ANNUAL REPORT

2006

GEDEON RICHTER

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Lajos Pillich
1913-2006

In memoriam Lajos Pillich

Lajos Pillich, the lifelong Honorary President of the Company passed away on November 22, 2006 at the age of 94 after having served the Company for 71 years. Initially employed by Mr Gedeon Richter, the Founder of the Company he was very soon appointed to a management position. He did not waiver throughout the storms of history and steered the Company through its difficult periods always giving an example of personal conviction and faith.

His professional achievements and commitment were honoured with several prizes including a number of the highest level State awards.

Following his retirement he remained actively involved in Company life initially as President of the Board of Directors and later as the lifelong Honorary President of the Company.

As a key member of the 2001 centennial commemoration team he participated in the many centenary activities with the same levels of personal dedication and commitment as he had shown earlier in life. These included the establishment of a foundation which has as its aim the support of study by young talent both within Hungary and among Hungarians abroad.

His parting leaves an irreplaceable loss for all those who had the chance to meet him and to work with him. His sense of humour, his intelligence and his humanity had become one of our greatest common assets.

His memory will live for ever in our hearts.

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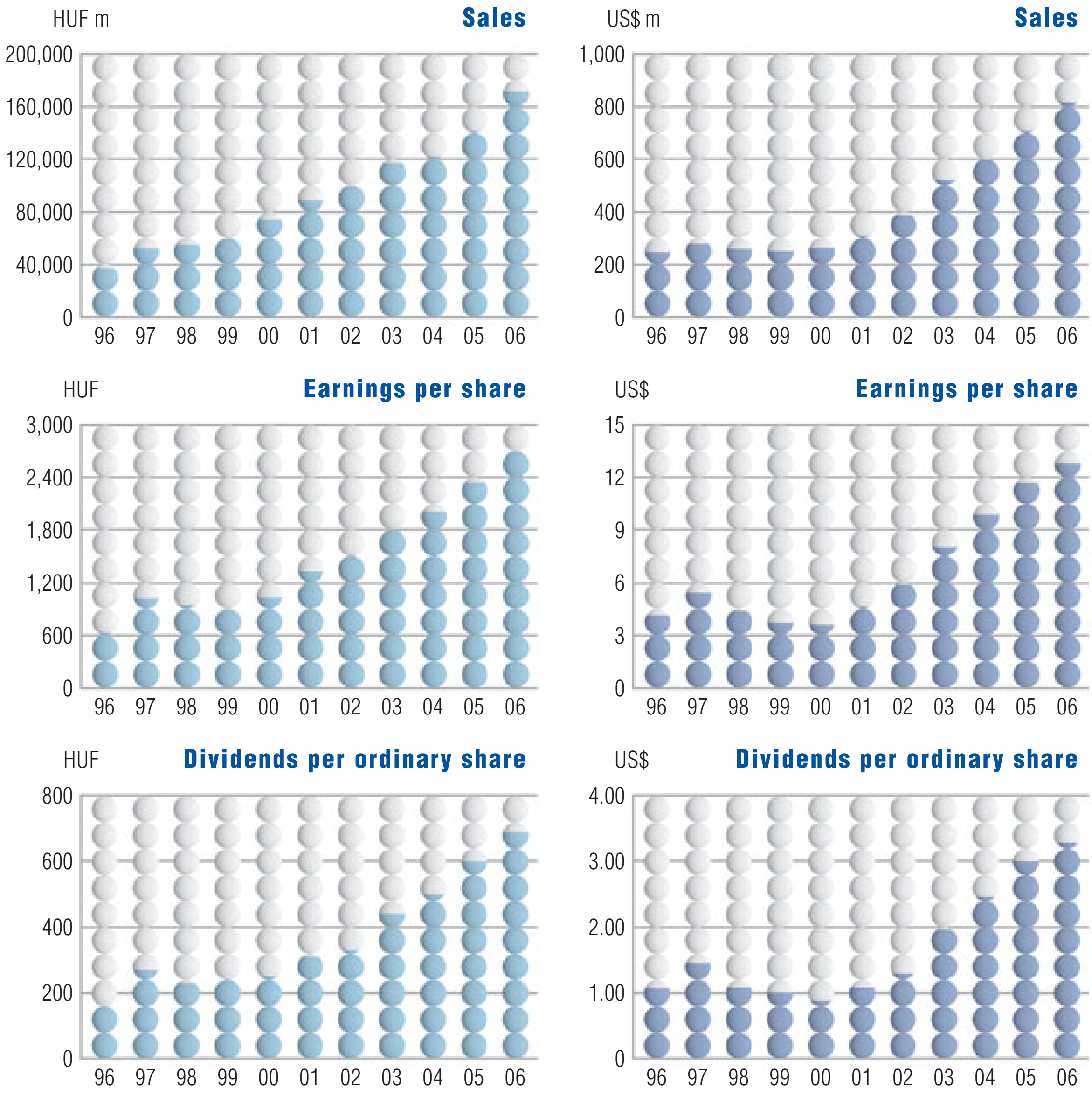
UNCONSOLIDATED REPORT

UNCONSOLIDATED FINANCIAL HIGHLIGHTS – GEDEON RICHTER PLC.

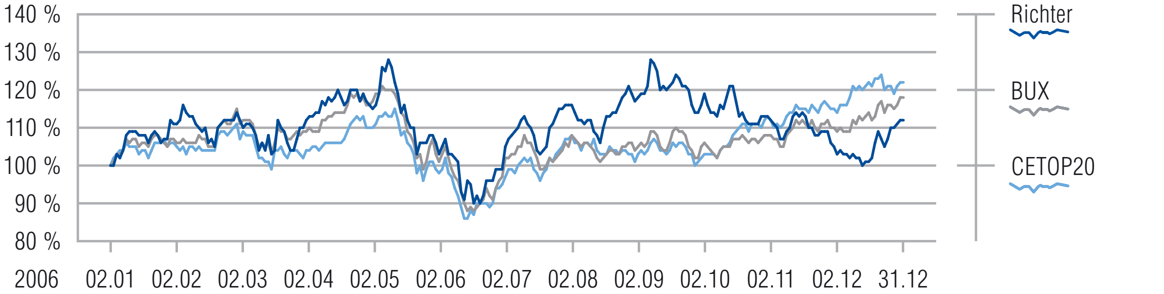
	2006	2005	Growth	2006	2005	Growth
	HUF m	HUF m	%	US$ m	US$ m	%
Total sales	171,095	140,929	21.4	814.7	705.7	15.4
Operating profit	47,187	37,364	26.3	224.6	187.1	20.0
Net profit for the year	49,606	43,623	13.7	236.1	218.4	8.1

	2006	2005	Growth	2006	2005	Growth
	HUF	HUF	%	US$	US$	%
Earnings per share (EPS)	2,662	2,341	13.7	12.67	11.72	8.1
Dividends per ordinary share	690	600	15.0	3.29	3.00	9.7

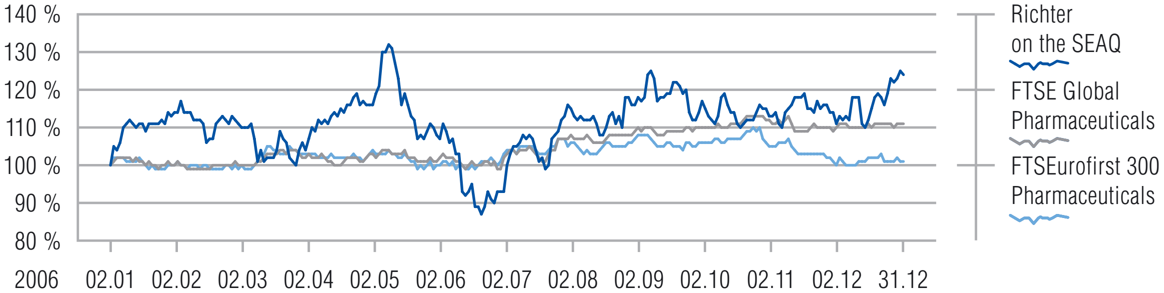


Notes: • Earnings per share: Calculations based on the total number of shares issued.
• 2006 dividends per ordinary share of HUF 690 are as recommended by the Board of Directors.

Gedeon Richter share price at the Budapest Stock Exchange compared to BUX and CETOP20 Indices



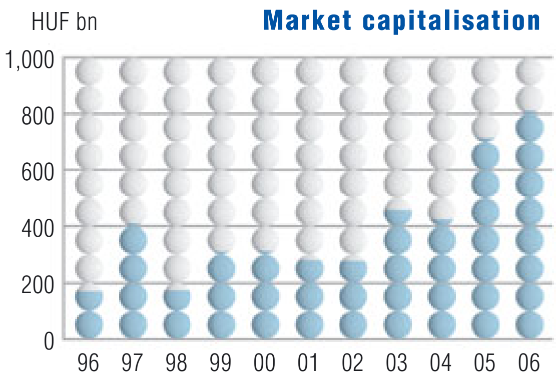
Gedeon Richter share price on the SEAQ compared to FTSE Global Pharmaceuticals and FTSEurofirst 300 Pharmaceuticals Indices

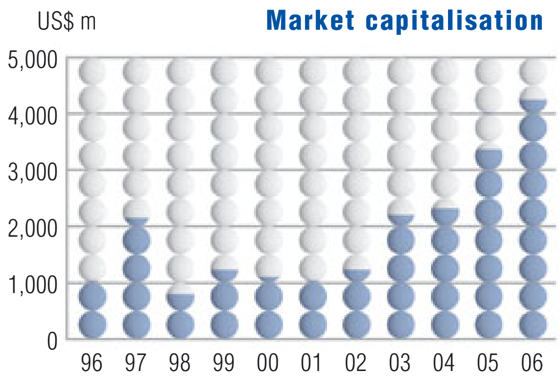


Notes:
- BUX Index constituents are (as of 31 December 2006): Borsodchem, Egis, Émász, FHB, Fotex, Magyar Telekom, MOL, OTP, Richter, Synergon, TVK.
- CETOP20 Index (Central European blue chip index) constituents are (as of 31 December 2006): Bank BPH, Bank Pekao SA, Bank PKO BP, CETV, CEZ, Egis, Erste Bank, KGHM, Komercni Banka, Krka, Magyar Telekom, MOL, OTP, PGNiG, PKN ORLEN, Richter, Telefónica O2 C.R., Telekom Polska, Unipetrol, Zentiva.
- FTSE Global Pharmacuticals Index (FTGPH) constituents are (as of 31 December 2006): Abbott Laboratories, Allergan, Altana, Amerisource Bergen, Amgen Corp, Astellas Pharmaceutical, AstraZeneca, Biogen Idec, Bristol Myers Squibb, Celgene Corp, Chugai Seiyaku, Daiichi Sankyo, Eisai, Forest Laboratories, Genentech, Genzyme General, Gilead Sciences, GlaxoSmithKline, Johnson & Johnson, Lilly (Eli) & Co, Medimmune, Merck & Co, Novartis (REGD), Novo-Nordisk B, Pfizer, Roche Hldgs (Genus), Sanofi-Aventis, Schering-Plough, Takeda Pharmaceutical, Wyeth.
- FTSEurofirst 300 Pharmaceuticals (E3PHRM) constituents are (as of 31 December 2006): Altana, AstraZeneca, Celesio, Elan Corporation, GlaxoSmithKline, H. Lundbeck, Merck KgaA, Novartis (REGD), Novo-Nordisk B, Roche Hldg (Genus), Sanofi-Aventis, Serono I, Shire, UCB Cap.

Source: Reuters, BSE, Bloomberg, LSE

The Company's market capitalisation increased in 2006 and totalled HUF 810 billion based on the Budapest Stock Exchange share price and US$ 4,235 million based on the SEAQ share price at 29 December 2006.





Note: • All data based on year-end prices; calculations based on the total number of shares issued, HUF calculations based on the performance of Richter share price on the Budapest Stock Exchange, US$ calculations based on the SEAQ share price.

William de Gelsey
Chairman

CHAIRMAN'S STATEMENT

I welcome the opportunity to update you on your company's excellent progress during 2006, notwithstanding increasing difficult market conditions in a number of countries. Sadly we saw considerable deterioration in the political and economic environment in Hungary and domestic market conditions remain uncertain for pharmaceutical companies for 2007; this will demand a great deal of attention and commitment from management.

You may recall that we participated in the Russian Government's subsidised drugs programme with success during 2005 resulting in a major sales increase. Towards the end of 2006 the programme was greatly scaled down by the authorities with a consequent reduction in demand for our products and it is widely anticipated that this unfavourable trend will continue during 2007. I am pleased however to report that the company performed excellently in the large and growing Russian private drugs market.

In view of the Group's strong financial performance in 2006 the Board was encouraged to recommend an increased dividend of HUF 690 per share to be paid to ordinary shareholders. This will be the fourth year in succession when the dividend on ordinary shares has been increased in double digit percentage terms.

It is however my very sad duty, in which I am joined by my colleagues on the Board and all the employees, to record the passing of Mr Lajos Pillich, our Honorary President, in November 2006. We all owe him a tremendous gratitude for his immense contribution to the Company and to all who worked with him over so many years – he will be greatly missed.

May I now express my thanks to my colleagues on the Board and in particular to Mr Erik Bogsch, Managing Director and his management team and to all employees for their most important contribution to the successful year.

I look to the future with great confidence in the knowledge that the collective initiative and effort of all those who are at Richter will deliver long term value for our shareholders.

William de Gelsey

William de Gelsey
Chairman

• 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. Has over 50 years of international investment banking experience. He also 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 November 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 March 2006.

Dr György Bíró (1945)

Legal adviser, specialising in economic law. Director of Industrial Association between 1982 and 2006. Legal-International-Secretariat Directorate. Joined the Board in 1998.

Gábor Bojár (1949)

President and Co-Founder of Graphisoft SE., established in 1982. A physicist, graduate of Eötvös Loránd Tudományegyetem (ELTE) in Budapest. Previously worked in the Geophysical Institute at ELTE. Has been a member of the Board since 1995.

Dr Jenő Koltay (1944)

Economist, University doctorate in Economic Sciences. Director of Institute of Economics of the Hungarian Academy of Sciences. Visiting fellow and visiting professor at several Research Institutions and Universities. Joined the Board in 1998.

Dr László Kovács (1944)

Strategic adviser to the Executive Board of 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.

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 State Privatisation and Asset Management Co. between 2002 and 2006. Joined the Board in 2006.

Dr Gábor Perjés (1941)

Medical doctor, urologist, nephrologist. Between 1966 and 1970 assistant at the Postgraduate Medical School. Member of Parliament from 1990 to 1994. Currently practising as a physician, appointed medical manager of Gyógyír XI. Public Company responsible for medical services in XIth district of Budapest. Has been a member of the Board since 1992.

István Somkuti (1958)

Economist, has worked with the Hungarian State Privatization and Holding Company Ltd. since December 2002, currently Deputy Managing Director responsible for Asset Management. Joined the Board in 2004.

Erik Bogsch (1947)

Managing Director of Richter since 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 March 2006.

Dr Gábor Gulácsi (1958)

Appointed Deputy Managing Director 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 different positions. 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 been in a number of management positions including Director responsible for Technical Services at Gedeon Richter USA Inc. during 2001 and 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.

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.

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. Deputy General Manager of OTP Bank since September 1995. Has been a member of the Committee since 1990.

Vencelné Sedlák (1953)

Employee representative. Chemical engineer, quality system engineer qualifications. With Richter since 1971. Head of Validation Department at the Quality Assurance Directorate from January 2000. Joined the Committee in 2001.

Dr Gábor Simon Kis (1940)

Private pharmacist, economist, PhD in Economics. 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 the 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) regarding domestic shareholders' issues. Joined the Committee in 1990.

Changes to Boards which occurred during 2006

At the Annual General Meeting on 26 April 2006 Dr Tamás Mészáros was appointed to the Board of Directors until 30 April 2008.

László Kovács retired from his previous position in January 2006.
Sándor Kováts was appointed to the Executive Board in January 2006.

At the same AGM, Jenő Fodor was appointed and the following were re-elected to the Supervisory Committee for a 3 year period:
– Dr. Attila Chikán
– Dr Mária Balogh, Jánokiné
– Dr Gábor Simon Kis
– József Erős
– András Sugár S.
– Gábor Tóth
– Vencelné Sedlák.

During the meeting of the Supervisory Committee held after the AGM on 26 April 2006, Dr. Attila Chikán was reappointed as Chairman of the Supervisory Committee for a three-year term.

DIRECTORS AND ORGANISATION

The Company differentiates the roles and responsibilities of the Board of Directors, the ultimate decision-making body which itself operates with two subcommittees since 2004 – the Corporate Governance subcommittee and the Compensation subcommittee, the Executive Board which is responsible for the executive management of the Company's business, and the Supervisory Committee which is the controlling body of the Company.

CORPORATE GOVERNANCE

Throughout 2006 Gedeon Richter has complied fully with the highest ethical standards and acted according to both the legal and regulatory requirements following the Corporate Governance Recommendations of the Budapest Stock Exchange.

• INFORMATION FOR SHAREHOLDERS

• • 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 and if an insufficient quorum, at 16.00 on 25 April 2007 at Budapest H-1143, Stefánia út 34.

• • INVESTOR RELATIONS ACTIVITIES

The Company reports formally to shareholders four times a year, as its quarterly non-audited results are announced, and publishes its Annual Report including audited figures by 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 four weeks 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 for questions.

Management, principally the Managing Director and investor relations staff, maintain a dialogue with institutional shareholders on Company plans and objectives through a programme of conferences, regular meetings, conference calls and roadshows. Representatives of the IR Department of Gedeon Richter Ltd. participated at 13 international conferences and 2 roadshows in 2006. Gedeon Richter's management held 53 meetings for approximately 118 fund managers and analysts at its headquarters presenting the Company's business progress and financial results. Conference calls were organised during the year, following publication of the quarterly reports of the Company.

Conferences in 2006

Citigroup 'IR University'	London, 16 January 2006
Merrill Lynch 'Global Pharmaceutical, Biotechnology & Medical Device Conference'	New York, 7-9 February 2006
Citigroup 'Global Healthcare Conference'	Washington, 27 February - 1 March 2006
Erste 'Investor Conference'	Stockholm, 20 June 2006
Budapest Stock Exchange 'Domestic Institutional Investor Conference'	Budapest, 31 August 2006
Merrill Lynch 'Global Pharmaceutical, Biotechnology & Medical Devices Conference'	London, 21-22 September 2006
CA IB 'Annual Emerging Europe Conference'	Istanbul, 5-6 October 2006
KBC Securities 'Central European Stock Market Conference'	Brussels, 9-10 October 2006
Citigroup 'European Small and Mid Cap Conference'	London, 16 October 2006
Morgan Stanley 'EMEA Equity Conference'	London, 18-19 October 2006
ING 'Central European Investment Forum'	Prague, 28-30 November 2006

The Company's website (www.richter.hu) includes a folder meeting the specific stated needs of investors and analysts concerning information on Richter's business operations.

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

Analysts providing regular coverage about the Company during 2006

Company	Analyst	Company	Analyst
ABN Amro	Mr Kevin Sharpe	JPMorgan	Mr Alex Comer, Ms Gülsen Ayaz
Cashline	Mr Kornél Sarkadi Szabó	KBC Securities	Mr Péter Tordai, Ms Barbara Jánosi
Citigroup	Mr Robert Bonte-Friedheim	Merrill Lynch	Mr Andreas Schmidt
Concorde	Mr Attila Vágó	Nomura	Ms Frances Cloud
CSFB	Mr Andrew Sinclair	Raiffeisen	Mr Ákos Herczenik
Deutsche Bank	Mr Gergely Várkonyi	UBS Warburg	Mr Andrzej Kasperek
Erste	Ms Vladimíra Urbánková	Unicredit	Ms Katalin Dani
ING	Mr Róbert Kerekes	Wood	Mr Bram Buring

DIVIDEND

In accordance with the dividend policy practised by the Company, the Board of Directors recommends the payment of 25 percent of net profit calculated according to the Hungarian Accounting Law for 2006.

Dividends approved by the shareholders of the Company at the Annual General Meeting held on 26 April 2006 totalled HUF 11,172 million (US$ 52.9 million) in respect of 2005. The portion payable in relation to ordinary shares was HUF 11,171 million (US$ 52.9 million) or HUF 600 per share, 60 percent of the nominal share value; the portion payable in relation to preference shares was HUF 1 million or HUF 120 per preference share. The record dates for these dividend payments were announced on 19 May 2006 with payments having commenced on 15 June 2006.

Erik Bogsch
Managing Director

Gedeon Richter achieved a good overall performance in 2006. This reflected well on our balanced business model strategy with excellent growth in all export markets more than offsetting the increasingly difficult market conditions and declining performance in Hungary.

As in 2005 the Company continued to be in an excellent position to take advantage of the opportunity to supply its products under the reimbursement scheme (DLO) implemented by the government in Russia for its socially handicapped people. Towards the end of 2006 it became clear that this programme was undergoing significant amendment and as a result it looks unlikely that similar shipment levels will be repeated in 2007. In contrast to this, the private market for pharmaceuticals in Russia continues to exhibit healthy growth and following excellent results in 2006 we aim to continue to participate strongly as a leader in this market.

Good growth in sales was achieved in the European Union, both in the 'traditional' 15 EU member states and the newer EU10 countries of Central and Eastern Europe. In both geographic areas we are pursuing a strategy of expanding our gynaecological business.

In the USA an excellent sales performance was reported with this originating primarily from increased shipments of certain steroid and generic active pharmaceutical ingredients (API's).

In Hungary an adverse macroeconomic environment together with the substantial changes made to the regulations governing the healthcare system led in 2006 to increasingly difficult market conditions. This has proved demanding for all companies and as a market leader it has resulted in a decline in sales. Whilst we anticipate a continuation of this challenging environment for the foreseeable future we are aware of the need to adapt accordingly both our approach to and operations in the market.

We made excellent progress during the year in our niche gynaecological market where we have unique steroid chemistry knowledge and extensive medical and marketing experience. We continue to anticipate an increase in the per capita usage of oral contraceptives in Central and Eastern Europe and the CIS in the next few years.

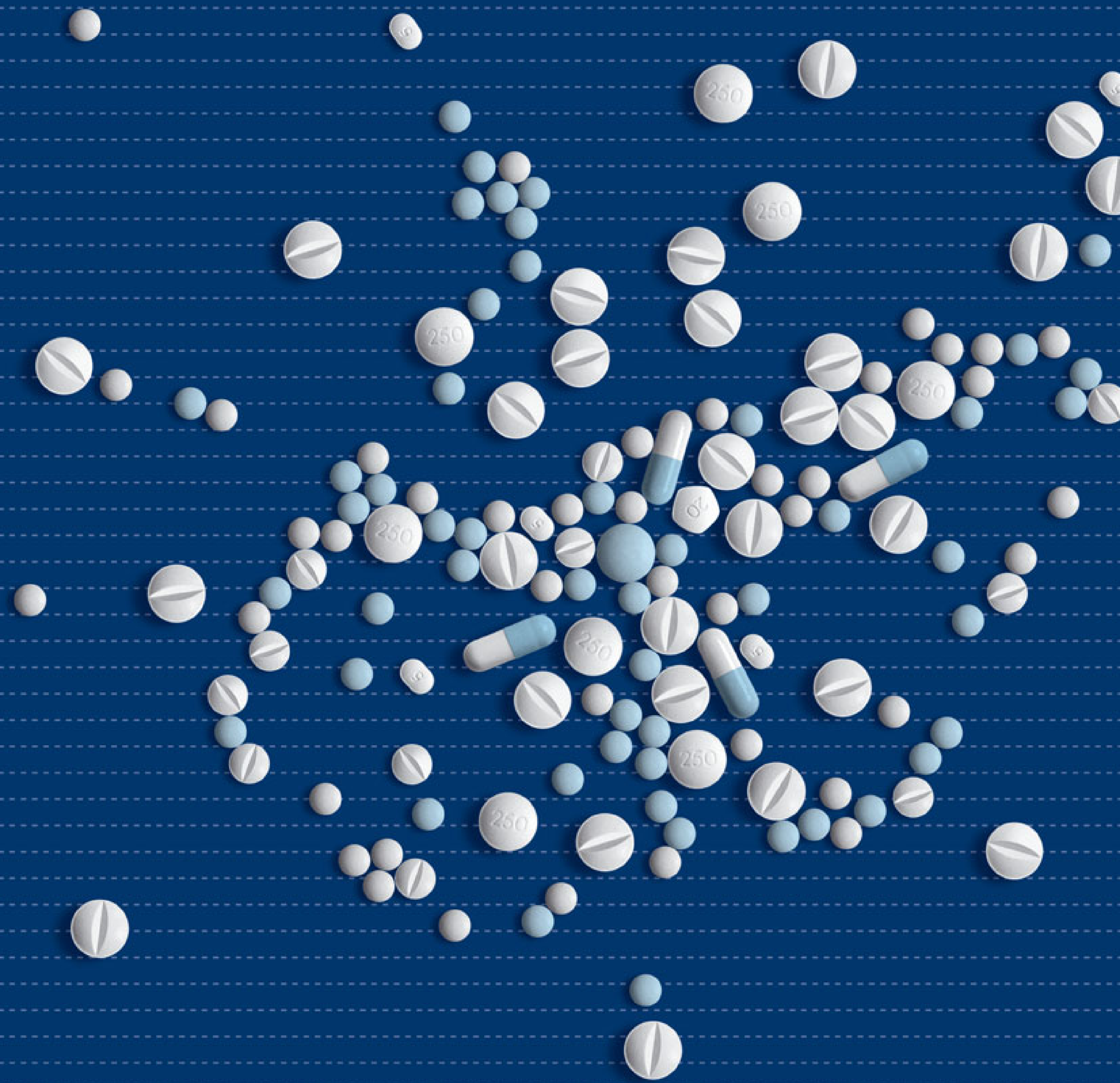
In original research we remain on track with our CNS focus. In accordance with our research cooperation with Forest Laboratories Phase II clinical trials for the RGH-188 molecule commenced in the USA in the fourth quarter 2006. We are pleased with the progress made during the year completing the construction of a new experimental technological laboratory and a new chemical analytical research centre both of which meet world class quality and technological standards.

