HUNGAROPHARMA ZRT.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

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All amounts in thousands of HUF unless otherwise stated

Consolidated balance sheet

	Note	As at 31 December 2013	2012
ASSETS			
Non-current assets			
Property, plant and equipment	5	7,513,364	8,099,371
Intangible assets	6	365,751	341,472
Investments in associates and joint ventures	7	83,721	137,313
Trade and other receivables	10	405,172	316,494
Deferred tax assets	17	684,524	701,548
		9,052,532	**9,596,198**
Current assets			
Available-for-sale financial assets	9	8,365	13,361
Trade and other receivables	10	20,341,426	20,213,510
Inventories	11	16,651,908	18,241,454
Cash and cash equivalents	12	1,815,377	1,912,999
		38,817,076	**40,381,324**
Total assets		**47,869,608**	**49,977,522**
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	13	6,018,820	6,018,820
Treasury shares		(900)	(900)
Other reserves	14	3,159,866	3,601,975
Accumulated losses		(1,064,353)	(4,808,890)
		8,113,433	**4,811,005**
Non-controlling interest in equity		3,965	138,653
Total equity		**8,117,398**	**4,949,658**
LIABILITIES			
Non-current liabilities			
Long term loans	16	8,061,524	9,093,590
Provisions	18	59,739	-
Deferred income tax liabilities	17	5,080	27,432
		8,126,343	**9,121,022**
Current liabilities			
Provisions	18	339,081	104,307
Trade and other payables	15	29,915,380	32,890,175
Current income tax liabilities		131,910	49,811
Short term loans	16	1,239,496	2,862,549
		31,625,867	**35,906,842**
Total liabilities		**39,752,210**	**45,027,864**
Total equity and liabilities		**47,869,608**	**49,977,522**

The consolidated financial statements were approved by the Board of Directors of the Company on 6 May 2014.
The notes on pages 7 to 51 are integral parts of these consolidated financial statements.

Antal Feller Dr.
General Manager

All amounts in thousands of HUF unless otherwise stated

Consolidated statement of comprehensive income

	Note	2013	2012
Revenue	19	231,808,674	233,449,691
Cost of sales	22	(221,140,085)	(223,729,461)
Gross profit		**10,668,589**	**9,720,230**
Other income	20	617,854	587,160
Other expenses	21	(1,708,965)	(1,224,813)
Selling and marketing costs	22	(2,287,593)	(4,131,642)
Administrative expenses	22	(3,110,122)	(2,442,569)
Operating profit		**4,179,763**	**2,508,366**
Finance income	24	34,991	218,604
Finance costs	24	(1,180,012)	(1,339,891)
Finance costs - net	24	**(1,145,021)**	**(1,121,287)**
Share of profit of associates and joint ventures	7	**3,439**	24,691
Profit before income tax		**3,038,181**	**1,411,770**
Income tax expense	25	(873,129)	(474,275)
Profit for the year		**2,165,052**	**937,495**
Total comprehensive profit for the year		**2,165,052**	**937,495**
Attributable to:			
Owners of the parent		2,104,214	994,849
Non-controlling interest		60,838	(57,354)
Total comprehensive profit for the year		**2,165,052**	**937,495**

The notes on pages 7 to 51 are integral parts of these consolidated financial statements.

All amounts in thousands of HUF unless otherwise stated

Consolidated statement of changes in equity

	Note	Attributable to owners of the parent				Non-controlling Interest	Total equity
		Share capital	Treasury shares	Other Reserves	Retained earnings		
Balance at 1 January 2012		**6,018,820**	**(900)**	**3,626,195**	**(5,499,323)**	**77,600**	**4,222,392**
Total comprehensive income and expense for 2012		**-**	**-**	**-**	**994,849**	**(57,354)**	**937,495**
Transfer of reserves	14	-	-	(22,903)	22,903		-
Transaction with NCI	29	-	-	-	(248,279)	248,279	-
Business combination	29	-	-	(1,317)	(79,040)	(129,872)	(210,229)
Balance at 31 December 2012 restated		**6,018,820**	**(900)**	**3,601,975**	**(4,808,890)**	**138,653**	**4,949,658**
Balance at 1 January 2013		**6,018,820**	**(900)**	**3,601,975**	**(4,808,890)**	**138,653**	**4,949,658**
Total comprehensive income and expense for 2013		**-**	**-**	-	**2,104,214**	**60,838**	**2,165,052**
Transfers of reserves	14	-	-	(442,129)	442,129	-	-
Partial disposal of subsidiaries	29	-	-	-	1,174,483	(190,055)	984,428
Dividend paid		-	-	-	-	(13,119)	(13,119)
Others		-	-	20	23,711	7,648	31,379
Balance at 31 December 2013		**6,018,820**	**(900)**	**3,159,866**	**(1,064,353)**	**3,965**	**8,117,398**

The notes on pages 7 to 51 are integral parts of these consolidated financial statements.

All amounts in thousands of HUF unless otherwise stated

Consolidated cash flow statement

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Cash flows from operating activities			
Cash generated from operations	26	4,279,386	6,480,672
Interest paid	24	(998,424)	(1,376,506)
Income tax paid	25	(857,325)	(487,501)
Net cash generated from operating activities		**2,423,637**	**4,616,665**
Cash flows from investing activities			
Disposal of joint venture		60,000	-
Sale of subsidiary		-	351,840
Acquisition of subsidiary, net of cash acquired		-	(245,907)
Purchases of property, plant and equipment		(301,739)	(469,820)
Proceeds from sale of property, plant and equipment		452,112	329,107
Proceeds from investments		4,996	27,067
Result from investments		-	25,334
Purchases of intangible assets		(134,833)	(60,943)
Purchases of investment in associates		-	(27,067)
Interest received	24	34,991	218,604
Dividend received		5,000	-
Net cash generated from investing activities		**120,527**	**148,215**
Cash flows from financing activities			
Proceeds from loan given		(59,958)	(31,423)
Repayment of loan given		86,410	91,386
Proceeds of long term loans		-	10,000,000
Proceeds of short term loans		(2,655,119)	(13,929,103)
Dividends paid		(13,119)	(9,100)
Net cash used in financing activities		**(2,641,786)**	**(3,878,240)**
Net (decrease)/ increase in cash and cash equivalents		(97,622)	886,640
Cash and cash equivalents at beginning of the year	12	1,912,999	1,026,359
Cash and cash equivalents at end of the year		**1,815,377**	**1,912,999**

The notes on pages 7 to 51 are integral parts of these consolidated financial statements.

Notes to the consolidated financial statements

1. General information

Hungaropharma Zrt. (the Company) and its subsidiaries (together: the Group) is a leading Hungarian company engaged primarily in the wholesale and distribution of medical drugs for human use. The Company operates exclusively in Hungary.

The Company is a limited liability company incorporated and domiciled in Hungary. The address of its registered office is Király u. 12. Budapest, 1061 Hungary. The Group's is controlled by the members of the consortium, which won the privatisation tender of the Company in 2002, namely Egis Gyógyszergyár Zrt. (30.68%), Richter Gedeon Vegyészeti Gyár Nyrt. (30.68%), and Béres Gyógyszergyár Zrt. (30.68%), Magyar Gyógyszer Vagyonkezelő Zrt. holding (6.65%), and others 1.31% of the shares.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Company keeps its books and records in accordance with Hungarian accounting standards (HAS). Certain adjustments are made to these records to comply with IFRS. The financial statements were prepared on a going concern basis.

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.
The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) New and amended standards and interpretations adopted by the group

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 amended standard did not have significant impact on the Group's financial statements.

(b) Standards. Interpretations effective in 2013 but not relevant

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 impact on the disclosures in the Group's financial statements.
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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 amended standard did not have 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.

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.

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.

The European Union has endorsed these interpretations.

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by 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.
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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.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The group uses the acquisition method 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 unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group’s subsidiaries are as follows at 31 December 2013:

Name	Business activities	Ownership stake / voting rights 2013	Ownership stake / voting rights 2012
Pannonmedicina Zrt.	Lending and operating self-owned, rented properties	85.09 %	71.06 %
Medimpex Zrt.	Wholesale of pharmaceutical products and drugs	100 %	100 %
Patika Management Kft.	Lending and operating self-owned, rented properties	100 %	100 %
Hajdú Zrt.	Wholesale of pharmaceutical products and drugs	100 %	100 %
Eti Kft.	Data processing activities	100 %	100 %
Alma Kft.	Retail of pharmaceutical products	96.7 %	96.7 %
Vektrum Kft.	Retail of pharmaceutical products	100 %	100 %
SZIRT Kft.	Retail of pharmaceutical products, rented properties	49 % /98 %	49 % /98 %

All amounts in thousands of HUF unless otherwise stated

SZIRT BUPE Kelet Zrt.	Asset management	49 % /98 %	49 % /98 %
SZIRT BUPE Nyugat Zrt.	Asset management	49 % /98 %	49 % /98 %
SZIRT Kelet-Magyarország Zrt.	Asset management	49 % /98 %	49 % /98 %
SZIRT Közép-Magyarország Zrt.	Asset management	49 % /98 %	49 % /98 %
SZIRT Nyugat-Magyarország Zrt.	Asset management	49 % /98 %	49 % /98 %

The subsidiaries connected with the retail-sector run 69 pharmacies nationwide.

