GEDEON RICHTER ANNUAL REPORT 2010

This Report contains consolidated data, unless otherwise indicated.

CONTENTS

RICHTER GROUP – FACT SHEET

Richter Group is active in two major business segments, primarily Pharmaceuticals comprising the research and development, manufacturing and marketing of pharmaceutical products, and it is also engaged in the Wholesale and retail of these products. In addition, there is a third group of companies comprising those members of the Group which provide auxiliary services to the former segments.

Research, development, manufacturing and marketing of pharmaceutical products are the core activities of Richter and in this endeavour the Group is supported by a number of subsidiaries, joint ventures and associated companies. Manufacturing subsidiaries of the Group which operate in traditional markets together with a broad network of trading affiliates which ensure a strong market presence have together created the foundation for regional leadership.

PARENT COMPANY DATA

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

INVESTOR RELATIONS DEPARTMENT

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

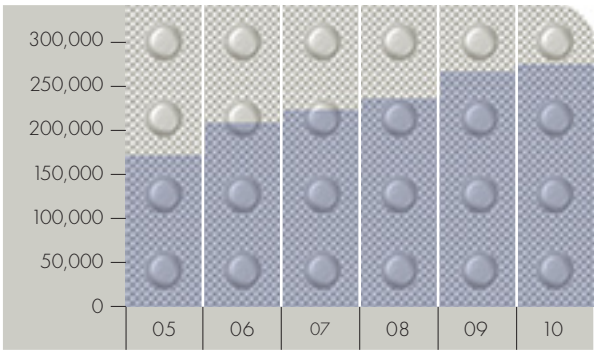
CONSOLIDATED FINANCIAL HIGHLIGHTS

	2010	2009*	Change	2010	2009*	Change
	HUF m	HUF m	%	EUR m	EUR m	%
Total sales	275,312	267,344	3.0	998.2	952.4	4.8
Profit from operations	62,653	52,469	19.4	227.2	187.0	21.5
Profit for the year	64,640	50,953	26.9	234.4	181.5	29.1

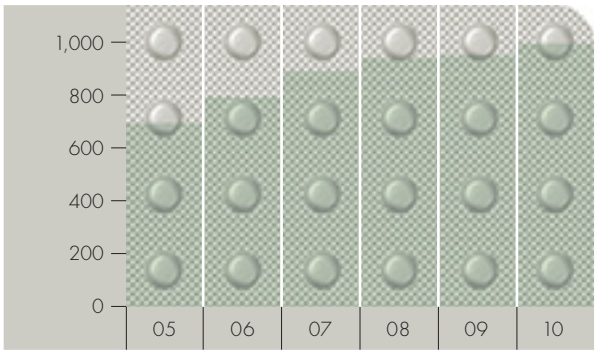
	2010	2009	Change	2010	2009	Change
	HUF	HUF	%	EUR	EUR	%
Earnings per share (EPS)	3,460	2,736	26.5	12.54	9.74	28.7
Dividends per ordinary shares	860	770	11.7	3.12	2.74	13.9

* Note: Adjusted.

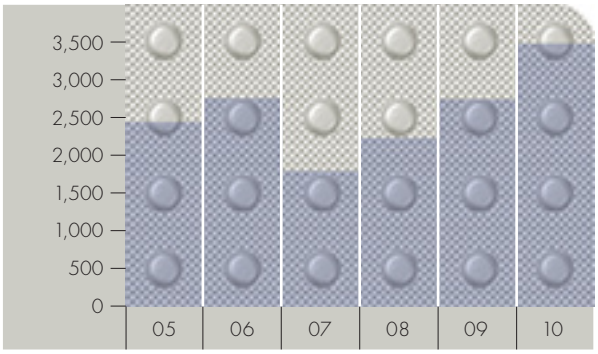
HUF m | Sales



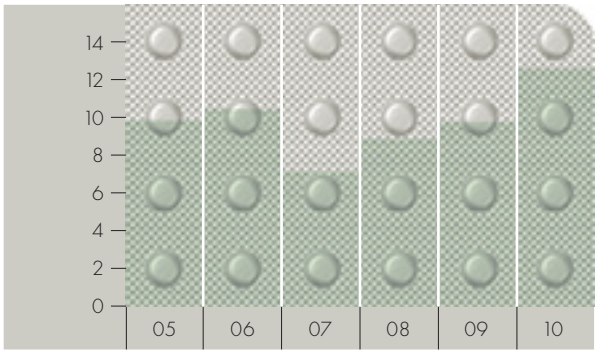
EUR m | Sales



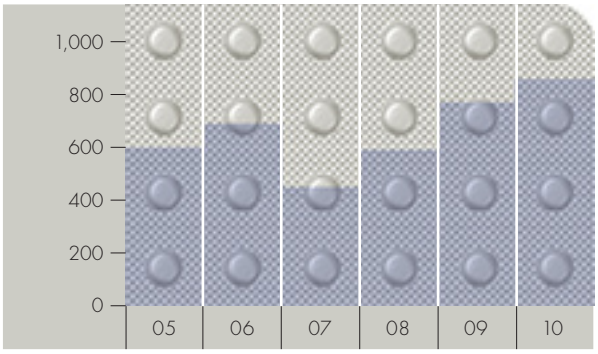
HUF | Earnings per share



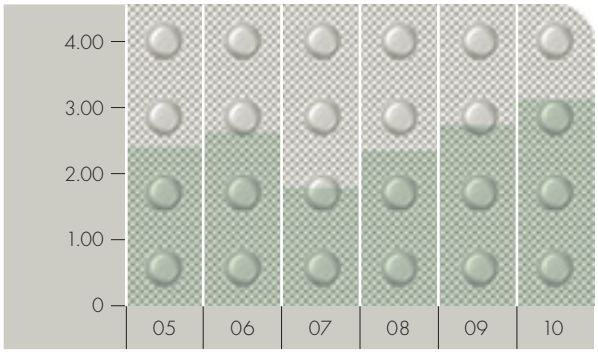
EUR | Earnings per share



HUF | Dividends per ordinary share



EUR | Dividends per ordinary share



Notes: Earnings per share calculations were based on the total number of shares issued.
The amount of 2010 dividend per ordinary share is HUF 860 as proposed by the Board of Directors.

CHAIRMAN'S STATEMENT

It is my pleasure to present Richter's report for 2010, an important year of strategic decisions. Sound market performance, improving margins and an outstanding financial income contributed to achieve the largest profit in the Company's history. High volume of sales to Russia and to the Other CIS countries went hand in hand with improving Hungarian turnover which more than offset declining sales to the USA. Notwithstanding increasing price competition and regulatory pressures in many of Richter's traditional markets the Group reported good growth across these geographical areas.

Undoubtedly the most important decision of the past year was the acquisition of PregLem Holding SA of Switzerland. The proprietary products developed by PregLem, as a research oriented company will expand the scope of our original research – traditionally undertaken exclusively in the area of Central Nervous System – into the field of gynaecology. As a result of this acquisition Richter will be strengthened in Western European markets based on gynaecology, its core specialty business.

An additional acquisition, namely the oral contraceptive portfolio divested by Grünenthal GmbH of Germany makes a perfect match with the PregLem deal. This offers in the core area of gynaecology a possibility of increased turnover by means of enhanced margin business in the same Western European markets where the future PregLem products are expected to be launched during 2012.

The credit facility of EUR 150 million of 2010 intends to ensure the financial stability.

You will be interested to learn that we concluded marketing agreements and co-operation in the field of biosimilar development with a Japanese company and generic oral contraceptives with a Chinese company, which is a new endeavour for Richter in the growing important Asian region.

We are proud to report that 2010 proved to be an important development for our original research, which is the primary strategic aim of the Company; Cariprazine a most promising compound successfully passed Phase II/b clinical trials for the treatment of schizophrenia and bipolar mania, and is now undergoing the Phase III clinical trial.

Good progress was also recorded in the development of biotechnology and in the setting up of manufacturing capacity in Debrecen which is expected to become operational next year.

In conclusion taking into account the important strategic developments and the outstanding profit of 2010 may I on behalf of the Board record a special recognition and thanks to Mr Erik Bogsch, the Managing Director and his management and supporting team, both at home and abroad.

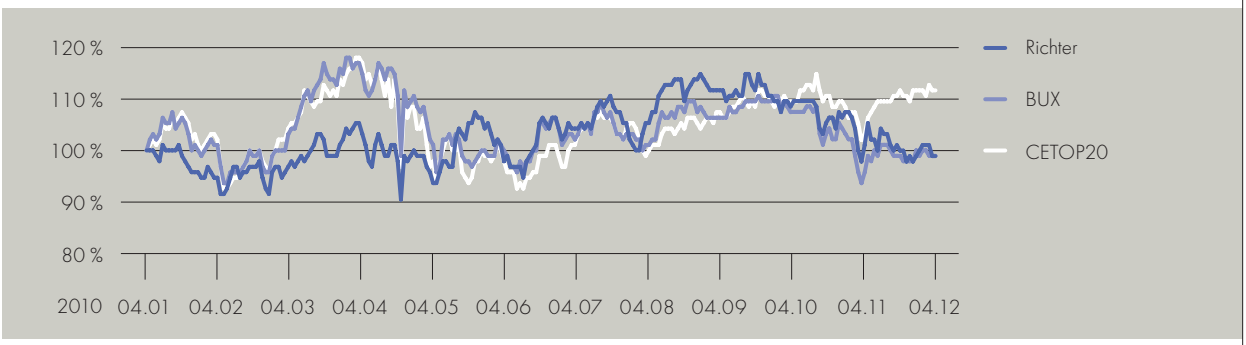
I also wish to extend my sincere thanks to my colleagues on the Board for their support of the Management by their expertise and wise counsel. I am therefore confident that your Company will continue to create increasing value for its investors.

William de Gelsey, KCSG
Chairman

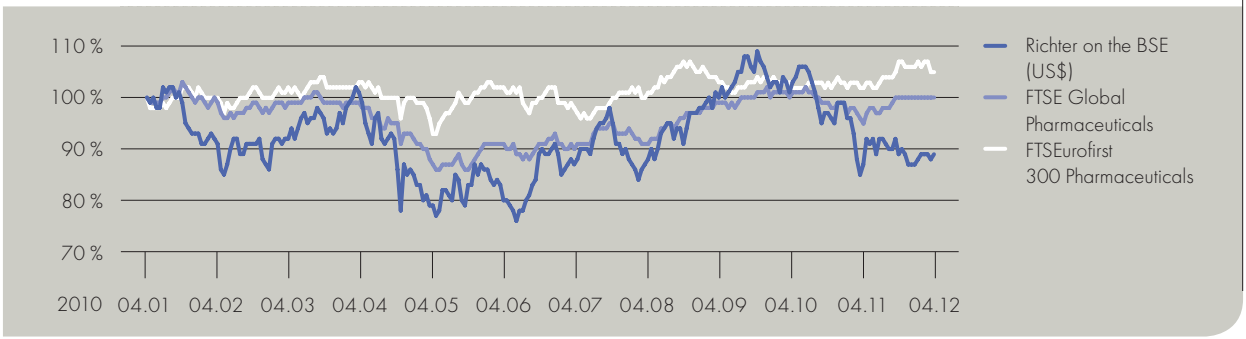
WILLIAM DE GELSEY – CHAIRMAIN

DIRECTORS' REPORT

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



Gedeon Richter share price on the Budapest Stock Exchange compared to FTSE Global Pharmaceuticals to FTSEurofirst 300 Pharmaceuticals indices

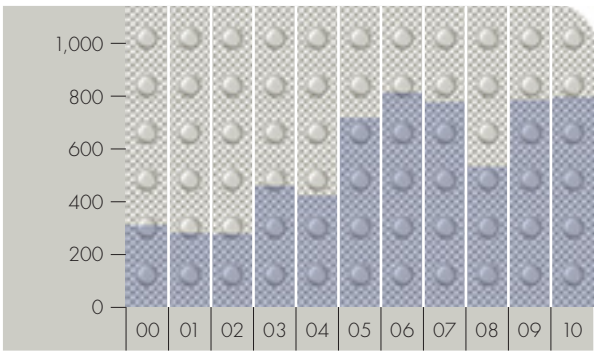


Notes: **BUX Index constituents are:** ECONET, EGIS, ÉMÁSZ, FHB, FOTEX, MOL, MAGYAR TELEKOM, OTP, PANNERGY, PHYLAXIA, RÁBA, RICHTER, SYNERGON, TVK.
CETOP20 Index (Central European blue chip index): BANK PEKAO, BANK PKO BP, BRE BANK, CETV, CEZ, EGIS, ERSTE BANK, HT, KGHM, KOMERCNI BANKA, MOL, MAGYAR TELEKOM, NWR, OTP, PGNIG, PKN ORLEN, RICHTER, TELEFONICA O2, TELEKOM POLSKA, UNIPETROL
FTSE Global Pharmacuticals Index (FTGPH) constituents are: NOVARTIS, ROCHE, GLAXOSMITHKLINE, SANOFI-AVENTIS, ASTRAZENECA, TAKEDA, NOVO NORDISK, ASTELLAS, DAIICHI SANKYO, CSL, CHUGAI, EISAI, SHIONOGI, PFIZER, JOHNSON&JOHNSON, AMGEN, ABBOTT LABORATORIES, MERCK, GILEAD SCIENCES, BRISTOL-MYERS SQUIBB, SCHERING PLOUGH, ELI LILLY, GENENTECH, CELGENE, GENZYME, BIOGEN IDEC, ALLERGAN, FOREST LABORATORIES, AMERISOURCEBERGEN
FTSEurofirst 300 Pharmaceuticals Index (E3PHRM) constituents are: NOVARTIS, ROCHE, GLAXOSMITHKLINE, SANOFI-AVENTIS, ASTRAZENECA, NOVO NORDISK, SHIRE, ACTELION, UCB, MERCK KGAA.

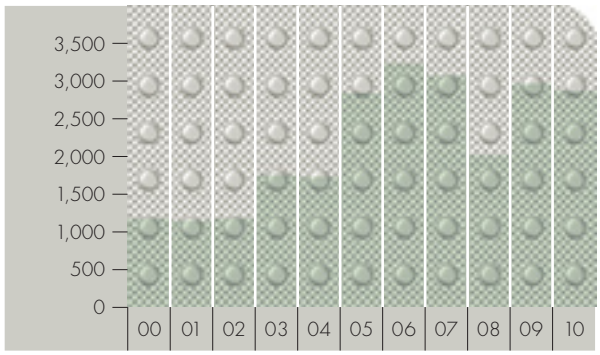
MARKET CAPITALISATION

The company's market capitalisation followed the performance of its share price on the Budapest Stock Exchange and by the end of 2010 at HUF 793 billion reflected a broadly flat performance, (1.3 percent growth in HUF terms) when compared to its value recorded on 31 December 2009. Market capitalisation on 31 December 2010 in Euro terms was EUR 2.9 billion, 3.4 percent lower than the EUR 3.0 billion amount recorded on 31 December 2009.

HUF bn | Market Capitalisation



EUR m | Market Capitalisation



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

ANNUAL GENERAL MEETING

The Annual General Meeting is the highest decision-making body of the Company, comprising all shareholders. The Annual General Meeting will be held at 15.00 on 27 April 2011 at Budapest 1143, Stefánia út 34.

INVESTOR RELATIONS ACTIVITIES

The Company reports formally to shareholders four times a year, simultaneously with the announcement of its quarterly non-audited results and publishes its Annual Report including audited financial statements no later than the date of the Annual General Meeting. The AGM of the Company takes place in Budapest and formal notification is sent to shareholders at least 30 days in advance of the meeting. At the Meeting a business presentation is made to shareholders by the Managing Director, and all Directors are available during the meeting to respond to questions.

Management, principally the Managing Director and investor relations staff, maintain a dialogue with institutional shareholders on Company performance and objectives through a programme of conferences, regular meetings, conference calls and investor roadshows. Representatives of the IR Department of Gedeon Richter Plc. participated at 5 international conferences and 5 additional investor roadshows in 2010. Gedeon Richter's management held 27 meetings for 73 fund managers and analysts at its headquarters where the Company's business progress and financial results were presented. Regular conference calls were organised during the year, following publication of the quarterly reports of the Company.

Conferences in 2010

Concorde	'One-on-one Conference'	Budapest	31 March, 2010
Erste	'Erste Investor's Day'	Stockholm	17 May, 2010
UBS	'UBS One-on-one Emerging Conference'	London	23 June, 2010
IPOPEMA	'Investors Conference'	Budapest	14 October, 2010
ING	'13th ING EMEA Investment Forum'	Prague	1 December, 2010

Investor roadshows in 2010

London-Edinburgh	10-11 Febuary, 2010
New York, Boston	24-26 February, 2010
Frankfurt	22 June, 2010
London	29-30 November, 2010
New York, Boston	15-17 November, 2010

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

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

Analysts providing regular coverage about the company during 2010

Bank of America, Merrill Lynch	Mr Jamie Clark
Concorde	Mr Attila Vágó
Credit Suisse	Mr Ravi Mehrotra / Mr Yasir Al-Wakeel
Deutsche Bank	Mr Gergely Várkonyi
Erste	Ms Vladimíra Urbánková
Goldman Sachs	Mr Anton Farlenkov / Ms Yulia Gerasimova
ING	Mr Luke Poloniecki
Jefferies	Mr James Vane-Tempest
KBC	Mr Gergely Pálffy
Morgan Stanley	Mr Peter Verdult
Raiffeisen	Mr Ákos Herczenik
UBS Warburg	Mr Martin Wales / Mr Guillaume van Renterghem
UniCredit	Ms Adriana Marin
Wood	Mr Ovidiu Fer

DIVIDEND

In accordance with the dividend policy practised by the Company, the Board of Directors recommends the payment of 25 percent of Gedeon Richter Plc.'s net profit calculated according to Hungarian Accounting Law for 2010.

Dividends approved by the shareholders of the Company at the Annual General Meeting held on 28 April 2010 totalled HUF 14,328 million (EUR 53.4 million) in respect of 2009. The portion payable in relation to ordinary shares, HUF 770 per share, represented 77 percent of the nominal share value. The record dates for these dividend payments were announced on 20 May 2010 with payments having commenced on 15 June 2010.

INFORMATION REGARDING RICHTER SHARES

SHARES IN ISSUE

The total number of shares in issue as at 31 December 2010 remained unchanged from the levels reported as at 31 December 2009.

TREASURY SHARES

Shares held by the Company in Treasury

	31 December 2010	31 December 2009
Number	11,424	18,279
Nominal value (HUF '000)	11,424	18,279
Book value (HUF '000)	494,430	779,824

The number of shares held in Treasury decreased during 2010. The Company purchased 70,000 treasury shares on the Budapest Stock Exchange during 2010 in addition to a further 40,085 acquired on the OTC market throughout the year.

Based on a decision of the Board of Directors of Gedeon Richter Plc., 79,744 shares held by the Company in Treasury were granted as bonuses during 2010 to qualified employees participating in the bonus share programme as well as to members of staff rendering outstanding performance.

Due to a repurchase obligation stipulated in the programme approved by the Ministry of Finance related to employee share bonuses, the Company repurchased 1,433 shares from employees who resigned from the Parent company during 2010.

In line with a programme approved by the Ministry of Finance related to employee share bonuses in respect of years 2009-2011, on 20 December 2010 the Company granted 38,629 shares for 4,537 of its employees for 2010. The value of these shares amounted to HUF 1,693 million. These shares will be deposited at the employees' individual securities accounts at UniCredit Bank Hungary Zrt. until they vest on 2 January 2013.

On 3 January 2011, following the expiry of the lock-up period the Company was able to remove all restrictions on 59,473 Richter ordinary shares granted to its employees on 15 December 2008 during the third year of a three-year programme approved by the Ministry of Finance in respect of years 2006-2008, thereby enabling these shares to be traded.

The total number of Company shares at Group level held in Treasury at 31 December 2010 was 21,974.

REGISTERED SHAREHOLDERS

There were no significant changes relating to the shareholder structure of the Company during 2010. The shares held by the Hungarian State Holding company (MNV Zrt.) remained at 25 percent, approximately the same level as at 31 December 2009. The proportion held by domestic investors as well as that of international investors also remained unchanged at about 12 percent and 63 percent, respectively.

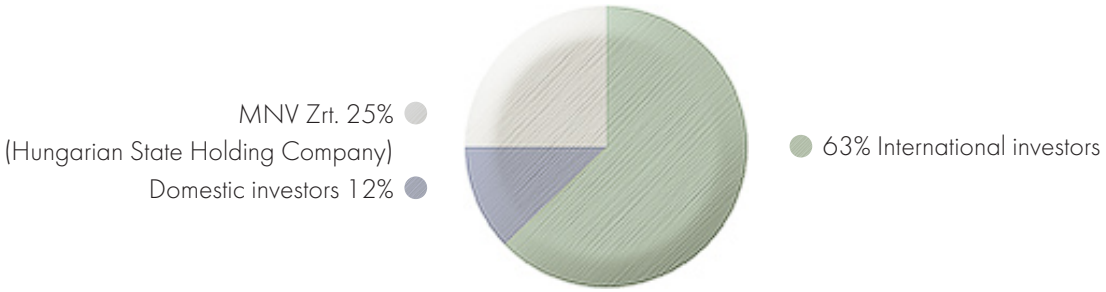
Data in the table below was compiled based on the share registry amended with information provided by KELER Zrt. as clearing company, global custodians and nominees.

Detailed ownership structure as of 31 December 2010

Ownership	Ordinary shares	Voting rights	Share capital
	Number	%	%
Domestic ownership	6,863,778	36.87	36.82
MNV Zrt.	4,685,785	25.17	25.14
Municipality	100	0.00	0.00
Institutional investors	1,737,752	9.33	9.32
Retail investors	440,141	2.37	2.36
International ownership	11,741,897	63.08	63.01
Institutional investors	11,638,906	62.53	62.46
out of which Bank of New York Mellon [1]	1,059,034	5.69	5.68
out of which Aberdeen Asset Management Plc.	2,840,004	15.26	15.24
Retail investors	102,991	0.55	0.55
Treasury shares [2]	21,974	0.00	0.12
Undisclosed ownership	9,837	0.05	0.05
Share capital	18,637,486	100.00	100.00

Notes: [1] The owners are global custodians or nominees acting as global custodians.
[2] Treasury shares include the combined ownership of the parent company and subsidiaries.

Detailed ownership structure as of 31 December 2010



SHARE OWNERSHIP BY COMPANY BOARD MEMBERS

Ordinary shareholdings by the members of the Company's Boards

	31 December 2010	31 December 2009
	Number of ordinary shares	Number of ordinary shares
Board of Directors	8,285	4,101
Supervisory Committee	368	768
Executive Board	5,449	8,395
Total	14,102	13,264

Membership of the Company's Boards is shown on pages 16-20 of the Annual Report.

RISK MANAGEMENT

Richter Gedeon Plc. is committed to creating long-term value for its customers, shareholders, employees and society at large. In relation to achieving its corporate goals, the Company recognizes that risks are an integral part of its business and can feature opportunities, as well as threats and losses.

The effective management of risks plays an important role in the continued growth and success of Richter. The objective of risk management at Richter is not to eliminate risks, but rather to manage them in a way so as to provide that they remain within the predefined limits necessary for the Company to achieve its business objectives. Risk management at Richter is therefore about finding the right balance between risks and opportunities. By understanding and managing risk we endeavor to provide greater certainty for our shareholders, our employees, our customers and suppliers, and the communities in which we operate.

Richter views risk management as one of the tools for effective Corporate Governance. Our approach is to ensure that risks are identified in a timely manner, adequately understood, properly assessed and efficiently responded to by the Company.

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

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

1. Strategic risks	Description	Key risk management methods
Competition and Pricing	The impact on the Company's market position and results of increasing generic competition and the decreasing prices in the competitive market	– Regularly performed competitor-, industry- and effectiveness analysis – Identifying competitive advantages – Introducing new generic products – Focusing on new original and value added products
Macroeconomic Factors	The risk of changes in macroeconomic factors affecting the Company's markets, and especially the impacts of the global financial crisis	– Monitoring changes in major macroeconomic factors, incorporating their effects into the planning – Adaptation in cost management and client relationship
Healthcare Budget	The potential impact on the Company of changes and monetary restrictions in healthcare budget and regulation	– Regular analysis of market environment, monitoring changes in the legal and medical subsidy system – Communication with authorities – Adaptation in cost management

2. Operational risks	Description	Key risk management methods
Qualified Workforce	The risk relating to retention of employees in key positions and ensuring a qualified workforce	– Periodic revision of HR strategy – Training plans, carrier and succession programs – Incentive and performance assessment system
Generic Development and Regulatory Affairs	The risk relating to the success of generic developments and the efficiency of regulatory affairs	– Operational, financial and legal control of product development and regulatory affairs – Regular review and assessment by operating bodies
Original R&D	The risk relating to the success of original research activities	– Continuous monitoring of the status and future potential of original researches – Assessment of programs and decision-making within the Research Council

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

4. Financial risks	Description	Key risk management methods
Foreign Exchange Rate	Unfavorable changes in the exchange rate of the Company's key foreign currencies	– Monitoring annual open FX positions and featured / key FX spot rates – Applying FX risk management policies and strategies – Securing FX conversion rates by financial transactions
Credit and Collections	The risk relating to cash and receivable collection procedures	– Customer rating – Establishing payment terms and credit limits – Regular review of receivables – Insurance on buyer's credits of CIS countries at MEHIB
Capital Structure and Cash Management	The risk relating to the effective management of the Company's cash demands and cash assets	– Developing and monitoring cash-flow plans – Opening a credit line in order to improve the financing capabilities

CORPORATE GOVERNANCE

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

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

The Annual General Meeting ranks as the highest decision making body of the Company, and comprises all shareholders. The Annual General Meeting decides on the adoption of the annual financial statements and the appropriation of profit, the election or removal of members of the Board of Directors and Supervisory Committee, the appointment of auditors, amendments to the Statutes, changes in the Company's share capital and other issues in its competence. A quorum of the General Meeting exists if shareholders, personally or through their representatives, representing over 50 percent of the votes embodied by voting shares are present at the General Meeting and have duly evidenced their shareholder representative status. If the General Meeting has no quorum, the General Meeting is required to be reconvened. The reconvened General Meeting shall have a quorum for the purpose of considering items on the agenda of the original General Meeting if shareholders representing more than 20 percent of the votes relating to the voting shares issued by the Company are present personally or via proxy at the reconvened General Meeting and their shareholding or representation right has been duly evidenced.

