act include a freeze of the national pharma budget at its 2011 level for three subsequent years. Should expenditures exceed this amount,

## Sales to the EU in 2012




manufacturers are required to pay in total half of the excess spending. The first generic product on the market cannot exceed 75 percent of the price of the original drug and all subsequent competitors have to sell their products at lower prices. The deadline for a decision with respect to the inclusion of new products into the reimbursement list increased to 180 days, although manufacturers may ask for such inclusion at any time. Promotion activity (including such items as discounts and charity donations) for reimbursed products has been completely ruled out.

Difficult market environment characterised Romania also in 2012 with political instability and shrinking GDP. Sales to this country amounted to RON 139.4 million in 2012, a 5.8 percent year-on-year increase compared with the performance in 2011. In EUR terms turnover slightly increased by 0.6 percent and amounted to EUR 31.3 million. Increasing competition and excessive payment delays (up to 360 days or more) have characterized the Romanian pharma market together with sales held back as a consequence of bad debts as well as the distributors' high inventory levels.

Turnover of the range of oral contraceptives, of CAVINTON (including CAVINTON FORTE), of MYDOCALM and MODUXIN contributed most to sales levels achieved in 2012.

From 1 October 2009 the Government approved a claw-back regime in the range of 5-12 percent (aimed at financing the overspending of the national pharmaceutical budget) to be paid to the National Health Insurance House by the manufacturers from sales of reimbursed drugs. On 1 October 2011 a new version of Romania's pharmaceutical claw-back mechanism came into force. The new measures apply to the suppliers of medicines that are partly or fully reimbursed and the overspending of the national pharmaceutical budget has to be paid for by these manufacturers based on their market shares. In line with the governmental decree published on 8 August 2012 further amendments were made to the claw-back mechanism. In the fourth quarter of 2012 in respect of the last two quarters Richter booked the claw-back tax imposed.

Despite strong competition and the various austerity measures introduced by local governments Richter recorded steady growth in the EU 9 region in 2012. Sales totalled EUR 79.9 million in the year, 4.7 percent higher than in 2011. This area represented 26 percent of the total EU region sales of the Group's pharmaceutical segment.

The crisis left its fingerprints on the Czech economy too: rising inflation, GDP falling near to recession levels and steady (7.2 percent) unemployed rate have set an unfavourable macroeconomic environment. Our turnover on this market amounted to EUR 29.1 million in 2012, representing growth of 14.4 percent over the sales levels achieved in the base period. The sales increase was mainly attributable to the range of oral contraceptives, AMLATOR, LUNALDIN, GORDIUS and KYLOTAN (including KYLOTAN PLUS). In Slovakia, an Eurozone economy shaked to a lesser extent than its Central-European

## New products launched in Central and Eastern Europe during 2012

| Brand name | Active ingredient | Therapeutic area | Launch date |
|---|---|---|---|
| AMLATOR | amlodipine + atorvastatin | Cardiovascular, antihypertensive, cholesterol lowering | Q1, 2012 |
| DANURIT | perindopril + indapamide | Cardiovascular, antihypertensive | Q1, 2012 |
| TANYDON | telmisartan | Cardiovascular, antihypertensive | Q1, 2012 |
| BELARA | chlormadinone + EE[1] | Gynaecology, oral contraception | Q1, 2012 |
| DIRONORM FORTE | lisinopril + amlodipine | Cardiovascular, antihypertensive | Q1, 2012 |
| PARNASSAN | olanzapine | Central nervous system, antipsychotic | Q1, 2012 |
| DAYLETTE | drospirenone + 20mcg EE[1] | Gynaecology, oral contraception | Q1, 2012 |
| PROTEVASC | trimetazidine | Cardiovascular, cardiac therapy | Q1, 2012 |
| LORDESTIN | desloratadine | Respiratory, antiallergic | Q2, 2012 |
| ESMYA® | ulipristal acetate | Gynaecology, uterine myoma | Q2, 2012 |
| MODUXIN | trimetazidine | Cardiovascular, cardiac therapy | Q2, 2012 |
| AFLAMIL [2] | aceclofenac | Non-steroid antiinflammatory | Q2, 2012 |
| OSSICA | ibandronate | Oncology / Gynaecology, anti osteoporosis | Q3, 2012 |
| DIRONORM | lisinopril + amlodipine | Cardiovascular, antihypertensive | Q3, 2012 |
| MOILEC | meloxicam | Non-steroid antiinflammatory | Q3, 2012 |

Notes: [1] EE: ethynil estradiol
[2] Licensed-in products

peers, with a slight deflation, and a rather steady unemployement rate, our turnover amounted to EUR 21.1 million in 2012 which was 4.9 percent lower compared to 2011. Notwithstanding the overall decline a positive sales performance of PROTEVASC, LUNALDIN and TANYDON was recorded in the reported period. In the Baltic States sales amounted to EUR 16.7 million in 2012, EUR 0.4 million higher when compared to 2011. In Bulgaria sales totalled EUR 12.9 million in the reported period, representing growth of EUR 0.8 million when compared with turnover achieved in 2011.

In the 'traditional' 15 EU Member States sales amounted to EUR 114.1 million in 2012, which represented virtually flat (0.7 percent higher) sales levels compared to the previous year's performance. This region contributed 38 percent of total EU pharmaceutical sales.

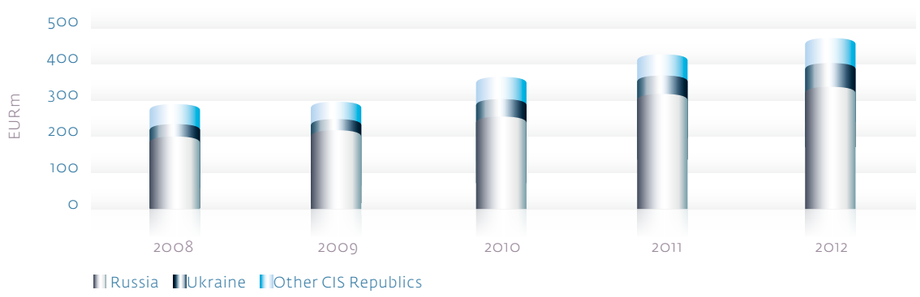
In Germany Richter Group reported sales of EUR 55.9 million in 2012, 17.3 percent higher than in the base period. In France the Group's turnover amounted to EUR 15.0 million in 2012. Sales in Italy reached EUR 10.8 million while sales in Belgium totalled EUR 8.6 million in the reported period. Turnover in Spain reached EUR 5.6 million while it amounted to EUR 5.3 million in the United Kingdom.

## CIS

Sales to the CIS in 2012 totalled EUR 472.4 million, representing good growth of 10.9 percent compared with sales levels achieved in 2011. Significant sales growth was achieved throughout the region in the reported period.

The relatively stable Rouble/Euro exchange rate and the increasing crude oil revenues created a predictable and stable economic environment

### Sales to the CIS




resulting in sharply declining inflation rate and a mildly improving unemployment in Russia which altogether impacted positively the purchasing power. Sales totalled RUB 13.5 billion (EUR 336.9 million) in 2012, 3.8 percent (in EUR terms 6.5 percent) higher than in the base period. In spite of increasing generic competition the higher sales level was reached as a consequence of Richter's efficient promotional and commercial activities. Growth was realised primarily due to a good performance achieved by MYDOCALM, the range of oral contraceptives and MERTENIL.

A licensing agreement for SUPRAX was terminated during 2012. The consequences thereof impacted the second half of the reporting year.

In line with the Pharma 2020 strategy announced by the Russian Government which has as its objective the manufacturing of most essential medicines in Russia by 2016 Richter has been carrying out a multi-phase project which will further increase its Russian manufacturing and warehousing capacities.
Sales to Ukraine amounted to US$ 86.2 million (EUR 67.1 million) in 2012. The substantial growth of 22.4 percent (32.9 percent in EUR terms) reported over 2011 was due to both Richter's efficient promotional activities and also some registration related one-off shipments. Political stabilisation in

the country had a beneficial effect on the economic climate. Turnover of the range of oral contraceptives, PANANGIN, MYDOCALM and CAVINTON contributed most to the sales levels recorded.