Hungaropharma Zrt. has 49 % ownership in Szirt Invest Kft. and acquired control over the company by obtaining 98 % voting right in March 2012 due to agreement with the other 49 % owner. The Company bears the costs and also able to collect benefits.

According to the regulations of the Act No. XCVIII of 2006 (“Gyftv.”) the 26% of the shares of the pharmacy-running companies has been sold to the pharmacists vested with pharmacy-running rights.

The chart does not contain Pannoninvent Kft. which has been dissolved by means of voluntary liquidation on 24 June 2013.

(b) Transactions and non-controlling interests

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.

Associates and joint ventures

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 % and 50 % of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

Joint ventures are contractual arrangements where on the one part the parent company and on the other part one other company (or several other companies) undertakes to perform a business activity. Joint ventures are managed by their owners jointly. The joint ventures are consolidated by applying equity method.

The Group’s share of its associates’ and joint ventures’ post-acquisition profits or losses is recognised in the net profit, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group’s share of losses in an associate / joint ventures equals or exceeds its interest in the associate / joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made

payments on behalf of the associate / joint venture.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group’s interest in the associates / joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group’s associates are: Recyclomed Kft., Press Gt Kft., Szent András Patika Bt., Duo-Pharm Bt., Strázsahegy Patika Bt., Fermon Pharma Kft., László Gyógyszertár Kft.

Companies within the Group,which are under liquidation process or fully impaired are not consolidated (Pharmadose Kft., Pharmadose Gyógyszertár Kft., Fúziómed Kft., Gyógyszerellátó Hálózat Kft.). The two Pharmadoses are joint ventures, Fúziómed Kft. is an associates. The equity of these companies are not significant, therefore - due to the application of the equity method - their impact on the consolidated financial statement is not significant. The Gyógyszerellátó Hálózat Kft. is not operating, it does not have a significant impact on the consolidated financial statement.

2.3 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidated financial statements are presented in HUF, which is the Company’s functional and presentation currency. All entities in the Group are incorporated and operate in Hungary. Functional currency of all group entities is the HUF.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 net profit, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity. These were no such items during the reporting period.

2.4 Property, plant and equipment

Land and buildings comprise mainly distribution centres and office buildings. Land and buildings are shown at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. All other repairs and maintenance are charged to the net profit during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– Buildings	16 - 50 years
– Machinery	3 - 10 years
– Vehicles	5 years
– Furniture, fittings and equipment	3- 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive on net basis as either other income or other expense..

2.5 Intangible assets

(a) *Rights*

Rights are shown at historical cost. Rights have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives (6-10 years).

(b) *Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

(c) *Goodwill*

To determine goodwill, the Company defines the method of accounting per transactions. Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of net identifiable assets of the acquired subsidiary/associate at the date of the acquisition.
Goodwill on acquisition of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments is associates and joint ventures' and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. 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.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.6 Impairment of non-financial assets

Assets that have an indefinite useful life (goodwill) are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are

grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).
The impairments are recognized among other expenses in the statement of comprehensive income. The doubtful receivables are impaired, if the debt collection is successful the impairment are reversed.

2.7 Financial assets

2.7.1 Classification

The Group classifies its financial assets in the following categories:
a) financial assets at fair value through profit or loss,
b) loans and receivables,
c) held-to-maturity investments,
d) and available-for-sale financial assets.
The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(a) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The Group did not have this type of financial assets in the reporting period.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(c) *Held-to-maturity financial assets*

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any financial assets in this category.

(d) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2.7.2 Recognition and measurement

Purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all

risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the net profit in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the net profit as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in net profit. Impairment losses recognised in the net profit on equity instruments are not reversed through the net profit. Impairment testing of trade receivables is detailed in Note 2.9.

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The inventories of the Company are not typical qualifying assets, therefore borrowing costs are not capitalised. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.9 Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of loss is recognised in the net profit, within other expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other expenses in net profit.

Lease transactions

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Finance lease receivables. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins), using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within Interest income in profit or loss for the year.

2.10 Cash and cash equivalents

Cash and cash equivalents excludes overdrafts, includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.11 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, reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects are included in equity attributable to the Company's equity holders.

2.12 Trade payables

Trade payables are recognised initially at fair value, and subsequently measured at amortized costs using the effective interest method.

Lease transactions

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

2.13 Borrowings

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.14 Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax 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 it is not accounted for. 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 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 is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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 taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.15 Employee benefits

(a) *Pension obligations*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.
The Company makes no contributions to defined benefit plans.

(b) *Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits redundancy. 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 entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.
Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(c) *Bonus plans*

The Group recognises a liability and an expense for bonuses when such bonuses are awarded and authorised or where there is a past practice that has created a constructive obligation.

2.16 Provisions

Provisions for environmental restoration costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be

required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

2.17 Revenue recognition

Revenue comprises the fair value for the sale of goods (medical drugs) and services, net of value-added tax, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

(a) Sales of goods – wholesale

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and settlement of the related receivables is reasonably assured.

(b) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. The revenue from services is mainly from rental fees for storage facility.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash-flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost–recovery basis as conditions warrant.

(d) Dividend income

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

2.18 Gain/loss on sale of subsidiary

The net gain from sale of subsidiary is recognized as other income, losses are recognized as other expenses.

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.20 Income tax expense

For the sake of the presentation the global income tax obligation contains the corporate tax, the local tax obligation and a duty, which is payable based on the gross margin of subsidized medicines trading in pharmacies.

2.21 Borrowing costs

Credits are used to refinancing and general corporate finance. In case borrowing relates to acquisition or building of a qualifying asset, the Company activates borrowing cost as deemed cost.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest-rate risk, fair value interest risk), credit risk, liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses contractual agreements to decrease certain risk exposures.

Risk management is monitored and controlled by the Deputy CEO Economic and Logistics with the assistance of the related functional departments and in line with the guidelines approved by management. The guidelines cover specific areas, such as foreign exchange risk, interest rate risk, credit risk and management of non-derivative financial assets.

(a) *Market risk*

(i) Foreign exchange risk

The Group operates in Hungary. Sales are made almost exclusively to Hungarian customers and are invoiced in HUF. A large proportion of purchases are from foreign suppliers and a part of it is settled in currencies other than HUF (primarily in EUR). Consequently, the Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EUR.

To manage their foreign exchange risk the Group enters into contracts with its suppliers to fix the exchange rates in which the purchases are made and hence there is no significant foreign currency risk exposure. The Group's risk management policy is to hedge almost all transactions in each major currency. The above mentioned techniques do not qualify for hedge accounting.

(ii) *Cash flow and fair value interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from its financing structure. The Company is exposed to changes in interest rates because most external financing is arranged via short and long term bank loans.

The Group does not have loans with fixed interest rate, only BUBOR based. The Group's all loans are in HUF to avoid foreign exchange risks.

(b) *Credit risk*

The Group is not exposed to significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. The Group is continuously checking the paying attitudes of the customers, controlling their purchasing potential with the adjustments of credit limits. The amount of credit limit is determined by the proposed turnover in the customer contract, the term of payment and the payment patterns in the past.

The Group focuses on the recoverability of the trade receivables, as one of the most important risk factor. The Group is continuously monitoring and rating its customers, evaluation is performed on individual basis. When needed the Group asks for guarantees for payment. If the assets of the customer don't give sufficient guarantee the Group initiates a law proceeding. The Group is monitoring its trade receivables on daily basis. The Group performs a reconciliation on monthly basis of the balances of repayments and interests. The majority of our customers can purchase in accordance with their predetermined limits. At the end of the year the Group recognises impairment loss for the trade receivables which are not expected to be collectable in the ordinary manner or collection on the

judicial route is not possible.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Group aims to maintain flexibility in funding by keeping committed credit lines available.