The Board of Directors is the ultimate decision-making body of the Company except with respect to those matters reserved for shareholders. Most Directors of the Board are Non-Executive Directors. All the non-executive directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment. The offices of Managing Director and Chairman are held separately. The latter is elected amongst the non-executive directors. The Board meets regularly, once a month, throughout the year. According to the Statutes, it has a formal schedule of matters reserved to it for decisions. The Board works to an agreed agenda in reviewing the key activities of the business and the Company's long-term strategy. The Company Secretary is responsible to the Board and is available to individual Directors in respect of Board procedures. Board members are elected at the AGM for a maximum term of 5 years. Two subcommittees of the Board were formed during 2004, which are to prepare and submit proposals contributing to the Board's decision making process. The subcommittees each consist of at least three non-executive independent Board directors.

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

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

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

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

The Audit Committee is responsible for the control of the Company's internal accounting standards. The Committee consists of three independent members of the Supervisory Committee elected at the AGM.

COMPANY'S BOARDS

BOARD OF DIRECTORS

William de Gelsey (1921)

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

Erik Bogsch (1947)

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

Dr Gábor Gulácsi (1958)

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

Dr Jenő Koltay (1944)

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

Dr László Kovács (1944)

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

Csaba Lantos (1962)

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

Christopher William Long (1938)

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

Dr Tamás Mészáros (1946)

Candidate of Economic Sciences, doctor representative of the Hungarian Academy of Sciences. Rector of the Budapest Corvinus University since 2004. President of the Board of Directors of the Hungarian Privatisation and State Holding Company between 2002 and 2006. Joined the Board in 2006.

Dr Gábor Perjés (1941)

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

István Somkuti (1958)

Economist. Previously employed by Hungarian State Holding Company Ltd. as Deputy Managing Director of the Portfolio Department. Currently strategic advisor of the Company. Joined the Board in 2004.

Prof Dr Szilveszter E. Vizi (1936)

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

SÁNDOR KOVÁTS
DR GÁBOR GULÁCSI
LAJOS KOVÁCS
ERIK BOGSCH
DR ZSOLT SZOMBATHELYI
ANDRÁS RADÓ
DR GYÖRGY THALER

EXECUTIVE BOARD

Erik Bogsch (1947)

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

Dr Gábor Gulácsi (1958)

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

Lajos Kovács (1960)

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

Sándor Kováts (1960)

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

András Radó (1954)

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

Dr Zsolt Szombathelyi (1957)

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

Dr György Thaler (1959)

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

SUPERVISORY COMMITTEE

Dr Attila Chikán (1944)

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

András Balaskó (1972)

Employee representative. Chemical engineer, with Richter since 1995. Former Deputy Manager of Synthetic I. Plant. Currently Head of Materials Warehousing. Joined the Committee in 2009.

József Erős (1933)

Qualified accountant, qualified tax adviser, qualified price expert. Previously Deputy Head of Accounting at the Ministry of Finance. Joined the Committee in 1991. Member of Audit Committee.

Jenő Fodor (1958)

Employee representative. MA in Chemical-mechanics. With Richter since 1984, Head of Capital Expenditure Department at Dorog Site. Joined the Committee in 2006.

Dr Mária Balogh, Jánokiné (1951)

Economist with University doctorate in Economic Sciences. Executive Director at Magyar Hitelbank since 1987. Director of OTP Bank since 1995. Has been a member of the Committee since 1990. Member of Audit Committee.

Dr Gábor Simon Kis (1940)

Private pharmacist, economist, PhD in Economics. Deputy Head of Department at Ministry of Health from 1971 to 1988, then Director of Institute of National Hospital and Medical Technology until 1995. Joined the Committee in 1998.

András Sugár S. (1956)

Electrical and economic engineer. Managing Director at Alaska Advisory Ltd. since 2000. Joined the Committee in 2004.

Gábor Tóth (1955)

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

Changes to Boards during 2010

At the Annual General Meeting on 28 April 2010, the following were reappointed to the Board of Directors for a 3 year period until 30 April 2013:

– Christopher William Long
– Dr Jenő Koltay
– István Somkuti.

At the Annual General Meeting the following were elected to the Board of Directors for a 3 year period until 30 April 2013:

– Dr Gábor Gulácsi
– Csaba Lantos.

On 28 April, 2010 the mandate of previous Board member Dr. György Bíró has expired.

ERIK BOGSCH – MANAGING DIRECTOR

MANAGING DIRECTOR'S REVIEW

Despite the difficult world economic conditions, 2010 was a successful year for Richter. Our well-balanced business portfolio and long-term strategy focused on innovation proved to be appropriate for the future. We managed to launch a number of new products across our key markets and strengthen both our specialty pharma business and Western European presence via selective acquisitions.

I am pleased to report record results for 2010, both in terms of sales and profits.

Our Group reported HUF 275,312 million (EUR 998.2 million) consolidated sales in 2010, which represented a 3.0 percent growth (4.8 percent in EUR terms), when compared with 2009. Profit after taxation increased by 27 percent (29 percent in EUR terms) in 2010 to a total of HUF 64,640 million (EUR 234.4 million).

In our core activity, the pharmaceutical business, the following results were recorded during 2010.

A good 18 percent sales increase in EUR terms was reported in Russia. During the year the strengthening rouble/euro exchange rate and the increasing crude oil revenue created a predictable political and economic environment. In Ukraine a significant, 42 percent increase in US$ terms in our sales was recorded primarily related to the political stabilization which had a beneficial effect on the economic climate. In Other CIS republics 20 percent growth was also reported in sales, mainly due to improving economic conditions. In the USA, a 21 percent revenue decrease in US$ terms was primarily due to a decline in the contribution from the profit sharing agreement related to drospirenone with Teva-Barr combined with erosion in sales of APIs. Despite strong competition and sustained pressure from governments which resulted in both price erosion and lower reimbursement levels in almost all EU countries our Group reported 3 percent sales growth in EUR terms compared to 2009. Due to a difficult macroeconomic environment pharmaceutical market conditions in Hungary remained unfavourable throughout 2010, although overall price reductions remained insignificant. Under these circumstances we achieved a moderate 6 percent growth in HUF terms on the Company's domestic market.

In our traditional business area, i.e. branded generic business, we continued to experience increasing competition and subsequently significant price erosion on almost all of our key markets. As our management team is determined to expand the Group's business and in turn increase shareholder value, the decision has been made to strengthen the Company's specialty pharma business, namely to increase the proportion of high added value products within its portfolio.

As part of this medium-long term strategic vision we accomplished two acquisitions in 2010, both of which fit to our long-term targets described above.

In October 2010 we announced the acquisition of PregLem Holding SA, a privately held Swiss pharmaceutical company focused on the treatment of gynaecological conditions and infertility. This acquisition strengthens Richter's core Women's Health business as it broadens Richter's specialty pharma business whilst at the same time complements Richter's existing Women's Health expertise and product range. This acquisition will contribute to developing Richter's presence in main Western European markets. PregLem's lead product, Esmya™, completed successful Phase III clinical trials in June 2010 for the treatment of uterine myoma, which is the most common benign, solid tumors of the female genital tract, affecting between 20 and 25 percent of women of reproductive age. The registration dossier was filed with EMAA in December 2010. Subsequent to the acquisition we announced that PregLem, the wholly owned subsidiary of Richter, entered into an exclusive licensing agreement with Watson's subsidiary, Watson Laboratories, Inc. to develop and market Esmya™ in the U.S. and Canada. I am convinced that Watson's specialty knowledge and marketing strength will contribute to the successful development and marketing of Esmya™ in North America.

In November 2010 we also announced the acquisition of Grünenthal GmbH's oral contraceptive portfolio. I am confident that following the PregLem acquisition this transaction is a further important step towards the execution of our corporate strategy in Western Europe. Grünenthal's well established oral contraceptive franchise will boost our gynaecological sales as well as expand our female healthcare portfolio, providing an opportunity to further strengthen this specialty business segment in most of our key regions.

All of these strategic actions could be considered as further steps towards strengthening our therapeutic niche area, gynaecology, a high added value product group where we have unique steroid chemistry knowledge. This product group represented 33 percent of the Group's pharmaceutical turnover in 2010.

I have always considered innovation as a key element in our strategy and I have paid particular attention to make every effort possible to ensure that our original research activities might be both effective and successful. Following the completion of successful phase III trials of Cariprazine for both the treatment of acute exacerbation of schizophrenia and bipolar mania, further phase III trials were initiated by Gedeon Richter Plc. and its strategic partner, Forest Laboratories, Inc. in the first half of 2010 in order to get the registration approval. Top-line data related to these phase III clinical trials are expected to be announced during the second half of 2011.

We are convinced that a pharmaceutical company, which aims to remain competitive over the long term should create a portfolio containing high added value products. As such therefore it is a strategic goal of Richter to establish a strong biological product line. We are close to completing the infrastructure supporting the complex process of development of biosimilar products. We, jointly with Helm AG, established the Hamburg based Richter-Helm Biologics which carries out development and manufacturing of microbial proteins. A biotechnology pilot plant in Budapest became operational in 2009, which possesses development biosimilar versions of monoclonal antibodies. Meanwhile a greenfield investment on which construction commenced in Debrecen in 2008, progresses according to plan. This facility will enable us to produce the most complex mammalian cell products from 2012 onward. In December 2010 we, jointly with Mochida Pharmaceutical Co. Ltd., announced that the two companies have entered into a comprehensive and long term license and collaboration agreement in respect of the development and marketing of Richter's biosimilar product portfolio in Japan. This agreement is considered to be a significant move in line with Richter's aim to find strategic partners for the development, marketing and distribution of its biosimilar product portfolio which is expected to be launched worldwide after 2015.

Original research activity and exploration into new, innovative areas, such as biosimilar development, carry high risk but might provide future high revenue. Whilst working on such long term projects, we have to assure current sales flow and gain critical mass on each of our markets. Generic products coming either from in-house development or licensed in provide the necessary top line growth.

I would like to inform that in November 2010 we agreed terms and signed an agreement for a 5 year period, EUR 150 million club credit facility, which aims to assist the Company to meet its general operational objectives.

In 2011 our company is celebrating its 110 year anniversary. The last century posed tremendous difficulties for all market players, including Richter. The two World Wars caused significant damage to the environment in which we had to operate; the founder, Mr Gedeon Richter, was tragically killed during the Second World War. The Company was nationalised in 1948, while during the cold war unfavourable conditions were created for companies in Central-Eastern-Europe. We have to be grateful to our employees for their work efforts, being always loyal to the Company. In the 110 years of existence an innovative culture has been developed which makes it possible to operate a successful pharmaceutical company. The new millennium brought new challenges to be tackled with. Gedeon Richter Plc. became a regional multinational Group and we took on the challenge to learn how to handle and harmonize different cultures and create an inspiring working environment for all employees increasingly from different countries. We had to face further challenges as a consequence of the rapidly changing business and industry environments. The substantial changes of the intellectual property regulations in Europe and the significant number of new participants on the market with new marketing strategies combined with the robust trend of industry consolidation together resulted in new criteria and requirements for pharmaceutical companies. We had to adjust our medium-long term strategy and business model according to these new requirements.

Being a member of a team that successfully managed and overcame the challenges of the past, I am confident that we have the talent, experience and dedication to create a strong future for our company.

Erik Bogsch
Managing Director

OPERATING REVIEW

CONSOLIDATED TURNOVER

Richter is the largest Hungarian pharmaceutical company and comprises within the Group a number of subsidiaries, joint ventures and associated companies. In addition to its domestic market the Group sells Active Pharmaceutical Ingredients (APIs) and finished form drugs to nearly one hundred countries around the world. Richter has a traditionally strong brand name and a well established sales network in Hungary, in Central and Eastern European and CIS countries. In the USA Richter's products are marketed through a framework of strategic partnerships and long-term supply agreements. In the 'traditional' 15 EU countries first steps were taken during 2010 to establish the Group's direct sales force to market and distribute an expanded female healthcare portfolio.

The activities of Richter Group are presented in this Consolidated Report as three operating segments. Those subsidiaries of the Group that are engaged in the core activities of research and development together with manufacturing of pharmaceutical products have been classified as the Pharmaceutical segment. The performance of those distributor and retail subsidiaries that represent the distribution chain in some of our markets and facilitate our products reaching final buyers are presented under the Wholesale and Retail segment. And finally, the Other segment relates to the business of those group members that do not belong to any of the above segments. These companies undertake either commercial or marketing activities or they provide services to group members belonging to the Pharmaceutical segment.

In 2010 consolidated sales amounted to HUF 275,312 million (EUR 998.2 million) a 3.0 percent increase (4.8 percent in EUR terms) when compared with 2009.

In the following table we present Group turnover analysed by region. A more detailed sales analysis by major market for the two key business segments can be found in the Annual Report on pages 28-36 and 37, respectively.

Sales by region

	2010	2009	Change		2010	2009	Change	
	HUF m	HUF m	HUF m	%	EUR m	EUR m	EUR m	%
Hungary	33,759	31,641	2,118	6.7	122.4	112.7	9.7	8.6
EU*	93,304	101,543	-8,239	-8.1	338.3	361.8	-23.5	-6.5
Poland	18,153	21,332	-3,179	-14.9	65.8	76.0	-10.2	-13.4
Romania	37,870	44,882	-7,012	-15.6	137.3	159.9	-22.6	-14.1
EU9	19,383	18,047	1,336	7.4	70.3	64.3	6.0	9.3
EU15	17,898	17,282	616	3.6	64.9	61.6	3.3	5.4
CIS	103,242	84,768	18,474	21.8	374.3	302.0	72.3	23.9
Russia	70,348	60,530	9,818	16.2	255.1	215.6	39.5	18.3
Ukraine	13,603	9,593	4,010	41.8	49.3	34.2	15.1	44.2
Other CIS republics	19,291	14,645	4,646	31.7	69.9	52.2	17.7	33.9
USA	29,835	35,748	-5,913	-16.5	108.2	127.3	-19.1	-15.0
Rest of the World	15,172	13,644	1,528	11.2	55.0	48.6	6.4	13.2
Total	275,312	267,344	7,968	3.0	998.2	952.4	45.8	4.8

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

MARKETS – PHARMACEUTICAL SEGMENT

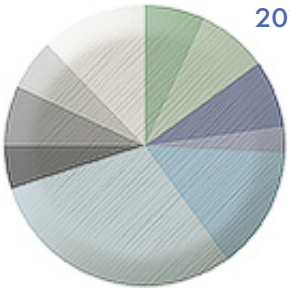
In the following sections we provide a brief recap of the yearly results for our core activity in each of our key countries and across all of our regions. Sales in the Pharmaceutical segment in 2010 totalled HUF 238,149 million (EUR 863.5 million), an increase of 6.6 percent (8.5 percent in EUR terms). Higher sales levels in the CIS region and Hungary more than offset declines recorded in Poland and in the USA.

Sales by region

	2010	2009	Change		2010	2009	Change	
	HUF m			%	EUR m			%
Hungary	32,330	30,456	1,874	6.2	117.2	108.5	8.7	8.0
EU*	63,303	62,656	647	1.0	229.5	223.2	6.3	2.8
Poland	18,291	20,566	-2,275	-11.1	66.3	73.3	-7.0	-9.5
Romania	8,130	7,338	792	10.8	29.5	26.1	3.4	13.0
EU9	19,383	18,039	1,344	7.5	70.3	64.3	6.0	9.3
EU15	17,499	16,713	786	4.7	63.4	59.5	3.9	6.6
CIS	100,149	82,800	17,349	21.0	363.2	295.0	68.2	23.1
Russia	70,348	60,523	9,825	16.2	255.1	215.6	39.5	18.3
Ukraine	12,908	8,742	4,166	47.7	46.8	31.2	15.6	50.0
Other CIS republics	16,893	13,535	3,358	24.8	61.3	48.2	13.1	27.2
USA	29,365	35,695	-6,330	-17.7	106.5	127.2	-20.7	-16.3
Rest of the World	13,002	11,777	1,225	10.4	47.1	41.9	5.2	12.4
Total	238,149	223,384	14,765	6.6	863.5	795.8	67.7	8.5

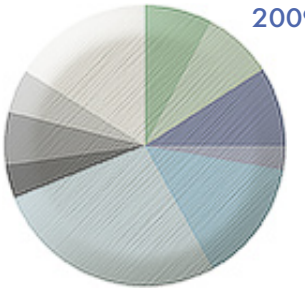
* Note: All Member States of the European Union, except for Hungary.

Sales analysis by region



2010

7% EU15
8% EU9
8% Poland
3% Romania
14% Hungary
30% Russia
5% Ukraine
7% Other CIS republics
6% RoW
12% USA



2009

8% EU15
8% EU9
9% Poland
3% Romania
14% Hungary
27% Russia
4% Ukraine
6% Other CIS republics
5% RoW
16% USA

HUNGARY

Uncertain conditions continued to persist in 2010 in the Hungarian economy. The fiscal deficit slightly exceeded the targeted 3.8 percent, while GDP increased by 1.2 percent and consumer price inflation was 4.9 percent, which altogether resulted in a decline in the population's purchasing power.

The uncertainties continued to influence the pharmaceutical market, although the overall level of price reductions remained insignificant during the year.

The drug economic act of 2007, requires that pharmaceutical companies pay as a contribution to the nation's health care expenses an amount equal to 12 percent of the subsidy on their products (based on producer prices and pharmacy turnover data) into the Health Insurance Fund. A medical representative fee was also reintroduced from 15 February 2009 in an amount of HUF 0.4 million per month per representative. According to the drug economic act, revised as per December 2010, companies with substantial spending on R&D remain eligible for an up to 100 percent deduction from the combined amount of the above obligations (i.e. the 12 percent tax and the medical representative fee), but the precise funding of the allowance remains to be determined. The amount to be reclaimed by Richter as at 31 December 2010 totalled HUF 2,371 million. Management is committed to take all the possible steps to achieve a repayment for 2010.

Sales totalled HUF 32,330 million (EUR 117.2 million) in 2010, 6.2 percent (in EUR terms 8.0 percent) higher than in 2009.

A number of products showed significant sales increases during 2010, notably XETER (with turnover in excess of HUF 1 billion), MODUXIN, TYSABRI and a range of oral contraceptives. On the other hand, turnover of certain other products fell behind levels achieved in the base period, including EDNYT, MYDETON and ATORVOX.

Based on market audit (IMS) data for the twelve months of 2010 Richter is now the third player on the Hungarian pharmaceutical market with a 5.6 percent share. When considering only the market for retail prescription drugs, Richter's market share was 7.2 percent.

2010 was a particularly successful year from the perspective of new launches as Richter introduced nine new products during the year on the Hungarian market.

New products launched in Hungary during 2010

Brand name	Active ingredient	Therapeutic area	Launch date
TYSABRI*	nataluzimab	Central nervous system, multiple sclerosis	Q1, 2010
XETER	rosuvastatin	Cardiovascular, cholesterol-lowering	Q1, 2010
LUNALDIN*	fentanyl	Central nervous system, narcotic analgesic	Q1, 2010
DUAMILD	tamsulosine + finasteride	Urology, benign prostate hypertrophy	Q1, 2010
MAMMOZOLE*	anastrozole	Oncology	Q1, 2010
NINIVET*	letrozole	Oncology	Q1, 2010
OCULOPLUS*	luteine	Ophthalmology	Q2, 2010
SYMICIA	drospirenone + ethinyl estradiol	Gynaecology, oral contraceptive	Q3, 2010
NEBIBETA*	nebivolol	Cardiovascular, antihypertensive	Q3, 2010

* Note: licensed-in products.

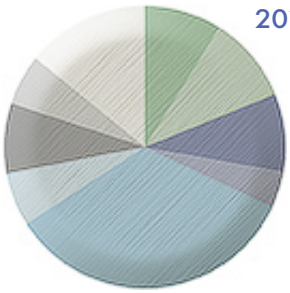
TOP 10 products in Hungary

Brand name	Active ingredient	Therapeutic area	2010	2009	Change	
			HUF m	HUF m	HUF m	%
Oral contraceptives	hormones	Gynaecology, oral contraception	3,571	3,359	212	6.3
CAVINTON	vinpocetine	Central nervous system	2,144	2,198	-54	-2.5
QUAMATEL	famotidine	Gastrointestinal, antiulcer	1,729	1,859	-130	-7.0
LISONORM	lisinopril + amlodipine	Cardiovascular, antihypertensive	1,411	1,468	-57	-3.9
AVONEX	interferon-beta-1a	Central nervous system, multiple sclerosis	1,383	1,173	210	17.9
XETER	rosuvastatin	Cardiovascular, cholesterol-lowering	1,162	-	1,162	n.a.
MODUXIN	trimetazidine	Cardiovascular, cardiac therapy	1,158	588	570	96.9
NORMODIPINE	amlodipine	Cardiovascular, antihypertensive	1,049	1,119	-70	-6.3
PORTIRON HCT	losartan + hydro-chlorothiazide	Cardiovascular, antihypertensive	957	752	205	27.3
SEDRON / CALCI-SEDRON	alendronate / alendronate + calcium	Gynaecology, osteoporosis	929	955	-26	-2.7
Subtotal			15,493	13,471	2,022	15.0
Other			16,837	16,985	-148	-0.9
Total			32,330	30,456	1,874	6.2

INTERNATIONAL SALES

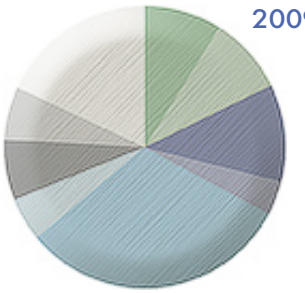
International sales amounted to EUR 746.3 million in 2010, an increase of EUR 59.0 million or 8.6 percent over the previous year. Sales in the CIS totalled EUR 363.2 million, 23.1 percent higher when compared to 2009. Substantial increases in sales were reported in most of the countries of the region. Turnover increased slightly in the EU region by 2.8 percent in EUR terms. Sales in the USA decreased by 21.1 percent in US$ terms in the reported period due primarily to a significant revenue decline from our profit sharing agreements. Turnover growth in the 'Rest of the World' region was 12.4 percent in Euro terms when compared to 2009.

International sales analysis by region



2010

9% EU15
10% EU9
9% Poland
4% Romania
34% Russia
6% Ukraine
8% Other CIS republics
6% RoW
14% USA



2009

9% EU15
9% EU9
11% Poland
4% Romania
31% Russia
5% Ukraine
7% Other CIS republics
6% RoW
18% USA

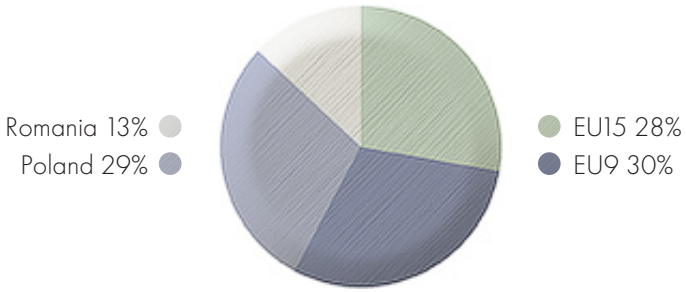
Sales to TOP 10 international markets

	2010	2009	Change	
	EUR m	EUR m	EUR m	%
Russia	255.1	215.6	39.5	18.3
USA	106.5	127.2	-20.7	-16.3
Poland	66.3	73.3	-7.0	-9.5
Ukraine	46.8	31.2	15.6	50.0
Romania	29.5	26.1	3.4	13.0
Germany	28.8	22.7	6.1	26.9
Czech Republic	23.1	20.4	2.7	13.2
Slovakia	20.6	19.4	1.2	6.2
Kazakhstan	19.8	12.1	7.7	63.6
Belarus	12.3	9.2	3.1	33.7
Subtotal	608.8	557.2	51.6	9.3
Total international sales	746.3	687.3	59.0	8.6
Share of the TOP 10 international markets	81.6%	81.1%		

EUROPEAN UNION

Sales in the European Union, excluding Hungary, amounted to EUR 229.5 million in 2010, representing an increase of 2.8 percent when compared to 2009.

Sales to the EU in 2010



In the reported period sales of gynaecological products represented 29 percent of the turnover in this region.

In **Poland**, its largest market in the region, despite the unfavourable consequences of the global financial crisis 3.8 percent GDP growth was recorded combined with an inflation rate of 2.7 percent. The Group recorded pharmaceutical sales of PLN 265.1 million (EUR 66.3 million), a decrease of 16.3 percent in PLN terms over the levels achieved in 2009. In EUR terms the Group reported a 9.5 percent sales decline during 2010 mainly related to non promoted generic products. Notwithstanding the overall decline, turnover of PROTEVASC, LARUS, NORTIVAN and AVONEX recorded growth when compared to the sales levels achieved in the base period.

In **Romania**, 2010 was another very difficult year for the whole pharmaceutical market due to weak economic conditions including a budget deficit combined with a high inflation rate and high level of unemployment. The overall pharmaceutical market continued to be unfavourable and impacted by substantially delayed payments also during 2010. From 1 October 2009 the Government introduced significant delays in payment terms by the Central Insurance House towards the pharmacies and hospitals. Simultaneously, the Government also approved a claw back regime in the range of 5-12 percent (aimed at financing the overspending of the national pharmaceutical budget) to be paid to the Central Insurance House. While a government decree regulating the execution of the above claw back is still not implemented, further delays in payments has put serious pressure on the financing capacities of the supplier companies.

In Romania, sales amounted to RON 123.9 million, a 12.0 percent year-on-year increase compared with the performance in 2009. In EUR terms turnover amounted to EUR 29.5 million, 13.0 percent higher than in the previous year.

Turnover of MODUXIN, VIDOTIN and IMPAMID contributed the most to the sales growth achieved during 2010.

In the **EU9** region sales totalled EUR 70.3 million in 2010, 9.3 percent higher in EUR terms than in the previous year. This area represented 30 percent of the total EU region sales of the Group's pharmaceutical segment.

The Group continued to face strong competition and sustained pressure from governments which together resulted year on year in both lower prices and reimbursement levels.

In the **Czech Republic** the local currency remained stable in 2010. GDP growth of 2.5 percent combined with a moderate inflation rate together with a high level of unemployment contributed to a constraint on purchasing power. The Group's turnover in this country in 2010 amounted to EUR 23.1 million, representing good 13.1 percent growth over the relatively

low sales levels achieved in the base period. The sales increase was mainly attributable to the range of oral contraceptives and LARUS. In **Slovakia** a 3.4 percent growth in GDP combined with slightly increasing consumer prices and despite the highest unemployment rate in the CEE region resulted in relatively stable political and economic conditions. Turnover amounted to EUR 20.6 million in 2010. The good performance of ZARANTA, DIRONORM and a range of oral contraceptives (mainly LINDYNETTE and ESCAPELLE) were primarily responsible for the 6.4 percent sales growth achieved. In the **Baltic States** sales amounted to EUR 15.0 million in 2010, representing good 8.7 percent growth, although from a relatively low base. In **Bulgaria** sales totalled EUR 11.4 million in the reported year, representing 8.5 percent growth in sales when compared with turnover achieved in the previous year.