I am proud of our employees without whom the Company could not have made the progress it has. I would like to take this opportunity to thank them all for their contribution and their commitment during these challenging times.

I believe that Gedeon Richter, despite the current issues in Hungary, makes every effort to continue along the growth pathway. We have a sound business, the products, people and skills to make a real contribution to people's health to the benefit of our shareholders, customers, employees and the communities around us.

Erik Bogsch
Managing Director

OPERATING REVIEW



• MARKETS

Richter is the largest Hungarian pharmaceutical company. In addition to its home market the Company sells 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 both in Hungary and in Central and Eastern European and CIS countries. In the USA and the 'traditional' 15 EU countries Richter's products are marketed under a framework of strategic partnerships and long-term supply agreements.

The Company achieved good overall performance in 2006. Whilst sales turnover in each export regions was outstanding, we had to face increasingly difficult market conditions in Hungary. Sales amounted to HUF 171,095 million (US$ 814.7 million) representing good growth of 21.4 percent (15.4 percent in US$ terms) when compared with 2005.

Sales by region

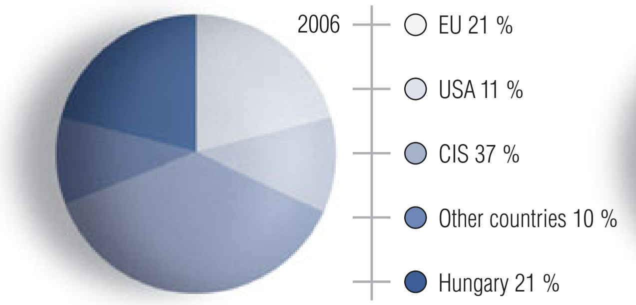
	2006	2005	Change	2006	2005	Change
	HUF m	HUF m	%	US$ m	US$ m	%
Hungary	**36,183**	**40,803**	**-11.3**	**172.3**	**204.3**	**-15.7**
Export	**134,912**	**100,126**	**34.7**	**642.4**	**501.4**	**28.1**
CIS	62,558	43,095	45.2	297.9	215.8	38.0
EU*	36,969	29,129	26.9	176.1	145.9	20.7
USA	18,582	13,952	33.2	88.4	69.9	26.5
Other countries	16,803	13,950	20.5	80.0	69.8	14.6
Total	**171,095**	**140,929**	**21.4**	**814.7**	**705.7**	**15.4**

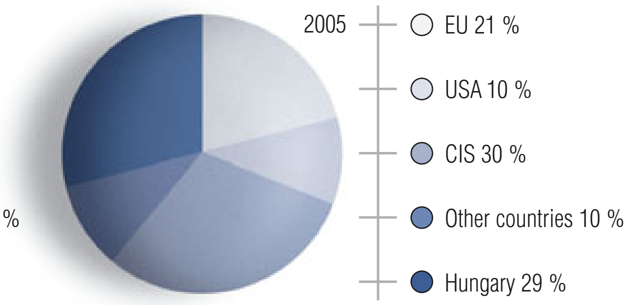
* Note: All member states of the enlarged EU following 1 May 2004, except for Hungary.

Sales by region – historic analysis

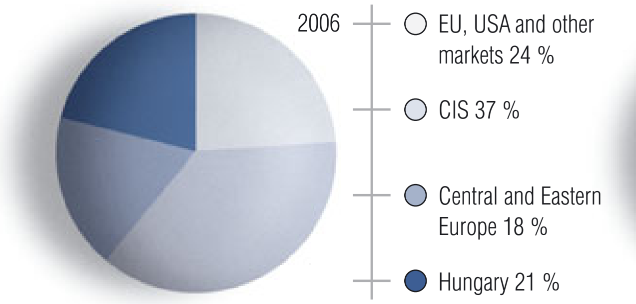
	2006	2005	Change	2006	2005	Change
	HUF m	HUF m	%	US$ m	US$ m	%
Hungary	**36,183**	**40,803**	**-11.3**	**172.3**	**204.3**	**-15.7**
Export	**134,912**	**100,126**	**34.7**	**642.4**	**501.4**	**28.1**
CIS	62,558	43,095	45.2	297.9	215.8	38.0
EU, USA and other markets	41,818	32,623	28.2	199.1	163.4	21.8
Central and Eastern Europe	30,536	24,408	25.1	145.4	122.2	19.0
Total	**171,095**	**140,929**	**21.4**	**814.7**	**705.7**	**15.4**

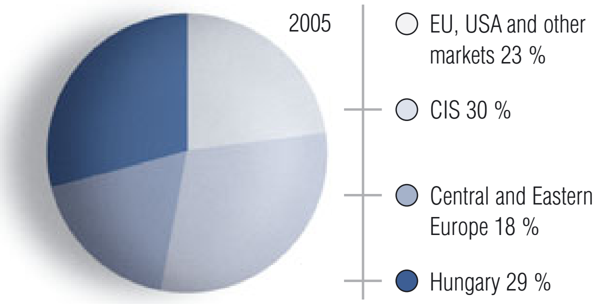
Sales analysis by region



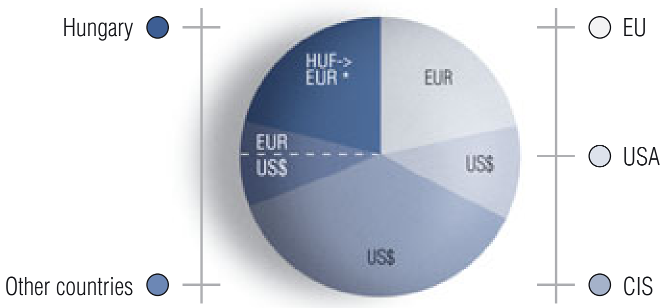


Sales by region – historic analysis





Sales analysis by currency in 2006



Approximately half of Company sales are US$ denominated.

* Note: HUF exchange rate is linked to the EUR.

HUNGARY

In Hungary sales totalled HUF 36,183 million (US$ 172.3 million) in 2006 11.3 percent (15.7 percent in US$ terms) lower than in 2005. This was partly due to the discontinuation of distribution of Wyeth products from 1 April 2006, which generated approximately HUF 2.8 billion or 6.9 percent loss in the turnover. The impact of the changes to the pharmaceutical market environment also influenced adversely the results.

Price reductions on several products were mandated with effect from 1 July 2006. These were implemented in accordance with measures taken by the National Health Insurance Fund which originated from its legal obligation to establish fixed reimbursement categories. These resulted in a reduction in domestic sales of more than HUF 1 billion for the second half of 2006.

With effect from 1 November the Company increased moderately the prices of certain non reimbursed products.

On 24 June 2004 the Hungarian State and the pharmaceutical companies signed an agreement concerning a claw-back (aimed at financing potential overspending of the reimbursement budget) to be paid to the National Health Insurance Fund (NHIF) for 2004, 2005 and 2006. Based on calculations by the NHIF made after receiving payments for 2005, Richter contributed to the budget with a HUF 631 million deposit during 2006.

Several new measures entered into force in the health care system with effect from 1 January and 15 January 2007.

The Government published a new drug economic act at the end of 2006 which required that pharmaceutical companies are obliged to pay 12 percent of the full year amount, based on pharmacy turnover data, as a subsidy on producer prices of reimbursed products and that potential overspending of the reimbursement budget is to be jointly financed by the NHIF (National Health Insurance Fund) and the pharma companies. In addition the act gave authorisation for a HUF 5 million registration fee per annum per medical representative to be established.

The Ministry of Health announced an amendment to the decree regulating the reimbursement system which reduced normative reimbursement levels from 90 percent to 85 percent, 70 percent to 55 percent and 50 percent to 25 percent. New rules were introduced for the launch of generic products: manufacturer prices for the first generic version have to be at least 30 percent below the original price, prices for the second version should be lower by a further 10 percent, prices for the third generic drug are expected to be another 10 percent lower and prices of further versions are required to be below this level. In addition, the requirements for calculation of the reference price and selection of the reference product were changed, the limit determining conditions for becoming a reference product was decreased from 3 percent to 1 percent in case of groups where the reimbursement is fixed by API's; the limit determining conditions for becoming a reference product by DOT (day of treatment) was decreased from 2 percent to 0.5 percent in case of groups where the reference price is established by calculation of an average price. It was further established that changes to fix-reimbursed categories will occur continuously during the year instead of once per year as previously and payments by patients of a minimum HUF 300 per box for products belonging to specially reimbursed (100 percent) groups was introduced.

All of these changes are expected to influence negatively the sales of pharmaceutical companies in 2007. Together with current macroeconomic conditions and other recent Government measures they lead the Company to anticipate a more difficult environment for the foreseeable future.

Notwithstanding the difficult market conditions, several recently launched products showed good performance during the reported year, primarily the cholesterol lowering ATORVOX, CALUMID for the treatment of advanced prostatic cancer, the antipsychotic HUNPERDAL and the anti-osteoporosis product SEDRON. Sales growth of other recently launched products including the third-generation oral contraceptive MILLIGEST, the antihypertensive LISONORM together with the urological product TAMSOL for the treatment of benign prostate hypertrophy also impacted positively the results during 2006.

We continue to emphasise that one of our primary objectives is to renew and broaden our product portfolio. In line with this target products launched since the mid 1990's represented 70 percent of Richter's domestic sales during 2006. We are pleased to report on two new product launches: the introduction of the hormone replacement TULITA, and the anti-osteoporosis CALCISEDRON-D jointly with Béres Ltd. (packaged Richter's SEDRON and Béres' Calcivid together) on the domestic market since October 2006.

Based on the latest available market audit (IMS) data for the period January-December of 2006 and primarily as a consequence of the mergers and acquisitions in the pharmaceutical sector over the last few years, Richter is now the third largest player on the Hungarian pharmaceutical market with a 7.2 percent share.

Top 10 products in Hungary

Product	Active ingredients	Therapeutic area	2006	2005	Change	
			HUF m	HUF m	HUF m	%
NORMODIPINE	amlodipine	Cardiovascular, antihypertensive	3,968	5,508	-1,540	-28.0
QUAMATEL	famotidine	Gastrointestinal, antiulcer	3,365	3,890	-525	-13.5
EDNYT / LISOPRESS	enalapril / lisinopril	Cardiovascular, antihypertensive	3,241	3,877	-636	-16.4
Oral contraceptives	hormones	Gynaecology	2,830	2,885	-55	-1.9
CAVINTON	vinpocetine	Central Nervous System	2,386	2,497	-111	-4.5
MYDETON	tolperisone	Muscle relaxants	1,272	1,381	-109	-7.8
LANSONE	lansoprazole	Gastrointestinal, antiulcer	1,224	1,142	82	7.2
CALUMID	bicalutamide	Prostate cancer	1,008	665	343	51.6
REXETIN	paroxetine	CNS, Antidepressant	998	1,018	-20	-1.9
TERBISIL	terbinafine	Antifungal	884	873	11	1.3
Subtotal			**21,176**	**23,736**	**-2,560**	**-10.8**
Other			15,007	17,067	-2,060	-12.1
Total			**36,183**	**40,803**	**-4,620**	**-11.3**

New products launched in Hungary during 2006

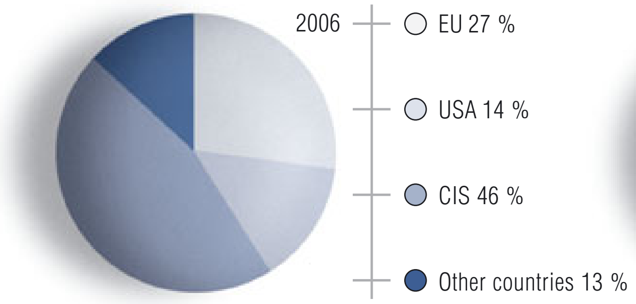
Brand name	Active ingredients	Therapeutic area	Launch date
FORTOFAN*	formoterol	Long-acting bronchodilator	Quarter 1, 2006
HUNPERDAL*	risperidon	CNS, antipsychotic	Quarter 1, 2006
TULITA	norethisterone + estradiol	Gynaecology, hormone replacement therapy	Quarter 4, 2006
CALCISEDRON	alendronate, calcium, vitamin D	Osteoporosis	Quarter 4, 2006

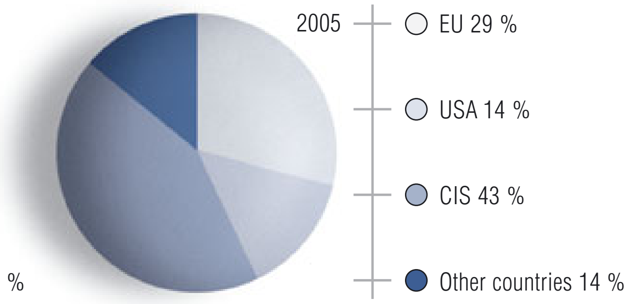
* Note: Licenced-in products.

EXPORTS

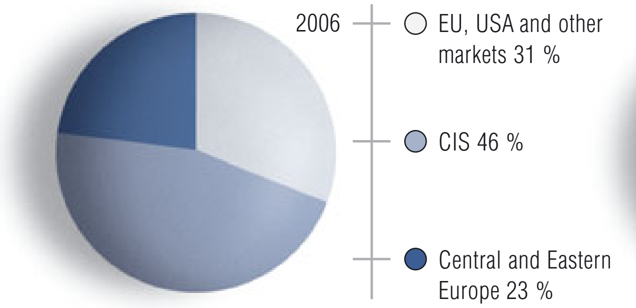
Exports amounted to US$ 642.4 million in 2006, a substantial increase of US$ 141.0 million or 28.1 percent over the year before. Sales to the CIS which grew by 38.0 percent were a key driver of growth during the reported year. This was supplemented by good sales growth of 19.3 percent in EUR terms in the EU. Sales in the USA increased by 26.5 percent in US$ terms in 2006. Turnover in the ‘Other countries’ region increased by 14.6 percent in US$ terms and also contributed to the positive export performance.

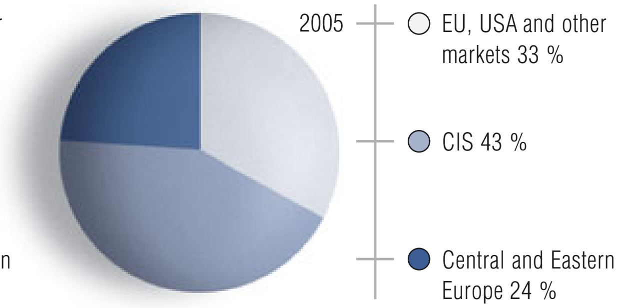
Export sales analysis by region





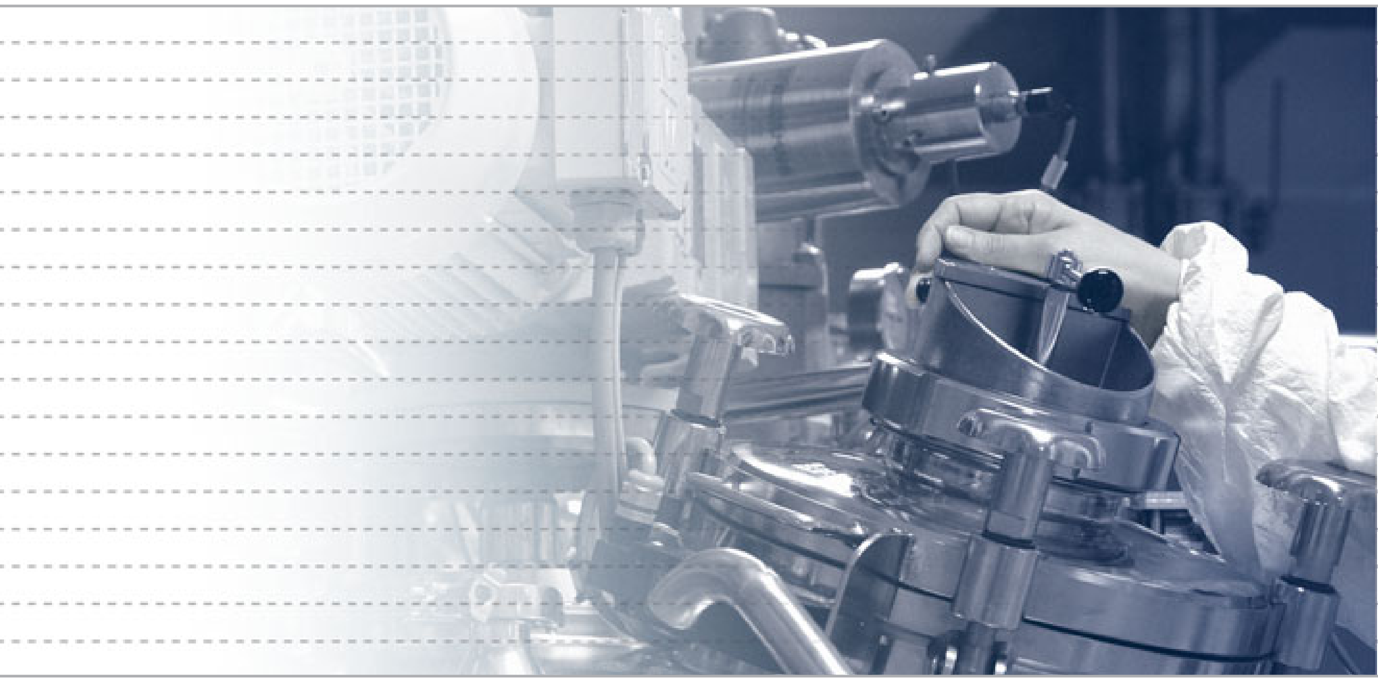
Export sales by region – historic analysis





Sales to top 10 export markets

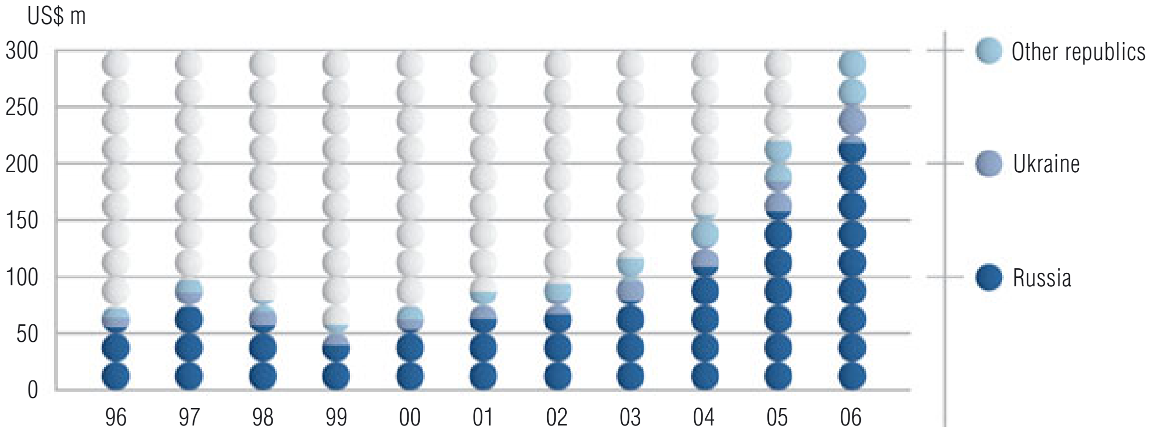
	2006	2005	Growth	
	US$ m	US$ m	US$ m	%
Russia	218.0	157.2	60.8	38.6
USA	88.4	69.9	18.5	26.5
Poland	48.8	41.3	7.5	18.2
Ukraine	35.5	27.2	8.3	30.5
Czech Republic	24.7	21.3	3.4	16.0
Germany	23.7	22.7	1.0	4.4
Slovakia	19.5	16.5	3.0	18.2
Kazakhstan	16.8	13.0	3.8	29.2
Romania	16.8	14.0	2.8	20.0
France	16.5	8.7	7.8	89.7
Subtotal	**508.7**	**391.8**	**116.9**	**29.8**
Total export	**642.4**	**501.4**	**141.0**	**28.1**
Share of the top 10 export markets	79 %	78 %		



CIS

Sales to the CIS in 2006 totalled US$ 297.9 million, a significant increase of 38.0 percent compared to 2005. The Company continued to achieve good sales growth throughout the region. The increased efficiency of our specialised sales network contributed substantially to the results achieved.

Sales to the CIS

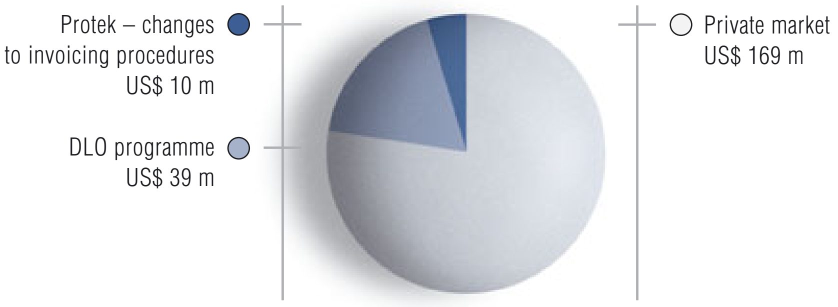


Products launched since the mid 1990's continued to outperform the Company's average in this region with outstanding 51.0 percent sales growth and represented a substantial 38 percent of total CIS sales in 2006.

Turnover of gynaecological products led by the range of oral contraceptives represented 22 percent of total CIS sales and generated excellent sales growth of 69.2 percent during the year.

Sales to Russia totalled US$ 218.0 million for 2006, 38.6 percent higher than in 2005 and outperformed the market growth. The macroeconomic environment in Russia was favourable during the reported year. High oil prices and a stable rouble exchange rate resulted in an increase in the level of real wages while a predictable political environment also positively impacted market conditions.

Russian sales analysis in 2006



The excellent results achieved in 2006 were mainly due to the Company's performance in the private market. However, this was supplemented by additional one-off sales (valued at approximately US$ 10 million) which were realised due to changes to the related invoicing procedures to Protek, the leading Russian wholesaler during the first quarter of 2006.

Richter continued to supply products under the DLO (supplementary medicines supply) programme implemented by the government at the beginning of 2005. The Company's DLO shipments for 2006 were US$ 38.8 million, slightly more than realised during 2005. However, according to a decree established following an overrun in the DLO budget for 2006, several Richter products were delisted with effect from 1 November 2006 and fourth quarter sales orders were slow.

During 2006 sales growth was reported throughout most of the product portfolio. Good sales growth was achieved by the range of contraceptives, especially POSTINOR, NOVYNETTE and REGULON. NORMODIPINE together with the Company's original compound CAVINTON continued to show outstanding results. It is also pleasing to report that PANANGIN, MYCOSYST, QUAMATEL all significantly contributed to the substantial growth reported.

Notwithstanding changes to longer credit terms, the Company continues to consider its payment terms as a key element of its Russian business and its previously established credit periods remain broadly unchanged. In respect of DLO related shipments, the Company monitors these closely and remains cautious regarding the payment situation.

Sales to Ukraine amounted to US$ 35.5 million in 2006, a substantial 30.5 percent increase when compared to the performance of the previous year. Higher sales levels of DIROTON together with the range of oral contraceptives, MYDOCALM and CAVINTON were primarily responsible for the results reported. The parliamentary elections and political uncertainty while the government was formed did not have a negative influence on the pharmaceutical market.

Sales in Other Republics of the CIS totalled US$ 44.4 million for 2006, representing outstanding 41.4 percent growth. Most notable sales and sales growth were recorded in Kazakhstan and Belarus, whilst Uzbekistan showed promising results.