The table below analyses the group's financial liabilities into relevant maturity grouping based on the remaining period at the balance sheet to the contractual maturity date. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 Month	Between 1 and 3 Months	Between 3 Months and 1Year	Between 1 and 5Years	Over 5 Years	**Total**
At 31 December 2013						
Trade and other payables	20,599,712	7,560,031	287,436	-	-	**28,447,179**
Short term loans	20,736	237,847	980,913	-	-	**1,239,496**
Long term loans	-	-	-	8,061,524	-	**8,061,524**
At 31 December 2012						
Trade and other payables	21,610,687	8,195,603	1,823,374	22,773	-	**31,652,437**
Short term loans	-	238,477	2,865,294	-	-	**3,103,771**
Long term loans	-	-	-	9,993,855	-	**9,993,855**

3.2 Capital risk management

At 1 June 2012 a contract for HUF 17 billion credit limit was signed with five financing banks (CIB, MKB, FHB, Sberbank, Takarékbank) that ensure availability of necessary future financial resources for the Company. The facility has two parts, a HUF 10 billion long term refinancing credit facility, and a HUF 7 billion short term bank loan facility, which can be used only for general corporate financing.
The loans are secured by mortgages on properties and inventories of Hungaropharma Zrt. The pledged properties fair value was thousand of HUF 4,849,000 at 31 December 2013., realizable on the open market. The fair valuation was performed by an independent company based on internationally accepted valuation method (cost approach, market approach and single period capitalisation approach.)

The financing banks require to comply with certain ratios for the newly signed loan for Hungaropharma Zrt. This Debt Service Coverage Ratio (DSCR) is monitored accordingly from the day when contract was signed. The DSCR index calculated for the year 2013 is 3.0, which meets the requirements of 1.15 of the banks.
DSCR index shows the debt paying capacity of the Company. The formula of DSCR is: net operating income increased by amortization, depreciation, decreased by income tax expense, divided by the sum of interests, expenses and repaid principal for the year according the long agreement.
Dividend can be paid for the owners only when the DSCR is higher than 1.35.
Furthermore, the non consolidated equity of Hungaropharma Zrt. has to reach at least HUF 8,000,000 thousand at 31. December 2013. It has to reach at least HUF 9,000,000 thousand at 31 December 2014.

The gearing ratios at 31 December 2013 and 2012 were as follows:

	31.12.2013	31.12.2012
Total short-term loans	1,239,496	2,862,549
Total long-term loans	8,061,524	9,093,590
Less: cash and cash equivalents	(1,815,377)	(1,912,999)
Net debt	7,485,643	10,043,140
Total equity	8,117,398	4,949,658
Total capital	**15,603,041**	**14,992,798**
Gearing ratio	**47.98 %**	**67.00 %**

The Act IV of 2006 on business associations declares, that the board of directors has to convene the general meeting if the equity of the company decreased under two third of the registered capital. In the financial year there was no general meetings convened for such reason.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded available-for-sale securities) is based on quoted market prices at the balance sheet date (level 1). The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques (level 2). The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

There is no market data available for the financial assets available for sale, which does not represent a material amount within the financial statements. The Company chose to value these equity investments at cost less accumulated impairment. There are no financial instruments that are measured at fair value.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the useful life of fixed assets and the provision for bad debts.

All amounts in thousands of HUF unless otherwise stated

Estimated impairment of receivables

The Group estimates the impairment for trade receivables on individual basis. We recognize impairment for those trade receivables, whose debt are prolonged, don't keep the schedule of settlement, and its collection on judicial route can be fruitless, and the customer does not give adequate guarantee for the payment of the debts. Further details can be found in note 10.

Impairment of goodwill

The Group is performing estimates relating to the impairment concerning goodwill. We are examining how profitability and cash flow of the entities representing goodwill are changing. We have assessed the impairment of goodwill by the discounted cash-flow method prediction for 5 years, calculate the cost of capital with 3-4 % growth, and take into account the interest of foreign liabilities in 6 %.
For the determination of the income generating ability of the companies 3-4 % growth in the sales was calculated. Management has applied a discount rate of 11.2 % at 31. December 2013.

Depreciation

Property, plant and equipment and intangible assets are registered on their historical cost. Depreciation is calculated based on useful life, using the straight-line method. If the useful life of PPE changes by 5 %, depreciation would change by HUF 42 million.

All amounts in thousands of HUF unless otherwise stated

5. Property, plant and equipment

	Land and building	Plant and equipment	Other	Construction work in progress	Total
At 1 January 2012					
Gross value	9,136,089	2,454,127	2,336,651	1,661,036	15,587,903
Accumulated depreciation	(1,147,805)	(1,785,319)	(1,657,514)	0	(4,590,638)
Accumulated impairment	(808,475)	(1,201)	(20,939)	(1,107,991)	(1,938,606)
Net book amount Year ended 31 January 2012	**7,179,809**	**667,607**	**658,198**	**553,045**	**9,058,659**
Opening net book amount	**7,179,809**	**667,607**	**658,198**	**553,045**	**9,058,659**
Acquisition of subsidiary – Tóth-Art Kft.	15,486	-	1,688	-	17,174
Additions	848,359	19,344	122,229	106,961	1,096,893
Disposals	(454,830)	(121,179)	(133,158)	(627,073)	(1,336,240)
Depreciation charge	(146,033)	(171,189)	(181,810)	-	(499,032)
Impairment charge	(184,388)	(42,149)	(1,456)	(10,090)	(238,083)
Closing net book amount At 31 December 2012	**7,258,403**	**352,434**	**465,691**	**22,843**	**8,099,371**
Gross value	9,490,881	1,819,028	1,771,069	670,339	13,751,317
Accumulated depreciation	(1,239,615)	(1,423,244)	(1,282,982)	-	(3,945,841)
Accumulated impairment	(992,863)	(43,350)	(22,396)	(647,496)	(1,706,105)
Net book amount Year ended 31 December 2012	**7,258,403**	**352,434**	**465,691**	**22,843**	**8,099,371**
Opening net book amount	**7,258,403**	**352,434**	**465,691**	**22,843**	**8,099,371**
Additions	124,807	42,208	145,524	886,722	1,199,261
Disposals	(266,773)	(113,871)	(45,903)	(897,506)	(1,324,053)
Depreciation charge	(147,695)	(74,089)	(182,767)	-	(404,551)
Impairment charge	(47,443)	-	(700)	(8,521)	(56,664)
Closing net book amount at 31 December 2013	**6,921,299**	**206,682**	**381,845**	**3,538**	**7,513,364**
Gross value	9,180,872	1,387,665	1,682,017	80,319	12,298,381
Accumulated depreciation	(1,260,238)	(1,138,630)	(1,294,707)	-	(3,693,575)
Accumulated impairment	(999,335)	(42,353)	(5,465)	(44,289)	(1,091,441)
Net book amount at 31 December 2013	**6,921,299**	**206,682**	**381,845**	**3,538**	**7,513,364**

The approved capital expenditure budget for 2014 is HUF 203 million. From 2012 the properties are used as bank guarantee. The impairment charge of buildings are related to 16 companies.

6. Intangible assets

	Goodwill	Rights	Software	Costumer relationship	Total
At 1 January 2012					
Gross value	1,073,103	262,431	1,457,812	276,000	3,069,346
Accumulated amortisation	-	(131,374)	(1,358,859)	(211,600)	(1,701,833)
Accumulated impairment	(922,890)	-	-	-	(922,890)
Net book amount	**150,213**	**131,057**	**98,953**	**64,400**	**444,623**
Year ended 31 January 2012					
Opening net book amount	**150,213**	**131,057**	**98,953**	**64,400**	**444,623**
Acquisition of subsidiary					
– Tóth-Art Kft.	138,148	-	-	-	138,148
Additions	-	71,634	744	-	72,378
Disposals	-	(9,488)	(11,995)	-	(21,483)
Amortisation charge	-	(96,271)	(2,575)	(55,200)	(154,046)
Impairment charge	(138,148)	-	-	-	(138,148)
Closing net book amount At 31 December 2012	**150,213**	**96,932**	**85,127**	**9,200**	**341,472**
Gross value	1,211,251	189,235	1,479,024	276,000	3,155,510
Accumulated amortisation	-	(92,303)	(1,393,897)	(266,800)	(1,753,000)
Accumulated impairment	(1,061,038)	-	-	-	(1,061,038)
Net book amount at 31 December 2012	**150,213**	**96,932**	**85,127**	**9,200**	**341,472**
Opening net book amount	**150,213**	**96,932**	**85,127**	**9,200**	**341,472**
Additions	57	121,383	13,799	-	135,239
Disposals	-	(240)	-	-	(240)
Amortisation charge	-	(97,913)	(3,607)	(9,200)	(110,720)
Closing net book amount	**150,270**	**120,162**	**95,319**	**0**	**365,751**
At 31 December 2013					
Gross value	1,211,308	306,227	1,483,144	276,000	3,276,679
Accumulated amortisation	-	(186,065)	(1,387,825)	(276,000)	(1,849,890)
Accumulated impairment	(1,061,038)	-	-	-	(1,061,038)
Net book amount at 31 December 2013	**150,270**	**120,162**	**95,319**	**0**	**365,751**

Rights represent exclusive distribution rights to a hospital.
Customer relationship was acquired in the Medimpex business combination and recognised at fair value. Based on useful life the customer relationship is amortised in 5 years, finished in 2013.
Goodwill of HUF 138,148 thousand related to Tóth-Art Kft. was fully written down in 2012. (note 29).