In line with one of our primary objectives, notably to continuously renew and broaden our product portfolio, we are pleased to report the launch of several new products in the EU12 region during 2010.

New products launched in Central and Eastern Europe during 2010

Country	Brand name	Active ingredient	Therapeutic area	Launch date
Poland	PARNASSAN	olanzapine	Central nervous system, antipsychotic	Q1, 2010
	NORTIVAN*	valsartan	Cardiovascular, antihypertensive	Q1, 2010
Czech Republic	VIDOTIN	perindopril	Cardiovascular, antihypertensive	Q1, 2010
	LENUXIN	escitalopram	Central nervous system, antidepressant	Q1, 2010
	LUNALDIN*	fentanyl	Central nervous system, narcotic analgesic	Q2, 2010
	GOLDLILY	Cu + Au	Gynaecology, IUD	Q2, 2010
	MERTENIL	rosuvastatin	Cardiovascular, cholesterol-lowering	Q2, 2010
Romania	ELLAONE*	ulipristal acetate	Gynaecology, emergency contraception	Q2, 2010
	TESSYRON	clopidogrel	Haematology, antithrombotic	Q2, 2010
Slovakia	LUNALDIN*	fentanyl	Central nervous system, narcotic analgesic	Q2, 2010
	ZARANTA	rosuvastatin	Cardiovascular, cholesterol-lowering	Q2, 2010
	DIRONORM FORTE	lisinopril + amlodipine	Cardiovascular, antihypertensive	Q2, 2010
	FOSCAN*	temoporfin	Oncology	Q4, 2010
Baltic States	MAMMOZOLE*	anastrozole	Oncology	Q1, 2010
	LUNALDIN*	fentanyl	Central nervous system, narcotic analgesic	Q2, 2010
	GOLDLILY	Cu + Au	Gynaecology, IUD	Q3, 2010
Bulgaria	LARUS*	atorvastatin	Cardiovascular, cholesterol-lowering	Q1, 2010
	NORTIVAN*	valsartan	Cardiovascular, antihypertensive	Q1, 2010
	ELLAONE*	ulipristal acetate	Gynaecology, emergency contraception	Q2, 2010
	LENUXIN	escitalopram	Central nervous system, antidepressant	Q2, 2010
	ZARANTA	rosuvastatin	Cardiovascular, cholesterol-lowering	Q3, 2010

* Note: licensed-in products.

In the **'traditional' 15 EU member states** sales amounted to EUR 63.4 million in 2010, 6.6 percent higher in Euro terms than in the previous year. This region contributed 28 percent of total EU pharmaceutical sales.

Increasing competition in the generic business is evident in the 'traditional' 15 EU Member States and general price erosion continues to impact sales of the Group's products.

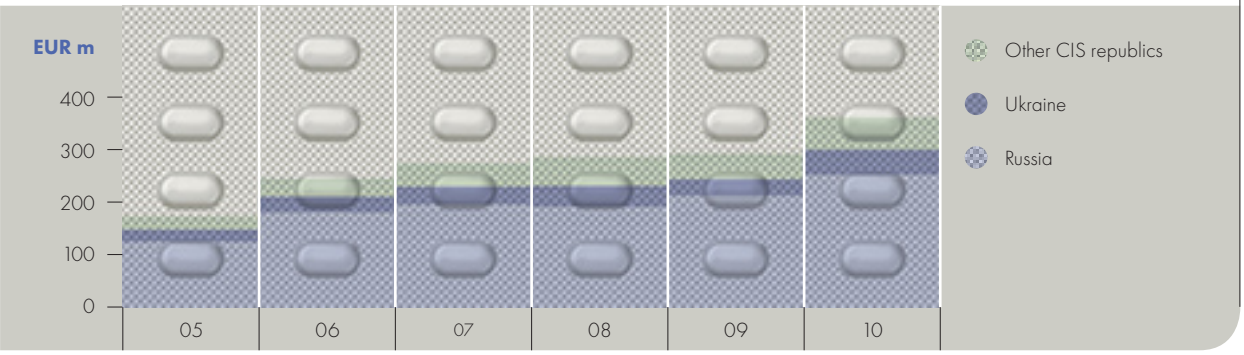
The two acquisitions made during the last quarter 2010 were aimed at the expansion of the female healthcare portfolio in our niche therapeutic area as well as to establish Richter's specialised sales force teams in these countries. The acquired Grünenthal portfolio provides a platform for Richter to establish its sales and marketing teams in key Western European countries, and in turn provide an excellent base for the development of Richter Group's presence in these markets. The sales force teams are being established during the first quarter 2011. In addition Richter expects to invest at least CHF 100 million in PregLem in 2011-2013 to assist the commercial development of PregLem's product portfolio.

In **Germany** Richter Group reported sales of EUR 28.8 million. First sales of the recently acquired Grünenthal oral contraceptive portfolio commenced in December 2010 and amounted to EUR 3.0 million. In **France** the Group's turnover amounted to EUR 11.9 million in 2010.

CIS

Sales to the CIS in 2010 totalled EUR 363.2 million, representing good growth of 23.1 percent over the sales levels achieved in 2009 partly due to a relatively low base. Substantial increases in sales were reported in most of the countries of the region.

Sales to the CIS



Turnover of gynaecological products led by the range of oral contraceptives represented 21 percent of total CIS sales in 2010.

Sales to **Russia** totalled EUR 255.1 million in 2010, 18.3 percent higher than in the base period. Good sales growth was recorded.

A strengthening Rouble/Euro exchange rate and increasing crude oil revenues created a more predictable and stable economic environment in Russia. A new pricing regime was introduced with effect from 1 April 2010 on the Russian pharmaceutical market, whereby according to the regulations price level ceilings are calculated based on average prices over the previous six months. Sales levels in Russia in the third quarter 2010 were positively impacted by certain one-off pre-shipments made in advance of regulatory changes effective 1 September 2010. These pre-shipments amounted to approximately two months' worth of average sales. Sales levels in Russia in the fourth quarter 2010 consequently were negatively impacted by these one-off pre-shipments. The new pricing regime introduced with effect from 1 April 2010 on the Russian pharmaceutical market did not have a significant impact on Richter sales during 2010.

Good growth was achieved by MYDOCALM, a range of oral contraceptives, PANANGIN, as well as SUPRAX, EKVATOR, and AIRTAL.

With effect from 1 January 2011 we changed the invoicing from Euro to Rouble.

Sales to **Ukraine** amounted to US$ 61.5 million (EUR 46.8 million) in the reported year, a remarkable 41.7 percent (50.0 percent in EUR terms) increase over the relatively low base levels reported in the previous year. Political stabilisation in the country had a beneficial effect on the economic climate and this contributed to improving sales. Most of the product portfolio reported a growth in sales led by a range of oral contraceptives, GROPRINOSIN, CAVINTON and DIROTON.

Sales in **Other CIS republics** totalled US$ 80.5 million (EUR 61.3 million) in 2010, a 19.6 percent (27.2 percent in EUR terms) increase over relatively low levels achieved in the previous year. Most notable was **Kazakhstan** where turnover amounted to EUR 19.8 million while remarkable sales growth was also recorded in **Belarus**, **Uzbekistan**, and **Azerbaijan**. Although starting from a low base, in 2010 these three republics contributed US$ 33.7 million (EUR 25.7 million) to sales revenues.

New products launched in the CIS republics during 2010

Brand name	Active ingredient	Therapeutic area	Launch date
LOSARTAN RICHTER	losartan	Cardiovascular, antyhipertensive	Q1, 2010
RIDONEX	risperidone	Central nervous system, antipsychotic	Q1, 2010
NYFUROXAZIDE	nyfuroxazide	Gastrointestinal	Q1, 2010

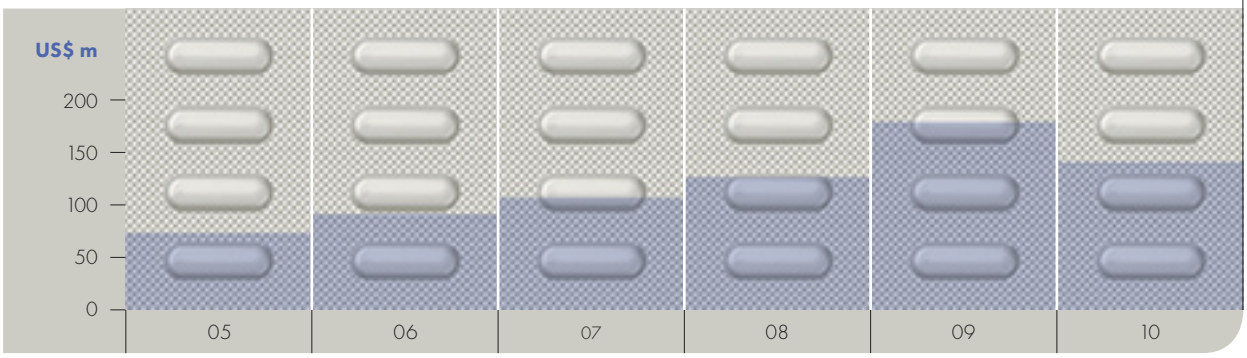
USA

Sales in the **USA** totalled US$ 139.9 million (EUR 106.5 million) in 2010, a decrease of 21.1 percent in US$ terms (16.3 percent in EUR terms) when compared to the base period. As indicated earlier revenues linked to drospirenone related profit sharing agreements declined further in the second half of the year partly due to increased generic competition. Turnover of matured gynaecological products also declined during the reported period.

Good growth in sales of our finished form emergency contraceptive PLAN B ONE-STEP was recorded during the reported period, although this was more than offset by lower sales of PLAN B partly due to generic competition. The lack of any lisinopril shipments and price erosion also contributed to a further decline in API sales.

Sales of gynaecological products, including the profit sharing related to drospirenone, represented 97 percent of US sales.

Sales to the USA



REST OF THE WORLD

Sales in these countries amounted to EUR 47.1 million (US$ 61.9 million) in 2010, an increase of 12.4 percent (5.6 percent in US$ terms) when compared to 2009.

Sales increased in **China** to EUR 4.9 million and in **Japan** to EUR 4.0 million, while in **Vietnam** turnover decreased. Notable sales levels were also achieved in **Switzerland** (EUR 3.8 million) and **Serbia** (EUR 3.6 million).

WHOLESALE AND RETAIL ACTIVITIES

Richter Group is active in two major business segments, primarily Pharmaceuticals comprising the research and development, manufacturing and marketing of pharmaceutical products and also engaged in the Wholesale and retail of these products. These latter activities are mainly focused on one selective market, Romania.

Pharmafarm is the only wholesaler belonging to Richter Group following the merger of Dita Import Export and Pharmafarm with effect from 13 April 2010. The merger was registered at the Court of Registration in Kolozsvár. Pharmafarm offers to customers a wide product portfolio including representation for many important foreign manufacturers.

Gedeon Richter Farmacia is our retail operation comprising 119 pharmacy units which supports the promotion and sale of Richter products.

Wholesale and retail sales

	2010	2009	Change	2010	2009	Change
	HUF m	HUF m	%	EUR m	EUR m	%
Hungary	278	257	8.2	1.0	0.9	11.1
Romania	33,050	41,399	-20.2	119.8	147.5	-18.8
CIS	3,415	1,747	95.5	12.4	6.2	100.0
Total	**36,743**	**43,403**	**-15.3**	**133.2**	**154.6**	**-13.8**

Approximately 90 percent of the 2010 turnover in the wholesale and retail segment was realised by our Romanian subsidiaries (RON 503.8 million), with the remaining part primarily invoiced by our subsidiaries in the CIS region. The decline in turnover in Romania was 19.3 percent in RON terms (18.8 percent in EUR terms) in 2010, which was primarily due to the deteriorating payment pattern of the pharmacies, themselves impacted by delayed payments from the National Health Insurance House.

Impairment losses related to receivables at our Romanian wholesale company were also incurred in 2010 but their amount remained significantly below the levels of losses accounted for in 2009 related to goodwill and pharmacy licences.

RESEARCH AND DEVELOPMENT

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

Proprietary research activities traditionally focused exclusively on compounds for the diseases of the central nervous system (CNS), primarily on schizophrenia, depression, anxiety and chronic pain. The Company has a portfolio of 20 ongoing projects, of which one is in clinical Phase III trials and three are in clinical Phase I. The remainder are in the preclinical phase.

Following the publication of positive results for Phase II clinical trials of Cariprazine (RGH-188) in the indication of bipolar mania in 2008, the Phase II/b trials of the same compound for schizophrenia also showed positive results in late 2009. Clinical Phase III trials both in bipolar mania and schizophrenia indications Phase III trials were initiated during the first half of 2010. Top line data are expected to be published in the late 2011.

In August 2010 we announced preliminary top-line results from an 8-week of Cariprazine for the treatment of bipolar depression. Although the overall difference observed between the drug-treated and placebo-treated groups was not statistically significant, over the course of the trial there was evidence of a clinically relevant treatment effect in the high-dose arm of the study by comparison to placebo. In addition, the tolerability results for Cariprazine support further investigation in this patient population.

In February 2011 we also published preliminary top-line results from a Phase II clinical trial of Cariprazine in patients as adjunctive therapy in Major Depressive Disorder. Results were similar to that reported in respect of bipolar disorder. Therefore Richter and Forest are considering conducting additional Phase II dose-response trials examining a wider range of doses in both indications.

Top-line results in June 2010 from a Phase II clinical trial of Radiprodil did not show statistically significant or clinically meaningful reductions in mean daily pain scores compared to placebo for any of the dosages studied. Following extensive review of the data base the management of Richter and Forest decided to terminate the project.

In October 2010 we acquired PregLem a Swiss based, specialty pharmaceutical company engaged in the development of a new class of drugs for the treatment of benign gynaecological conditions. PregLem focuses on women's reproductive medicine with significant unmet medical needs, such as uterine fibroids (myoma), endometriosis, infertility and post surgical abdominal adhesions. PregLem currently has five projects in clinical and pre-clinical development. Its most advanced product, PGL4001 Esmya™ (ulipristal acetate), completed Phase III clinical trials in June 2010 for the treatment of uterine myoma, a common benign tumor in women of reproductive age. Ulipristal acetate is a first-in-class, orally active selective progesterone receptor modulator which reversibly blocks the progesterone receptors in target tissues. A European MAA filing for Esmya™ was made in December 2010. This strategic move further increases Richter's exposure to specialty pharma, based on its widely acknowledged steroid chemistry expertise and complements Richter's existing Women's Health franchise.

At the end of 2010 the clinical portfolio was the following:

Compound	Phase of development	Geography	Primary indication	Partner
Esmya	Under registration	EU	Uterine myoma	
	Phase III	USA		Watson Laboratories
Cariprazine	Phase III	USA	Schizophrenia, bipolar mania	Forest Laboratories
	Phase II		Bipolar depression, major depression	
		Japan	Schizophrenia	Mitsubishi-Tanabe

Based on our long term almost 50 year experience in the area of classical fermentation, combined with molecular biological knowledge, a strategic decision was made by the management in 2006 to start recombinant biotechnological activities at the Company. The Hamburg based Richter-Helm biologics, established jointly with Helm AG, carries out development and manufacturing of microbial proteins. In addition, a biotechnology laboratory and pilot plant in Budapest became operational in 2009. Meanwhile a greenfield investment which was commenced in Debrecen in 2008, progresses according to plans. This facility will enable us to produce the most complex mammalian cell products from 2012 onward. These monoclonal antibodies are considered to be one of the most up to date areas of pharmaceutical therapies.

The Company considers it essential to establish partnerships to facilitate the development and marketing of new molecules. We join forces with academic and university institutions in the early phase of our research activities, while we make efforts to establish cooperation with other pharmaceutical companies when it comes to the development of molecules in clinical phases. In this regard partnerships with the US-based Forest Laboratories and with the Japanese Mitsubishi-Tanabe Pharmaceuticals have contributed substantially to the Company's research activity. In particular Richter's experience in preclinical trials has complemented well with Forest's experience in clinical trials. In December 2010 Richter and Mochida Pharmaceutical Co. Ltd. signed a comprehensive and long term license and collaboration agreement in respect of the development and marketing of Richter's biosimilar product portfolio. Together with Mochida's contribution it establishes the presence of biosimilar products developed and manufactured by Richter on the Japanese market.

Generic development work in several therapeutic areas continued in 2010 at the Parent company and at its two subsidiaries in Poland and Romania, all of which is coordinated by the Director of Development. The Group's target is to launch at least 5-7 new generic and branded generic products per year on its traditional markets, i.e. Hungary, CEE and CIS. Licensing-in activity increasingly contributes to the continuous development of the Group's product portfolio. Process development activities and bioequivalence studies on several active pharmaceutical ingredients and finished products continued during the year.

As a result of the Group's development activity we further enhanced during 2010 our female healthcare product portfolio, launching the fourth generation drospirenone containing oral contraceptive SYMICIA in Hungary.

Several products developed in-house were introduced during 2010, namely the cardiovascular rosuvastatin containing cholesterol lowering product, in the following countries – in Hungary, in the Czech Republic, in Poland, in addition in Slovakia and in Bulgaria (under different brand names). Additionally the tamsulosine and finasteride containing combination product, DUAMILD was launched in Hungary during 2010.

The Group reported in 2010 a 15.1 percent increase in its spending on research and development which totalled HUF 27,126 million (EUR 98.3 million), representing 9.9 percent of consolidated sales.

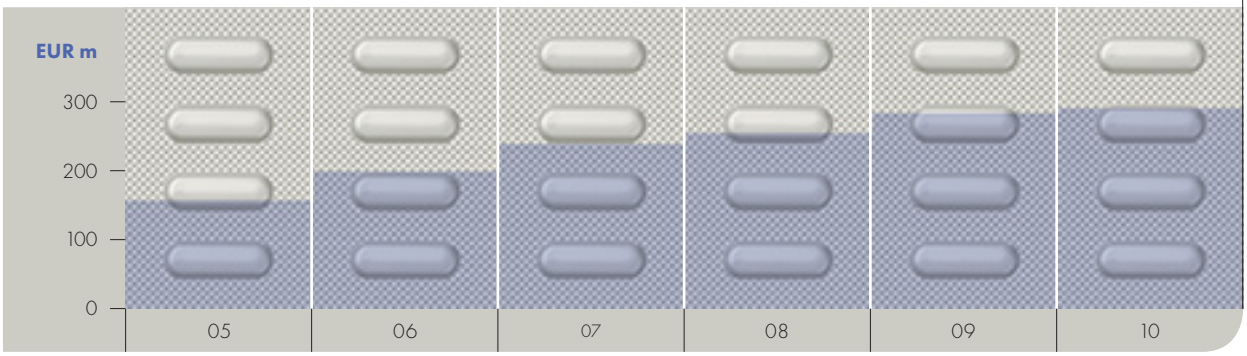
FEMALE HEALTHCARE

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

Currently, Richter makes available one of the widest range of female healthcare products while continuing to broaden its product portfolio. A key element of the Company's strategy has been and remains the development of its gynaecological business. In accordance with this strategy we made two acquisitions during 2010, both of which further strengthen our female healthcare portfolio. The acquisition of PregLem, which was announced in October 2010, creates a platform for Richter to develop a new class of drugs for the treatment of benign gynaecological conditions. In November 2010 the purchase of Grünenthal's oral contraceptive portfolio was also announced. Grünenthal's well established oral contraceptive franchise is expected to boost our gynaecological sales as well as expand our female healthcare portfolio.

This therapeutic area represented 33 percent of the Group's pharmaceutical turnover in 2010. This product group contributed substantially to the Group's turnover on each of its international markets. Gynaecological products represented 21 percent of total CIS sales, 29 percent of turnover in the EU region and 97 percent of total US sales during 2010.

Sales of gynaecological products



FEMALE CONTRACEPTION

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

Usage of oral contraceptives within fertility age women has gradually increased in Central Eastern European and CIS regions, currently 4 percent in Russia, 9 percent in Romania, 14 percent in Poland, 15 percent in Slovakia, 19 percent in Hungary and 35 percent in the Czech Republic. These levels remain relatively low compared with 33 percent in Germany, 40 percent in France and 45 percent in the Netherlands and provide room for further growth in this therapeutic area by our Company. Being one of the largest pharmaceutical players in the region of CEE and CIS, management considers these markets to be one of the major potential drivers of growth in the coming years.

In accordance with our main strategic objectives the Company continued to launch new contraceptive products on its markets during 2010. SYMICIA, a fourth generation drospirenone containing oral contraceptive was launched in Hungary.

The range of contraceptive products was one of the key drivers of growth in Hungary, in most of the CIS regions, in the Czech Republic and in Germany. Richter's main strategic partner for API sales is the US based Teva-Barr. The Company supplies steroid APIs for nine of Teva-Barr's range of oral contraceptive products. Richter supplies also the emergency contraceptive PLAN B and PLAN B ONE-STEP in finished form to Teva-Barr. In addition Richter also receives profit sharing in respect of drospirenone containing products, the revenue of which declined in 2010 partly due to increased generic competition. Turnover of matured gynaecological products also declined during the reported period.

First sales of the recently acquired Grünenthal oral contraceptive portfolio commenced in December 2010 and have been reflected in our results.

According to the distribution and marketing agreement with HRA Pharma Richter market and distribute HRA Pharma's product ELLA™ / ELLAONE™, an innovative next generation emergency contraceptive, containing a new chemical entity, ulipristal acetate on its traditional markets.

In addition the Goldlily product range, a non hormonal IUD (Intra Uterine Device) with a special composition acquired from Radelkis provides alternative contraceptive method for the female population.

PRODUCTS FOR MENOPAUSE (HORMONE REPLACEMENT THERAPY, OSTEOPOROSIS MEDICATIONS)

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

Gedeon Richter Plc. offers a wide range of orally and transdermally applicable HRT and osteoporosis products and continuously expands its product portfolio.

OTHER GYNAECOLOGICAL PRODUCTS

The acquisition of PregLem provides an opportunity for Richter to broaden and complete its female healthcare portfolio, as PregLem focuses on women's reproductive medicine with significant unmet medical needs, such as uterine fibroids (myoma), endometriosis, infertility and post surgical abdominal adhesions. Uterine fibroids (myomas) are the most common benign, solid tumors of the female genital tract, affecting between 20 and 25 percent of women of reproductive age. The condition is characterized by excessive uterine bleeding, anemia, pain, frequent urination or incontinence, and occasional interruption of fertility. PregLem's most advanced product, Esmya™, completed Phase III clinical trials in June 2010 for the treatment of uterine myoma. A European MAA filing for Esmya™ was made in December 2010. According to an exclusive licensing agreement, Watson's subsidiary, Watson Laboratories, Inc. will develop and market Esmya™ in the U.S. and Canada.

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

On the other hand the EU rights for the VagiSite™ platform had also been taken over and we are committed to develop further locally administered products based on that platform.

Main gynaecological products of Richter

Brand name	Active ingredients	Product type	Regions where launched [1]
VOLINA	drospirenone + ethinyl estradiol	Forth generation oral contraception	Hungary; EU
SYMICIA	drospirenone + ethinyl estradiol	Forth generation oral contraception	Hungary
MILLIGEST	gestodene + ethinyl estradiol	Third generation oral contraception	Hungary; EU; CIS
LINDYNETTE	gestodene + ethinyl estradiol	Third generation oral contraception	Hungary; EU; CIS; RoW
REGULON	desogestrel + ethinyl estradiol	Third generation oral contraception	Hungary; EU; CIS; RoW
NOVYNETTE	desogestrel + ethinyl estradiol	Third generation oral contraception	Hungary; EU; CIS; RoW
AZALIA	desogestrel	Third generation oral contraception	Hungary; EU; RoW
SAMBA	desogestrel + ethinyl estradiol	Third generation oral contraception	Hungary; EU
RIGEVIDON	levonorgestrel + ethinyl estradiol	Second generation oral contraception	Hungary; EU; CIS; RoW
TRI REGOL	levonorgestrel + ethinyl estradiol	Second generation oral contraception	Hungary; EU; CIS; RoW
ANTEOVIN	levonorgestrel + ethinyl estradiol	Second generation oral contraception	EU; RoW
GOLDLILY/SILVERLILY	Cu + Au, Cu + Ag	IUD	Hungary; EU
ESCAPELLE (LEVONELLE ONE-STEP in the EU, PLAN B ONE-STEP in the USA)	levonorgestrel	Emergency contraception	Hungary; EU; CIS; USA; RoW
POSTINOR (RIGESOFT in Hungary, LEVONELLE-2 in the EU, PLAN B in the USA)	levonorgestrel	Emergency contraception	Hungary; EU; CIS; USA; RoW
ELLAONE [2]	ulipristal acetate	Emergency contraception	Hungary; EU
KLION D	metronidazol + miconazol	Antifungal	Hungary; EU; CIS; RoW
TULITA	estradiol + norethisterone	Hormone replacement therapy	Hungary
FEMSEVEN COMBI [2]	estradiol + levonorgestrel	Hormone replacement therapy (patch)	EU; RoW
FEMSEVEN [2]	estradiol	Hormone replacement therapy (patch)	EU; RoW
TRIAKLIM	estradiol + norethisterone	Hormone replacement therapy	Hungary; EU; CIS
ESTRIMAX	estradiol	Hormone replacement therapy	Hungary; EU
PAUSOGEST	estradiol + norethisterone	Hormone replacement therapy	Hungary; EU; CIS; RoW
BROMOCRIPTINE	bromocriptine	Prolaktin inhibitor	Hungary; EU; CIS; RoW
OXYTOCIN	oxytocin	Stimulation of uterine contraction (injection)	Hungary; EU; CIS; RoW
NORCOLUT	progesteron + norethisterone	Premenstruation syndrome	Hungary; EU; CIS; RoW
GYNAZOL	butoconazole	Antifungal (cream)	Hungary; EU; CIS; RoW
MYCOSYST GYNO	fluconazole	Antifungal	Hungary; EU; CIS; RoW
SEDRON	alendronate	Osteoporosis	Hungary; EU; CIS
CALCI-SEDRON-D	alendronate + calcium / vitamine D	Osteoporosis	Hungary
Bulk products		Oral contraception	EU; USA; RoW

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

PRODUCTS

Richter is considered primarily to be a branded generic pharmaceutical manufacturer. Whilst the dominant part of its turnover originates from generic drugs the Group also manufactures and markets steroid based pharmaceuticals which represent a specialised, higher margin group of products. Over the last decade this niche portfolio has contributed substantially to both the increase in sales and to the relatively high margins achieved by the Group. It has been a priority for Richter management to further strengthen this therapeutic area where we traditionally have possessed special knowledge. The acquired Grünenthal oral contraceptive portfolio represents a strategic fit for Richter to both strengthen its presence in Western European markets and expand its oral contraceptive portfolio. Additionally the acquisition of PregLem increases Richter's exposure to specialty pharma and complements its existing Women's Health franchise. The separate section on Female healthcare describes our gynaecological products in detail.