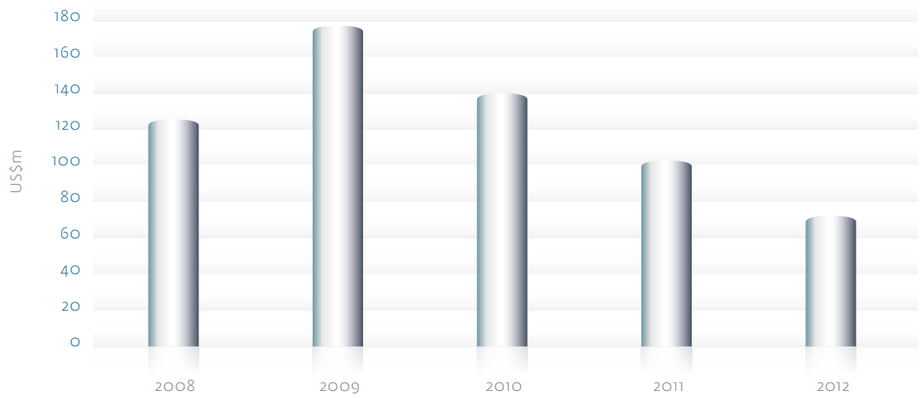
Sales in Other CIS republics totalled US$ 87.9 million (EUR 68.4 million) in 2012, good growth of 7.2 percent (16.1 percent in Euro terms) compared to 2011. Sales to this region increased in almost all countries and more than offset declines recorded in Kazakhstan, Azerbaijan and Belorussia.

## New products launched in the CIS republics during 2012

| Brand name | Active ingredient | Therapeutic area | Launch date |
|---|---|---|---|
| PARNASSAN | olanzapine | Central nervous system, antipsychotic | Q1, 2012 |
| DARILYA | drospirenone + 20mcg EE[1] | Gynaecology, oral contraceptive | Q2, 2012 |
| DOLFORIN [2] | fentanyl | Central nervous system / Oncology, opioid analgesic | Q2, 2012 |
| GOLDLILY | Cu + Au | Gynaecology, IUD | Q2, 2012 |
| SUPRAX [2] | cefixime | Antibiotic | Q2, 2012 |
| VIDOTIN | perindopril | Cardiovascular, antihypertensive | Q2, 2012 |
| DUPLECOR | amlodipine + atorvastatin | Cardiovascular, antihypertensive + cholesterol lowering | Q3, 2012 |
| PERINDOPRIL-INDAPAMIDE RICHTER | perindopril + indapamide | Cardiovascular, antihypertensive | Q3, 2012 |
| LENUXIN | escitalopram | Central nervous system, antidepressant | Q3, 2012 |
| DIMIA | drospirenone + 20mcg EE [1] | Gynaecology, oral contraceptive | Q3, 2012 |
| SILUETTE | dienogest + 30mcg EE [1] | Gynaecology, oral contraceptive | Q3, 2012 |
| BIDOP | bisoprolol | Cardiovascular, antihypertensive, cardiac therapy | Q3, 2012 |
| SINGLON | montelucast | Respiratory, antiasthmatic | Q3, 2012 |
| MERTENIL | rosuvastatin | Cardiovascular, cholesterol lowering | Q3, 2012 |
| DOLFORIN [2] | fentanyl | Central nervous system / Oncology, opioid analgesic | Q3, 2012 |
| BELARA | chlormadinone + EE [1] | Gynaecology, oral contraceptive | Q4, 2012 |
| SONIRID DUO | finasteride + tamsulosine | Urology, benign prostate hypertrophy | Q4, 2012 |
| ZILOLA [2] | levocetirizine | Respiratory, antiallergic | Q4, 2012 |

Notes: [1] EE: ethynil estradiol
[2] Licensed-in products

### Sales to the USA




## USA

Sales in the USA totalled US$ 71.7 million (EUR 55.8 million) in 2012, a decline of 29.7 percent in US$ terms (23.9 percent in EUR terms). As indicated in previous reports revenues in connection with the drospirenone related profit sharing agreements declined further due to increased generic competition. Turnover of matured gynaecological products also showed a decline year on year. However significant sales growth of the finished form emergency contraceptive PLAN B ONE STEP was recorded during the reported period.

## Rest of the World

Sales in these countries amounted to EUR 56.6 million (US$ 72.7 million) in 2012, a decline of 2.2 percent (9.9 percent in US$ terms) when compared to 2011.

Notable sales levels in 2012 were achieved in Vietnam (EUR 6.8 million), in China (EUR 6.1 million), in Serbia (EUR 4.1 million) and in Brazil (EUR 3.4 million).

# Female Healthcare

In recognition of the strategic importance to the Company of this therapeutic area a brief presentation of the Female Healthcare (FH) franchise is presented below. This therapeutic area includes the following product groups and therapeutic indications: oral contraceptives (OC), emergency contraceptives (EC), contraceptive devices (CD); menopausal care, pregnancy care and obstetrics, gynaecological infections, and other gynaecological conditions.

**Female Healthcare sales by region**

| | 2012 HUFm | 2011 [1] HUFm | HUFm | Change % | 2012 EURm | 2011 [1] EURm | EURm | Change % |
|---|---|---|---|---|---|---|---|---|
| Hungary | 4,486 | 4,486 | 0 | 0.0 | 15.5 | 16.0 | -0.5 | -3.1 |
| EU [2] | 37,194 | 33,311 | 3,883 | 11.7 | 128.7 | 119.0 | 9.7 | 8.2 |
| Poland | 4,073 | 3,289 | 784 | 23.8 | 14.1 | 11.8 | 2.3 | 19.5 |
| Romania | 2,110 | 2,109 | 1 | 0.0 | 7.3 | 7.5 | -0.2 | -2.7 |
| EU 9 | 7,192 | 6,327 | 865 | 13.7 | 24.9 | 22.6 | 2.3 | 10.2 |
| EU 15 | 23,819 | 21,586 | 2,233 | 10.3 | 82.4 | 77.1 | 5.3 | 6.9 |
| CIS | 29,695 | 24,708 | 4,987 | 20.2 | 102.7 | 88.2 | 14.5 | 16.4 |
| Russia | 22,840 | 20,084 | 2,756 | 13.7 | 79.0 | 71.7 | 7.3 | 10.2 |
| Ukraine | 3,207 | 2,121 | 1,086 | 51.2 | 11.1 | 7.6 | 3.5 | 46.1 |
| Other CIS republics | 3,648 | 2,503 | 1,145 | 45.7 | 12.6 | 8.9 | 3.7 | 41.6 |
| USA | 15,459 | 19,585 | -4,126 | -21.1 | 53.5 | 69.9 | -16.4 | -23.5 |
| Rest of the World | 7,773 | 8,332 | -559 | -6.7 | 26.8 | 29.8 | -3.0 | -10.1 |
| **Total** | **94,607** | **90,422** | **4,185** | **4.6** | **327.2** | **322.9** | **4.3** | **1.3** |

Notes: [1] Segment compositions have changed, base period data have been restated accordingly.
[2] All Member States of the European Union, except for Hungary.



## Hungary

In Hungary FH sales totalled HUF 4,486 million (EUR 15.5 million) in 2012, representing flat sales (in Euro terms a 3.1 percent decrease) compared to the levels reported in 2011.

## European Union

FH sales in the European Union, excluding Hungary, amounted to EUR 128.7 million in 2012, representing an increase of EUR 9.7 million (8.2 percent) when compared to 2011.

In the reported period sales of FH products represented 42 percent of the turnover in this region.

FH sales in Romania increased by RON 0.6 million and amounted to RON 32.5 million (EUR 7.3 million) in 2012, while in Poland turnover increased by PLN 10.4 million totaling PLN 58.9 million (EUR 14.1 million) during the same period. In the EU 9 region FH sales totalled EUR 24.9 million in 2012, 10.2 percent higher compared to the previous year. With respect to FH sales the EU9 countries altogether represented 19 percent of the Group's EU sales. In 2012 OCs belonging to the acquired portfolio from Grünenthal also contributed EUR 2.3 million to FH sales achieved in the EU9 region.

Following the reclassification with effect from 1 January 2012 of the trading companies from the Other segment to Pharmaceutical segment, sales of the acquired OC portfolio are entirely reported now as belonging to the core Pharmaceutical segment. Base period data has been restated for comparison purposes.

In the 'traditional' 15 EU Member States FH sales amounted to EUR 82.4 million in 2012, showing a EUR 5.3 million growth over the levels recorded in the previous year. This region contributed 64 percent of total EU FH sales. Turnover of the acquired OC portfolio amounted to EUR 42.2 million in 2012 compared to EUR 52.5 million recorded in 2011. The year on year decline was primarily due to higher stock levels built towards the end of 2011. When sales of the acquired OC portfolio is deducted from the above figure FH sales revenue from this region amounted to EUR 40.2 million, 63.4 percent higher than in 2011. The year-on-year increase is primarily due to recent OC launches in Western Europe.

In Germany Richter Group reported gynaecological sales of EUR 44.6 million, representing a EUR 6.9 million increase compared to 2011.

Sales of the acquired OC portfolio accounted in the 2012 for EUR 29.1 million in Germany, EUR 5.9 million in Italy, EUR 3.0 million in Spain, EUR 1.8 million in Portugal and EUR 1.5 million in Austria.