All amounts in thousands of HUF unless otherwise stated

7. Investments in associates and joint ventures

	31.12.2013	31.12.2012
Balance at the beginning of the year	137,313	110,247
Share of profit/(loss) of associates and joint ventures	3,439	24,691
Impairment of associates	-	(9,109)
Reclassification from subsidiary to associates	5,312	11,484
Gains or losses on disposal	(60,699)	-
Other corrections	(1,644)	-
Balance at the end of the year	**83,721**	**137,313**

In 2013 two associates, Solti-Müller Kft. and Napsugár Patikák Zrt., were sold. In the meanwhile, due to the changes in the ownership of Fermon Pharma Kft. and László Gyógyszertár Kft. (former subsidiaries) are listed among the associates in the financial year. Duo-Pharm Bt. has been reclassified to „associate" from „joint venture".

2013 the the shares sold amounted to be HUF 5,000 thousand and HUF 55,699 thousand for Duo-Pharm Bt and Solti-Müller Kft respectively.
The result of the associates raised the value of the shares by HUF 3.439 thousand.

The Group's interests in associates, all of which are unlisted and are incorporated in Hungary were as follows:

Name	Business activities	Ownership stake / voting rights 31.12.2013	Ownership stake 31.12.2012
Duo Pharm Bt.	Retail of pharmaceutical products	74.85% /48.35%	50.00%
Press GT Kft.	Printing services	49.00%	49.00%
Recyclomed Kft.	Collection of waste pharmaceuticals	36.00%	36.00%
Szent András Patika Bt.	Retail of pharmaceutical products	33.00% /37.00%	33.00%
Strázsahegy Patika Bt.	Retail of pharmaceutical products	68.00% /49.00%	49.00%
Solti-Müller Kft.	Retail of pharmaceutical products	-	49.00%
Napsugár Patikák Zrt.	Retail of pharmaceutical products	-	45.30%
Associate from subsidiary:			
Fermon Pharma Kft.	Retail of pharmaceutical products	53.33% /47.00%	90%
László Gyógyszertár Kft	Retail of pharmaceutical products	47.00% /47.00%	98%

The figures of the associates and joint ventures consolidated by using the equity method were as follows:

	Assets	Liabilities	Revenue	Net Profit / (Loss)
	31.12.2013	31.12.2013	2013	2013
Duo Pharm Bt.	124,390	105,582	317,008	10,875
Press GT Kft.	113,272	46,930	382,196	6,231
Recyclomed Kft.	64,635	8,935	187,881	(1,318)
Szent András Patika Bt.	93,088	56,342	197,665	(398)
Strázsahegy Patika Bt.	51,534	32,366	300,361	9,443
Associate from subsidiary:				
Fermon Pharma Kft.	98,606	86,420	543,346	35,427
László Gyógyszertár Kft.	134,049	145,800	155,945	(8,502)

All amounts in thousands of HUF unless otherwise stated

	Assets	Liabilities	Revenue	Net Profit / (Loss)
	31.12.2012	31.12.2012	2012	2012
Joint venture – equity consolidated				
Duo Pharm Bt.	122,159	99,165	323,791	7,934
Associates – equity consolidated				
Press GT Kft.	106,121	39,979	398,067	3,287
Recyclomed Kft.	70,627	8,909	182,096	335
Szent András Patika Bt.	91,549	60,068	187,863	7,198
Strázsahegy Patika Bt.	41,086	25,471	292,872	6,478
Solti-Müller Kft.	141,881	27,781	330,477	29,782
Napsugár Patikák Zrt.	444,935	478,368	579,986	(2,211)

8. Financial instruments

8.a Financial instruments by category

	31.12.2013	31.12.2012
Available-for-sale financial assets	8,365	13,361
Trade and other receivables	18,372,881	17,688,930
Other short-term receivables	1,719,406	1,337,997
Cash and cash equivalents	1,815,377	1,912,999
Short-term	**21,916,029**	**20,953,287**
Loans	105,058	65,106
Other receivables- long term	300,114	251,388
Long-term	**405,172**	**316,494**
Financial assets	***22,321,201***	***21,269,781***

	31.12.2013	31.12.2012
Short term loans	1,239,496	2,862,549
Trade and other payables	28,471,015	31,658,014
Other current liabilities	788,066	487,748
Short-term	**30,498,577**	**35,008,311**
Long term loans	8,061,524	9,093,590
Long-term	**8,061,524**	**9,093,590**
Financial liabilities	***38,560,101***	***44,101,901***

8.b Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed with the classification of the activity of the customers. Debtors in this category did not have significant delay in payment during the year. The maximum credit risk exposure of receivable is their carrying amount.

All amounts in thousands of HUF unless otherwise stated

	31.12.2013	31.12.2012
Trade receivables and receivables from related parties		
Pharmacies	12,235,765	12,605,984
Hospitals	3,190,109	3,259,535
Wholesalers	726,240	1,550,868
Foreign customers	41,880	48,466
Other	339,852	1,153,818
Total trade receivables and receivables from related parties	**16,533,846**	**18,618,671**
Cash at hand and short-term bank deposits	1,815,377	1,912,999

For the rescheduled trade receivables HUF 110,000 thousand impairment loss was accounted for. No further impairment is charged for rescheduled receivables that are paid according to debt rescheduling agreement signed by customer. None of the loans to related parties is past due not impaired.
The rating of CIB - the Company's collateral agent - is BBB-, based on Fitch Ratings Financial Services LLC at 31 December 2013.

9. Available-for-sale financial assets

	2013	2012
At 1 January	13,361	41,171
Disposal of investments	(4,996)	(25,110)
Reclassification from (to) investments (Note 7)	-	(2,700)
At 31 December	**8,365**	**13,361**

Available-for-sale financial assets, hold by Patika Praxis Kft., HUF 25,110 thousand was sold in 2012, and further HUF 4,996 thousand in 2013. In addition, Grigalaviciusné és Tsai Bt., Hungaro-Gal Kft. and Üdvözítő Patika Kft. have available-for-sale financial assets.

10. Trade and other receivables

10.a Trade and other receivables (Non-current assets)

	31.12.2013	31.12.2012
Receivables from related parties- long term	35,399	31,992
Other receivables- long term	369,773	284,502
Total	**405,172**	**316,494**

	31.12.2013	31.12.2012
Loans to related parties - long term	35,399	31,992
Long term receivables from related parties- net	**35,399**	**31,992**
Long term loans to third parties	69,659	77,777
Impairment of loans from third parties- long term	-	(44,663)
Receivables of financial lease – long term	162,482	-
Receivables of operating lease – long term	176,235	-
Other receivables- long term	619,884	799,225
Impairment of other receivables- long term	(658,487)	(547,837)
Other receivables- long term- net	**369,773**	**284,502**
Trade and other receivables- long term	**405,172**	**316,494**

All amounts in thousands of HUF unless otherwise stated

Movements on the group provision for impairment of the other- long term receivables are as follows:

	2013	2012
At 1 January	**592,500**	**457,254**
Provision for other long term receivables impairment	271,385	132,710
Bad debts	(1,586)	-
Impairment for reclassified to short term other receivables	-	(1,004)
Impairment for reclassified from short term other receivables	-	3,636
Impairment for reclassified to trade receivables	(160,735)	-
Reversed impairment	(43,077)	(96)
At 31 December	**658,487**	**592,500**

10.b Trade and other receivables

Trade receivables	**31.12.2013**	**31.12.2012**
Trade receivables	18,177,289	17,436,317
Receivables from related parties	195,592	252,613
Total	**18,372,881**	**17,688,930**

Other receivables - short term	**31.12.2013**	**31.12.2012**
Loans provided to third parties	16,097	5,606
Other receivables	1,560,972	1,154,792
Income deferred charges	142,337	177,599
Financial assets	***1,719,406***	***1,337,997***
Refundable tax	180,773	864,510
Advances given	8,793	8,693
Finance lease receivables	17,317	-
Operating lease receivables	22,200	-
Deferred expenses	20,056	313,380
Total	**1,968,545**	**2,524,580**

Trade and other receivables	**20,341,426**	**20,213,510**

All amounts in thousands of HUF unless otherwise stated

	31.12.2013	31.12.2012
Trade receivables	22,262,385	22,006,247
Less: provision for impairment of receivables	(4,085,096)	(4,569,930)
Trade receivables- net	**18,177,289**	**17,436,317**
Receivables from related parties	170,875	797,622
Other receivables from related parties	96,392	94,054
Loans to related parties	351,541	372,584
Less: provision for impairment of related party receivables	(423,216)	(1,011,647)
Receivables from related parties- net	**195,592**	**252,613**
Total trade receivables	**18,372,881**	**17,688,930**
Advances	8,793	8,693
Finance lease receivables	17,317	-
Operating lease receivables	22,200	-
Loans to third parties	133,684	113,962
Other receivables	3,327,392	3,783,668
Less: provision for impairment of other receivables	(1,540,841)	(1,381,743)
Other receivables	**1,968,545**	**2,524,580**
Trade and other receivables	**20,341,426**	**20,213,510**

The effective interest rates on non-current receivables were as follows:

	2013	2012
Loans given	7.6 %	8.2 %

The fair value of loans provided to third parties equals their carrying amount. Fair values are based on discounted cash flows. These loans are denominated in HUF. Loans granted to third parties are investments that determine the company's market share from strategic consideration.