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

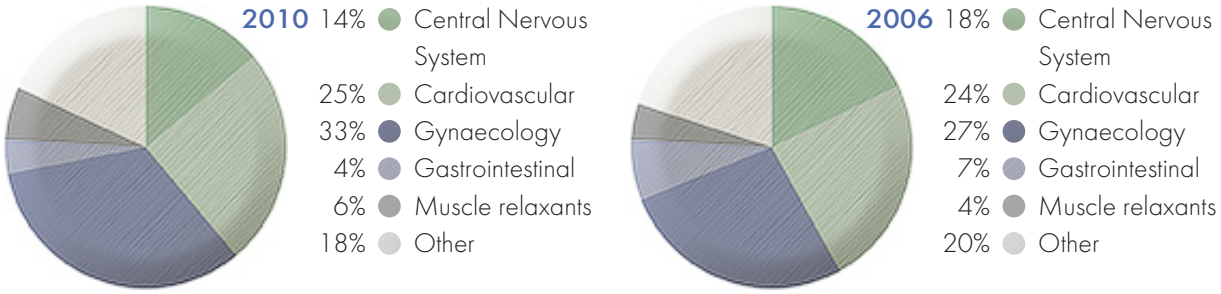
Gedeon Richter is a regional mid-sized pharma company with a vertically integrated structure. This is based on a good market position with geographic and therapeutic niches supported by continuous enhancement through the supply of specialties partly via licensing agreements. Licensing-in is becoming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

Main licencing-in partners of Richter

Company	Country	Product	Therapeutic area
Biogen Idec	USA	AVONEX, TYSABRI	Central nervous system, multiple sclerosis
KV Pharmaceutical	USA	GYNAZOL VagiSite technology	Gynaecologycal infections
Almirall Prodesfarma	Spain	AFLAMIN	Non-steroid antiinflammatory
Merck KGaA	Germany	FEMSEVEN, FEMSEVEN COMBI, FEMSEVEN EVO	Gynaecology, hormone replacement therapy
Takeda	Japan	LANSONE	Gastrointestinal, antiulcer
Astellas	Japan	SUPRAX	Antibiotic
Janssen	Belgium	several products	Central nervous system, Antifungal, Antibacterial
Sanofi-Aventis	France	TARIVID	Antibiotic
Fournier	France	LIPIDIL, LIPANTHYL	Cardiovascular, lipid lowering agents
HRA Pharma	France	ELLAONE	Gyneacology, emergency contraception
Helm	Germany	several products	Oncology, opioid analgesic
Actavis	Iceland	several products	Cardiovascular, Reflux, Clinical Depression
ProStrakan	United Kingdom	LUNALDIN	Oncology

Richter's management continues to endeavour to provide greater focus and improved shape to the product portfolio. With this background it is understandable that most of the top ten products in 2010 originate from the three largest therapeutic categories. Gynaecological, cardiovascular and central nervous system products together generated 72 percent of total pharmaceutical sales.

Products by therapeutic group



Central nervous system related drugs contributed altogether 14 percent to total pharmaceutical sales. The leading CNS product was our original product, CAVINTON (vinpocetine), a cerebral oxygenation enhancer. The turnover of CAVINTON was virtually flat in 2010 compared with the turnover reported in 2009. The sales performance achieved in Russia, in Hungary and in Poland contributed the most to the turnover recorded. Good sales growth was also achieved by the multiple sclerosis drug AVONEX (interferon-beta-1a), primarily due to sales increase achieved in Poland, in Hungary and in the Baltic States. The paroxetine containing antidepressant REXETIN contributed substantially to the sales levels reported in this therapeutic group.

Cardiovascular drugs showed an above average sales growth in 2010, accounting for 25 percent of total pharmaceutical sales. LISOPRESS (lisinopril) became the leading product in this therapeutic area and reported a significant increase in sales with most of its sales growth in the CIS markets. The antihypertension product LISONORM (lisinopril + amlodipine) and cardiac therapy PANANGIN (asparaginates) were also among the key drivers of the growth. The turnover of NORMODIPINE (amlodipine) continued to shrink in Hungary and in most of the CEE region while it increased on international markets of the Group, mainly in the CIS region. The rosuvastatin containing cholesterol lowering XETER, which was launched in Hungary, in Russia and in certain CEE markets in 2010, under different brand names, contributed significantly to the reported sales levels.

Muscle relaxant drugs amounted to 6 percent of the total pharmaceutical revenue of the Group in 2010. The most significant sales were achieved by our original product MYDETON (tolperisone), primarily in Russia.

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

The sales of **antifungal** TERBISIL (terbinafine) increased during 2010, primarily due to higher sales levels recorded in France and in the CIS. Turnover of MYCOSYST (fluconazole) was virtually flat in 2010 when compared to the turnover reported in 2009.

TOP 10 products

Brand name	Active ingredient	Therapeutic area	2010	2009	Change	
			HUF m	HUF m	HUF m	%
Oral contraceptives	hormones	Gynaecology, oral contraception	70,152	69,932	220	0.3
CAVINTON	vinpocetine	Central nervous system	18,441	18,511	-70	-0.4
EDNYT / LISOPRESS	enalapril / lisinopril	Cardiovascular, antihypertensive	16,543	18,122	-1,579	-8.7
MYDETON / MYDOCALM	tolperisone	Muscle relaxant	12,822	9,851	2,971	30.2
PANANGIN	asparaginates	Cardiovascular, cardiac therapy	11,116	8,763	2,353	26.9
VEROSPIRON	spironolactone	Cardiovascular, diuretic	9,281	8,031	1,250	15.6
QUAMATEL	famotidine	Gastrointestinal, antiulcer	7,322	7,382	-60	-0.8
NORMODIPINE	amlodipine	Cardiovascular, antihypertensive	5,337	5,302	35	0.7
LISONORM	lisinopril + amlodipine	Cardiovascular, antihypertensive	4,735	3,646	1,089	29.9
MYCOSYST	fluconazole	Antifungal	4,082	3,911	171	4.4
Subtotal			159,831	153,451	6,380	4.2
Other			78,318	69,933	8,385	12.0
Total			238,149	223,384	14,765	6.6

In line with the Group's strategy the product portfolio has been successfully enhanced. This focus continues through withdrawing low volume and low margin products and introducing new products with improved profit potential. Progress by the Group in launching new products continued in 2010. Several new generic products were launched on our markets.

New Product Launches

Brand name	Active ingredients	Therapeutic area	Indication	HUN	POL	ROM	RUS	EU9
Own developed compounds								
XETER / MERTENIL / ZARANTA	rosuvastatin	Cardiovascular	cholesterol-lowering	10Q1	10Q2			10Q2
DUAMILD	tamsulosine + finasteride	Urology	benign prostate hypertrophy	10Q1				
SYMICIA	drospirenone + ethinyl estradiol	Gynaecology	oral contraception	10Q3				
LOSARTAN RICHTER	losartan	Cardiovascular	antihypertensive				10Q1	
RIDONEX	risperidone	Central nervous system	antipsychotic				10Q1	
NYFUROXAZIDE	nyfuroxazide	Gastrointestinal					10Q1	
PARNASSAN	olanzapine	Central nervous system	antipsychotic		10Q1			
VIDOTIN	perindopril	Cardiovascular	antihypertensive					10Q1
LENUXIN	escitalopram	Central nervous system	antidepressant		10Q2			10Q1
TESSYRON	clopidogrel	Haematology	antithrombotic		10Q2	10Q2		
DIRONORM FORTE	lisinopril + amlodipine	Cardiovascular	antihypertensive					10Q2
GOLDLILY	Cu + Au	Gynaecology	IUD					10Q2
Licensed-in products								
TYSABRI	nataluzimab	Central nervous system	multiple sclerosis	10Q1				
LUNALDIN	fentanyl	Central nervous system	narcotic analgesic	10Q1				10Q2
NEBIBETA	nebivolol	Cardiovascular	antihypertensive	10Q3				
LARUS	atorvastatin	Cardiovascular	cholesterol-lowering					10Q1
NORTIVAN	valsartan	Cardiovascular	antihypertensive		10Q1			10Q1
ELLAONE	ulipristal acetate	Gynaecology	emergency contraception			10Q2		10Q2
NINIVET / MIONIC	letrozole	Oncology		10Q1				
MAMMOZOLE	anastrozole	Oncology		10Q1				10Q1
OCULOPLUS	luteine	Ophthalmology		10Q2				
FOSCAN	temoporfin	Oncology						10Q4

MANUFACTURING AND SUPPLY

Richter has always paid special attention to being in a position to offer reliable and modern products at affordable prices.

Despite the negative impact of the economic turmoil we have continued to drive operational excellence and make adjustments to our operational base so as to maximize the efficiency of our supply chain whilst maintaining the highest standards of quality and security of supply. Our supply chains are structured so as to be flexible and responsive to the changing needs of our local markets. During 2010 we maintained our focus on driving continuous improvement in our supply system as a part of a wide ranging cost and efficiency programme. It is pleasing to report that this programme delivered real benefits, notably lower stock levels, which have been achieved without compromising our normal high levels of customer service and quality.

Volumes of finished products showed a solid year on year increase of around 18 percent in 2010 outperforming overall pharmaceutical sales growth reported by the Group reflecting price pressure prevailing in most of our CEE and CIS regions.

At all of our manufacturing units in the CIS and CEE region manufacturing of new products commenced during 2010.

The volumes of API manufacturing remained approximately flat in 2010 when compared to the levels recorded in 2009 mainly as a result of higher steroid production against and lower volumes of generic APIs.

According to a management decision in respect of reducing capital expenditure related to Group's traditional profile, spending no major investment programmes were initiated during 2010 (excluding the ongoing project supporting the biosimilar product development in Debrecen). However in order to meet the highest quality standards modernization of equipments and technologies both in the API manufacturing and in finished dosage form production continued. New tabletting and packaging machines were put into operation at our Budapest site.

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

SAFETY, HEALTHCARE AND ENVIRONMENT

In recent years, Corporate Social Responsibility (CSR) has become a topic of increased awareness among society at large, the authorities, trade organizations, investors, the media and employees. Companies are expected to place more focus on business ethics and social responsibility.

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

In line with these standards we pay particular attention to creating a safe workplace environment. Continuous improvements to technological standards in all of our plants, ongoing training in the field of safety and regular reviews of safety procedures are all factors taken into account in this initiative.

No fatal accidents or other serious work related injuries occurred at any of our facilities during 2010.

Environmental Management Systems at the Company meets all requirements of ISO 14001:2004 standards. We are pleased to report that the most recent re-certification audit, which is valid for three years, was successfully completed during 2010. We also met the requirements established by the European Union legislations (REACH and CLP) related to the registration and labelling of the chemicals used in the production processes.

Following the reconstruction of the waste water pre-treatment plant, a trial run was completed successfully in 2009. At the beginning of 2010 the plant commenced regular operations. A project linked to regulations in respect of the use of Freon type materials and related to leakage testing cooling equipment continued in 2010. As a part of a medium term project, the reconstruction of the industrial waste sewage system was completed in 2010.

The Company continues to make progress on the harmonization of tasks related to employment healthcare and safety. The employment healthcare and safety management system established at the Company was originally certified according to the requirements of OHSAS 18001:1999 in 2006. We are pleased to report that as a result of the latest audit with the more stringent criteria of OHSAS 18001:2007 the Company was successfully re-certified in 2009 for a further three years. During 2010, the annual audit of the system was carried out without any negative observations.

COMMUNITY INVOLVEMENT

The management of Gedeon Richter have always been aware of the importance of community involvement. We recognize that as a leading pharmaceutical manufacturer and employer in Hungary it is our responsibility to maintain dialogue with society at large and with those who have an interest in the Company's activities. In this respect Gedeon Richter supports projects in the areas of healthcare, science, education and environmental control in line with its mission for improving health and the quality of life. The Company provides substantial support to healthcare institutions and organizations established with the aim of taking care of patients. To encourage young people's interests we sponsor a range of science-based school programmes, including chemistry education in secondary schools and university programmes both in Hungary and abroad. Special agreements were concluded with universities of natural sciences in order to support specific education and research activities. For talented and ambitious PhD students, we provide scholarships via the so called 'Talentum Foundation', which was established by the Company. In 2010 the scope of the Foundation was widened in order to include secondary school students providing a future career opportunity for them. On the occasion of its centenary in 2001 the Company created a foundation which has as its aim the support of scientific research and university education in the field of pharmaceutical research not only in Hungary but also for Hungarian talent living abroad.

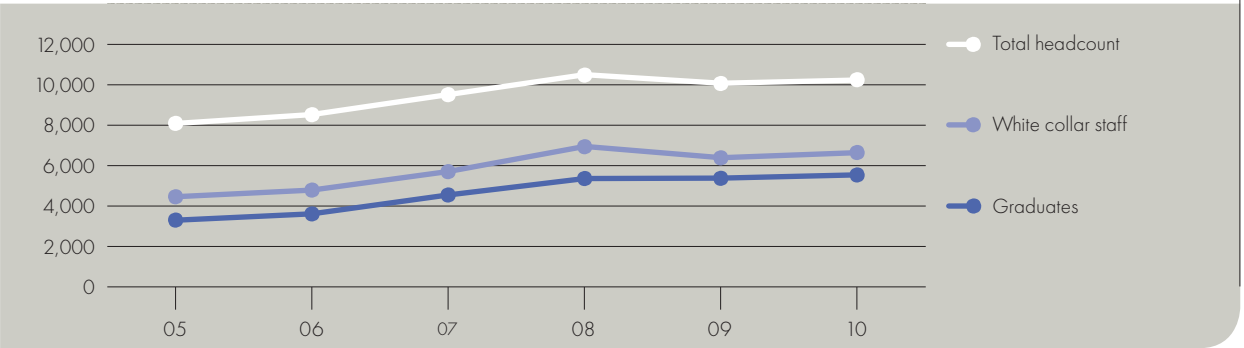
PEOPLE

Changes in the pharmaceutical sector over the past decade made inevitable the transformation of our business model to one that is more innovative. In order to be effective with growing complexity and exponential speed in change in our external environment we have needed to create an internal learning culture, which reflects the challenges we face and meets the ever increasing standards.

With more than 10,000 employees, we value the diverse skills and capabilities that a workforce with different cultural backgrounds brings to our business. We work continuously to align these skills and capabilities with strategic and operational needs, whilst maintaining a high level of employee engagement and commitment. This means providing employees with effective leadership, clear targets, open lines of communication, learning and healthy and safe places of work.

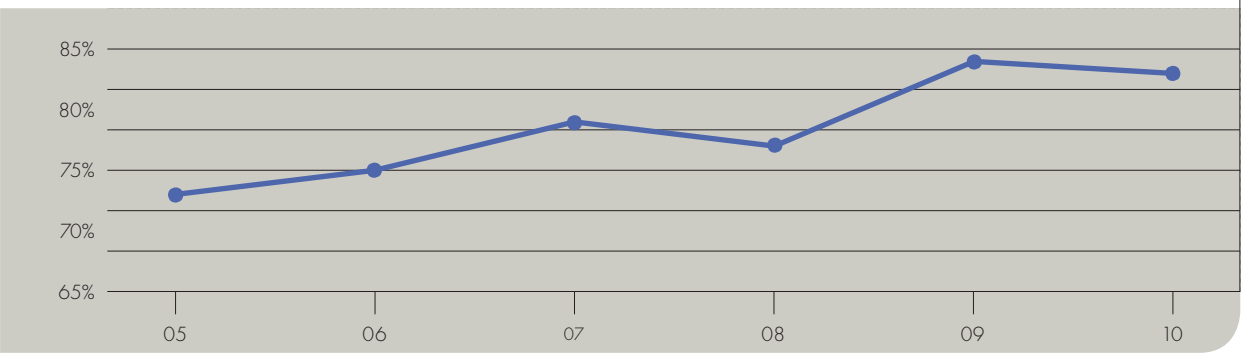
EMPLOYEES

Number of staff



The total headcount for the Group was 10,259 at the end of 2010, a 2 percent increase (169) when compared with 2009, as a result of an increase in headcount at the Parent company. The growth was primarily due to the expansion of sales force teams in our traditional regions, the expanding biosimilar business and the acquisition of PregLem.

Proportion of graduates *



* Note: Within the white collar staff in Hungary.

The proportion of skilled employees at the Group slightly increased to 5,505 at the end of 2010, from 5,340 reported in 2009. The graduate educated personnel represented 83 percent of white collar staff and 54 percent of the total number of employees at the Group.

The total headcount for the Parent Company was 6,288 at the end of 2010, an increase of 356 during the year. In Hungary Gedeon Richter's headcount totalled 4,739, a growth of 207 when compared with 2009.

The proportion of skilled employees at the Parent Company in 2010 slightly increased compared to that in 2009. Richter employed 3,171 graduate educated personnel at the end of 2010 and these represented 80 percent of white collar staff and 50 percent of the total number of employees in the Company.

RECRUITMENT AND INDIVIDUAL DEVELOPMENT

Recruiting, retaining and developing our employees were also critical activities in 2010, in order to enhance and sustain our performance. Proactive talent acquisition initiatives underpin our ability to attract specialist and leadership talent externally.

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

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

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

We encourage and support all our people in fully developing their capabilities with a range of high-quality learning and development opportunities. We offer training programmes, including coaching, languages and other courses to ensure employees have the skills needed in our business. The Company makes special efforts to assist scientific and professional education and postgraduate training. To encourage personal development the Company continued during 2010 to support employees to participate in university education, including PhD courses. To support innovation we created a competition system within our Group, which encourages and remunerate innovative ideas.


RICHTER
EGÉSZSÉGVÁROS
Egészség ezrekért,
milliók a kórháznak
Cotton Wool Balls
Magas

DEVELOPING LEADERS

Good leadership is critical to stimulating the high level of performance that is essential to our continued success in a changing and increasingly challenging environment. We need good succession planning not just for senior roles but for all critical positions across the organisation. We maintain a well established leadership strategy to identify and develop our highly skilled candidates and use a systematic and disciplined approach to leadership development.

Well established management training programmes involving all managers of the Company both at middle and senior levels were ongoing in 2010. Based on the results of the Leadership Competence Assessment programme, which was carried out during 2009, all managers designed their personal coaching programme and identified the key areas for further improvement. For those managers appointed within the last three years a special manager training programme was implemented so as to identify and develop management skills and self-knowledge.

The new career development, which focuses on further development of high potential management talent, continued in 2010. A comprehensive competence assessment was provided for those colleagues, who participated in this programme as a potential option to develop their self-knowledge. It is pleasing to report that approximately 20 percent of the participants were promoted to new management positions during the development programme. It is also pleasing to report that new candidates have been admitted to this programme in each year since its inception.

REMUNERATION AND OTHER EMPLOYEE PROGRAMMES

The importance of people must translate into employment practices that demonstrate the value of each individual. Compensation philosophy and programme development underscore Gedeon Richter's commitment to a performance culture. Performance based salary, share awards, career development planning, an application system for professional career levels and continuing education all contribute to the retention of key talent, superior performance and the accomplishment of business targets.

We focus on the health factors that enable employees to perform at the highest level by sustaining energy and engagement. The employee health programme continued during 2010. All employees can participate in this wide-ranging medical programme which aims to prevent illness by early diagnosis.

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

In order to improve efficiency of Human Resources activities within the Group, special meetings were organized by the Human Resources Department at individual subsidiaries. The main topics of these meetings included the review of the current HR policies of the Group and identification of those areas which may be the subject for further development.

FINANCIAL REVIEW

HUF € %

KEY FINANCIAL DATA

	2010	2009 [1]	Change	2010	2009 [1]	Change
	HUF m	HUF m	%	EUR m	EUR m	%
Total sales	275,312	267,344	3.0	998.2	952.4	4.8
Gross profit	168,175	150,901	11.4	609.8	537.6	13.4
Gross margin %	**61.1**	**56.4**		**61.1**	**56.4**	
Profit from operations	62,653	52,469	19.4	227.2	187.0	21.5
Operating margin %	**22.8**	**19.6**		**22.8**	**19.6**	
Profit before taxation	67,776	56,900	19.1	245.8	202.8	21.2
Profit for the year	64,640	50,953	26.9	234.4	181.5	29.1
Net margin %	**23.5**	**19.1**		**23.5**	**19.1**	
EPS (HUF, EUR) [2]	3,460	2,736	26.5	12.54	9.74	28.7
Total assets and total shareholders' equity and liabilities	598,820	429,970	39.3	2,156.4	1,589.5	35.7
Capital and reserves [3]	437,658	378,755	15.6	1,576.0	1,400.2	12.6
Capital expenditure	88,704	24,211	266.4	321.6	86.3	272.7
Number of employees at year-end	10,259	10,090	1.7			

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

COST OF SALES

Cost of sales amounted to HUF 107,137 million, (EUR 388.4 million) 8.0 percent lower (6.4 percent in EUR terms) when compared with 2009. The decrease was primarily due to the decline in the turnover of the wholesale and retail segment, which operates on a typically higher cost base, while at the same time improving economies of scale at our core pharmaceutical segment also contributed to the lower cost levels achieved.

GROSS PROFIT

Gross profit totalled HUF 168,175 million (EUR 609.8 million) in 2010 compared with HUF 150,901 million (EUR 537.6 million) in 2009.

Gross margin in 2010 at 61.1 percent increased significantly when compared with the 56.4 percent level achieved in 2009. This favourable change resulted from a number of factors, notably the positive impact of substantially higher pharmaceutical sales in the CIS region combined with a significant reduction in the sales levels of relatively low margin wholesale and retail business partly offset by declining sales to the US and a slight appreciation of the HUF against the EUR.

OPERATING EXPENSES

Sales and marketing expenses amounted to HUF 59,544 million (EUR 215.9 million) during 2010, a 10.8 percent (12.7 percent in EUR terms) increase compared with 2009. The proportion to sales of S&M expenses was 21.6 percent.

During the fourth quarter 2010 we amended our interim reporting accounting practice so as to include in sales and marketing expenses the annual registration fee payable in respect of medical representatives in Hungary. This amounted to HUF 665 million in 2010. This change resulted from the revision in December 2010 to the drug economic act which no longer provides funds for the deduction of these fees based on R&D expenditures. Management is committed to take all possible steps to achieve the deduction in respect of 2010 domestic sales.

Other notable marketing expenses in 2010 included amortisation of regulatory fees paid for new marketing authorizations from 2006 onwards (HUF 1,213 million) and previously accounted for as Intangible assets, together with amortisation of the marketing and patent protection rights acquired from Grünenthal amounting to HUF 392 million.

Administrative and general expenses totalled HUF 21,890 million (EUR 79.4 million) during 2010, representing a 27.0 percent (29.3 percent in EUR terms) increase when compared with the levels recorded in the previous year. These expenses included advisory costs related to the PregLem acquisition which was announced in the fourth quarter of 2010 as well as the time proportional amount of liabilities connected with medium term PregLem management incentive schemes. These expenses included to a lesser extent legal fees in respect of the acquisition of Grünenthal OC portfolio.

Research and development costs represented 9.9 percent of sales and increased by 15.1 percent to HUF 27,126 million (EUR 98.3 million) during the reported year. These costs were impacted by a change in accounting practice requested by the Hungarian tax authority with respect to the exclusion of regulatory fees paid for new marketing authorizations from 2006 onwards which have been accounted for under Intangible assets in the fourth quarter 2010. R&D expenses of the Group include such costs of both the PregLem and Richter-Helm Biologic subsidiary companies.

Other income and other expenses, totalled an income of HUF 3,038 million (EUR 11.0 million) during 2010, compared with an expense of HUF 3,882 million (EUR 13.8 million) in 2009. Milestone payments related to successful phase III trials of Cariprazine and in connection with the licence agreement concluded between the PregLem subsidiary company and Watson in December 2010 were received during the second and fourth quarter 2010 respectively, the latter item amounting to US$ 17 million.

The impairment loss related to receivables at our Romanian wholesale company remained significantly below the levels of the impairment loss accounted for in 2009 related to goodwill and pharmacy licences.

During the fourth quarter 2010 we amended our interim reporting accounting practice so as to include in other income and other expenses the 12 percent tax obligation payable in respect of turnover related to reimbursed sales in Hungary. This change resulted from the revision in December 2010 to the drug economic act which no longer provides funds for the deduction of these fees based on R&D expenditures. This amounted to HUF 1,706 million in 2010. Management is committed to take all the possible steps to achieve the deduction in respect of 2010 domestic sales.

Other income and expenses exclude any eventual provisions in respect of the claw-back regime announced in Romania due to the fact that the existing regulation is insufficient to determine the scope of payees and the respective amounts payable.

As a result of a change made in the fourth quarter 2010 to our presentation practice, Other income and expenses no longer include local business tax which has been reclassified as Corporate tax, thus, decreasing this cost item by HUF 3,148 million.

PROFIT FROM OPERATIONS

Profit from operations was impacted by the above mentioned changes in accounting practice and one-off items and is reported to be 19.4 percent higher at HUF 62,653 million when compared with 2009. In EUR terms operating profit was EUR 227.2 million, an increase of 21.5 percent when compared to the previous year. This amount includes the effects of consolidating for the first time the two acquisitions announced in the fourth quarter 2010. The consolidated operating margin increased to 22.8 percent during the reported year from the 19.6 percent reported in 2009.

NET FINANCIAL INCOME

	2010	2009	Change	2010	2009	Change
	HUF m	HUF m	%	EUR m	EUR m	%
Unrealised financial items	**-2,440**	**-1,896**	**28.7**	**-8.8**	**-6.7**	**31.3**
Reassessment of currency related trade receivables and trade payables	-233	229	n.a.	-0.8	0.8	n.a.
Reassessment of currency loans	137	-38	n.a.	0.5	-0.1	n.a.
Reassessment of other currency related items	-2,516	-740	240.0	-9.1	-2.6	250.0
Reversal of assessment of forward exchange contracts as of 1 January	108	-1,239	n.a.	0.4	-4.4	n.a.
Result of unrealised forward exchange contracts	64	-108	n.a.	0.2	-0.4	n.a.
Realised financial items	**7,513**	**6,275**	**19.7**	**27.2**	**22.3**	**22.0**
Result of realised forward exchange contracts	-1,884	1,745	n.a.	-6.8	6.2	n.a.
Exchange gains / losses realised on trade receivables and trade payables	4,400	-414	n.a.	15.9	-1.5	n.a.
Exchange gains on conversion	600	485	23.7	2.2	1.7	29.4
Dividends	11	175	-93.7	0.0	0.6	-100.0
Interest income	4,225	4,856	-13.0	15.3	17.3	-11.6
Interest expense	-169	-583	-71.0	-0.6	-2.1	-71.4
Other	330	11	n.a.	1.2	0.1	n.a.
Net financial income	**5,073**	**4,379**	**15.8**	**18.4**	**15.6**	**17.9**

Net financial income in 2010 totalled HUF 5,073 million (EUR 18.4 million), reflecting an increase of HUF 694 million (EUR 2.8 million) when compared to a net financial income of HUF 4,379 million (EUR 15.6 million) reported in 2009.