In France the Group's turnover arising from FH products amounted to EUR 12.0 million in 2012. The good performance is mostly related to the turnover of our generic drospirenone containing fourth generation OC together with desogestrel based AZALIA on the French market.

## CIS

FH sales to the CIS in 2012 totalled EUR 102.7 million representing an increase of EUR 14.5 million over the sales levels achieved in the prior year.

Turnover of gynaecological products represented 22 percent of total CIS sales in 2012.

## USA

FH sales in the USA totalled US$ 68.7 million (EUR 53.5 million) in 2012, a 29.5 percent decline in US$ terms (23.5 percent in EUR terms) when compared to the previous year.

Sales of FH products, including the profit sharing related to drospirenone, represented 96 percent of US sales.

Growth in sales of the finished form emergency contraceptive PLAN B ONESTEP was recorded during the reported period.

## Rest of the World

FH sales in these countries amounted to EUR 26.8 million (US$ 34.6 million) in 2012, a decline of 10.1 percent (16.6 percent in US$ terms) compared to 2011.

**Lajos Kovács** – Technical Director

## e. Corporate Social Responsibility

Aware of the Company's responsibility to society in general Richter's management pays high attention towards Corporate Social Responsibility (CSR). The Company embraces responsibility for its actions, minimises negative impact and enhances positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public while exploring opportunities for developing innovative products, services and business models that contribute to social wellbeing and lead to higher quality and more productive employment.

Richter's management has always believed that it is pivotal for the company to comply with all relevant national and international legislation, including the rules and guidelines issued by public institutions such as the European Medicines Agency (EMA) and the U.S. Food and Drug Administration (FDA). Gedeon Richter has established policies and procedures to ensure responsible business ethics and in specific areas it recognises that is important to maintain higher ethical standards than those required by local legislation.

### Environmental Policy

At Richter environmental considerations are an integral part of decision-making processes and the focus is always on prevention. Our more than 110 year history together with pharmaceutical manufacturing experience and wide-ranging scientific expertise is combined with modern technical, health and safety requirements and with the exacting quality standards of today.

Pharmaceutical manufacturing carries a number of risks. In the course of pursuing our investments and development projects, we pay particular attention to ensuring that the environmental protection tasks related to our operations are carried out responsibly by using modern technology and continuously minimising the environmental footprint of our activities. All three of our main manufacturing sites in Hungary possess IPPC (Integrated Pollution Prevention and Control) permits.

Environmental Management Systems at the Company meet all requirements of ISO 14001:2004 standards. The most recent re-certification audit, which is valid for three years, was successfully completed in 2010. The accredited status of the Environmental Laboratory was also renewed by the relevant authority.

Based on the approval of the relevant authority soil and groundwater decontamination works were initiated in Dorog during 2012. Following receipt of the necessary establishment permission construction of the cut-off wall and the adjoining transfer pump system has been completed in 2012. Soil water production wells are expected to be established during 2013.

The Municipality of Dorog recently approved modifications to the development plan for the city, which resulted in revised noise limits. A required noise reduction program and related investments will be carried out in line with the new noise limits.

## Health and Safety at Work

Much of the work performed at the company involves the use of hazardous chemicals. These circumstances demand a highly responsible attitude towards safety at work in order to minimise the risks arising from these potential hazards.

## Work Health and Safety Management System

Work safety is dependent on the technical state of working tools and equipment, and the conduct displayed by employees at work. The latter includes management's awareness of safety issues, and naturally the professional skills of the workers themselves.

Our Health and Safety Management System (HSMS) in compliance with OHSAS 18001:1999 standard, was officially certified at the beginning of 2006, making Gedeon Richter the first Hungarian pharmaceutical company to obtain this type of assurance. As a result of the latest audit with the more stringent criteria of OHSAS 18001:2007 the Company was successfully re-certified in 2009 for a further three years. The system is structured similarly to the related quality assurance (GMP) and environmental (ISO 14001) systems, but operates independently of them.

The accreditation of the Safety Laboratory in Budapest was renewed by the authorities. In addition, the accreditation documentation of the similar Laboratory in Dorog was also approved. Modernisation of the equipments of these laboratories is expected to get effectuated during 2013.

The management of Richter is committed to the perpetual improvement of the organization's health and safety performance, to compliance with current legislation and other requirements and to the prevention of occupational injuries and illnesses. It is the responsibility of work supervisors to familiarise themselves with the risks of a given job and to manage and oversee work processes accordingly. It is both the right and obligation of workers to demand safe working conditions and to comply with the health and safety at work regulations.

The representation of employees' interests with respect to occupational health and safety is performed by elected safety officers who are also members of the Safety Committee.

## Practical Implementation

Richter pays particular attention to creating a safe workplace environment. Continuous improvement to technological standards in all of our plants, ongoing training in the field of safety and regular reviews of safety procedures are all factors taken into account in this initiative.

Special precautions are taken in the case of tasks that involve the use of potentially hazardous materials. We make every effort to minimise the exposure of our employees to risks, and accordingly we are doing all we can to replace dangerous materials with less hazardous equivalents. We are committed to ensuring the safety of our employees through the use of closed technology wherever possible. If this is not feasible, then we implement the appropriate special protective measures. To ensure the early detection of any signs of possible damage to health, our employees undergo regular medical checkups, and, as a preventive action, occupational risks are revealed through the on-site measurements carried out by the Safety Laboratory. We apply a multi-tiered risk management process, with the most important prevention and action plans managed at project level, within a framework of a system of targets and programs. We also met during 2012 the requirements established by the European Union legislation (REACH and CLP) related to the registration and labelling of chemicals used in production processes.

Our fire protection policy places particular emphasis on prevention. This includes a network of sensors covering the entire premises ensuring the early detection of any possible causes of fire that may nonetheless break out.

An engineering team at the Company are responsible for ensuring that potentially dangerous machines and appliances comply with authority regulations, and that they are safe to use.

According to the resolution of the relevant Authority the site in Vecsés has been rated as 'Lower Tier' under the SEVESO II Directive. To remedy this, a disaster prevention documentation was prepared in 2012 and is expected to be submitted for approval in 2013.

No fatal accidents or other serious work related injuries occurred at any of our facilities during 2012.

## Community Involvement

The management of Gedeon Richter have always been aware of the importance of community involvement. We recognise that as a leading pharmaceutical manufacturer and employer in Hungary it is our responsibility to maintain dialogue with society at large and with those who have an interest in the Company's activities. In this respect Gedeon Richter supports projects in the areas of healthcare, science, education and environmental protection in line with its mission of improving health and the quality of life. The Company provides substantial support to healthcare institutions and organizations established with the aim of taking care of patients. To encourage young people's interests we sponsor a wide range of science-based school programmes, including chemistry education in secondary schools and university programmes both in Hungary and abroad. Special agreements have been concluded with universities of natural sciences in order to support specific education and research activities.

For talented and ambitious PhD students, we provide scholarships via the so called 'Talentum Foundation', which was established by the Company. The scope of the Foundation has been widened in order to include secondary school students, thereby providing future career opportunities for them.

On the occasion of its centenary in 2001 the Company created a foundation which has as its aim the support of scientific research and university education in the field of pharmaceutical research not only in Hungary but also for Hungarian talent living abroad.

# f. People

Changes in the pharmaceutical sector over the past decade have made inevitable the transformation of our business model to one that is more innovative. In order to be effective within an external environment of growing complexity and change with exponential speed we need highly skilled, passionate and motivated people.

We work to achieve this by:

- developing our people at all levels to realise their full potential
- offering an inclusive culture that draws on the diverse skills, background and knowledge of every employee
- identifying our internal and external talent – those who have the right skill sets for current and future business requirements

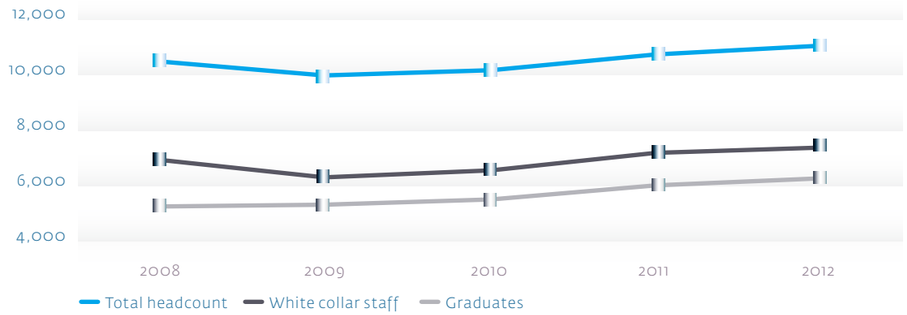
Together our activities improve our ability to solve problems, discover innovative solutions and enhance effectiveness and performance of our teams and leaders. Inclusion supports engagement, which in turn fosters productivity and creativity. Our experience and numerous studies show that employee engagement is a key driver of employee wellbeing, as well as better individual and business performance. For these reasons we constantly seek new opportunities to engage our employees and drive innovation.

