GEDEON RICHTER PLC.
Consolidated Financial Statements and
Independent Auditors' Report
For the year ended 31 December 2013

Erik Bogsch
Managing Director

21 March, 2014.

Gedeon Richter Plc.

CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Income Statement
for the year ended 31 December

	Notes	2013 HUF m	2012* HUF m
Total revenues	5	**351,424**	**326,702**
Cost of sales		(131,332)	(124,999)
Gross profit		**220,092**	**201,703**
Sales and marketing expenses		(106,999)	(92,794)
Administration and general expenses		(19,393)	(20,182)
Research and development expenses		(41,953)	(38,847)
Other income and other expenses (net)	5	(6,178)	(1,184)
Profit from operations	5	**45,569**	**48,696**
Finance income	7	16,082	24,050
Finance costs	7	(18,774)	(23,192)
Net financial (loss)/income	7	**(2,692)**	**858**
Share of profit of associates	16	763	342
Profit before income tax		**43,640**	**49,896**
Income tax	8	(1,209)	(841)
Profit for the year		**42,431**	**49,055**
Profit attributable to			
Owners of the parent		42,766	49,240
Non-controlling interest		(335)	(185)
Earnings per share (HUF)**	9		
Basic		230	266
Diluted		229	264

* Restated due to change of IAS19 Employee benefits (see Note 41).
** Restated in order to reflect the impact of the share split realized in July 2013.

The notes on pages 10 to 72 form an integral part of the Consolidated Financial Statements

21 March, 2014.

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Managing Director

Consolidated Statement of Comprehensive Income

for the year ended 31 December

	Notes	2013 HUF m	2012* HUF m
Profit for the year		**42,431**	**49,055**
Items that will not be reclassified to profit or loss			
Actuarial gains on retirement defined benefit plans	30	20	25
		20	**25**
Items that may be subsequently reclassified to profit or loss			
Exchange differences arising on translation of foreign operations		(2,840)	(12,874)
Revaluation reserve for available for sale investments	26	2,452	2,495
		(388)	**(10,379)**
Other comprehensive income for the year		**(368)**	**(10,354)**
Total comprehensive income for the year		**42,063**	**38,701**
Attributable to:			
Owners of the parent		42,524	39,251
Non-controlling interest		(461)	(550)

* Restated due to change of IAS19 Employee benefits (see Note 41).

The notes on pages 10 to 72 form an integral part of the Consolidated Financial Statements

21 March, 2014.

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Managing Director

Consolidated Balance Sheet

at 31 December	Notes	2013 HUF m	2012 HUF m
ASSETS			
Non-current assets			
Property, plant and equipment	12	163,465	158,508
Investment property	13	1,271	1,090
Goodwill	20	50,962	31,602
Other intangible assets	12	145,635	149,308
Investments in associates	16	2,867	2,115
Other financial assets	17	43,238	25,426
Deferred tax assets	18	3,921	3,342
Loans receivable	19	5,774	5,051
		417,133	**376,442**
Current assets			
Inventories	21	68,687	64,149
Trade receivables	22	102,159	102,476
Other current assets	23	17,299	16,582
Investments in securities	24	3,816	9,966
Current tax asset	18	541	1,117
Cash and cash equivalents	25	106,832	101,505
		299,334	**295,795**
Total assets		**716,467**	**672,237**

The notes on pages 10 to 72 form an integral part of the Consolidated Financial Statements

21 March, 2014.

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Managing Director

Consolidated Balance Sheet
at 31 December - continued

	Notes	2013 HUF m	2012 HUF m
EQUITY AND LIABILITIES			
Capital and reserves			
Equity attributable to owners of the parent			
Share capital	26	18,638	18,638
Treasury shares	27	(321)	(1,716)
Share premium		15,214	15,214
Capital reserves		3,475	3,475
Foreign currency translation reserves	26	6,475	9,189
Revaluation reserve for available for sale investments	26	4,915	2,463
Retained earnings		499,948	469,498
		548,344	**516,761**
Non-controlling interest		2,852	3,313
		551,196	**520,074**
Non-current liabilities			
Borrowings	31	57,059	73,163
Deferred tax liability	18	7,688	9,634
Other non-current liability	32	24,891	11,568
		89,638	**94,365**
Current liabilities			
Borrowings	31	5,052	148
Trade payables	28	41,942	40,033
Current tax liabilities	18	207	123
Other payables and accruals	29	25,251	15,015
Provisions	30	3,181	2,479
		75,633	**57,798**
Total equity and liabilities		**716,467**	**672,237**

The notes on pages 10 to 72 form an integral part of the Consolidated Financial Statements

21 March, 2014.

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Managing Director

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		**18,638**	**15,214**	**3,475**	**(4,513)**	**(32)**	**21,698**	**431,513**	**485,993**	**3,863**	**489,856**
Net profit		-	-	-	-	-	-	49,240	**49,240**	(185)	**49,055**
Exchange differences arising on translation of foreign operations		-	-	-	-	-	(12,509)	-	**(12,509)**	(365)	**(12,874)**
Actuarial gains on retirement defined benefit plans*	30	-	-	-	-	-	-	25	**25**	-	**25**
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	27	-	-	-	2,797	-	-	-	**2,797**	-	2,797
Ordinary share dividend for 2011	33	-	-	-	-	-	-	(12,211)	**(12,211)**	-	(12,211)
Recognition of share-based payments	26	-	-	-	-	-	-	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**

* Restated due to change of IAS19 Employee benefits (see Note 41).

The notes on pages 10 to 72 form an integral part of the Consolidated Financial Statements

Consolidated Statement of Changes in Equity
for the year ended 31 December 2013

	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 2013		**18,638**	**15,214**	**3,475**	**(1,716)**	**2,463**	**9,189**	**469,498**	**516,761**	**3,313**	**520,074**
Net profit		-	-	-	-	-	-	42,766	**42,766**	(335)	**42,431**
Exchange differences arising on translation of foreign operations		-	-	-	-	-	(2,714)	-	**(2,714)**	(126)	**(2,840)**
Actuarial gains on retirement defined benefit plans	30	-	-	-	-	-	-	20	**20**	-	**20**
Revaluation reserve for available for sale investments		-	-	-	-	2,452	-	-	**2,452**	-	**2,452**
Comprehensive income at 31 December 2013		-	-	-	-	**2,452**	**(2,714)**	**42,786**	**42,524**	**(461)**	**42,063**
Net treasury shares transferred to employees	27	-	-	-	1,395	-	-	-	**1,395**	-	**1,395**
Ordinary share dividend for 2012	33	-	-	-	-	-	-	(12,271)	**(12,271)**	-	(12,271)
Recognition of share-based payments	26	-	-	-	-	-	-	(65)	**(65)**	-	**(65)**
Balance at 31 December 2013		**18,638**	**15,214**	**3,475**	**(321)**	**4,915**	**6,475**	**499,948**	**548,344**	**2,852**	**551,196**

The notes on pages 10 to 72 form an integral part of the Consolidated Financial Statements

Consolidated Cash Flow Statement

for the year ended 31 December

	Note	2013 HUF m	2012* HUF m
Operating activities			
Net income attributable to owners of parent company		42,766	49,240
Depreciation and amortisation	5	28,303	26,883
Non cash items accounted through Total Comprehensive Income	16, 32	(527)	3,806
Year end foreign exchange translation difference of borrowing	7	1,001	(4,191)
Net interest and dividend income	7	(3,481)	(3,155)
Income tax recognised through Consolidated Income Statement		1,209	841
Changes in provision for defined benefit plans	30	137	97
Loss on disposal of property, plant and equipment and intangible assets		1,343	1,251
Impairment loss recognised on intangible assets		1,652	375
Impairment losses on investments		82	-
Expense recognised in respect of equity-settled share based payments***	27	5,247	4,832
Movements in working capital			
Decrease/(increase) in trade and other receivables		146	(4,698)
Increase in inventories		(4,538)	(712)
Increase/(decrease) in payables and other liabilities		6,215	(6,118)
Interest expense		(1,560)	(1,805)
Income tax paid	18	(3,987)	(4,812)
Net cash flow from operating activities		**74,008**	**61,834**
Cash flow from investing activities			
Payments for property, plant and equipment**		(25,343)	(23,803)
Payments for intangible assets**		(8,304)	(5,874)
Proceeds from disposal of property, plant and equipment		429	531
Payments to acquire financial assets		(16,888)	(7,167)
Proceeds on sale of financial assets		9,011	25
Proceeds from/(repayments of) loans		1,569	(979)
Interest and similar income	7	4,068	4,652
Dividend income		973	308
Net cash outflow on acquisition of subsidiaries	29, 38	(647)	(42,328)
Net cash flow from investing activities		**(35,132)**	**(74,635)**
Cash flow from financing activities			
Purchase of treasury shares***	27	(3,852)	(2,035)
Dividend paid		(12,263)	(12,206)
Repayment of borrowings		(29,392)	(1,110)
Proceeds from borrowings		14,688	16,239
Net cash flow to/from financing activities		**(30,819)**	**888**
Net increase/(decrease) in cash and cash equivalents		**8,057**	**(11,913)**
Cash and cash equivalents at beginning of year		**101,505**	**118,651**
Effect of foreign exchange rate changes on the balances held in foreign currencies		(2,730)	(5,233)
Cash and cash equivalents at end of year		**106,832**	**101,505**

* Restated due to change of IAS19 Employee benefits (see Note 41).

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

*** Cash flows related to share-based payments are presented on separate line item from 2013, therefore the respective comparative number has also been provided for.

The notes on pages 10 to 72 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's headquarter in Hungary and its registered office is at Gyömrői út 19-21, 1103 Budapest.

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

The Consolidated Financial Statements have been prepared on the historical cost basis of accounting, except for 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 (HUF m) unless stated otherwise. The members of the Group maintain accounting, financial and other records in accordance with relevant local laws and accounting requirements. In order to present financial statements which comply with IFRS, appropriate adjustments have been made by the members of the Group to the local statutory accounts.

The 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 14, 15.

III) Adoption of new and revised Standards

A) Standards, amendments and interpretations effective and adopted by the Group in 2013

- 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. The Group adopted the amended standard as of January 1, 2013. The amended standard did not have any significant impact on the disclosures in the Group's financial statements.

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

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

The Group used to recognize the gains and losses that arise from remeasurements in the Consolidated Income Statement. As a result of the amendment, the Group accounts for the actuarial gains and losses of the defined benefit plans in the Other Comprehensive Income.

- 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 Group adopted the amended standard as of January 1, 2013. The amended standard did not have a significant impact on the disclosures in the Group's financial statements.

- IFRS 13 The IASB published IFRS 13 – Fair Value Measurement in May 2011 in 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 Group adopted the amended standard as of January 1, 2013. The Group amended disclosure in these financial statements accordingly.

B) Standards, amendments and interpretations effective in 2013 but not relevant for the Group

- 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.

- 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.

Improvements to International Financial Reporting Standards. 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.

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

- 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 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 in November 2013 and deferred the mandatory effective date of IFRS 9. 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 amendments.

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

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

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

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

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

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

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

  An entity shall apply this package of five new and revised standards for annual periods beginning on or after 1 January, 2014. The Group has jointly controlled entities that are currently consolidated with proportionate consolidation. Some of these entities might qualify to be joint venture requiring equity method consolidation, therefore the new standard may have significant effect on the financial statements. The exact effects of the new standards are currently analyzed by the Group. The European Union has endorsed the new standards.

- IAS 36 (amended) – The IASB published Recoverable Amount Disclosures for Non-Financial Assets, amendments to IAS 36 – Impairment of Assets in May 2013. The amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. When developing IFRS 13 Fair Value Measurement, the IASB decided to amend IAS 36 to require disclosures about the recoverable amount of impaired assets. The amendments clarify the IASB's original intention: that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The application of the amendment is required retrospectively for annual periods beginning on or after January 1, 2014. We do not expect that the adoption of the amendment would result in significant changes in the financial statements of the Group. The European Union has endorsed the amended standard.

- IAS 39 (amended) – The IASB published "Novation of Derivatives and Continuation of Hedge Accounting", amendments to IAS 39 – Financial Instruments: Recognition and Measurement in June 2013. The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). This relief has been introduced in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in an internationally consistent and non-discriminatory way. Similar relief will be included in IFRS 9 Financial Instruments. The application of the amendment is required for annual periods beginning on or after January 1, 2014. We do not expect that the adoption of the amendment would result in significant changes in the financial statements of the Group. The European Union has endorsed the amended standard.

- IFRIC 21 – The IASB issued IFRIC Interpretation 21: Levies, an Interpretation on the accounting for levies imposed by governments in May 2013. IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The new interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The application of IFRIC 21 is required for annual periods beginning on or after January 1, 2014. We do not expect that the adoption of the new interpretation would result in significant changes in the financial statements of the Group as our interpretation of IAS 37 has been in line with the newly issued IFRIC. The European Union has not yet endorsed the interpretation.

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

- 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 endorsed the amended standards.

- IAS 19 (amended) – The IASB published amendments to IAS 19 – Employee Benefits in November 2013. The amendments apply to contributions from employees or third parties to defined benefit plans which are not relevant for the Group. Therefore the amended standard will not have any impact on the Group's financial statements. The European Union has not yet endorsed the amended standard.

- IFRS 14 – The IASB issued an interim Standard, IFRS 14 Regulatory Deferral Accounts in January 2014. The new interim standard is applicable for first-time adopters which is not relevant for the Group. Therefore the new interim standard will not have any impact on the Group's financial statements. The European Union has not yet endorsed the new interim standard.

E, Improvements to International Financial Reporting Standards (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014. The European Union has not yet endorsed these improvements

Annual Improvements to IFRSs 2012 - the improvements consist of changes to seven standards.

-IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

-IFRS 3 was amended to clarify that
(1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and
(2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

-IFRS 8 was amended to require
(1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and
(2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

-The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

-IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

-IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.
The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2013 - the improvements consist of changes to four standards.

-The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

-IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

-The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

-IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendments on its financial statements.

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.

From 1 January, 2014 IFRS 11 Joint Arrangements will be the relevant standard for accounting treatment of joint ventures and joint operations. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses.
Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. The Group has jointly controlled entities that are currently consolidated with proportionate consolidation. Some of these entities might qualify to be joint venture requiring equity method consolidation therefore the new standard may have significant effect on the financial statements. The exact effects of the new standards are currently analyzed by the Group.

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.

Dividends received from associates reduce the carrying value of the investment in the associates.

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 in foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Consolidated Financial Statements, the results and financial position of each Group entity are expressed in Hungarian Forints 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 equity, which is translated at historic value. Income and expense items are translated at the average exchange rates weighted with monthly turnover. Exchange differences arising, if any, are recognised in other comprehensive income.
Such translation differences are recognised as income or as expenses in the period in which the Group disposes of an operation.

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 fair value of consideration transferred 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.
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. The acquisition performed by the Group in 2013 does not have non-controlling interest therefore the choice described before is not applicable for acquisitions in the current year.
Goodwill is recognised separately in the Consolidated Balance Sheet and is not amortised but is reviewed for impairment annually in line with IAS 36. In each reporting period the Group reviews its goodwill for possible impairment. For impairment testing goodwill is allocated to 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 are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

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

VII) Intangible assets

Purchase of trademarks, 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 to amortize the cost of intangible assets over their estimated useful lives as follows:

Name	Amortization
Property rights (connected with properties)	5%
Other rights (licences)	5-50%
Intellectual property, software	4-50%

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

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

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

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

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

R&D costs that do not meet these recognition criteria are 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 incorporating 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 carried at amortized cost and are presented separately in XIV) Loans receivable, XIX) Cash and cash equivalents 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 contains 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivable investments' (non-derivative financial assets with fixed or determinable payments that are not quoted in an active market) as described in Note 17.
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 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 direct 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 2013 and 2012.

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 2013 and as of 31 December 2012.

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 35). 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 regarding defined benefit plans are charged to the Other Comprehensive Income while actuarial gains and losses of long term employee benefit program are charged to the Consolidated Income Statement in the period in which they arise

Defined contribution plans

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

Termination benefit

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

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 27. 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 as deferred revenue in the Consolidated Balance Sheet and credited to the income statement as Other income and other expenses (net) on a straight-line basis over the expected lives of the related assets.

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

XXXI) 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.

XXXII) Comparative financial information for EPS
On 4 July 2013 Gedeon Richter Plc. announced that the Company Court of Budapest-Capital Tribunal registered the transformation of the Company's 18,637,486 registered common shares, each with a nominal value of HUF 1,000, into 186,374,860 registered common shares, each with a nominal value of HUF 100, by splitting the nominal value in a ten-to-one ratio. 16 July, 2013 was the day of the splitting. EPS and respective share numbers have been adjusted accordingly in Consolidated Financial Statements..

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 20.

Depreciation and amortization
Property, plant and equipment and intangible assets are recorded at cost and are depreciated or amortised on a straight-line basis over their estimated useful lives. The estimation of the useful lives of assets is a matter of 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 2013 would be greater by HUF 2,830 million (2012: increase by HUF 2,688 million).

The Group recorded depreciation and amortisation expense in the amount of HUF 28,303 million and HUF 26,883 million for the years ended 31 December 2013 and 2012, respectively.

Tax loss carried forward in Switzerland
The Swiss subsidiary of the Group, PregLem has CHF 121 million (HUF 29,289 million) tax loss carried forward as of 31 December 2013. PregLem also has tax holiday on cantonal level that will expire in 2016. The Company has prepared a detailed schedule on the utilization of the tax loss carried forward and provided for deferred tax on cantonal level only on the deductible temporary differences that is expected to be recovered after the expiry of the above mentioned tax holiday. In compare to the prior year the deductible temporary difference that is expected to be recovered after the expiry of the tax holiday has increased significantly resulting in a decrease of the net deferred tax liability of PregLem by HUF 3,181 million in the current year.