Richter has agreed terms and signed an agreement for a 5 year period, EUR 150 million club credit facility. The facility was provided to assist the Company meet its general operational objectives.

Exchange rate movements

	31 December 2009	31 March 2010	30 June 2010	30 September 2010	31 December 2010
EUR / HUF	270.50	266.60	284.70	277.00	277.75
US$ / HUF	187.72	198.27	232.98	203.82	208.95

Interest income which amounted to HUF 4,225 million (EUR 15.3 million) in 2010, decreased slightly when compared with the HUF 4,856 million (EUR 17.3 million) realised in the previous year due to a decreasing interest rate.

TAXATION

Since 1 January 2004, as a result of its capital expenditure programme and the increase in the number of employees, Gedeon Richter Plc. has already benefited and expects to continue to benefit from a 100 percent investment tax credit until 2012. As voted by the Parliament in late 2009 the solidarity tax obligation has been discontinued with effect from 1 January 2010, while the corporate tax rate has risen from 16 to 19 percent. The Group reported HUF 12 million (EUR 0.0 million) income and deferred tax.

As a result of a change made in the fourth quarter 2010 to the disclosure practice, Other income and expenses no longer include local business tax which has been disclosed as a separate item under Income tax having the effect of decreasing the above cost item and increasing Income tax by HUF 3,148 million (EUR 11.4 million).

PROFIT FOR THE YEAR

Profit for the year was HUF 64,640 million (EUR 234.4 million), HUF 13,687 million (EUR 52.9 million) higher than reported for 2009. Local business tax has been disclosed from Other income and expenses to Corporate tax, a change which does not impact the profit for the year.

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

Profit attributable to owners of the parent increased by HUF 13,493 million (EUR 52.2 million) during 2010 to HUF 64,479 million (EUR 233.8 million). It represented 23.4 percent of sales compared with the 19.1 percent reported for the previous year.

BALANCE SHEET

Total assets and total equity and liabilities of the Group amounted to HUF 598,820 million at 31 December 2010, HUF 168,850 million, or 39.3 percent higher than that reported at 31 December 2009.

Non-current assets amounted to HUF 355,027 million at 31 December 2010, 102.7 percent above the amount reported at 31 December 2009. The impact of the PregLem acquisition was responsible for the increase accounted for as Goodwill. Intangible assets increased primarily as a result of the PregLem and Grünenthal OC portfolio acquisitions. The amount recorded for Investments includes the fair value of the acquired stakes together with the previously owned Protek shares.

Current assets amounted to HUF 243,793 million and decreased by HUF 11,009 million (4.3 percent) when compared to the level reported at 31 December 2009 mainly due to lower levels of Cash and cash equivalents related to the recently announced acquisitions.
Capital and reserves of the Group amounted to HUF 437,658 million, an increase of HUF 58,903 million over the bal-

ance as at 31 December 2009. A change in the valuation of Richter's 5 percent stake in Protek has been included in Capital and reserves. Following the Russian healthcare group becoming listed on the Moscow Stock Exchange the fair value of Richter's stake in Protek is reflected by the company's share price with relevant adjustments made on a quarterly basis. The revaluation made at the end of 2010 established that the fair value of Richter's stake had increased by HUF 3,613 million as a result of a revaluation gain in respect of the initial holding partially offset by a revaluation loss in respect of the stake acquired during the IPO.

Non-current liabilities of the Group at 31 December 2010 at HUF 99,104 million were HUF 97,584 million higher than the levels reported at the end of the previous year partly as a result of the EUR 150 million loan contracted for a 5 year period by Richter and partly reflecting the net present value of the deferred purchase price in respect of the PregLem acquisition accounted for as Other non current liability.

Current liabilities of the Group at HUF 62,058 million on 31 December 2010 were 24.9 percent higher than at 31 December 2009 mainly due to future payable instalments related to the PregLem acquisition.

CASH FLOW

	2010	2009
	HUF m	HUF m
Net cash flow		
From operating activities	74,674	73,135
From investing activities	-116,372	-25,941
From financing activities	21,604	-10,232
Effect of foreign exchange rate changes	2,400	-1,124
Decrease / increase in cash and cash equivalents	**-17.694**	**35,838**

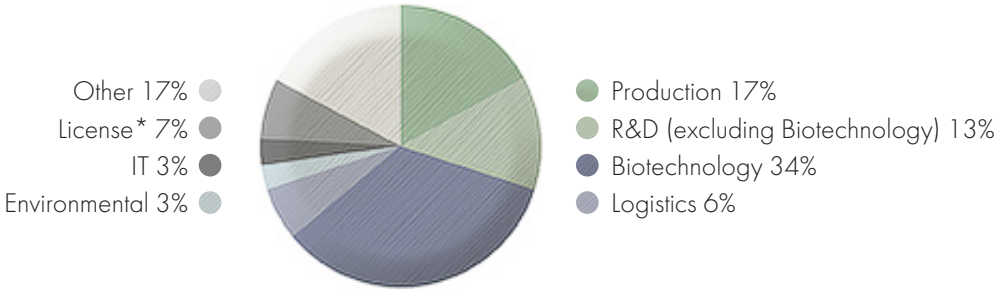
As indicated by the cash flow statement, during 2010 the Group generated net cash from operating activities of HUF 74,674 million (EUR 270.8 million), which was virtually flat when compared to levels recorded in 2009. Net cash flow directed towards investing activities which arose as a result of acquisitions realised in the last quarter 2010, also contributed to a significant decrease of cash and cash equivalents during 2010 being the latter partly offset by the increasing level of net cash flow originating from financing activities mostly as proceeds from borrowings. Important amounts of cash were directed towards capital expenditure and payment of dividends. Overall, cash decreased by HUF 17,694 million in 2010.

CAPITAL EXPENDITURE

Capital expenditure combined with Intangible assets in 2010 totalled HUF 88,704 million (EUR 321.6 million), compared to HUF 24,211 million (EUR 86.3 million) reported for 2009. This amount includes expenditures linked to the acquisition of the OC portfolio of Grünenthal amounting to HUF 65,384 (EUR 237.1 million). Small-scale replacements at both important Hungarian locations of the Group – Budapest and Dorog – as well as the establishment of a new manufacturing procedure based on nanotechnology were intitiated during 2010.

In line with the strategic goal of improving its share of high intellectual value intensive production and taking advantage of a sound knowledge in the field of large scale fermentation procedures the Company has entered into the development of biosimilar research and manufacturing capacities. Following the acquisition in 2007 in Germany of a manufacturing unit dedicated towards the development of bacterial fermentation together with a related pilot plant and laboratory, Richter announced in 2008 a greenfield investment to be carried out in the Hungarian city of Debrecen aimed at the manufacturing of biosimilar products by means of mammalian cell fermentation. Construction of an office building was completed during 2010 together with major units of the manufacturing process (fermentation, buffer preparation, media preparation). A test function of the energy supply system was carried out during 2010. Capital expenditure related to research, development and manufacturing of biological products in Hungary amounted to HUF 7,431 million (EUR 26.9 million) in 2010. The plant is expected to be operational in 2012.

Capital expenditure analysed by function in 2010 *



* Note: The distribution of HUF 23,320 million capital expenditure is presented on the pie chart above.
An additional amount of HUF 65,384 million represented the aquisition cost of the OC portfolio divested by Grünenthal. (licence expenditure)

TREASURY POLICY

The treasury activities of Richter are co-ordinated and managed in accordance with procedures approved by the Board of Directors. The treasury function of the Parent Company maintains responsibility for the financing of its activities both on the domestic market and abroad and the administration of trade receivables and trade payables. It also manages exchange rate risks relating to the group operations and ensures appropriate financial income via investing temporarily free cash through bank deposits and open-ended funds and government securities.

Considering that about 85 percent of the Parent Company turnover is realised in various international currencies, while its costs are incurred mostly in Hungarian forints, operating profit is exposed to numerous currency fluctuations. To manage this exposure, the Board of Directors has approved a strategy of foreign exchange rate exposure risk reduction, in which forward contracts used for hedging purposes are employed. Such contracts have been concluded exclusively by the Parent Company.

Since January 2000, Richter has concluded forward exchange contracts to manage its exposure to fluctuations in exchange rates. In the first half of 2010 Richter concluded forward exchange contracts in order to minimise the US$/EUR exchange risk. These contracts provide coverage for about 10 percent of the net US$ exposure due in the first half of 2011. FOREX exposure of the Group materially changes with effect from 1 January 2011 with RUR substituting EUR as invoicing currency in Russia.

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

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

PENDING LITIGATION PROCEEDINGS

On 15 July 2008, Richter announced that due to the absence of the representatives of Genefar, the closing and the subscription of the new shares scheduled for 14 July 2008 did not take place. Richter immediately initiated discussions in order to find an amicable settlement and complete the anticipated transaction. However, in spite of Richter's efforts, such negotiations remained unsuccessful as Genefar and Mr. Starak failed to adhere to the signed agreement. As a result, the combination with Polpharma did not take place and Richter initiated in December 2008 legal proceedings before the Arbitration Court of the ICC, claiming compensation for damages caused by such breach of contract. The ICC procedure is still pending.

CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements in this Annual Report have been prepared in accordance with International Financial Reporting Standards (IFRS)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Gedeon Richter Plc.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Gedeon Richter Plc. ("the Company") which comprise the consolidated balance sheet as of 31 December 2010 (in which the balance sheet total is MHUF 598,820, the total comprehensive income for the year is MHUF 72,772, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements including a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

PRICEWATERHOUSECOOPERS

Opinion

During our work we have audited the components and disclosures along with the underlying accounting records and supporting documentation in the consolidated financial statements of Gedeon Richter Plc. in accordance with Hungarian Standards on Auditing and, on the basis of our audit work, we have gained sufficient and appropriate evidence that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Gedeon Richter Plc. as of 31 December 2010, and of the results of its operation for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Other reporting requirements regarding the business report

We have examined the accompanying consolidated business report of Gedeon Richter Plc. for the financial year of 2010.

Management is responsible for the preparation of the consolidated business report which is consistent with the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU. Our responsibility is to assess whether or not the accounting information disclosed in the consolidated business report is consistent with that contained in the consolidated financial statements. Our work in respect of the consolidated business report was limited to checking it in within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. In our opinion the 2010 consolidated business report is consistent with the disclosures in the consolidated financial statements as of 31 December 2010.

Budapest, 24 March 2011.

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

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2010	Notes	2010	2009 Restated
		HUF m	HUF m
Total revenues	5	275,312	267,344
Cost of sales		(107,137)	(116,443)
Gross profit		168,175	150,901
Sales and marketing expenses		(59,544)	(53,742)
Administration and general expenses		(21,890)	(17,241)
Research and development expenses		(27,126)	(23,567)
Other income and other expenses (net)		3,038	(3,882)
Profit from operations	5	62,653	52,469
Finance income		18,095	22,490
Finance costs		(13,022)	(18,111)
Net financial income	7	5,073	4,379
Share of profit of associates		50	52
Profit before income tax		67,776	56,900
Income tax	8	(3,136)	(5,947)
Profit for the year		64,640	50,953
Profit attributable to			
Owners of the parent		64,479	50,986
Non-controlling interest		161	(33)
Earnings per share (HUF)	9		
Basic		3,464	2,740
Diluted		3,460	2,736

The notes on pages 75 to 130 form an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010	Notes	2010	2009
		HUF m	HUF m
Profit for the year		**64,640**	**50,953**
Exchange differences arising on translation of foreign operations		5,250	(1,267)
Revaluation reserve for available for sale investments	25	2,882	382
Other comprehensive income for the year		**8,132**	**(885)**
Total comprehensive income for the year		**72,772**	**50,068**
Attributable to:			
Owners of the parent		72,254	50,222
Non-controlling interest		518	(154)

The notes on pages 75 to 130 form an integral part of the consolidated financial statements

CONSOLIDATED BALANCE SHEET

at 31 December 2010	Notes	2010	2009
		HUF m	HUF m
ASSETS			
Non-current assets		**355,027**	**175,168**
Property, plant and equipment	11	144,674	142,363
Investment property	12	1,006	769
Goodwill	19	29,933	3,236
Other intangible assets	11	150,726	11,322
Investments in associates	15	6,093	6,236
Other financial assets	16	18,278	8,994
Deferred tax assets	17	1,624	671
Loans receivable	18	2,693	1,577
Current assets		**243,793**	**254,802**
Inventories	20	51,657	51,459
Trade receivables	21	85,602	79,414
Other current assets	22	10,485	8,919
Investments in securities	23	20,285	21,716
Current tax asset	17	164	-
Cash and cash equivalents	24	75,600	93,294
Total assets		**598,820**	**429,970**
EQUITY AND LIABILITIES			
Capital and reserves		**437,658**	**378,755**
Equity attributable to owner of the parent		**434,527**	**376,142**
Share capital	25	18,638	18,638
Treasury shares	26	(539)	(825)
Share premium		15,214	15,214
Capital reserves		3,475	3,475
Foreign currency translation reserves	25	(3,771)	(8,664)
Revaluation reserve for available for sale investments	25	3,356	474
Retained earnings		398,154	347,830
Non-controlling interest		3,131	2,613
Non-current liabilities		**99,104**	**1,520**
Borrowings	30	41,694	702
Deferred tax liability	17	19,680	818
Other non-current liability	31	37,730	-
Current liabilities		**62,058**	**49,695**
Borrowings	30	21	5,387
Trade payables	27	32,370	31,345
Current tax liabilities	17	192	167
Other payables and accruals	28	27,298	10,878
Provisions	29	2,177	1,918
Total equity and liabilities		**598,820**	**429,970**

The notes on pages 75 to 130 form an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010	Notes	Share capital	Share premium
		HUF m	HUF m
Balance at 1 January 2009		18,638	15,214
Comprehensive income at 31 December 2009		-	-
Net treasury shares purchased	26	-	-
Ordinary share dividend for 2008	32	-	-
Absorption of non-controlling interest		-	-
Recognition of share-based payments	25	-	-
Balance at 31 December 2009		18,638	15,214
Balance at 1 January 2010		18,638	15,214
Comprehensive income at 31 December 2010		-	-
Net treasury shares transferred to employees	26	-	-
Ordinary share dividend for 2009	32	-	-
Recognition of share-based payments	25	-	-
Balance at 31 December 2010		18,638	15,214

The notes on pages 75 to 130 form an integral part of the consolidated financial statements

Capital reserves	Treasury shares	Revaluation reserve for available for sale investments	Foreign currency translation reserves	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m
3,475	(604)	92	(7,518)	307,202	336,499	2,787	339,286
-	-	382	(1,146)	50,986	50,222	(154)	50,068
-	(221)	-	-	-	(221)	-	(221)
-	-	-	-	(10,977)	(10,977)	-	(10,977)
-	-	-	-	-	-	(20)	(20)
-	-	-	-	619	619	-	619
3,475	(825)	474	(8,664)	347,830	376,142	2,613	378,755
3,475	(825)	474	(8,664)	347,830	376,142	2,613	378,755
-	-	2,882	4,893	64,479	72,254	518	72,772
-	286	-	-	-	286	-	286
-	-	-	-	(14,328)	(14,328)	-	(14,328)
-	-	-	-	173	173	-	173
3,475	(539)	3,356	(3,771)	398,154	434,527	3,131	437,658

The notes on pages 75 to 130 form an integral part of the consolidated financial statements

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2010	Notes	2010	2009
		HUF m	HUF m
Operating activities			
Net income attributable to owners of parent company		64,479	50,986
Depreciation and amortisation		21,135	19,715
Non cash items accounted through Income Statement		(4,063)	619
Net financial income		(4,067)	(4,448)
Income tax recognised through profit or loss		3,136	5,947
Changes in provision for defined benefit plans	29	184	251
(Gain)/loss on disposal of property, plant and equipment and intangible assets		(237)	624
Impairment loss recognised on intangible assets		35	4,278
Loss on disposal of subsidiary	38	-	643
Movements in working capital			
Increase in trade and other receivables		(6,813)	(9,923)
Decrease in inventories		98	5,355
Increase in payables and other liabilities		5,370	5,209
Interest paid		(169)	(583)
Income tax paid	17	(4,414)	(5,538)
Net cash flow from operating activities		**74,674**	**73,135**
Cash flow from investing activities			
Payments for property, plant and equipment		(19,366)	(20,502)
Payments for intangible assets		(69,338)	(3,709)
Proceeds from disposal of property, plant and equipment		1,352	341
Payments to acquire financial assets		(3,861)	(7,888)
Proceeds on sale of financial assets		-	297
Proceeds from loans		(1,116)	(16)
Interest and similar income		4,225	4,856
Dividend income		11	175
Net cash inflow from disposal of subsidiaries	38	-	709
Net cash outflow on acquisition of subsidiaries	36	(28,279)	(204)
Net cash flow from investing activities		**(116,372)**	**(25,941)**
Cash flow from financing activities			
Proceeds from disposal of treasury shares	26	286	(221)
Dividends paid		(14,308)	(10,977)
Proceeds from borrowings		35,626	966
Net cash flow from financing activities		**21,604**	**(10,232)**
Net decrease/increase in cash and cash equivalents		**(20,094)**	**36,962**
Cash and cash equivalents at beginning of year		**93,294**	**57,456**
Effect of foreign exchange rate changes on the balances held in foreign currencies		2,400	(1,124)
Cash and cash equivalents at end of year		**75,600**	**93,294**

The notes on pages 75 to 130 form an integral part of the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL BACKGROUND

I) Legal status and nature of operations

Gedeon Richter Plc. ("the Company"), the immediate parent of the Group, a manufacturer of pharmaceutical products based in Budapest, was established first as a Public Limited Company in 1923. The predecessor of the Parent Company was founded in 1901 by Mr Gedeon Richter, when he acquired a pharmacy. In 1990, Kőbányai Gyógyszerárugyár ("KGY"), a state owned entity which was transformed into a Company limited by shares ("Rt."), was amalgamated into the Parent Company. The Company is headquartered in the Republic of Hungary and its registered office is at Gyömrői út 19-21, 1103 Budapest.

II) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU").

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

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

III) Adoption of new and revised Standards

A) Standards, amendments and interpretations effective and adopted by the Group in 2010

IAS 27, IFRS 3 (amended). In January 2008 the IASB published the amended Standards IFRS 3 – Business Combinations and IAS 27 – Consolidated and Separate Financial Statements. The major changes compared to the previous version of the standards are summarized below:

- With respect to accounting for non-controlling interest an option is added to IFRS 3 to permit an entity to recognize 100% of the Goodwill of the acquired entity, not just the acquiring entity's portion of the Goodwill ('full Goodwill' option) or to measure non-controlling interest at its fair value. This option may be elected on a transaction-by-transaction basis.

- In a step acquisition, the fair values of the acquired entity's assets and liabilities, including Goodwill, are measured on the date when control is obtained. Accordingly, Goodwill is measured as the difference at the acquisition date between the fair value of any investment the business held before the acquisition, the consideration transferred and the fair value of the net asset acquired. Even if the total ownership does not reach 100% as a result of the acquisition, the Group can elect to recognize 100% of the Goodwill of the acquired entity, not just the Group's portion of the Goodwill, consequently, the balance of the non-controlling interests can be measured at fair value at the acquisition date. Alternatively, the Goodwill recognized may only represent the proportionate ownership acquired, consequently, the measurement of non-controlling interests at the acquisition date can exclude their share of the Goodwill.

- A partial disposal of an investment in a subsidiary while control is retained is accounted for as an equity transaction with owners, and gain or loss is not recognized.

– A partial disposal of an investment in a subsidiary that results in loss of control triggers re-measurement of the residual interest to fair value. Any difference between fair value and carrying amount is a gain or loss on the disposal, recognized in profit or loss.

– Acquisition related costs are accounted for separately from the business combination, and therefore, recognized as expenses rather than included in Goodwill. An acquirer has to recognize at the acquisition date a liability for any contingent purchase consideration. If the amount of contingent consideration accounted for as a liability changes as a result of a post-acquisition event (such as meeting an earnings target), it is recognized in accordance with other applicable IFRSs, as appropriate rather than as an adjustment of Goodwill.

– The revised standards require an entity to attribute their share of losses to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

– Effects resulting from an effective settlement of pre-existing relationships (relationships between acquirer and acquiree before the business combination) must not be included in the determination of the consideration.

– In contrast to the original IFRS 3, the amended version of this standard provides rules for rights that have been granted to the acquiree (e.g. to use its intellectual property) before the business combination and are reacquired with the business combination.

– The revised IFRS 3 brings into scope business combinations involving only mutual entities and business combinations achieved by contracts alone.

The Group adopted the amended versions of IFRS 3 and IAS 27 as of 1 January, 2010. The Business Combinations are presented in Note 36.

IFRS 2 (amended) Share-based Payment. The amendments related to Group Cash-settled Share-based Payment Transactions were published in June 2009. Previously effective IFRSs required attribution of group share-based payment transactions only if they were equity-settled. The amendments resolved diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements. Amendments to IFRS 2 shall be applied retrospectively for annual periods beginning on or after 1 January, 2010. The amendments also incorporate the guidance contained in IFRIC 8 (Scope of IFRS 2) and in IFRIC 11 (IFRS 2 – Group and Treasury Share Transactions). As a result, the Board withdrew IFRIC 8 and IFRIC 11. The amendment did not effect the treatment of the share based compensations of the Group, which is presented in Note 25, 26.

IFRIC 18 Transfers of Assets from Customers. The Interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment (or cash to be used explicitly for the acquisition of property, plant and equipment) that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The Interpretation is effective for annual periods beginning on or after 1 July 2009 and applies prospectively. However, limited retrospective application is permitted. The Group applied IFRIC 18 as of 1 January 2010. Since the applicable transactions of the Group are not material, the interpretation did not have a significant effect on the Group.

B) Standards, amendments and interpretations effective in 2010 but not relevant for the Group

IAS 39 (amended) – The IASB published an amendment in August 2008 to IAS 39 with respect to hedge accounting. The amendment "Eligible Hedged Items" allows to designate only changes in the cash flows or fair value of a hedged item above or below a specified price or other variable. The amendment of IAS 39 shall be applied retrospectively for annual periods beginning on or after 1 July 2009. The amendment did not have any impact on the Company's accounts as the Group does not apply hedge accounting.

IFRS 1 The IASB amended IFRS 1 in July 2009. As the Group has been reporting according to IFRS for many years, neither the original standard, nor any revision to that is relevant for the Group.

IFRIC 17 Distributions of Non-cash Assets to Owners. This interpretation issued in November 2008 refers to the issue when to recognize liabilities accounted for non-cash dividends payable (e.g. property, plant, and equipment) and how to measure them. In addition, the interpretation refers to the issue how to account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable. The interpretation shall be applied for annual periods beginning on or after 1 July 2009. As the Group does not distribute non-cash dividends, IFRIC 17 had no impact on the Group's financial statements.

IFRS for Small and Medium-sized Entities. In July 2009 the IASB issued its IFRS for Small and Medium-sized Entities, which is not relevant for the Company.

C) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group. The adoption of the below presented Amendments and new Standards and Interpretations would have no significant impact on the consolidated financial statements of the Group unless otherwise stated.

IAS 24 (revised) In November 2009, the IASB issued a revised version of IAS 24 Related Party Disclosures. Until now, if a government controlled, or significantly influenced, an entity, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. It achieves this balance by requiring disclosure about these transactions only if they are individually or collectively significant. Furthermore the IASB has simplified the definition of related party and removed inconsistencies. The revised standard shall be applied retrospectively for annual periods beginning on or after 1 January 2011. Earlier application is permitted. We do not expect that the revised standard would have a significant impact on the disclosures in the Group's financial statements, because the Group has no significant transactions with the Government.

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.

An entity shall apply IFRS 9 for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted. A reporting entity must apply IFRS 9 retrospectively. For entities that adopt IFRS 9 for periods before 1 January 2012 the IFRS provides transition relief from restating comparative information. 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 the standard.

IFRS 7 (amended) – The IASB published an amendment to IFRS 7 Amendments to IFRS 7 Financial Instruments: Disclosures in October 2010. The amendment requires quantitative and qualitative disclosures regarding transfers of financial assets that do not result in entire derecognition, or that result in continuing involvement. This is intended to allow users of financial statements to improve their understanding of such transactions (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of such transactions are undertaken around the end of a reporting period. The application of the amendment is required for annual periods beginning on or after July 1, 2011. An earlier application is permitted. We do not expect that the adoption of the amended standard would result in significant changes in the financial statements disclosures of the Group. The European Union has not yet endorsed the amended standard.

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

IAS 12 (amended) In December 2010, the IASB issued published the pronouncement "Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12". The new pronouncement "Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12" sets presumptions for the recovery (e.g. use or sale) of certain assets. This is relevant in cases where the type of recovery has different tax consequences. The pronouncement sets the rebuttable presumption that the carrying amount of investment property that is measured using the fair value model in IAS 40 will be recovered through sale. Moreover, the carrying amount of a non-depreciable asset measured using the revaluation model in IAS 16 is always deemed to be recovered through sale. The amendment supersedes SIC 21 and shall be applied for annual periods beginning on or after 1 January 2012. Earlier application is permitted. As the company does not have significant investment properties or non-depreciable asset measured using the revaluation model in IAS 16, the amended standard will not have any impact on the Group's financial statements. The European Union has not yet endorsed the amended standard.

IAS 32 (amended) – The IASB published an amendment to IAS 32 Financial Instruments: Presentation in October 2009. The amendment clarifies the classification of rights issues as equity or liabilities for rights issues that are denominated in a currency other than the functional currency of the issuer. These rights issues are recorded as derivative liabilities before the amendment. The amendment requires that such right issues offered pro rata to all of an entity's existing shareholders are classified as equity. The classification is independent of the currency in which the exercise price is denominated. The application of the amendment is required for annual periods beginning on or after 1 February 2010. An earlier application is permitted. The amendment will have no impact on the Group's financial statements as the company has no such instruments. The European Union has also endorsed the amended standard.