With more than 11,000 employees, we value the diverse skills and capabilities that a workforce with different cultural backgrounds brings to our business. We work continuously to align these skills and capabilities with strategic and operational needs.

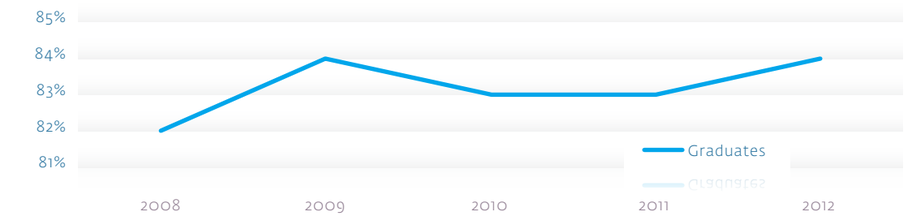
## Employees

The total headcount for the Group was 11,103 at the end of 2012, a 3 percent (330) increase when compared with 2011. The growth was primarily due to the expanding biosimilar business both in Debrecen and in Budapest.

## Number of staff




## Proportion of graduates*




Note: * Within the white collar staff at the Group.

The proportion of skilled employees at the Group increased to 6,217 at the end of 2012, from 5,981 reported in 2011. The graduate educated personnel represented 84 percent of white collar staff and 56 percent of the total number of employees at the Group.

## Recruitment and Individual Development

Recruiting, retaining and developing our employees were also critical activities in 2012, in order to enhance and sustain our performance. Proactive talent acquisition initiatives underpin our ability to attract specialist and leadership talent externally. In the recruiting process we pay high attention to the selection of those candidates whose professional skills and experiences are expected to contribute the most to Richter's success and whose career plans and attitudes are expected to fit with the Company's corporate culture.

Most available positions are posted on our careers website. We are convinced that using the web enables us to reach far more people than through any other media for recruitment. This facility is also available to existing employees via our careers intranet site. We encourage employees to develop their careers within Richter rather than looking outside the Company. We want all our employees to achieve their full potential and at the same time strengthen our business.

A Welcome Programme for young Employees aims at giving an insight into the organisation of Richter, its activities, company culture and values.

Employees receive regular feedback on their performance and meet with their managers to discuss development opportunities and their career goals. This annual performance and development planning process ensures that employees set business aligned objectives and behavioural goals and helps them identify the training they need to develop their careers.

We encourage and support all our people in fully developing their capabilities with a range of high quality learning and development opportunities. We offer training programmes, including coaching, languages and other courses to ensure employees have the skills needed in our business. The Company makes special efforts to assist scientific and professional education and postgraduate training. To encourage personal development the Company continued during 2012 to support employees to participate in university education, including PhD courses.

To support innovation and knowledge sharing within our Group in 2012 we organised again the competition called RITA (Richter Innovation and Knowledge Base Archive) which encourages and remunerate innovative ideas. RITA has clearly demonstrated how efficiently innovation and teamwork can encourage and motivate people at our Company.

## Developing Leaders

Since we need good succession planning not just for senior roles but for all critical positions across the organisation we maintain a well established leadership strategy to identify and develop our highly skilled candidates and use a systematic and disciplined approach to leadership development.

Currently we have three leadership programs running and one in pilot phase:

Well established management training programmes involving all managers of the Company both at middle and senior levels were ongoing in 2012. Based on the results of the Leadership Competence Assessment programme, all managers designed their personal coaching programme and identified the key areas for further improvement. For those managers appointed within the last three years a special manager training programme was implemented so as to identify and develop management skills and self-knowledge.

Our career development program, started in 2006, which focuses on further development of high potential management talent continued in 2012. A comprehensive competence assessment was provided for those colleagues who participated in this programme as a potential option to develop their self-knowledge. It is pleasing to report that approximately 20 percent of the participants were promoted to new management positions during the development programme. New candidates have been admitted to this programme in each year since its inception.

In 2011 we enhanced a system which presents professional development opportunities within the Company offering future career opportunities for new entrants and existing employees alike. As a pilot project we introduced this system for graduate educated personnel in four departments in 2012. Based on the experience gained we expect to expand the system across the whole Company during 2013.

## Remuneration and Other Employee Programmes

Compensation philosophy at Gedeon Richter is based on the Company's commitment to a performance culture. Performance based salary, share awards, other forms of allowances as well as career development planning, various training activities and continuing education all contribute to the retention of key talent, superior performance and the accomplishment of business targets.

We focus on the health factors that enable employees to perform at the highest level by sustaining energy and engagement. A new two-year employee health programme wholly financed by the Company was initiated in 2012. All employees can participate in this wide-ranging medical programme which aimed to minimise illness by early diagnosis.

Providing a safe workplace and promoting the health and well-being of all our people has always been a core priority for Richter. Well-being programmes including sport and recreational opportunities at the Company are planned to promote physical and psychological welfare and to help employees cope with demanding roles.

With the aim of improving the efficiency of Human Resources activities within the Group, special meetings were organized by the Human Resources Department at individual subsidiaries. The main topics of these meetings included the review of the current HR policies of the Group and identification of those areas which may be subjects for further development. Additionally, in order to optimise the cooperation of different departments at the Company and increase their efficiency we initiated organisational development projects.

Richter celebrated the 110th anniversary of its founding in 2011. On this occasion we conducted a survey on the Company's corporate and organizational structure within the framework of a project called RGH-110. In 2012 we evaluated the results of this project and determined the necessary steps we need to take to maintain and enhance business performance.

**Dr. Gábor Gulácsi** – Chief Financial Officer

# 2. Wholesale and Retail

Richter Group is active in two major business segments, primarily Pharmaceuticals comprising the research and development, manufacturing and marketing of pharmaceutical products and also engaged in the Wholesale and Retail of these products. These latter activities are mainly focused in Romania although the Group has also built up retail businesses in certain CIS republics. Pharmafarm is the only wholesaler belonging to Richter Group following the merger of Dita Import Export and Pharmafarm in 2010. Gedeon Richter Farmacia is our major retail operation. Altogether 120 pharmacy units support the promotion and sale of Richter products in Romania.

## Sales

With effect from 1 January 2012, our Jamaican subsidiaries which carry out distribution, previously classified as belonging to Other segment, were reclassified to the Wholesale and Retail segment. For comparison purposes restated data for the base period has been provided in this report.

Sales amounted to EUR 159.7 million in 2012, an increase of 10.7 percent compared to the previous year. Our Romanian subsidiaries realized 70 percent of the turnover in the Wholesale and Retail segment (RON 500.0 million), with the remainder primarily being invoiced by our subsidiaries in the CIS region. The sales growth in Romania was 7.3 percent in RON terms (2.2 percent in EUR terms) in 2012. The Romanian pharma market continues to be characterised by excessive payment delays (up to 360 days or more) to pharmaceutical companies due to continuing delays in payments to pharmacists from the National Health Insurance House.

**Wholesale and retail sales**

| | 2012 HUFm | 2011 HUFm | Change % | 2012 EURm | 2011 EURm | Change % |
|---|---|---|---|---|---|---|
| Hungary | 407 | 553 | -26.4 | 1.4 | 2.0 | -30.0 |
| Romania | 32,448 | 30,760 | 5.5 | 112.2 | 109.8 | 2.2 |
| CIS | 10,097 | 6,359 | 58.8 | 35.0 | 22.7 | 54.2 |
| RoW | 3,214 | 2,706 | 18.8 | 11.1 | 9.7 | 14.4 |
| **Total** | **46,166** | **40,378** | **14.3** | **159.7** | **144.2** | **10.7** |

# 3. Group Figures

The activities of Richter are presented in this Annual Report along three operating segments. Those subsidiaries of the Group that are engaged in the core activities of research and development together with manufacturing and marketing and sale of pharmaceutical products have been classified as the Pharmaceutical segment. With effect from 1 January 2012 management reclassified to the Pharmaceutical segment those trading and marketing companies, previously classified as belonging to Other segment, which undertake direct sales and promotion of Richter products. The performance of those distributor and retail subsidiaries that represent the distribution chain in some of our markets and facilitate our products reaching final buyers are presented under the Wholesale and Retail segment. With effect from 1 January 2012 our Jamaican subsidiaries (realizing a turnover of EUR 11.1 million in the reported year) which carry out distribution, previously classified as belonging to the Other segment, were reclassified to the Wholesale and Retail segment. Finally, the Other segment relates to the business of those group members that do not belong to any of the above segments. These companies provide services to group members belonging to the Pharmaceutical segment. Note that for comparison purposes restated data for the base period have been provided in this report.