Trade receivables

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of diversified customers, mainly pharmacies and hospitals. The maximum exposure to credit risk at reporting date is the carrying value of trade receivables. Trade receivables are denominated in HUF. These collaterals have been taken into account when the Company has assessed the impairment of receivables.

The Group holds mortgage as a security for the overdue retail-related debts of HUF 1,051 million which guarantees the payback.

The actual value of the debts corresponds approximately to the carrying value.

The fair value of receivables approximates their carrying value.
On 31 December 2013. trade receivables of HUF 1,643,443 thousand (2012: HUF 3,026,290 thousand) were past due but not impaired. These relate to a number of independent customers. The ageing analysis of these trade receivables is as follows:

All amounts in thousands of HUF unless otherwise stated

Ageing analysis of trade receivables

	31.12.2013	**31.12.2012**
Not overdue and not impaired receivables	16,533,846	14,410,027
Overdue receivables, not impaired	1,643,443	3,026,290
1 - 90 days	*1,289,929*	*2,681,899*
91 -180 days	*257,942*	*186,872*
181 - 360 days	*90,704*	*98,535*
over 360 days	*4,868*	*58,984*
Impaired receivables	4,085,096	4,569,930
not overdue	*21,588*	*105,700*
1 - 90 days	*23,005*	*82,806*
91 -180 days	*21,638*	*75,610*
181 - 360 days	*64,116*	*157,114*
over 360 days	*3,954,749*	*4,148,700*
Recognised impairment for receivables	(4,085,096)	(4,569,930)
not overdue	*(21,588)*	*(105,700)*
1 - 90 days	*(23,005)*	*(82,806)*
91 -180 days	*(21,638)*	*(75,610)*
181 - 360 days	*(64,221)*	*(157,114)*
over 360 days	*(3,954,644)*	*(4,148,700)*
Total	**18,177,289**	**17,436,317**

Trade receivables of HUF 1,643,443 thousand were past due out of which HUF 233,182 thousand related to pharmacies, HUF 992,940 thousand related to hospitals and HUF 417,321 thousand related to other customers.

In 2013 trade receivables of HUF 129,827 thousand (2012: HUF 360,035 thousand) were impaired and provided for. The total amount of provision was HUF 4,085,096 thousand as of 31 December 2013 (2012: HUF 4,569,930 thousand). In order to collect outstanding receivables the company filed for legal actions, the ageing of the receivables provided for during 2013 and 2012 is as follows:

	2013	**2012**
Not overdue	3,019	-
Up to 12 months	87,675	229,293
Over 12 months	39,133	130,742
	129,827	**360,035**

In the financial year from HUF 129,827 thousand impairment trade receivables of HUF 78,925 thousand related to pharmacies, HUF 17,099 thousand related to hospitals and HUF 33,803 thousand related to other costumers.

All amounts in thousands of HUF unless otherwise stated

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

	2013	2012
At 1 January	**4,569,930**	**7,590,688**
Provision for receivables impairment	129,827	360,035
Receivables written off during the year as uncollectible	(572,888)	(86,447)
Reversed impairment	(153,729)	(102,041)
Impairment for reclassified from long term other receivables	170,203	-
Other decrease of impairment (due to factoring)*	(58,247)	(3,192,305)
At 31 December	**4,085,096**	**4,569,930**

*The company has no further responsibility in respect of these receivables sold to third party.

The impairment for trade receivables per customer groups as at the end of the year:

	31.12.2013	31.12.2012
Pharmacies	3,945,757	4,473,152
Hospitals	52,632	34,205
Wholesalers	-	100
Foreign customers	25,739	8,438
Other	60,968	54,035
Impairment for trade receivables total	**4,085,096**	**4,569,930**

Impairment for trade receivables decreased significantly because of bad debt writing off.

Impairment for related party trade receivables was HUF 314,052 thousand in 2013 (2012: HUF 1,011,647 thousand).

	2013	2012
At 1 January	**1,011,647**	**3,048,286**
Provision for impairment of related party receivables	109,164	53,023
Account for bad debts	(688,163)	(1,935,446)
Reversed impairment	-	(5,391)
Other decrease of impairment (due to factoring)*	(9,432)	(148,825)
At 31 December	**423,216**	**1,011,647**

*The company has no further responsibility in respect of these receivables sold to third party.

Movements on the group provision for impairment of the other receivables are as follows:

	2013	2012
At 1 January	**1,381,743**	**536,048**
Provision for other receivables impairment	288,886	970,081
Bad debts	(110,422)	(14,798)
Impairment for reclassified receivables	-	(96,058)
Impairment for reclassified for short term other receivables	-	1,004
Reversed impairment	(19,366)	(14,534)
At 31 December	**1,540,841**	**1,381,743**

All amounts in thousands of HUF unless otherwise stated

The creation and release of provision for impaired receivables have been included in ‘other expenses’ in profit and loss (note 21). Receivables are generally written off, when there is no expectations of recovering additional cash.

10.c Lease receivables

Finance lease receivables

The present value of the finance lease receivables are as follow:

	31. December 2013		
	Cash in future	**Interest**	**Net present Value**
Less than 1year	18,000	683	17,317
Between 1 and 5 years	193,000	30,517	162,483
Total	**211,000**	**31,200**	**179,800**

The outstanding debt of 31 December 2013 arises out of finance lease attributable to the rental contract of the real estate of Békéscsaba, which contains an option for purchase for the lessee, at a price making it reasonably certain that the option will be exercised.

Operating lease receivables

The debts arising out of operating lease are attributable to a rental agreement relating to a pharmacy of Szirt Kft.

Operating lease receivables are as follows:

	Expenses deferred charges	Impairment
Less than 1year	22,200	18,315
Between 2 and 5 years	88,800	75,204
Over 5 years	87,435	81,380
	198,435	174,899

11. Inventories

	31.12.2013	**31.12.2012**
Trading goods	16,701,271	18,281,896
Raw materials	32,201	44,287
Impairment provision on trading goods	(81,564)	(84,729)
	16,651,908	**18,241,454**

2013 the provision for inventory impairment was HUF 50,679 thousand, while HUF 53,844 thousand reversal of impairment has been accounted for as a result of scrapping and sales of the earlier impaired goods.

The cost of inventories recognised as expense and included in ‘cost of goods sold’ amounted to HUF 215,032,852 thousand (2012: HUF 217,308,736 thousand).

12. Cash and cash equivalents

	31.12.2013	**31.12.2012**
Cash at bank	1,752,652	1,781,592
Cash in hand	62,725	131,407
	1,815,377	**1,912,999**

Cash at bank represents current account balances held with Hungarian financial institutions all of which are denominated in HUF. See also Note 16. On the foreign currency account (CIB, MKB, Sberbank) the balance was not significant at year end.

13. Share capital

The Company's share capital consists of 541,694 Class "A" common shares and 60,188 Class "C" preference share with a par value of HUF 10,000 each.

The marketability of Class "C" shares is limited as their holders must be either the members of the consortium (Note 1) or members of the Hungarian Pharmacists' Association.

All issued shares are fully paid.

14. Other reserves

	Capital reserve	Capital investment reserve	Total
At 1 January 2012	**3,041,989**	**584,206**	**3,626,195**
Business combination	-	(1,317)	(1,317)
Transfers to retained earnings	(20)	(45,989)	(46,009)
Net transfers from retained earnings	**-**	23,106	23,106
At 31 December 2012	**3,041,969**	**560,006**	**3,601,975**
Net transfers from retained earnings	20	(442,129)	(442,109)
At 31 December 2013	**3,041,989**	**117,877**	**3,159,866**

Capital investment reserves represent amounts separated for fixed asset investment purposes. The creation of such reserves entitles the Group – based on current tax laws – to use accelerated tax depreciation and reduce the taxable income by the amount reserved. Such reserves should be reversed when the related capital investments take place. Depreciation of assets purchased from such reserves is not deductible for tax purposes.

Capital investment reserves and capital reserves are not distributable.