IFRS 1 The IASB amended IFRS 1 in January 2010 and in December 2010. As the Group has been reporting according to IFRS for many years, neither the original standard, nor any revision to that is relevant for the Group. The European Union has endorsed only the first amendment of the standard.

IFRIC 14 (amended) IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. In November 2009, the IASB issued an amendment to IFRIC 14, which corrects an unintended consequence of IFRIC 14. Without the amendments, in some circumstances entities are not permitted to recognize some voluntary prepayments for minimum funding contributions as an asset. The amendment permits such an entity to treat the benefit of such an early payment as an asset. The amendments are effective for annual periods beginning 1 January 2011. The amendments must be applied retrospectively to the earliest comparative period presented. The amended interpretation is not applicable to the Company as the Group has no funded defined post-retirement benefit schemes. The European Union has endorsed the amended interpretation.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments. This interpretation issued in November 2009 clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010 with earlier application permitted. The interpretation shall be applied retrospectively. The interpretation will not have any impact on the Company's financial statements as the Group does not extinguish any of its financial liabilities with equity instruments. The European Union has endorsed this interpretation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

I) Basis of Consolidation

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

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

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

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

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

II) Investments in joint ventures and associated companies

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

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

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

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

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

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

III) Foreign currency transaction

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

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

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

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

IV) Revenue recognition

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

A.) SALES OF GOODS
The Group manufactures and sells wide range of pharmaceuticals in the wholesale and retail market.
The Richter Group operates a chain of pharmacies – mainly located in Romania – and several distribution companies to convey products to consumers. Most of their turnover is generated by products other than those manufactured by the Group.

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

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

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

B) SALES OF SERVICES
Revenue, on rendering services, such as pharmaceutical and biotech products trading, marketing services, transportation, is recognised at entities operating in Other segment of the Group.

C) PROFIT SHARING
Sales revenue includes also Profit sharing income, paid by the partners according to agreed terms.

D) ROYALTIES
Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

E) INTEREST INCOME

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

V) Property, plant and equipment

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

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

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

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

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

Assets in the course of construction are not depreciated. Repair and maintenance costs are not capitalised.

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

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

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

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

VI) Goodwill

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

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

When in the case of a bargain purchase, the consideration transferred is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Consolidated Income Statement.

Goodwill in foreign currency acquisition is treated as foreign currency asset and translated at closing rate.

VII) Intangible assets

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

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

Individually significant intangible assets are presented in Note 11.

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

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

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

VIII) Investment property

Investment properties, which are held to earn rentals are measured initially at cost. Subsequent to initial recognition, investment properties are measured at fair value using Discounted Cash Flow model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

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

IX) Impairment of tangible and intangible assets excluding Goodwill

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

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

X) Research and development

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

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

XI) Financial assets

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

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

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

c) Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised in other comprehensive income. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as 'financial income' or 'financial expense'. Dividends on available-for-sale equity instruments and interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as financial income.

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

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

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

XII) Financial liabilities

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

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

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

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

XIII) Other financial assets

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

XIV) Loans receivable

Loans receivables include loans given to employees at fair value, with the discounted value of receivables at balance sheet date.

XV) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. Net costs of own produced inventories include the direct cost of raw materials, the actual cost of direct production labour, the related maintenance and depreciation of production machinery and related overhead costs.

XVI) Trade receivables

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

XVII) Trade payables

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

XVIII) Derivative financial instruments

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

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

XIX) Cash and cash equivalents

Cash and cash equivalents comprise: cash in hand, bank deposits, and investments in money market instruments with a maturity date within three months accounted from the date of acquisition, net of bank overdrafts. The Group does not have any bank overdraft as of the year end of 2010 and 2009.

XX) Borrowings

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

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

XXI) Provisions

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

PROVISION FOR ENVIRONMENTAL EXPENDITURES

The Group is exposed to environmental liabilities relating to its past operations and purchases of property, mainly in respect of soil and groundwater remediation costs. Provisions for these costs are made when the Group has constructive or legal obligation to perform these remedial works and when expenditure on such remedial work is probable and its costs can be estimated within a reasonable range.

PROVISION FOR RETIREMENT BENEFITS

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

XXII) Income taxes

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

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

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

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

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

In case the Group is eligible for investment tax credit, the initial recognition exemption is applied, therefore no deferred tax is recognised in connection with this investment.

XXIII) Segment information

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

XXIV) Borrowing costs

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

XXV) Leasing

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

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

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

XXVI) Employee benefits

PENSION OBLIGATIONS

The Group operates long term defined employee benefit program, which is presented as Provision in the Consolidated Balance Sheet. In line with IAS 19, for defined retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period.
The estimated amount of the benefit is accounted in equal amounts each period until maturity date (straight line method), and valued at present value by using actuarial discount rate.

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

DEFINED CONTRIBUTION PLANS

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

TERMINATION BENEFIT

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

XXVII) Share based payment

The Group is granting treasury shares to certain employees in its employee share bonus programs. Details of these bonus programs are set out in Note 26. These bonus programs are accounted for as equity-settled share-based payments. Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis (adjusted with the change in estimate) over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the entity revises its estimates of the number of shares granted that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

XXVIII) Government grants

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

XXIX) Share Capital

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

XXX) Dividend distribution

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

XXXI) Comparative financial information

The Group has changed the disclosure of the Hungarian local business tax and innovation fee to disclose them as income taxes as we have established that these taxes have the characteristics of income taxes rather than operating expenses. In previous years, these taxes were disclosed among operating expenses. The adjustment has been made retrospectively. The affect of this reclassification is HUF 3,018 million and HUF 3,148 million in 2009 and 2010 respectively. This reclassification has no impact on the Consolidated Balance Sheet therefore the Group is not presenting the beginning of the earliest comparative period in the Consolidated Balance Sheet.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

3.1 Key sources of estimation uncertainty

IMPAIRMENT OF GOODWILL

The Group tests annually whether Goodwill has suffered any impairment, in accordance with the accounting policy stated in point VI). The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 19).

An impairment charge of HUF 95 million arose Gedeon Richter Farmacies S.A. during the course of the 2010 year, resulting in the carrying amount of the CGU being written down to its recoverable amount. We also performed sensitivity test presented in Note 19.

Determining whether Goodwill is impaired requires an estimation of the value in use of the cash-generating units to which Goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

There is no need to record impairment on Goodwill arising on PregLem acquisition, since there was no significant change in the value in use of the cash generating unit after the acquisition of 6 October 2010.

ALLOWANCE FOR BAD AND DOUBTFUL ACCOUNTS RECEIVABLE

The Group calculates an allowance for bad and doubtful accounts receivable to cover the incurred losses resulting from the inability of its customers to make required payments according to original contractual terms. Allowance for bad and doubtful accounts receivable recognized in the Consolidated Balance Sheet amounted to HUF 2,791 million and HUF 2,388 million at 31 December 2010 and 2009, respectively. The estimates used in evaluating the adequacy of the allowance for bad and doubtful accounts receivable are based on the aging of the accounts receivable balances, customer credit-worthiness and changes in customer payment pattern.

PROVISION

The provision calculated for retirement benefits in line with IAS 19 contains actuarial assessments. The determinations of assessments are described in Note 29.

DEPRECIATION

Property, plant and equipment and intangible assets are recorded at cost and are depreciated or amortised on a straight-line basis over their estimated useful lives. The Group recorded depreciation and amortisation expense in the amount of HUF 21,135 million and HUF 19,715 million for the years ended 31 December 2010 and 2009, respectively. The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technology evolution and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually.

BUSINESS COMBINATION

The Group entered into two significant business combinations during the financial year, which resulted in significant balance of intangible assets, Goodwill and deferred tax. The allocation of the total consideration between the fair value of assets acquired and Goodwill, and also the assessment of deferred tax on the business combination are significant estimates by management, which are described in more details in Note 36.

3.2 Critical judgements in applying entities accounting policies

INVESTMENT TAX CREDIT

The Parent Company has been eligible to tax credit as a result of the investment performed by the Company described in Note 8. There are two criteria that are needed to be fulfilled in order to qualify for this tax credit, which are the employee numbers and the invested amount. Since the Parent Company's employee number significantly exceeds the minimum employee number required for the tax credit, this does not present substantial criteria. The Group assessed this relief to be an investment tax credit. Based on the accounting policy of the Group, investment tax credit is treated as increase of the related asset's tax base. Since the asset was not acquired in a business combination and neither accounting profit nor taxable profit is affected on the related asset's initial recognition, the deductible temporary difference that arises will be exempt due to the initial recognition exemption in paragraph 24 of IAS 12 and therefore no deferred tax asset is recognised.

4. SEGMENT INFORMATION

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

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

I) Business segments

	Pharmaceuticals		Wholesale and retail		Other		Eliminations		Total	
	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m
	2010	2009*	2010	2009*	2010	2009*	2010	2009*	2010	2009*
3rd party revenues	214,738	197,833	36,741	43,223	23,833	26,288	-	-	275,312	267,344
Inter segment revenues	23,411	25,551	2	180	12,132	11,744	(35,545)	(37,475)	-	-
Total revenues	**238,149**	**223,384**	**36,743**	**43,403**	**35,965**	**38,032**	**(35,545)**	**(37,475)**	**275,312**	**267,344**
Profit from operations	63,422	58,224	(626)	(5,126)	444	289	(587)	(918)	62,653	52,469
Total assets	656,253	467,516	40,717	42,551	19,017	16,399	(117,167)	(96,496)	598,820	429,970
Liabilities	144,143	26,775	42,887	47,157	8,939	7,272	(34,807)	(29,989)	161,162	51,215
Capital expenditure	87,508	22,938	620	690	582	589	(6)	(6)	88,704	24,211
Depreciation	20,116	18,699	599	511	420	505	-	-	21,135	19,715
Share of profit of associates	-	-	50	52	-	-	-	-	50	52
Investments in associates	-	-	6,093	6,236	-	-	-	-	6,093	6,236

* Profit from operations in 2009 has been restated since the Group has changed the disclosure of the Hungarian local business tax and innovation fee to disclose them as income taxes. In previous years, these taxes were disclosed among operating expenses.

The activities of the Group are presented in accordance with IFRS 8 from 1 January 2009 and identified on the basis of internal reports are reviewed by the Parent Company's Board of Directors.

II) Entity wide disclosures

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

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

2010	Hungary	CIS	EU	USA	Other countries	Total
	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m
Total revenues	33,759	103,242	93,304	29,835	15,172	275,312
Total assets	455,124	25,301	66,307	4,567	47,521	598,820
Capital expenditure	84,898	798	1,314	-	1,694	88,704

2009	Hungary	CIS	EU	USA	Other countries	Total
	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m
Total revenues	31,641	84,768	101,543	35,748	13,644	267,344
Total assets	326,379	17,883	65,149	3,606	16,953	429,970
Capital expenditure	21,252	1,117	1,389	2	451	24,211

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

Analyses of revenue by category	2010	2009
	HUF m	HUF m
Sales of goods	269,955	260,973
Revenue from services	5,174	6,078
Royalty income	183	293
Total revenues	**275,312**	**267,344**

Revenues of approximately HUF 29,337 million (2009: HUF 20,816 million) are derived from a single external customer. These revenues are attributable to the Pharmaceuticals segment and located in the CIS region.
There is no other customer exceeding 10 % of net sales, therefore the Group assesses the risk of customer concentration as not significant.

5. PROFIT FROM OPERATIONS – EXPENSES BY NATURE

	2010	2009 Restated
	HUF m	HUF m
Total revenues	275,312	267,344
From this: royalty and other similar income	*183*	*293*
Changes in inventories of finished goods and work in progress, cost of goods sold	(28,802)	(38,340)
Material type expenses	(97,373)	(91,200)
Personnel expenses	(68,387)	(61,738)
Depreciation and amortisation	(21,135)	(19,715)
Other income and expenses	3,038	(3,882)
Profit from operations	**62,653**	**52,469**

6. EMPLOYEE INFORMATION

	2010	2009
Average number of people employed during the year	10,176	10,394

The newly acquired companies resulted in an increase of 70 in the average number of employees during 2010.

7. NET FINANCIAL INCOME

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

	2010	2009
	HUF m	HUF m
Interest income	4,225	4,856
Interest paid	(169)	(583)
Dividend income	11	175
Realised (loss)/gains on forward exchange contracts	(1,884)	1,745
Unrealised gains/(losses) from the fair value of forward exchange contracts	172	(1,347)
Gain on sale of investments	16	752
Exchange gains/(losses) realised on trade receivables and trade payables	4,400	(414)
Gain/(Losses) on foreign currency loans receivable	137	(38)
Unrealised exchange (losses)/gains on trade receivables and trade payables	(233)	229
Other financial items	(1,602)	(996)
Total	**5,073**	**4,379**

Unrealised financial income/(expense) was heavily affected by the 208.95 US$/HUF and 277.75 EUR/HUF exchange rates in effect on 31 December 2010 (on 31 December 2009 187.72 US$/HUF and 277.50 EUR/HUF respectively) which impacted the revaluation of currency related Balance Sheet items. These translation differences together resulted an increase of HUF 0.5 billion in the net financial income for 2010 while the same items decreased the net financial income by HUF 0.5 billion in 2009.

Forward exchange contracts are only made by the Parent Company. Richter concluded forward exchange contracts in the first half of 2010. These contracts are EUR/US$ version and they provide coverage for about 10 % of the net US$ income due in the first half of 2011.

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

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

8. INCOME TAX EXPENSE

TAX CREDIT

From 1 January 2004, as a result of its capital expenditure program and an increase in the number of employees, the Parent Company benefits from an investment tax credit of 100 percent tax relief, that likely to last until 2011.

Pursuant to Section 21 (11) of Hungarian Corporate Income Tax act, taxpayers may claim the entire amount of tax as an investment tax relief for manufacturing projects with a value of at least HUF 10 billion that are started up after 31 December 1996 for a period of 10 years following start-up, last with respect to the tax base of 2011. There are two criteria for eligibility for the tax relief:

- the value of assets purchased under the manufacturing projects may not drop below HUF 10 billion in the years of tax relief,
- Pursuant to Subsection 21 (12) of CIT, the tax relief set forth in Subsection (11), even if the conditions defined therein are satisfied, may be taken advantage in the second tax year following the commissioning of the investment project and in subsequent tax years only in those tax years during which the annual average number of staff employed by the taxpayer exceeds by at least 500 persons the average number of staff employed in the tax year preceding commencement of the investment project.

Construction value remaining above HUF 10 billion

	HUF m
on 31 December 2003	13,644
Value of de-capitalised assets taken into account for tax relief purposes before write-off in 2004-2009	(379)
Depreciation charged as direct cost to assets transitionally not involved in production in 2004-2009	(128)
CAPEX value qualifying for tax relief on 31 December 2010	**13,137**

Excess headcount obligation

Actual figures	1999	2005	2006	2007	2008	2009	2010
Average headcount of employees	4,579	5,801	5,923	6,181	6,228	5,994	6,112
Additional headcount	-	1,222	1,344	1,602	1,649	1,415	1,533

The Group assessed this tax credit to be an investment tax credit and applied the initial recognition exemption stated in IAS 12.24 and did not recognise any deferred tax in connection with these assets. Please also see Note 17 on Income taxes and in 3.2 Critical judgements in applying entities accounting policies

SOLIDARITY TAX

The Parent Company had the obligation to pay 4% „solidarity tax" for the financial year 2009 based on its accounting profit adjusted by R&D expenditures. This tax was repealed by the Hungarian Parliament by 2010.
Solidarity tax is treated as Income tax according to IAS 12.

REVISION

The National Tax and Customs Administration performed a thorough revision at the Parent Company in respect of the financial years 2006, 2007 and 2008. As a result to this revision authority fees paid for the release of new marketing authorisations have been reclassified as asset rights. The time of activation is the 1 January following the year when the cost of such authorisation was expensed. Amortisation is accounted for a 5 years period. The change in accounting practice is immaterial, therefore it has not been applied retrospectively.

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

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

* The effective corporate tax rate in Hungary is 19% from 1 January 2010 for the tax base exceeding HUF 500 million, while from 1 July, 2010 for the first HUF 500 million 10% tax rate is applicable. Based on the income tax law enacted as of the balance sheet date the 10% income tax rate will be charged on the profit realised after 31 December 2012.

	2010	2009 Restated
	HUF m	HUF m
Domestic	(34)	(17)
Foreign	(1,143)	(606)
Solidarity tax	-	(1,897)
Local business tax*	(3,148)	(3,018)
Current tax	**(4,325)**	**(5,538)**
Deferred tax (17)	1,189	(409)
Income tax	**(3,136)**	**(5,947)**

* The Group has changed the disclosure of the Hungarian local business tax and innovation fee to disclose them as income taxes as we have established that these taxes have the characteristics of income taxes rather than operating expenses. In previous years, these taxes were disclosed among operating expenses.

Tax rate reconciliation

	2010	2009
	HUF m	HUF m
Profit before income tax	**67,776**	**56,900**
Tax calculated at domestic tax rates applicable to profits in the respective countries	12,739	12,091
Tax effects of:		
Benefit of utilising investment tax credit at Parent	(11,090)	(6,725)
Associates results reported net of tax	(9)	(11)
Income no subject to tax	(21)	(120)
Expense not deductible for tax purposes	533	8
Expense eligible to double debit*	(2,508)	(2,334)
Tax loss for which no deferred income tax has been recognised	88	-
Local business tax presented as income tax	3,148	3,018
Re- measurement of deferred tax due to change in tax law - Hungary	256	21
Tax charge	**3,136**	**5,947**

* These expenditures can be deducted twice from the current years result to get the taxable profit.

The average effective tax rate calculated on the basis of the current tax is 6.4% and 4.6% calculated with deferred tax, in 2009 these rates were 9.7% and 10.5%.

9. CONSOLIDATED EARNINGS PER SHARE

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

EPS (basic)

	2010	2009
Net consolidated profit attributable to owners of the parent (HUF m)	64,479	50,986
Weighted average number of ordinary shares in issue (thousands)	18,616	18,609
Basic earnings per share (HUF)	**3,464**	**2,740**

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

EPS (diluted)

	2010	2009
Net consolidated profit attributable to owners of the parent (HUF m)	64,479	50,986
Weighted average number of total shares outstanding (thousands)	18,637	18,637
Diluted earnings per share (HUF)	**3,460**	**2,736**

10. FINANCIAL INSTRUMENTS

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

	Notes	Carrying value		Fair value	
		31 December 2010	31 December 2009	31 December 2010	31 December 2009
		HUF m	HUF m	HUF m	HUF m
Financial assets *					
Available for sale investments carried at fair value					
Investments	16	12,639	3,416	12,639	3,416
Investments in securities **	23	20,285	21,716	20,285	21,716
Held to maturity investments carried at amortised cost					
Investments	16	5,639	5,578	5,639	5,578
Loans and receivables carried at amortised cost					
Loans receivable	18, 22	3,966	2,595	3,966	2,595
Trade receivables	21	85,602	79,414	85,602	79,414
Other current assets	22	9,138	7,812	9,138	7,812
Cash and cash equivalents	24	75,600	93,294	75,600	93,294
Financial assets carried at fair value through profit or loss					
Foreign exchange forward contracts	22	74	89	74	89
Current		**191,972**	**203,343**	**191,972**	**203,343**
Non-current		**20,971**	**10,571**	**20,971**	**10,571**
Financial liabilities					
Liabilities carried at amortised cost					
Borrowings	30	21	5,387	21	5,387
Trade payables	27	32,370	31,345	32,370	31,345
Other payables and accruals	28	21,389	6,278	21,389	6,278
Current		**53,780**	**43,010**	**53,780**	**43,010**
Borrowing	30	41,694	702	41,694	702
Other non-current liability	31	37,730	-	37,730	-
Non-current		**79,424**	**702**	**79,424**	**702**

* All financial assets are free from liens and charges.

** The fair valuation of securities was based on bank data supply.

Financial risk management

I.) Capital risk management

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

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.
The Group is also monitoring the individual entities to meet their statutory capital requirements.

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

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

	Notes	31 December 2010	31 December 2009
		HUF m	HUF m
Borrowings	30	41,715	6,089
Less: cash and cash equivalents	24	(75,600)	(93,294)
Net debt		**(33,885)**	**(87,205)**
Total equity		437,658	378,755
Total capital		**403,773**	**291,550**
EBITDA*		83,799	72,359
Net debt to EBITDA ratio		**(0.40)**	**(1.21)**
Net debt to equity ratio		**(0.08)**	**(0.23)**

*EBITDA has been determined in line with the credit agreement as operating profit increased by dividend income and depreciation and amortization expense.

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

II.) Foreign currency risk

The Group performs significant transactions in currencies other than the functional and the presentation currency, therefore faces the risk of currency rate fluctuation. To mitigate foreign currency risk, management regularly concludes forward foreign currency transactions.

Foreign exchange sensitivity of actual costs:

The Group does business in a number of regions, and countries with different currencies. The most typical foreign currencies are the EUR and US$. The calculation of exposure to foreign currencies is based on these two currencies.

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

The table below presents the effect of the change in the average foreign currency rate on the operating profit. Since EUR and US$ fluctuates independently from each other, altogether nine scenarios are assessed. In each scenario at least one of the foreign currency rate is increased or decreased from the actual yearly average amount.

Exchange rates				Effect on operating profit
	EUR/HUF	US$/HUF	EUR/US$	HUF m
103.3%	285.0			
		200.0	1.43	363
		209.9	1.36	2,218
		220.0	1.30	4,111
100.0%	275.8			
		200.0	1.38	(1,855)
		209.9	1.31	0
		220.0	1.25	1,893
96.1%	265.0			
		200.0	1.33	(4,459)
		209.9	1.26	(2,604)
		220.0	1.20	(711)

Based on the yearly average currency rate sensitivity analysis of 2010 the combination of weak Hungarian Forint (with rate of 285 EUR/HUF) and strong US$ (with rate of 1.30 EUR/US$) would have caused the largest growth (in the amount of HUF 4,111 million) on the Group's consolidated profit. The greatest decrease (HUF 4,459 million) would have been caused by the combination of exchange rates of 265 EUR/HUF and 200 US$/HUF.

Currency sensitivity of balance sheet items

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

The table below presents the effect of the change in the year end currency rate on the net financial position. Since EUR and US$ fluctuates independently from each other, altogether nine scenarios are assessed. In each scenario at least one of the foreign currency rate is increased or decreased from the actual year end amount.

Exchange rates				Effect on net financial position
	EUR/HUF	US$/HUF	EUR/US$	HUF m
103.3%	286.9			
		219.0	1.31	1,064
		208.9	1.37	1
		199.0	1.44	(1,041)
100.0%	277.7			
		219.0	1.27	1,063
		208.9	1.33	0
		199.0	1.40	(1,042)
96.1%	266.9			
		219.0	1.22	(1,062)
		208.9	1.28	(1)
		199.0	1.34	(1,043)

The worst case scenario is when EUR weakens and US$ strengthen against HUF. In this case the consolidated financial result would decrease by HUF 1,062 million. The best case scenario is when both EUR and US$ would strengthen against HUF. In this case the consolidated financial result would increase by HUF 1,064 million.

III.) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers.

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

Regions	Trade receivables secured by 31 December 2010	Type of security		
		Credit insurance	Bank guarantee	L/C
	HUF m	HUF m	HUF m	HUF m
CIS	24,558	24,474	-	84
EU	616	-	616	-
USA	-	-	-	-
Other	455	73	111	271
Total	**25,629**	**24,547**	**727**	**355**

Credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international rating agencies.
The credit rating of the three most significant bank's as of 31 December 2010 based on Standard and Poor's international credit rating institute are the followings:

BNP Paribas SA: AA
MKB Bank Zrt.: BB
ING Bank N.V.: A+

The Group has no significant concentration of credit risk, with its exposure spread over a large number of counterparties and customers.

IV.) Liquidity risk

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

	Notes	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
		HUF m	HUF m	HUF m	HUF m	HUF m
At 31 December 2010						
Borrowings		282	783	1,076	44,185	-
Trade payables	27	30,837	1,442	91	-	-
Other non-current liabilities		-	6,579	33,984	13,997	54
Other liabilities	28	14,559	1,838	-	-	-
At 31 December 2009						
Borrowings	30	-	5,387	702	-	-
Trade payables	27	29,829	1,436	80	-	-

11. PROPERTY, PLANT AND EQUIPMENT, AND OTHER INTANGIBLE ASSETS

	Land and buildings	Plant and equipment	Construc-tion in progress	Total	Other intangible assets
	HUF m	HUF m	HUF m	HUF m	HUF m
Gross value					
at 31 December 2008	**100,218**	**157,268**	**8,612**	**266,098**	**16,189**
Translation differences	37	167	(9)	195	(109)
Effect of newly acquired companies	85	640	50	775	2
Capitalization	4,382	11,677	(16,059)	-	4,575
Transfers and capital expenditure	342	44	20,501	20,887	270
Disposals	(920)	(4,393)	(780)	(6,093)	(679)
at 31 December 2009	**104,144**	**165,403**	**12,315**	**281,862**	**20,248**
Accumulated depreciation					
at 31 December 2008	**18,923**	**105,240**	**-**	**124,163**	**6,368**
Translation differences	23	71	-	94	2
Effect of newly acquired companies	14	45	-	59	0
Current year depreciation	2,551	16,130	-	18,681	1,020
Net foreign currency exchange differences	(20)	(63)	-	(83)	(4)
Impairment	-	-	-	-	1,697
Disposals, reclassification	(186)	(3,229)	-	(3,415)	(157)
at 31 December 2009	**21,305**	**118,194**	**-**	**139,499**	**8,926**
Net book value					
at 31 December 2008	**81,295**	**52,028**	**8,612**	**141,935**	**9,821**
at 31 December 2009	**82,839**	**47,209**	**12,315**	**142,363**	**11,322**
Gross value					
at 31 December 2009	**104,144**	**165,403**	**12,315**	**281,862**	**20,248**
Translation differences	1,348	1,310	96	2,754	329
Effect of newly acquired companies	81	152	-	233	69,813
Capitalization	2,591	8,966	(11,557)	-	69,338
Transfers and capital expenditure	189	201	19,450	19,840	3,713
Disposals and other conversions	(334)	(5,020)	(107)	(5,461)	(498)
at 31 December 2010	**108,019**	**171,012**	**20,197**	**299,228**	**162,943**
Accumulated depreciation					
at 31 December 2009	**21,305**	**118,194**	**-**	**139,499**	**8,926**
Translation differences	208	654	-	862	36
Effect of newly acquired companies	29	90	-	119	110
Current year depreciation	3,017	15,156	-	18,173	2,962
Net foreign currency exchange differences	3	9	-	12	2
Impairment	-	-	-	-	312
Disposals, reclassification	(176)	(3,935)	-	(4,111)	(131)
at 31 December 2010	**24,386**	**130,168**	**-**	**154,554**	**12,217**
Net book value					
at 31 December 2009	**82,839**	**47,209**	**12,315**	**142,363**	**11,322**
at 31 December 2010	**83,633**	**40,844**	**20,197**	**144,674**	**150,726**

All items of property, plant and equipment and all other intangible assets are free from liens and charges. The amount of Land and buildings does not contain the value of Investment property.
Impairment test – as it is described in Note 19 Goodwill - was performed on the value of Intangible assets and as a consequence to that we had to account for HUF 312 million net as impairment loss related to some of the Romanian retail companies in 2010 and HUF 1,697 million in 2009.