New products launched in the CIS republics during 2006

Brand name	Active ingredients	Therapeutic area	Launch date
PROSTERID	finasteride	Benign prostate hypertrophy	Quarter 1, 2006
EKVATOR	lisinopril + amlodipine	Cardiovascular, antihypertensive	Quarter 1, 2006
CALUMID	bicalutamide	Prostate cancer	Quarter 2, 2006
LAMOLEP	lamotrigine	Antiepileptic	Quarter 2, 2006

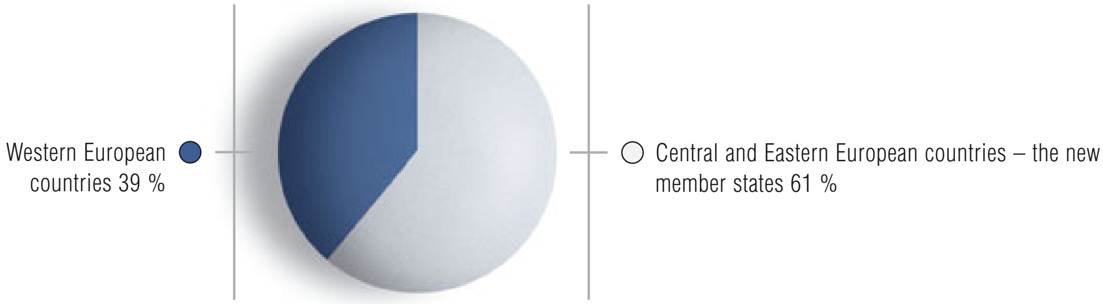
EU

Sales in the European Union, excluding Hungary, amounted to EUR 140.2 million (US$ 176.1 million) in 2006, representing good growth of 19.3 percent in EUR terms (20.7 percent in US$ terms). The Company achieved growth both in the new member states of the EU and the traditional 15 EU countries.

The turnover of products launched since the mid 1990's increased significantly by 26.2 percent in EUR terms during the year outperforming the Company's average in the region and represented a notable 54 percent of total sales.

Sales of gynaecological products increased by 26.6 percent in Euros in the reported year when compared with 2005. In 2006 this product group represented 35 percent of turnover in the region.

Sales to the EU in 2006



From the Company's business perspective, this region consists of two groups of countries: the 15 'traditional' member states of the EU and those Central and Eastern European countries, except Hungary, which joined the EU on 1 May 2004. The major characteristics of these two groups of countries as well as the Company's product portfolio and its marketing strategies are substantially different in the two areas.

The expansion of our business in the 'traditional' 15 EU member states became a primary objective for the Company as early as the mid 1990's. While commercial affiliate companies have been established in several countries, sales are still made via partner companies. In the absence of an adequate sales force and critical mass it is not our intention currently to establish our own distribution and marketing networks. The primary focus of the Company is on the expansion of our gynaecological business and an increase in generic sales, i.e. to prepare for upcoming product patent expiries.

In the 'traditional' 15 EU member states sales amounted to EUR 54.1 million (US$ 68.0 million) in 2006, which was 25.4 percent higher in Euro terms (27.1 percent in US$ terms) than in the previous year. This region contributed 39 percent of total EU sales during 2006.

In Germany the Company reported sales of EUR 18.9 million representing a slight increase compared with the turnover of 2005. Good results of the recently launched retard capsules containing tamsulosine together with contraceptive shipments including ESCAPELLE more than offset negative performance by some other products during the year compared to 2005. In France turnover, led by the wide range of oral contraceptives, almost doubled during 2006 and the Company achieved excellent overall sales of EUR 13.2 million.

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 Company's products.

Having been established for decades in Central and Eastern Europe the Company distributes and markets its products via its own well established sales network. We continue to increase both the efficiency of our specialised sales force teams and the number of medical representatives which also contributed substantially to the higher sales levels recorded in 2006.

In the Central and Eastern European member states sales totalled EUR 86.1 million (US$ 108.1 million) in 2006, which was 15.8 percent higher in Euro terms (17.0 percent in US$ terms) than for the previous year. These countries represented 61 percent of total EU sales in 2006.

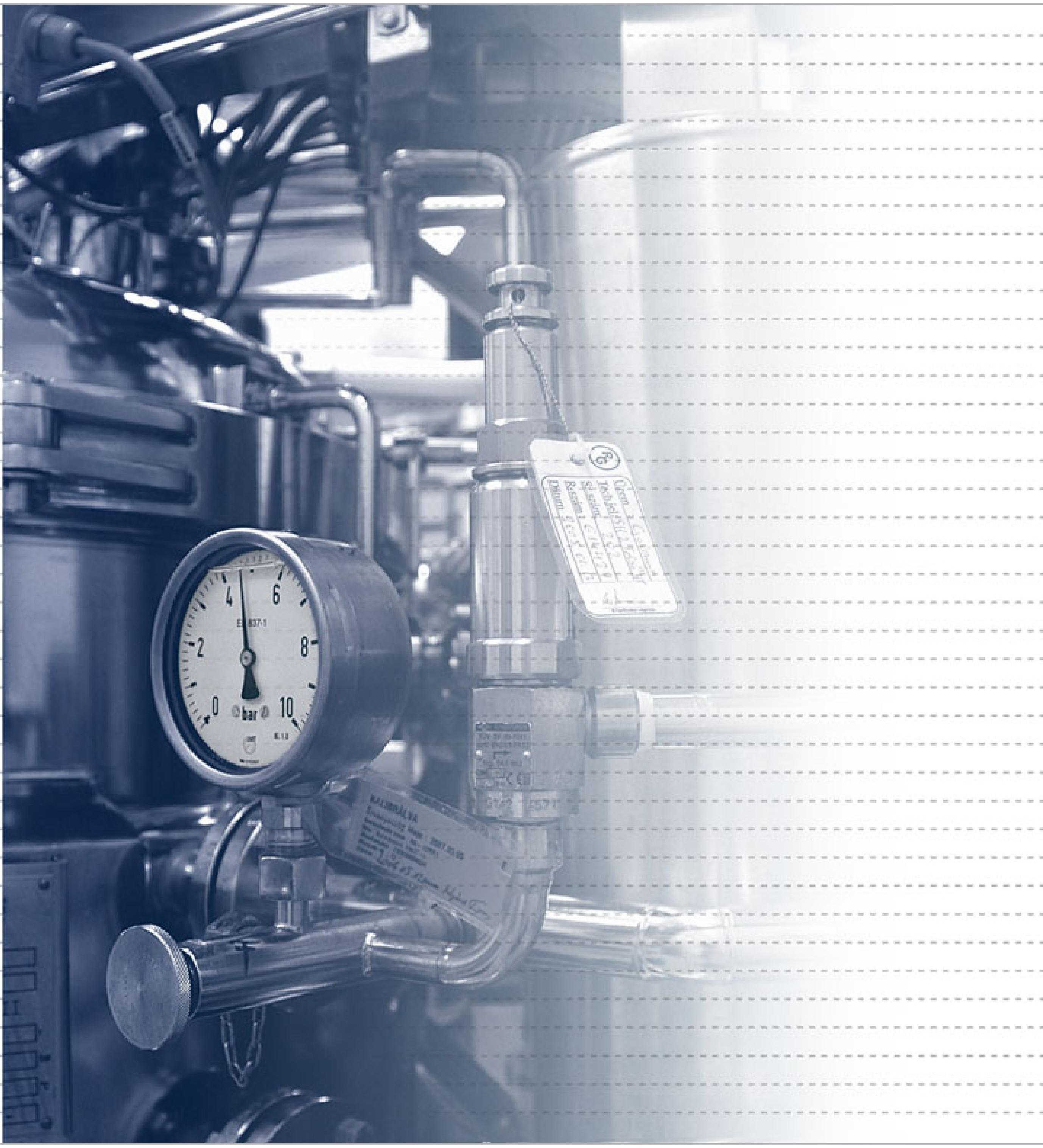
This good performance was achieved under difficult circumstances. The Company had to face stronger competition and continuous pressure from governments towards lower prices and reimbursement levels during the reported year.

During the year, in its largest market in the region, Poland, the Company recorded sales of EUR 38.8 million (including shipments to GZF Polfa to the value of EUR 13.0 million) which represented an increase of 16.7 percent in Euro terms over 2005. The range of oral contraceptives, ZASTERID, launched in the first quarter of 2006, and MYDOCALM together with AVONEX and higher API sales to GZF Polfa contributed most significantly to the growth reported. In the Czech Republic 14.5 percent growth in Euro terms was realised and the Company's sales amounted to EUR 19.6 million primarily due to significant sales growth of AVONEX together with LINDYNETTE. In Slovakia sales totalled EUR 15.6 million and 16.9 percent sales growth in EUR terms was realised. The range of oral contraceptives, AFLAMIN and AVONEX were mainly responsible for the sales increase reported. In the Baltic States sales amounted to EUR 11.7 million during 2006 which was mainly due to good performance by the range of oral contraceptives and CAVINTON.

New products launched in Central and Eastern Europe during 2006

Country	Brand name	Active ingredients	Therapeutic area	Launch date
Poland	ZASTERID	finasteride	Benign prostate hypertrophy	Quarter 1, 2006
	ESCAPELLE	levonorgestrel	Gynaecology, emergency contraception	Quarter 2, 2006
	OMSAL	tamsulosine	Benign prostate hypertrophy	Quarter 4, 2006
	GYNAZOL*	butoconazole	Gynaecology, antifungal	Quarter 4, 2006
	FEMSEVEN COMBI*	estradiol + levonorgestrel	Gynaecology, hormone replacement therapy	Quarter 4, 2006
Czech Republic	DAMURGIN	tamsulosine	Benign prostate hypertrophy	Quarter 3, 2006
Baltic States	OMSAL	tamsulosine	Benign prostate hypertrophy	Quarter 3, 2006

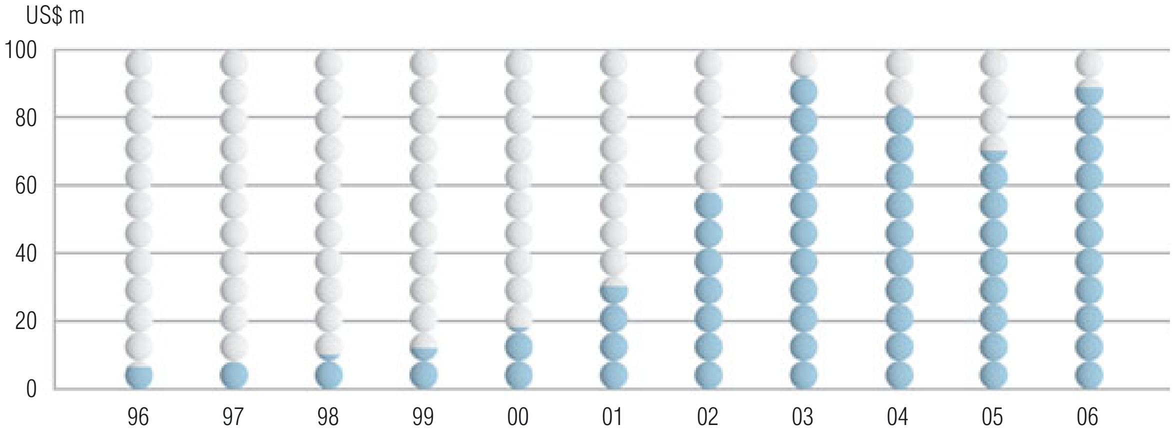
* Licenced-in products.



USA

Sales in the USA totalled US$ 88.4 million in 2006, a good 26.5 percent increase when compared to the performance of the previous year. Good growth originated primarily from increased shipments of certain steroid and generic APIs. After receiving over-the-counter status in late August 2006, performance of PLAN B also showed promising results.

Sales to the USA



Sales of gynaecological products represented 72 percent of total USA sales, and the proportion of those products launched since the mid 1990's represented 40 percent of turnover in the region. We are pleased to report that the Company received an ANDA for the urological finasterid filmcoated tablet in the USA. Following its patent expiry in December 2006, Richter started to supply the product via its partner, Barr Laboratories, Inc. in January 2007.

Sales of APIs totalled US$ 80.7 million during the reported year, 24.5 percent higher than in 2005. Supplies of both the steroid APIs for nine oral contraceptive products and the finished form PLAN B to the Company's strategic partner, Barr Laboratories, Inc. all recorded good year on year increases.

Significant growth in shipments of lisinopril contributed substantially to sales in 2006.

OTHER COUNTRIES

Sales in these countries amounted to US$ 80.0 million in 2006, an increase of US$ 10.2 million, or 14.6 percent when compared to 2005. The sales growth reported was due to higher demand for both APIs and dosage form products.

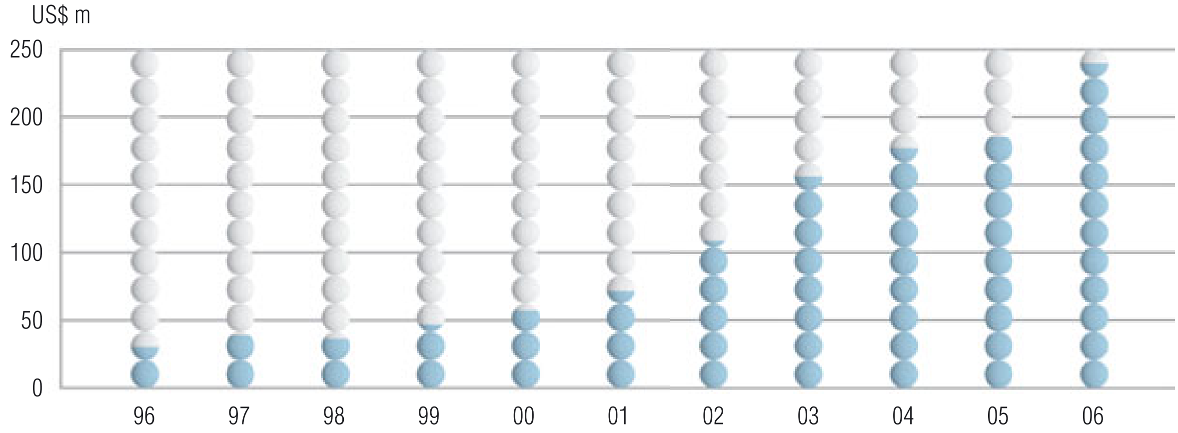
In Romania sales amounted to EUR 13.4 million (US$ 16.8 million), a good 18.1 percent (19.5 percent in US$ terms) increase over the prior year. Turnover of the range of oral contraceptives contributed mostly to the sales growth recorded. In Bulgaria sales totalled EUR 9.9 million (US$ 12.4 million) in 2006, an excellent 50.3 percent (52.1 percent in US$ terms) increase. However, these also included some pre-shipments of products. In Japan the Company achieved turnover of US$ 9.1 million representing a moderate 5.6 percent increase when compared with that reported in 2005. In Vietnam turnover was US$ 7.8 million during 2006 a 6.9 percent increase over the year before.

• FEMALE HEALTHCARE – AN AREA OF COMPETITIVE ADVANTAGE

One of Gedeon Richter's most important niche areas is its gynaecological business. The Company has unique and long-term experience in this field commencing when its founder, Mr. Gedeon Richter, himself 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, Gedeon Richter makes available one of the widest range of female healthcare drugs from any company worldwide while continuing to broaden its portfolio. In line with this strategic objective the proportion of gynaecological products was 30 percent of total Company revenues in 2006.

Sales of gynaecological products



During 2006 the Company expanded its women's healthcare product range with the launch of a new hormone replacement product, TULITA in Hungary. The Company's exports from Hungary were expanded by the introduction of several other products including the emergency pill ESCAPELLE, the third-generation oral contraceptive MILLIGEST and the hormone replacement FEMSEVEN on new international markets.

Usage of oral contraceptives within fertility age women has gradually increased in the Eastern European and CIS region, currently 3 percent in Russia, 7 percent in Romania, 11 percent in Poland, 15 percent in Slovakia, 22 percent in Hungary and 31 percent in the Czech Republic. These levels remain relatively low compared with 32 percent in Germany, 39 percent in France and 43 percent in the Netherlands.

The female healthcare business was one of the drivers of the growth in the EU countries in 2006, led by increased turnover of the third and second generation oral contraceptives and the two emergency pills together with some APIs which also increased significantly. In the CIS region the emergency contraceptive POSTINOR, several third generation oral contraceptives, and gynaecological antifungals contributed most substantially to the excellent sales growth recorded. The positive performance of some recently introduced products including MILLIGEST and LINDYNETTE slightly offset a decline in sales of other gynaecological products on the Hungarian market.

Main gynaecological products of Richter

Brand name	Active ingredients	Product type	Regions where launched [1]
MILLIGEST	gestodene + ethinyl estradiol	Third generation oral contraception	Hungary; EU
LINDYNETTE	gestodene + ethinyl estradiol	Third generation oral contraception	Hungary; CIS; EU; Other countries
REGULON	gestodene + ethinyl estradiol	Third generation oral contraception	Hungary; CIS; EU; Other countries
NOVYNETTE	gestodene + ethinyl estradiol	Third generation oral contraception	Hungary; CIS; EU; Other countries
RIGEVIDON	levonorgestrel + ethinyl estradiol	Second generation oral contraception	Hungary; CIS; EU; Other countries
TRI REGOL	levonorgestrel + ethinyl estradiol	Second generation oral contraception	Hungary; CIS; EU; Other countries
OVIDON	levonorgestrel + ethinyl estradiol	Second generation oral contraception	Hungary; CIS; Other countries
ANTEOVIN	levonorgestrel + ethinyl estradiol	Second generation oral contraception	Hungary; CIS; EU
ESCAPELLE (LEVONELLE ONE STEP in the EU)	levonorgestrel	Emergency contraception	Hungary; CIS; EU; Other countries
POSTINOR (RIGESOFT in Hungary, LEVONELLE-2 in the EU, PLAN B in the USA)	levonorgestrel	Emergency contraception	Hungary; CIS; EU; USA; Other countries
TULITA	estradiol + norethisterone	Hormone replacement therapy	Hungary
FEMSEVEN COMBI [2]	estradiol + levonorgestrel	Hormone replacement therapy (patch)	Hungary; EU
FEMSEVEN [2]	estradiol	Hormone replacement (patch)	Hungary; EU; Other countries
TRIAKLIM	estradiol + norethisterone	Hormone replacement therapy	Hungary; CIS; EU
ESTRIMAX	estradiol	Hormone replacement therapy	Hungary; CIS; EU
PAUSOGEST	estradiol + norethisterone	Hormone replacement therapy	Hungary; CIS; EU; Other countries
GYNAZOL [2]	butoconazole	Antifungal (cream)	Hungary; CIS; EU; Other countries
MYCOSYST GYNO	fluconazole	Antifungal	Hungary; CIS; EU; Other countries
Bulk products		Oral contraception	EU; USA; Other countries

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

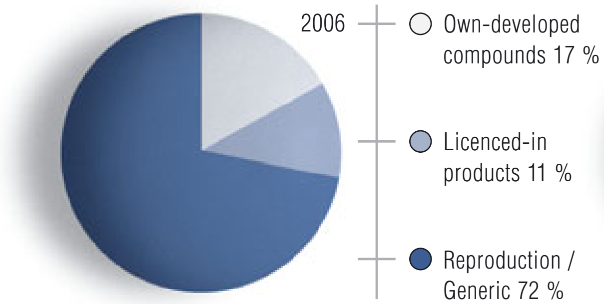
Richter's main strategic partner for API sales is the US based Barr Laboratories, Inc., which, according to IMS statistics, is the largest player by value on the hormonal contraceptive market in the USA. The Company supplies steroid APIs for nine of Barr's range of oral contraceptive products with most exhibiting good growth during 2006. Richter supplies also the emergency contraceptive PLAN B by finished form to Barr and this in 2006 also showed promising results. Although the US based company received from the FDA approval for the marketing of PLAN B over-the-counter without prescription for consumers 18 years of age and older, the product remains a prescription one for women 17 and younger and thus continues to be sold in retail pharmacy outlets from behind the counter. Steroid API shipments also continued during the year to Ortho-McNeil Pharmaceuticals, a Johnson and Johnson subsidiary company, which specialises in female healthcare.

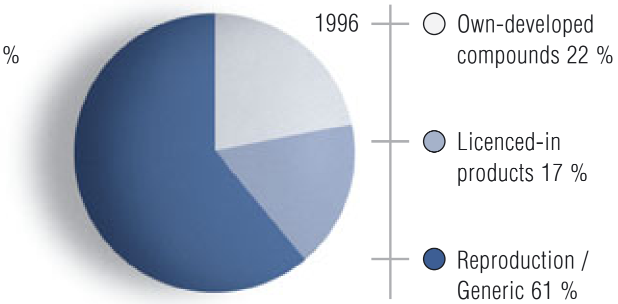
• PRODUCTS

Based on its sales analysis by product type, Gedeon Richter could be considered to be a generic manufacturer. Whilst the dominant part of its turnover originates from generic drugs this category also includes a special, more profitable area for the Company – steroids. The previous section on Female healthcare described our gynaecological drugs. This niche portfolio contributed substantially both to the increase of sales and higher margins achieved by the Company during the last decade.

Gedeon 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. In management's opinion it is important for the long term success of the company that it continues to research own developed compounds.

Products by type





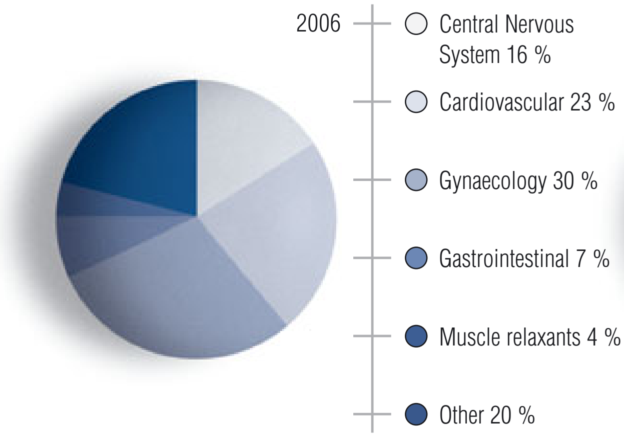
Main licencing-in partners of Richter

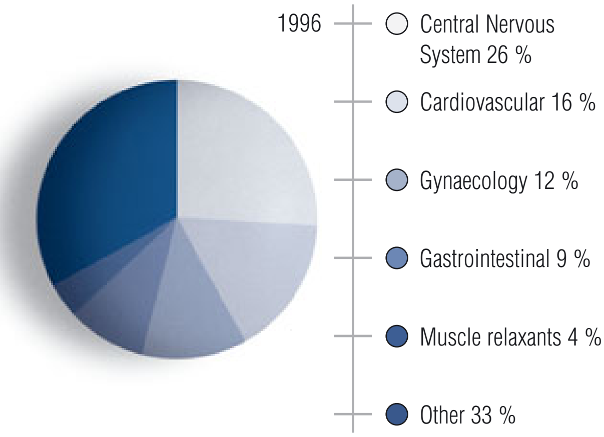
Company	Country	Product	Therapeutic area
Biogen Idec	USA	AVONEX	Multiple Sclerosis
KV Pharmaceutical	USA	GYNAZOL CLINDESSE	Gynaecology, Antifungal, Antibacterial
Almirall Prodesfarma	Spain	AFLAMIN	Antiinflammatory
Merck KGaA	Germany	FEMSEVEN FEMSEVEN COMBI FEMSEVEN EVO	Gynaecology, Hormone Replacement 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	Lipid Lowering Agents

Gedeon Richter is a mid sized pharma company with a regionally vertically integrated structure. This is based on a good market position with geographic and therapeutic niches, continuous enhancement of the supply of specialities partly via licencing agreements, branded generic products in addition to ongoing research in the central nervous disease area.

During the early to mid 1990's in a time of privatisation and establishment of new management, the Company's therapeutic portfolio became more focused. With this background it is understandable that most of the top 10 products in 2006 originate from the three largest therapeutic categories. Gynaecological, cardiovascular and central nervous system products together generated almost 70 percent of total Company sales in 2006.

Products by therapeutic group





In line with the Company's strategy the product portfolio has been successfully enhanced since the mid 1990's and this focus continues, withdrawing low volume and low margin products and introducing new products with improved profit potential. Progress by the Company in launching new products continued in 2006 and the proportion of products launched since the mid 1990's represented 48 percent of the Company's total sales. Increases in turnover of these products exceeded sales growth in every export region.

Sales of products launched since the mid 1990's, by region – 2006

	Share within region sales	Change in sales in US$ terms
Hungary	70 %	-16.0 %
CIS	38 %	51.0 %
EU	54 %	27.6 %
USA	40 %	29.1 %
Other countries	31 %	63.0 %
Total	**48 %**	**16.0 %**

Drugs for diseases of the Central Nervous System accounted for 16 percent of total sales, the main contributor being our original product, CAVINTON, a cerebral oxygenation enhancer. Excellent sales of this product were achieved on the Company's traditional markets in the CIS and Central and Eastern Europe. The antidepressant REXETIN, containing paroxetine showed also good growth in 2006.