15. Liabilities

Trade liabilities	**31.12.2013**	**31.12.2012**
Trade liabilities	22,482,722	25,518,397
Amounts due to related parties	5,988,293	6,139,617
Total	**28,471,015**	**31,658,014**

All amounts in thousands of HUF unless otherwise stated

Other current liabilities	**31.12.2013**	**31.12.2012**
Accrued expenses	230,539	261,066
Other liabilities	557,527	226,682
Financial liabilities	***788,066***	***487,748***
Employee benefit expense	456,514	502,498
Other tax	187,536	229,279
Income deferred charges	1,426	1,233
Deferred income	10,823	11,403
Total	**1,444,365**	**1,232,161**

Trade and other liabilities	**29,915,380**	**32,890,175**

16. Short and long term loans

	31.12.2013	**31.12.2012**
Current		
Bank loans (for 12 months)	1,214,315	2,842,042
Factoring payables	25,181	20,507
Total short term loans	**1,239,496**	**2,862,549**
Long term loans	8,061,524	9,093,590
Total long and short term loans:	**9,301,020**	**11,956,139**

The overdrafts are secured by inventories and real estates owned by Hungaropharma. All overdrafts are denominated in HUF. The fair value of the borrowings equals their carrying value, as the impact of discounting is not significant.

The average interest rates at the balance sheet date were as follows:

	2013	**2012**
Short term loans	6.3 %	8.3 %
Long term loans	7.6 %	9.9 %

Besides the HUF 10 billion long term borrowings the undrawn overdraft facilities and borrowings amounted to HUF 6,773,418 thousand at 31 December 2013 and to HUF 5,064,336 thousand at 31 December 2012.The short term loans prolonged yearly. At the end of 2013 the group has utilized 3.2 % of short turn credit facility.

The Company has fulfilled the financial liabilities and covenants stated in the loan agreement dated 1 June 2012 (Note 3.2).

All amounts in thousands of HUF unless otherwise stated

17. Deferred income tax

From 1 January 2011 the Hungarian statutory corporate tax rate is 10 % up to 500 million HUF taxable income, above this amount the tax rate is 19 %. 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. To calculate the deferred tax we determined the tax rate by company, considering the expected amount of taxable income.

Deferred tax assets are recognised to the extent until it is probable that there will be future taxable profit to utilise.

Differences between accounting principles applied and statutory tax laws give rise to timing differences between the accounting periods. The cumulative effect of such differences at 31 December 2013 and 2012 is as follows:

	Cumulative temporary difference	Deferred tax asset/(liability)
At 1 January 2012		
Deferred tax asset	7,602,228	1,335,147
Deferred tax liability	(4,238,234)	(678,533)
Deferred tax balance	**3,363,994**	**656,614**
Deferred tax asset additions	348,953	34,894
Deferred tax asset disposals	9,157	(179,985)
Deferred tax liability additions	(74,036)	(11,276)
Deferred tax liability disposals	834,561	173,869
Decrease of deferred tax charge for the year	**1,118,635**	**17,502**
At 31 December 2012		
Deferred tax asset	7,960,338	1,190,056
Deferred tax liability	(3,477,709)	(515,940)
Deferred tax balance	**4,482,629**	**674,116**
Deferred tax asset additions	739,994	143,925
Deferred tax asset disposals	(1,156,049)	(117,562)
Deferred tax liability additions	(21,560)	(43,695)
Deferred tax liability disposals	212,845	22,660
Decrease of deferred tax charge for the year	**(224,770)**	**5,328**
At 31 December 2013		
Deferred tax asset	7,544,283	1,216,419
Deferred tax liability	(3,286,424)	(536,975)
Deferred tax balance before netting	**4,257,859**	**679,444**

Changes in deferred tax assets/liabilities are caused by changes in temporary differences and changes in the tax rate.

The net tax assets/liabilities were calculated on legal entities (according to the regulation of IAS 12.74)

At 31 December 2013	Cumulative temporary difference	Deferred tax asset/(liability)
Deferred tax asset	4,308,658	684,524
Deferred tax liability	(50,799)	(5,080)
Deferred tax balance	**4,257,859**	**679,444**

From the amount of the deferred tax assets HUF 189,941 thousand is expected to reverse within a year, the entire balance of the deferred tax liability is expected to be settled over one year.

Deferred tax assets and liabilities in the income statement

	2013	2012
Impairment of current assets	(117,562)	(141,415)
Loss carried forward	1,863	34,895
Capital investment reserve	19,260	77,801
Intangible assets and PPE	1,401	10,086
Deferred tax on effective interest rate	2,565	(11,276)
Depreciation	18,694	78,685
Others	79,107	(26,517)
Total	**5,328**	**22,259**

Deferred tax assets:

	Impairment of current assets	Loss carried forward	Capital investment reserve depreciation	Others	Total
At 1 January 2012	**985,285**	**6,532**	**271,391**	**71,939**	**1,335,147**
Charged/(credited) to net profit	(141,416)	34,895	(7,297)	(31,273)	(145,091)
At 31 December 2012	**843,869**	**41,427**	**264,094**	**40,666**	**1,190,056**
Charged/(credited) to net profit	(117,562)	1,863	62,955	79,107	26,363
At 31 December 2013	**726,307**	**43,290**	**327,049**	**119,773**	**1,216,419**

All amounts in thousands of HUF unless otherwise stated

The Group takes the following losses into account during the calculation of the deferred income tax:

Loss carried forward	**At 31 December 2012**	**Changes**	**At 31 December 2013**
ALMA group	-	49,998	49,998
Vektrum group	3,299	16,147	19,446
Szirt group	-	9,256	9,256
Patika Management Kft.	-	2,137	2,137
Medimpex Zrt.	359,396	(7,333)	352,063
Pannonmedicina Zrt.	51,578	(51,578)	-
Total	**414,273**	**18,627**	**432,900**

According to the Hungarian tax law, accumulated losses can be utilised for tax base reduction for its 50%.

It is not probable that future taxable profit will be available against the following unused tax losses therefore no deferred tax asset has been recognised in connection to them (2012: HUF 4,545,950 thousand):

Unrecognised accumulated losses (HUF thousand)	
ALMA group	1,185,138
Vektrum group	1,006,304
Szirt group	1,654,509
Patika Management Kft.	58,544
Pannonmedicina Zrt.	50,176
	3,954,671

Deferred tax liabilities:

	Capital investment reserve	Revaluation in business combination	Deferred tax on effective interest rate	Depreciation	Total
At 1 January 2012	**(562,340)**	**(13,810)**	-	**(102,383)**	**(678,533)**
Charged/(credited) to the net profit	85,098	10,086	(11,276)	78,685	162,593
At 31 December 2012	**(477,242)**	**(3,724)**	**(11,276)**	**(23,698)**	**(515,940)**
Charged/(credited) to the net profit	(43,695)	1,401	2,565	18,694	(21,035)
At 31 December 2013	**(520,937)**	**(2,323)**	**(8,711)**	**(5,004)**	**(536,975)**

Capital investment reserve: The Company created reserve from 2003 to 2013 for capital expenditure purposes. Such reserves are shown in equity under other reserves and result in temporary tax allowances in the year of their creation. The reserve is reversed when the capital expenditure takes place. The initial tax allowance reverses when the assets (which may not include land) are depreciated over their useful life, as no tax depreciation may be

accounted for against taxable income on those assets which were purchased from capital investments reserves and for which tax allowance had been claimed.

Temporary difference arising between the IFRS and the tax accounting value of PPE is recognized directly against the net profit.

Deferred tax effect of temporary difference arising on fair valuation a business combination is reducing the amount of negative goodwill or increasing the value of goodwill. Every other item is accounted through profit or loss. For more information, on the business combination, please see note 29.

The tax authority – in respect the parent company - carried out a full scope audit covering the years until 2008 without any major finding. The tax authorities may audit the books and tax records any time within six years subsequent to the tax year and may make additional assessments. The Company's management is not aware of circumstance which could give rise to additional tax liabilities.

Depreciation: The depreciation allowed by Hungarian tax law is lower than calculated by the IFRS on the ground of their useful live.

18. Provisions

	31.12.2013	**31.12.2012**
Authority fees*	289,136	-
Provision for operating lease	59,739	-
Litigation processes*	33,673	33,674
Other provision	16,272	6,134
Group layoff	-	64,499
Provisions	**398,820**	**104,307**

From the amount of provision HUF 59,739 thousand is expected to reverse after one year, while HUF 339,081 thousand is expected to reverse within a year.

*The explanation of the item in Note 27.