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 39.
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 2013 as other non-current liabilities (Note 32). The maximum amount of exposure of the Group relating to the deferred purchase price amounts to be CHF 60 million (HUF 14,528 million) as of 31 December 2013 is disclosed, while as of 31 December 2012 it was CHF 60 million (HUF 14,464 million). The fair value of liability presented in connection to this exposure is disclosed in Note 11.

GRMed deferred purchase price payments
In 2013 Richter Gedeon Plc. announced that it signed a series of agreements with the owners of its marketing partner, Rxmidas Pharmaceuticals Co. Ltd. ('Rxmidas'), targeting a reshaped and stronger direct presence on the Chinese pharmaceutical market. Richter acquired the company (GRMed Company Ltd., hereinafter "GRMed") and the agreement terms included an upfront payment together with milestone payments in the forthcoming years.
Deferred purchased price is accounted for at discounted fair value similarly to the deferred purchase price of PregLem. The total amount of long term and short term liabilities presented is approximately EUR 61 million (HUF 18,173 million) as of 31 December 2013. Since the deferred purchase price is determined as a certain proportion of future profit of predetermined products therefore maximum exposure can not be quantified. If the expected performance of the named product would be higher/lower by 10% the deferred purchase price will increase/decrease by HUF 1,817 million. Uncertainty in connection to this liability is presented in Note 11.

3.2 Critical judgements in applying entities accounting policies

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

4. Segment Information

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

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

I) Business segments

	Pharmaceuticals HUF m		Wholesale and retail HUF m		Other HUF m		Eliminations HUF m		Total HUF m	
	2013	**2012***	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012***
3rd party revenues	296,868	279,460	53,527	46,162	1,029	1,080	-	-	351,424	326,702
Inter segment revenues	7,761	7,019	4	4	3,803	2,808	(11,568)	(9,831)	-	-
Total revenues	**304,629**	**286,479**	**53,531**	**46,166**	**4,832**	**3,888**	**(11,568)**	**(9,831)**	**351,424**	326,702
Profit from operations*	46,777	50,401	(912)	(1,334)	115	(116)	(411)	(255)	45,569	48,696
Total assets	772,711	731,128	43,919	44,034	5,033	5,188	(105,196)	(108,113)	716,467	672,237
Impairment of Intangible assets and Investments	(1,526)	-	(126)	(375)	(82)	-	-	-	(1,734)	(375)
Liabilities	143,756	132,531	43,608	44,066	798	778	(22,891)	(25,212)	165,271	152,163
Capital expenditure	33,007	28,734	360	555	280	388	-	-	33,647	29,677
Depreciation	27,393	26,006	710	679	200	198	-	-	28,303	26,883
Share of profit of associates	-	-	763	342	-	-	-	-	763	342
Investments in associates	-	-	2,867	2,115	-	-	-	-	2,867	2,115

* Restated due to change of IAS19 Employee benefits (see 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. China
6. Other countries.

2013	Hungary	CIS	EU	USA	China	Other countries	Total
	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m
Total revenues	31,368	151,174	126,727	14,293	10,352	17,510	351,424
Total assets	555,859	43,389	66,258	2,173	1,532	47,256	716,467
Capital expenditure	24,657	6,109	2,085	-	-	796	33,647

2012	Hungary	CIS	EU*	USA	China*	Other* countries	Total
	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m
Total revenues	30,932	143,975	116,803	16,123	1,769	17,100	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

* Restated due to presentation of China as a separate segment and to include Croatia following its accession to the EU on 1 July 2013.

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	2013	2012
	HUF m	HUF m
Sales of goods	345,517	320,778
Revenue from services	5,306	5,639
Royalty income	601	285
Total revenues	**351,424**	**326,702**

Revenues of approximately HUF 27,110 million (2012: HUF 35,705 million) are derived from a single external customer. These revenues are attributable to the Pharmaceuticals segment and located in the CIS region.
There is no customer exceeding 10% of net sales, therefore the Group assesses the risk of customer concentration as not significant.

5. Profit from operations – expenses by nature

	2013 HUF m	2012* HUF m
Total revenues	351,424	326,702
From this: royalty and other similar income	*601*	*285*
Changes in inventories of finished goods and work in progress, cost of goods sold	(56,794)	(26,142)
Material type expenses	(122,085)	(135,721)
Personnel expenses**	(92,495)	(88,076)
Depreciation and amortisation	(28,303)	(26,883)
Other income and other expenses (net)	(6,178)	(1,184)
Profit from operations	**45,569**	**48,696**

* Restated due to change of IAS19 Employee benefits (see Note 41).
** Expenses related to social security and pension schemes are described in more details in Note 37.

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

In the prior year there was a change in the probability of achieving the milestone that determines the deferred purchase price of PregLem resulting in an expense HUF 654 million in 2012. In 2013 there was no change in the probabilities therefore no similar expense has been accounted for.

Claw-back expenses are partial repayment of the received Sales revenue of the reimbursed products (further "claw-back").

In accordance with the claw-back regime announced in Romania the authority established 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 (HUF 820 million) and RON 11.4 million (HUF 767 million) in 2012 and 2013, respectively by those companies which belong to the Pharmaceutical segment of the Group.

Nevertheless the overall level of claw-back expenses in Germany increased and amounted to HUF 2.7 billion during the reported year and HUF 1.3 billion in 2012.

The 20 % tax obligation payable in respect of turnover related to reimbursed sales in Hungary amounted to HUF 487 million in 2012 and HUF 346 million in 2013.

6. Employee information

	2013	2012
Average number of people employed during the year	11,446	10,982

The newly acquired companies resulted in an increase of 210 in the average number of employees during 2013 of which 203 people are due to the Chinese acquisition (Please see Note 38).

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:

	2013 HUF m	2012 HUF m
Unrealised financial items	**(5,892)**	**5,745**
Unrealised exchange (losses)/gains on trade receivables and trade payables	(2,305)	3,912
Gain/(loss) on foreign currency loans receivable	15	(81)
Year end foreign exchange translation difference of borrowing	(1,001)	4,191
Unrealised exchange (losses)/gains on other currency related items	(1,709)	982
Unwinding of discounted value related to liability in respect of PregLem	(1,026)	(3,004)
Result of unrealised forward exchange contracts	216	(255)
Impairment loss on investments	(82)	-
Realised financial items	**3,200**	**(4,887)**
Realised loss on forward exchange contracts	(224)	(138)
Exchange loss realised on trade receivables and trade payables	(2,345)	(3,905)
Exchange gains/(losses) on conversion	314	(3,379)
Dividend income	973	308
Interest income	4,068	4,652
Interest expense	(1,560)	(1,805)
Other financial items	1,974	(620)
Total	**(2,692)**	**858**

Unrealised financial income/(expense) was heavily affected by the 215.67 USD/HUF and 296.91 EUR/HUF exchange rates in effect on 31 December 2013 (on 31 December 2012 220.93 USD/HUF and 291.29 EUR/HUF respectively) which impacted the revaluation of currency related Balance Sheet items. These translation differences together resulted a decrease of HUF 5.0 billion in the net financial income for 2013.

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 288 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 2013 at their present value resulting in a loss of HUF 1,026 million as a result of the unwinding of the discounted value, in 2012 it was HUF 3,004 million financial loss.

In November 2010 Gedeon Richter Plc. signed an agreement for 5 year period, EUR 150 million (HUF 41,700 million) club credit facility, which has been called and presented as borrowings in the financial statements. In June 2013 Richter made a repayment of EUR 100 million (HUF 29,344 million) ahead of schedule in respect of the club credit facility. Outstanding liabilities of the Company are EUR 50 million (HUF 14,845 million) in respect of the club credit facility.
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 150 million credit line has been drawn down until 31 December 2013 (the balance of the credit as of 31 December 2012 was EUR 100 million). These bank loans are presented as Borrowings which are described in Note 31.
The year end foreign exchange translation difference of these credits was HUF 1,001 million loss in 2013 and HUF 4,191 million gain in 2012.

The most significant figure within the 'Other financial items' above is the HUF 1,964 million gain on the repurchase of the 'Exchangeable Bonds' by the Hungarian State Holding Company described in Note 17.

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.

	2013 HUF m	2012 HUF m
Domestic	(470)	(670)
Foreign	(770)	(911)
Local business tax	(2,967)	(2,159)
Innovation fee	(440)	(547)
Current tax	**(4,647)**	**(4,287)**
Deferred tax (17)	3,438	3,446
Income tax	**(1,209)**	**(841)**

The average effective tax rate calculated on the basis of the current tax 10.6% and 2.8% taking into account the effect of deferred tax as well, in 2012 these rates were 8.6% and 1.7%.

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%

* For the first HUF 500 million 10% tax rate is applicable, for the tax base exceeding HUF 500 million 19% tax rate is applicable.

There was no change in the tax rates above in compare to prior year.
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 39.

Tax rate reconciliation

	2013 HUF m	2012 HUF m
Profit before income tax	**43,640**	**49,921**
Tax calculated at domestic tax rates applicable to profits in the respective countries*	11,455	10,601
Tax effects of:		
Benefit of utilising investment tax credit at Parent	(1,741)	(2,615)
Associates results reported net of tax	(145)	(65)
Income not subject to tax	(565)	(1,257)
Expense not deductible for tax purposes	602	580
Expense eligible to double deduction**	(6,512)	(5,169)
The effect of changes in tax loss for which no deferred income tax has been recognised***	(1,885)	2,131
Self-revision of tax of the Parent	-	(592)
Derecognising deferred tax liability as change of tax status of assets****	-	(2,773)
Tax charge	**1,209**	**841**

* The tax has been calculated with domestic tax rates including the effect of every income tax (including e.g. local business tax).
** These expenditures can be deducted twice from the current years result to get the taxable profit (qualifying R&D expenses).
*** In 2012 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 18. In 2013 for most of this unused tax loss deferred tax asset was calculated.
**** The tax status of an asset has changed as a result of a contract signed between the Company and its subsidiary (see Note 18).

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 has taken 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.
The Company used the tax credit described above in the 2012 and 2013 business years. The remaining tax relief open for subsequent years amounts to HUF 1,557 million at present value.

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 577 employees. Therefore the Group assessed this tax credit to be an investment tax credit and applied the initial recognition exception stated in IAS 12.24 and did not recognise any deferred tax in connection with these assets.

9. Consolidated earnings per share

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

EPS (basic)

	2013	2012*
Net consolidated profit attributable to owners of the parent (HUF m)	42,766	49,240
Weighted average number of ordinary shares outstanding (thousands)**	185,991	185,217
Basic earnings per share (HUF)**	**230**	**266**

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

EPS (diluted)

	2013	2012*
Net consolidated profit attributable to owners of the parent (HUF m)	42,766	49,240
Weighted average number of total shares issued (thousands)**	186,375	186,375
Diluted earnings per share (HUF)**	**229**	**264**

* Restated due to change of IAS19 Employee benefits (see Note 41).

** On 4 July 2013 Gedeon Richter Plc. announced that the Company Court of Budapest-Capital Tribunal registered the transformation of the Company's 18,637,486 registered common shares, each with a nominal value of HUF 1,000, into 186,374,860 registered common shares, each with a nominal value of HUF 100, by splitting the nominal value in a ten-to-one ratio. July 16, 2013 was the day of the splitting. EPS and respective share numbers were adjusted accordingly.

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		Fair value	
		31 December 2013 HUF m	31 December 2012 HUF m	31 December 2013 HUF m	31 December 2012 HUF m
Financial assets*					
Available for sale investments carried at fair value					
Investments***	17	9,337	6,714	9,337	6,714
Investments in securities**	24	3,816	9,966	3,816	9,966
Held to maturity investments carried at amortised cost					
Investments	17	18,462	18,712	18,462	18,985
Loans and receivables carried at amortised cost					
Loans and receivable investments	17	15,439	-	15,439	-
Loans receivable	19, 23	7,662	5,440	7,662	5,440
Trade receivables	22	102,159	102,476	102,159	102,476
Other current assets	23	4,698	4,181	4,698	4,181
Cash and cash equivalents	25	106,832	101,505	106,832	101,505
Current		**219,393**	**218,517**	**219,393**	**218,517**
Non-current		**49,012**	**30,477**	**49,012**	**30,750**
Financial liabilities					
Liabilities carried at amortised cost					
Borrowings	31	5,052	148	5,052	148
Trade payables	28	41,942	40,033	41,942	40,033
Other payables and accrual	29	11,772	9,186	11,772	9,186
Financial liabilities carried at fair value through profit or loss					
Foreign exchange forward contracts****	11,29	288	504	288	504
Other payables and accruals*****	11,29	5,636	-	5,636	-
Current		**64,690**	**49,871**	**64,690**	**49,871**
Liabilities carried at amortised cost					
Borrowing	31	57,059	73,163	57,059	73,163
Other non-current liability	32	439	733	439	733
Financial liabilities carried at fair value through profit or loss					
Other non-current liability******	11	24,452	10,835	24,452	10,835
Non-current		**81,950**	**84,731**	**81,950**	**84,731**

* All financial assets are free from liens and charges.
** The fair valuation of securities was based on bank data supply.
Level 1: in 2013 HUF 1,407 million (in 2012 HUF 7,719 million)
Level 2: in 2013 HUF 2,409 million (in 2012 HUF 2,247 million)
*** Level 1: in 2013 HUF 9,337 million (in 2012 HUF 6,714 million)
**** Level 2: in 2013 HUF 288 million (in 2012 HUF 504 million)
***** Level 3: in 2013 HUF 5,636 million (in 2012: none)
****** Level 3: in 2013 HUF 24,452 million (in 2012 HUF 10,835 million)

Above mentioned different levels have been defined as follows:

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

Financial risk management

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

I.) Capital management

The capital structure of the Group consists of net debt (borrowings as detailed in Notes 31 and 25 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. In accordance with the dividend policy followed by the Company, the Board of Directors recommends the payment of 25 percent of Gedeon Richter Plc.'s net consolidated profit calculated according to IFRS. Dividends are approved by the shareholders of Gedeon Richter Plc.'s at the Annual General Meeting.

The capital risk of the Group was still limited in 2013, since the Net debt calculated as bellow 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 2013 Richter made a repayment of EUR 100 million ahead of schedule in respect of the club credit facility. Outstanding liabilities of the Company are EUR 50 million in respect of the club credit facility.

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. Total credit line has been drawn down by the balance sheet date, until December 2013 (the balance of the credit as of 31 December 2012 was EUR 100 million).

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

	31 December 2013 HUF m	**31 December 2012*** HUF m
Borrowings (Note 31)	62,111	73,311
Less: cash and cash equivalents (Note 25)	(106,832)	(101,505)
Net debt	**(44,721)**	**(28,194)**
Total equity	551,196	520,074
Total capital	**506,475**	**491,880**
EBITDA**	74,845	75,887
Net debt to EBITDA ratio	**(0.60)**	**(0.37)**
Net debt to equity ratio	**(0.08)**	**(0.05)**

* EBITDA restated due to change of IAS 19 Employee benefits (see Note 41).
** EBITDA has been determined in line with the credit agreement as operating profit increased by dividend income and depreciation and amortization expense.

	2013 HUF m	2012* HUF m
Profit from operations	45,569	48,696
Depreciation	28,303	26,883
Dividend income	973	308
EBITDA	**74,845**	**75,887**

* Restated due to change of IAS19 Employee benefits (see Note 41).

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

II.) Foreign currency risk

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

Foreign exchange sensitivity of actual costs

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

The foreign currency risk management calculation is based on the balances exposed to exchanges of foreign currencies of the Parent Company and the seven principal subsidiaries (GR Polska, GR Romania, GR RUS, PregLem and from 2013 Richter-Helm BioLogics, Pharmafarm, and GR Farmacia), which perform pharmaceutical activity. The items of the other consolidated companies have insignificant 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.

2013	Exchange rates							Effect on operating profit	Effect on profit for the year
*	EUR/HUF	USD/HUF	EUR/USD	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	HUF m	HUF m
105.05%	311.8								
		233.4	1.34	74.4	70.6	7.7	256.2	8,640	8,160
		223.4	1.33	70.8	67.2	7.0	241.2	(98)	(61)
		213.4	1.46	67.2	63.8	6.3	226.2	(8,837)	(8,282)
100.00%	296.8								
		233.4	1.27	74.4	70.6	7.7	256.2	8,494	7,986
		223.4	1.33	70.8	67.2	7.0	241.2	0	0
		213.4	1.39	67.2	63.8	6.3	226.2	(8,982)	(8,456)
94.95%	281.8								
		233.4	1.21	74.4	70.6	7.7	256.2	8,349	7,812
		223.4	1.33	70.8	67.2	7.0	241.2	(389)	(409)
		213.4	1.32	67.2	63.8	6.3	226.2	(9,128)	(8,631)

* Change of EUR/HUF average exchange rates.

2012	Exchange rates							Effect on operating profit	Effect on profit for the year
	EUR/HUF	USD/HUF	EUR/USD	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)

Based on the yearly average currency rate sensitivity analysis of 2013 the combination of weak Hungarian Forint (with rate of 311.8 EUR/HUF) and strong USD (with rate of 233.4 USD/HUF) – by 74.4 PLN/HUF, 70.6 RON/HUF, 7.7 RUB/HUF and 256.2 CHF/HUF- would have caused the largest growth (in the amount of HUF 8,640 million) on the Group's consolidated operating profit. The greatest decrease (HUF 9,128 million) would have been caused by the combination of exchange rates of 281.8 EUR/HUF, 213.4 USD/HUF, 67.2 PLN/HUF, 63.8 RON/HUF, 6.3 RUB/HUF and 226.2 CHF/HUF.

Currency sensitivity of balance sheet items

Currency sensitivity analysis of balance sheet items is applied to third party 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 seven principal subsidiaries (GR Polska, GR Romania, GR RUS, PregLem and from 2013 Richter-Helm BioLogics, Pharmafarm, and GR Farmacia). The effect of the risk arising from currency fluctuation is measured by different scenarios regarding 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.