# a. Business Segment Information

In the following section we present key data by business segments.

## Business Segment Information

| | Pharmaceuticals HUFm | | Wholesale and retail HUFm | | Other HUFm | | Eliminations HUFm | | Group total HUFm | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 Audited | 2011 Restated* | 2012 Audited | 2011 Restated* | 2012 Audited | 2011 Restated* | 2012 Audited | 2011 Restated* | 2012 Audited | 2011 Restated* |
| Total revenues | 286,479 | 271,692 | 46,166 | 40,378 | 3,888 | 3,713 | (9,831) | (7,915) | 326,702 | 307,868 |
| Gross profit | 195,096 | 186,655 | 5,480 | 5,605 | 1,431 | 1,447 | (304) | (368) | 201,703 | 193,339 |
| Profit from operations | 50,426 | 63,160 | (1,334) | (2,300) | (116) | 275 | (255) | (208) | 48,721 | 60,927 |
| Share of profit / loss of associates | - | - | 342 | (4,234) | - | - | - | - | 342 | (4,234) |
| Number of employees at period end | 9,294 | 8,997 | 1,451 | 1,421 | 358 | 355 | - | - | 11,103 | 10,773 |

Note: *Segment composition have changed, base period data have been restated accordingly.

# b. Consolidated Turnover

## Sales by region

| | 2012 HUFm | 2011 HUFm | HUFm | Change % | 2012 EURm | 2011 EURm | EURm | Change % |
|---|---|---|---|---|---|---|---|---|
| Hungary | 30,932 | 35,683 | -4,751 | -13.3 | 107.0 | 127.4 | -20.4 | -16.0 |
| EU * | 116,721 | 108,916 | 7,805 | 7.2 | 403.7 | 389.0 | 14.7 | 3.8 |
| Poland | 22,622 | 19,503 | 3,119 | 16.0 | 78.2 | 69.7 | 8.5 | 12.2 |
| Romania | 37,984 | 36,287 | 1,697 | 4.7 | 131.4 | 129.6 | 1.8 | 1.4 |
| EU 9 | 23,106 | 21,369 | 1,737 | 8.1 | 79.9 | 76.3 | 3.6 | 4.7 |
| EU 15 | 33,009 | 31,757 | 1,252 | 3.9 | 114.2 | 113.4 | 0.8 | 0.7 |
| CIS | 143,975 | 124,410 | 19,565 | 15.7 | 498.0 | 444.3 | 53.7 | 12.1 |
| Russia | 97,397 | 88,598 | 8,799 | 9.9 | 336.9 | 316.4 | 20.5 | 6.5 |
| Ukraine | 19,731 | 14,698 | 5,033 | 34.2 | 68.2 | 52.5 | 15.7 | 29.9 |
| Other CIS republics | 26,847 | 21,114 | 5,733 | 27.2 | 92.9 | 75.4 | 17.5 | 23.2 |
| USA | 16,123 | 20,513 | -4,390 | -21.4 | 55.8 | 73.3 | -17.5 | -23.9 |
| Rest of the World | 18,951 | 18,346 | 605 | 3.3 | 65.6 | 65.5 | 0.1 | 0.2 |
| **Total** | **326,702** | **307,868** | **18,834** | **6.1** | **1,130.1** | **1,099.5** | **30.6** | **2.8** |

Note: * All Member States of the European Union, except for Hungary.

# c. Key Financial Data

## Key Financial Data

| | 2012 HUFm | 2011 HUFm | Change % | 2012 EURm | 2011 EURm | Change % |
|---|---|---|---|---|---|---|
| Total revenues | 326,702 | 307,868 | 6.1 | 1,130.1 | 1,099.5 | 2.8 |
| Gross profit | 201,703 | 193,339 | 4.3 | 697.7 | 690.5 | 1.0 |
| Gross margin % | 61.7 | 62.8 | | 61.7 | 62.8 | |
| Profit from operations | 48,721 | 60,927 | -20.0 | 168.5 | 217.6 | -22.6 |
| Operating margin % | 14.9 | 19.8 | | 14.9 | 19.8 | |
| Profit before income tax | 49,921 | 49,671 | 0.5 | 172.7 | 177.4 | -2.7 |
| Profit for the year | 49,080 | 49,453 | -0.8 | 169.8 | 176.6 | -3.9 |
| Net margin % | 15.0 | 16.1 | | 15.0 | 16.1 | |
| EPS (HUF, EUR)[1] | 2,643 | 2,644 | 0.0 | 9.14 | 9.44 | -3.2 |
| | | | | | | |
| Total assets and total equity and liabilities | 672,237 | 681,970 | -1.4 | 2,307.7 | 2,192.1 | 5.3 |
| Capital and reserves[2] | 520,074 | 489,856 | 6.2 | 1,785.3 | 1,574.6 | 13.4 |
| Capital expenditure | 29,677 | 32,285 | -8.1 | 102.7 | 115.3 | -10.9 |
| | | | | | | |
| Number of employees at year-end | 11,103 | 10,773 | 3.1 | | | |

Notes: [1] EPS calculations were based on the total number of shares issued.
[2] Includes minority interest.

# d. Profit and Loss Items

Sales amounted to HUF 326,702 million (EUR 1,130.1 million) in 2012, a 6.1 percent increase (2.8 percent in Euro terms) when compared with previous year.

The Hungarian Forint weakened when compared to the base period impacting positively the top line and gross profit.

Cost of sales amounted to HUF 124,999 million (EUR 432.4 million) in 2012, an increase of HUF 10,470 million (EUR 23.4 million) when compared to 2011. Sales of ESMYA® for the indication of preoperative uterine fibrosis commenced in certain EU countries and thus the amortization of the amount relevant to European markets of the acquired intangible asset also commenced with effect from the second quarter. This amounted to HUF 1,791 million in 2012.

Gross profit totalled HUF 201,703 million (EUR 697.7 million) in 2012, an increase of HUF 8,364 million (EUR 7.2 million) over the levels reported for 2011.

Gross margin in 2012 at 61.7 percent decreased from the 62.8 percent level achieved in the previous year. The increase in the share of sales arising from the Wholesale and Retail segment within total sales together with a further decline in the high margin US business and the ESMYA®-related amortization moved the total gross margin downwards. Positive developments including a weaker HUF/EUR exchange rate together with a higher than average increase of turnover in the CIS countries could not offset the negative drivers of the gross margin.

Sales and marketing expenses amounted to HUF 92,794 million (EUR 321.0 million) in 2012, a 17.3 percent (13.6 percent in Euro terms) increase compared with 2011. The proportion to sales of S&M expenses was 28.4 percent in the reported year. Sales and marketing costs were significantly higher when compared to the base period primarily due to the costs of our female healthcare sales network in Western Europe which was further expanded during the reported period together with marketing and promotion costs related to the launch of ESMYA®.

Amortisation of the marketing and intellectual property rights of the OC portfolio acquired from Grünenthal in the amount of HUF 4,355 million represented approximately 1.3 percent of sales achieved in the reported year.

The annual registration fee payable in respect of medical representatives in Hungary amounted to HUF 431 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 percent of tax liability of same kind incurred during 2011.

Administrative and general expenses totalled HUF 20,179 million (EUR 69.8 million) in 2012, representing a 17.3 percent decrease (20.0 percent in Euro terms) when compared with the levels recorded in the previous year. Expenses reported in 2011 included a one-off amount of time proportional liabilities associated with medium term PregLem management incentive schemes which created a high base while in 2012 costs decreased as a result of the implementation of a cost-cutting programme throughout the Group.

Research and development costs represented 11.9 percent of sales and increased by 35.3 percent to HUF 38,847 million (EUR 134.4 million) during the reported year. These costs include the ongoing clinical trials being carried out in co-operation with Forest Laboratories while R&D expenses of the Group also now include such costs of PregLem and biotechnological expenditures incurred both in Hungary and in Germany.

Other income and other expenses represented an expense of HUF 1,162 million (EUR 4.0 million) in 2012, when compared to an expense of HUF 172 million (EUR 0.6 million) in the previous year. One-off milestone payments received during 2012 positively impacted the balance of this item although the break-up fee of HUF 8.1 billion paid by Genefar significantly improved the balance during the base period. 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 expenditure category in 2012.

The 20 percent 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 percent of tax liability of same kind incurred during 2011.

In accordance with the claw-back regime announced in Romania the authority establishes the amount of extraordinary tax to be p aid 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.