Cardiovascular drugs continued to represent a high share of total sales, accounting for 23 percent of the Company's sales in 2006. The ACE-inhibitor LISOPRESS, containing lisinopril, contributed significantly to the sales growth reported, particularly due to substantial shipments to the Company's export markets (in certain cases under the trademark DIROTON), mainly to Russia within the framework of the DLO programme and to the USA in bulk form. Turnover of NORMODIPINE was slightly higher in HUF terms in 2006 than the prior year. A positive performance by the product on export markets was reduced by a decrease in Hungary where the drug remains the Company's leading product, despite the appearance of new generic amlodipine competitors. The performance of PANANGIN, containing asparaginates, marketed primarily in the CIS Republics and China also contributed to the good results. The diuretic VEROSPIRON containing spironolactone played a key role in our traditional export business regions and achieved significant sales growth. The Company's other ACE-inhibitor, EDNYT containing enalapril having reached maturity, showed a decline in 2006. Two other recently launched antihypertensive products LISONORM, a combination of lisinopril and amlodipine, and EDNYT HCT, containing enalapril and hydrochlorothiazide, boosted results.

Gastrointestinal products represented 7 percent of total sales, the main contributor being the H_2-blocker QUAMATEL, containing famotidine, with good sales growth in the CIS and EU export markets in finished form. Supplies of bulk famotidine to other export markets also showed good results.

Overall sales of the antifungal TERBISIL, containing terbinafine, decreased in 2006. Notwithstanding this the product remained within the Company's top 10 drugs list for the year. The Company's other antifungal product, MYCOSYST, containing fluconazole, reported higher sales levels in 2006 primarily due to the performance of its indication for female antifungal problems on our traditional markets.

Muscle relaxant drugs represented 4 percent of Company revenue in 2006. Good sales growth of MYDETON, containing tolperisone (MYDOCALM in export markets), an original product of the Company, were recorded primarily in Central Eastern Europe and in the CIS markets in the year.

Top 10 products

Brand name	Active ingredients	Therapeutic area	2006	2005	Change	
			HUF m	HUF m	HUF m	%
Oral contraceptives	hormones	Gynaecology	44,484	32,146	12,338	38.4
CAVINTON	vinpocetine	Central Nervous System	20,655	17,209	3,446	20.0
EDNYT / LISOPRESS	enalapril / lisinopril	Cardiovascular, antihypertensive	18,739	16,160	2,579	16.0
QUAMATEL	famotidine	Gastrointestinal, antiulcer	9,775	8,623	1,152	13.4
NORMODIPINE	amlodipine	Cardiovascular, antihypertensive	8,306	8,197	109	1.3
VEROSPIRON	spironolactone	Cardiovascular, diuretic	6,229	4,767	1,462	30.7
MYDETON / MYDOCALM	tolperisone	Muscle relaxant	5,367	4,355	1,012	23.2
PANANGIN	asparaginates	Cardiovascular	4,725	3,537	1,188	33.6
TERBISIL	terbinafine	Antifungal	4,317	4,494	-177	-3.9
MYCOSYST	fluconazole	Antifungal	3,997	3,701	296	8.0
Subtotal			**126,594**	**103,189**	**23,405**	**22.7**
Other			44,501	37,740	6,761	17.9
Total			**171,095**	**140,929**	**30,166**	**21.4**

• 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 800 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.

Original research activities are focused exclusively on compounds for the diseases of the central nervous system (CNS), primarily on chronic pain, schizophrenia and anxiety. The Company has a portfolio of 16 ongoing projects, of which two are in clinical phase II trials and two are in clinical phase I. The remainder are in the preclinical phase. At the end of 2006 the clinical portfolio was:

Name of compound	Clinical phase		Indication
RGH-188	Phase II	United States	Schizophrenia
	Phase I	Japan	
RGH-363	Phase I	United Kingdom	Schizophrenia
RGH-896 (Radiprodil)	Phase I	United States	Chronic pain
RGH-512 (Mydex)	Phase II	Hungary	Chronic pain

Original research activity is focused on innovation, scientific standards and speed. Significant investments have been made in recent years on renewal of biological laboratories and modernisation of infrastructure. A new experimental technological laboratory, where high quality APIs may be produced on kilogram scale suitable for clinical trials, was completed during 2006. By the end of the year, construction work on a chemical-analytical research centre that meets the highest quality and technological requirements, together with the related offices, was also finished. In early 2007 staff began to occupy this new building, which is the most up-to-date laboratory in the region. During 2006, the Company also had an extensive programme for the purchase of new instruments and devices especially in the area of capacity expansion for generic development.

The Company considers it essential to establish research partners to facilitate development and marketing of new molecules. In this regard partnerships were established in 2004 with the Japanese Mitsubishi Pharmaceuticals and in 2005 with the US-based Forest Laboratories. These have contributed substantially to the Company's research activity and in particular Richter's experience in preclinical trials has complemented well with Forest's experience in clinical trials.

Development work in several therapeutic areas continued in 2006. The Company's target is to launch 5-7 new generic and branded generic products per year on its traditional markets, i.e. Hungary, CEE and CIS. Process development activities and bioequivalence studies on several active pharmaceutical ingredients and finished products continued so as to create opportunities for further product introductions in the USA and EU markets.

Following its patent expiry in early March 2006 we launched tamsulosine, a urological product for the treatment of benign prostate hypertrophy, in retard capsule form through our partners in notably Germany, the UK and Denmark. This was the first instance in the history of the Richter Group where a product was launched onto EU markets, itself having been developed jointly by the Parent Company and Gedeon Richter Romania and manufactured by the Romanian subsidiary company.

The Company reported in 2006 a 13.1 percent increase in its spending on research and development which totalled HUF 13,764 million (US$ 65.5 million), representing 8.0 percent of total sales.

• PRODUCTION

The Company achieved good sales growth during 2006 and in line with this performance utilisation of capacity at manufacturing facilities was relatively favourable. Increased volumes were primarily due to two active ingredients (spironolactone and lisinopril-dihidrate) in the case of API manufacturing. In the finished form products facilities, volumes of injectables, creams and gels were significantly higher than a year previously.

A major project for the Company, the transfer of the production of both steroid active pharmaceutical ingredients and intermediates from Budapest to the Dorog site a related expansion of manufactuing capacity was completed in 2006. The necessary applications to the authorities for commencing permanent manufacturing in the facilities were submitted and at the end of the year most had been successfully approved.

During the year several items of equipment were upgraded both in Budapest and Dorog. These changes, the most important being a central centrifugal machine program, have improved the technological level of our manufacturing facilities and at the same time aim to ensure the fulfilment of requirements in the fields of GMP (Good Manufacturing Practice), environment, safety and employee health.

To enhance analysis relating to production, the SAP BW module was further improved. Software and linked hardware in the warehouse servicing finished form manufacturing facilities were also modernised.

CORPORATE SOCIAL RESPONSIBILTY

SAFETY, HEALTHCARE AND ENVIRONMENT

Gedeon Richter pays particular attention to social and environmental standards. The health and welfare of society are highly dependent on the quality of drugs produced by the pharmaceutical manufacturing sector and on innovation activity by pharmaceutical companies. Not only the patient but our whole society and national economy benefits from new products of higher quality which help people keep their health and condition. Environmental responsibility has equal importance. Utilising a wide range of potentially hazardous chemicals, and conducting activities which result in emission of materials with a safe but certain environmental load, Gedeon Richter considers environmental standards as key important issues.

We are subject to extensive regulation in the field of quality and environmental, health and safety matters in the countries where we manufacture and market our products. Our aim is to set and maintain high standards in respect of social responsibility worldwide ensuring that Gedeon Richter meets both national and international legal standards.

Environmental Management Systems at the Company meet all requirements of ISO 14001:2004 standards. During the year a new facility for sewage-water pretreatment in Budapest was fully completed including successful testing trials and reconstruction began of the old sewage-water pretreatment plant. An emergency flood reservoir was established for the entire sewage water system and intensification of the sewage-water treatment at Dorog was completed and testing commenced.

The Company continues to make progress on the co-ordination of the challenges for employment healthcare and safety. An employment healthcare and safety managing system at the Company has been established. The identification and analysis of risks through the Company's activities has been carried out within the framework of the program. Updating of the Company's safety regulations assisted in extending the evaluation of risks both by their methods and fields. Clear, easy to plan short and long term targets have been defined and procedures for managing the system have been adapted as daily practice. The overall internal audit activity significantly assists evaluation and continuous renewal of performance such as in the area of employment safety. This system at the Company, the first one for pharmaceutical companies in Hungary, was certified by an independent international auditor institute based on OHSAS 18001:1999 in Februrary 2006.

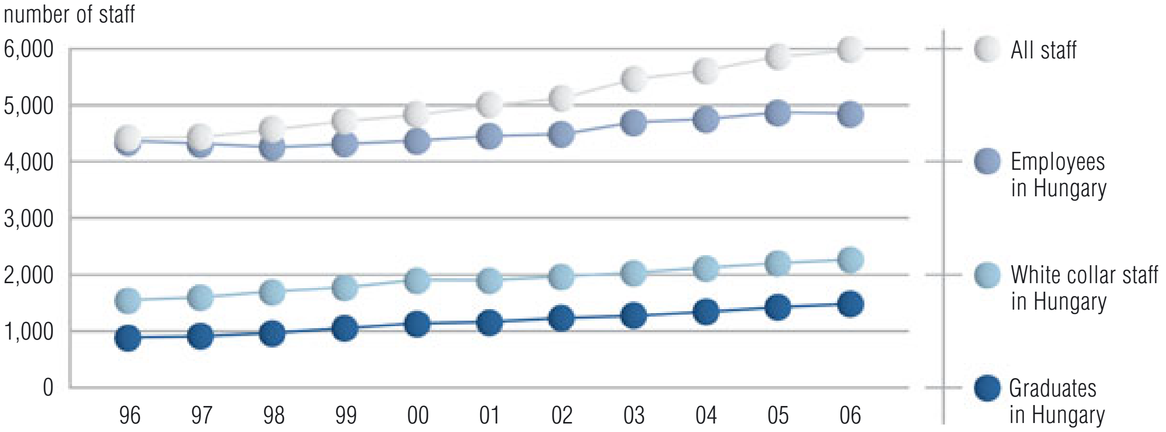
COMMUNITY INVOLVEMENT

Gedeon Richter has always been aware of the importance of community involvement. We recognise that as a leading pharmaceutical manufacturer and employer in Hungary it is our responsibility to maintain dialogue with the 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 environment in line with its target improving the health and quality of life. 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 cross over the board. 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.

• PEOPLE

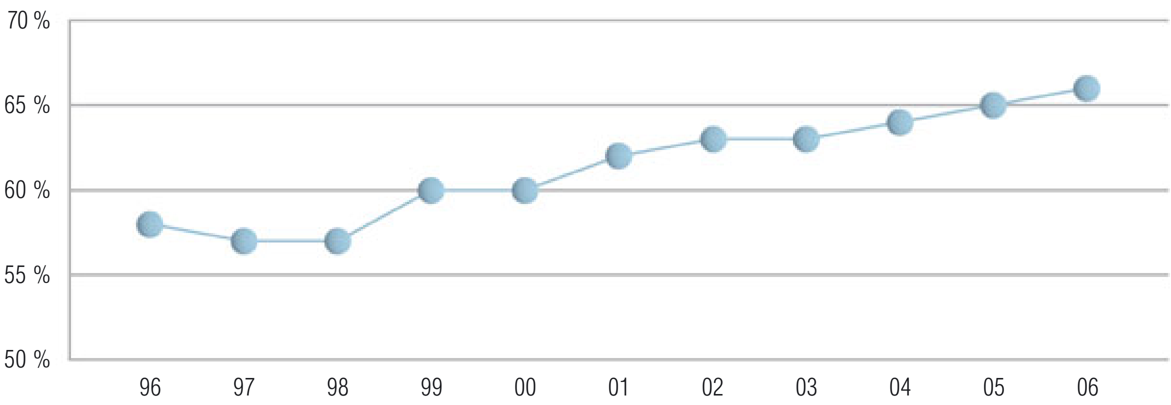
Gedeon Richter recognises that its success depends on the quality and performance of all its people and values the individuality, diverse talents and creative potential that every employee brings to the business. The Company's business priority is to attract, develop and retain the best people in all areas of the business.

Employees



The total headcount for the Company was 5,971 at the end of 2006, an increase of 104 during the year. In Hungary Gedeon Richter's headcount totalled 4,856, a decrease of 17 when compared with 2005.

Proportion of graduates



Note: Within the white collar staff in Hungary.

The proportion of skilled employees at the Company in 2006 remained similar to that in 2005. 1,491 graduate educated personnel were employed by Gedeon Richter in Hungary at the end of 2006, 57 more than at the end of 2005 and these represented 66 percent of white collar staff in Hungary and 31 percent of the total number of hungarian employees in the Company.

INDIVIDUAL DEVELOPMENT

Human resources need investment and managing as with other resources. To achieve this, we are committed to seeking and engaging the best employment candidates who reflect a diversity of backgrounds, experience and perspectives and who can contribute most to the success of the Company.

A ‘Welcome to Richter programme’ for young emloyees aims at giving an insight into the organisation of Richter, its activities, company culture and values.

The Company makes special efforts to assist scientific and professional education and postgraduate training. In order to encourage personal development the Company continued during 2006 to support employees to participate in university education, PhD courses. In 2006 Richter put in place a new form of education - e-learning. It aims to expand this to those areas and subjects which benefit from this new method of education.

DEVELOPING LEADERS

Management training programmes continued in 2006 and involved all managers of the Company both at middle and senior levels. Alternative programmes were available to staff to choose either to increase a capability or to take up new and a special skill. For those managers appointed within the last three years a special manager training programme was implemented in 2006 so as to identify and prepare the key talent necessary for growing the business.

All Gedeon Richter employees participate in an individual performance appraisal process which itself is improved from year to year based on experience. This helps employees set objectives for the year and helps them identify the training they need to develop their careers. It is pleasing to report that the number of managers who use this process in practice has been increasing.

In 2006 the Company initiated a new career development programme which focuses on the further development of high potential management talent. It is intended to annually refresh the list of participants in this élite programme.

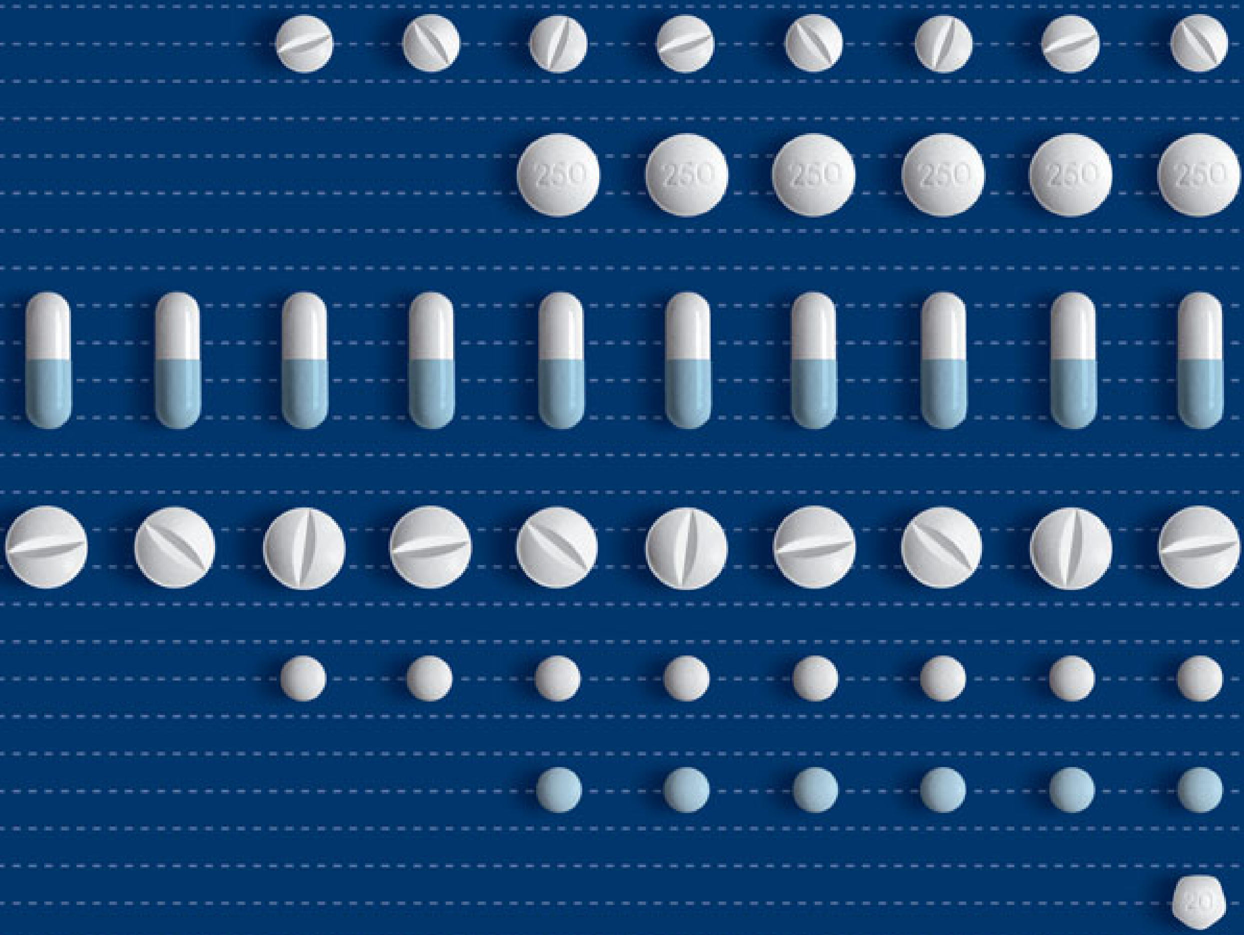
EMPLOYEE PROGRAMMES

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, both base and variable, share awards, career development planning, an application system for professional career levels and education all contribute to the retention of key talent, superior performance and the accomplishment of business targets.

In 2006 an employee health programme was initiated and financed by the company. All employees can participate in this wide-ranging medical programme which aims to prevent illness by early diagnosis.

‘Employee well-being programmes’ at the Company are planned to promote physical and psychological welfare and to help employees cope with demanding jobs and busy lives. These programmes include access to fitness facilities.

FINANCIAL REVIEW



• KEY FINANCIAL DATA

	2006	2005	Growth	2006	2005	Change
	HUF m	HUF m	%	US$ m	US$ m	%
Total sales	171,095	140,929	21.4	814.7	705.7	15.4
Gross profit	104,912	86,435	21.4	499.5	432.8	15.4
Gross margin %	**61.3**	**61.3**		**61.3**	**61.3**	
Operating profit	47,187	37,364	26.3	224.6	187.1	20.0
Operating margin %	**27.6**	**26.5**		**27.6**	**26.5**	
Profit before taxation	49,470	43,623	13.4	235.5	218.4	7.8
Net profit	49,606	43,623	13.7	236.1	218.4	8.1
Net margin %	**29.0**	**31.0**		**29.0**	**31.0**	
EPS (HUF, US$)*	2,662	2,341	13.7	12.67	11.72	8.1
Total assets and total shareholders' equity and liabilities	309,028	265,220	16.5	1,617.1	1,239.9	30.4
Shareholders' equity	285,914	246,239	16.1	1,496.1	1,151.2	30.0
Capital expenditure	26,320	25,799	2.0	125.3	129.2	-3.0
Number of employees at year-end	5,971	5,867	1.8			

* Note: EPS calculations based on the total number of shares issued.

• GROSS PROFIT

Gross profit totalled HUF 104,912 million (US$ 499.5 million) in 2006 compared with HUF 86,435 million (US$ 432.8 million) in 2005.

Gross margins stood at 61.3 percent the same level as achieved in 2005. Margins benefited from sales growth and improved product mix but these were offset by price erosions experienced as a consequence of increasing generic competition.

• OPERATING PROFIT

In 2006 operating profit at HUF 47,187 million increased by HUF 9.823 million or 26.3 percent from the HUF 37,364 million reported for 2005. In US$ terms it totalled US$ 224.6 million, an increase of US$ 37.5 million or 20.0 percent compared to the US$ 187.1 million achieved in 2005.

Operating margins for the reported period were 27.6 percent compared with 26.5 percent for 2005. Higher sales and marketing costs were more than offset by the benefits resulting from excellent sales increases achieved in the export markets and a moderate strengthening of the US$ and EUR against the HUF. Operating margins were positively impacted by the growth of sales income that outperformed the increase of other operating costs.

FINANCIAL ITEMS

Net financial income

	2006 HUF m	2005 HUF m	Change HUF m	2006 US$ m	2005 US$ m	Change US$ m
Unrealised financial items	**-2,770**	**960**	**-3,730**	**-13.2**	**4.7**	**-17.9**
Reassessment of currency related trade receivables and trade payables	-2,331	574	-2,905	-11.1	2.9	-14.0
Reassessment of currency loans	-1,138	675	-1,813	-5.4	3.4	-8.8
Reassessment of other currency related items	-1,382	255	-1,637	-6.6	1.2	-7.8
Unrealised forward exchange contracts	2,078	-209	2,287	9.9	-1.1	11.0
Impairment of investments	3	-335	338	0.0	-1.7	1.7
Realised financial items	**5,053**	**5,299**	**-246**	**24.1**	**26.6**	**-2.5**
Result of realised forward exchange contracts	2,200	-962	3,162	10.5	-4.8	15.3
Exchange gains / losses realised on trade receivables and trade payables	-891	2,191	-3,082	-4.2	11.0	-15.2
Exchange gains on conversion	46	569	-523	0.2	2.8	-2.6
Dividends	1,114	674	440	5.3	3.4	1.9
Net interest income	2,683	2,711	-28	12.8	13.6	-0.8
Other financial income	-99	116	-215	-0.5	0.6	-1.1
Net financial income	**2,283**	**6,259**	**-3,976**	**10.9**	**31.3**	**-20.4**

Net financial income in 2006 totalled HUF 2,283 million (US$ 10.9 million), reflecting a decrease of HUF 3,976 million (US$ 20.4 million) when compared to HUF 6,259 million (US$ 31.3 million) reported in 2005.

Net interest income amounted to HUF 2,683 million (US$ 12.8 million) in 2006, almost the same amount as the HUF 2,711 million (US$ 13.6 million).

Unrealised financial income was heavily influenced by the 191.09 US$ / HUF and 251.80 EUR / HUF exchange rates in effect on 31 December 2006 which impacted the reassessment of currency related balance sheet items. These reassessments together resulted in a decrease of almost HUF 5 billion in the net financial income for 2006 while the same items increased the net financial income by HUF 1.5 billion in 2005.

Exchange losses realised on trade receivables and trade payables as well as reassessment losses registered are due to the fluctuation of exchange rates, which are shown in the following table:

Exchange rate movements

	31 December 2005	31 March 2006	30 June 2006	30 September 2006	31 December 2006
EUR / HUF	253.00	265.45	282.30	273.10	251.80
US$ / HUF	213.85	219.30	222.18	215.56	191.09

The Company concluded mostly US$ / EUR forward and option contracts during 2006. These resulted in financial gains at their termination following the weakening of the US$ against the EUR mainly in the second half of the year. In order to minimise risks arising from a potential weakening of the US$ exchange rate option contracts denominated mostly in US$ / EUR have been concluded for the year 2007.

• INCOME TAX

From 1 January 2004, as a result of its capital expenditure programme and the increase in the number of employees, the Company has already benefited and expects to continue to benefit from a 100 percent corporate tax holiday for the next few years. However, in accordance with a new act for a ‘solidarity tax’ which targets the correction of the budget balance which was passed by Parliament and promulgated in July 2006, the Company is also obliged to pay a 4 percent extraordinary tax on its profit before taxation. The regulation was changed during the fourth quarter 2006 with direct costs of R&D being deducted from the calculation base so as to promote innovation.

The tax legislation provided two alternative options for use as methods of calculation for the extraordinary tax. The Company decided to compute its tax liability based on the difference between the balance sheet compiled in accordance with the Hungarian Accounting Rules at the end of the 2006 and the interim balance sheet as at 31 August 2006. The alternative was to calculate the tax utilising a time proportional formula.

As a result of utilising the selected alternative the Company did not report any extraordinary tax for the September-December 2006 period due to the fact that the interim balance sheet as at 31 August did not include costs for the employee share bonuses approved later during 2006 and in addition the significant fluctuations in exchange rates had the effect of improving the earnings reported in the interim balance sheet but negatively impacted the earnings in the year end balance sheet. The retrospective diminishing effect of the aforementioned R&D-linked tax benefit also had an impact.

In 2006 the Company reported a HUF 136 million deferred tax asset.

• BALANCE SHEET

Total assets and total shareholders' equity and liabilities amounted to HUF 309,028 million on 31 December 2006, an increase of HUF 43,807 million over the totals reported at 31 December 2005.

Non-current assets amounted to HUF 164,812 million representing an increase of 15.6 percent, primarily due to increased levels of Property, plant and equipment when compared with 31 December 2005.

Current assets at HUF 144,216 million at the end of December 2006 were 17.6 percent higher than the level reported at 31 December 2005, due to an increase in Cash and Cash equivalents and – as a consequence of the high sales levels recorded and to the longer commercial credits conceded through the DLO programme – in Trade Receivables.

Shareholders' equity amounted to HUF 285,914 million which represented a 16.1 percent increase compared to the level at 31 December 2005, primarily due to profits realised during the reported period.

Current liabilities at HUF 23,114 million on 31 December 2006 were 21.8 percent higher than at 31 December 2005, primarily due to increased Other payables.