The most significant other intangible, which has been recorded as R&D asset is representing ESMYA™ recognised in the acquisition transaction of PregLem (see Note 36) was accounted as Intangible with 25 years useful life. The amortisation of this asset will start after the completion of registration, from the first sale of ESMYA™.

The products right acquired from Grünenthal (presented as capitalisation in 2010) was also accounted as intangibles. The intangible accounted are manufacturing rights (amounted to EUR 600 thousand) and market authorisation (amounted to EUR 235.9 million) together with the value of the established products brand. The estimated useful life for both rights is 15 years (for more details please see Note 36). The amortisation period started in 2010.

12. INVESTMENT PROPERTY

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

Book value of investment property:

	Investment property
	HUF m
Fair value	
at 1 January 2009	766
Capitalization	17
Fair value adjustment	(14)
at 31 December 2009	**769**
Capitalization	-
Fair value adjustment	237
at 31 December 2010	**1,006**

The Discounted Cash Flow method is used for calculation of investment property's fair value.
A fair valuation of the investment property was carried out by the Company's professionals using discounted cash flow method. The timeframe of the calculation was ten years, the discount rate as at 31 December 2010 and 2009 was 7.30 % and 7.08 %, respectively. The model also has taken into account a residual value after the 10 years' period based on market information.

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

	2010	2009
	HUF m	HUF m
Income from renting real estate	168	176
Operating expenses	63	46
Net balance	**105**	**130**

13. CONSOLIDATED COMPANIES

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

Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		2010	2009	2010	2009	
ZAO Gedeon Richter - RUS	Russia	100.00	100.00	100.00	100.00	Pharmaceutical manufacturing
Gedeon Richter Romania S.A.	Romania	99.85	99.55	99.85	99.55	Pharmaceutical manufacturing
Gedeon Richter Polska Sp. z o.o.	Poland	99.87	99.86	99.87	99.86	Pharmaceutical manufacturing
Richter Themis Ltd.	India	51.00	51.00	51.00	51.00	Pharmaceutical manufacturing
Gedeon Richter Pharma GmbH	Germany	100.00	100.00	100.00	100.00	Pharmaceutical trading
Gedeon Richter USA Inc.	USA	100.00	100.00	100.00	100.00	Pharmaceutical trading
Medimpex France S.A.R.L.	France	99.99	99.99	99.99	99.99	Pharmaceutical trading
RG Befektetéskezelő Kft.	Hungary	100.00	100.00	100.00	100.00	Financial-accounting and controlling activities
Gedeon Richter UA V.A.T.	Ukraine	98.16	98.16	98.16	98.16	Pharmaceutical manufacturing
Gedeon Richter UK Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
Gedeon Richter Iberica S.A.	Spain	100.00	100.00	100.00	100.00	Pharmaceutical trading
Medimpex Hong Kong Ltd.	Hong-Kong	100.00	100.00	100.00	100.00	Pharmaceutical trading
Nedermed B.V.	The Netherlands	100.00	100.00	100.00	100.00	Pharmaceutical trading
Medimpex Japan Co. Ltd.	Japan	90.90	90.90	90.90	90.90	Pharmaceutical trading
Medimpex Jamaica Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
Medimpex West Indies Ltd.	Jamaica	60.00	60.00	60.00	60.00	Pharmaceutical trading
Humanco Kft.	Hungary	100.00	100.00	100.00	100.00	Social, welfare services
Pesti Sas Holding Kft.	Hungary	100.00	100.00	100.00	100.00	Portfolio management
Richter Szolgáltató Kft.	Hungary	100.00	100.00	100.00	100.00	Catering services
Reflex Kft.	Hungary	100.00	100.00	100.00	100.00	Transportation, carriage
Cito-Trans Kft.	Hungary	100.00	100.00	100.00	100.00	Car rental
Chemitechnik Pharma Kft.	Hungary	66.67	66.67	66.67	66.67	Engineering services
GYEL Kft.	Hungary	66.00	66.00	66.00	66.00	Quality control services
Armedica Trading S.R.L.	Romania	99.85	99.55	99.85	99.55	Asset management
Gedeon Richter Farmacia S.A.	Romania	99.85	99.41	99.85	99.41	Pharmaceutical retail
Magnolia S.R.L.	Romania	99.85	99.42	99.85	99.42	Pharmaceutical retail
Pharmaplus S.R.L.	Romania	99.85	94.44	99.85	94.44	Pharmaceutical retail
Gedeon Richter France S.A.R.L.	France	99.66	99.66	99.66	99.66	Pharmaceutical retail
Gedeon Richter-Retea Farmaceutica S.R.L.	Moldavia	51.00	51.00	51.00	51.00	Pharmaceutical retail
Richter-Helm BioLogic Co. & KG.	Germany	70.00	70.00	70.00	70.00	Biotechnological manufacturing and research
Richter-Helm BioLogic Management GmbH	Germany	70.00	70.00	70.00	70.00	Asset management
Medimpex UK. Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
Farnham Laboratories Ltd.	UK	100.00	100.00	100.00	100.00	Pharmaceutical trading
Gedeon Richter Aptyeka sp.O.O.O.	Armenia	51.00	51.00	51.00	51.00	Pharmaceutical retail
Pharmafarm S.A.	Romania	99.85	99.55	99.85	99.55	Pharmaceutical wholesale
Pharmanet S.R.L.	Romania	99.85	99.41	99.85	99.41	Pharmaceutical retail
Gedeon Richter Ukrfarm O.O.O.	Ukraine	100.00	100.00	100.00	100.00	Pharmaceutical retail
Gedeon Richter Marketing Polska Sp.z o.o.	Poland	99.97	99.97	99.97	99.97	Marketing services
Gedeon Richter Italia S.R.L.	Italy	100.00	100.00	100.00	100.00	Pharmaceutical retail

Subsidiaries newly acquired and included in the consolidation							
Name	Date of establish-ment/ acquisition	Place of incor-poration (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
			2010	2009	2010	2009	
PregLem Holding SA	10. 2010	Switzerland	100.00	-	100.00	-	Asset management
PregLem SA	10. 2010	Switzerland	100.00	-	100.00	-	Manufacturing and research
Gedeon Richter Marketing ČR s.r.o.*	08 .2010	Czech Republic	100.00	-	100.00	-	Marketing services
Gedeon Richter Slovakia s.r.o.*	10. 2010	Slovak Republic	100.00	-	100.00	-	Marketing services
Richter-Lambron O.O.O.	08. 2010	Armenia	51.00	49.00	51.00	49.00	Pharmaceutical trading
Gedeon Richter Austria GmbH*	12. 2010	Austria	100.00	-	100.00	-	Marketing services
Gedeon Richter (Schweiz) AG*	12. 2010	Switzerland	100.00	-	100.00	-	Marketing services
Pharmarichter O.O.O.	12. 2010	Russia	100.00	49.00	100.00	49.00	Pharmaceutical sales promotion

*Newly established.

14. JOINT VENTURES

The Group had the following interests in joint ventures:

Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		2010	2009	2010	2009	
Medimpex Irodaház Kft.	Hungary	50.00	50.00	50.00	50.00	Renting real estate
Pesti Sas Patika Bt.*	Hungary	74.00	74.00	50.00	50.00	Pharmaceutical retail
Westpharma S.R.L.**	Romania	49.85	49.78	50.00	50.00	Informatics services
Richter-Helm BioTec Management GmbH	Germany	50.00	50.00	50.00	50.00	Assets management
Richter-Helm BioTec Co. & KG	Germany	50.00	50.00	50.00	50.00	Trading of biotech products
Gedeon Richter Rxmidas Ltd.	Hong-Kong	50.00	-	50.00	-	Marketing services

* Joint control is established by contractual arrangement

** Parent company of Westpharma S.R.L. is Armedica Trading S.R.L. (controlled by the Parent Company) holding 50% ownership and voting right.

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

	31 December 2010	31 December 2009
	HUF m	HUF m
Current assets	2,132	404
Non-current assets	1,059	11
Short-term liabilities	1,470	194
Long-term liabilities	1,016	584
Revenues	540	758
Cost of sales	396	1,379

15. INVESTMENTS IN ASSOCIATED COMPANIES

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

Name	Place of incorporation (or registration) and operation	Proportion of ownership %		Proportion of voting rights held %		Principal activity
		2010	2009	2010	2009	
Hungaropharma Zrt.	Hungary	30.68	30.84	30.68	30.84	Pharmaceutical wholesale
Salvia-Med Bt.	Hungary	32.79	13.04	33.00	20.00	Pharmaceutical retail
Szondi Bt.	Hungary	33.00	33.00	33.00	33.00	Pharmaceutical retail
Gyulai Fodormenta Bt.	Hungary	20.00	20.00	20.00	20.00	Pharmaceutical retail
Top Medicina Bt.	Hungary	20.00	20.00	20.00	20.00	Pharmaceutical retail
Medservice Richter O.O.O.	Kazakhstan	49.00	49.00	49.00	49.00	Pharmaceutical trading
Richpangalpharma O.O.O.	Moldavia	49.00	49.00	49.00	49.00	Pharmaceutical trading
Vita-Richter O.O.O.	Azerbaijan	49.00	49.00	49.00	49.00	Pharmaceutical trading
Farmacia nr.41.din Telenesti S.R.L.	Moldavia	43.93	44.41	43.93	44.41	Pharmaceutical retail
Pharmapolis Kft.	Hungary	24.00	24.00	24.00	24.00	Building project management
Cerorin Kft.	Hungary	24.00	24.00	24.00	24.00	Biotechnological research, development
Pharmatom Kft.	Hungary	24.00	24.00	24.00	24.00	Biotechnological research, development
BioDiagnostica Kft.	Hungary	-	23.00	-	23.00	Biotechnological research, development

	31 December 2010	31 December 2009
	HUF m	HUF m
Investments in associates	6,093	6,236

16. OTHER FINANCIAL ASSETS

	31 December 2010	31 December 2009
	HUF m	HUF m
Held to maturity investments carried at amortised cost	5,639	5,578
Available-for-sale investments carried at fair value	12,639	3,416
Total	**18,278**	**8,994**

The held to maturity investment contains "Exchangeable Bonds" issued by the Hungarian State Holding Company (MNV Zrt.) that has maturity date of 2014. At maturity these bonds might be transferred to Richter shares already in the ownership of MNV Zrt. The investment was purchased by Richter in September 2009 in the value of EUR 20 million.

The available-for-sale investments presented among the Other financial assets have not been sold in current year and therefore no amount has been recycled to the Consolidated Income Statement.
The Available-for-sale investment contains 5% ownership in Zao Firma CV Protek valued at fair value based on the closing stock exchange price (2.04 US$/share). The fair valuation in connection with this investment as of 31 December 2010 is HUF 3,613 million (excluding deferred tax impact). Since CV Protek became listed in 2010, no such valuation has been accounted in 2009.

17. INCOME TAX AND DEFERRED TAX

Current tax assets and liabilities:

	31 December 2010	31 December 2009
	HUF m	HUF m
Current tax assets	164	-
Current tax liabilities	192	167

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

Analysis for financial reporting purposes	31 December 2010	31 December 2009
	HUF m	HUF m
Deferred tax assets	1,624	671
Deferred tax liabilities	(19,680)	(818)
Net position at 31 December	**(18,056)**	**(147)**

The Law on Extraordinary tax (Solidarity tax) came into force 2006 was repealed as from 1 January, 2010 by point g) of paragraph 189 of Law LXXVII (2009). So solidarity tax was treated as income tax in 2009.
The effective corporate tax rate in Hungary is 19% from 1 January 2010. Law on Corporate and dividend taxes (Law LXXXI (1996)) has been modified, and from 1 July, 2010 the tax rate is 10% up to HUF 500 million of the positive tax base, above that tax base the rate of corporate tax is 19%. Based on tax law enacted at the balance sheet date from 1 January, 2013 the corporate tax rate in Hungary is 10%.

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

	Local GAAPs – IFRS differences	Depreciation	Provision	Impairment	Other temporary differences	Consolidation adjustments	Total
	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m
DEFERRED TAX ASSETS							
31 December 2008	**(1,348)**	**730**	**28**	**2**	**1,636**	**-**	**1,048**
Charged/(credited) to the income statement	1,376	(233)	(4)	25	(1,540)	-	(376)
Exchange differences	(38)	5	0	(0)	110	-	77
Transfer	(11)	-	-	-	(67)	-	(78)
31 December 2009	**(21)**	**502**	**24**	**27**	**139**	**-**	**671**
Acquisition of subsidiary	1	-	-	-	-	-	1
Charged/(credited) to the income statement	474	28	134	274	(173)	477	1,214
Charged/(credited) to other comprehensive income	-	-	-	-	28	-	28
Exchange differences	(2)	2	1	1	8	-	10
Transfer	-	(29)	(28)	(9)	(234)	-	(300)
31 December 2010	**452**	**503**	**131**	**293**	**(232)**	**477**	**1,624**
DEFERRED TAX LIABILITIES							
31 December 2008	**519**	**69**	**-**	**-**	**229**	**-**	**817**
Charged/(credited) to the income statement	1	82	-	-	(50)	-	33
Charged/(credited) to other comprehensive income	12	-	-	-	-	-	12
Exchange differences	(48)	80	-	-	2	-	34
Transfer	(11)	-	-	-	(67)	-	(78)
31 December 2009	**473**	**231**	**-**	**-**	**114**	**-**	**818**
Acquisition of subsidiary	-	-	-	-	18,665*	-	18,665
Charged/(credited) to the income statement	1	1	-	-	22	-	24
Charged/(credited) to other comprehensive income	50	-	-	-	361	-	411
Exchange differences	9	36	-	-	17	-	62
Transfer	-	-	-	-	(300)	-	(300)
31 December 2010	**533**	**268**	**-**	**-**	**18,879**	**-**	**19,680**

* The HUF 18,665 million deferred tax liability arose in connection with the acquisition of PregLem presented in more details in Note 36.

In the deferred tax balance presented above, HUF 235 million is expected to reverse after 12 months.

At the balance sheet date, Richter Group has HUF 458 million unused tax loss (that would result in HUF 88 million deferred tax asset) for which did no deferred tax asset has been accounted, since the recovery is not probable, while in 2009 the Group did not have unused tax losses. These unused tax losses start to expire from 2014.
Temporary differences arising in connection with interest in associates and joint ventures are insignificant.

18. LOANS RECEIVABLE

	31 December 2010	31 December 2009
	HUF m	HUF m
Loans given to related parties	2,283	1,305
Loans given to employees	408	250
Other loans given	2	22
Total	**2,693**	**1,577**

19. GOODWILL

	Goodwill
	HUF m
COST	
At 1 January 2009	6,326
Increase deriving from acquisition of subsidiaries	117
Decrease deriving from sale of subsidiaries	(115)
At 31 December 2009	**6,328**
At 1 January 2010	6,328
Increase deriving from acquisition of subsidiaries	7,532
Deferred tax effect	18,665
Exchange differences	595
At 31 December 2010	**33,120**
IMPAIRMENT	
At 1 January 2009	(511)
Impairment charged for the year	(2,581)
At 31 December 2009	**(3,092)**
At 1 January 2010	(3,092)
Impairment charged for the year	(95)
At 31 December 2010	**(3,187)**
NET BOOK VALUE	
At 31 December 2009	**3,236**
At 31 December 2010	**29,933**

Closing Goodwill on Cash Generating Units (Companies)

	31 December 2010	31 December 2009
	HUF m	HUF m
GR Polska Sp. z o.o.	1,047	1,025
Richter Helm Biologics Co & KG	88	80
Pesti Sas Holding Kft.	61	61
Armedica Trading Group	2,038	2,070
PregLem Group	26,699	-
Total	**29,933**	**3,236**

In 2010 the Goodwill arose from acquisition of PregLem Group (PregLem Holding SA and PregLem SA) described in more details in Note 36.

Impairment test was performed on the value of the Goodwill and as a consequence to that we had to account for impairment losses related to some of the Romanian retail companies.
Both in 2010 and 2009 the "Value in use" method was applied, since there were no similar transactions on the market and in the industry segment as the impact of the global economic crises.

Armedica Trading S.R.L. and Gedeon Richter Polska Sp. z o.o. were identified as separate Cash Generating Units and the impairment test is performed on both of them on annual basis using the above mentioned "Value in use" method.

Pharmacy categories based on EBITDA (according to IFRS) were set up in respect of pharmacy licenses and Goodwill of Gedeon Richter Farmacia (GRFA). At the end of each year, impairment tests are being carried out on each of these categories. We record Licence and Goodwill impairment relating to those categories showing negative NPV, while in case of categories having positive NPV we record reversal of impairment only connecting to Licences.
Cash flow originating from business plans for the above mentioned categories, the years 2011-2016 were discounted when assessing possible impairment losses for Gedeon Richter Farmacia SA WACC used for the calculation of the present value was 14 %. In the case of Gedeon Richter Farmacia SA a growth rate of 24% was assumed for the pharmacies realising a higher income in 2011 which was gradually taken back to 12% from 2012 onwards.

As a result of the tests impairment loss was accounted at the above mentioned Gedeon Richter Farmacia companies while the test did not result in an impairment in case of Gedeon Richter Polska Sp. z o.o. and Armedica Trading S.R.L.

Each year the performance of the pharmacies is assessed whether they are grouped to the correct category of pharmacies. In 2010 the only reason for recording impairment on Goodwill on GRFA was caused by the reclassification of some pharmacies from one category to another based on their declining performance in the prior years.

We also performed sensitivity test including the following parameters: Net Sales, WACC and mark-up. By changing ceteris paribus these factors 10% declining the following additional impairment would be required:

	HUF m
WACC	315
Net-sales	773
Mark-up	689

PregLem was acquired on 6 October 2010. This acquisition supports and provides a gynaecological portfolio and development of the Group's presence in Western Europe. The management expects to realise significant synergies on income and expenditures as a result of launching the products of PregLem. Based on the opinion of management, no impairment is required on Goodwill in connection with PregLem as of 31 December 2010.

20. INVENTORIES

	31 December 2010	31 December 2009
	HUF m	HUF m
Raw materials, packaging and consumables	15,699	17,071
Production in progress	993	597
Semi-finished and finished goods	34,965	33,791
Total	**51,657**	**51,459**

Inventories include impairment in value of HUF 2,001 million and reversal of impairment in value of HUF 793 million in 2010 (HUF 3,112 million impairment and HUF 461 million reversal was made in 2009).
The reversal of impairment is due to the change of market conditions.
All items of Inventories are free from liens and charges.

21. TRADE RECEIVABLES

	31 December 2010	31 December 2009
	HUF m	HUF m
Trade receivables	65,238	67,411
Amounts due from related companies	20,364	12,003
Total	**85,602**	**79,414**

Trade receivables include HUF 2,791 million impairment and HUF 3,178 million reversal of impairment in 2010 (in 2009 the net of impairment was HUF 1,241 million).
The reversal of impairment is explained with the decrease of overdue receivables.

Ageing of Trade receivables

	31 December 2010	31 December 2009
	HUF m	HUF m
Trade receivables not expired	64,677	63,235
Trade receivables overdue	20,925	16,179
1-90 days	*17,136*	*12,837*
91-180 days	*2,261*	*1,636*
181-360 days	*1,252*	*1,634*
>360 days	*276*	*72*
Total	**85,602**	**79,414**

The credit quality is described and assessed in Note 10.

22. OTHER CURRENT ASSETS

	31 December 2010	31 December 2009
	HUF m	HUF m
Loans receivable	1,273	1,018
Other receivables	1,642	1,192
Fair value of open forward exchange contracts (IAS 39)	74	89
Subtotal of financial assets	**2,989**	**2,299**
Tax and duties recoverable	2,560	2,870
Advances	2,266	1,560
Prepayments	2,670	2,190
Total	**10,485**	**8,919**

23. INVESTMENTS IN SECURITIES

	31 December 2010	31 December 2009
	HUF m	HUF m
Treasury bills and government securities	18,512	18,197
Open-ended investment funds	1,746	3,492
Other securities	27	27
Total	**20,285**	**21,716**

All current investments are classified as available for sale. The fair value adjustment was HUF 144 million loss in 2010, and HUF 449 million gain in 2009 recognised in other comprehensive income.
The fair valuation of securities was based on bank data supply.

24. CASH AND CASH EQUIVALENTS

	31 December 2010	31 December 2009
	HUF m	HUF m
Bank deposits	75,501	90,953
Cash on hand	99	98
Short term government securities	-	2,243
Total	**75,600**	**93,294**

There was no fair value adjustment of short term securities in 2010, while in 2009 this adjustment amounted HUF 0.3 million.
Those short term securities are treated as cash and cash equivalents which have a maturity period less than 3 months at purchase.

25. SHARE CAPITAL AND RESERVES

	31 December 2010		31 December 2009	
Share capital	Number	HUF m	Number	HUF m
Ordinary shares of HUF 1,000 each	18,637,486	18,638	18,637,486	18,638

Detailed ownership structure of the Parent as of 31 December 2010

Ownership	Ordinary shares number		Voting rights %		Share capital %	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Domestic ownership	**6,863,778**	**6,746,005**	**36.87**	**36.25**	**36.82**	**36.20**
MNV Zrt.	4,685,785	4,680,898	25.17	25.15	25.14	25.12
Municipality	100	100	0.00	0.00	0.00	0.00
Institutional investors	1,737,752	1,622,507	9.33	8.72	9.32	8.71
Retail investors	440,141	442,500	2.37	2.38	2.36	2.37
International ownership	**11,741,897**	**11,782,883**	**63.08**	**63.32**	**63.01**	**63.22**
Retail investors	102,991	4,318	0.55	0.02	0.55	0.02
Institutional investors	11,638,906	11,778,565	62.53	63.30	62.46	63.20
out of which Bank of New York Mellon*	1,059,034	1,302,151	5.69	7.00	5.68	6.99
out of which Aberdeen Asset M. Plc.	2,840,004	-	15.26	-	15.24	-
Undisclosed ownership	**9,837**	**79,769**	**0.05**	**0.43**	**0.05**	**0.43**
Treasury shares **	**21,974**	**28,829**	**0.00**	**0.00**	**0.12**	**0.15**
Share capital	**18,637,486**	**18,637,486**	**100.00**	**100.00**	**100.00**	**100.00**

* The owners are global custodians or nominees acting as global custodians.

** Treasury shares include the combined ownership of the Parent company and subsidiaries. The treasury shares have no voting rights.

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

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

Foreign currency translation reserves

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

Revaluation reserve for available for sale investments

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

	Revaluation reserve for available for sale investments
	HUF m
At 1 January 2009	92
Revaluation transfer gross	(25)
Revaluation gross	407
At 31 December 2009	474
Recycled through income statement	(454)
Revaluation gross	3,720
Deferred tax effect	(384)
At 31 December 2010	3,356

Equity-settled share based payment presented within retained earnings

Equity-settled employee benefits reserve is presented within Retained earnings, therefore current year's effect is shown in the Consolidated Statement of Changes in Equity.

The reserve contains equity-settled share-based payments to employees measured at the fair value of the equity instruments at the grant date. Please see more detailed in Note 26 Treasury shares

	HUF m
Expense recognized in current year	5,298
Treasury share given in 2010	5,125
Total changes in reserve presented in the Consolidated Statement of Changes in Equity	173

26. TREASURY SHARES

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

BONUS PROGRAM

Richter operates a bonus share programme since 1996 to further incentives managers and key employees of the Company. In 2010 28,704 shares were granted to 424 employees of the Company while in 2009 32,389 shares were granted to 418 employees.

INDIVIDUAL BONUSES

51,040 ordinary shares were granted to qualified employees as bonuses during the year while 49,040 ordinary shares were granted in 2009.

RECOGNISED STAFF STOCK BONUS PLAN

Pursuant to a programme approved by the Ministry of Finance related to employee share bonuses (Recognised Staff Stock Bonus Plan 2009-2011), the Company granted 38,629 treasury shares to 4,537 employees. The shares will be deposited on the employees' security accounts with UniCredit Bank Hungary Ltd. until 2 January 2013. In 2009 36,571 shares were granted to 4,475 employees deposited on their accounts until 2 January 2012.

The AGM held on 28 April 2010 approved that the Company may purchase its own shares for the treasury, the aggregated nominal value of which shall not exceed 10 percent of the registered capital of the Company. Based on this approval, the Company purchased 70,000 treasury shares at the Budapest Stock Exchange during the year, and a further 40,085 shares on the OTC market.

	Ordinary shares
Number of shares	
at 31 December 2009	**28,829**
out of these, number of shares owned by subsidiaries	*10,550*
Share purchase	110,085
Issued as part of bonus program	(28,704)
Individual bonuses	(51,040)
Granted pursuant to the Finance Ministry – approved plan	(38,629)
Granted pursuant to the Finance Ministry – repurchased	1,433
at 31 December 2010	**21,974**
Book value	**HUF m**
at 31 December 2009	**825**
Share purchase	4,839
Issued as part of bonus program	(1,240)
Individual bonuses	(2,254)
Granted pursuant to the Finance Ministry – approved plan	(1,693)
Granted pursuant to the Finance Ministry – repurchased	62
at 31 December 2010	**539**

27. TRADE PAYABLES

	31 December 2010	31 December 2009
	HUF m	HUF m
Trade payables	32,359	31,152
Amount due to related companies	11	193
Total	**32,370**	**31,345**

28. OTHER PAYABLES AND ACCRUALS

	31 December 2010	31 December 2009
	HUF m	HUF m
Accruals	4,992	4,590
Other liabilities	16,397	1,688
Subtotal of financial liabilities	**21,389**	**6,278**
Wages and payroll taxes payable	4,201	4,020
Dividend payable	107	88
Deposits from customers	1,412	327
Accrual for costs of share options and other bonuses	189	165
Total	**27,298**	**10,878**

As announced at 6 October 2010, Gedeon Richter Plc. acquired a 100% ownership in PregLem. The transaction values PregLem at up to CHF 445 million provided certain milestones are achieved, with the consideration to be settled in cash. PregLem shareholders received CHF 150 million in cash upfront and further milestone payments of up to CHF 295 million will be paid assuming achievement of all milestone targets. Smaller part of this deferred purchase price is presented as Other liability in the Consolidated Balance Sheet.