Changes in provision:

	2013	**2012**
At 1 January	**104,307**	**84,535**
Creation of provision	359,012	98,173
Reversal of provisions	(64,499)	(78,401)
At 31 December	**398,820**	**104,307**

All amounts in thousands of HUF unless otherwise stated

19. Total revenues

	2013	2012
Sales revenue of medicines	230,524,643	232,433,522
Revenue from services	1,231,165	950,079
Other sales revenue	52,866	66,090
Total revenues	**231,808,674**	**233,449,691**

20. Other income

	2013	2012
Penalty interest received from customers	333,928	248,193
Received penalties, forfeits, compensations	63,459	11,945
Dividend income	5,000	-
Profit of sale of shares	6,678	92,587
Profit of (sale of receivables)	-	118,527
Others	208,789	115,908
Total other income	**617,854**	**587,160**

21. Other expenses

	2013	2012
Impairment of receivables (net)	574,222	487,847
Other local municipality taxes	152,605	229,846
Donations	231,901	155,765
Provisions creation/reversal	234,774	19,772
Loss on sale of property, plant and equipment	17,210	85,644
Non-recoverable VAT	12,439	3,443
Release of claims, assumed liabilities	15,650	8,799
Loss from assignments of accounts receivables	495	-
Paid default interests, penalties, others	469,669	233,697
Total other expenses	**1,708,965**	**1,224,813**

22. Expenses by nature

	2013	2012
Cost of goods sold	215,032,852	217,308,736
Direct cost of sales	6,107,233	6,420,725
Cost of sales	**221,140,085**	**223,729,461**
Selling and marketing costs	2,287,593	4,131,642
Administrative expenses	3,110,122	2,442,569
Total	**226,537,800**	**230,303,672**
Total direct cost of sales, selling and administrative cost	**11,504,948**	**12,994,936**

	2013	2012
Employee benefit expense (Note 23)	6,363,973	7,426,118
Services used	3,363,147	3,277,656
Raw materials and consumables used	569,878	851,571
Depreciation, amortisation (Note 5, 6)	571,935	1,029,309
Other expenses, intermediated services	636,015	410,282
Total cost of goods sold, selling and administrative expenses	**11,504,948**	**12,994,936**

23. Employee benefit expense

	2013	2012
Wages, salaries and non-cash benefits	5,019,129	5,845,048
Contributions	1,344,844	1,581,070
Total employee benefit expense	**6,363,973**	**7,426,118**
Number of employees	**1,207**	**1,409**

24. Finance income and costs

	2013	2012
Interest expense on bank borrowings	(983,043)	(1,322,023)
Interest expense on other borrowings	(196,969)	(17,868)
Finance costs	**(1,180,012)**	**(1,339,891)**
Interest income on other loans given	9,990	25,075
Interest income on financial lease	6,525	-
Interest income on loans to related parties	1,135	13,497
Interest income on short-term bank deposits	16,314	24,281
Interest income on loans to individual	230	21
Interest income on other loans	797	155,730
Finance income	**34,991**	**218,604**
Net finance costs	**(1,145,021)**	**(1,121,287)**

All amounts in thousands of HUF unless otherwise stated

25. Income tax expense

	2013	2012
Current tax	878,457	496,534
Deferred tax (Note 17)	(5,328)	(22,259)
Income tax expense	**873,129**	**474,275**

The HUF 873,129 thousand (2012: HUF 474,275 thousand) income tax expense components are HUF 388,517 thousand (2012: HUF 63,448 thousand) corporate tax, HUF 284,828 thousand (2012: HUF 228,560 thousand) local tax, HUF 205,112 thousand (2012: HUF 204,526 thousand) medicine tax, and HUF 5,328 thousand (2012: HUF 22,259 thousand) deferred tax charge.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profits as follows:

	2013	2012
Profit before tax	**3,038,181**	**1,411,770**
Income tax calculated at statutory tax rate*	713,973	331,766
Effect of different other income tax base (ie. local tax)	276,282	428,048
Tax-deductible effect of other income taxes	(115,136)	(82,001)
Effect of tax rate changes	(53,267)	106,665
Permanent differences	155,868	(291,848)
Unrecognised losses of subsidiaries	80,964	61,576
Non-taxable profit	(808)	(5,802)
Tax allowance	(184,000)	(69,350)
Other	(747)	(4,779)
Corporate tax charge	**873,129**	**474,275**

*In 2013 and 2012 the tax was calculated by 23.5 % tax rate including corporate tax (19 %), local tax (2 %) and the medical tax liability (2.5 %). The tax rates did not change in the current or the previous years.

The effects of other income taxes are coming from the fact that the tax base of local tax obligation and the subsidized medicines' gross margin tax is higher than the tax base of corporate income tax.

Tax-deductible effect of other income taxes arises from local GAAP, i.e. when determining profit before income tax local tax obligation and subsidized medicines' gross margin tax and subsidy provided for film production can be handled as other expenditures – decreasing the tax base of the corporate income tax.

Effect of corporate income tax rate change: The income tax rate is 10 % up to the tax base of HUF 500,000 thousand. When calculating deferred income tax, the average expected tax rate is used when the related deferred income tax asset is realised or the deferred income tax liability is settled. This line contains the effect of tax rate change appearing in deferred income tax.

Permanent differences: items not part of the tax base, among others different financial and non-cash donations, expenditures not deducted when calculating corporate income tax, and the tax effect of profit/loss arising from transactions within the group which are not presented neither in the current nor in the next year's financial statements compiled in accordance with IFRS. The balance is decreased by the effect of the use of the 10% preferential tax rate, and the deductible items, as deductible loss from previous years. We show in this line the effect of the self revisions in previous year's data.

All amounts in thousands of HUF unless otherwise stated

Unrecognised losses of subsidiaries contain losses where the realization of the temporary difference is not probable.

Non-taxable (profit)/loss: The Group's share of its associates' and joint ventures because this is included in the profit before tax line with the amount after taxation.

Tax allowance: tax deductible donations to sport organizations, theatres and film productions.

26. Cash generated from operations

	2013	**2012**
Profit for the period	2,165,052	937,495
Adjustments for:		
– Tax (Note 25)	873,129	474,274
– Depreciation (Note 5) - PPE	404,551	499,032
– Impairment - property, plant and equipment	56,664	238,083
– Amortisation (Note 6) – intangible asset	110,720	154,046
– Impairment - intangible assets (mainly goodwill)	-	138,148
– Loss on disposal of non-current assets (Note 21)	17,210	11,496
– Interest income (Note 24)	(34,991)	(218,604)
– Interest expense (Note 24)	985,413	1,339,891
– Dividend income	(5,000)	-
– Share of profit/loss from associates (Note 7)	-	(24,691)
Changes in working capital		
– Inventories	1,641,485	1,867,750
– Trade and other receivables	1,036,270	4,021,057
– Trade and other payables	(2,971,117)	(2,957,305)
Cash generated from operations	**4,279,386**	**6,480,672**

27. Contingencies

Contingent liabilities

Hungaropharma Zrt. has undertaken joint guarantees in order to boost market shares. According to the banks' contracts and verification the amount of the guarantees is HUF 25,325 thousand, relating to tenders and the Hungarian Customs and Finance Guard the amount of guarantees is HUF 180,500 thousand for MKB on 31 December 2013.

The ongoing litigation processes of Hungaropharma Zrt.

1. Hungaropharma Zrt. concluded an investment agreement in June 2007 with a private person and with a limited company owned by the aforementioned private individual.
   In the agreement in question the parties undertook to cooperate in the establishment and operation of several pharmacies with the involvation of a project company (Gyógyszerellátó Hálózat Kft.).
   Hungaropharma Zrt. stipulated an option to the purchase of the business shares 100% of Gyógyszerellátó Hálózat Kft., as a security.

   Early in the year of 2009 due to the other parties' material breach of the agreement, Hungaropharma Zrt. was obliged to exercise the option.
   The former owners of the Gyógyszerellátó Hálózat Kft. filed a lawsuit for the annulment of the summons of the company registration, which litigation ended in a favourable way for Hungaropharma Zrt.

   Hungaropharma Zrt. filed a lawsuit against the before mentioned private person due to the violation of personality rights. On the first hearing the defendant submitted a counterclaim. Due to the personal hearing of the parties and the evidentiary procedure, the Court of first instance dismissed the action of Hungaropharma Zrt., both the counterclaim of defendant, forasmuch they was deemed to be meritless claim.

   In this proceeding both the plaintiff and the defendant lodged an appeal to Court of Appeal of Budapest.

2. A loan receivable of a bank against the subsidiary of Hungaropharma Zrt. was transferred to Hungaropharma Zrt. by means of assignment along with its securities.

   One of the securities is a lien established over the claims of the debtor against a local government-run hospital, which were transferred to Hungaropharma Zrt. as well.
   Upon termination of the credit agreement, Hungaropharma Zrt. noticed the previous hospital, as the obligor towards the obligor of the lien ordering it to perform the payments to Hungaropharma Zrt. as the obligee of the lien.
   Taken into account, that the previously mentioned local government-run hospital did not perform its obligations of payment to Hungaropharma Zrt., the company was forced to file an action against the hospital, asking the court to oblige it to perform.
   The evidentiary procedure terminated, moreover sentence of first instance due to be delivered soon.

3. Against a former member of the board of Hungaropharma Zrt. an action for damages is in the pipeline. At the moment the evidentiary procedure is under way.