• CASH FLOW

	2006 HUF m	2005 HUF m
Net cash flow		
From operating activities	54,696	34,491
From investing activities	-18,079	-17,543
From financing activities	-19,988	-11,108
Total	**16,629**	**5,840**

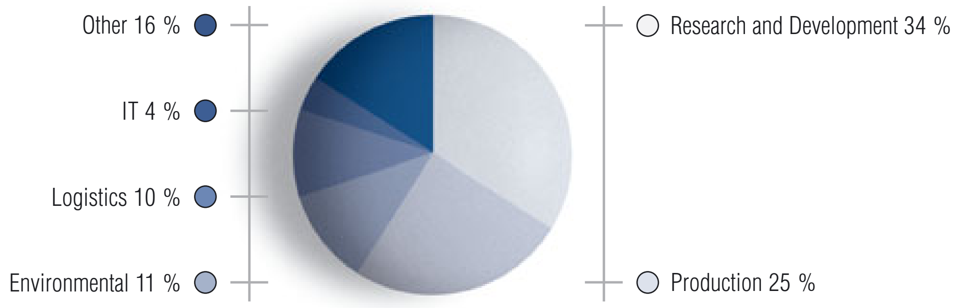
As indicated by the cash flow statement, during 2006 the Company generated net cash from operating activities of HUF 54,696 million (US$ 260.5 million). Higher levels of cash from operating activities increased the net cash flow during 2006. Significant amounts have been directed towards capital expenditure and payment of dividends. Overall, cash increased by HUF 16,629 million in 2006.

• CAPITAL EXPENDITURE

Capital expenditure in 2006 totalled HUF 26,320 million (US$ 125.3 million), compared to HUF 25,799 million (US$ 129.2 million) in 2005. The transfer of production of steroid active ingredients from Budapest to the Dorog site was technically completed in 2005 and during 2006 the Company increased its steroid production capacity. Following the installation of manufacturing facilities of steroid based APIs at Dorog manufacturing activities are being transferred from Budapest. By the end of the year two steroid manufacturing plants including state-of-the-art process control had been installed together with all necessary auxiliary units including warehouses, laboratories and solvent regeneration facilities.

During 2006 the necessary technical improvements continued in accordance with GMP, environmental, safety and employee care standards. As in previous years investments were made in the areas of modernisation of instruments in the research and quality control departments while in the area of finished product manufacturing projects were initiated including the installation of new equipment at the injectables plant and the replacement of several devices at the tabletting facilities. Construction work on a new chemical research centre and related office building which started in 2005 was almost completed during 2006 with the deployment of personnel commencing in February 2007.

Capital expenditure analysed by function 2006



Following an agreement in 2004 which established a joint venture in India with Themis Ltd. for the production of active pharmaceutical ingredients and intermediates, construction work was completed and the new plant started regular operations in the second half of 2006. First intermediate shipments were made in the fourth quarter of 2006. Capital expenditure incurred by Gedeon Richter Plc. is included in the accounts of the Parent Company while capital expenditure incurred by member companies of the Richter Group is included in the consolidated accounts.

• TREASURY POLICY

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

Considering that almost 80 percent of the Company's turnover is realised in various currencies, almost half of which in US dollars, while its costs are incurred in Hungarian forints, the Company's operating profit is exposed to currency fluctuations. To manage this exposure, the Board of Directors has approved a strategy of foreign exchange rate exposure risk reduction, in which forward and option contracts used for hedging purposes are to be employed.

In accordance with a policy approved by the Board of Directors in January 2000, the Company has concluded forward exchange contracts to manage its exposure to fluctuations in exchange rates.

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

• PREFERENCE SHARES

Preference shareholders are entitled to initiate conversion of their shares into ordinary shares. It is the Board of Director's responsibility to determine the terms of the conversion which must be approved by the Company's Annual General Meeting. The AGM on 26 April 2006 approved the conversion of 892 preference shares into registered ordinary shares.

Dematerialisation of the converted shares and listing at the BSE of the new shares took place with effect from 2 August 2006 following registration by the Registry Court. A value difference of HUF 2,000 per share, totalling HUF 2 million was deposited with the Company and has been accounted as a share premium.

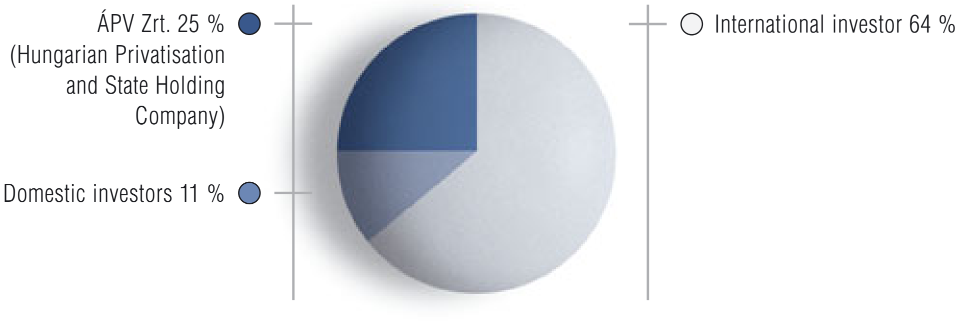
Shares in issue

	31 December 2006			31 December 2005		
Shares in issue	**Number**	**Nominal value (HUF '000)**	**%**	**Number**	**Nominal value (HUF '000)**	**%**
Ordinary shares	18,634,027	18,634,027	99.9	18,633,135	18,633,135	99.9
Preference shares	3,459	3,459	0.1	4,351	4,351	0.1
Total shares	**18,637,486**	**18,637,486**	**100.0**	**18,637,486**	**18,637,486**	**100.0**

• REGISTERED SHAREHOLDERS

There were no significant changes relating to the shareholder structure of the Company during 2006. The share held by the Hungarian Privatisation and State Holding Company (ÁPV Zrt.) remained at 25 percent, the same level as at 31 December 2005. The proportion held by domestic investors increased by 3 percentage points to 11 percent while at the same time the share held by foreign investors decreased to 64 percent.

Ownership structure as of 31 December 2006



Detailed ownership structure as of 31 December 2006

	Ordinary shares	Voting capital	Preference shares	Total shares	Registered capital
	Number	%	Number	Number	%
Domestic investors					
ÁPV Zrt.	4,667,713	25.08	-	4,667,713	25.04
Local Governments	60,501	0.33	-	60,501	0.32
Institutional investors	1,429,551	7.68	-	1,429,551	7.67
Private investors	458,246	2.46	3,449	461,695	2.48
Total	**6,616,011**	**35.55**	**3,449**	**6,619,460**	**35.51**
Foreign investors					
Institutional investors	11,991,883	64.43	-	11,991,883	64.35
The Bank of New York (1)	2,533,481	13.61	-	2,533,481	13.59
Private investors	3,343	0.02	10	3,353	0.02
Total	**11,995,226**	**64.45**	**10**	**11,995,236**	**64.37**
Treasury shares (2)	**22,790**	**0.00**	**-**	**22,790**	**0.12**
Registered capital	**18,634,027**	**100.00**	**3,459**	**18,637,486**	**100.00**

Notes: Information is based on data contained in the stock-register and is adjusted by identifiying depositaries reported by the Central Clearing House and Depository Ltd. (Keler Ltd.) and custodians.

(1) Foreign shareholders with more than 5 % ownership are global custodians or nominees. Although Capital Research and Management Company announced its ownership in Richter (5.24 %), they are not confirmed in identification the depositaries, therefore it could not be taken into account at ownership structure.

(2) Treasury shares of the Parent Company comprising the shares of the Parent Company held at subsidiaries owned 100 % by Richter.

• TREASURY SHARES

Shares held by the Company in Treasury increased during 2006 to 12,240 ordinary shares. The Company purchased 80,000 treasury shares at the Budapest Stock Exchange during 2006 in addition to a further 35,755 treasury shares purchased on the OTC market. Based on a decision of the Board of Directors of Gedeon Richter Ltd., 71,122 shares held by the Company in Treasury were granted during the year to employees as bonuses.

Shares held by the Company in Treasury

	31 December 2006	31 December 2005
Number	12,240	2,505
Nominal value (HUF '000)	12,240	2,505
Book value (HUF '000)	492,663	99,896

Due to a repurchase obligation stipulated in the programme approved by the Ministry of Finance related to employee share bonuses, the Company repurchased 2,220 shares from employees who resigned from the Company during 2006.

In line with a programme approved by the Ministry of Finance related to employee share bonuses, on 18 December 2006 the Company granted 37,118 shares for 4,666 of its employees for 2006. These shares will be deposited at the employees' individual securities accounts at HVB Bank Hungary until 2 January 2009.

The Board of Directors of the Company decided on 4 December 2006 that the bonus share programme acknowledged by the Ministry of Finance for the years 2006-2008 will be implemented in 2007 under the previously agreed terms and conditions. The estimated costs (HUF 1,753 million) of the programme have been included in the accounts in this report in accordance with IFRS 2 accounting standard.

On 2 January 2007, the Company was able to remove all restrictions on 65,560 Gedeon Richter ordinary shares granted to its employees on 20 December 2004 during the second year of the first three-year programme approved by the Ministry of Finance.

• SHARE OWNERSHIP BY COMPANY BOARD MEMBERS

Membership of the Company's Boards is shown on pages 10-15 of the Annual Report.

Ordinary shareholdings by the members of Company's Boards

	31 December 2006	31 December 2005
	Number of ordinary shares	Number of ordinary shares
Board of Directors	7,081	7,279
Supervisory Committee	1,239	1,486
Executive Board	3,670	2,813
Total	**11,990**	**11,578**

• OTHER INFORMATION

The following table shows the extraordinary press releases published by Gedeon Richter Plc. during 2006. Detailed information can be found on the Company’s homepage (www.richter.hu), on the website of the Budapest Stock Exchange (www.bet.hu) and in the Hungarian language newspaper ‘Magyar Tőkepiac’.

Extraordinary press releases

Date	Subject matter, brief summary
4 January	New commercial director appointed
18 January	Final court ruling on nullification of Merck's patent for alendronate with retrospective effect
31 January	Option for the conversion of preference shares into ordinary shares
15 February	Agreement between KV Pharmaceutical and Richter
28 April	Resolutions of the 2006 Annual General Meeting
11 May	Joint development agreement between Mitsubishi Pharma and Richter
18 May	Statement on corporate governance
19 May	Procedures of dividend payment
23 May	Supply agreement between Repros and Richter
14 June	Expected effects of government measures on the company's results in 2006
24 July	Change of the Company's name
25 July	Co-operation agreement between ProStrakan and Richter
3 August	Conversion of preference shares into ordinary shares
12 September	The Capital Group Companies, Inc. acquired Richter shares
11 October	Expected effects of government measures on the company's results in 2007
11 October	Effects of changes in the DLO list on the Company
22 November	Seeking for Presidential support to challenge the new drug regulation Act at the Constitutional Court
19 December	Acquisition in Romania

• RECENT LITIGATION

Merck & Co., Inc., as plaintiff, in its claim filed against the Company, as defendant, before the Metropolitan Court on 7 April 2005, requested the establishment of the infringement of its patent registered under no. 211.908 protecting the production of alendronate by the production and distribution of the Company's product Sedron. On 9 June 2005, as an interim measure, the court prohibited the Company from manufacturing and distributing Sedron products and simultaneously ordered the plaintiff to deposit HUF 3 billion as security.

In the proceedings initiated for the nullification of Merck's patent, on 17 January 2006, the Metropolitan Court of Appeals announced its final and binding ruling and nullified the patent with retroactive effect.Merck's request for judicial supervision was rejected by the Supreme Court on 2 November 2006.

Considering the final and binding retroactive nullification of Merck's patent, on 30 January 2006, the Metropolitan Court set aside the interim measure, and dismissed the plaintiff's claim with respect to transferring back the security deposit.

In order to enforce its claim for damages arising from the interim injunction, the Company submitted a counterclaim on 1 February 2006 by requesting the Court to order Merck to pay HUF 3,503.5 billion, the interest with respect thereto as of 1 December 2005, and the costs of the proceedings. On 12 February 2007, on the basis of the expert opinion, the Company refined the amount of its claim to HUF 2,794.7 billion, and the interest with respect thereto. Merck disputed both the legal basis and the amount of the counterclaim. The Metropolitan Court in its partial judgement on 19 February 19, 2007 dismissed Merck's claim for establishing the patent infringement, and in its interlocutory judgement established that Merck is liable for the damages caused by the interim measure. The partial judgement and the interlocutory judgement are not yet final and binding.

UNCONSOLIDATED FINANCIAL STATEMENTS

UNCONSOLIDATED INCOME STATEMENT*

For the years ended 31 December	2006	2005
	HUF m	HUF m
Sales	**170,299**	**140,010**
Royalty and other similar income	796	919
Total sales	**171,095**	**140,929**
Cost of sales	(66,183)	(54,494)
Gross profit	**104,912**	**86,435**
Sales and marketing expenses	(31,480)	(25,070)
Administration and general expenses	(10,494)	(9,300)
Research and development expenses	(13,764)	(12,167)
Other income and other expenses	(1,987)	(2,534)
Operating profit	**47,187**	**37,364**
Net financial income	2,283	6,259
Profit before taxation	**49,470**	**43,623**
Income tax	136	-
Net profit for the year	**49,606**	**43,623**
Earnings per share (HUF)		
Basic	2,664	2,345
Diluted	2,662	2,341

* Audited Unconsolidated Financial Statements of Richter for year 2006 prepared in accordance with the International Financial Reporting Standards (IFRS) are available at the Shareholders' Relations Department of the Company (H-1103 Budapest, Gyömrői út 8.).

• UNCONSOLIDATED BALANCE SHEET

As at 31 December	2006	2005
	HUF m	HUF m
ASSETS		
Non-current assets	**164,812**	**142,539**
Property, plant and equipment	110,315	101,220
Intangible assets	3,005	2,177
Investments	39,831	35,012
Deferred tax assets	633	498
Loans receivable	11,028	3,632
Current assets	**144,216**	**122,682**
Inventories	43,379	40,462
Trade receivables	37,679	29,979
Other receivables	11,429	7,682
Current tax asset	151	1
Investments in securities	7,363	16,972
Cash and cash equivalents	44,215	27,586
Total Assets	**309,028**	**265,221**
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity	**285,914**	**246,239**
Share capital	18,638	18,638
Share premium	15,209	15,207
Capital reserves	3,475	3,475
Treasury shares	(493)	(100)
Fair value reserve	43	164
IFRS 2 reserve	1,753	-
Retained earnings	247,289	208,855
Non-current liabilities	**-**	**-**
Borrowings	-	-
Current liabilities	**23,114**	**18,982**
Borrowings	-	4
Trade payables	14,413	12,132
Other payables	8,630	6,675
Provision	71	171
Total shareholders' equity and liabilities	**309,028**	**265,221**

UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Capital reserves	Treasury shares	Fair value reserve	IFRS 2 reserve	Retained earnings	Total
	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m
Balance at 31 December 2004	**18,638**	**15,202**	**3,475**	**(689)**	**136**	**-**	**174,532**	**211,294**
Ordinary share dividend for 2004	-	-	-	-	-	-	(9,299)	(9,299)
Net profit for the year	-	-	-	-	-	-	43,623	43,623
Fair value adjustments	-	-	-	-	28	-	-	28
Dividend – preference shares	-	-	-	-	-	-	(1)	(1)
Conversion of preference shares	-	5	-	-	-	-	-	5
Treasury shares issued and purchased	-	-	-	589	-	-	-	589
Balance at 31 December 2005	**18,638**	**15,207**	**3,475**	**(100)**	**164**	**-**	**208,855**	**246,239**
Ordinary share dividend for 2005	-	-	-	-	-	-	(11,171)	(11,171)
Net profit for the year	-	-	-	-	-	-	49,606	49,606
Fair value adjustments	-	-	-	-	(121)	-	-	(121)
IFRS 2 reserves	-	-	-	-	-	1,753	-	1,753
Dividend – preference shares	-	-	-	-	-	-	(1)	(1)
Conversion of preference shares	-	2	-	-	-	-	-	2
Treasury shares issued and purchased	-	-	-	(393)	-	-	-	(393)
Balance at 31 December 2006	**18,638**	**15,209**	**3,475**	**(493)**	**43**	**1,753**	**247,289**	**285,914**

UNCONSOLIDATED CASH FLOW STATEMENT

For the years ended 31 December	2006	2005
	HUF m	HUF m
Operating activities		
Net profit from operating activities	47,187	37,364
Depreciation and amortisation	16,051	14,119
IFRS 2 reserve	1,753	-
Changes amount of receivables	(11,447)	(12,209)
Changes amount of inventories	(2,917)	(7,555)
Changes amount of payables and other adjustments	4,077	2,663
Tax paid	(151)	(1)
Changes amount of disposal of property, plant and equipment	143	110
Net cash flow from operating activities	**54,696**	**34,491**
Investing activities		
Purchase of property, plant and equipment and intangible assets	(26,320)	(25,798)
Proceeds from disposal of property, plant and equipment	204	416
Changes amount of non-current investments	(4,816)	(558)
Changes amount of securities	9,488	2,864
Changes amount of loans receivable	(7,396)	(3,121)
Interest and similar income	9,647	7,980
Dividends received	1,114	674
Net cash flow from investing activities	**(18,079)**	**(17,543)**
Financing activities		
Proceeds from conversion of preference shares	2	5
Proceeds from disposal of Treasury shares	(393)	589
Other financial expenses	(8,478)	(2,395)
Dividends paid	(11,115)	(9,300)
Net repayment receipt of long-term borrowings	(4)	(7)
Net cash flow from financing activities	**(19,988)**	**(11,108)**
Increase in cash and cash equivalents	**16,629**	**5,840**
Movement in cash and cash equivalents at beginning of year	**27,586**	**21,746**
Increase	18,199	5,403
Effects of exchange rates	(1,570)	437
Movement in cash and cash equivalents at end of year	**44,215**	**27,586**

INCOME STATEMENT (HUF M)	1996	1997	1998	1999
For the years ended 31 December				
Total sales	**36,764**	**52,016**	**55,063**	**59,554**
Cost of sales	(14,250)	(24,060)	(24,630)	(27,102)
Gross profit	**22,514**	**27,956**	**30,433**	**32,452**
Operating expenses and other income and expenses	(13,483)	(13,373)	(17,159)	(17,468)
Operating profit	**9,031**	**14,583**	**13,274**	**14,984**
Royalty and other similar income	720	536	282	344
Net financial income	1,263	3,384	3,731	2,488
Net other income / exceptional items	257	152	-	-
Profit before taxation	**11,271**	**18,655**	**17,287**	**17,816**
Income tax	-	-	300	(1,180)
Net profit for the year	**11,271**	**18,655**	**17,587**	**16,636**
SHARE STATISTICS (HUF)				
Earnings per share	624	1,017	944	893
Dividends per ordinary share	160	270	230	240

INCOME STATEMENT (US$ M)	1996	1997	1998	1999
For the years ended 31 December				
Total sales	**246.7**	**278.6**	**258.4**	**250.4**
Cost of sales	(95.6)	(128.9)	(115.6)	(114.0)
Gross profit	**151.1**	**149.7**	**142.8**	**136.4**
Operating expenses and other income and expenses	(90.5)	(71.6)	(80.5)	(73.4)
Operating profit	**60.6**	**78.1**	**62.3**	**63.0**
Royalty and other similar income	4.8	2.9	1.3	1.4
Net financial income	8.5	18.1	17.5	10.5
Net other income / exceptional items	1.7	0.8	-	-
Profit before taxation	**75.6**	**99.9**	**81.1**	**74.9**
Income tax	-	-	1.4	(4.9)
Net profit for the year	**75.6**	**99.9**	**82.5**	**70.0**
SHARE STATISTICS (US$)				
Earnings per share	4.19	5.45	4.43	3.76
Dividends per ordinary share	1.07	1.45	1.08	1.01

Notes:
- Figures for 1997 and 2002 have been restated.
- EPS calculations based on the total number of shares issued, diluted excluding exceptional and non-recurring items.
- 2006 dividends per ordinary share of HUF 690 are as recommended by the Board of Directors.
- This Financial Record is not part of the audited Unconsolidated Financial Statements prepared in accordance with IFRS.

2000	2001	2002	2003	2004	2005	2006
74,107	**88,731**	**99,308**	**116,659**	**121,593**	**140,929**	**171,095**
(29,598)	(35,606)	(40,076)	(42,343)	(47,813)	(54,494)	(66,183)
44,509	**53,125**	**59,232**	**74,316**	**73,780**	**86,435**	**104,912**
(23,310)	(30,914)	(34,089)	(39,697)	(38,772)	(49,071)	(57,725)
21,199	**22,211**	**25,143**	**34,619**	**35,008**	**37,364**	**47,187**
549	201	-	-	-	-	-
(1,106)	4,008	4,567	1,713	2,459	6,259	2,283
-	-	-	-	-	-	-
20,642	**26,420**	**29,710**	**36,332**	**37,467**	**43,623**	**49,470**
(1,528)	(1,628)	(1,530)	(2,654)	8	-	136
19,114	**24,792**	**28,180**	**33,678**	**37,475**	**43,623**	**49,606**
1,026	1,330	1,512	1,807	2,011	2,341	2,662
250	310	330	440	500	600	690

2000	2001	2002	2003	2004	2005	2006
261.9	**309.6**	**389.1**	**520.8**	**599.0**	**705.7**	**814.7**
(104.6)	(124.2)	(157.0)	(189.0)	(235.5)	(272.9)	(315.2)
157.3	**185.4**	**232.1**	**331.8**	**363.5**	**432.8**	**499.5**
(82.4)	(107.9)	(133.6)	(177.3)	(191.1)	(245.7)	(274.9)
74.9	**77.5**	**98.5**	**154.5**	**172.4**	**187.1**	**224.6**
1.9	0.7	-	-	-	-	-
(3.9)	14.0	17.9	7.7	12.2	31.3	10.9
-	-	-	-	-	-	-
72.9	**92.2**	**116.4**	**162.2**	**184.6**	**218.4**	**235.5**
(5.4)	(5.7)	(6.0)	(11.9)	-	-	0.6
67.5	**86.5**	**110.4**	**150.3**	**184.6**	**218.4**	**236.1**
3.62	4.64	5.92	8.07	9.91	11.72	12.67
0.88	1.08	1.29	1.96	2.46	3.00	3.29

BALANCE SHEET (HUF M)	1996	1997	1998	1999
As at 31 December				
Non-current assets	23,116	30,773	45,981	58,444
Net other assets and liabilities	16,128	33,354	36,696	32,053
Non-current liabilities	(194)	(24)	(578)	(6)
Total net assets	**39,050**	**64,103**	**82,099**	**90,491**
Share capital	17,638	18,638	18,638	18,638
Reserves	21,412	48,608	66,223	74,371
Treasury shares	N/A	(3,143)	(2,762)	(2,518)
Shareholders' equity	**39,050**	**64,103**	**82,099**	**90,491**
Total assets and shareholders' equity and liabilities	**46,116**	**76,589**	**88,199**	**105,215**
CAPITAL EXPENDITURE	**6,659**	**9,469**	**14,736**	**15,608**

BALANCE SHEET (US$ M)	1996	1997	1998	1999
As at 31 December				
Non-current assets	140.0	151.2	211.8	231.5
Net other assets and liabilities	97.7	163.9	169.0	126.9
Non-current liabilities	(1.2)	(0.1)	(2.6)	-
Total net assets	**236.5**	**315.0**	**378.2**	**358.4**
Share capital	106.8	91.6	85.9	73.8
Reserves	129.7	238.8	305.0	294.6
Treasury shares	N/A	(15.4)	(12.7)	(10.0)
Shareholders' equity	**236.5**	**315.0**	**378.2**	**358.4**
Total assets and shareholders' equity and liabilities	**279.3**	**376.4**	**406.3**	**416.7**
CAPITAL EXPENDITURE	**44.7**	**50.7**	**69.2**	**65.6**

Notes:
- Figures for 1997 have been restated.
- Prior to 1997, Treasury shares were reported as Net other assets and liabilities.
- This Financial Record is not part of the audited Unconsolidated Financial Statements prepared in accordance with IFRS.