2013	Exchange rates							Effect on net financial position
*	EUR/HUF	USD/HUF	EUR/USD	PLN/HUF	RON/HUF	RUB/HUF	CHF/HUF	HUF m
105.05%	311.9							
		225.3	1.38	75.2	69.6	7.2	257.2	6,204
		215.7	1.45	71.6	66.3	6.6	242.1	(1,966)
		206.0	1.51	68.0	62.9	5.9	227.1	(10,149)
100.00%	296.91							
		225.3	1.32	75.2	69.6	7.2	257.2	8,170
		215.7	1.38	71.6	66.3	6.6	242.1	0
		206.0	1.44	68.0	62.9	5.9	227.1	(8,183)
94.95%	281.9							
		225.3	1.25	75.2	69.6	7.2	257.2	10,139
		215.7	1.31	71.6	66.3	6.6	242.1	1,969
		206.0	1.37	68.0	62.9	5.9	227.1	(6,214)

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

2012	Exchange rates							Effect on net financial position
	EUR/HUF	USD/HUF	EUR/USD	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)

The worst case scenario is when EUR strengthens and USD, PLN, RON, RUB, CHF weaken against HUF. In this case the consolidated financial result would decrease by HUF 10,149 million.
The best case scenario is when EUR weakens and USD, PLN, RON, RUB, CHF would strengthen against HUF. In this case the consolidated financial result would increase by HUF 10,139 million.

III.) Credit risk

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

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

Regions	Trade receivables secured by 31 December 2013	Type of security		
		Credit insurance	Bank guarantee	L/C
	HUF m	HUF m	HUF m	HUF m
CIS	36,132	35,824	308	-
EU	571	-	571	-
USA	-	-	-	-
Other	301	125	-	176
Total	**37,004**	**35,949**	**879**	**176**

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 banks as of 31 December 2013 based on Standard and Poor's international credit rating institute are the followings:

	2013	2012
BNP Paribas SA Hungarian branch office	A+	A+
ING Bank N.V. Hungarian branch office	A	A+
K&H Bank Zrt.	BB	BB
MKB Bank Zrt.	B	B
OTP Bank Nyrt.	BB	BB

The Group holds more than 56% of its cash and cash equivalents in 2013 (more than 43% in 2012) in the above mentioned financial institutes.
The Group has no significant concentration of credit risk, with its exposure spread over a large number of counterparties and customers.

IV.) Liquidity risk

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

	Notes	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
		HUF m	HUF m	HUF m	HUF m	HUF m
At 31 December 2013						
Other financial asset		-	1,136	18,084	3,390	25,165
Loans receivable		108	1,898	363	3,148	2,287
Investments in securities		2,621	720	522	-	36
Cash and cash equivalents	25	106,832	-	-	-	-
Borrowings		360	6,089	15,871	23,652	21,154
Trade payables	28	40,171	1,251	520	-	-
Other non-current liabilities	32	-	-	12,414	12,477	-
Other liabilities		18,567	5,649	-	33	394
Net balance		**50,464**	**(9,235)**	**(9,836)**	**(29,624)**	**5,940**

	Notes	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
		HUF m	HUF m	HUF m	HUF m	HUF m
At 31 December 2012						
Other financial asset		18	892	16,910	3,751	6,469
Loans receivable		188	208	1,990	3,542	289
Investments in securities		4,216	5,433	37	537	8
Cash and cash equivalents	25	101,505	-	-	-	-
Borrowings		551	1,208	16,786	45,105	17,305
Trade payables	28	37,555	2,104	180	194	-
Other non-current liabilities	32	-	-	16	11,552	-
Other liabilities		14,872	101	-	33	9
Net balance		**52,949**	**3,120**	**1,955**	**(49,054)**	**(10,548)**

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 (see in Note 17).

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.

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

	2013	2012
	HUF m	HUF m
Bank guarantee relating to Government Grant	1,661	1,661
Bank guarantee for National Tax and Customs Administration of Hungary	103	117
Tender security bank guarantee (EUR 8 thousand)	2	-
Bank guarantee given by Gedeon Richter Polska Sp. z o.o.	12	12
Bank guarantee given by Richter Themis Ltd.	13	15
Bank guarantee given by Gedeon Richter Pharma GmbH	15	17
Bank guarantee given by PregLem S.A.	29	29

11. Fair Value of Financial Instruments

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

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

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

a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

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

HUF m	2013				2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Investment property	-	-	1,271	**1,271**	-	-	1,090	**1,090**
Other financial assets*	9,337	-	-	**9,337**	6,714	-	-	**6,714**
Investments in securities	1,407	2,409	-	**3,816**	7,719	2,247	-	**9,966**
Total assets recurring fair value measurements	**10,744**	**2,409**	**1,271**	**14,424**	**14,433**	**2,247**	**1,090**	**17,770**
Financial liabilities								
Other non-current liability	-	-	24,452	**24,452**	-	-	10,835	**10,835**
Other payables and accruals	-	-	5,636	**5,636**	-	-	-	-
Foreign exchange forward contracts	-	288	-	**288**	-	504	-	**504**
Total liabilities recurring fair value measurements	**-**	**288**	**30,088**	**30,376**	**-**	**504**	**10,835**	**11,339**

* Other financial assets contain available for sale equity instruments

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2013 (2012: none).

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2013:

	Fair value at 31 December 2013 HUF m	Valuation technique	Unobservable inputs	Range of inputs (weighted average)	Sensitivity of fair value measurement
Assets at fair value					
Investment property	1,271	Discounted cash flows (DCF)	• Risk free rate	3.2%-6.11%	The lower the risk free rate the higher the fair value
			• Inflation rate	1.7%-2.8%	The higher the inflation rate the higher the fair value
			• Rental fees/month/m^2	10.00-44.76 EUR	The higher the rental fees the higher the fair value
			• Operating expenses/HUF/m^2	1,500-1,580 HUF	The higher the operating expenses the lower the fair value
Liabilities at fair value					
Financial liabilities					
Other non-current liabilities at fair value - PregLem DPP	11,915	Discounted cash flows (DCF)	• Probability of milestone payments	9.75% - 90.25%	The lower the probability the lower the fair value
			• Foreign exchange rate	242.14 HUF/CHF	The higher the FX rate the higher the fair value
			• Discount rate	7.96%	The higher the WACC the lower the fair value
			• Amount paid	CHF 60 million	
Other current and non-current liabilities at fair value – GRMed DPP	18,173	Discounted cash flows (DCF)	• Estimated future profits • Industry WACC		
Total recurring fair value measurements at level 3	**31,359**				

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

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2013 (2012: none). Fair value adjustments of Investment property are detailed in Note 13.

	Other non-current liabilities at fair value - PregLem DPP	Other current and non-current liabilities at fair value – GRMed DPP
	HUF m	HUF m
Fair value at 1 January 2013	10,835	-
Effect of discounting	1,026	-
Effect of fx	54	-
Initial recognition	-	18,173
Fair value at 31 December 2013	**11,915**	**18,173**

(b) Non-recurring fair value measurements

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

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

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

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

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

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

	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**

	Land and buildings HUF m	Plant and equipment HUF m	Construction in progress HUF m	Total HUF m
Gross value				
at 31 December 2012	**129,341**	**202,622**	**10,765**	**342,728**
Translation differences	(832)	(560)	(278)	**(1,670)**
Effect of newly acquired companies*	3	-	-	**3**
Capitalization	8,957	14,826	(23,783)	**-**
Transfers and capital expenditure	31	225	25,344	**25,600**
Transfer to Investment property	-	-	(210)	**(210)**
Disposals	(641)	(3,890)	(85)	**(4,616)**
at 31 December 2013	**136,859**	**213,223**	**11,753**	**361,835**
Accumulated depreciation				
at 31 December 2012	**30,726**	**153,494**	**-**	**184,220**
Translation differences	(90)	(581)	-	**(671)**
Effect of newly acquired companies	2	-	-	**2**
Current year depreciation	3,732	14,589	-	**18,321**
Net foreign currency exchange differences	(22)	(57)	-	**(79)**
Disposals	(215)	(3,208)	-	**(3,423)**
at 31 December 2013	**34,133**	**164,237**	**-**	**198,370**
Net book value				
at 31 December 2012	**98,615**	**49,128**	**10,765**	**158,508**
at 31 December 2013	**102,726**	**48,986**	**11,753**	**163,465**

* The effect of newly acquired companies line also contains the translation difference of the year of acquisition

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	Research and development	ESMYA	Total
	HUF m	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**

	Rights	Intellectual property	Research and development	ESMYA**	Total
	HUF m	HUF m	HUF m	HUF m	HUF m
Gross value					
at 31 December 2012	**97,725**	**9,396**	**-**	**70,703**	**177,824**
Translation differences	54	(6)	-	317	365
Capitalization	8,301	4	423	-	8,728
Transfer*	5,848	(5,848)	-	-	-
Disposals	(998)	(274)	-	-	(1,272)
at 31 December 2013	**110,930**	**3,272**	**423**	**71,020**	**185,645**
Accumulated amortization					
at 31 December 2012	**25,152**	**1,543**	**-**	**1,821**	**28,516**
Translation differences	26	(31)	-	8	3
Current year amortization	7,006	535	-	2,441	9,982
Net foreign currency exchange differences	(3)	(1)	-	(2)	(6)
Impairment and reversal of impairment	126	1,526	-	-	1,652
Transfer*	1,856	(1,856)	-	-	-
Disposals	(118)	(19)	-	-	(137)
at 31 December 2013	**34,045**	**1,697**	**-**	**4,268**	**40,010**
Net book value					
at 31 December 2012	**72,573**	**7,853**	**-**	**68,882**	**149,308**
at 31 December 2013	**76,885**	**1,575**	**423**	**66,752**	**145,635**

* The transfer from intellectual property to rights represents inappropriate classification in prior years. The adjustment does not have any effect on the Consolidated Balance Sheet and the Consolidated Income Statement.

** The ESMYA presented as separate subcategory within the intangible assets represents the intangible asset recognized at the acquisition of PregLem in accordance with IFRS 3.

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

Impairment test – as it is described in Note 20 Goodwill – was performed on the value of Intangible assets and as a consequence to that we had to account for HUF 319 million as impairment loss and 193 million as reversal of impairment related to some of the Romanian retail companies in 2013 and HUF 375 million impairment loss in 2012.

On the basis of the evaluation of the results of clinical studies (PHASE II) of PGL2 research project, carried out for endometriosis indication, the Board resolves to approve the discontinuation of this program and write-off the related Intangible assets (including licence fees) in the amount of HUF 1,526 million.

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 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 value of the rights in relation to Grünenthal is HUF 56,554 million in 2012 and HUF 52,177 million in 2013.

The reacquired right arising from the business combination is China in 2013 (Note 38) is presented as Rights in the movement schedule above (therefore presented as Other intangible assets in the Balance Sheet) and amortised over the estimated useful life of 39 months starting from 31 December 2013.

The average remaining useful life of the intellectual properties does not exceed 9 years.

13. Investment property

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

Book value of investment property:

	Investment property HUF m
Fair value	
at 1 January 2012	**1,379**
Capitalization	10
Fair value adjustment	(299)
at 31 December 2012	**1,090**
Capitalization	210
Fair value adjustment	(29)
at 31 December 2013	**1,271**

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 2013 and 2012 was 4.41 % and 7.85 %, respectively. The model also has taken into account a residual value after the 10 years' period based on market information.

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

	2013 HUF m	2012 HUF m
Income from renting real estate	119	143
Operating expenses	72	53
Net balance	**47**	**90**

14. 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
		2013	2012	2013	2012	
ZAO Gedeon Richter - RUS	Russia	100.00	100.00	100.00	100.00	Pharmaceutical manufacturing
Gedeon Richter Romania S.A.	Romania	99.89	99.88	99.89	99.88	Pharmaceutical manufacturing
Gedeon Richter Polska Sp. z o.o.	Poland	99.84	99.88	99.84	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 P.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	99.89	99.88	99.89	99.88	Asset management
Gedeon Richter Farmacia S.A.	Romania	99.89	99.88	99.89	99.88	Pharmaceutical retail
Pharmanet S.R.L.*	Romania	-	99.88	-	99.88	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	99.89	99.88	99.89	99.88	Pharmaceutical wholesale
Gedeon Richter Ukrfarm O.O.O.	Ukraine	100.00	100.00	100.00	100.00	Pharmaceutical retail

Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		2013	2012	2013	2012	
Gedeon Richter Marketing Polska Sp. z o.o.	Poland	99.97	99.98	99.97	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 Benelux SPRL	Belgium	100.00	100.00	100.00	100.00	Marketing services
Gedeon Richter Nordics AB	Sweden	100.00	100.00	100.00	100.00	Marketing services

* Pharmanet S.R.L. merged into its Parent Company, Gedeon Richter Farmacia S.A. in the last quarter of 2013.

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
			2013	2012	2013	2012	
T.O.O. Gedeon Richter KZ*	09. 2013	Kazakhstan	100.00	-	100.00	-	Marketing services
Grmed Company Ltd.**	12. 2013	Hong-Kong	100.00	-	51.00	-	Assets management
Rxmidas Pharmaceuticals Company Ltd.**	12. 2013	China	100.00	-	51.00	-	Marketing services
Gedeon Richter Colombia S.A.S.*	11. 2013	Colombia	100.00	-	100.00	-	Pharmaceutical trading
Gedeon Richter d.o.o.*	11. 2013	Croatia	100.00	-	100.00	-	Marketing services

* Newly established by the Group.
** Newly acquired by the Group, see Note 38.

15. 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
		2013	2012	2013	2012	
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 2013 HUF m	31 December 2012 HUF m
Current assets	320	357
Non-current assets	1,283	1,273
Short-term liabilities	185	212
Long-term liabilities	4,558	3,614
Revenues	508	254
Cost of sales	189	164
R&D cost	1,153	1,116

Joint ventures companies have no significant financial and other cost.

16. Investments in associated companies

	2013 HUF m	2012 HUF m
At 1 January	**2,115**	**1,754**
Sale of investment	-	(12)
Additional payment	-	30
Share of profit	763	342
Dividend	(11)	-
Exchange difference	-	1
At 31 December	**2,867**	**2,115**

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

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	30.85
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 T.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

Name	Place of incorporation	Principal activity	Assets	Liabilities	Revenues	Profit/ (loss)	Interest held
			HUF m	HUF m	HUF m	HUF m	%
2013							
Hungaropharma Zrt.	Hungary	Pharmaceutical wholesale	47,193	39,352	231,875	2,772	30.85
Salvia-Med Bt.	Hungary	Pharmaceutical retail	60	41	456	15	32.79
Szondi Bt.	Hungary	Pharmaceutical retail	173	56	449	35	33.00
Top Medicina Bt.	Hungary	Pharmaceutical retail	51	46	277	4	20.00
Medservice Richter T.O.O.	Kazakhstan	Pharmaceutical trading	46	7	-	-	49.00
Vita-Richter O.O.O.	Azerbaijan	Pharmaceutical trading	498	428	-	-	49.00
Pharmapolis Kft.	Hungary	Building project management	6,317	6,453	319	24	24.00
Cerorin Kft.	Hungary	Biotechnological research, development	0.5	0	0	(0.3)	24.00
Pharmatom Kft.	Hungary	Biotechnological research, development	330	324	0	(2)	24.00

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

17. Other financial assets

	31 December 2013 HUF m	31 December 2012 HUF m
Held to maturity investments carried at amortised cost	18,462	18,712
Investments carried at amortised cost as loans and receivables	15,439	-
Available-for-sale investments carried at fair value	9,337	6,714
Total	**43,238**	**25,426**

In the prior period the held to maturity investment contains "Exchangeable Bonds" issued by the Hungarian State Holding Company (MNV Zrt.) that had maturity date of 2014. The value of "Exchangeable Bonds" was HUF 14,580 million at 31 December 2012 (in the nominal value of EUR 52 million). These Bonds had been repurchased by the issuer at 6 December, 2013, and simultaneously, new exchangeable bonds were issued with maturity date of 2019. The investment was purchased by Richter in the nominal value of EUR 52 million. The newly acquired bonds are presented as Loans and receivables carried at amortised cost.
The most significant balance of held to maturity investments as of 31 December 2013 is the long term bond issued by the Hungarian State in the amount of HUF 17,518 million.The credit rating of these investments is BB according to S&P.

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 (49.02 RUB/share). Since there was significant rise in the fair value of investment an increase of HUF 2,714 million has been recorded against revaluation reserve for available for sale investments (through Consolidated Statement of Comprehensive Income) in 2013.

18. Current income tax and deferred tax

Current tax assets and liabilities

	31 December 2013 HUF m	31 December 2012 HUF m
Current tax assets	541	1,117
Current tax liabilities	207	123

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

	31 December 2013 HUF m	31 December 2012 HUF m
Deferred tax assets	3,921	3,342
Deferred tax liabilities	(7,688)	(9,634)
Net position at 31 December	**(3,767)**	**(6,292)**

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

Deferred tax assets	Fixed and intangible assets	Provision	Impairment	Other temporary differences	Unrealised profit elimination	Total
	HUF m	HUF m	HUF m	HUF m	HUF m	**HUF m**
31 December 2011	**756**	**336**	**338**	**481**	**1,694**	**3,605**
Charged/(credited) to the income statement	(58)	29	(25)	(248)	92	**(210)**
Charged/(credited) to other comprehensive income	-	-	-	(42)	-	**(42)**
Exchange differences	(9)	3	-	(5)	-	**(11)**
Transfer	38	13	11	(62)	-	-
31 December 2012	**727**	**381**	**324**	**124**	**1,786**	**3,342**
Charged/(credited) to the income statement	(145)	109	(167)	87	987	**871**
Charged/(credited) to other comprehensive income	-	(3)	-	(281)	-	**(284)**
Exchange differences	(2)	-	-	(6)	-	**(8)**
31 December 2013	**580**	**487**	**157**	**(76)**	**2,773**	**3,921**

Deferred tax liabilities	Fixed and intangible assets	Impairment	ESMYA*	Other temporary differences	Total
	HUF m	HUF m	HUF m	HUF m	**HUF m**
31 December 2011	**134**	**-**	**13,706**	**314**	**14,154**
Charged/(credited) to the income statement	12	-	(3,527)	(141)	**(3,656)**
Charged/(credited) to other comprehensive income	-	-	-	12	**12**
Exchange differences	(15)	-	(854)	(7)	**(876)**
Transfer	5	-	-	(5)	**-**
31 December 2012	**136**	**-**	**9,325**	**173**	**9,634**
Acquisition of subsidiary	-	-	-	584	**584**
Charged/(credited) to the income statement	(4)	-	(2,604)	41	**(2,567)**
Charged/(credited) to other comprehensive income	-	23	-	-	**23**
Exchange differences	(16)	-	44	(14)	**14**
Transfer	(6)	44	-	(38)	**-**
31 December 2013	**110**	**67**	**6,765**	**746**	**7,688**

* 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 offset by the unused tax loss of the company.