4. At the County Court of Miskolc, a local government filed a lawsuit regarding the clinic („egészségház") to be established there.

   In December 2011, Hungaropharma Zrt. has been summoned as ninth-rate defendant. Hungaropharma Zrt. submitted a counter-claim, asking the Court to dismiss the action. The Court entertained to counterclaim of Hungaropharma Zrt. whereupon the action against the Company was dismissed.
   The Defendant lodged an appeal, but the appoint of second instance trial has not happened yet.

5. A manufacturer of pharmaceutical goods filed a lawsuit as a patentee against Hungaropharma Zrt. and other pharmaceutical manufacturers and wholesalers on the grounds of an alleged patent infringement.

   Since there are annulment procedures in progress regarding the above mentioned patent, Hungaropharma Zrt., besides debating the claim, asked the court to suspend the procedure till the final decision in the question of the annulment.
   Regarding the Metropolitan Tribunal entertained to claim, the proceeding has been suspended.

All amounts in thousands of HUF unless otherwise stated

6. In April 2013 the Hungarian Competition Authority set up a competition supervision procedure against Hungaropharma Zrt. and four other companies, based on the suspicion of a cartel-agreement.

   According to the suspicion of the Authority, during the public procurement procedure aiming the supply of pharmaceutical products, which was launched by the Budapesti Egészségügyi Központ Zrt. in November 2011, the mentioned companies exercised an influence on the definitions of participation, moreover they agreed the tender price.

   The evidentiary procedure is going on currently, in the course of this, supply of data, hearing of witnesses and clients has happened till now.

28. Commitments

The value of approved investments are HUF 203 million for 2014, this determines the commitments for the future property, plant and equipment purchasing.

29. Business combinations and disposal of shares

Disposal of subsidiaries in 2012:

i) Hungaro-Gal Kft.

Hungaropharma sold its shares in Hungaro-Gal Kft., was removed from consolidation. The gain on the sale was HUF 234,900 thousand.

ii) Lavandula Bt.

Alma Kft. sold its shares in Lavandula Bt. to a pharmacist in December of 2012., was removed from consolidation at the year end.

Business combinations in 2012

iii) Tóth-Art Kft.

Due to the fact that the police procedure has been completed the company has received the documents of the Kft., and obtained the information necessary for consolidation. In 2012 the Kft. was fully consolidated. The Group measured the values of the non-controlling interest at fair value. The Group assessed the fair value of non-controlling interest as nil, because of the fair value of the identifiable net assets are negative.

Details of net assets acquired are as follows:

Purchase consideration	2,700
Total purchase consideration	2,700
Fair value of net assets acquired	(135,449)
Goodwill	**138,149**

The goodwill was impaired in the financial year.

The assets and liabilities arising from the acquisition are as follows in thousands of HUF:

	Fair value	Carrying amount
	Tóth-Art Kft 2012.01.01.	
Cash and cash equivalents	12,607	12,607
Intangible asset	2,626	2,626
Property, plant and equipment	16,947	14,548
Inventories	21,010	21,010
Receivables	15,865	131,106
Payables	(204,504)	(204,504)
Net assets	(135,449)	(22,607)
Percentage of participation of Hungaropharma Zrt.	(135,449)	
Purchase consideration settled in cash	2,700	
Cash and cash equivalents in subsidiary acquired	12,607	
Cash inflow on acquisition	9,907	

Partial disposal of subsidiaries in 2012

iv) Alma Gyógyszertár Működtető Kft.

From April of 2012, 34 pharmacies belonging to Alma Gyógyszertár Működtető Kft. become individual companies. Hungaropharma Zrt sold HUF 3,300 thousand nominal value shares for the pharmacists. This selling resulted in HUF 104,531 thousand loss. This transaction was accounted for in the equity as transaction with owners, therefore it doesn’t impact profit of the Group.

After selling these shares Alma Kft. still control these companies.

Disposal and dissolution of subsidiaries, associates in 2013

i) Selling of companies

In the year 2013 three pharmacy-operating companies were sold to third parties (KRDT-subsidiary, Solti Müller Kft.-associate, Szolnoki Gyógyszertár Kft - subsidiary) , furthermore, the sale of Napsugár Patikák Zrt. (associate) took place as well. The selling of shares initiated a loss of HUF 44,514 thousand. The removal from the consolidation has been performed.

ii) Dissolved companies

In the financial year two companies were dissolved. The voluntary liquidation of the Pécs-seated Pannoninvent Kft. was registered on 24 June 2013, and another pharmacy-related company (ALMA Béke) also ceased it's operation. The recognition from the consolidation has been realized.

iii) Selling of shares

Due to the selling of shares, Fermon Pharma Kft. and László Gyógyszertár Kft. has been classified as „associates", formerly they were subsidiaries. The ownership in Duo-Pharm Bt. decreased as well resulting in the reclassification of the investment from joint-venture to associates. The selling of shares resulted in a loss of HUF 136,803 thousand.
According to the statutory regulations, the 26% of the shares of the pharmacy-running companies have to be held by the pharmacists as of 1 January 2014, and to this end, the selling of shares were realized in the end of 2013. In the consolidated statement of changes in equity this transaction amounted to HUF 978 million from the amount of partial disposal of subsidiaries, while the remaining balance was related to sale of shares of other companies to the owners representing non-controlling interest.

30. Related-party transactions

The following transactions were carried out with related parties:

i) Sales of goods and services

	2013	**2012**
Sales of goods:		
Controlling shareholders	297,855	236,956
Associates	580,568	363,131
	878,423	**600,087**

Sales of services	**2013**	**2012**
Controlling shareholders	21,178	46,811
Associates	35,442	38,203
	56,620	**85,014**

ii) Purchases of goods and services

	2013	**2012**
Purchases of goods		
Controlling shareholders	23,632,356	23,380,583
Associates	127,849	146,194
	23,760,205	**23,526,777**
Purchases of services		
Associates	15,426	20,994
	15,426	**20,994**

Services and purchases / sales of goods are negotiated with related parties on an arm length basis.

All amounts in thousands of HUF unless otherwise stated

iii) Key management compensation

	2013	2012
Salaries and other short-term employee benefits of key management	**243,757**	**289,326**
Remuneration of the Board of Directors and Supervisory Board	33,212	34,696
Pension contribution on key management and board remuneration	67,479	82,458

iv) Year-end balances arising from sales /purchases of goods/ services

Receivables from related parties :	31.12.2013	31.12.2012
Controlling shareholders	6,267	20,338
Associates	187,530	122,769
Receivables from pharmacists	743,264	-
	937,061	**143,107**
Payables to related parties:		
Controlling shareholders	5,981,482	6,118,847
Associates	6,811	12,237
	5,988,293	**6,131,084**

v) Loans to related parties

Loans to associates:	**2013**	**2012**
Beginning of year	236,000	453,000
Opening impairment	(220,000)	(220,000)
Net opening capital balance	**16,000**	**233,000**
Associate from subsidiary loan	109,164	-
Loans advanced during years	43,776	-
Loan repayments received	(2,000)	(217,000)
Impairment balances creation/reversal	(109,164)	-
Loan balance closing	386,940	236,000
Impairment balances closing	(329,164)	(220,000)
Net capital balance closing	**57,776**	**16,000**

Interest to loans to associates	**2013**	**2012**
Opening interest	18,364	18,364
Net opening interest balance	**18,364**	**18,364**
Associate from subsidiary interest	2,714	-
Interest charged	1,128	1,686
Interest received	(1,056)	(1,686)
Impairment	(18,364)	-
Interest balance closing	21,150	18,364
Impairment balance closing	(18,364)	-
Net interest balance closing	**2,786**	**18,364**

31. Events after the reporting period

On the Hungarian pharmaceutical market both wholesalers and pharmaceutical retailers bear significant burdens.

According to the governmental measures and ambitions, the strengthening of the 'hospital-line' and the operational role of the governmental institutions is likely to happen. In such a business environment of shortages of financing resources, only the deliveries supported with appropriate securities are to be fulfilled. The majority of the players of the retail-market is seeking the stability of business in joining to pharmaceutical chains and purchasing partnerships.

According to the para 1 of section 83/A of Act No. XCVIII of 2006 on the General Provisions Relating to the Reliable and Economically Feasible Supply of Medicinal Products and Medical Aids and on the Distribution of Medicinal Products applicable as of 1 January 2011, the pharmacists shall hold a specified amount of shares in the pharmacy-running companies. The sale of shares in this respect has been realized.

With rationalization in view, in the year of 2013 realignments within the Group went on by ceasing the operation of certain pharmacies and liquidation of certain non-functioning companies, furthermore the shares and ownerships have been restructured due to selling of shares.

After balance sheet date, the shares of Fermon Pharma Kft. (an associate of the Group) was sold to a third party.

6 May 2014
Budapest

Antal Feller Dr.
General Manager