Throughout this Annual Report, certain Hungarian forint (HUF) amounts have been converted into US$ 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 (US$ / HUF)	1996	1997	1998	1999
Average	149.0	186.7	213.1	237.8
End of year	165.1	203.5	217.1	252.5

NUMBER OF EMPLOYEES	1996	1997	1998	1999
End of year	4,436	4,450	4,575	4,730

2000	2001	2002	2003	2004	2005	2006
70,200	83,173	99,815	110,800	127,707	142,539	164,812
35,445	42,684	55,126	71,261	83,591	103,700	121,102
(2)	(15)	(19)	(11)	(4)	-	-
105,643	**125,842**	**154,922**	**182,050**	**211,294**	**246,239**	**285,914**
18,638	18,638	18,638	18,638	18,638	18,638	18,638
88,904	108,199	136,380	163,918	193,345	227,701	267,769
(1,899)	(995)	(96)	(506)	(689)	(100)	(493)
105,643	**125,842**	**154,922**	**182,050**	**211,294**	**246,239**	**285,914**
120,283	**142,300**	**167,253**	**194,236**	**227,620**	**265,221**	**309,028**
17,366	**14,934**	**17,419**	**20,053**	**24,259**	**25,799**	**26,320**

2000	2001	2002	2003	2004	2005	2006
246.6	298.1	443.2	533.0	708.3	666.4	862.4
124.5	153.0	244.8	342.8	463.6	484.8	633.7
-	-	(0.1)	(0.1)	-	-	-
371.1	**451.1**	**687.9**	**875.7**	**1,171.9**	**1,151.2**	**1,496.1**
65.5	66.8	82.7	89.6	103.4	87.1	97.5
312.3	387.8	605.6	788.5	1,072.3	1,064.5	1,401.2
(6.7)	(3.5)	(0.4)	(2.4)	(3.8)	(0.4)	(2.6)
371.1	**451.1**	**687.9**	**875.7**	**1,171.9**	**1,151.2**	**1,496.1**
422.5	**510.0**	**742.7**	**934.3**	**1,262.5**	**1,239.9**	**1,617.1**
61.4	**52.1**	**68.3**	**89.5**	**119.5**	**129.2**	**125.3**

2000	2001	2002	2003	2004	2005	2006
283.0	286.6	255.2	224.0	203.0	199.7	210.0
284.7	279.0	225.2	207.9	180.3	213.9	191.1

2000	2001	2002	2003	2004	2005	2006
4,835	5,007	5,124	5,466	5,619	5,867	5,971

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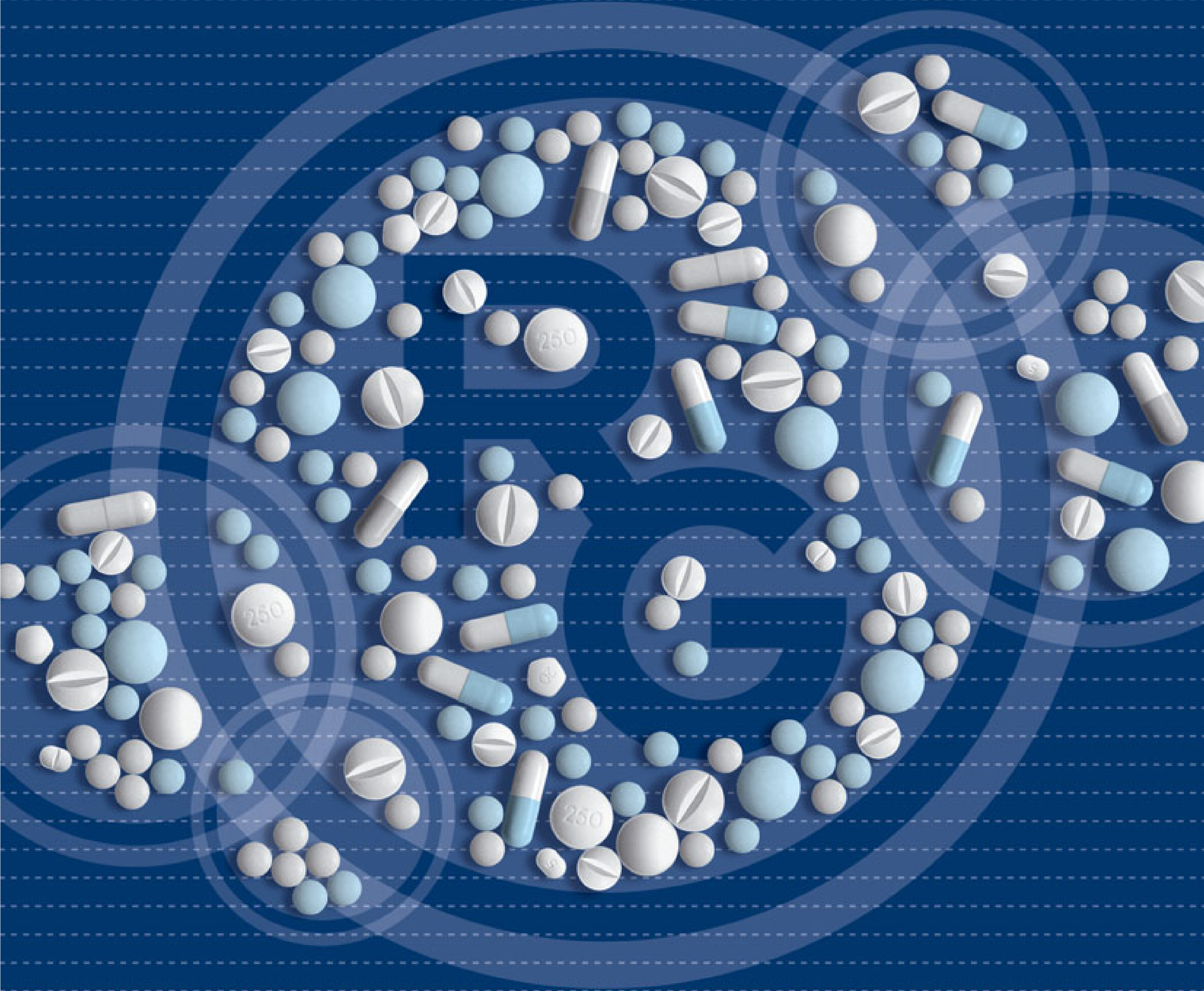
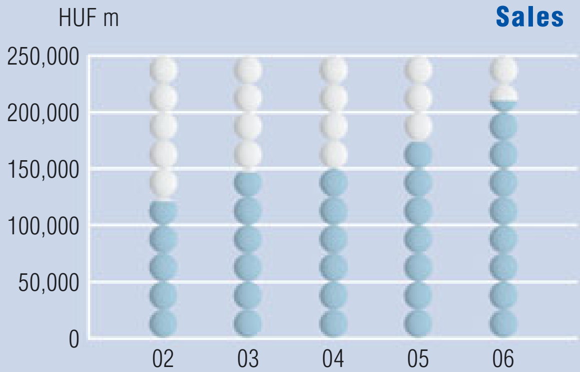
CONSOLIDATED STATEMENTS

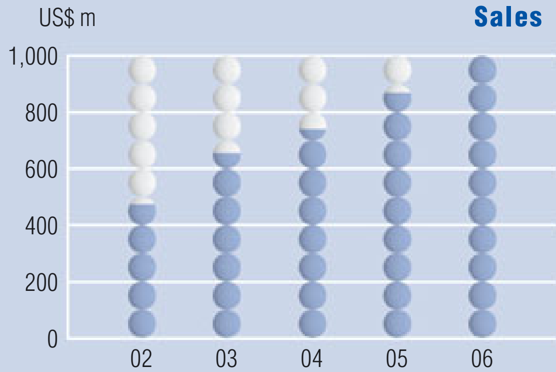


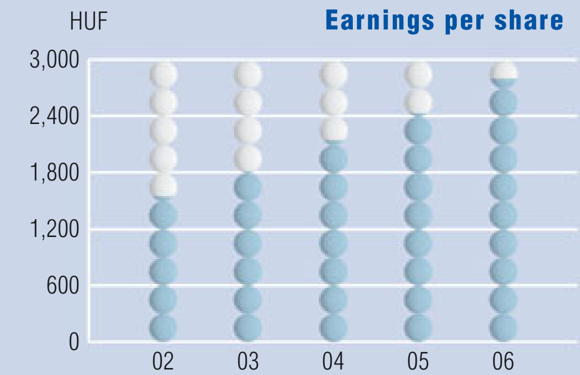
Audited Consolidated Financial Statements
based on IFRS requirements include all subsidiaries, joint ventures
and associated companies of Gedeon Richter Plc.

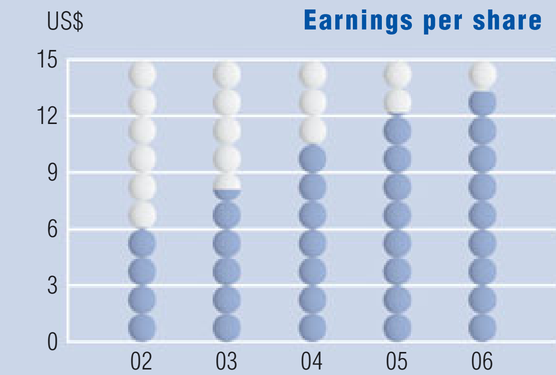
	2006	2005	Growth	2006	2005	Growth
	HUF m	HUF m	%	US$ m	US$ m	%
Total sales	209,373	172,597	21.3	997.0	864.3	15.4
Operating profit	49,527	39,591	25.1	235.9	198.3	19.0
Profit for the year	51,278	45,313	13.2	244.2	226.9	7.6

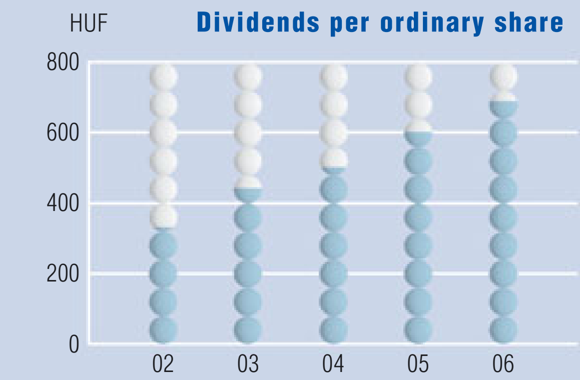
	2006	2005	Growth	2006	2005	Growth
	HUF	HUF	%	US$	US$	%
Earnings per share (EPS)	2,751	2,431	13.2	13.10	12.17	7.6
Dividends per ordinary share	690	600	15.0	3.29	3.00	9.7

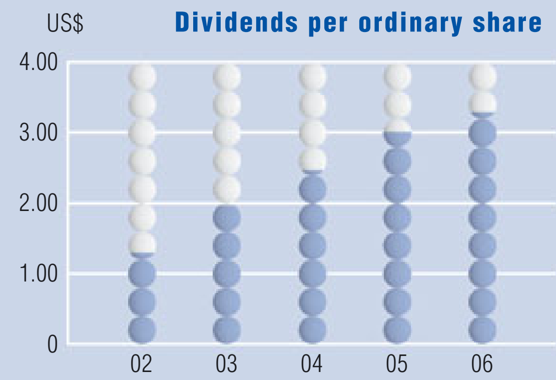












Notes: • Earnings per share: Calculations based on the total number of shares issued.
• 2006 dividends per ordinary share of HUF 690 as recommended by the Board of Directors.

• RICHTER – A REGIONAL MIDPHARMA GROUP

The primary activities of the Company are the research and development, the manufacturing and the marketing of pharmaceutical products and in this endeavour the Company is supported by a number of subsidiaries, joint ventures and associated companies. The Richter Group comprises of these companies and the parent company Gedeon Richter. This group has established synergies and thus means more than a simple association of the individual performances of its members. Our manufacturing subsidiaries which operate in our traditional markets together with the establishment and continuous development of our own, specialised marketing network have created the foundation for a strong regional multinational Group.

Through the establishment of greenfield investments in Russia and India, Richter has expanded its network of manufacturing bases. The Company has also emphasised its regional multinational character through acquisitions in Romania and Poland.

A number of marketing companies support the activity of Richter Group in several countries of the world. Wholesalers in Hungary – Hungaropharma Zrt., Medimpex Gyógyszer-nagykereskedelmi Zrt. – further strengthen the position of the Group in its domestic market. To support the vertically integrated business model of Gedeon Richter Romania S.A. on the Romanian market, this company acquired through its subsidiary, Armedica Trading SRL, a number of wholesaler and retail companies. During the second quarter 2006 it acquired a 98.05 percent ownership in Sibofarm SRL, a wholesaler group. It also acquired a 99.94 percent stake in Gedeon Richter Farmacia S. A. which company being the majority owner of several pharmaceutical retail companies and in the fourth quarter 2006 Dita Group – comprising three wholesaler companies head-quartered in Bucharest, Kolozsvár and Craiova – was acquired. In addition Armedica Trading S.R.L. made an acquisition via its specialised subsidiary, Gedeon Richter Farmacia S. A. of a number of small pharmacies, having acquired the rights of operation for about 60 pharmacies via the retail companies and pharmacy licenses acquired previously. The above acquisitions strengthen the Group's position in Romania.

Richter also participates in a number of other companies that assist the main activities of the Parent Company by providing certain services.

The Company has used the opportunity given by the Hungarian Accounting Law to prepare its consolidated financial statements only based on IFRS requirements. Audited consolidated financial statements based on IFRS requirements include all subsidiaries, joint ventures and associated companies of Richter.

Companies involved in the consolidation procedure are shown in the table next page.

• CONSOLIDATED COMPANIES

Name	Country	Ownership %	Voting right %	Activity
Subsidiaries				
ZAO Gedeon Richter-RUS	Russia	100.00	100.00	Pharmaceutical manufacturing
Gedeon Richter Romania S.A.	Romania	99.19	99.19	Pharmaceutical manufacturing
GZF Polfa Sp. z o.o.	Poland	70.11	70.11	Pharmaceutical manufacturing
Richter-Themis Ltd.	India	51.00	51.00	Pharmaceutical manufacturing
Gedeon Richter Pharma GmbH	Germany	100.00	100.00	Pharmaceutical trading
Gedeon Richter USA Inc.	USA	100.00	100.00	Pharmaceutical trading
Medimpex France S.A.R.L.	France	99.99	99.99	Pharmaceutical trading
RG Befektetéskezelő Kft.	Hungary	100.00	100.00	Financial, accounting and controlling activities
Gedeon Richter UA V.A.T.	Ukraine	98.10	98.10	Pharmaceutical manufacturing
Biowet Drwalew S.A.	Poland	69.86	69.86	Manufacturing of veterinary products
Gedeon Richter UK Ltd.	UK	100.00	100.00	Pharmaceutical trading
Mediberia S.A.	Spain	100.00	100.00	Pharmaceutical trading
Medimpex Hong-Kong Ltd.	Hong Kong	100.00	100.00	Pharmaceutical trading
Nedermed B.V.	Netherlands	100.00	100.00	Pharmaceutical trading
Medimpex Japan Co. Ltd.	Japan	90.90	90.90	Pharmaceutical trading
Medimpex Jamaica Ltd.	Jamaica	60.00	60.00	Pharmaceutical trading
Medimpex West Indies Ltd.	Jamaica	60.00	60.00	Pharmaceutical trading
Humanco Kft.	Hungary	100.00	100.00	Social, welfare services
Pesti Sas Holding Kft.	Hungary	100.00	100.00	Asset management
Richter Szolgáltató Kft.	Hungary	100.00	100.00	Catering services
Reflex Kft.	Hungary	100.00	100.00	Transportation, carriage
Cito-Trans Kft.	Hungary	100.00	100.00	Car rental
Chemitechnik Pharma Kft.	Hungary	66.67	66.67	Engineering services
GYEL Kft.	Hungary	66.00	66.00	Quality controll services
Armedica Trading S.R.L.	Romania	98.20	98.20	Asset management
Subsidiaries newly included in the consolidation				
Sibofarm S.A.	Romania	98.05	98.05	Pharmaceutical wholesale
Activ Pharma S.R.L.	Romania	96.76	96.76	Pharmaceutical wholesale
TMT S.R.L.	Romania	98.05	98.05	Pharmaceutical wholesale
ABC S.R.L.	Romania	98.05	98.05	Pharmaceutical wholesale
Gedeon Richter Farmacia S.A.	Romania	98.05	98.05	Pharmaceutical retail
Anemona S.R.L	Romania	98.05	98.05	Pharmaceutical retail
Amina Farm S.R.L.	Romania	93.15	93.15	Pharmaceutical retail
Magnolia S.R.L.	Romania	98.05	98.05	Pharmaceutical retail
Miraculus S.R.L	Romania	98.05	98.05	Pharmaceutical retail
Helodeea S.R.L	Romania	98.05	98.05	Pharmaceutical retail
Adonis S.R.L.	Romania	98.05	98.05	Pharmaceutical retail
Goldfarm S.R.L	Romania	98.05	98.05	Pharmaceutical retail
Bioplus S.R.L.	Romania	98.05	98.05	Pharmaceutical retail
Regis S.R.L.	Romania	98.05	98.05	Pharmaceutical retail
Corifarm S.R.L.	Romania	98.05	98.05	Pharmaceutical retail
Sanatatea S.R.L	Romania	98.05	98.05	Pharmaceutical retail
Farmacon Plus S.R.L.	Romania	98.05	98.05	Pharmaceutical retail
Marifarm S.R.L	Romania	98.05	98.05	Pharmaceutical retail
Vitas S.R.L.	Romania	98.05	98.05	Pharmaceutical retail
Gedeon Richter France S.A.R.L.	France	99.67	99.67	Pharmaceutical trading
Joint ventures (1)				
Medimpex Gyógyszer-nagykereskedelmi Zrt.	Hungary	50.00	50.00	Pharmaceutical wholesale
Medimpex UK Ltd.	UK	50.00	50.00	Pharmaceutical trading
Medimpex Irodaház Kft.	Hungary	50.00	50.00	Renting real estate
Pesti Sas Patika Bt.	Hungary	74.00	50.00	Pharmaceutical retail
Farnham Laboratories Ltd.	UK	50.00	50.00	Pharmaceutical trading
Associated companies (2)				
Hungaropharma Zrt.	Hungary	30.68	30.68	Pharmaceutical wholesale
Pannonmedicina Zrt.	Hungary	33.65	33.65	Pharmaceutical wholesale
Salvia-Med Bt.	Hungary	13.04	20.00	Pharmaceutical retail
Szondi Bt.	Hungary	33.00	33.00	Pharmaceutical retail
Gyulai Fodormenta Bt.	Hungary	20.00	20.00	Pharmaceutical retail
Top Medicina Bt.	Hungary	20.00	20.00	Pharmaceutical retail
Gedeon Richter Ukrfarm O.O.O.	Ukraine	49.00	49.00	Pharmaceutical trading
Medservice Richter O.O.O.	Kazakhstan	49.00	49.00	Pharmaceutical trading
Pharmarichter O.O.O.	Russia	49.00	49.00	Pharmaceutical sales promotion
P.S.P. Richter O.O.O.	Georgia	49.00	49.00	Pharmaceutical trading
Richpangalpharma O.O.O.	Moldavia	49.00	49.00	Pharmaceutical trading
Richter-Lambron O.O.O.	Armenia	49.00	49.00	Pharmaceutical trading
Vita-Richter O.O.O.	Azerbaijan	49.00	49.00	Pharmaceutical trading
ZAO Farmograd	Russia	45.00	45.00	Pharmaceutical trading

Notes: (1) Joint ventures were consolidated by proportion.
(2) Associated companies were consolidated by equity method.

BRIEF OPERATING REVIEW

The activities of Gedeon Richter Plc. are those which mostly determine the overall performance of the Richter Group both at sales and profit levels. The sales dynamic of the Group primarily is in line with the sales record of Gedeon Richter Plc. Sales for the Group in 2006 totalled HUF 209,373 million (US$ 997.0 million) as analysed in the following table:

Sales by region

	2006	2005	Change	2006	2005	Change
	HUF m	HUF m	%	US$ m	US$ m	%
Hungary	**54,827**	**57,117**	**-4.0**	**261.1**	**286.0**	**-8.7**
Export	**154,546**	**115,480**	**33.8**	**735.9**	**578.3**	**27.3**
CIS	65,581	43,528	50.7	312.3	218.0	43.3
EU*	47,701	39,595	20.5	227.1	198.3	14.5
USA	19,108	14,510	31.7	91.0	72.7	25.2
Other countries	22,156	17,847	24.1	105.5	89.3	18.1
Total	**209,373**	**172,597**	**21.3**	**997.0**	**864.3**	**15.4**

* Note: All member states of the enlarged EU following 1 May 2004, except for Hungary.

Subsidiaries and joint venture with significant sales levels (before consolidation)

	2006	2005	Growth	2006	2005	Growth
	HUF m	HUF m	%	US$ m	US$ m	%
GZF Polfa Sp. z o.o.	11,768	10,184	15.6	56.0	51.0	9.8
Gedeon Richter Romania S.A.	4,306	3,437	25.3	20.5	17.2	19.2
ZAO Gedeon Richter-RUS	5,439	2,378	128.7	25.9	11.9	117.6
Medimpex Gyógyszer-nagykereskedelmi Zrt.*	19,076	16,552	15.2	90.8	82.9	9.5

* Note: Sales levels are proportional with Richter's ownership ratio.

INTERNATIONAL MANUFACTURING

Polish and Romanian manufacturing companies included in the Richter Group following acquisition have their own product portfolio. Both GZF Polfa and Gedeon Richter Romania manufacture primarily for their respective – Poland and Romania – domestic markets and possess their own developing capacity. The importance of intragroup shipments and exports is however gradually increasing.

Gedeon Richter-RUS is a Russia-based manufacturing company with tabletting and packaging activities and thus expanding opportunities for the Group in the local market. The recently established Indian joint venture delivered the first intermediate shipments to the parent company during the fourth quarter 2006 following the successful commencement of pilot production at the beginning of the year.

SUMMARY FINANCIAL REVIEW

KEY FINANCIAL DATA

	2006	2005	Growth	2006	2005	Growth
	HUF m	HUF m	%	US$ m	US$ m	%
Total sales	209,373	172,597	21.3	997.0	864.3	15.4
Gross profit	119,669	97,024	23.3	569.9	485.9	17.3
Gross margin %	**57.2**	**56.2**		**57.2**	**56.2**	
Operating profit	49,527	39,591	25.1	235.9	198.3	19.0
Operating margin %	**23.7**	**22.9**		**23.7**	**22.9**	
Profit before taxation	52,113	46,186	12.8	248.2	231.3	7.3
Profit after taxation	51,402	45,643	12.6	244.8	228.6	7.1
Net profit for the year	51,278	45,313	13.2	244.2	226.9	7.6
Net profit margin %	**24.5**	**26.3**		**24.5**	**26.3**	
EPS (HUF, US$)*	2,751	2,431	13.2	13.10	12.17	7.6
Total assets and total shareholders' equity and liabilities	325,784	277,580	17.4	1,704.8	1,297.7	31.4
Shareholders' equity	288,115	246,540	16.9	1,507.7	1,152.6	30.8
Capital expenditure	32,351	29,841	8.4	154.1	149.4	3.1
Number of employees at year-end	8,526	8,078	5.5			

* Note: EPS calculations based on the total number of shares issued.

COSTS, PROFIT

Cost of sales amounted to HUF 89,704 million, 18.7 percent higher when compared with 2005 levels.

Sales and Marketing expenses amounted to HUF 38,015 million during the reported period, a 25.2 percent increase compared with 2005. Their proportion to sales increased in 2006 to 18.2 percent from the 17.6 percent recorded in the previous year.

Administrative and General expenses totalled HUF 15,035 million during the reported period, representing an increase of 12.8 percent over the levels recorded in the previous year.

Research and Development costs represented 6.9 percent of sales and amounted to HUF 14,486 million during 2006.

Other income and other expenses, the balance of which was on the cost side during both 2006 and 2005, increased from HUF 1,129 million to HUF 2,606 million,

Operating profit was 25.1 percent higher at HUF 49,527 million during the reported period, while the consolidated operating margin increased to 23.7 percent from 22.9 percent recorded in the previous year.

Profit before taxation amounted to HUF 52,113 million, an increase of HUF 5,927 million over the levels achieved in 2005.

Profit after taxation totalled HUF 51,402 million, HUF 1,796 million higher than that of the Parent Company during 2006.

Minority interest in the reported period totalled HUF 124 million.

Consolidated net profit increased by HUF 5,965 million during 2006 to HUF 51,278 million. It represented 24.5 percent of sales compared with the 26.3 percent reported for 2005.

BALANCE SHEET

Total assets and total shareholders' equity and liabilities of the Group amounted to HUF 325,784 million at 31 December 2006, HUF 48,204 million, or 17.4 percent higher than the level reported at 31 December 2005.

Non-current assets amounted to HUF 160,677 million at 31 December 2006, representing an increase of 14.7 percent primarily due to increased levels of Property, plant and equipment when compared with 31 December 2005.

Current assets increased by HUF 27,644 million (20.1 percent) when compared to the level reported at 31 December 2005 and amounted to HUF 165,107 million. The increase was due to higher levels in Cash and Cash equivalents and, as a consequence of the high sales levels recorded and of the longer commercial credits granted through the DLO programme, in Trade Receivables.

Shareholders' equity of the Group amounted to HUF 288,115 million, an increase of HUF 41,575 million over the balance as at 31 December 2005.

Current liabilities of the Group at HUF 29,371 million on 31 December 2006 were 22.0 percent higher than at 31 December 2005 primarily due to increased Trade payables and Other payables.