Profit from operations decreased by 20.0 percent and amounted to HUF 48,721 million. In EUR terms it decreased by 22.6 percent to EUR 168.5 million in 2012. The positive effects of the favourable trends in exchange rates experienced in the first half of 2012 together with milestone payments received during the reported period were offset by the increase in sales and marketing expenses and higher R&D spending. Additionally, extraordinary one-off incomes which were received during the base period were not repeated in 2012. The consolidated operating margin decreased to 14.9 percent during the reported year from the 19.8 percent reported in 2011. Following the acquisitions made in 2010 the amortization of both ESMYA® and the acquired OC portfolio were incurred as new cost items in the reported period and amounted to HUF 6,146 million.

Net financial income for the Group is analysed in detail in the following table:

of discounted value related to a liability in respect of PregLem at a loss of HUF 3,004 million was partly offset by a gain accounted for as the revaluation of exchange rates applied to this liability included in the reassessment of other currency related items.

On 14 June 2011 Gedeon Richter Plc. and the European Investment Bank signed a EUR 150 million credit line contract aimed at the financing of Richter's original research activities targeting compounds, which are active in diseases of the Central Nervous System, together with the development of biosimilar products. A second tranche amounting to EUR 50 million was called on 30 January 2012.

## Net financial income

| | 2012 HUFm | 2011 HUFm | Change HUFm | 2012 EURm | 2011 EURm | Change EURm |
|---|---|---|---|---|---|---|
| Unrealised financial items | 5,745 | -13,025 | 18,770 | 19.9 | -46.5 | 66.4 |
| Reassessment of currency related trade receivables and trade payables | 3,912 | 2,248 | 1,664 | 13.5 | 8.0 | 5.5 |
| Reassessment of currency loans | -81 | 132 | -213 | -0.3 | 0.5 | -0.8 |
| Reassessment of credit | 4,191 | -5,504 | 9,695 | 14.5 | -19.7 | 34.2 |
| Reassessment of other currency related items | 982 | -537 | 1,519 | 3.5 | -1.9 | 5.4 |
| Unwinding of discounted value related to liability in respect of PregLem | -3,004 | -4,493 | 1,489 | -10.4 | -16.1 | 5.7 |
| Reversal of assessment of forward exchange contracts as of 1 January | 249 | -64 | 313 | 0.9 | -0.2 | 1.1 |
| Result of unrealised forward exchange and swap contracts | -504 | -249 | -255 | -1.8 | -0.9 | -0.9 |
| Impairment losses at investments | - | -4,558 | 4,558 | - | -16.2 | 16.2 |
| Realised financial items | -4,887 | 6,003 | -10,890 | 16.9 | 21.4 | -38.3 |
| Result of realised forward exchange contracts | -138 | 189 | -327 | -0.5 | 0.7 | -1.2 |
| Exchange (loss) / gains realised on trade receivables and trade payables | -3,905 | 2,089 | -5,994 | -13.5 | 7.5 | -21 |
| Exchange (loss) /gains on conversion | -3,379 | 1,744 | -5,123 | -11.7 | 6.2 | -17.9 |
| Dividends | 308 | 59 | 249 | 1.0 | 0.2 | 0.8 |
| Interest income | 4,652 | 3,415 | 1,237 | 16.1 | 12.2 | 3.9 |
| Interest expense | -1,805 | -1,266 | -539 | -6.2 | -4.6 | -1.6 |
| Other | -620 | -227 | -393 | -2.1 | -0.8 | -1.3 |
| Net financial income/(loss) | 858 | -7,022 | 7,880 | 3.0 | -25.1 | 28.1 |

The net financial income in 2012 totalled HUF 858 million (EUR 3.0 million), reflecting an increase of HUF 7,880 million (EUR 28.1 million) when compared to a net financial loss of HUF 7,022 million (EUR 25.1 million) reported in 2011.

At the end of each reporting period foreign currency related assets and liabilites are routinely reassessed with the change in value being reflected as unrealised financial items. The total impact of such reassessments amounted to a gain of HUF 9,004 million (EUR 31.2 million) at the end of December 2012, an increase of HUF 12,665 million (EUR 44.3 million) when compared with the HUF 3,661 million (EUR 13.1 million) loss reported in 2011. An unwinding

Losses incurred on the realized financial items in 2012 reflect a significant strengthening of the HUF during the reported year when compared to 2011 year-end exchange rates. Exchange losses realized on trade receivables and trade payables amounted to HUF 3,905 million, while conversion of FOREX related items resulted in a loss of HUF 3,379 million.

In the second quarter 2012 following the European marketing authorization related to the first indication of ESMYA® a milestone payment became liable and was paid to the previous owners of PregLem while in the third quarter a further milestone payment was paid in respect of a Phase III clinical trial of a long term on-off indication.

Share of profit of associates amounted to a HUF 342 million (EUR 1.2 million) in 2012.

Profit before income tax amounted to HUF 49,921 million (EUR 172.7 million) an increase of HUF 250 million (a decrease of EUR 4.7 million) compared with 2011.

With effect from 1 January 2012 the period of 100 percent Income tax allowance ended for Gedeon Richter Plc leaving the Parent company subject to statutory income taxation in Hungary after providing for the deduction of expensed R&D costs from the tax base. In addition, in 2012 and 2013 the parent company is entitled for a futher tax allowance related to the development of the biosimilar manufacturing unit in Debrecen. All other companies of the Group are subject to the statutory tax regulations in effect in their respective countries of incorporation. The balance of deferred tax was significantly improved both in the base period and in the reported period by the recalculation of such taxes in respect of PregLem.

Profit for the year was HUF 49,080 million (EUR 169.8 million), HUF 373 million (EUR 6.8 million) below the profit after taxation realised in 2011.

The above Profit after taxation includes income from Non-controlling interests, the balance of which amounted to a HUF 185 million (EUR 0.6 million) loss during 2012.

Profit attributable to owners of the parent decreased by HUF 16 million (by EUR 5.6 million) during the reported year to HUF 49,265 million (EUR 170.4 million). It represented 15.1 percent of sales compared with the 16.0 percent reported for the previous year.

## e. Balance Sheet Items

Different levels of corporate taxation were applied to the ESMYA® intangible asset valuation and to the calculation of relevant deferred tax when PregLem was first introduced to the consolidated accounts of the Group. These have now been reassessed and unified. As a result certain audited figures for the years 2010 and 2011 have been restated. The value at which ESMYA® as an intangible asset was included in the accounts at the time of its purchase has decreased by HUF 5,577 million, while the relevant deferred tax has diminished by HUF 5,527 million. Goodwill, as a result of the two changes in opposite directions has not been impacted materially it grew by HUF 50 million. While the profit and loss statement for 2010 did not change, both the P&L and Equity statements for 2011 were impacted to a small degree. Net profit decreased by HUF 99 million as a result of a change in the balance of the deferred tax in addition to a further HUF 13 million decrease in revaluation reserves. These changes have been reflected in the restated Balance sheet for the year 2011.

Total assets and total shareholders' equity and liabilities of the Group amounted to HUF 672,237 million on 31 December 2012, HUF 9,733 million, or 1.4 percent lower than the restated figure for 31 December 2011.

Non-current assets amounted to HUF 376,442 million on 31 December 2012, 0.9 percent above the restated amount as of 31 December 2011. The amount of Other financial assets increased due to higher levels of long term bonds together with a change in the fair value of Richter's share in the Russian wholesaler and retail Group, Protek. In accordance with IFRS 3 standards, the value of ESMYA® has been accounted for as an intangible asset and has been reassessed according to IAS 21 standards with the amortization thereof having commenced as a result of the market launch of the product. These two items resulted in a HUF 6,176 million or 3.9 percent reduction when compared to their 31 December 2011 restated value.

Current assets amounted to HUF 295,795 million and decreased by HUF 12,906 million (4.2 percent) when compared to the level reported on 31 December 2011. The change was due mainly to the Cash and cash equivalents balance item, as Richter paid the tranches due in respect of the PregLem acquisition together with dividends as approved by the Annual General Meeting. At the same time, cash increased as a result of drawing down the second EIB credit tranche to the value of EUR 50 million in January 2012.

Capital and reserves of the Group increased by 6.2 percent and amounted to HUF 520,074 million when compared to the restated balance as at 31 December 2011. Retained earnings increased by HUF 37,985 million and amounted to HUF 469,498 million partly offset by a HUF 12,509 million decrease reported in Foreign currency translation reserves.

Non-current liabilities of the Group on 31 December 2012 at HUF 94,365 million were HUF 8,277 million higher than the levels restated as of the end of the previous year. A second credit tranche of EUR 50 million drawn down in January 2012 in accordance with a credit line contract signed with the European Investment Bank and the reassessment of existing credits as at the year's closing date were the main reasons for this increase. Deferred tax liability decreased by HUF 4,520 million when compared to the restated amount as of 31 December 2011.