From the deferred tax balance presented above it is expected that HUF 6,803 million of the liabilities and HUF 868 million of the assets will reverse after 12 months.

At 31 December 2013 Richter Group has HUF 18,976 million unused tax loss (that would result in HUF 3,040 million deferred tax asset) for which no deferred tax asset has been recognised since the recovery is not probable, while in 2012 the Group had HUF 38,904 million unused tax loss (that would have resulted in HUF 6,368 million deferred tax asset).
In 2013 most of the unused tax loss is connected to the Romanian subsidiaries for which no deferred tax asset has been recognised.
Temporary differences arising in connection with interest in associates and joint ventures are insignificant.

Most significant changes in deferred tax balance in 2012 is caused by the decision of Richter's and PregLem's Boards that Preglem's activities have been restructured from 2013 onwards and ESMYA® is manufactured and sold by the Parent Company. While after this restructuring most of ESMYA® revenues are taxed by the tax rates of the Parent Company effecting the deferred tax balance in the pervious year by HUF 2,773 million (see Note 8).
Based on the most recent plans of PregLem the tax loss carried forward will be utilised later, after the tax holiday of the company at cantonal level expires. This event caused that the net deferred tax liability of the company has decreased significantly by HUF 3,181 million.

19. Loans receivable

	31 December 2013 HUF m	31 December 2012 HUF m
Loans given to related parties	5,249	4,584
Loans given to employees	521	462
Other loans given	4	5
Total	**5,774**	**5,051**

20. Goodwill

	Note	Goodwill HUF m
Cost		
At 1 January 2012		**37,201**
Exchange differences		(1,940)
At 31 December 2012		**35,261**
At 1 January 2013		**35,261**
Increase deriving from acquisition of subsidiaries	38	18,943
Deferred tax effect		584
Exchange differences		116
At 31 December 2013		**54,904**
Impairment		
At 1 January 2012		**(3,458)**
Impairment charged for the year		(201)
At 31 December 2012		**(3,659)**
At 1 January 2013		**(3,659)**
Impairment charged for the year		(283)
At 31 December 2013		**(3,942)**
Net book value		
At 31 December 2012		**31,602**
At 31 December 2013		**50,962**

Closing goodwill on Cash Generating Units (Companies)

	31 December 2013 HUF m	31 December 2012 HUF m
Pharmaceuticals segment		
GR Polska Sp. z o.o.	1,071	1,069
Richter-Helm Biologics Co & KG	95	93
PregLem S.A.	28,917	28,789
GRMed Company Ltd.	19,497	-
Wholesale and retail segment		
Armedica Trading Group	1,321	1,590
Other segment		
Pesti Sas Holding Kft.	61	61
Total	**50,962**	**31,602**

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 2013, 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 2013 similar to 2012. Any reasonable change in the key assumptions is still not expected to result in an impairment of Goodwill.

Armedica Trading Group
The Group has allocated the goodwill to 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 current EBITDA performance.
Each year the performance of the pharmacies is assessed whether they are grouped into the correct category of pharmacies. In 2013 a classification criteria has been defined as -3.5% EBITDA/sales level. The Group determined this level by analyses. The pharmacies that exceeded the above mentioned EBITDA/sales ratio achieved in total an EBIDTA amount to close to break even. These pharmacies are expected to achieve positive cash-flows in the near future as a result of the implemented commercial development program 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 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 changed significantly in compare to the prior year. The compensation of reimbursed products accelerated in 2013 increasing the liquidity and cash generating ability of pharmacies. 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 only 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 not be required.

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.
In January 2014 the European Commission granted marketing authorization for the extended use of ESMYA®- for pre-operative treatment of uterine myomas with moderate to severe symptoms- up to two courses (2x3months) of treatment. The studies are expected to be completed by second quarter 2014.

By the end of 2013 ESMYA® has been launched in 33 countries, out of which in 17 countries having received reimbursed status. ESMYA® reported total sales of EUR 16 million (HUF 4,827 million) at the end of 2013. Turnover recorded in Germany contributed the most to the achieved sales levels.

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 including the ESMYA intangibles, PregLem goodwill and other tangible assets used to generate cash inflows (ESMYA 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 2013.

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 2014-2017. Cash-flows beyond 2017 are based on management estimations taking into account the original long term ESMYA® revenue model.

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

EU ESMYA® sales: In Europe for preoperative treatment, an authorization was given 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.

US ESMYA® sales: ESMYA® expected to be launched in 2017 by the US partner. As a conservative scenario, sales decrease has been considered from 2022 because of the expiration of exclusivity.

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. Sales revenue is expected to peak in 2019. The Compound Annual Growth Rate (CAGR) for the period 2014-2019 is 44%. After termination of data exclusivity the sales revenue is expected to decline to the 25% of the peak, over 4 year with a CAGR -30%. After reaching this level the sales revenue is expected to remain stable till the end of the forecast period.

The discount rate (post tax: 8.0%; equivalent to a pre-tax rate of 9.6 %) 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 until 2019 and applying perpetuity cash flow estimation afterwards.
The present value of the above mentioned cash-flows, calculated until 2019, is approximately 50% of the present value of future cash-flows.

The recoverable amount of ESMYA CGU calculated based on fair value approach exceeded carrying value of the sum of ESMYA intangible asset, other tangible assets used to generate cash inflows and the related GW. A rise in post tax discount rate to 11.1 % would remove the remaining headroom.

GRMed:
The Group has accounted for the acquisition as of 31 December 2013 (see Note 38). Since the purchase price allocation has also been prepared as of that date no impairment is required to be charged on the goodwill of the acquisition.

21. Inventories

	31 December 2013 HUF m	31 December 2012 HUF m
Raw materials, packaging and consumables	26,306	23,745
Production in progress	1,819	1,396
Semi-finished and finished goods	40,562	39,008
Total	**68,687**	**64,149**

Inventories include impairment in value of HUF 1,934 million and reversal of impairment in value of HUF 291 million in 2013 (HUF 1,902 million impairment and HUF 236 million reversal was made in 2012).
The reversal of impairment is due to the change of market conditions.
As of 31 December 2013 the total carrying amount of inventories that are valued at the net realisable value amounts to be HUF 1,056 million (in 2012 it was HUF 270 million).
All items of Inventories are free from liens and charges.

22. Trade receivables

	31 December 2013 HUF m	31 December 2012 HUF m
Trade receivables	98,723	98,950
Amounts due from related companies (Note 40)	3,436	3,526
Total	**102,159**	**102,476**

Trade receivables include HUF 331 million impairment and HUF 781 million reversal of impairment in 2013 (in 2012 the net reversal of impairment was HUF 467 million).
The reversal of impairment is explained with the decrease of overdue receivables.

Ageing of Trade receivables

	31 December 2013 HUF m	31 December 2012 HUF m
Trade receivables not expired	83,183	87,325
Trade receivables overdue, not impaired	17,575	13,342
1-90 days	*16,463*	*11,761*
91-180 days	*913*	*1,068*
181-360 days	*137*	*461*
>360 days	*62*	*52*
Trade receivables overdue, impaired	5,456	6,948
1-90 days	*914*	*1,218*
91-180 days	*259*	*461*
181-360 days	*157*	*563*
>360 days	*4,126*	*4,706*
Impairment on trade receivables	(4,055)	(5,139)
1-90 days	*(220)*	*(122)*
91-180 days	*(48)*	*(80)*
181-360 days	*(25)*	*(250)*
>360 days	*(3,762)*	*(4,687)*
Total	**102,159**	**102,476**

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

	31 December 2013 HUF m	31 December 2012 HUF m
At 1 January	**5,139**	**6,288**
Provision for receivables impairment	331	1,192
Reversal of impairment for trade receivables	(781)	(1,659)
Usage of impairment	(630)	-
Exchange difference	(4)	(682)
At 31 December	**4,055**	**5,139**

The Group has no individually significant impaired trade receivable.

23. Other current assets

	31 December 2013 HUF m	31 December 2012 HUF m
Loans receivable	1,888	389
Other receivables	4,698	4,181
Subtotal of financial assets	**6,586**	**4,570**
Tax and duties recoverable	4,263	5,689
Advances	3,034	2,738
Prepayments	3,416	3,585
Total	**17,299**	**16,582**

24. Investments in securities

	31 December 2013 HUF m	31 December 2012 HUF m
Treasury bills and government securities	1,407	7,719
Open-ended investment funds	2,385	2,224
Other securities	24	23
Total	**3,816**	**9,966**

All current investments are classified as available for sale. The fair value adjustment was HUF 1 million loss in 2013, and HUF 15 million loss in 2012 recognised in other comprehensive income.
Treasury bills and government securities are issued or granted by the Hungarian State, therefore has a credit rating of BB by S&P.

25. Cash and cash equivalents

	31 December 2013 HUF m	31 December 2012 HUF m
Bank deposits	106,697	101,385
Cash on hand	135	120
Total	**106,832**	**101,505**

There were no short term securities classified as Cash and cash equivalents neither in 2012 nor 2013. Those short term securities are treated as cash and cash equivalents which have a maturity period from acquisition less than 3 months at purchase.

26. Share capital and reserves

Share capital	31 December 2013 Number	31 December 2013 HUF m	31 December 2012 Number*	31 December 2012 HUF m
Ordinary shares of HUF 100 each	186,374,860	18,638	186,374,860	18,638

* Restated in order to reflect the impact of the share split realized in July 2013.

Detailed ownership structure of the Parent

Ownership	Ordinary shares number		Voting rights %		Share capital %	
	31 December 2013	31 December 2012**	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Domestic ownership	**58,018,177**	**61,600,770**	**31.16**	**33.15**	**31.13**	**33.05**
MNV Zrt.	47,051,548	47,039,210	25.27	25.31	25.25	25.24
Municipality	1,164	1,070	0.00	0.00	0.00	0.00
Institutional investors	4,679,654	6,910,380	2.51	3.72	2.51	3.71
Retail investors	6,285,811	7,650,110	3.38	4.12	3.37	4.10
International ownership	**128,161,933**	**123,929,150**	**68.83**	**66.70**	**68.77**	**66.50**
Retail investors	635,085	1,146,640	0.34	0.62	0.34	0.62
Institutional investors	127,526,848	122,782,510	68.49	66.08	68.43	65.88
out of which Aberdeen Asset M. Plc.	37,179,620	23,726,690	19.97	12.77	19.95	12.73
out of which Skagen Kon-Tiki Verdipapirfond	10,116,722	9,971,040	5.43	5.37	5.43	5.35
Undisclosed ownership	**27,972**	**286,080**	**0.01**	**0.15**	**0.01**	**0.15**
Treasury shares*	**166,778**	**558,860**	**0.00**	**0.00**	**0.09**	**0.30**
Share capital	**186,374,860**	**186,374,860**	**100.00**	**100.00**	**100.00**	**100.00**

* Treasury shares include the combined ownership of the Parent company and subsidiaries. The treasury shares have no voting rights.
** Restated in order to reflect the impact of the share split realized in July 2013.

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.

On 4 July, 2013 Gedeon Richter Plc. announced and informed its shareholders that the Company Court of Budapest-Capital Tribunal, by its decree No. 01-10-040944/414, registered the transformation of the Company's 18,637,486 (that is eighteen-million six-hundred-and-thirty-seven-thousand four-hundred-eighty-six) dematerialized registered common shares, each with a nominal value of HUF 1,000, into 186,374,860 (that is one-hundred-eighty-six-million three-hundred-and-seventy-four-thousand eight-hundred-and-sixty) dematerialized registered common shares, each with a nominal value of HUF 100, by splitting the nominal value in a ten-to-one ratio. The Company - in accordance with KELER Zrt. and the Budapest Stock Exchange Ltd. - determined that July 16, 2013 would be the day of the splitting of Richter's common shares that hold a nominal value of HUF 1,000.

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 2012	**(32)**
Recycled through Other comprehensive income	221
Revaluation gross	2,328
Deferred tax effect	(54)
At 31 December 2012	**2,463**
Recycled through Other comprehensive income	(8)
Revaluation gross	2,764
Deferred tax effect	(304)
At 31 December 2013	**4,915**

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 27 Treasury shares.

	2013 HUF m	2012 HUF m
Expense recognized in current year	5,182	5,763
Treasury share given	5,247	4,832
Total changes in reserve presented in the Consolidated Statement of Changes in Equity	**(65)**	**931**

27. 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.

The number of shares are presented par value equivalent at HUF 100 according to the share split during 2013.

Bonus program
Richter operates a bonus share programme since 1996 to further incentive managers and key employees of the Company. In 2013 375,370 shares were granted to 465 employees of the Company while in 2012 389,480 shares were granted to 464 employees.

Individual bonuses
507,276 ordinary shares were granted to qualified employees as bonuses during the year while 507,800 ordinary shares were granted in 2012.

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 415,177 treasury shares to 4,927 employees in 2013. The shares will be deposited on the employees' security accounts with UniCredit Bank Hungary Ltd. until 2 January 2016. In 2012 456,810 shares were granted to 4,750 employees deposited on their accounts until 2 January 2015.

The AGM held on 25 April 2013 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 70,000 treasury shares at the Budapest Stock Exchange during the year, and a further 380,000 shares on the OTC market.

	Ordinary shares
Number of shares	
at 31 December 2012*	**558,860**
*Out of these, number of shares owned by subsidiaries**	*105,500*
Share purchase	892,560
Issued as part of bonus program	(375,370)
Individual bonuses	(507,276)
Granted pursuant to the Finance Ministry-approved plan	(415,177)
Granted pursuant to the Finance Ministry-repurchased	13,181
at 31 December 2013	**166,778**
Out of these, number of shares owned by subsidiaries	*105,500*

	HUF m
Book value	
at 31 December 2012	**1,716**
Share purchase	3,852
Issued as part of bonus program	(1,526)
Individual bonuses	(1,913)
Granted pursuant to the Finance Ministry-approved plan	(1,857)
Granted pursuant to the Finance Ministry-repurchased	49
at 31 December 2013	**321**

* Restated in order to reflect the impact of the share split realized in July 2013.

28. Trade payables

	31 December 2013 HUF m	31 December 2012 HUF m
Trade payables	41,942	39,986
Amount due to related companies	-	47
Total	**41,942**	**40,033**

29. Other payables and accruals

	31 December 2013 HUF m	31 December 2012 HUF m
Accruals	9,708	6,940
Other liabilities	7,700	2,246
Fair value of open forward exchange contracts	288	504
Subtotal of financial liabilities	**17,696**	**9,690**
Wages and payroll taxes payable	5,690	3,964
Dividend payable	136	128
Deposits from customers	1,190	753
Accrual for costs of share options and other bonuses	539	480
Total	**25,251**	**15,015**

There were no instalments of PregLem's purchase price paid, in connection with the acquisition in 2010 neither in 2012 nor in 2013 because the next instalment is expected to be paid in 2015.

In 2013 Richter Gedeon Plc. announced an acquisition in China. The agreement terms included an upfront payment together with milestone payments in the forthcoming years.
Deferred purchase price is accounted for at discounted fair value similarly to the deferred purchase price of PregLem. The total amount of long term and short term liabilities presented is approximately EUR 61 million (HUF 18,173 million) and out of which EUR 19 million (HUF 5,636 million) is short term. The purchase price is depending on future profit of certain products in China and will be settled during the next 4 years (please see Note 38).

30. Provisions

	31 December 2013 HUF m	31 December 2012 HUF m
Other provisions	1,338	871
Provision for retirement and other long term benefits*	1,843	1,608
from this defined retirement benefit plans at the Parent	*1,256*	*880*
from this defined retirement benefit plans at GR Polska	*213*	*172*
from this defined retirement benefit plans at PregLem	*51*	-
Total	**3,181**	**2,479**

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

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

Defined retirement benefit plans at the Parent

Actuarial valuation related to retirement benefit plans

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

- 1 month 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

As a result of change in the collective agreement, the employees become eligible for a new benefit that has been accounted for as past service cost described below. If the employee meets the conditions mentioned above, and has for at least 20 years of continuous employment at Richter is entitled to additional benefits such as prize and 45 days of absentee fee.

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

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

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

RESULTS

	2013 HUF m	2012 HUF m
Opening value of retirement benefit	880	804
Interest costs and current service costs (charged to the P&L)	128	98
Recognized past service cost (charged to the P&L)	299	-
Actuarial gains and benefits payments (charged to the OCI)	(51)	(22)
Retirement benefit	**1,256**	**880**
Recognized past service cost	299	-
Interest cost	59	47
Current service costs	69	51
Pension costs	**427**	**98**

The principal actuarial assumptions were as follows:

The estimation was performed based on the assumption that the employees will have a yearly increase in their wages/absentee fee 1% exceeding the inflation (future calculated inflation rate +1 %) until their retirement similar to 2012.