EMPLOYEES

Number of employees at the end of the year

	2006	2005	Growth
Parent Company	5,971	5,867	104
Manufacturing companies	1,770	1,688	82
Trading and other subsidiaries and joint ventures	785	523	262
Total	**8,526**	**8,078**	**448**

At the end of 2006 the Richter Group comprised 1,770 employees at its manufacturing companies. These included 735 employed at GZF Polfa, 456 at Gedeon Richter Romania, 226 at Gedeon Richter-RUS, 200 at Biowet Drwalew, 67 at Gedeon Richter UA and 86 at Richter Themis Ltd.

CONSOLIDATED FINANCIAL STATEMENTS

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

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Gedeon Richter Plc.

We have audited the accompanying consolidated financial statements of Gedeon Richter Plc. and subsidiaries, which comprise the consolidated balance sheet as at December 31, 2006, and the related consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the konsolidated 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 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.

Audit.Tax.Consulting.Financial Advisory.

A member of
Deloitte Touche Tohmatsu

Registered by the Budapest Court of Registration
Company Reg. No.: 01-09-071057

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Gedeon Richter Plc. and subsidiaries as of December 31, 2006, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Budapest, March 2, 2007

Jack Bell
Deloitte
Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
000083

dr. Ladó Judit
Registered Auditor
003510

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006	Notes	2006	2005
		HUF m	HUF m
Sales		**208,620**	**171,720**
Royalty and other similar income		753	877
Total sales		**209,373**	**172,597**
Cost of sales		(89,704)	(75,573)
Gross profit		**119,669**	**97,024**
Sales and marketing expenses		(38,015)	(30,358)
Administration and general expenses		(15,035)	(13,325)
Research and development expenses		(14,486)	(12,621)
Other income and other expenses		(2,606)	(1,129)
Profit from operations	**5**	**49,527**	**39,591**
Income from associate		863	848
Net financial income	7	1,723	5,747
Profit before taxation		**52,113**	**46,186**
Income tax	8	(711)	(543)
Profit after taxation		**51,402**	**45,643**
Minority interest		(124)	(330)
Profit for the year		**51,278**	**45,313**
Earnings per share (HUF)	**9**		
Basic		2,753	2,436
Diluted		2,751	2,431

The notes on pages 82 to 107 form an integral part of the Consolidated Financial Statements.

• CONSOLIDATED BALANCE SHEET

As at 31 December 2006	Notes	2006	2005
		HUF m	HUF m
ASSETS			
Non-current assets		**160,677**	**140,117**
Property, plant and equipment	10	136,049	122,780
Intangible assets	10	4,525	3,297
Investment property	11	771	742
Investment	12, 13	10,833	6,228
Investments in associates	14	5,713	5,492
Deferred tax assets	15	1,066	944
Goodwill	16	1,524	429
Loans receivable		196	205
Current assets		**165,107**	**137,463**
Inventories	17	52,716	47,327
Trade receivables	18	44,863	32,660
Other current assets	19	8,349	5,394
Current tax asset	15	60	-
Investments in securities	20	7,911	18,931
Cash and cash equivalents	21	51,208	33,151
Total Assets		**325,784**	**277,580**
EQUITY AND LIABILITIES			
Capital and reserves		**288,115**	**246,540**
Share capital	22	18,638	18,638
Share premium		15,209	15,207
Capital reserves		3,475	3,475
Treasury shares	23	(538)	(145)
Translation reserves		(3,517)	(3,745)
Fair value reserves		43	164
IFRS 2 reserve	24	1,753	-
Retained earnings		253,052	212,946
Minority interest		**5,813**	**6,486**
Non-current liabilities		**2,485**	**474**
Borrowings		710	403
Deferred tax liability	15	245	71
Other non-current liabilities		1,530	-
Current liabilities		**29,371**	**24,080**
Borrowings		184	118
Trade payables	25	17,919	14,516
Other payables and accruals	26	10,372	8,413
Current tax liabilities	15	-	58
Provisions	27	896	975
Total equity and liabilities		**325,784**	**277,580**

The notes on pages 82 to 107 form an integral part of the Consolidated Financial Statements.

• CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006	Notes	Share capital	Share premium	Capital reserves	Treasury shares	Fair value reserves	Translation reserves	IFRS 2 reserve	Retained earnings	Total
		HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m
Balance at 31 December 2004		**18,638**	**15,202**	**3,475**	**(700)**	**136**	**(4,158)**	**-**	**176,572**	**209,165**
Effect of newly consolidated companies		-	-	-	(34)	-	-	-	361	327
Balance at 1 January 2005		**18,638**	**15,202**	**3,475**	**(734)**	**136**	**(4,158)**	**-**	**176,933**	**209,492**
Exchange differences arising on translation of foreign operations		-	-	-	-	-	413	-	-	413
Equity component of convertible preference shares		-	5	-	-	-	-	-	-	5
Treasury shares issued and purchased	23	-	-	-	589	-	-	-	-	589
Profit for the year		-	-	-	-	-	-	-	45,313	45,313
Ordinary share dividend for 2004	28	-	-	-	-	-	-	-	(9,299)	(9,299)
Dividend – preference shares		-	-	-	-	-	-	-	(1)	(1)
Fair value adjustment		-	-	-	-	28	-	-	-	28
Balance at 31 December 2005		**18,638**	**15,207**	**3,475**	**(145)**	**164**	**(3,745)**	**-**	**212,946**	**246,540**
Exchange differences arising on translation of foreign operations		-	-	-	-	-	228	-	-	228
Equity component of convertible preference shares		-	2	-	-	-	-	-	-	2
Treasury shares issued and purchased	23	-	-	-	(393)	-	-	-	-	(393)
Profit for the year		-	-	-	-	-	-	-	51,278	51,278
Ordinary share dividend for 2005	28	-	-	-	-	-	-	-	(11,171)	(11,171)
IFRS 2 reserve	24	-	-	-	-	-	-	1,753	-	1,753
Dividend – preference shares		-	-	-	-	-	-	-	(1)	(1)
Fair value adjustment		-	-	-	-	(121)	-	-	-	(121)
Balance at 31 December 2006		**18,638**	**15,209**	**3,475**	**(538)**	**43**	**(3,517)**	**1,753**	**253,052**	**288,115**

The notes on pages 82 to 107 form an integral part of the Consolidated Financial Statements.

• CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006	Notes	2006	2005
		HUF m	HUF m
Operating activities			
Net profit from operating activities		49,527	39,591
Depreciation and amortisation		18,749	16,588
Changes in IFRS 2 reserve	24	1,753	-
Changes in receivables		(15,158)	(9,515)
Changes in inventories		(5,389)	(9,467)
Changes in payables and other liabilities		6,813	3,148
Tax paid	15	(118)	58
Result from disposal of property, plant and equipment		(3)	1,133
Movements attributable to minority interests		(673)	1,588
Net cash flow from operating activities		**55,501**	**43,124**
Cash flow from investing activities			
Purchase of property, plant and equipment		(32,351)	(29,841)
Proceeds from disposal of property, plant and equipment		519	281
Changes in non-current investments		(4,826)	2,181
Changes in current investments		11,020	986
Changes in loans receivable		9	99
Interest and similar income		2,437	8,609
Dividend income		137	60
Goodwill	16	(1,095)	(175)
Net cash flow from investing activities		**(24,150)**	**(17,800)**
Cash flow from financing activities			
Proceeds from conversion of preference shares		2	5
Proceeds from disposal of Treasury shares		(393)	589
Dividends paid - on ordinary shares		(11,114)	(9,299)
Dividends paid - on preference shares		(1)	(1)
Other cash flows from financing activities		(851)	(2,922)
Net repayment of long-term borrowings		(287)	(362)
Net cash flow from financing activities		**(12,644)**	**(11,990)**
Net increase in cash and cash equivalents		**18,707**	**13,334**
Cash and cash equivalents at beginning of year		**33,151**	**25,844**
Effects of foreign exchange rate changes		228	413
Effect of newly consolidated companies		(878)	(6,440)
Cash and cash equivalents at end of year		**51,208**	**33,151**

The notes on pages 82 to 107 form an integral part of the Consolidated Financial Statements.

• 1. GENERAL BACKGROUND

I) Legal status and nature of operations

Gedeon Richter Plc. ('the Company'), the Parent Company 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 enterprise 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) Adoption of new and revised Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations (IFRIC 4) and effective for annual reporting periods beginning on 1 January 2006.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

I)	IFRS 1 Presentation of Financial Statements – amendments	Effective for annual periods beginning on or after 1 January 2007
II)	IFRS 7 Financial Instruments: Disclosures	Effective for annual periods beginning on or after 1 January 2007
III)	IFRIC 8 Scope of IFRS 2	Effective for annual periods beginning on or after 1 May 2006
IV)	IFRIC 9 Reassessment of Embedded Derivatives	Effective for annual periods beginning on or after 1 June 2006
V)	IFRIC 10 Interim Financial Reporting and Impairment	Effective for annual periods beginning on or after 1 November 2006

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group.

III) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis of accounting, as modified by a revaluation of fixed assets existing as of 1 November 1990, and in accordance with International Financial Reporting Standards (IFRS). 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 significant subsidiaries are shown in Note 12., 13.

From 2002 Richter Group has published consolidated financial statements in accordance with International Financial Reporting Standards. The parent company previously prepared non consolidated IFRS reports.
According to a management's decision each subsidiary, joint venture and associated company – controlled directly or indirectly by the Parent Company – has been included in the consolidation from 2005.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the 'EU'). IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB), except for portfolio hedge accounting under IAS 39 which has not been approved by the EU. The Company has determined that portfolio hedge accounting under IAS 39 would not impact the consolidated financial statements had it been approved by the EU at the balance sheet date.

• 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 enterprises directly or indirectly controlled by the Parent Company (its subsidiaries, joint ventures and associated companies). Control of an enterprise is achieved where the Parent Company has the power to govern financial and operating policies so as to obtain benefits from its activities.

On acquisition, the assets and liabilities of a subsidiary are included in the consolidated financial statements at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of assets and liabilities recognised.
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognised as an intangible asset in the consolidated balance sheet and is not amortised in line with IFRS 3. In each reporting period the Parent Company reviews its goodwill. The Discounted Cash Flow method is used for fair value calculation.
If the investment's fair value is below net book value of the goodwill – realised when first consolidated – is charged as an impairment with the difference between the fair and book value. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.
Negative goodwill arises in cases the fair value of net assets (difference of assets, liabilities and contingent liabilities) is above acquisition costs. It is accounted for as revenue at the date of recognition.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances between group enterprises are eliminated in consolidation.

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.

An associated company is an enterprise of the Group on which the Parent Company is able to exercise directly or indirectly significant influence due to its influence in the financial and operating activity of the company.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments.

III) Foreign currency transaction

On consolidation, the assets and liabilities of the Group's foreign operations are translated at the exchange rate of MKB Plc. 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 for the period. Exchange differences arising, if any, are classified in the equity at the Group's Translation reserve. Such translation differences are recognised as income or as expenses in the period in which the Group disposes of an operation.

The financial statements of the foreign subsidiary that reports in the currency of a former hyperinflationary economy (Gedeon Richter Romania S.A.) are restated in terms of the measuring unit current at the balance sheet date before they are translated into the Group's reporting currency.

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 on balance sheet date.

IV) Revenue recognition

Revenue on sales transactions is recognised in accordance with the terms of sales contracts when title has passed. Revenue is shown excluding value added taxes. All other income earned and expenditure incurred is allocated to the appropriate period by applying the accrual basis.

V) Property, plant and equipment

Depreciation is charged so as to write-off the cost of assets on a straight-line basis over their estimated useful lives. The Group uses the following depreciation rates based on the straight line method:

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

Depreciation is calculated monthly.

Assets in the course of construction are not depreciated. The cost of maintenance, repairing are not capitalised.

When the Parent Company was transformed into a Company limited by shares property, plant and equipment were revalued as of 1 November 1990. The revalued assets as of 1 November 1990 are being depreciated over the remainder of their original useful life. Except for Gedeon Richter Romania S.A. and Sibofarm S.A. the property, plant and equipment of the consolidated companies were not revaluated.
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.

VI) Intangible assets

Expenditures on trademarks, licences, patents and software 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	Depreciation %
Property rights (connected with properties)	5 %
Other rights (licences)	20-50 %
Intellectual property, software	20-50 %

VII) Investment property

Investment properties are capitalized initially at their cost of acquisition taking into consideration transaction costs. At the balance sheet date they are revalued to fair value. Gains and losses arising from changes of fair value are accounted in the statement of income for the reported period.

VIII) Impairment

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 any such indication exists, 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 is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

IX) Research and development

Research and development expenditures are included in the statement of income in the year in which they are incurred.

X) Investments

Investments comprise associated companies consolidated by the equity method, investments in other companies and the long term bonds.

Unconsolidated investments are those investments where the Parent Company does not hold controlling powers or does not have an ability to exercise significant influence. These investments are accounted for at cost, and they are not classified as held for sale in accordance with IFRS 5.

Gains and losses on the sale of equity investments are determined on the basis of the specific identification of the cost of each investment.

XI) Loans receivable

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

XII) 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.

XIII) Trade receivables

Trade receivables are stated at their nominal value as reduced by appropriate impairment for estimated losses. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the balance sheet date.

XIV) Investments in securities

Investments in securities are assessed at their fair value at the date of reporting with calculations based on publically quoted prices. Unrealised gains and losses are credited/charged directly to shareholders' equity.

XV) Trade payables

Trade payables are stated at their nominal cost.

XVI) Derivative financial instruments

Derivative financial instruments are are valued at fair value that existing at reporting dates.
Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised as they arise in the statement of income .

XVII) Cash flow statement

Cash and cash equivalents for the purpose of the cash-flow statement, 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.

XVIII) 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 translated into economic benefits would be required to settle such an obligation, and if a reliable estimate for such amounts can be made.
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 commencement of remedial work is ruled by a legally binding decision and when expenditure on such remedial work is likely and its costs can be estimated within a reasonable range.

XIX) Income taxes

The taxation charge is based on the tax payable under the appropriate fiscal law, adjusted for deferred taxation.

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. Tax rates currently in force are used to determine the amount of deferred income tax. Deferred tax assets are recognised only to the extent that it is anticipated that they can be utilised against available future taxable profits.

XX) Segment information

The Group is currently organised into two main segments for management purposes: Pharmaceutical manufacturing and sale, and Pharmaceutical wholesale and retail. These are the bases on which the Group reports its primary segment information.

Geographical segments being determined as secondary segments are as follows:

1. Hungary
2. CIS
3. EU
4. USA
5. Other countries

XXI) IFRS2

The IFRS2 reserve, presented as equity, is calculated according to the regulation, registered with the Ministry of Finance as security-allotment programme.

In line with the programme approved by the Ministry of Finance related to employee share bonuses, the Parent Company granted ordinary shares for its employees. The participants were entitled for a definite number of ordinary shares on 1 October each year depending on the length of their employment. The number of the shares granted were calculated on the basis of the average daily BSE share price a day before the shares were deposited.

XXII) Approval of financial statements

Current consolidated financial statements have been approved by the Board of Directors and authorised for issue on 21 March 2007.

• 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 estimations.

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.

• 4. SEGMENT INFORMATION

I) Business segments

	Pharmaceutical manufacturing and sale	Pharmaceutical wholesale and retail	Eliminations	Total
	HUF m	HUF m	HUF m	HUF m
3rd party revenues	187,864	21,509	-	209,373
Inter segment sales	2,168	4	(2,172)	-
Total sales	**190,032**	**21,513**	**(2,172)**	**209,373**
Profit from operations	49,801	(254)	(20)	49,527
Total assets	318,631	15,013	(7,860)	325,784
Liabilities	26,856	13,439	(8,439)	31,856
Capital expenditure	(31,832)	(519)	-	(32,351)
Depreciation	(18,627)	(122)	-	(18,749)
Income from associates	13	850	-	863
Investments in associates	5,562	151	-	5,713

II) Geographical segments

	Hungary	CIS	EU	USA	Other countries	Total
	HUF m	HUF m	HUF m	HUF m	HUF m	HUF m
Total sales	54,827	65,581	47,701	19,108	22,156	209,373
Total assets	257,365	13,745	20,995	5,277	28,402	325,784
Capital expenditure	(26,568)	(1,629)	(1,597)	(1)	(2,556)	(32,351)

• 5. PROFIT FROM OPERATIONS

	2006	2005
	HUF m	HUF m
Total sales	209,373	172,597
Changes in inventories of finished goods and work in progress, cost of goods sold	(20,923)	(26,963)
Material type expenses	(68,967)	(47,180)
Personnel expenses	(48,601)	(41,146)
Depreciation	(18,749)	(16,588)
Other income and expenses*	(2,606)	(1,129)
Operating profit	**49,527**	**39,591**

* Milestone payments received from our partners during 2006 in accordance with existing research agreements had a positive impact although this was partly offset by higher impairment losses on receivables when compared with the previous year incurred mainly in the CIS region and primarily resulting from a cautious approach to DLO shipments in Russia. In 2005 the write off of the negative goodwill of newly consolidated companies increased consolidated profit by HUF 1,486 million.

6. EMPLOYEE INFORMATION

	2006	2005
Average number of people employed during the year	8,501	8,084

The newly consolidated companies resulted in an increase of 333 in the average number of employees during 2006.

7. NET FINANCIAL INCOME

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

	2006	2005
	HUF m	HUF m
Net interest income	2,437	2,710
Dividend income	137	60
Realised (losses) / gains on forward exchange contracts	2,200	(962)
Unrealised gains / (losses) from the fair value of forward exchange contracts	2,078	(209)
Impairment gains of equity investments	76	19
Exchange gains / (losses) realised on trade receivables and trade payables	(484)	2,128
Gains / (losses) on foreign currency loans receivable*	(690)	473
Unrealised exchange gains / (losses) on trade receivables and trade payables*	(2,402)	594
Other financial items*	(1,629)	934
Total	**1,723**	**5,747**

* Unrealised financial income / (expense) was heavily influenced by the 191.09 US$/HUF and 251.80 EUR/HUF exchange rates in effect on 31 December 2006 which impacted the reassessment of currency related balance sheet items. These reassessments together resulted in a decrease of almost HUF 5 billion in the net financial income for 2006 while the same items increased the net financial income by HUF 1.5 billion in 2005.

The Parent Company has concluded forward exchange contracts to manage its exposure to fluctuations in exchange rates since January 2000.
For 2006 Gedeon Richter Plc. had mainly US$/EUR forward and option contracts. After closing these contracts, a financial gain was realised due to the weaker US$/EUR exchange rate especially in the second half of the year.
For 2007 Gedeon Richter Plc. has mainly US$/EUR forward and option contracts to minimise the risk of a potential weakening of the US$ against the EUR.

8. INCOME TAX EXPENSE

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 a 100 percent tax holiday, likely to last until 2011.

In accordance with a new act for a 'solidarity tax' which targets the correction of the budget balance and which was passed by Parliament and promulgated in July 2006, the Parent Company is also obliged to pay a 4 percent extraordinary tax on its profit before taxation. The regulation was changed during the fourth quarter 2006 with direct costs of R&D being deducted from the calculation base so as to promote innovation. There was no extraordinary tax payment obligation in the last quarter of 2006 for Richter Gedeon Plc.

The tax legislation provided two alternative options for use as methods of calculation for the extraordinary tax. The Parent Company decided to compute its tax liability based on the difference between the balance sheet compiled in accordance with the Hungarian Accounting Rules at the end of the 2006 and the interim balance sheet as at 31 August 2006. The alternative was to calculate the tax utilising a time proportional formula.

	2006	2005
	HUF m	HUF m
Domestic	(28)	(41)
Foreign	(628)	(611)
Current tax	**(656)**	**(652)**
Deferred tax (15)	(55)	109
Income tax	**(711)**	**(543)**

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)

	2006	2005
Net consolidated profit attributable to shareholders (HUF m)	51,278	45,313
Weighted average number of ordinary shares in issue (thousands)	18,623	18,605
Basic earnings per share (HUF)	**2,753**	**2,436**

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. Richter Gedeon Plc. has two categories of dilutive potential ordinary shares: Treasury shares, which are intended by the Parent Company to be granted to Management and to Employees as part of its remuneration policy and preference shares for which a program of conversion is in progress.

EPS (diluted)

	2006	2005
Net consolidated profit attributable to shareholders (HUF m)	51,278	45,313
Weighted average number of total shares outstanding (thousands)	18,637	18,637
Diluted earnings per share (HUF)	**2,751**	**2,431**

10. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS

	Land and buildings	Plant and equipment	Ingtangible assets	Assets in the course of construction	Total
	HUF m	HUF m	HUF m	HUF m	HUF m
GROSS VALUE					
at 31 December 2005	**67,220**	**118,342**	**6,722**	**18,374**	**210,658**
Effect of newly consolidated companies	372	224	417	6	1,019
Capitalization	11,246	21,135	1,813	(34,194)	-
Transfers and capital expenditure	347	242	4,676	32,364	37,659
Disposals and other conversions	(216)	(2,713)	(4,719)	(198)	(7,846)
at 31 December 2006	**78,969**	**137,260**	**8,909**	**16,352**	**241,490**
ACCUMULATED DEPRECIATION					
at 31 December 2005	**14,141**	**67,015**	**3,425**	**-**	**84,581**
Effect of newly consolidated companies	19	110	6	-	135
Current year depreciation	1,784	15,961	992	-	18,737
Net foreign currency exchange differences	(17)	(56)	(4)	-	(77)
Disposals, conversion	(26)	(2,399)	(35)	-	(2,460)
at 31 December 2006	**15,901**	**80,631**	**4,384**	**-**	**100,916**
NET BOOK VALUE					
at 31 December 2005	**53,079**	**51,327**	**3,297**	**18,374**	**126,077**
at 31 December 2006	**63,068**	**56,629**	**4,525**	**16,352**	**140,574**

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

• 11. 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 percent.

	Investment property
	HUF m
GROSS VALUE	
at 31 December 2005	833
Capitalization	41
at 31 December 2006	**874**
ACCUMULATED DEPRECIATION	
at 31 December 2005	91
Current year depreciation	12
at 31 December 2006	**103**
NET BOOK VALUE	
at 31 December 2005	**742**
at 31 December 2006	**771**

Investment property is accounted for at fair value in balance sheet. The Discounted Cash Flow method is used for calculation of fair value. The Parent Company's portion of value is HUF 771 million as of December 31, 2006.