29. PROVISIONS

	31 December 2010	31 December 2009
	HUF m	HUF m
Other provisions	691	585
Provision for retirement liabilities	1,486	1,333
from this retirement benefit plans	*960*	*776*
Total	**2,177**	**1,918**

Actuarial valuation related to retirement benefit plans

PARENT COMPANY

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

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

The valuation method

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

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

RESULTS

	2010	2009
	HUF m	HUF m
Opening value of retirement benefit	966	1,156
Interest costs and current service costs	116	127
Actuarial gains	(37)	(317)
Retirement benefit	**1,045**	**966**
Amortisation of non-recognised past service costs	99	195
Interest cost	55	71
Current service costs	61	56
Pension costs	**215**	**322**
Opening value of provision	776	525
Benefits paid in (release of provision)	(31)	(71)
Current year provision	215	322
Closing value of provision	**960**	**776**
Non-recognised past service cost	**85**	**190**

The principal actuarial assumptions were as follows:

The estimation was perfomed based on the assumption that the employees will have a yearly increase in their wages 1% exceeding the inflation until their retirement similar to 2009.

Discount rate

The estimation is based on auction gain of Hungarian government securities (source Hungarian National Bank)

For the years where auction gain data is provided this data was the base of the calculation. For the remaining (interim) period the discount rate has been determined with linear interpolation using 4% for 30 years and 3% for 40 years maturity for periods exceeding 15 years.

Assumptions regarding resign from the company

According to these statistics the following probabilities were used:

PROBABILITY OF RESIGNING THE COMPANY BEFORE RETIREMENT (2008-2010)

Term of employment 2010	Ages 2010		
	<30	<46	45<
between 0 – 1 year	61.7%	55.1%	41.2%
between 1 - 5 years	56.0%	45.1%	27.2%
between 6 - 14 years	41.9%	32.3%	15.7%
between 15 - 29 years	0.0%	16.3%	13.5%
between 30 - 44 years	0.0%	5.0%	15.3%
over 45 years	0.0%	0.0%	1.9%

PROBABILITY OF RESIGNING THE COMPANY BEFORE RETIREMENT IN 2009

Term of employment 2009	Ages 2009		
	<30	<46	45<
between 0 – 1 year	58.0%	54.0%	35.0%
between 1 - 5 years	55.0%	46.0%	30.0%
between 6 - 14 years	42.0%	37.0%	19.0%
between 15 - 29 years	0.0%	20.0%	15.0%
between 30 - 44 years	0.0%	0.0%	23.0%
over 45 years	0.0%	0.0%	0.0%

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

Amongst the subsidiaries of the Richter Group, only Gedeon Richter Polska Sp. z o.o. accounts pension related benefits as provision set forth in the articles of the Union Agreement. Expenses allocated to pension related provision amounted to HUF 490 million on 31 December 2010 when compared to HUF 526 million reported on 31 December 2009.

30. BORROWINGS

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

	31 December 2010	31 December 2009
	HUF m	HUF m
Long term borrowings	41,694	702
Short term borrowings	21	5,387
Total	41,715	6,089

The long term borrowing contains club credit facility of EUR 150 million taken in November 2010 by Gedeon Richter Plc. for 5 year period. The purpose of this facility is to finance general objectives of the Parent Company.

31. OTHER NON-CURRENT LIABILITIES

	31 December 2010	31 December 2009
	HUF m	HUF m
Long term liability	37,730	-

As it is prescribed in Note 28, in connenction with PregLem acquisition, milestone payments of up to CHF 295 million will be paid assuming achievement of all milestone targets stipulated in purchase agreement. Payments pending upon certain milestones criteria to be met in the future by PregLem are accounted for as a long term liability.

32. DIVIDEND ON ORDINARY SHARES

	2010	2009
	HUF m	HUF m
Dividend paid on ordinary shares	14,328	10,977

A dividend of HUF 770 per share (HUF 14,328 million) was declared in respect of the 2009 results, approved at the Company's Annual General Meeting on 28 April 2010 and paid during the year.

33. AGREED CAPITAL COMMITMENTS AND EXPENSES RELATED TO INVESTMENTS

	2010
	HUF m
Capital expenditure that has been contracted for but not included in the financial statements	6,469
Capital expenditure that has been authorised by the directors but has not yet been contracted for	18,070

The capital expenditure programme of the Parent Company approved by the Board of Directors totalling HUF 24,539 million comprises all costs associated with capital expenditure planned for 2011. The above commitments were not recorded either in the Income Statement or in the Balance Sheet.

34. GUARANTEES GIVEN IN RESPECT OF GROUP COMPANIES AND THIRD PARTIES

Maximum amount of exposure as the result of guarantees:

	2010
	HUF m
Guarantee given by Parent relating to Pharmapolis Gyógyszeripari Tudományos Park Kft.	3,000
Bank guarantee given by Medimpex Jamaica Ltd. (US$ 0.3 million)	63
Cash surety given by Gedeon Richter Romania S.A. for Pharmafarm S.A. (EUR 1.3 million)	371
Bank guarantee given by Reflex Kft.	1
Bank guarantee given by Gedeon Richter Polska Sp. z o.o.	11
Bank guarantee given by Richter Themis Ltd.	17
Bank guarantee given by PregLem SA	10

35. SOCIAL SECURITY AND PENSION SCHEMES

At the Parent Company contributions amounting to 27 percent of gross salaries were paid during 2010 to the State Tax Authority. The Parent Company has no further obligations beyond the statutory rates in force during the year.

The Parent Company contributes 6 percent of the monthly gross wages for those employees who decided to participate in the scheme. In addition, a one-off contribution is made in respect of employees who are within five years of the statutory retirement age.

The total cost of the contributions made by the Parent Company was HUF 775 million in 2010. The pension fund had a total of 6,162 members in 2010, 4,202 of whom were members entitled to receive the Company contributions.

The Parent Company has contributed to a private health insurance fund for the benefit of its employees since 1 September 2003. Amounts paid were HUF 4,000/person/month in 2010. 4,704 employees are members of Patika Health Insurance Fund and the total amount paid on their behalf to the fund was HUF 221 million during 2010.

Pension contribution paid by Hungary based subsidiaries in respect of their employees amounted to HUF 27 million.

Foreign subsidiaries pay contributions to various pension funds in respect of their employees.

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

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

36. BUSINESS COMBINATION

In 2009 the Group via purchases of additional equity has increased the rate of its ownership in Romania (Pharmafarm S.A.) and in England (Medimpex UK Ltd.).

STEP ACQUISITION

	Carrying value
	HUF m
Paid consideration satisfied by cash	**(444)**
Property, plant and equipments	237
Inventories	6
Receivables	172
Cash and cash equivalents	240
Trade and other payables	(328)
Goodwill	**117**

The carrying value and the fair value of assets and liabilities acquired in 2009 did not deferred significantly from each other.

In 2010 the Group via purchases of additional equity has increased the rate of its ownership in Pharmarichter O.O.O. (Russia) and in Richter-Lambron O.O.O. (Armenia) and both of these entities became fully consolidated companies, while in the prior years they were consolidated at equity method.
The Group recognised in the Consolidated Income Statement gain of HUF 47 million as a result of remeasuring to fair value its previously held 49% equity interest in Richter-Lambron O.O.O. and a gain of HUF 1 million as a result of remeasuring to fair value its previously held 49% equity interest in Pharmarichter O.O.O.

STEP ACQUISITION

	Carrying value	Fair value
	HUF m	HUF m
Paid consideration satisfied by cash	**(69)**	**-**
Property, plant and equipments	65	65
Inventories	296	296
Receivables	734	734
Cash and cash equivalents	216	216
Trade and other payables	(795)	(795)
Non controlling interest	(230)	(230)
Negative Goodwill		**(217)**

ACQUISITION OF PREGLEM

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

The Acquisition of PregLem:

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

	Carrying value	Fair value
	HUF m	HUF m
Paid consideration satisfied by cash	**(31,496)**	**-**
Contingent liability (non-current)	(32,987)	-
Contingent liability (current)	(13,648)	-
Total consideration	**(78,131)**	**-**
Property, plant and equipments	48	48
Intangible assets	2,891	2,891
Receivables	207	207
Cash and cash equivalents	3,070	3,070
Trade and other payables	(2,430)	(2,430)
Other intangible asset (ESMYA™)	-	66,813
Deferred tax liability	-	(18,665)
Goodwill		**26,197**

PregLem was acquired on 6 October 2010. This acquisition supports and provides a gynaecological portfolio and development of the Group's presence in Western Europe. The management expects to realise significant synergies on income and expenditures as a result of launching the products of PregLem. Based on the opinion of management, no impairment is required on Goodwill in connection with PregLem as of 31 December 2010.

Since first time consolidation PregLem Group resulted a HUF 2,544 million profit realised from Watson as license fee and royalties according to the Exclusive License Agreement for Esmya™ signed between PregLem SA and Watson Laboratories Inc.

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

ACQUISITION OF GRÜNENTHAL'S ORAL CONTRACEPTIVE PORTFOLIO

	Carrying value	Fair value
	HUF m	HUF m
Paid consideration satisfied by cash	**(65,384)**	**-**
Manufacturing rights	165	165
Market authorisation	65,219	65,219
Goodwill	**-**	**-**

The acquisition of Grünenthal portfolio qualified to be a Business Combination according to IFRS 3, not an asset purchase, since the Group gains control over the input (market authorisation), and the processes (manufacturing right) as well.

37. CONTINGENT CONSIDERATION

UNCERTAIN TAX POSITION IN ROMANIA

In Romania government decrees were approved on the claw-back regime in the range of 5-12% to be paid to the Central Insurance House for last quarter of 2009 and for 2010, however the regulation of the execution of this claw-back regime is missing in 2009 and insufficient in 2010. Due to the fact that existing regulation is insufficient to determine the scope of payees and the respective amount payable the Company decided not to make any provision in respect of the claw-back regime announced in Romania.

38. DISPOSAL OF SUBSIDIARY

In September 2009, the Group disposed of Biowet Drwalew S.A. which carried out all of its veterinary products manufacturing operation. No similar transaction occurred in year 2010.

38.1 CONSIDERATION RECEIVED

	31 December 2009
	HUF m
Consideration received in cash and cash equivalents	709
Total consideration received	**709**

38.2 ANALYSES OF THOSE ASSETS AND LIABILITIES OVER WHICH THE GROUP'S CONTROL CEASED

	31 December 2009
	HUF m
NON-CURRENT ASSETS	
Property, plant and equipment and intangible assets	1,426
Deferred tax asset	2
Other financial assets	7
CURRENT ASSETS	
Inventories	449
Trade receivables	137
Loans receivable	8
Other receivables	39
Cash and cash equivalents	21
NON-CURRENT LIABILITIES	
Borrowings	(215)
Deferred tax liabilities	(8)
CURRENT LIABILITIES	
Borrowings	(299)
Trade payables	(164)
Other current liabilities	(166)
Net asset disposed of	**1,237**

38.3 LOSS ON DISPOSAL OF SUBSIDIARY

	31 December 2009
	HUF m
Consideration received	709
Goodwill	(115)
Net asset disposed of	(1,237)
Total consideration	**(643)**

39. RELATED PARTY TRANSACTIONS

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

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

	2010	2009
	HUF m	HUF m
Dividend paid to MNV Zrt.	3,604	2,762

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

39.1 RELATED PARTIES

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

	31 December 2010	31 December 2009
	HUF m	HUF m
Loans to associated companies	2,187	1,371
Related receivables (associates)	3,946	2,845
Related payables (associates)	9	189

All related-party transactions were made on an arm's length basis.

39.2 REMUNERATION OF THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD

	Short-term benefits - Allowance	
	2010	2009
	HUF m	HUF m
Board of Directors	70	59
Supervisory Board	36	34
Total	**106**	**93**

39.3 KEY MANAGEMENT COMPENSATION

	31 December 2010	31 December 2009
	HUF m	HUF m
Salaries and other short term employee benefits	694	609
Share based payments	1,476	1,373
Total short term compensation	**2,170**	**1,982**
Pension contribution paid by the employer	569	581
Total	**2,739**	**2,563**

The table above contains the compensation received by the chief executive officer, directors and other senior member of management, constituting 42 people.

40. EVENTS AFTER THE DATE OF THE BALANCE SHEET

After balance sheet date, on 1 March 2011 György Matolcsy, Minister of Economics announced the intention to amend the corporate income tax act, resulting in postponement of the decrease in tax rate (from 19% to 10%) for entities exceeding profit HUF 500 million. The effect of this proposed change in the tax rate applicable in Hungary would increase the deferred tax asset presented in the balance sheet by HUF 26 million. (Gain of HUF 351 million would be accounted in the Income Statement, while loss of HUF 325 million in the other comprehensive income.)

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

41. APPROVAL OF FINANCIAL STATEMENTS

Current consolidated financial statements have been approved by the Board of Directors and authorised for release at 24 March 2011.

APPENDICES

CONSOLIDATED FINANCIAL RECORD 2004-2010 [1]

STATEMENTS OF INCOME (HUF m)	2004	2005	2006	2007	2008	2009[2]	2010
for the years ended 31 December							
Total sales	**149,342**	**172,597**	**209,373**	**224,076**	**236,518**	**267,344**	**275,312**
Cost of sales	(71,096)	(75,573)	(89,704)	(104,379)	(108,421)	(116,443)	(107,137)
Gross profit	**78,246**	**97,024**	**119,669**	**119,697**	**128,097**	**150,901**	**168,175**
Operating expenses and other income and expenses	(41,434)	(57,433)	(70,142)	(83,414)	(93,941)	(98,432)	(105,522)
Profit from operations	**36,812**	**39,591**	**49,527**	**36,283**	**34,156**	**52,469**	**62,653**
Share of profit of associates	503	848	863	735	903	52	50
Net financial income	2,621	5,747	1,723	(1,238)	8,394	4,379	5,073
Profit before Income tax	**39,936**	**46,186**	**52,113**	**35,780**	**43,453**	**56,900**	**67,776**
Income tax	107	(543)	(711)	(779)	(498)	(1,032)	12
Solidarity tax	-	-	-	(1,030)	(1,378)	(1,897)	-
Local business tax						(3,018)	(3,148)
Profit for the year	**40,043**	**45,643**	**51,402**	**33,971**	**41,577**	**50,953**	**64,640**
Profit attributable to non-controlling interest	(198)	(330)	(124)	(635)	(167)	33	(161)
Profit attributable to owners of the Parent	**39,845**	**45,313**	**51,278**	**33,336**	**41,410**	**50,986**	**64,479**
SHARE STATISTICS (HUF)							
Earnings per share [3]	2,138	2,431	2,751	1,789	2,222	2,736	3,460
Dividends per ordinary share [4]	500	600	690	450	590	770	860

STATEMENTS OF INCOME (EUR m)	2004	2005	2006	2007	2008	2009[2]	2010
for the years ended 31 December							
Total sales	**592.4**	**696.2**	**794.0**	**892.0**	**941.6**	**952.4**	**998.2**
Cost of sales	(282.0)	(304.8)	(340.2)	(415.5)	(431.7)	(414.8)	(388.4)
Gross profit	**310.4**	**391.4**	**453.8**	**476.5**	**509.9**	**537.6**	**609.8**
Operating expenses and other income and expenses	(164.4)	(231.7)	(266.0)	(332.1)	(373.9)	(350.6)	(382.6)
Profit from operations	**146.0**	**159.7**	**187.8**	**144.4**	**136.0**	**187.0**	**227.2**
Share of profit of associates	2.0	3.4	3.3	2.9	3.6	0.2	0.2
Net financial income	10.4	23.2	6.5	(4.9)	33.4	15.6	18.4
Profit before Income tax	**158.4**	**186.3**	**197.6**	**142.4**	**173.0**	**202.8**	**245.8**
Income tax	0.4	(2.2)	(2.7)	(3.2)	(2.0)	(3.7)	(0.0)
Solidarity tax	-	-	-	(4.0)	(5.5)	(6.8)	-
Local business tax						(10.8)	(11.4)
Profit for the year	**158.8**	**184.1**	**194.9**	**135.2**	**165.5**	**181.5**	**234.4**
Profit attributable to non-controlling interest	(0.7)	(1.3)	(0.4)	(2.5)	(0.7)	0.1	(0,6)
Profit attributable to owners of the Parent	**158.1**	**182.8**	**194.5**	**132.7**	**164.8**	**181.6**	**233.8**
SHARE STATISTICS (EUR)							
Earnings per share [3]	8.48	9.81	10.43	7.12	8.85	9.74	12.54
Dividends per ordinary share [4]	1.98	2.42	2.62	1.79	2.35	2.74	3.12

Notes: [1] This Financial Record is not a part of the audited Consolidated Financial Statements prepared in accordance with IFRS.
[2] Restated.
[3] EPS calculations based on the total number of shares issued, diluted excluding exceptional and non-recurring items.
[4] 2010 dividends per ordinary share of HUF 860 are as recommended by the board of directors.

BALANCE SHEET (HUF m)	2004	2005	2006	2007	2008	2009[2]	2010
as at 31 December							
Non-current assets	122,582	140,117	160,677	175,487	171,057	175,168	355,027
Net other assets and liabilities	91,516	113,383	135,736	140,606	169,328	205,107	181,735
Non-current liabilities	(35)	(474)	(2,485)	(1,712)	(1,099)	(1,520)	(99,104)
Non-controlling interest	(4,898)	(6,486)	(5,813)	(8,198)	(2,787)	(2,613)	(3,131)
Total net assets	**209,165**	**246,540**	**288,115**	**306,183**	**336,499**	**376,142**	**434,527**
Share capital	18,638	18,638	18,638	18,638	18,638	18,638	18,638
Reserves	191,227	228,047	270,015	289,263	318,465	358,329	416,428
Treasury shares	(700)	(145)	(538)	(1,718)	(604)	(825)	(539)
Capital and reserves [5]	**209,165**	**246,540**	**288,115**	**306,183**	**336,499**	**376,142**	**434,527**
Total assets and total equity and liabilities	**234,932**	**277,580**	**325,784**	**347,963**	**384,133**	**429,970**	**598,820**
CAPITAL EXPENDITURE (HUF m)	**26,812**	**29,841**	**32,351**	**23,197**	**22,010**	**24,211**	**88,704**

BALANCE SHEET (EUR m)	2004	2005	2006	2007	2008	2009[2]	2010
as at 31 December							
Non-current assets	498.5	553.8	638.1	692.5	646.7	647.6	1,278.5
Net other assets and liabilities	372.2	448.2	539.1	554.9	640.2	758.2	654.4
Non-current liabilities	(0.2)	(1.9)	(9.9)	(6.8)	(4.2)	(5.6)	(356.9)
Non-controlling interest	(19.9)	(25.6)	(23.1)	(32.3)	(10.5)	(9.7)	(11.3)
Total net assets	**850.6**	**974.5**	**1,144.2**	**1,208.3**	**1,272.2**	**1,390.5**	**1,564.7**
Share capital	75.8	73.7	74.0	73.6	70.5	68.9	67.1
Reserves	777.6	901.4	1,072.3	1,141.5	1,204.0	1,324.6	1,499.5
Treasury shares	(2.8)	(0.6)	(2.1)	(6.8)	(2.3)	(3.0)	(1.9)
Capital and reserves [5]	**850.6**	**974.5**	**1,144.2**	**1,208.3**	**1,272.2**	**1,390.5**	**1,564.7**
Total assets and total equity and liabilities	**955.4**	**1,097.2**	**1,293.8**	**1,373.2**	**1,452.3**	**1,589.5**	**2,156.4**
CAPITAL EXPENDITURE (EUR m)	**106.4**	**120.4**	**122.7**	**92.3**	**87.6**	**86.3**	**321.6**

Notes [1] This Financial Record is not a part of the audited Consolidated Financial Statements prepared in accordance with IFRS.
[2] Restated.
[5] Excluding non-controlling interest.

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

EXCHANGE RATES (EUR/HUF)	2004	2005	2006	2007	2008	2009	2010
Average	252.1	247.9	263.7	251.2	251.2	280.7	275.8
End of year	245.9	253.0	251.8	253.4	264.5	270.5	277.7

NUMBER OF EMPLOYEES	2004	2005	2006	2007	2008	2009	2010
End of year	7,260	8,078	8,526	9,528	10,527	10,090	10,259

UNCONSOLIDATED FINANCIAL RECORD 2004-2010 [1]

STATEMENTS OF INCOME (HUF m)	2004	2005	2006	2007	2008	2009[2]	2010
for the years ended 31 December							
Total sales	**121,593**	**140,929**	**171,095**	**171,216**	**178,392**	**202,360**	**218,263**
Cost of sales	(47,813)	(54,494)	(66,183)	(69,137)	(69,149)	(71,495)	(70,183)
Gross profit	**73,780**	**86,435**	**104,912**	**102,079**	**109,243**	**130,865**	**148,080**
Operating expenses and other income and expenses	(38,772)	(49,071)	(57,725)	(67,285)	(75,113)	(76,095)	(88,314)
Profit from operations	**35,008**	**37,364**	**47,187**	**34,794**	**34,130**	**54,770**	**59,766**
Net financial income	2,459	6,259	2,283	1,724	14,103	7,622	2,424
Profit before Income tax	**37,467**	**43,623**	**49,470**	**36,518**	**48,233**	**62,392**	**62,190**
Income tax	8	-	136	11	8	(236)	892
Solidarity tax	-	-	-	(1,015)	(1,365)	(1,889)	-
Local business tax						(2,965)	(3,102)
Profit for the year	**37,475**	**43,623**	**49,606**	**35,514**	**46,876**	**57,302**	**59,980**
SHARE STATISTICS (HUF)							
Earnings per share [3]	2,011	2,341	2,662	1,906	2,515	3,075	3,218
Dividends per ordinary share [4]	500	600	690	450	590	770	860

STATEMENTS OF INCOME (EUR m)	2004	2005	2006	2007	2008	2009[2]	2010
for the years ended 31 December							
Total sales	**482.3**	**568.5**	**648.8**	**681.6**	**710.2**	**720.9**	**791.4**
Cost of sales	(189.6)	(219.8)	(251.0)	(275.2)	(275.3)	(254.7)	(254.5)
Gross profit	**292.7**	**348.7**	**397.8**	**406.4**	**434.9**	**466.2**	**536.9**
Operating expenses and other income and expenses	(153.8)	(198.0)	(218.9)	(267.9)	(299.0)	(271.0)	(320.2)
Profit from operations	**138.9**	**150.7**	**178.9**	**138.5**	**135.9**	**195.2**	**216.7**
Net financial income	9.7	25.3	8.7	6.9	56.1	27.1	8.8
Profit before Income tax	**148.6**	**176.0**	**187.6**	**145.4**	**192.0**	**222.3**	**225.5**
Income tax	0.0	-	0.5	0.0	0.0	(0.9)	3.2
Solidarity tax	-	-	-	(4.0)	(5.4)	(6.7)	-
Local business tax						(10.6)	(11.2)
Profit for the year	**148.7**	**176.0**	**188.1**	**141.4**	**186.6**	**204.1**	**217.5**
SHARE STATISTICS (EUR)							
Earnings per share [3]	7.98	9.44	10.09	7.59	10.01	10.95	11.67
Dividends per ordinary share [4]	1.98	2.42	2.62	1.79	2.35	2.74	3.12

Notes: [1] This Financial Record is not a part of the audited Consolidated Financial Statements prepared in accordance with IFRS.
[2] Restated.
[3] EPS calculations based on the total number of shares issued, diluted excluding exceptional and non-recurring items.
[4] 2010 dividends per ordinary share of HUF 860 are as recommended by the board of directors.

BALANCE SHEET (HUF m)	2004	2005	2006	2007	2008	2009[2]	2010
as at 31 December							
Non-current assets	127,707	142,539	164,812	186,036	195,685	209,475	371,268
Net other assets and liabilities	83,591	103,700	121,102	119,917	149,964	183,277	147,109
Non-current liabilities	(4)	-	-	-	-	-	(76,850)
Total net assets	**211,294**	**246,239**	**285,914**	**305,953**	**345,649**	**392,752**	**441,527**
Share capital	18,638	18,638	18,638	18,638	18,638	18,638	18,638
Reserves	193,345	227,701	267,769	288,988	327,570	374,894	423,383
Treasury shares	(689)	(100)	(493)	(1,673)	(559)	(780)	(494)
Capital and reserves [5]	**211,294**	**246,239**	**285,914**	**305,953**	**345,649**	**392,752**	**441,527**
Total assets and total equity and liabilities	**227,620**	**265,221**	**309,028**	**326,266**	**365,570**	**416,504**	**558,634**
CAPITAL EXPENDITURE (HUF m)	**24,259**	**25,799**	**26,320**	**17,818**	**16,572**	**21,085**	**84,466**

BALANCE SHEET (EUR m)	2004	2005	2006	2007	2008	2009[2]	2010
as at 31 December							
Non-current assets	519.4	563.4	654.6	734.2	739.8	774.4	1,336.9
Net other assets and liabilities	339.9	409.9	480.9	473.2	567.0	677.6	529.7
Non-current liabilities	0.0	-	-	-	-	-	(276.7)
Total net assets	**859.3**	**973.3**	**1,135.5**	**1,207.4**	**1,306.8**	**1,452.0**	**1,589.9**
Share capital	75.8	73.7	74.0	73.6	70.5	68.9	67.1
Reserves	786.3	900.0	1,063.5	1,140.4	1,238.4	1,386.0	1,524.6
Treasury shares	(2.8)	(0.4)	(2.0)	(6.6)	(2.1)	(2.9)	(1.8)
Capital and reserves [5]	**859.3**	**973.3**	**1,135.5**	**1,207.4**	**1,306.8**	**1,452.0**	**1,589.9**
Total assets and total equity and liabilities	**925.7**	**1,048.3**	**1,227.3**	**1,287.6**	**1,382.1**	**1,539.8**	**2,011.6**
Capital Expenditure (EUR m)	**96.2**	**104.1**	**99.8**	**70.9**	**66.0**	**75.1**	**306.3**

Notes: [1] This Financial Record is not a part of the audited Consolidated Financial Statements prepared in accordance with IFRS.
[2] Restated.
[5] Excluding non-controlling interest.

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

EXCHANGE RATES (EUR/HUF)	2004	2005	2006	2007	2008	2009	2010
Average	252.1	247.9	263.7	251.2	251.2	280.7	275.8
End of year	245.9	253.0	251.8	253.4	264.5	270.5	277.7

NUMBER OF EMPLOYEES	2004	2005	2006	2007	2008	2009	2010
End of year	5,619	5,867	5,971	6,194	6,174	5,932	6,288

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