Discount rate

The discount calculation is made according to the requirement of IAS 19 on the basis of available high quality corporate bonds in given market. However, in 2013, the yields of long term Hungarian government bonds decreased significantly, which result in an increase of liabilities.
Therefore in short term we calculated with reference rate published by the Government Debt Management Agency (ÁKK), in medium term (2015-2019) with yields of Premium Hungarian Bond and in long term calculation we assumed a decrease of 0.1%/year of yields. We presumed that the real interest rate will not be lower than 1%.

Yields calculated in previous year have changed, the average of the interest rates considered, decreased by about 1%, so the assumptions increase the yield of the expected amount of the liabilities.

Assumptions regarding the benefit plans

According the statistics the following probabilities were used:

Ages Term of employment	Less than 45 years	At least 45 years	Total
Less than 15 years	5.0%	3.0%	4.0%
At least 15 years	1.0%	1.5%	1.4%
Total	4.0%	2.0%	3.0%

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 2008-2013 for 2013.

31. Borrowings

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

	31 December 2013 HUF m	31 December 2012 HUF m
Long-term borrowings	57,059	73,163
Short-term borrowings	5,052	148
Total	**62,111**	**73,311**

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 2013 Richter made a repayment of EUR 100 million ahead of schedule in respect of the club credit facility. Outstanding liabilities of the Company are EUR 50 million (HUF 14,845 million) in respect of the club credit facility.

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. Total credit line has been drawn down until 31 December 2013.

32. Other non-current liabilities

	31 December 2013 HUF m	31 December 2012 HUF m
Other non-current liability	24,891	11,568

As it is prescribed in Note 29, 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 in the amount of HUF 11,915 million (in 2012 HUF 10,835 million). The amount presented as Other non-current liabilities is the probability weighted present value of the outstanding milestone payments (for more details please see Note 11).

The discounted value of deferred purchase price is accounted for as other non-current liability, representing an obligation at value of EUR 42 million (HUF 12,537 million).

33. Dividend on ordinary shares

	2013 HUF m	2012 HUF m
Dividend on ordinary shares	12,271	12,211

A dividend of HUF 660 per share (HUF 12,271 million) was declared in respect of the 2012 results, approved at the Company's Annual General Meeting on 25 April 2013 and paid during the year.

34. Agreed capital commitments and expenses related to investments

Data are presented for the Parent Company and the most significant Russian subsidiary.

	2013 HUF m	2012 HUF m
Capital expenditure that has been contracted for but not included in the financial statements at Parent	2,977	1,376
Capital expenditure that has been contracted for but not included in the financial statements at ZAO Gedeon Richter -RUS	2,242	3,415
Capital expenditure that has been authorised by the directors but has not yet been contracted for at Parent	21,130	23,413
Capital expenditure that has been authorised by the directors but has not yet been contracted for at ZAO Gedeon Richter-RUS	2,170	2,617

The capital expenditure programme of the Parent Company approved by the Board of Directors totalling HUF 24,107 million comprises all costs associated with capital expenditure planned for 2014. The above commitments were not recorded either in the Income Statement or in the Balance sheet.

35. Operating lease – Group as lessee

Operating lease commitments of the Group are mainly related to car and building rental, non-cancellable operating lease commitments are as a follows:

	2013 HUF m	2012 HUF m
Within 1 year	5,475	4,468
Between 1 and 5 years	10,781	7,855
Over 5 years	2,596	3,316
Total	**18,852**	**15,639**

The agreements do not include purchase option.

36. Guarantees provided by the Group

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

37. Social security and pension schemes

The Group has provided in relation to the employees in Hungary social contribution tax amounting to 27 percent and vocational training contribution amounting to 1.5 percent of gross salaries were paid during 2013 to the National Tax and Customs Administration by the Group. The Group has no further obligations beyond the statutory rates in force during the year. In relation to employees employed in abroad, the social insurance contributions have been paid in accordance with the laws of that country.

The Parent Company contributes 6 percent of the monthly gross wages (maximum 50 percent of the current minimum wage) 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 1,000 million in 2013 (in 2012: HUF 904 million).

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 2013 and in 2012. The total amount paid for 4,903 employees was HUF 235 million during 2013 (in 2012 it was HUF 230 million for 4,785 employees).

Pension contribution paid by Hungary based subsidiaries in respect of their employees amounted to HUF 31 million in 2013 and HUF 31 million in 2012.

Foreign subsidiaries pay contributions to various pension funds in respect of their employees which amounted to HUF 258 million and HUF 130 million in 2013 and 2012, respectively.

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

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

38. Business Combination

The Group made no acquisitions in 2012.

Business Combination in 2013

In 2013 Richter Gedeon Plc. announced that it had signed a series of agreements with the owners of its marketing partner, Rxmidas Pharmaceuticals Co. Ltd. ('Rxmidas'), targeting a reshaped and stronger direct presence on the Chinese pharmaceutical market. Richter acquired the Company and the agreement terms included an upfront payment together with milestone payments in the forthcoming years. The purchase price is depending on future profit of certain products in China.

	Carrying value HUF m	Fair value HUF m
Paid consideration satisfied by cash	**(3,790)**	-
Contingent liability (long term)	(12,537)	-
Contingent liability (short term)	(5,636)	-
Total consideration	**(21,963)**	-
Property, plant and equipments	1	1
Trade receivables	405	405
Other current assets	141	141
Cash and cash equivalents	806	806
Trade and other payables	(668)	(668)
Other intangible asset (Reacquired right)	-	2,335
Deferred tax liability	-	(584)
Goodwill	-	**19,527**

In the amount presented in Consolidated Cash Flow has taken into consideration HUF 2,337 million, which was already paid in 2012.

Richter through the new acquisition established its direct presence in China with 7 regional offices and more than 200 staff, executing the promotion and lifecycle management of both Richter's existing Rx (prescription) products and licensed-in third party Rx (prescription) products.

The acquired company has provided service exclusively to the Parent Company in 2013 on a cost plus mark-up basis. If the company would have been acquired as of 1 January 2013 the Profit for the year would have been higher by HUF 107 million.

Acquisition-related costs (audit fees and legal advice) of HUF 27 million have been charged to Administrative and general expenses in the Consolidated Income Statement for the year ended 31 December 2013.

The goodwill represents future synergies expected to be exploited as a result of cooperation between Richter and GRMed which is the 5th largest service provider in China.

39. 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.

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.

	2013 HUF m	2012 HUF m
Dividend paid to MNV Zrt.	3,105	3,102

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 and joint ventures are both long and short term loans.

	31 December 2013 HUF m	31 December 2012 HUF m
Loans to associated companies	3,750	3,800
Loans to joint ventures	2,294	-
Related receivables (joint ventures)	124	135
Related receivables (associates)	3,312	3,391
Related payables (associates)	-	47
Revenue from joint ventures	842	782
Revenue from associates	12,353	12,079

The loans are nominated in Hungarian Forint and in EUR, out of which HUF 1,388 million expires within a year HUF 2,420 million between 2 and 5 years and HUF 2,236 million over 5 years.
Revenues from related parties almost exclusively represents sale of pharmaceutical products. The Group has open trading commitments with related parties in amount of HUF 17 million as of 31 December 2013.
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 2013 HUF m	 2012 HUF m
Board of Directors	76	76
Supervisory Board	24	28
Total	**100**	**104**

40.3 Key management compensation

	31 December 2013 HUF m	31 December 2012 HUF m
Salaries and other short term employee benefits	717	700
Share based payments	1,411	1,305
Total short term compensation	**2,128**	**2,005**
Pension contribution paid by the employer	575	541
Total	**2,703**	**2,546**

The table above contains the compensation received by the chief executive officer, directors and other senior member of management, constituting 43 people.
There were no redundancy payments to key management members neither in 2012 nor in 2013.

41. Adjustments in connection with change of IAS 19 in 2012

The amount of the adjustment is not significant and has no impact on Consolidated Balance Sheet, therefore the Group is not presenting 3rd balance sheet.

Consolidated Income Statement

	2012 HUF m As previously presented	Change HUF m	2012 HUF m Restated
Administration and general expenses	(20,179)	(3)	(20,182)
Other income and other expenses (net)	(1,162)	(22)	(1,184)
Profit from operations	48,721	(25)	48,696
Profit before income tax	49,921	(25)	49,896
Profit for the year	49,080	(25)	49,055
Profit attributable to owners of the parent	49,265	(25)	49,240

Consolidated Statement of Comprehensive Income

	2012 HUF m As previously presented	Change HUF m	2012 HUF m Restated
Profit for the year	49,080	(25)	49,055
Actuarial gains on retirement defined benefit plans	-	25	25
Other comprehensive income for the year	(10,379)	25	(10,354)

Consolidated Cash Flow Statement

	2012 HUF m As previously presented	Change HUF m	2012 HUF m Restated
Net income attributable to owners of the parent	49,265	(25)	49,240
Non cash items accounted through Total Comprehensive Income	3,781	25	3,806

42. Notable events in 2013

On 8 and 28 February 2012 Richter and its partner, Forest Laboratories, Inc. announced the successful conclusion of the third Phase III trial of the antipsychotic cariprazine for the acute treatment of manic or mixed episodes associated with bipolar I disorder, and two positive Phases III trials of the same drug for the treatment of schizophrenia. The Company thus boasts of three positive Phase III trials in respect of both indications. On 28 November 2012 Richter announced that Forest Laboratories submitted a new drug application (NDA) to the United States Food and Drug Administration (FDA) for cariprazine for both indications. On 21 November 2013 the two companies announced that the FDA issued a so-called Complete Response Letter regarding registration, in which the Agency recognized the efficacy of cariprazine but required further information and tests, consultations on which will begin shortly. There are on-going parallel clinical studies to expand the indications and to penetrate the European and Japanese markets.

In Ukraine, which was the 4th largest market of the Group, we performed USD 95.6 million (HUF 21,351 million) sales revenue in 2013. However in 2014 the Richter Group has to face growing uncertainties in Ukraine because of the political and financial instability.

43. Events after the date of the balance sheet

As part of its expansion in Central and South America, the Company started to acquire companies in Brazil and Mexico in December 2013. The main activity of the acquired companies will be to undertake registration tasks related to Richter's gynaecological products and to develop the marketing and promotion networks. The acquisitions have not been finalised before the authorization of the Financial Statements.

In February 2012, ESMYA® had been granted marketing authorisation for the EU member states for its indication of pre-operative treatment of uterine fibroids (myomas). According to the original authorisation, treatment had been limited to one course of three months. In January 2014 the European Commission granted marketing authorization for the extended use of ESMYA® 5 mg tablet up to two courses (2x3months) of treatment.

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

44. Approval of financial statements

Current consolidated financial statements have been approved by the Board of Directors and authorised for release at 21 March 2014.

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

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GEDEON RICHER PLC.

CONFIDENTIAL

Consolidated
BUSINESS REPORT
2013

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Budapest, 21 March 2014

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1. General data

1.1 Brief History of Richter Group

The parent company

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

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

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

Privatization

Due to the involvement of Hungarian and international investors the Company's capital was increased by HUF 4.4 billion to reach HUF 17.6 billion on 28 September 1994 and

its shares were listed on the Budapest Stock Exchange. Privatization connected with capital increase resulted in the expansion of sources of financing.
Commenced in 1994, the privatization process continued in the fourth quarter of 1995, enlarging the Company's basis of domestic and international investors.
In 1997 another 2,600,000 shares owned by the State Privatization and Holding Company (ÁPV Rt.) were offered to institutional investors in the context of a private placement, and 200,000 shares were sold to domestic private investors in the context of a public offering.
The Extraordinary General Meeting approved a HUF 1,000 million capital increase to HUF 18,637,486,000 by the issuance of 1,000,000 new shares. As a result of these transactions the State's share in Richter was reduced to 25%.

On 14 September 2004 the State Privatization and Holding Company ÁPV Rt. launched 4,659,373 bonds convertible to Richter shares with maturity in 2009 in the context of private offering that involved institutional investors specialized in this type of investment. The bonds matured on 28 September 2009. The government decided in favour of consideration instead of share conversion. At the same time, the government supported the idea that MNV Zrt., ÁPV Rt.'s legal successor should handle financing by issuing new bonds convertible to Richter shares. As a result of the subscription that was concluded on 25 September 2009, bonds with 2014 maturity amounting to EUR 833.3 million were issued to institutional investors, convertible to 4,680,672 Richter ordinary shares. On 6 November 2013 MNV Zrt. announced its intention to repurchase the convertible bonds before their maturity in 2014 and would finance the repurchase by issuing new State-owned bonds convertible to Richter shares in the amount of EUR 903.8 million maturing in 2019. The transaction was successfully concluded on 6 December 2013. The new bonds with maturity of 2 April 2019 were launched on the Frankfurt Stock Exchanges Open Market (Freiverkehr). By retaining its shares in Richter the Hungarian State ensures the continuation of Richter's strategy, which relies on the Company's continued independence.

Major acquisitions to promote the expansion of the Company

Through the establishment of greenfield investments from the mid-1990s the parent company has expanded its network of manufacturing bases in Russia (1996) and India (2004). The parent company has also strengthened its position though new establishments

and acquisitions in Romania (1998), Poland (2002). The Company acquired a biotechnology firm in Germany (2007) and a gynaecological development company in Switzerland (2010).

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

With its place of business in Geneva, PregLem is a company established in 2006 for the purpose of research, development and clinical trials of proprietary products for special gynaecological indications (uterine myoma, endometriosis, infertility) that have reached the clinical stage. Of its active product lines, the leading product is Esmya with ulipristal acetate as active ingredient. According to Richter's announcement on 27 February 2012, Esmya had been granted marketing authorisation valid for all EU member states for its first indication (pre-operative treatment of uterine myoma) and was launched in most markets in the course of the year.
In an extraordinary announcement dated 26 November 2013 Richter announced the positive opinion of the European Medicines Agency (EMA) regarding the use of Esmya to up to two courses of preoperative treatment of uterine fibroid (extension of the first indication). This was followed by the European Commission granting marketing authorization for the extended use of the product in January 2014.

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

In Q1 of 2013 Richter took control of selling its traditional products and acquired a majority holding in its Chinese marketing partner. The company will be active in the promotion and marketing of prescription drugs. With this move Richter has strengthened its presence in the Chinese market.

In the second half of 2013 Richter started to expand in the Central and South American region by founding a company in Columbia as a first step, followed by signing agreements in Brazil and Mexico. Expansion will be continued new company foundations and acquisitions in a number of countries of the region.

As a result of these transactions the Company has appeared directly in the world's fastest growing pharmaceutical markets (China and the Latin-American region), and has taken strategic steps to increase its geographical penetration. Richter's traditional and latest gynaecological portfolio is given a prominent role in every market.

Major consolidated companies and related changes in the Group

a. Pharmaceutical production segment

Pharmaceutical companies

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

The Romanian pharmaceutical market is faced with prolonged liquidity problems and massive delays in payments by the National Health Insurance Funds. However, it is a positive development that transposition of the EU directive prescribing a 60-day deadline of payment has been in effect since September 2013, although its impact will only be noticeable in the longer run. Currently, health insurance funds repay two months' outstanding debts each month in an effort to expedite average term of payment; this, however, has little bearing on the manufacturer side (i.e. on the Company and Gedeon Richter Romania S.A.), at least for the time being.

Despite the difficulties of the Romanian pharma market, the government's regulations to reduce prices, mounting competition and continuously increasing allowances Gedeon Richter Romania S.A. managed to realise a slightly higher turnover compared to the reference year. Intra-Group sales were similar, so the company's total turnover increased

year-on-year. Similarly to 2012, the company closed the year with a net operating profit despite the claw-back payment, which is a great burden on the Romanian subsidiary and greatly reduces the profitability of subsidised products.
The 2013 investment activities envisioned primarily strategic projects supporting Gedeon Richter Romania S.A.'s role within the Group. The company's specific needs in terms of capacity development and upgrading were not neglected either.
In the course of 2013 the parent company increased its Romanian production company's capital from a shareholder's loan.
Gedeon Richter Romania S.A. continues to hold an indirect majority share in the wholesale and retail network.

Gedeon Richter Polska Sp. z o. o. is Richter's Polish production subsidiary. After the buyout in the context of privatisation the company went through multiple transformation and integration followed by the Lichtenberg project with a series of restructuring and efficiency enhancement measures. As a result, today Gedeon Richter Polska Sp. z o. o. has a stable and transparent organisational structure and a solid headcount of 460.
The company's operation is predictable; its efficiency is continuously improving, and has grown to become a subsidiary offering outsourced production and development services as a strategically highly important site. In addition, it continues to sell its own products with the support of the Polish marketing subsidiary.
The Polish market can be considered stable, the company's domestic sales make a significant contribution to the Group's turnover; on the other hand, and price erosion affects the market on an on-going basis. The 2013 turnover and earnings were outstanding in the company's history.
Richter decreased Richter Polska Sp. z o. o.'s capital by PLN 100 million in 2013.

A key feature in the 2013 activity of **ZAO Gedeon Richter-RUS**, Richter's Russian facility was the technical preparations for the so-called DLO-2 projects in the filed of production, laboratories and logistics, and also included construction and fitting works related to the sub-projects and a substantial amounts spent on the purchase of machines and equipment. Technology transfer is on-going with a view to portfolio expansion.
The company's main function will continue to be production and distribution supported by the parent company's marketing activity. This will not change in the future even after he activation of the DLO-2 project, which will expand production and marketing. However,

the newly started outsourcing activity will be an exception, with similar goals to those for the Romanian and Polish subsidiaries. The subsidiary continues to be a strong distribution and production unit of Gedeon Richter in Russia and contributes substantial value added to the Group.

The Mydocalm line continues to make an outstanding contribution to income from sales; conversely, no new product has been found so far to achieve the turnover of Suprax, whose licence expired in 2012. Besides medium-term investment aimed at production capacity building and the related technology transfer ensuring full exploitation of the expanded capacities priority is given to the launch, as soon as possible, of products expected to generate increasing turnover. The company's turnover was below the reference year level, mainly for the above reasons. Sales were sluggish in all product categories including proprietary pharmaceuticals as well as the products of the parent company and subsidiaries sourced for distribution from Richter.