Current liabilities of the Group at HUF 57,798 million on 31 December 2012 were 45.5 percent lower than on 31 December 2011 mainly as a result of a payment made in respect of the acquisition of PregLem together with lower Trade payables.

## f. Cash Flow

| Cash flow | | |
|---|---|---|
| Net cash flow | 2012 HUF m | 2011 HUF m |
| From operating activities | 57,002 | 82,973 |
| From investing activities | -74,635 | -39,462 |
| From financing activities | 5,720 | -5,251 |
| Effect of foreign exchange rate changes | -5,233 | 4,791 |
| (Decrease)/Increase in cash and cash equivalents | -17,146 | 43,051 |

As indicated by the cash flow statement, during 2012 the Group generated net cash flow from operating activities of HUF 57,002 million (EUR 197.2 million).

Lower levels of net cash from operating activities arose mainly as a result of adverse movements in the working capital, notably a change in the expenditures related to the PregLem acquisition, which did not imply cash movements as well as an decreasing level of Payables at the end of 2012 as opposed to an increasing level of the same recorded on 31 December 2011.

Net cash flow directed towards investment activities increased by HUF 35 billion (EUR 117.3 million) primarily as a result of a deferred payment milestone due having been realised to the previous owners of PregLem.

Net cash flow originating from financing activities as proceeds from treasury shares had a positive impact on the level of cash and cash equivalents. Important amounts of cash were directed towards capital expenditure and payment of dividends.

Overall, cash decreased by HUF 17,146 million in 2012 in spite of including a second credit tranche in the value of EUR 50 million having been drawn down from the EIB credit facility during the reported year.

## g. Treasury Policy

The treasury activities of Richter are co-ordinated and managed in accordance with procedures approved by the Board of Directors. The treasury function of the Parent Company maintains responsibility for the financing of its activities both on the domestic market and abroad and the administration of trade receivables and trade payables. It also manages exchange rate risks relating to the group operations and ensures appropriate financial income via investing temporarily free cash through bank deposits and open-ended funds and government securities.
Considering that approximately 90 percent of the Parent Company turnover is realised in various international currencies, while its costs are incurred mostly in Hungarian forints, operating profit is exposed to numerous currency fluctuations. To manage this exposure, the Board of Directors has approved a strategy of foreign exchange rate exposure risk reduction, in which forward contracts used for hedging purposes are employed. Such contracts have been concluded exclusively by the Parent Company.

Since January 2000 until 2010, Richter has concluded forward exchange contracts to manage its exposure to fluctuations in exchange rates with expiry in first half of 2011. No further forward exchange positions have been opened since 2011 as the FOREX exposure of the Group materially changed with effect from 1 January 2011 when RUB substituted EUR as its invoicing currency in Russia.

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

Trading in a number of countries served by the Group may give rise to sovereign risk and economic uncertainty. Trade credit risks and related impairment losses are closely monitored and subject to the supervision of Richter's deputy managing director, the CFO of the Company.

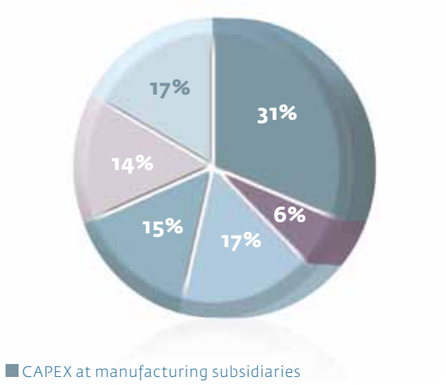
## h. Capital Expenditure

Capital expenditure including payments for intangible assets for the Group totalled HUF 29,677 million in 2012 compared to HUF 32,285 million reported for 2011. Capital expenditure linked to the development of biotechnology R&D facilities and manufacturing capacity in Hungary was HUF 4,518 million in 2012.

Development and testing of the software which controls and monitors the entire manufacturing process at our biotechnological plant in Debrecen began during 2012 including its customization to individual equipment which had obtained the required qualifications. Completion and final authorization of the fully automatised manufacturing unit is expected to take place in the second half of 2013. A new sterile unit capable of executing the filling of syringes and cartridges linked to our biosimilar production facilities was completed in Debrecen. A tabletting machine at our pilot plant in Budapest was also installed during the year. Within the scope of maintenance capital expenditure a number of small-scale replacements were carried out during 2012 at both important Hungarian locations of the Group, Budapest and Dorog. Furthermore, two new hormone containing tablet packaging lines were put in to operation responding to increasing capacity needs related to the manufacturing relocation of the OC portfolio acquired from Grünenthal in 2010.

Among the various small-scale capital expenditure programs carried out at subsidiaries of the Group it should be highlighted that in line with the announced expansion of Russian operations and having completed a temporary area to receive incoming materials a warehousing capacity expansion project was out in 2012. All other capacity expansion related projects are ongoing according the well established schedule.

### Capital expenditure analysed by function in 2012




## Disclosures

I, the undersigned declare, that Gedeon Richter Plc. takes full responsibility, that the management report, which contains the Group's 2012 full year results is prepared in accordance with the applicable accounting standards and according to the best of our knowledge. The report above provides a true and fair view of the financial position of Gedeon Richter Plc., comprises the subsidiaries included in the consolidation, contains an explanation of material events and transactions that have taken place during 2012 and their impact on the financial position of Gedeon Richter Plc. and its subsidiaries included in the consolidation.

Erik Bogsch
Managing Director



# V. Consolidated Financial Statements

## 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.

*PricewaterhouseCoopers Könyvvizsgáló Kft. 1077 Budapest, Wesselényi u. 16. Hungary*
*T: (+36 1) 461 9100, F: (+36 1) 461 9101, www.pwc.hu*

*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
Licence number: 002945
PricewaterhouseCoopers Auditing Ltd.
Licence Number: 001464
1077 Budapest, Wesselényi u. 16.

## 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 79 to 135 form an integral part of the consolidated financial statements

## 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 79 to 135 form an integral part of the consolidated financial statements

## 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** |
| **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 79 to 135 form an integral part of the consolidated financial statements

## 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 79 to 135 form an integral part of the consolidated financial statements

## 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 79 to 135 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 | | (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 79 to 135 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.
  - o the characteristics of a company's defined benefit plans,
  - o amounts recognized in the financial statements,
  - o risks arising from defined benefit plans and
  - o participation in multi-employer plans
- Improved / clarified guidance relating to several areas of the standard, e.g.
  - o classification of benefits,
  - o recognition of termination benefits and
  - o 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 **IAS 28** (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.

### Provision for Environmental Expenditures

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

### Provision for Retirement Benefits

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

### Impairment of goodwill

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

### Allowance for bad and doubtful accounts receivable

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 creditworthiness 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 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

**Business segments**

| | Pharmaceuticals | | Wholesale and retail | | Other | | Eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | HUF m | | HUF m | | HUF m | | HUF m | | 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<br>HUF m | 2011<br>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<br>HUF m | 2011<br>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. december 31. HUF m | 2011. december 31. 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.

## 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.

| | 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 | | | | | | |

# 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.

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 Gedeon Richter Plc. which will be transferred to Management and to Employees as part of its remuneration policy.

## 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** |

## 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 Gedeon Richter 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.

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.

### 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.

| 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 | Type of security | |
|---|---|---|---|
| | 31. Dec. 2012 | 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.

| At 31 December 2012 | 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 | | 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 | Intellectual property | ESMYA | Total |
|---|---|---|---|---|
| | HUF m | HUF m | HUF m Restated* | 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 | Intellectual property | ESMYA | Total |
|---|---|---|---|---|
| | HUF m | HUF m | HUF m | 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.

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

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

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.

# 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 |
| 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 | 31 December 2011 |
|---|---|---|
| | HUF m | 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 | 2011 |
|---|---|---|
| | HUF m | 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 | 31 December 2011 |
|---|---|---|
| | HUF m | 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 | 31 December 2011 |
|---|---|---|
| | HUF m | 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 | 31 December 2011 |
|---|---|---|
| | HUF m | 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 presented on page 117.

In the deferred tax balance, 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.

| 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).

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

| | Ordinary shares number | | Voting rights % | | Share capital % | |
|---|---|---|---|---|---|---|
| | 31 December 2012 | 31 December 2011 | 31 December 2012 | 31 December 2011 | 31 December 2012 | 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.

| Number of shares | Ordinary 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.

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% |

### 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 | - | - |

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 HUFm | 2011 HUFm |
|---|---|---|
| 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

### 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 | Woman | Men | Woman |
|---|---|---|---|---|
| | 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 Europe-an markets
- Complements Richter's existing Women's Health Franchise.

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.

| | 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).