Net value	2006
	HUF m
at 31 December 2006	341
Change in fair value	430
at 31 December 2006	**771**

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

	2006
	HUF m
Income from renting real estate	146
Operating expenses	43

• 12. CONSOLIDATED COMPANIES

Details of the Group's subsidiaries at 31 December 2006 are as follows:

Name	Place of incorporation (or registration) and operation	Proportion of ownership %	Proportion of voting rights held %	Principal activity
ZAO. Gedeon Richter-RUS	Russia	100.00	100.00	Pharmaceutical manufacturing
Gedeon Richter Romania S.A.	Romania	99.19	99.19	Pharmaceutical manufacturing
GZF Polfa Sp. z o.o.	Poland	70.11	70.11	Pharmaceutical manufacturing
Richter Themis Ltd.	India	51.00	51.00	Pharmaceutical manufacturing
Gedeon Richter Pharma G.m.b.H	Germany	100.00	100.00	Pharmaceutical trading
Gedeon Richter USA Inc.	USA	100.00	100.00	Pharmaceutical trading
Medimpex France S.A.R.L.	France	99.99	99.99	Pharmaceutical trading
RG Befektetéskezelő Kft.	Hungary	100.00	100.00	Financial, accounting and controlling activities
Gedeon Richter UA V.A.T.	Ukraine	98.10	98.10	Pharmaceutical manufacturing
Biowet Drwalew S.A.	Poland	69.86	69.86	Manufacturing of veterinary products
Gedeon Richter UK Ltd.	UK	100.00	100.00	Pharmaceutical trading
Mediberia S.A.	Spain	100.00	100.00	Pharmaceutical trading
Medimpex Hong Kong Ltd.	Hong Kong	100.00	100.00	Pharmaceutical trading
Nedermed B.V.	Netherlands	100.00	100.00	Pharmaceutical trading
Medimpex Japan Co. Ltd.	Japan	90.90	90.90	Pharmaceutical trading
Medimpex Jamaica Ltd.	Jamaica	60.00	60.00	Pharmaceutical trading
Medimpex West Indies Ltd.	Jamaica	60.00	60.00	Pharmaceutical trading
Humanco Kft.	Hungary	100.00	100.00	Social, welfare services
Pesti Sas Holding Kft.	Hungary	100.00	100.00	Portfolio management
Richter Szolgáltató Kft.	Hungary	100.00	100.00	Catering services
Reflex Kft.	Hungary	100.00	100.00	Transportation, carriage
Cito-Trans Kft.	Hungary	100.00	100.00	Car rental
Chemitechnik Pharma Kft.	Hungary	66.67	66.67	Engineering services
GYEL Kft.	Hungary	66.00	66.00	Quality controll services
Armedica Trading S.R.L.	Romania	98.20	98.20	Asset management

Subsidiaries newly included in the consolidation

Name	Date of acquisition	Place of incorporation (or registration) and operation	Proportion of ownership %	Proportion of voting rights held %	Principal activity
Sibofarm S.A.	09.2006	Romania	98.05	98.05	Pharmaceutical wholesale
Activ Pharma S.R.L.	09.2006	Romania	96.76	96.76	Pharmaceutical wholesale
TMT S.R.L.	09.2006	Romania	98.05	98.05	Pharmaceutical wholesale
ABC S.R.L.	10.2006	Romania	98.05	98.05	Pharmaceutical wholesale
Gedeon Richter Farmacia S.A.	09.2006	Romania	98.05	98.05	Pharmaceutical retail
Anemona S.R.L	10.2006	Romania	98.05	98.05	Pharmaceutical retail
Amina Farm S.R.L.	10.2006	Romania	93.15	93.15	Pharmaceutical retail
Magnolia S.R.L.	10.2006	Romania	98.05	98.05	Pharmaceutical retail
Miraculus S.R.L	10.2006	Romania	98.05	98.05	Pharmaceutical retail
Helodeea S.R.L	10.2006	Romania	98.05	98.05	Pharmaceutical retail
Adonis S.R.L.	10.2006	Romania	98.05	98.05	Pharmaceutical retail
Goldfarm S.R.L	10.2006	Romania	98.05	98.05	Pharmaceutical retail
Bioplus S.R.L.	10.2006	Romania	98.05	98.05	Pharmaceutical retail
Regis S.R.L.	11.2006	Romania	98.05	98.05	Pharmaceutical retail
Corifarm S.R.L.	11.2006	Romania	98.05	98.05	Pharmaceutical retail
Sanatatea S.R.L	11.2006	Romania	98.05	98.05	Pharmaceutical retail
Farmacon Plus S.R.L.	11.2006	Romania	98.05	98.05	Pharmaceutical retail
Marifarm S.R.L	11.2006	Romania	98.05	98.05	Pharmaceutical retail
Vitas S.R.L.	11.2006	Romania	98.05	98.05	Pharmaceutical retail
Gedeon Richter France S.A.R.L.	09.2006	France	99.67	99.67	Pharmaceutical trading

• 13. 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 right held %	Principal activity
Medimpex Gyógyszer-nagykereskedelmi Zrt.	Hungary	50.00	50.00	Pharmaceutical wholesale
Medimpex UK Ltd.	UK	50.00	50.00	Pharmaceutical trading
Medimpex Irodaház Kft.	Hungary	50.00	50.00	Renting real estate
Pesti Sas Patika Bt.	Hungary	74.00	50.00	Pharmaceutical retail
Farnham Laboratories Ltd.	UK	50.00	50.00	Pharmaceutical trading

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

	2006	2005
	HUF m	HUF m
Current assets	2,773	3,521
Non-current assets	939	991
Short-term liabilities	2,003	2,855
Long-term liabilities	-	-
Sales	21,455	18,590
Cost of sales	19,918	17,286

14. INVESTMENTS IN ASSOCIATED COMPANY AND OTHER INVESTMENTS

At 31 December 2006 the following associated company have been accounted for by the equity method:

Name	Place of incorporation (or registration) and operation	Proportion of ownership %	Proportion of voting right held %	Principal activity
Hungaropharma Zrt.	Hungary	30.68	30.68	Pharmaceutical wholesale
Pannonmedicina Zrt.	Hungary	33.65	33.65	Pharmaceutical wholesale
Salvia-Med Bt.	Hungary	13.04	20.00	Pharmaceutical retail
Szondi Bt.	Hungary	33.00	33.00	Pharmaceutical retail
Gyulai Fodormenta Bt.	Hungary	20.00	20.00	Pharmaceutical retail
Top Medicina Bt.	Hungary	20.00	20.00	Pharmaceutical retail
Gedeon Richter Ukrfarm O.O.O.	Ukraine	49.00	49.00	Pharmaceutical trading
Medservice Richter O.O.O.	Kazakhstan	49.00	49.00	Pharmaceutical trading
Pharmarichter O.O.O.	Russia	49.00	49.00	Pharmaceutical sales promotion
P.S.P. Richter O.O.O.	Georgia	49.00	49.00	Pharmaceutical trading
Richpangalpharma O.O.O.	Moldavia	49.00	49.00	Pharmaceutical trading
Richter-Lambron O.O.O.	Armenia	49.00	49.00	Pharmaceutical trading
Vita-Richter O.O.O.	Azerbaijan	49.00	49.00	Pharmaceutical trading
ZAO Farmograd	Russia	45.00	45.00	Pharmaceutical trading

	2006	2005
	HUF m	HUF m
Investments in associates	5,713	5,492
Other investments	7,690	3,044
Long-term bonds	3,143	3,184
Total	**16,546**	**11,720**

• 15. INCOME TAX AND DEFERRED TAX

Current tax assets and liabilities

	2006	2005
	HUF m	HUF m
Current tax asset	60	-
Current tax liability	-	58

Deferred tax is calculated by the liability method based on the temporary differences. Due to the 100 percent tax relief applied, deferred tax recognised as of 31 December 2006 only includes the deferred tax (at 16 percent) calculated for the temporary differences that are expected to continue following the expiry of the tax relief. Deferred tax assets and liabilities and the deferred tax (charge)/credit in the statement of income are included to the following items:

	2006	2005
	HUF m	HUF m
Analysis for financial reporting purposes		
Deferred tax assets	1,066	944
Deferred tax liabilities	(245)	(71)
Net position at 31 December	**821**	**873**

The following are the major changes in deferred tax liabilities and assets recognised by the Group during the period:

	31 December 2006	Deferred tax carried by subsidiary	(Charged)/ credited to retained earnings	(Charged)/ credited to Income Statement	31 December 2005
	HUF m	HUF m	HUF m	HUF m	HUF m
Deferred tax					
Depreciation	634	-	-	136	498
Other temporary differences	(1)	-	-	-	(1)
Consolidation adjustments	433	624	(446)	(191)	446
Consolidation adjustments (tax liabilities)	(245)	(245)	71	-	(71)
Total	**821**	**379**	**(375)**	**(55)**	**872**

At the balance sheet date, the Group had HUF 288 million unused tax losses (HUF 316 million in 2005) which may be available for offset against future profits. Temporary differences arising in connection with interest in associates and joint ventures are insignificant.

16. GOODWILL

	Goodwill
	HUF m
COST	
at 1 January 2006	**455**
Changes in opening value	-
Increase deriving from acquisition of subsidiaries	1,095
at 31 December 2006	**1,550**
IMPAIRMENT	
at 1 January 2005	**(26)**
Impairment charged for the year	-
Decrease deriving from disposal of subsidiaries	-
at 31 December 2005	**(26)**
NET BOOK VALUE	
at 31 December 2005	**429**
at 31 December 2006	**1,524**

The goodwill arises from the acquisition of 58,800 Polfa shares on 30 December 2003, the purchased 34,745 shares (representing 7.09 percent) from employees as well as from the inclusion of newly consolidated companies in 2005 and in 2006.

17. INVENTORIES

	2006	2005
	HUF m	HUF m
Raw materials, packaging and consumables	13,662	9,965
Production in progress	1,065	889
Semi-finished and finished goods	37,989	36,473
Total	**52,716**	**47,327**

Inventories include impairment in value of HUF 2,098 million and reversal of impairment in value of HUF 513 million in 2006 (HUF 1,454 million impairment and HUF 469 million reversal was made in 2005).

18. TRADE RECEIVABLES

	2006	2005
	HUF m	HUF m
Trade receivables	30,700	25,272
Amounts due from related companies	14,163	7,388
Total	**44,863**	**32,660**

Trade receivables include HUF 2,471 million impairment and HUF 861 million reversal of impairment in 2006 (in 2005 the net of impairment was HUF 1,420 million).

19. OTHER CURRENT RECEIVABLES

	2006	2005
	HUF m	HUF m
Tax and duties recoverable	2,466	2,449
Loans receivable	238	272
Advances	1,165	671
Fair value of open forward exchange contracts (IAS 39)	1,959	6
Other receivables	1,022	990
Prepayments	1,499	1,006
Total	**8,349**	**5,394**

20. INVESTMENT IN SECURITIES

	2006	2005
	HUF m	HUF m
Hungarian Government securities	3,723	10,990
Open-ended bond funds	2,063	5,643
Other securities	2,125	2,298
Total	**7,911**	**18,931**

All current investments are classified as available for sale. The fair value adjustment was HUF 42 million in 2006, and HUF 164 million in 2005.

• 21. CASH AND CASH EQUIVALENTS

	2006	2005
	HUF m	HUF m
Bank deposits	50,082	33,053
Cash on hand	94	98
Short term securities (duration less than 3 months)	1,032	-
Total	**51,208**	**33,151**

The fair value adjustment of short term securities was HUF 0.5 million in 2006.

• 22. SHARE CAPITAL

	2006		2005	
	Number	HUF m	Number	HUF m
Ordinary shares of HUF 1,000 each	18,634,027	18,634	18,633,135	18,633
12 percent non-voting cumulative preference shares of HUF 1,000 each	3,459	4	4,351	5
Total	**18,637,486**	**18,638**	**18,637,486**	**18,638**

Preference shareholders are entitled to a dividend of 12 percent per annum preceding ordinary shareholders. Preference shares can be converted into ordinary shares once a year. Any conversion is dependent upon the approval of the Annual General Meeting.
Applications for conversion must be submitted to the Board of Directors not later than 28 February preceding the date of the Company's Annual General Meeting at which these applications for conversion are decided upon. As the preference shares are not listed or quoted on any Stock Exchange it is the Directors' responsibility to determine the terms of conversion of preference shares into ordinary shares.

Preference shareholders were entitled to file a request for conversion of their preference shares not later than 28 February 2007, by which date requests in respect of the conversion of 1,029 preference shares had been filed. As the preference shareholders are entitled either to withdraw their request or to meet the financial and other conditions of the conversion by 20 April 2007, the Company is not in the position to make any final announcement in respect of conversion of preference shares until the relevant resolution of the Annual General Meeting to be held on 25 April 2007 is published.

Following the approval by the Annual General Meeting on 26 April 2006 the Court of Registration registered the conversion of 892 preference shares into ordinary shares. A HUF 2,000 per share conversion fee was paid by preference shareholders who successfully applied for conversion, a total amount of HUF 2 million has been accounted for as Share Premium.

• 23. TREASURY SHARES

It is the intention of the Parent Company to grant Treasury shares to management and employees as part of its remuneration policy. Richter has implemented a bonus share programme since 1996 to further incentivise managers and key employees whose performance can significantly influence the Parent Company's profitability. As of 1 January 2003 tax laws applicable to remuneration provided in the form of securities changed; such bonuses are now taxable as income from employment. In 2006 26,047 shares were distributed to 412 employees of the Parent Company. Similar bonuses are expected to be granted also in 2007.

45,075 ordinary shares were granted to qualified employees as bonuses during the year.

Pursuant to a program approved by the Ministry of Finance related to employee share bonuses ('Recognised Staff Stock Bonus Plan'), the Company granted 37,118 treasury shares to 4,666 employees. The shares are deposited on the employees' security accounts with HVB Bank Hungary Ltd. until 2 January 2009.

The AGM held on 26 April 2006 has approved that the Parent Company may purchase its own shares for the treasury, the aggregated nominal value of which shall not exceed 3 percent of the registered capital of the Company. Based on this approval, the Company purchased 80,000 treasury shares at the Budapest Stock Exchange during the year, and a further 35,755 shares on the OTC market.

NUMBER OF SHARES	**Ordinary shares**
at 31 December 2005	**13,055**
Out of these, number of shares owned by subsidiaries	*10,550*
Share purchase	115,755
Issued as part of bonus program	(26,047)
Bonuses	(45,075)
Granted pursuant to the Finance Ministry-approved plan	(37,118)
Granted pursuant to the Finance Ministry – re-entry	2,220
Shares of newly consolidated companies	-
at 31 December 2006	**22,790**

BOOK VALUE	**HUF m**
at 31 December 2005	**145**
Share purchase	4,664
Issued as part of bonus program	(1,042)
Bonuses	(1,854)
Granted pursuant to the Finance Ministry-approved plan	(1,470)
Granted pursuant to the Finance Ministry – re-entry	95
Shares of newly consolidated companies	-
at 31 December 2006	**538**

• 24. SHARE-ALLOTMENTS ACCOUNTED ACCORDING TO IFRS 2

- Bonus program: beneficiaries of this program are managers of the company at least appointed as heads of a department or above as well as certain employees in key positions. The allotment is distributed half-yearly in accordance with a complex evaluation of the performances. The continuation of the program is annually decided upon by the Board.

- The Board of Directors authorised the executive management via a resolution dated 4 September, 2006 to apply for the registration of a subsequent 3-year security-allotment programme at the Ministry of Finance. The 2006-2008 security-allotment programme was registered with the Ministry of Finance through a resolution published on November 15, 2006. Employees being employed for a longer time at the Company are entitled to receive ordinary shares of Richter free of charge within the framework of this programme.

On January 1, 2006 the Company had no provision for liabilities agreed upon using the IFRS 2 regulation, and during the year in consideration of the principles of the accrued and deferred items proper accounts were established. The cost of the above listed security programs were HUF 2,840 million in 2006. (Changes in the number of Treasury shares are detailed in section no. 23)

The Board of Directors of the Company decided on 4 December 2006 that the bonus share programme registered with the Ministry of Finance for the years 2006-2008 would be implemented in 2007 under the previously agreed terms and conditions. Estimated costs (HUF 1,753 million) of the programme were included in the accounts attached to this report in accordance with IFRS 2 accounting standard.

The Company has no share-option programs.

• 25. TRADE PAYABLES

	2006	**2005**
	HUF m	**HUF m**
Trade payables	17,556	14,424
Amount due to related companies	363	92
Total	**17,919**	**14,516**

26. OTHER PAYABLES

	2006	2005
	HUF m	HUF m
Wages and payroll taxes payable	3,776	3,415
Income tax	-	58
Dividend payable	104	49
Accruals	1,123	1,913
Other liabilities	854	1,315
Deposits from customers	781	98
Accrual for costs of share options and other bonuses	3,734	1,408
Fair value of open futures	-	215
Total	**10,372**	**8,471**

27. PROVISIONS

	2006	2005
	HUF m	HUF m
Provision for environmental liabilities	-	57
Other provisions	896	918
Total	**896**	**975**

28. DIVIDEND ON ORDINARY SHARES

	2006	2005
	HUF m	HUF m
Dividend paid on ordinary shares	11,171	9,299

A dividend of HUF 600 per share (HUF 11,171 million) was declared in respect of the 2005 results, approved at the Company's Annual General Meeting on 26 April 2006 and paid during the year. No dividend on ordinary shares has been declared in respect of the 2006 results, but it is anticipated that a dividend will be declared at the Annual General Meeting on 25 April 2007.

• 29. AGREED CAPITAL COMMITMENTS AND EXPENSES RELATED TO INSVESTMENTS

	2006
	HUF m
Capital expenditure that has been contracted for but not included in the financial statements	2,844
Capital expenditure that has been authorised by the directors but has not yet been contracted for	23,226

The capital expenditure programme of the Company approved by the Board of Directors and acknowledged by the Ministry of Finance totalling HUF 26,070 million comprises all costs associated with projects stated in the medium-term development plan (2007-2008). The above commitments were not recorded either in the statement of income or in the balance sheet.

• 30. GUARANTEES GIVEN IN RESPECT OF GROUP COMPANIES AND THIRD PARTIES

	2006
	HUF m
Medimpex Gyógyszer-nagykereskedelmi Zrt. - bank guarantee	950
Reményhez 2006 Gyógyszertári Bt. - bank guarantee	40
RG Befektetéskezelő Kft. - Company guarantee to Medimpex UK Ltd.	36
Bank guarantee given by Medimpex Gyógyszernagykereskedelmi Zrt.	4
Biowet Drwalew S.A. - bank guarantee	83
Bank guarantee given by Gedeon Richter Pharma G.m.b.H.	2
Bank guarantee given by GZF Polfa Sp. z o.o.	6

31. RISK MANAGEMENT

I. Based on a strategy approved by the Board of Directors, the Parent Company continues to manage its exposure to currency fluctuations and it has concluded options and forward exchange contracts for 2007. For 2007 we have mainly US$/EUR forward and option contracts to minimise the risk of a potential weakening of the US$ against the EUR.

II. The Parent Company has a number of investments in companies located in volatile economies. The risk associated with the valuation of these investments by reference to weakening currencies is somewhat mitigated on the basis that the underlying non-monetary assets may maintain their market value. The value of these investments represented by underlying monetary assets is fully exposed to the significant risk of currency devaluation.

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

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

32. SOCIAL SECURITY AND PENSION SCHEMES

At the Parent Company, contributions amounting to 29 percent of gross salaries and a further HUF 1,950 per person per month healthcare allowance were paid during 2006 to the State Tax Authority. The Parent Company has no further obligations beyond the statutory rates in force during the year.

In November 1994, the Parent Company offered the opportunity to its employees and those of the related companies to join a voluntary pension fund. 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 615 million in 2006. The pension fund had a total of 6,355 members in 2006, 4,358 of whom were members entitled to receive the Company contribution.

The Parent Company has contributed to a private health insurance fund for the benefit of its employees since 1 September 2003. Amounts paid in this respect during 2006 were HUF 3,200/person/month. 4,875 employees are members of Patika Health Insurance Fund and the total amount paid on their behalf to the fund was HUF 200 million during 2006.

The contribution fulfilled Hungary based subsidiaries amounted HUF 34 million.
Foreign subsidiaries settle pension fund payments in favour of its employees.

None of the subsidiaries of the Group operate any similar pension schemes. RG Befektetéskezelő Kft., Humanco Kft., Reflex Kft., Richter Szolgáltató Kft. pay a pension contribution in amount of 6% of gross wages for employees and similar to the Parent Company they also pay a contribution to Patika Health Insurance Fund.

33. OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Employees contributing to the development of a new product on their own initiative are entitled to a portion of the future income generated by the given invention. According to estimates as of 31 December 2006, the related payment obligation during the three year period ending 2009 will be approximately HUF 840 million. These commitments were not recorded in the statements of income or balance sheet.

34. INSURANCE

The Group members consider that they have the adequate and appropriate coverage.

Gedeon Richter's insurance for product liability extends globally including the USA and Canada, and relates to all registrated products manufactured and marketed by the Company.

The property and breakdown insurance policies provide satisfactory coverage for the Company's assets at replacement value as well as net profits lost due to any specific event and the overhead costs.

The general, environmental pollution and employer liability insurance cover potential damages caused to third parties or employees.

Due to the scale of the Gedeon Richter assets and revenues, it is of utmost importance for the Company to use large and financially stable global insurance companies that co-operate with leading re-insurers.

35. REMUNERATION OF THE BOARD OF DIRECTORS AND SUPERVISORY BOARD

	Allowance			
	2006		2005	
	Treasury shares number	HUF m	Treasury shares number	HUF m
Board of Directors	-	53	3,140	15
Supervisory Board	-	32	-	32
Total	**-**	**85**	**3,140**	**47**

36. EXTRAORDINARY EVENTS AFTER THE DATE OF THE BALANCE SHEET

The Romanian based Armedica Trading S.R.L., a company that co-ordinates the retail activity of the Richter Group in Romania and which is being owned 98.20 percent by Gedeon Richter Romania S.A. being the latter one the subsidiary of Gedeon Richter Plc. has concluded an acquisition of EUR 14.5 million. Armedica Trading S.R.L has acquired the wholesaler Dita Group. However the registration of the new company was made at the end of December, the parent company is able to take the authority from year 2007. In addition Armedica Trading S.R.L. made an acquisition via its specialised subsidiary, Gedeon Richter Farmacia S.A. of a number of small pharmacies, having acquired the rights of operation for about 60 pharmacies via the retail companies and pharmacy licenses acquired previously.

CONSOLIDATED FINANCIAL RECORD 2002-2006

INCOME STATEMENT (HUF M)	2002	2003	2004	2005	2006
For the years ended 31 December					
Total sales	**120,013**	**145,916**	**149,342**	**172,597**	**209,373**
Cost of sales	(59,806)	(67,315)	(71,096)	(75,573)	(89,704)
Gross profit	**60,207**	**78,601**	**78,246**	**97,024**	**119,669**
Operating expenses and other income and expenses	(35,373)	(46,324)	(41,434)	(57,433)	(70,142)
Operating profit	**24,834**	**32,277**	**36,812**	**39,591**	**49,527**
Profit from associted company	-	-	503	848	863
Net financial income	5,449	3,385	2,621	5,747	1,723
Profit before taxation	**30,283**	**35,662**	**39,936**	**46,186**	**52,113**
Income tax	(1,664)	(2,907)	107	(543)	(711)
Profit after taxation	**28,619**	**32,755**	**40,043**	**45,643**	**51,402**
Minority interest	198	962	(198)	(330)	(124)
Net profit for the year	**28,817**	**33,717**	**39,845**	**45,313**	**51,278**

SHARE STATISTICS (HUF)					
Earnings per share	1,546	1,809	2,138	2,431	2,751
Dividends per ordinary share	330	440	500	600	690

INCOME STATEMENT (US$ M)	2002	2003	2004	2005	2006
For the years ended 31 December					
Total sales	**470.3**	**651.4**	**735.7**	**864.3**	**997.0**
Cost of sales	(234.3)	(300.5)	(350.2)	(378.4)	(427.1)
Gross profit	**235.9**	**350.9**	**385.5**	**485.9**	**569.9**
Operating expenses and other income and expenses	(138.6)	(206.8)	(204.2)	(287.6)	(334.0)
Operating profit	**97.3**	**144.1**	**181.3**	**198.3**	**235.9**
Profit from associted company	-	-	2.5	4.2	4.1
Net financial income	21.4	15.1	12.9	28.8	8.2
Profit before taxation	**118.7**	**159.2**	**196.7**	**231.3**	**248.2**
Income tax	(6.6)	(13.0)	0.6	(2.7)	(3.4)
Profit after taxation	**112.1**	**146.2**	**197.3**	**228.6**	**244.8**
Minority interest	0.8	4.3	(1.0)	(1.7)	(0.6)
Net profit for the year	**112.9**	**150.5**	**196.3**	**226.9**	**244.2**

SHARE STATISTICS (US$)					
Earnings per share	6.06	8.08	10.53	12.17	13.10
Dividends per ordinary share	1.29	1.96	2.46	3.00	3.29

Notes:
- Figures for 2002 have been restated.
- EPS calculations based on the total number of shares issued, diluted excluding exceptional and non-recurring items.
- 2006 dividends per ordinary share of HUF 690 are as recommended by the Board of Directors.
- This Financial Record is not part of the audited Consolidated Financial Statements prepared in accordance with IFRS.

BALANCE SHEET (HUF M)	2002	2003	2004	2005	2006
As at 31 December					
Non-current assets	95,572	103,853	122,582	140,117	160,677
Net other assets and liabilities	62,426	77,912	91,516	113,383	135,736
Non-current liabilities	(83)	(59)	(35)	(474)	(2,485)
Minority interest	(6,921)	(4,200)	(4,898)	(6,486)	(5,813)
Total net assets	**150,994**	**177,506**	**209,165**	**246,540**	**288,115**
Share capital	18,638	18,638	18,638	18,638	18,638
Reserves	132,460	159,385	191,227	228,047	270,015
Treasury shares	(104)	(517)	(700)	(145)	(538)
Shareholders' equity	**150,994**	**177,506**	**209,165**	**246,540**	**288,115**
Total assets and shareholders' equity and liabilities	**175,243**	**199,575**	**234,932**	**277,580**	**325,784**
CAPITAL EXPENDITURE	**N/A**	**21,948**	**26,812**	**29,841**	**32,351**

BALANCE SHEET (US$ M)	2002	2003	2004	2005	2006
As at 31 December					
Non-current assets	424.4	499.6	679.9	655.0	840.8
Net other assets and liabilities	277.2	374.7	507.6	530.1	710.3
Non-current liabilities	(0.4)	(0.3)	(0.2)	(2.2)	(13.0)
Minority interest	(30.7)	(20.2)	(27.2)	(30.3)	(30.4)
Total net assets	**670.5**	**853.8**	**1,160.1**	**1,152.6**	**1,507.7**
Share capital	82.8	89.6	103.4	87.1	97.5
Reserves	588.2	766.7	1,060.6	1,066.2	1,413.0
Treasury shares	(0.5)	(2.5)	(3.9)	(0.7)	(2.8)
Shareholders' equity	**670.5**	**853.8**	**1,160.1**	**1,152.6**	**1,507.7**
Total assets and shareholders' equity and liabilities	**778.2**	**960.0**	**1,303.0**	**1,297.7**	**1,704.8**
CAPITAL EXPENDITURE	**N/A**	**98.0**	**132.1**	**149.4**	**154.1**

Note: This Financial Record is not part of the audited Consolidated Financial Statements prepared in accordance with IFRS.

Throughout this Annual Report, certain Hungarian (HUF) forint amounts have been converted into US$ 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 (US$ / HUF)	2002	2003	2004	2005	2006
Average	255.2	224.0	203.0	199.7	210.0
End of year	225.2	207.9	180.3	213.9	191.1

NUMBER OF EMPLOYEES	2002	2003	2004	2005	2006
End of year	6,950	7,328	7,260	8,078	8,526

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