The company delivered the operating profit level expected.

In order to finance the substantial investment the parent company increased the Russian subsidiary's capital in 2013, similarly to the previous year.

In 2013 **Richter Themis Ltd.** was active predominantly as a manufacturer and distributor of intermediate products and Active Pharmaceutical Ingredients for Group members. The company managed to make up for the products dropped from the portfolio by adding new APIs, thus its production capacities were fully utilised throughout the year. In addition, it also supplied a significant amount of products to external buyers.

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

In biotechnology services **Richter-Helm BioLogics GmbH & Co**'s turnover in 2013 was above the reference year figure. In the future, the microbial biotechnology company will engage in sourced development and production at two sites. Today Group developments directly funded by the shareholders feature prominently among its activities but long-term relations outside the Group have retained their importance. The company made a loss as yet.

In 2013 the parent company reconfigured Esmya's distribution and put Richter in charge of sales. **PregLem S.A.** as a service subsidiary continued to support the European marketing of Esmya, the gynaecological product with ulipristal acetate as its active ingredient. In addition, R&D continues to be a key activity for the company with the development of Esmya's indications being top priority.

In 2013 Richter decided to launch investment projects involving **GRUA P.A.T.** production facilities so far out of operation. As a result, by 2014 the company is expected to become the secondary packaging facility for a Richter's (mainly cardiovascular) products intended for the Ukrainian market.

Other consolidated companies providing ancillary services for the pharmaceutical segment:

Simultaneously with the acquisition of Grünenthal A.G.'s contraceptives portfolio Richter embarked upon developing the network of gynaecological pharma representatives in Western Europe. In 2011 the scope of activities of rhe subsidiaries **Gedeon Richter Iberica S.A.** of Spain, **Gedeon Richter Italia S.r.l.** of Italy and **Gedeon Richter Pharma GmbH.** of Germany was expanded by marketing.
Besides other services these companies are engaged in so-called product pre-distribution activities.
To promote marketing Richter established a subsidiary each in Switzerland (**Gedeon Richter (Schweiz) AG**), Portugal (**Gedeon Richter Portugal, Unipessoal Lda.**) and Austria (**Gedeon Richter Austria GmbH**). In 2012 Richter expanded in Belgium, the Netherlands and Luxemburg (**Gedeon Richter Benelux SPRL**) as well as in the Nordic countries (**Gedeon Richter Nordics AB**), and involved its already existing British and French companies (**Gedeon Richter UK Ltd.** and **Gedeon Richter France S. a r. l.**) in the network. The portfolio of the network developed in the course of 2013 was expanded by other gynaecological products and the strategic product Esmya.

Created though Group-level restructuring of the marketing network, **Gedeon Richter Marketing Polska Sp.z o.o.** has extended marketing and PR services to its shareholders, Richter and GR Polska in the territory of Poland since 1 January 2009. The efficiency of its activities is clearly indicated by significantly rising Polish sales volumes.

After transforming its Polish agency into a subsidiary, the parent company decided to make a similar move in 2010 in the Czech Republic and Slovakia, and transformed its agents into **Gedeon Richter Marketing ČR s.r.o.** and **Gedeon Richter Slovakia s.r.o.** respectively. Richter also established **Gedeon Richter Slovenija, trženje, d.o.o.**, its subsidiary in Slovenia at the end of 2011. The Czech, Slovak and Slovenian companies support the sales of Richter products through PR and by operating efficient networks of representatives. The promoted products include some of those resulting from Richter's recent acquisitions.
At the end of 2013 Richter established Gedeon Richter d.o.o. (Croatia), its subsidiary in Croatia. The new company will start marketing and PR of Esmya in early 2014.

Another Chinese subsidiary started operation from the beginning of 2013, **Rxmidas Pharmaceuticals Co. Ltd.**, with Richter's holding through GRmed of Hong Kong. The company is active in supporting the marketing of Richter's subscription products available in the Chinese market. Over the next three years Richter envisions to increase its holding in the company to 100%. Richter has already had a Chinese and a Hong Kong based company specialised in OTC products and continues to rely on them in the future.

Active in promotional purchases, storage and distribution, Moscow based **Pharmarichter O.O.O.** proved to be a high-performing company in 2013 in both technical and financial terms.

On 6 September 2013 **Gedeon Richter Kazakhstan L.L.P.**, a company undertaking the sales and exclusive import of Richter's products in Kazakhstan was incorporated. The incorporation was aimed at establishing a subsidiary active in pre-distribution in order to ensure continuous and more efficient local supply. Richter Group holds 100% of the subsidiary's shares. The company applied for authorisation as a wholesaler but because of the time-consuming licensing procedure it will not be until 2014 before it starts sales of the goods supplied duty free in 2013, thus the company will appear in the market as an autonomous actor in the next business year.

The core business of **Richter-Helm BioTec GmbH & Co KG** has been project management and business development in the field of microbial biotechnology over the past years, focusing on Group projects as well as external business development. The 2013 performance of the company was in keeping with expectations.

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

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

Latin-America

In the second half of 2013 Richter started preparations for its expansion in the Central and South American region. As a first step the parent company established a company in Columbia named **Gedeon Richter Colombia S.A.S.**, with the main function to provide marketing and registration related services for the introduction of Richter's products in the region.

The Company signed agreements in Mexico and Brazil in 2013. Expansion will be continued by new company foundations and acquisitions in a number of countries in the region.

b. Wholesale and retail

Romania

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

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

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

In December 2013 Pharmanet, a chain of 14 basically drug store type outlets centred around Cluj and its area is operated by the holding company amalgamated with **Gedeon Richter Farmacia S.A.** As a result GRFA S.A. operated a nationwide network of 120 operating pharmacy outlets, and while its turnover dropped in 2013 its EBITDA has been positive on a continuous basis.

In 2013 further impairment was reported on the licences of pharmacies owned by Gedeon Richter Farmacia S.A.

Ukraine and the CIS

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

The process has not been completed to date; after minimising staff sales of the company's assets are currently in progress.

In the Moldovan pharmaceutical market the presence of Hungarian pharma companies has become a dominant feature as Richter has secured outstanding market shares over the long term. In 2013 sales of Richter's products were efficiently supported by **Richpangalfarma O.O.O.**, a key player in the pharmaceutical wholesale market since 1996. The company renewed and upgraded its regional warehouse in the city of Balti with the help of a loan from the parent company. Our wholesale and retail companies are able to meet customers' needs in Moldova. The wholesale company continues to be well-balanced and profitable.

Having established a wider group of loyal customers, with its network of 40 outlets **GR–Retea Farmaceutica S.R.L.** closed the year with a reliable and solid performance despite multiple challenges.

Although the state is trying to control market processes counterfeit products are rampant. The companies also suffered from the devaluation of the local currency in 2013.

Richter's wholesale and retail holdings in Armenia have scored major progress and achieved an impressive performance in 2013. The wholesale subsidiary **Richter-Lambron O.O.O.** made a successful appearance in the market of third-party products. As a result, it expanded its network of suppliers and customers and its sales achieved considerable

growth. This greatly contributed to the company's reinforcement of its position among the top players in the market.

The subsidiary **Gedeon Richter Aptyeka Sp O.O.O.** expanded its network to include 18 pharmacies by the end of 2013 and continued to increase sales and earnings; as a result, the company has become a local brand, which fully justifies the parent's investment and promotes awareness of the Hungarian parent company as well as its market share and progress. The companies have steadily improved their performance.

The performance of the two wholesale companies operating in *Jamaica* (**Medimpex Jamaica Ltd.** and **Medimpex West Indies Ltd.**) resulted in improving turnover. As a result of the wholesalers' activities Richter managed to step up the distribution of its products in the region in 2013. The devaluation of the local currencies against the dollar has accelerated in the countries of the region.

There was no change in the *domestic* wholesale share: the parent company continues to be a shareholder of the biggest pharmaceutical distributor in Hungary.
Making use of the opportunities provided by a logistic structure revamped in 2013, **Hungaropharma Zrt**. greatly improved its efficiency over the previous year and achieved a significant increase in earnings. Richter directly holds 30.68% of the company's shares.

c. Other consolidated companies segment

There has been no change in the profiles of the other consolidated companies of Richter Group (engineering, real estate management, quality control, forwarding, etc.); they provided continuous support fully in line with expectations and with good performance throughout 2013. Operation of these affiliated undertakings is focused predominantly to Hungary.
Richter's undertakings in this segment with foreign sites continue to be dormant.

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

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

In response to the economic crisis in Russia, in the late 1990s the parent company has re-tailored its long-term strategic giving priority to strengthening regional-multinational activities while maintaining stable positions in its traditional markets, and strengthening its presence in the EU and the United States with proprietary and generic products, and has sought to build long-term co-operations in supplying active pharmaceutical ingredients. The primary focus of the Group is on the expansion of the gynaecological business and an increase in generic sales, the latter in preparation for upcoming patent expiries. In the United States the Group concluded long-term supply contracts with manufacturers specialized in gynaecological products.

In the 2010s support of the so-called specialty pharma products, i.e. development, manufacture and sales of pharmaceutical products with high value added has become the parent company's priority strategic goal. This goal is served by R&D projects conducted in connection with the central nervous system and in the field of biotechnology, and also by the on-going development and expansion through acquisitions of the gynaecological portfolio.

Implementation of the above strategy resulted in a significant increase of sales income also in the EU markets. Income from sales increased likewise in the countries that have been Richter's traditional markets and joined the EU after 2004. The latter trend is particularly significant as drug subsidies in the new accession countries are generally underfunded, which led the Group to reduce the price of some of its products. Consolidation of the economy in Russia gave a boost to the pharmaceutical market in most CIS states, which triggered a dynamic growth in Richter Group's turnover in this region. Rising income from

sales in the CIS, the EU, then in 2012 the United States resulted in exports contributing approximately 90 percent to total turnover.
Richter Group developed long-term cooperation with several large international companies in research and development, sales and production in various markets (Russia, the EU, the USA and Japan).

After years of perpetual uncertainties and repeated cuts since 2006, the Hungarian pharmaceutical market was characterised by relative stability in 2013. The surtaxes affecting the pharmaceutical industry were offset up to 90% by the tax benefits the Company was granted on account of its R&D activities. While the semi-annual blind bidding process introduces in 2011 designed to force the pharma companies to cut their prices resulted in a loss of HUF 750 million in 2013, the Company was able to compensate it by introducing new products and efficient marketing.

1.2 Main objectives for 2013

The Group's main objectives for 2013 were as follows: to expand sales despite a difficult market environment; to retain and improve market shares; and to strengthen the strategy of standing on multiple legs in the market; to reinforce cooperation among Group members; based on the strategic principles, to shift business to enhance the contribution of high value added products; to expand the gynaecological business; to develop a new proprietary Central Nervous System product; and to enter the market of biosimilar products. In 2013 significant advancement was achieved in the following areas:

- Income from sales significantly increased in the China, CIS and EU markets.

- According to Richter's announcement on 27 February 2012, Esmya, a proprietary product developed by PregLem, a pharma company solely owned by Richter had been granted marketing authorisation for the EU member states for its indication of pre-operative treatment of uterine fibroids (myomas). At the end of 2013 the EMA adopted a positive opinion regarding the use of Esmya to up to two courses of treatment. As a result, marketing authorization was granted for the extended use of the product in January 2014. In the course of the year the product was launched in almost all of the EU member states as

well as in Canada, Russia and other CIS states, so that today Esmya is sold in over 30 countries worldwide. Another positive development is the fact that by the end of the year the product was granted subsidy from the local pharmaceutical budget in almost 20 countries.

- In 2012 Richter upgraded its existing and newly created marketing companies in Western Europe: the companies' scope of business was expanded and a network of pharmaceutical representatives specialized in gynaecological treatments was developed in all of the companies. In 2013 this portfolio was further expanded to include, inter alia, the strategic product Esmya.

- The Company achieved a substantial increase in turnover in China by the acquisition of a marketing joint venture and revamping the sales scheme.

- 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 of tax credits beyond the year of reporting. Details of the system were adopted by Parliament in the form of an act, which entered into effect on 28 December 2012.

- At the end of 2011 the Company commissioned the assets created as a result of the capital expenditure started in Debrecen in 2007 and thus took a big step forward towards plant-level manufacturing of biosimilar products in Hungary. Trial runs started in 2012 and led to the manufacturing of samples required for clinical studies in 2013; this will be followed by routine production of drugs, as well as anticancer and chronic anti-inflammatory proteins and antibodies from 2015.

- On 8 and 28 February 2012 Richter and its partner, Forest Laboratories, Inc. announced the successful conclusion of the third Phase III trial of the antipsychotic cariprazine for the acute treatment of manic or mixed episodes associated with bipolar I disorder, and two positive Phases III trials of the same drug for the treatment of schizophrenia. The Company thus boasts of three positive Phase III trials in respect of both indications. On 28 November 2012 Richter announced that Forest Laboratories submitted a new drug application (NDA) to the United States Food and Drug Administration (FDA) for cariprazine for both indications. On 21 November 2013 the two companies announced that the FDA issued a so-called Complete Response Letter regarding registration, in which the Agency recognized the efficacy of cariprazine but required further information and tests, consultations on which will begin shortly.

In 2013 Richter took further steps to expand its international business through a capital increase in its manufacturing companies and continuing its investments. Driven by the goal to adapt to Russian economic policy promoting local production, Richter made supporting investments into the Russian subsidiary a special priority.

1.3 Share structure of Gedeon Richter Plc.

As of 1 January 2013 the number of ordinary shares comprising the Company's subscribed capital was 18,637,486. At the Annual General Meeting held on 25 April 2013 the shareholders resolved to transform the Company's registered ordinary shares by splitting the nominal value in a ten-to-one ratio. Accordingly, the the Company's 18,637,486 shares each with a nominal value of HUF 1,000 were to be replaced by 186,374,860 shares, each with a nominal value of HUF 100 in the course of 2013. As a result, the closing number of ordinary shares comprising the Company's subscribed capital was 186.374.860 as of 31 December 2013.

As regards ownership structure, as of 31 December 2013, 68.77% of shares were held by foreign institutional and private investors, the Hungarian State held 25.25 %, and Hungarian institutional and private investors held a total of 5.88%. Treasury shares together with 105,500 shares owned by subsidiaries amounted to 0.09 %; the rate of other ownership was 0.01 %.

The closing price of shares as of 28 December 2012 was HUF 3,621 compared to HUF 4,399 as of 30 December 2013. Average monthly share prices in 2013 moved between the minimum of HUF 3,380 per share in April and the maximum of HUF 4,463 per share in December. (For the sake of comparability the Company provides figures referring to the ordinary shares with HUF 100 basic nominal value.)

1.4 Treasury shares held by the Group

Parent company	Ordinary shares	
	31.12.2012*	31.12. 2013
Shares	453,360	61,278
Nominal value HUF`000	45,336	6,128
Book value HUF`000	1,670,893	275,924

* Share related figures have been converted in accordance with the share split.

As of 31 December 2013 the subsidiaries held a total of 105,500 Richter shares.

Following the decision of the Board of Directors 882,646 ordinary shares were granted as a bonus to employees whose outstanding performance contributed to Richter's earnings for the year.

In keeping with the programme approved by the National Tax and Customs Administration of Hungary (NAV) related to employee share bonuses for the 2012-2014 period the Company granted 415,177 Treasury shares to 4,927 employees on 17 December 2013.

1.5 Corporate governance

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

The system and practice of corporate governance is in keeping with the guidelines of the Budapest Stock Exchange and the provisions of the relevant capital market regulations. In

addition, the Company reviews from time to time the principles applied to ensure, on an on-going basis, in order to appropriately control the Group's operation in compliance with continuously developing international practices.

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

At the Annual General Meeting on 25 April 2013, the following directors were elected to serve on the Board of Directors for a period of three years until the 2016 Annual General Meeting:

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

1.6 Branch (parent company)

The site of Richter Gedeon Vegyészeti Gyár Rt. (Gedeon Richter Chemical Plant Ltd.) is as follows:
27 Esztergomi út, H-2510 Dorog

1.7 Other information

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

In 2000 the parent company embarked upon another medium-term capital expenditure programme and by 31 December 2003 commissioned for operation a production

investment project at a value in excess of HUF 10 billion that resulted in an increase in average staff number by at least 500 compared to the average number of staff employed preceding commencement of the investment project. Having met these statutory requirements, the parent company became eligible for 100% corporate tax benefit from 2004 to not later than 2011. In order to close the chapter on competition at the accession negotiations the Hungarian Government and the European Union reached an agreement in respect of changing certain instances of tax benefit granted by the Act on Corporate Tax and Dividend Tax. The agreement allows the parent company to continue to benefit from the tax break, granted from 1 January 2004 under Section 21(11) of the Act, after Hungary's accession to the EU.

In 2007 the Company commenced construction of a new plant in Debrecen to develop and manufacture biotechnology products, and announced its involvement of tax benefit with the contents set out in the relevant Government Decree. The investment that meets the condition in Section 22/B (1) b) of the Act on Corporate Tax and Dividend Tax was concluded in 2011 and all the equipment that formed part of the project was commissioned. Richter decided to make use of the tax break related to the investment project for the first time in the 2012 and 2013 business year, in the amount equivalent to the value of corporate tax belonging to 80% of the taxable income.

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

2. The Group's 2013 operating review

2.1 The balance sheet as of 31 December 2013

ASSETS

The Group's assets amounted to HUF 716,467 million, HUF 44,230million (6.6%) higher than the opening value. Fixed assets were up by HUF 40,691 million, and current assets by HUF 3,539 million.