# 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 | 31 December 2011 |
|---|---|---|
| | HUF m | 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 | Change | 1 January 2011 | 31 December 2011 | Change | 31 December 2011 |
|---|---|---|---|---|---|---|
| | HUF m | HUF m | HUF m | HUF m | HUF m | HUF m |
| | As previously presented | | Restated | As previously presented | | Restated |
| Goodwill | 29,933 | 50 | 29,983 | 33,686 | 57 | 33,743 |
| Other intangible reserves | 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 | Change | 2011 |
|---|---|---|---|
| | HUF m | HUF m | HUF m |
| | As previously presented | | 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 | Change | 2011 |
|---|---|---|---|
| | HUF m | HUF m | HUF m |
| | As previously presented | | 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 |

### Consolidated Earnings per Share

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

| | 2011 | Change | 2011 |
|---|---|---|---|
| | HUF | HUF | HUF |
| | As previously presented | | 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.

# VI. Appendices

# Consolidated financial record 2008–2012 (1)

## Consolidated Income Statement

| Statements of income (HUFm) | 2008 | 2009 | 2010 | 2011(4) | 2012 |
|---|---|---|---|---|---|
| for the years ended 31 December | | | | | |
| Total revenues | 236,518 | 267,344 | 275,312 | 307,868 | 326,702 |
| Cost of sales | (108,421) | (116,443) | (107,137) | (114,529) | (124,999) |
| Gross profit | 128,097 | 150,901 | 168,175 | 193,339 | 201,703 |
| Operating expenses and other income and expenses (net) | (93,941) | (98,432) | (105,522) | (132,412) | (152,982) |
| Profit from operations | 34,156 | 52,469 | 62,653 | 60,927 | 48,721 |
| Share of profit/(loss) of associates | 903 | 52 | 50 | (4,234) | 342 |
| Net financial income/(loss) | 8,394 | 4,379 | 5,073 | (7,022) | 858 |
| Profit before Income tax | 43,453 | 56,900 | 67,776 | 49,671 | 49,921 |
| Income tax | (498) | (1,032) | 12 | 2,696 | 1,865 |
| Solidarity tax | (1,378) | (1,897) | – | – | – |
| Local business tax and innovation fee | – | (3,018) | (3,148) | (2,914) | (2,706) |
| Profit for the year | 41,577 | 50,953 | 64,640 | 49,453 | 49,080 |
| Profit attributable to non-controlling interest | (167) | 33 | (161) | 172 | (185) |
| Profit attributable to owners of Parent | 41,410 | 50,986 | 64,479 | 49,281 | 49,265 |
| | | | | | |
| Share Statistics (HUF) | | | | | |
| Earnings per share (2) | 2,222 | 2,736 | 3,460 | 2,644 | 2,643 |
| Dividends per ordinary share(3) | 590 | 770 | 860 | 660 | 660 |

| Statements of income (EURm) | 2008 | 2009 | 2010 | 2011(4) | 2012 |
|---|---|---|---|---|---|
| for the years ended 31 December | | | | | |
| Total revenues | 941.6 | 952.4 | 998.2 | 1,099.5 | 1,130.1 |
| Cost of sales | (431.7) | (414.8) | (388.4) | (409.0) | (432.4) |
| Gross profit | 509.9 | 537.6 | 609.8 | 690.5 | 697.7 |
| Operating expenses and other income and expenses (net) | (373.9) | (350.6) | (382.6) | (472.9) | (529.2) |
| Profit from operations | 136.0 | 187.0 | 227.2 | 217.6 | 168.5 |
| Share of profit/(loss) of associates | 3.6 | 0.2 | 0.2 | (15.1) | 1.2 |
| Net financial income/(loss) | 33.4 | 15.6 | 18.4 | (25.1) | 3.0 |
| Profit before Income tax | 173.0 | 202.8 | 245.8 | 177.4 | 172.7 |
| Income tax | (2.0) | (3.7) | 0.0 | 9.6 | 6.5 |
| Solidarity tax | (5.5) | (6.8) | - | - | - |
| Local business tax and innovation fee | - | (10.8) | (11.4) | (10.4) | (9.4) |
| Profit for the year | 165.5 | 181.5 | 234.4 | 176.6 | 169.8 |
| Profit attributable to non-controlling interest | (0.7) | 0.1 | (0.6) | 0.6 | (0.6) |
| Profit attributable to owners of Parent | 164.8 | 181.6 | 233.8 | 176.0 | 170.4 |
| | | | | | |
| Share Statistics (EUR) | | | | | |
| Earnings per share (2) | 8.85 | 9.74 | 12.54 | 9.44 | 9.14 |
| Dividends per ordinary share(3) | 2.35 | 2.74 | 3.12 | 2.36 | 2.28 |

Note: (1) This Financial Record is not a part of the audited Consolidated Financial Statements prepared in accordance with IFRS.
(2) EPS calculations based on the total number of shares issued, diluted excluding exceptional and non-recurring items.
(3) 2012 dividends per ordinary share of HUF 660 are as recommended by the board of directors.
(4) Restated (for the details see pages 134–135).

Throughout this Annual Report, certain Hungarian forint amounts have been converted into EUR for indicative purposes only. Expenditure and income amounts incurred during a period have been converted at an average rate calculated by the Company. Balance sheet figures for the end of the period have been translated at the year-end exchange rates.

## Consolidated Balance Sheet

| Balance Sheet (HUFm) | 2008 | 2009 | 2010[4] | 2011[4] | 2012 |
|---|---|---|---|---|---|
| as at 31 December | | | | | |
| Non-current assets | 171,057 | 175,168 | 353,957 | 373,269 | 376,442 |
| Net other assets and liabilities | 169,328 | 205,107 | 181,735 | 202,675 | 237,997 |
| Non-current liabilities | (1,099) | (1,520) | (93,577) | (86,088) | (94,365) |
| Non-controlling interest | (2,787) | (2,613) | (3,131) | (3,863) | (3,313) |
| Total net assets [5] | 336,499 | 376,142 | 438,984 | 485,993 | 516,761 |
| Share capital | 18,638 | 18,638 | 18,638 | 18,638 | 18,638 |
| Reserves | 318,465 | 358,329 | 420,885 | 471,868 | 499,839 |
| Treasury shares | (604) | (825) | (539) | (4,513) | (1,716) |
| Capital and reserves [5] | 336,499 | 376,142 | 438,984 | 485,993 | 516,761 |
| | | | | | |
| Total assets and total equity and liabilities | 384,133 | 429,970 | 597,750 | 681,970 | 672,237 |
| | | | | | |
| Capital Expenditure (HUFm) | 22,010 | 24,211 | 88,704 | 32,285 | 29,677 |

| Balance Sheet (EURm) | 2008 | 2009 | 2010[4] | 2011[4] | 2012 |
|---|---|---|---|---|---|
| as at 31 December | | | | | |
| Non-current assets | 646.7 | 647.6 | 1,274.6 | 1,199.8 | 1,292.3 |
| Net other assets and liabilities | 640.2 | 758.2 | 654.4 | 651.5 | 817.0 |
| Non-current liabilities | (4.2) | (5.6) | (337.0) | (276.7) | (324.0) |
| Non-controlling interest | (10.5) | (9.7) | (11.3) | (12.4) | (11.4) |
| Total net assets [5] | 1,272.2 | 1,390.5 | 1,580.7 | 1,562.2 | 1,773.9 |
| Share capital | 70.5 | 68.9 | 67.1 | 59.9 | 64.0 |
| Reserves | 1,204.0 | 1,324.6 | 1,515.5 | 1,516.8 | 1,715.8 |
| Treasury shares | (2.3) | (3.0) | (1.9) | (14.5) | (5.9) |
| Capital and reserves [5] | 1,272.2 | 1,390.5 | 1,580.7 | 1,562.2 | 1,773.9 |
| | | | | | |
| Total assets and total equity and liabilities | 1,452.3 | 1,589.5 | 2,172.4 | 2,192.1 | 2,307.7 |
| | | | | | |
| Capital Expenditure (EURm) | 87.6 | 86.3 | 321.6 | 115.3 | 102.6 |

Notes
[1] This Financial Record is not a part of the audited Consolidated Financial Statements prepared in accordance with IFRS.
[4] Restated (For details see pages 134–135).
[5] Excluding non-controlling interest

Throughout this Annual Report, certain Hungarian forint amounts have been converted into EUR for indicative purposes only. Expenditure and income amounts incurred during a period have been converted at an average rate calculated by the Company. Balance sheet figures for the end of the period have been translated at the year-end exchange rates.

## Exchange rates (EUR/HUF)

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Average | 251.2 | 280.7 | 275.8 | 280.0 | 289.1 |
| End of year | 264.5 | 270.5 | 277.7 | 311.1 | 291.3 |

## Number of employees

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| End of year | 10,527 | 10,090 | 10,259 | 10,773 | 11,103 |

# Notes

# Contact of Gedeon Richter Plc.

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