Fixed assets

Invested assets amounted to HUF 417,133 million in the reported period, HUF 40,691 million (or 10.8%) up from the reference figure. The HUF 19,360 million (61.3%) increase in goodwill is mainly the result of the settlement of the Chinese acquisition. The increase in the value of fixed assets is attributed primarily to the increase in long-term securities and the change in the fair value of the shares of the Russian wholesale and retail group Protek.

Current assets

Current assets were 1.2% or HUF 3,539 million above the reference year's figure of HUF 295,795 million, due primarily to a higher inventories value. Other dominant factors contributing to the change include the line items cash and cash equivalents, and securities: the value of liquid assets was further increased by the drawdown of the third EUR 50 million tranche of the European Investment Bank (EIB) credit line in January 2013, as well as the positive balance of operating treasury management. At the same time, at the end of Q2 the parent company made an early repayment of EUR 100 million of club facility taken out in November 2010. The dividends from the 2012 earnings approved by the AGM were also paid.

SHAREHOLDERS' EQUITY AND LIABILITIES

- In 2013 *shareholders' equity* was HUF 551,196 million, or 6.0%, higher compared to 31 December 2012 figure.

- The Group's *total liabilities* amount to HUF 165,271 million.

  Non-current liabilities were HUF 89,638 million, HUF 4,727 million below the 31 December 2012 figure. The above mentioned early repayment by the parent company of the club loan decreased liabilities. The Other non-current liabilities item was HUF 13,323 million in excess of the reference year as a result of liabilities related to the Chinese acquisition.

  Current liabilities amounted to HUF 75,633 million as of 31 December 2013, 30.9% exceeding the 31 December 2012 figure, primarily in conjunction with the next instalments due of the Chinese acquisition.

2.2 The 2013income statement

Due to the change in IAS 19 the 2012 consolidated income statement had to be modified. (Modifications in the actuarial assumptions concerning certain retirement related benefit schemes and changes in other overall earnings, as well as changes in the assumptions concerning long-term benefit schemes were reported as actuarial profits and losses in the consolidated statements referring to the period when they were incurred.)

The Group's profit after taxes for 2013 was HUF 42,431 million, 13.5 %, or HUF 6,624 million, lower year-on-year. Income from export increased, while rising operating costs decreased after-tax profit.

Richter Group's activity can be classified into three operating segments. The Pharmaceutical Production segment includes the companies that are involved in the Group's core business, i.e. research, development and production of pharmaceutical products; it also includes the distribution and marketing companies that are directly involved in the sales and promotion of products. The wholesale and retail segment includes the performance of distribution companies and pharmacies that are part of the sales network in the various regional markets and, as such, convey our products to consumers. The third operating segment (Other Consolidated Companies) presents all the other consolidated companies that provide services in support of the production members of the Group, and are also engaged in non-pharmaceutical activities.

	Pharmaceutical Production segment		Wholesale and Retail Trade segment		Other Consolidated Companies segment		Filters		**Group total**	
	2012 HUF million	2013 HUF million	2012 HUF million	2013 HUF million	2012 HUF million	2013 HUF million	2012 HUF million	2013 HUF million	**2012 HUF million**	**2013 HUF million**
Total sales	286,479	304,629	46,166	53,531	3,888	4,832	(9,831)	(11,568)	**326,702**	**351,424**
Gross profit	195,096	212,819	5,480	5,955	1,431	1,390	(304)	(72)	**201,703**	**220,092**
Operating profit	50,401	46,777	(1,334)	(912)	(116)	115	(255)	(411)	**48,696**	**45,569**
Share of profit of associates	-	-	342	763	-	-	-	-	**342**	**763**
Closing headcounts	9,294	9,864	1,451	1,460	358	323	-	-	**11,103**	**11,647**

2.2.1 Income from sales

Income from the pharmaceutical production segment

In the wake of the new Chinese sales scheme the Group took China out of the Other countries region and reported Chinese income from sales as a separate line item. For the sake of comparability the reference year figures have also been converted.

	2012** HUF million	2013 HUF million	Variance	
			HUF million	%
Hungary	29,660	30,338	678	2.3
Export				
CIS	136,568	142,450	5,882	4.3
EU*	87,848	92,121	4,273	4.9
USA	16,123	14,293	-1,830	-11.4
China	1,769	10,352	8,583	485.2
Other countries	14,511	15,075	564	3.9
Export total	256,819	274,291	17,472	6.8
Total	286,479	304,629	18,150	6.3

* Excluding Hungary.

** From 1 January 2013 income from sales in China is reported as a separate item. Croatia has been an EU member state since 1 July 2013.

Net income from sales **totalled** HUF 304,629 million, a HUF 18,150 million increase on the 2012 figure.

Income from the 2013 pharmaceutical production segment's sales was 2.3% higher compared to the reference year. Export in HUF was 6.8% up; and in EUR, 4.0% up year-on-year.

There were only very minor changes in the breakdown of export by regions in the reported year: the largest contributor continues to be the CIS, albeit with one percentage point smaller share (47%) than in the reference year. The EU States also lost one percentage points and contributed 30%. The contribution of Hungary, the United States and the Other countries region was 10%, 5% and 5% respectively in both years. Chinese sales contributed 3 % to total income from sales.

Based on the 2013 year-end figures, the pharmaceutical production segment realized HUF 30,338 million sales **in the Hungarian market**, 2.3% (or HUF 678 million) higher than the 2012 figure.
Turnover was boosted primarily by rising sales of Esmya, Tanydon, Aktil and Vidonorm, and tempered by a drop in revenue from the sales of Xeter. In 2013 oral contraceptives were the leading item in terms of sales.
In 2013 no significant changes took place in terms of price regulations in the domestic pharmaceutical market. Pharmaceutical representatives' registration fee was reintroduced as of 15 February 2009 and cost Richter HUF 431 million in 2012 and HUF 185 million in 2013.

Richter's share in the Hungarian market was 5.3%, 0.1 percentage point higher than in the reference year. Richter ranked second in the prescription drugs market with a share of 7.4%.

Income from **exports** increased from HUF 256,819 million (EUR 888.3 million) in 2012 to HUF 274,291 million (EUR 924.2 million) in 2013.

Russia continues to be the leading market of the **CIS region**, with a turnover denominated in EUR approximately the same as the reference year figure. Russia continues to be the Group's most important export market. Sales of oral contraceptives as well as Panangin, Mydocalm and Cavinton went up despite increasing generic competition. The licence agreement to distribute Suprax expired in 2012, which caused a substantial loss of sales.

In Ukraine Groprinosin, Decaris, Lisonorm and Cavinton sales resulted in an increase in turnover. Of other CIS states, Kazakhstan produced a keen increase in sales.
The total turnover achieved in the CIS market was HUF 142,450 million, 51.9% of total exports. Year-on-year increase was 4.3% (HUF 5,882 million). Expressed in Forex, the turnover was EUR 480.0 million with a 1.6% increase y/y.

Sales in the **European Union** totalled HUF 92,121 million, 4.9% above the 2012 figure. The region's contribution to exports grew to 33.6%. Expressed in Forex, the increase amounted to EUR 310.4 million with a 2.2% increase y/y.

The turnover realized in the pharmaceutical markets of the EU15 region was HUF 36,754 million (EUR 123.8 million), 11.4% (8.5 % in EUR) above the reference year figure. Owing to the efficient promotion efforts of the Western European network of pharmaceutical representatives the Company's strategic product Esmya realised a significant sales increase.
The CEE Member States achieved roughly the same turnover denominated in EUR as in the reference year. In the CEE countries turnover increased in Bulgaria but dropped in the Czech Republic and Slovakia.

Sales in the **United States** dropped by 11.4% (HUF 1,830 million), or, expressed in USD, by 10.7% (USD 7.7 million) due primarily to dropping payments pursuant to profit sharing agreements. Keen competition continued to have a negative effect on turnover.

For strategic reasons and also as a result of the change in the business model, from 1 January 2013 the Group reports the turnover achieved in the **Chinese market** as a separate region. Turnover in the Chinese region was HUF 10,352 million (EUR 34.9 million) and was HUF 8,583 million (or EUR 28.8 million) higher year-on-year.

In the category of **Other countries**, oral contraceptives were the leading products, at the same time this is the category where the sales increase was greatest.
The turnover generated in the Other countries category amounted to HUF 15,075 million (EUR 50.8 million) with a year-on-year increase of 3.9% (HUF 564 million), and in Forex sales, with a year-on-year increase of 1.2% (EUR 0.6 million). The contribution of this region to total export was 5.5%.

The contribution of priority products to the pharmaceutical production segment's sales

Finished products contributed approximately 94% to the 2013 sales revenues.The contribution of APIs was 3%.

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

2012				2013			
Rank		Sales HUF million	Share %	Rank		Sales HUF million	Share %
1	Oral contraceptives	82,383	28.8	1	Oral contraceptives	85,931	28.2
2	Cavinton/vinpocetine	19,699	6.9	2	Cavinton/vinpocetine	24,358	8.0
3	Mydeton/tolperisone	18,458	6.4	3	Mydeton/tolperisone	18,914	6.2
4	ACE inhibitors /enalapril, lisinopril	16,098	5.6	4	Panangin/asparaginates	18,480	6.1
5	Panangin/asparaginates	15,476	5.4	5	ACE inhibitors /enalapril, lisinopril	14,606	4.8
6	Verospiron/ /spironolactone	12,040	4.2	6	Verospiron/ /spironolactone	13,238	4.3
7	Quamatel/famotidine	7,978	2.8	7	Lisonorm /lisinopril, amlodipine	8,510	2.8
8	Lisonorm /lisinopril, amlodipine	7,187	2.5	8	Groprinosin	7,648	2.5
9	Aflamin/aceclofenac	5,636	2.0	9	Aflamin/aceclofenac	7,454	2.5
10	Xeter/rosuvastatin	5,585	1.9	10	Quamatel/famotidine	7,369	2.4
	Total	190,540	66.5		Total	206,508	67.8
	Net income from sales	*286,479*	*100.0*		*Net income from sales*	*304,629*	*100.0*

The contribution of the ten leading product categories to total sales was 67.8%, 1.3 percentage points higher than the reference year's figure.

Oral contraceptives are the leading products with a turnover of HUF 85.9 billion, 4.3 % higher than in 2012. The change is due primarily to an increase in the Russian, German, British, Belgian and Portuguese markets. The contribution of this product category to total turnover was 28.2%, 0.6 percentage points less than last year. The runner-up proprietary

drug Cavinton realized almost HUF 4.7 billion higher turnover than in the reference year thanks to sales in China and Russia. Due to rising sales in Russia Mydeton managed to keep its 3rd place. ACE inhibitors slipped one places because of lagging sales in the Russian market. Verospiron and Aflamin kept their respective 6th and 9th place due promarily to their turnover achieved in the Russian and Polish markets. Quamatel dropped three places to finish 10th, and Lisonorm advanced one place and was 7th in the rank. Groprinosin fmade its way to the Top 10 list.

The contribution of leading markets to the sales of the pharmaceutical production segment

In 2013 the Pharmaceutical Production segment's ten leading markets were as follows:

	2013	
	HUF million	EUR million
1. Russia	99,889	336.6
2. Hungary	30,338	102.2
3. Poland	22,000	74.1
4. Ukraine	21,191	71.4
5. Germany	18,340	61.8
6. United States of America	14,293	48.1
7. China	10,352	34.9
8. Romania	9,611	32.4
9. Czech Republic	8,074	27.2
10. Kazakhstan	6,214	21.0
Total	240,302	809.7
Net income from sales	*304,629*	*1,026.4*

The ten leading countries jointly contributed 78.9% to Richter Group's total pharmaceutical sales. Russia stayed at the head of the list with sales massively rising for the reasons mentioned above. There was no change in the next five places. As a result of the new sales scheme China features on the top list, ranked 7th. Romania and the Czech Republic each lost a place and finished 8th and 9th respectively. The Kazakh Republic managed to retain its place. Ninth in 2012, Slovakia did not make it to the top list in 2013.

Turnover of the wholesale and retail segment

	2012** HUF million	2013 HUF million	Variance HUF million	Variance %
Hungary	407	215	-192	-47.2
Export				
CIS	10,097	11,662	1,565	15.5
EU*	32,448	38,491	6,043	18.6
USA	-	-	-	-
China	-	-	-	-
Other countries	3,214	3,163	-51	-1.6
Export total	45,759	53,316	7,557	16.5
Total	*46,166*	*53,531*	*7,365*	*16.0*

* Excluding Hungary.
** From 1 January 2013 income from sales in China is reported as a separate item. Croatia has been an EU member state since 1 July 2013.

Based on the year-end figures for 2013 the Wholesale and Retail segment realized HUF 53,531 million (EUR 180.4 million) income from sales, 16.0% (13.0%) above the 2012 figures.

The most significant portion of income generated by this segment was contributed by the Romanian pharmaceutical wholesale company (Pharmafarm) and Gedeon Richter Farmacia's network of pharmacies. Sales in Romania increased by 18.6% in HUF terms and 15.6% in EUR terms. The main contributor to the growth was the wholesale company's rising sales to third parties. While the Central Insurance House's delays in payments to pharmacies eased, the Romanian pharmaceutical market is still characterized by massive delays in paying outstanding dues to pharma companies.

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

Among the leading products of Wholesale and Retail, income from the sales of Cavinton, Mydocalm, Groprinosin, Impamid and Moduxin increased.

Turnover of the other consolidated companies segment

	2012** HUF million	2013 HUF million	Variance HUF million	Variance %
Hungary	3,721	4,668	947	25.5
Export				
CIS	131	134	3	2.3
EU*	36	29	-7	-19.4
USA	-	-	-	-
China	-	-	-	-
Other countries	-	1	1	-
Export total	167	164	-3	-1.8
Total	*3,888*	*4,832*	*944*	*24.3*

* Excluding Hungary.
** From 1 January 2013 income from sales in China is reported as a separate item. Croatia has been an EU member state since 1 July 2013.

The turnover of the Other Consolidated Companies segment was 24.3% up in HUF, 20.0% up in EUR and 25.4% up in USD compared to the 2012 reference year figures. The substantial increase is explained by the Hungarian service companies' rising turnover realized with third parties.

2.2.2 Costs of sales; operating profit

Costs of sales amounted to HUF 131,662 million (EUR 442.5 million), HUF 6,333 million (EUR 10.1 million) more than the figures achieved in 2012. Costs of sales included HUF 2,441 million depreciation reported in conjunction with the European sales of Esmya as an intangible asset.

As a result of Pharmaceutical Production's improving margin **gross profit from sales was** HUF 220,092 million, 9.1% higher year-on-year. The gross margin was up from 61.7 % in the reference year to 62.6 % in 2012. The gross margin was improved by increasing proportion of own-produced products as opposed to licensed products, above-the-average increase in the turnover of Ukraine as well as some other CIS countries, and China.

Conversely, continued drop in relatively high-margin U.S. sales income, the devaluation of the Russian rouble in H2 of 2013, and the increasing contribution of lower margin Wholesale and Retail to total sales revenues deteriorated the gross margin.

Within the operating costs item **costs of sales and marketing** amounted to HUF 106,999 million in the reported year, 15.3% higher year-on-year. Sales and marketing costs were 30.4% of sales revenues in the period of reporting. Sales and marketing costs reflect partly the impact of further expansion of the gynaecological network in Western Europe, marketing and promotion related to the launch of Esmya, and partly the effect of the takeover of Chinese sales and marketing. Depreciation of marketing and brand related rights of the contraceptives acquired from Grünenthal added HUF 4,377 million to the level of costs and constituted 1.2% of total sales. Domestic pharmaceutical representatives' registration fee payable pursuant to the Drug Economy Act totalled HUF 185 million in 2013. Richter was able to reduce its 2013 tax payable by 90% of the 2012 extraordinary tax liability, in accordance with the latest amendment of the regulations relevant to this tax type.

In 2013 **administrative and other operating costs** amounted to HUF 19,393 million, 3.9% less than in the reference year. The 2012 administrative and operating costs included the commitment related to the medium-term incentive system due to PregLem's management pro rata temporis, which resulted in a high value in the preceding year due to the one-off bonus payment once the EU marketing authorisation for Esmya had been secured.

The rate of **R&D expenditure** to sales incomes was 11.9% in 2013 and amounted to HUF 41,953 million, 8.0% above the reference year figure. The Group's biggest R&D expenditure item was the costs of joint clinical trials with Forest Laboratories still in progress, as well as PregLem's research expenditures and those on biotechnology research in Hungary and Germany.

The balance of **other income and expenditure** was HUF 6,178 million as opposed to HUF 1,184 million expenditure in 2012. The milestone income achieved in 2013 is over USD 10 million less than in 2012. In Q1 of 2013 Richter received a one-off milestone income from Forest Laboratories in conjunction with the FDA's registration of cariprazine,

the amount of which was approximately the same as the milestone payment received in the same period of the reference year; however, the lesser milestone incomes received after Q1 of 2013 were far below the amounts received after Q1 of 2012.

The 20% tax payable in Hungary on the full-year subsidy calculated on the producer prices of subsidized products under the Dug Economy Act amounted to HUF 346 million in 2013.

Under the so-called claw-back taxation system in Romania the amount of dues is set by the Romanian authorities based on the return from sales of subsidized products and comparing it to the support envisioned in the budget. In 2013 Richter Group's production companies accounted for RON 11.4 million taxes.

In Germany, the 2013 claw-back tax liabilities amounted to HUF 2.7 billion, HUF 1.4 billion higher than in the reference year. As a result of the above, expenditure on claw-back taxes increased by approximately HUF 1.2 billion in 2013.

Impairment of licences and other intangibles increased from HUF 0.7 billion in 2012 to HUF 2.4 billion in 2013. The impairment was mainly contributed by PregLem's PGL2 research project of a product for the indication of endometriosis, which was concluded in Q4 of 2013. HUF 1.5 billion of the book value of intangible rights related to the molecule investigated was written off as impairment.

The 2013 balance of subsequently granted and received concessions was HUF 0.8 billion expenditure as opposed to HUF 0.4 billion income in the reference period.

In 2013 provisions amounted to HUF 0.6 billion. By contrast, there were no significant provisions in 2012.

The 2013 *profit from operations* was HUF 45,569 million. The growth of marketing, R&D costs and Other expenditures was higher than the increase in profits due to rising sales revenues and margin. The consolidated operating profit was 13.0% in the reported year, 1.9 percentage points below the 2012 level.

2.2.3 Other income statement items

Net financial income

In 2013 net financial income was a loss of HUF 2,692 million as a result of HUF 3,550 million decrease as opposed to HUF 858 million profit in 2012.

At year-end Forex assets and liabilities were reassessed and reported under Unrealized financial items. The balance of restatement was HUF 5,000 million loss in the reported year, HUF 14,004 million less than the HUF 9,004 million profit in 2012. HUF 1,026 million financial costs were reported in connection with the change in time value of the liability in relation to PregLem.

In June 2013 the parent company made EUR 100 million early prepayment of the club facility. After the early repayment the Company had EUR 50 million club loan and EUR 150 million EIB loan repayment liability.

The 2013 profit from realized financial items was contributed partly by net income from interest (HUF 2,508 million), and security price gains (HUF 1,942 million), and partly by income from dividends received (HUF 973 million), and exchange rate gains (HUF 314 million), net of the exchange rate loss on receivables and commitments (HUF 2,345 million).

	2012 HUF million	2013 HUF million	Variance HUF million
Unrealised financial items	**5,745**	**(5,892)**	**-11,637**
Restatement of currency related trade receivables and trade payables	3,912	(2,305)	-6,217
Restatement of currency loans given	(81)	(15)	96
Restatement of loans received	4,191	(1,001)	-5,192
Restatement of other currency related items	982	(1,709)	-2,691
Time value change of PregLem liability	(3,004)	(1,026)	1,978
Unrealised forward contracts as of 1 January	249	504	255
Unrealised forward currency related contracts as of the balance date	(504)	(288)	216
Impairment of holdings	-	(82)	-82
Realised financial items	**(4,887)**	**3,200**	**8,087**
Result of forward exchange contracts	(138)	(224)	-86
Exchange losses/gains realised on trade receivables and trade payables	(3,905)	(2,345)	1,560
Exchange rate gains/(losses)	(3,379)	314	3,693
Dividends	308	973	665
Interest received	4,652	4,068	-584
Interest paid	(1,805)	(1,560)	245
Other	(620)	1,974	2,594
Net financial income	**858**	**(2,692)**	**-3,550**

Closing rates applied in restatements:

	31.12.2012	31.12.2013	30.06.2013	30.09.2013	31.12.2013
EUR/HUF	291.29	304.30	295.16	298.48	296.91
USD/HUF	220.93	237.36	226.18	221.06	215.67
CHF/HUF	241.06	249.96	239.14	244.21	242.14

Profit before taxes

The 2013 profit before taxes amounted to HUF 43,640 million, HUF 6,256 million less than in 2012.

As of 1 January 2012 Gedeon Richter Plc.'s 100% corporate tax break ceased. Henceforth the parent company pays taxes in accordance with the general Hungarian provisions on taxation, however, it is entitled to write off the direct costs of R&D from its taxable income. Furthermore, the parent company is entitled to development related tax allowance in conjunction with the Debrecen biosimilar plant investment in both 2012 and 2013. Other Group companies are taxed in accordance with the general taxation regulations of their domicile.

In 2013 the balance of the Group's corporate and deferred taxes was significantly improved by the recalculation and adjustment of the value of the deferred tax payable related to PregLem's activity.

Profit after taxes

Profit after taxes was HUF 42,431 million in the reported period, HUF 6,624 million below the 2012 Group profit.

After a HUF 6,474 million drop, *after-tax profit of the parent company's shareholders* was HUF 42,766 million by 31 December 2013, and was 12.2% of the sales revenues as opposed to 15.1 % in the reference period.

3. Functional activities of the Group

3.1 Research and development

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

The parent company's small molecular R&D is focused on gynaecological products on the one hand, and molecules effective in treating CNS diseases. The Company has a portfolio of 15 on-going projects of which two are in clinical Phase I trials and the rest are in the preclinical phase.

On 8 and 28 February 2012 Richter and its partner, Forest Laboratories, Inc. announced the successful conclusion of the third Phase III trial of the antipsychotic cariprazine for the acute treatment of manic or mixed episodes associated with bipolar I disorder, and two positive Phases III trials of the same drug for the treatment of schizophrenia. The Company thus boasts of three positive Phase III trials in respect of both indications. On 28 November

2012 Richter announced that Forest Laboratories submitted a new drug application (NDA) to the United States Food and Drug Administration (FDA) for cariprazine for both indications. On 21 November 2013 the two companies announced that the FDA issued a so-called Complete Response Letter regarding registration, in which the Agency recognized the efficacy of cariprazine but required further information and tests, consultations on which will begin shortly. There are on-going parallel clinical studies to expand the indications and to penetrate the European and Japanese markets.

One of the world's leading manufacturers of steroid products, Richter has been traditionally strong in the gynaecological market. After the acquisition of the Swiss company PregLem S.A. in 2010 Richter Group joined gynaecological development activities primarily in the field of uterine fibroids indications. According to Richter's announcement on 27 February 2012, Esmya, a proprietary product developed by PregLem S.A., a company solely owned by Richter had been granted marketing authorisation for the EU member states for its indication of pre-operative treatment of uterine fibroids (myomas). At the end of 2013 the EMA adopted a positive opinion regarding the use of Esmya to up to two courses of treatment. As a result, marketing authorization granted for the extended use of the product in January 2014. In the course of the year the product was launched in almost all of the EU member states as well as in Canada, Russia and other CIS states, so that today Esmya is sold in over 30 countries worldwide. In addition, Phase III clinical trials are in progress to expand the indication.

The resulting clinical portfolio at the end of 2013 was as follows:

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

In 2005 Richter launched its biotechnology R&D by creating a biotechnology research laboratory. In Germany Richter and Helm AG, Richter jointly acquired the predecessor

Richter-Helm BioLogics GmbH & Co. KG, which develops and manufactures pharmaceuticals based on proteins derived by microbial biotechnology processes.
Started in 2007, the construction of the Debrecen plant creating capacities for mammalian cell biotechnology based pharmaceutical manufacturing was concluded, the related assets were capitalized. Trial runs commenced in 2012, and the most complex protein-based pharmaceuticals can be manufactured on a commercial scale.

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

Richter Group's development activities are undertaken by three members: the parent company, Gedeon Richter Polska and Gedeon Richter Romania. Allocation of tasks to the development sites is determined by the development and business development concept, taking into consideration availability of capacities, patent conditions and the need for specialized skills.
The Group's Indian member Richter-Themis is active in API development.

The key task for product development in 2013 was to renew older, high-selling products. Furthermore, important steps were taken to advance the main goal for 2012, i.e. the launch of Esmya, and shipments started to almost all of the EU member states as well as to Canada, Russia, and several other CIS states.

At the close of 2013 Richter had over 48 generic development and 15 licence topics in progress. In the course of the year Richter had 28 licence renewal and maintenance projects; furthermore, support of original, biotechnology and transfer projects stayed at the reference year's level (20 projects in total). As biotechnology and proprietary development projects are conducted predominantly at the parent company, development sites of the subsidiaries have been appreciated as regards generic R&D (Gedeon Richter Romania

S.A., Gedeon Richter Polska Sp. z o.o.). These companies undertake 48% of generic R&D projects.

The parent company launched nine proprietary product and two license products in 2013, all of which are new in all of the markets. Mention should be made of the fact that two of the generic products were launched earlier than planned due to patent changes, and authorisation for another two products was renewed before schedule. In addition, Richter bought a new licensed product that could be put on the market very quickly.

As a result of registration activities a total of 130 marketing authorizations were granted to Richter in 2013 in the EU, including Hungary (taking different dosage forms into consideration). Eighty-five percent of the marketing authorizations involve proprietary products and approximately 15% are related to the takeover of licensed products. In this region 217 renewal applications were submitted. In 2013, 110 renewal procedures were concluded.

A total of 57 new authorizations and 92 renewal applications were submitted in the twelve CIS countries. In the course of the year the Group secured 58 new authorizations and 151 renewals, and returned 28 newly granted and three renewed licenses.

In the Other countries segment the Group submitted 17 new applications and 34 renewals in 2013. In the course of the year the Company secured 17 new authorizations and 26 renewals.

3.2 Quality assurance

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

In 2013 the main direction of the quality assurance effort was the continued upgrading of production processed in accordance with cGMP (current Good manufacturing Practice)

(API and finished products), and quality assurance support to a number of on-going investment projects deployed by the parent company (the Debrecen biotechnology project and production upgrading projects).

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

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

3.3 Production

Production in the manufacturing plants was in line with the amounts required by the market: measured in terms of packaging units, the output of plants manufacturing solid drugs was 4% higher, and of semi-finished product plants, 12% higher than the reference year level for the Group as a whole. There volume of own-produced APIs for steroid and non-steroid products was up by 4% in 2013.

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

The Indian subsidiary manufacturing APIs and intermediate products managed to increase the volume of some of its products and improved the exploitation of capacities. Mass API production and validation continued in 2013 and are expected to lead to an even better exploitation of production capacities.

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

3.4 Technology

In recent years Richter has developed a new sourcing management system and separated special procurement tasks from the professional activities of the management of the

various organizational units. In the new structure all machines, equipment, technological materials and general devices as well as services are sourced centrally. The same applies to utilities such as natural gas, electricity and steam supply, as well as waste disposal. Concluding the construction, maintenance, operation and utility contracts for the Debrecen facility was a priority task also for 2013.

Similarly to the preceding year, optimization of centralized sourcing resulted in substantial savings on funds, capacities and time in 2013. In certain areas of sourcing the parent company and its subsidiaries cooperated successfully.

Environmental protection, occupational health and safety

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

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

Environmental and security related expenditure were at the 2012 level in the reported period.

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

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

3.5 IT support

The Group's business processes were captured in the SAP system. SAP tracks every step of the process from sourcing to sales and provides interfaces to other special systems supporting operation. Over the past years, major Group level IT development took place primarily in order to achieve the most important strategic goal of creating a central IT

architecture that controls and supervises Richter Group's IT systems and is suitable for communicating Group level strategy and control and serving operation.
IT infrastructure development has been in keeping with Group-level needs; the emerging IT background is a uniform and transparent system for Group users. A dynamic VPN network created between Group companies overarching the Internet network provides access to distant systems via audio and viedo connection as necessary.

Similarly to the previous year, major Group level IT development took place in 2013, the most important achievements and events were as follows:

- A priority project was the introduction and expansion of SAP to include more of the subsidiaries. Mention should be made of Richter's Russian production subsidiary ZAO Gedeon Richter-RUS, where almost all of the SAP modules were introduced in 2012. Live run started in 2013 with additional development tasks involved. IT developments at the German, Italian and Spanish companies revolved around sales processes.
- From 2013 IT support to Quality Assurance has become an increasingly prominent task with several projects in progress.
- IT infrastructure development engaged a considerable amount of capacities in the course of the year; as a result, accessibility, efficiency and cost effectiveness of IT systems were greatly improved.
- The modules of the Debrecen biotechnology plant were also extended.

4. Human resource

One of Richter Group's strategic goals is to develop operability with an organization that is best suited to changing environment, tasks and ever greater challenges. Human resource, the people who are at the basis of Richter's continued success in business and science play a key part in this effort.
Careful recruitment policy is critical for enhancing and sustaining the performance of each member of Richter Group. Supporting the professional development and improving the quality of life of staff and retention of high performers are priority tasks.

As of 31 December 2013 the Group's combined headcount was 11,647, 7,870 of whom work in white-collar positions including 6,660 university or college graduates. The headcount of the parent company was 6,948 at the same time.

5. Capital expenditure

The Group's capital expenditure and intangible assets amounted to HUF 33,647 million (EUR 113.4 million) in 2013 as opposed to HUF 29,677 million (EUR 102.7 million) in 2012. Capital expenditure was dominated by the projects deployed by the parent company.

The Debrecen Biotechnology Plant was erected to manufacture the APIs of strategic products based on biotechnology procedures. After the development, installation, testing and qualification of the software controlling and monitoring the whole of manufacturing the first clinical samples can be produced in early 2014.

As regards investments aimed at traditional pharmaceutical production at the Group's Budapest production facility, the machines and equipment purchased in the context of the modernization of the Injectables Production and Packaging Plants are mentioned. In the field of API manufacturing, capex projects were basically aimed at maintaining production capacities in both Budapest and Dorog. API related projects included the hall modernization project that started in Dorog, and the upgrading of Vinblastin production capacities in Budapest. Environmental and safety projects included the upgrading of the wastewater system in Dorog, the revamping of the HVAC system of the API production facilities, projects promoting occupational health and safety conditions. The main energetics projects included the upgrading of central systems to improve safe energy supply.

Major capex projects of the subsidiaries included expenditures on production companies.
Capex projects at the Russian subsidiary were aimed mainly at logistics and technology (expansion and upgrading of the warehouse of finished goods, lab development).
The focus at the Polish subsidiary was on production, in particular on tablets production. In this context, a packaging line and a tablet press were purchased.

Capex projects deployed by the Romanian subsidiary relied primarily on the company's strategic projects supporting Gedeon Richter Romania S.A.'s role within the Group. In addition, several major projects aimed at the firm's modernization were started in 2013 (development of a space suitable for the production and packaging of a new hormonal spray and erection of a new R&D facility).

6. Risk management

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

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

Strategic risks

Risk	Description	Key risk management methods
Healthcare Budget	Potential impact on the company of changes and monetary restrictions in the healthcare budget and regulation (price cuts, subsidy cuts and surtax)	- Regular analysis of market environment, monitoring changes in the legal and pharmaceutical subsidy system - Communication with authorities - Cost management adaptation
Competition and Pricing	The impact on the company's market position and results of the increasing generic competition and the decreasing prices in the competitive market	- Identifying competitive advantages - Focusing on new proprietary and value added products - Launching new generic products - Regularly performed competitor, industry and effectiveness analysis
Macroeconomic Factors	Risk of changes in macroeconomic factors affecting the company's markets with special regard to solvency	- Monitoring changes in major macroeconomic factors, incorporating their effects into the planning - Cost management and adaptation of customer relations

Operational risks

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

Compliance risks

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

Financial risks

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

7. Post-balance sheet date events

As part of its expansion in Central and South America, the Company started to acquire companies in Brazil and Mexico in December 2013. The main activity of the acquired companies will be to undertake registration tasks related to Richter's gynaecological products and to develop the marketing and promotion networks.

In February 2012, Esmya had been granted marketing authorisation for the EU member states for its indication of pre-operative treatment of uterine fibroids (myomas). According to the original authorisation, treatment had been limited to one course of three months. In January 2014 the European Commission granted marketing authorization for the extended use of Esmya 5 mg tablet up to two courses (2x3 months) of treatment.

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

8. Future outlook

Retaining and strengthening the Group's position in the Hungarian and the traditional markets (CIS, Central and Eastern Europe) despite increasingly difficult environment whose problems fall hard on the entire pharmaceutical industry (price erosion, tightening subsidies and price control) continue to feature among Richter's strategic goals.

The Group focuses on strengthening its presence in, and stepping up exports to, European Union and China, retaining and strengthening positions acquired in the United States, and developing new long-term research and development cooperation with existing and new partners.

The main tool to achieve these goals in the context of Hungary, the CIS and the CEE countries is to improve the efficiency of the Group"s sales networks. In Western Europe the Strategy is implemented by means of our marketing network, and in the United States through long-term agreements concluded with strategic partners. Through a variety of acquisitions Richter is striving to secure its direct presence in the world's fastest growing pharmaceutical markets (China and the Latin-American region) thereby ensuring a harmonious extensive and intensive growth.

The success of proprietary research and development aimed at CNS products is crucial for Richter Group's future and for strengthening its market positions. The future added value from the gynaecological portfolio purchased in 2010 from Grünenthal, coupled with Esmya resulting from the Swiss acquisition will boost the Group's niche: gynaecology, which is best supported by the units operating in the traditional markets and the newly established Western European sales network.

The third pillar of the Group's future results is the development of biosimilar products and the high-value investment to create the conditions for their manufacture.

Besides the above, Richter is striving to exploit the opportunities provided by the portfolio of traditional products to a maximum extent.

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

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

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Gedeon Richter Plc.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Gedeon Richter Plc. (the "Company") and its subsidiaries (together "the Group") which comprise the consolidated balance sheet as of 31 December 2013 (in which the balance sheet total is MHUF 716,467), the consolidated income statement, the consolidated statement of comprehensive income (in which the total comprehensive income for the year is MHUF 42,063), and the consolidated statement of changes in equity and the 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.

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 2013, 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 2013.

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 2013 consolidated business report is consistent with the disclosures in the consolidated financial statements as of 31 December 2013.

Budapest, 21 March 2014

Barsi Éva
Partner
Statutory auditor
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GEDEON RICHTER

Established in 1901

DECLARATION

The undersigned **Mr. Erik Bogsch** as a managing director of **Chemical Works of Gedeon Richter Plc.** (registered office: H-1103 Budapest, Gyömrői út 19-21., Reg.No.: Cg.:01-10-040944) /hereinafter Company/ representing solely the Company, in accordance with Annex I. Sec. 3.4. of 24/2008. (VIII.15.) Ministry of Finance Decree hereby

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that the 2013 annual consolidated financial statement, which have been prepared to the best of our knowledge and in accordance with the applicable set of accounting standards and approved by the Annual General Meeting of the Company, gives true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole, and that the consolidated business report includes a fair review of the development and performance of the business and position of the Company and the undertakings included in the consolidation taken as a whole, together with the description of the principal risks and uncertainties.

Date: Budapest, 25th April, 2014

Erik Bogsch
Managing Director